

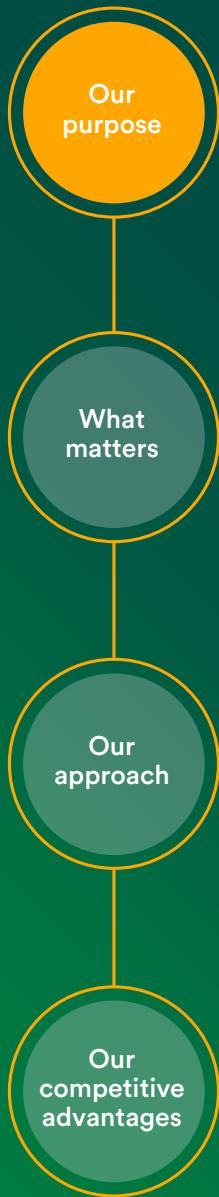
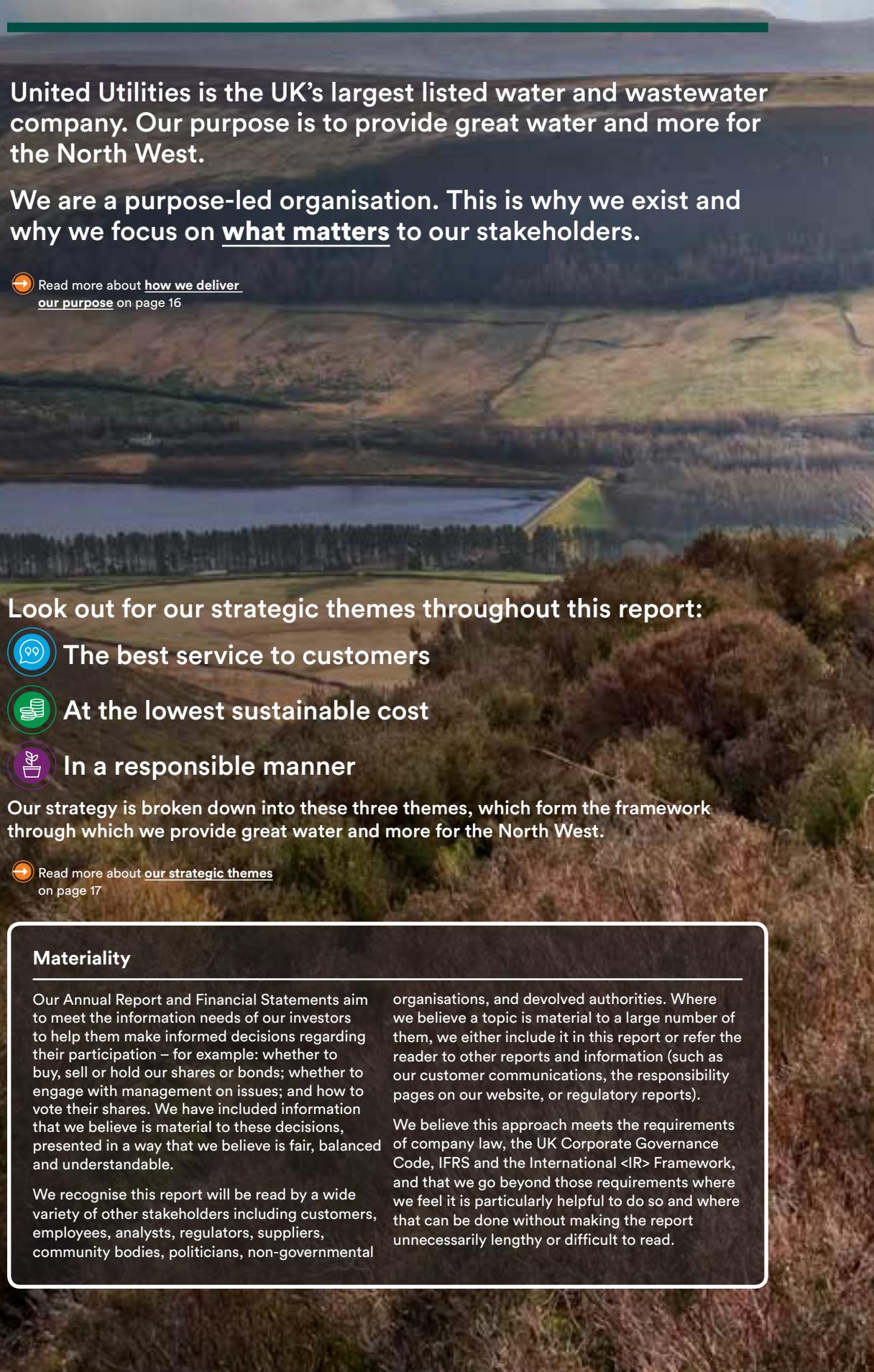
United Utilities Group PLC

Annual Report and Financial Statements
for the year ended 31 March 2020



Water for the North West

Driven by what matters



United Utilities is the UK's largest listed water and wastewater company. Our purpose is to provide great water and more for the North West.

We are a purpose-led organisation. This is why we exist and why we focus on **what matters** to our stakeholders.

→ Read more about [how we deliver our purpose](#) on page 16

Look out for our strategic themes throughout this report:

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

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

→ Read more about [our strategic themes](#) on page 17

Materiality

Our Annual Report and Financial Statements aim to meet the information needs of our investors to help them make informed decisions regarding their participation – for example: whether to buy, sell or hold our shares or bonds; whether to engage with management on issues; and how to vote their shares. We have included information that we believe is material to these decisions, presented in a way that we believe is fair, balanced and understandable.

We recognise this report will be read by a wide variety of other stakeholders including customers, employees, analysts, regulators, suppliers, community bodies, politicians, non-governmental

organisations, and devolved authorities. Where we believe a topic is material to a large number of them, we either include it in this report or refer the reader to other reports and information (such as our customer communications, the responsibility pages on our website, or regulatory reports).

We believe this approach meets the requirements of company law, the UK Corporate Governance Code, IFRS and the International <IR> Framework, and that we go beyond those requirements where we feel it is particularly helpful to do so and where that can be done without making the report unnecessarily lengthy or difficult to read.



Integrated Report and TCFD disclosures

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

Sir David Higgins
Chairman

Steve Mogford
Chief Executive Officer

Contents

Driven by what matters

What matters to our stakeholders	2
Our approach	4
Our competitive advantages	6

Business overview

Chairman and Chief Executive Officer's review	8
2019/20 highlights	12

Strategic report

Delivering our purpose	16
Our business model	28
– Our key resources	32
– Our external drivers and relationships	34
– How we plan for the future	36
– Our plans for 2020–25	42
– How we create value for stakeholders	46
– How we respond to challenges	48
How we measure our performance	54
Contributing to the UN SDGs	64
Our approach to climate change (TCFD)	66
Our performance in 2019/20	78
Our risk management	92
S172(1) Statement	102
Non-financial information statement	103
Glossary	104
Time for a tea break	105

Governance

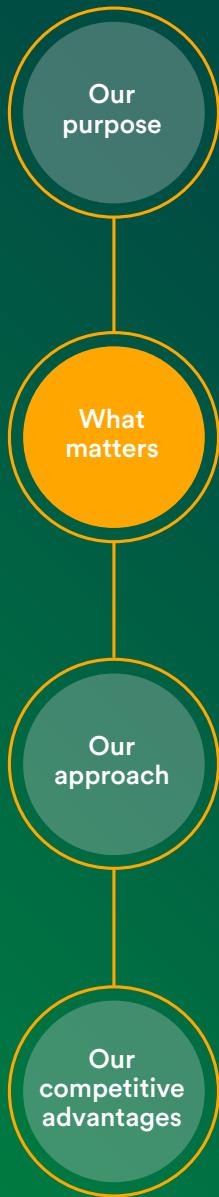
Corporate governance report	
– Board of directors	108
– Letter from the Chairman	112
– Nomination committee report	126
– Audit committee report	140
– Corporate responsibility committee report	152
– Remuneration committee report	156
– Tax policies and objectives	186
Directors' report	188
Statement of directors' responsibilities	191

Financial statements

Independent auditor's report to the members of United Utilities Group PLC only	194
Consolidated income statement	201
Consolidated statement of comprehensive income	201
Consolidated and company statements of financial position	202
Consolidated statement of changes in equity	203
Company statement of changes in equity	204
Consolidated and company statements of cash flows	205
Guide to detailed financial statements disclosures	206
Accounting policies	207
Notes to the financial statements	211
Notes to the financial statements – appendices	227
Five-year summary – unaudited	252

You can read more in our online Annual Report at unitedutilities.com/corporate where we maintain a wide range of information of interest to institutional and private investors including:

- Latest news and press releases;
- Reports and publications; and
- Corporate responsibility content.



1

Trust, transparency and legitimacy

Stakeholders expect us to operate in a responsible manner. They want to know what contribution we are making to the region. Being open, honest and transparent about what we do and how we perform is key to building and maintaining trust and legitimacy with all.

Stakeholders affected:



2

Resilience

Our approach to securing long-term operational, corporate and financial resilience is key for stakeholders. They want to know they can rely on us, now and in the future, and that we are prepared for, and can manage, any problems that come our way.

Stakeholders affected:



What matters to our stakeholders

We continually assess what matters to our stakeholders and this shapes how we deliver our strategy to fulfil our purpose.

Read more about our [material issues](#) on page 27



3

Customer service and operational performance

Stakeholders expect us to provide great customer service. They expect us to provide safe, clean drinking water without interruption, and to return wastewater safely back to the environment.

Stakeholders affected:



OUR STAKEHOLDERS:



Communities



Customers



Employees



Environment

4



Leakage and water efficiency

In the face of a changing climate and increasing population pressures on water supplies, stakeholders are interested in our efforts to reduce leakage and how we can help everybody use less water.

Stakeholders affected:



5

Political and regulatory environment

Many of our quality and environmental standards will be affected by the UK's exit from the European Union. New environmental and quality regulations will have a key impact on us and is of interest to our stakeholders.

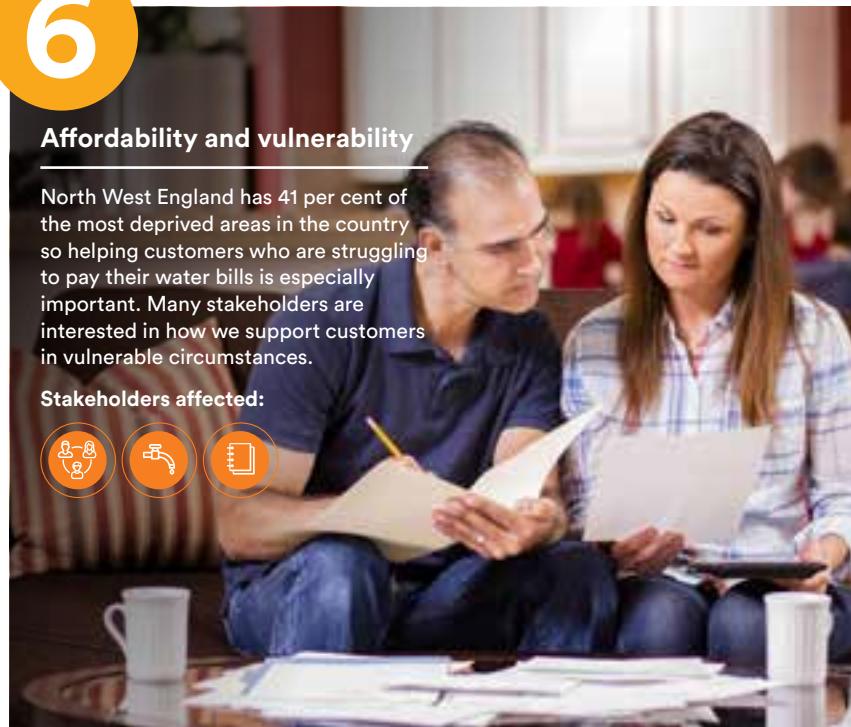
Stakeholders affected:

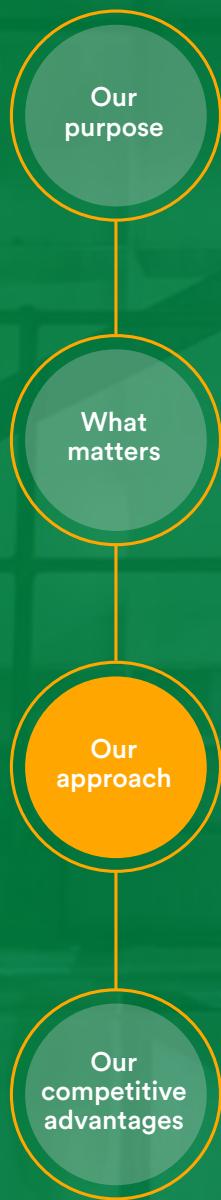


Affordability and vulnerability

North West England has 41 per cent of the most deprived areas in the country so helping customers who are struggling to pay their water bills is especially important. Many stakeholders are interested in how we support customers in vulnerable circumstances.

Stakeholders affected:





Our approach

Our decisions are shaped by material issues for stakeholders, risk assessments, a commitment to environmental, social and governance (ESG) matters and our pioneering Systems Thinking approach. This integrated approach helps us create sustainable long-term value.



How what matters shapes our decisions

Our prioritisation of issues

We can't do everything right away, so we must identify the top priorities to help us deliver a resilient service. We conduct research and assessments to help us understand how material each issue is to our stakeholders and to our ability to create value.

→ Read more about [our material issues](#) on page 27

Our commitment to ESG matters

Our priorities and decisions are shaped by our commitment to ESG, which is embedded in everything we do. We have strong credentials in all three areas, and this has been a part of who we are as a business for many years.

→ Read more about [our ESG metrics](#) on pages 62 and 63

Our risk management

We face a range of risks that could threaten the quality of our service, cause delays, increase cost, and/or damage our reputation. We have an embedded risk management framework to anticipate and mitigate these risks, which helps us prioritise our actions.

→ Read more about [our risk management](#) on pages 92 to 101

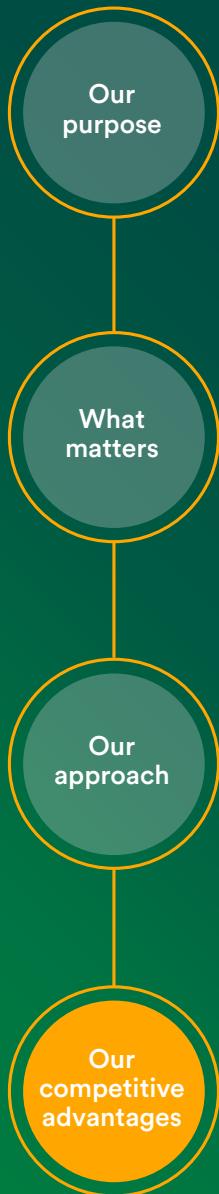
Systems Thinking

Our pioneering Systems Thinking approach improves efficiency and operational resilience, giving us a competitive advantage and helping us deliver great service to customers. This approach feeds into our decisions and how we prioritise our activities.

→ Read more about [our competitive advantages](#) on pages 6 and 7



Our competitive advantages



Our competitive advantages help us provide great water for the long term. Prudent financial risk management delivers long-term predictability and resilience to financial shocks, while Systems Thinking improves efficiency and operational resilience.

Prudent financial risk management

What do we do?

Debt – we maintain around half our debt in index-linked form, offering good relative value and hedging the impact of inflation on a portion of our RCV and revenue. Most is RPI-linked, but now that Ofwat is transitioning to CPIH we are gradually increasing our CPI exposure, subject to cost and availability, as this is the best available proxy for CPIH in the absence of a CPIH debt capital market. On our remaining nominal debt, we fix the underlying interest cost out to ten years on a reducing balance basis.

Pensions – we adopt an asset-liability matching approach for our defined benefit pension schemes by investing in assets that perform in line with the liabilities, such as corporate bonds and gilts and the use of interest rate swaps, to hedge the impact of changes in swap and gilt yields. The schemes have hedged inflation exposure through RPI gilts and swaps, and in April 2019 we prepaid all remaining deficit repair contributions. As a result, our pension position is stable and the schemes are self-sufficient.

How this differentiates us

Our prudent approach offers a lower risk exposure than many other companies, and it may be costly for others to transition from a different approach due to the typically long-term nature of debt in our industry.

How it helps us create value

Effective financial risk management delivers long-term resilience and our clearly articulated policies, covering a variety of market risks, help us reduce our exposure to the economic and regulatory environment, providing more predictable returns. Our approach to debt financing helps us consistently lock in long-term debt at good relative value, manage uncertainty in Ofwat's approach to setting the cost of debt at each price review, and maintain resilience to financial shocks.

Our pensions approach reduces volatility in our defined benefit schemes, and self-sufficiency means our employees, past and present, are in a very secure position and shareholders are well protected.





WHAT MATTERS

Innovating for better leak detection

We are co-creating to develop mobile sensors that allow remote monitoring in leak detection.

We have a strong track record in avoiding, finding and fixing leaks, always looking for new ideas and ways of working to further improve our performance.

Our innovation model seeks to find the best innovators to help evolve concepts into game-changing solutions we can use. To stimulate new thinking, we often look outside the traditional water sector. In 2019, we found a small supplier who was passionate to help find and pinpoint leaks in the water network using sophisticated electronics, machine learning, artificial intelligence and modern data analytics.

FIDO (Free Intelligent Domain Observers) was one of eight suppliers chosen through our 2019 Innovation Lab. Following a six-month period using our test rig and over 100 trials in live environments to help FIDO enhance the design of its previously untested prototype, we now have access to a new innovation that has been developed for field teams and adopted by us.

FIDO uses three sensors that can be deployed in-pipe or close by, even attached to a traditional listening stick. Each sensor captures its location and the sound from the pipe, and this is processed in real time to spot the 'digital signature' of a leak. The software removes background noises and artificial intelligence makes recommendations on the location and severity, which helps us prioritise when scheduling teams to fix leaks. This remote monitoring capability is another implementation of our Systems Thinking approach. The FIDO algorithm can be used to process files from our extensive deployed acoustic logger fleet, saving time versus human processing.

FIDO can be deployed faster than traditional methods of leak detection and can process more digital files with greater consistency than a human. In testing, FIDO has a greater than 85 per cent success rate, outperforming humans and traditional methods.

There are benefits from using one core technology that can be adapted for multiple applications. Recognising the potential of FIDO, we have secured a long-term agreement to optimise the current products and continue to co-create, test and adopt any new developments. FIDO is recruiting technical specialists from within the water sector to supplement its in-house experts in artificial intelligence and electronics capability.

Systems Thinking

What do we do?

Systems Thinking looks at how each individual element interacts with the other parts of the system in which it operates. Instead of isolating small elements, Systems Thinking expands its view to consider larger numbers of interactions over time as a particular system issue is being studied. For a water and wastewater company, this means, rather than operating each asset or treatment works in isolation, we use all the data from the telemetry we have installed across our network to analyse the entire system and all its linkages, enabling us to find the best all-round solutions.

Our field engineers are linked by an Integrated Control Centre (ICC) at our head office, from which we plan, monitor and control our operations. From our ICC we process vast amounts of real-time data from across our network, factoring in other source data such as weather forecasts, and using artificial intelligence and machine-learning to process this data and spot issues so we can resolve them before they impact customers. We allocate resources to production teams with full accountability for asset and system performance, helping embed this way of thinking within our operational teams.

How this differentiates us

Many of our assets were built over 30 years ago when water and wastewater services were managed by local authorities, with little coordination at a regional or national level. It takes considerable time and investment to install the telemetry and interconnections across the network to enable a Systems Thinking approach. No other UK water company does this at the holistic level we do, and we are continuing to extend our lead, with new developments and further rollouts in the pipeline.

How it helps us create value

Using real-time data and operating our network in this way enables us to optimise cost and service performance. Systems Thinking improves our asset reliability and resilience, reduces unplanned service interruptions, and helps us move away from the traditional reactive approach to address problems proactively before they affect customers. This pioneering approach helped us deliver operational improvements and cost savings during AMP6, and we have further developments planned for AMP7 and beyond, as Systems Thinking forms part of our long-term strategy to continue creating value for customers and stakeholders.

Chairman and Chief Executive Officer's review



This year saw completion of the 2015–20 price review period in which we continued to make good progress on delivering our promises. The COVID-19 pandemic has required us to adapt the way we operate, and we are proud of the way our people have embraced that change and continued to deliver great service to customers at this time.



Sir David Higgins
Chairman



Steve Mogford
Chief Executive
Officer

We are a purpose-led company, driven by what matters to customers and other stakeholders. This focus has helped us deliver a significant and sustainable transformation in our operational performance and customer service in recent years. We have exceeded our targets for the 2015–20 period (AMP6) and we exit this regulatory period as one of the best performers in the industry.

Since 2015, we have reduced significant water quality incidents by 69 per cent and reduced water supply interruptions by 39 per cent. We have been the joint top performing company over the last five years under the Environment Agency's (EA) annual assessment, and we are an industry leader in reducing pollution.

Our regulatory targets this year were the toughest to date, and we have risen to the challenge, earning a net outperformance payment against our outcome delivery incentives (ODIs) for the year and a cumulative net outperformance payment for the five-year period in total.

Strong performance in 2019/20 was delivered in the face of many challenges. It has been a year of significant rainfall, culminating in severe flooding caused by storms Dennis and Ciara in February 2020. The COVID-19 (coronavirus) pandemic has created further challenges, with enormous practical implications on the way we work and economic impacts for our communities.

We are well prepared for the 2020–25 period (AMP7) and our fast-track business plan achievement allowed us to make a flying start on improving our performance towards our targets for the period. We are proud of the responsible way we have delivered this improvement, operating in an environmentally and socially conscious manner and upholding the highest standards of governance.

Maintaining service for customers while keeping our people safe

We have an incredible group of people working at United Utilities who have shown themselves to be great at embracing change, be that new technologies and innovation or the need to adapt quickly to an unexpected incident.

The flooding caused by Storm Ciara in February caused damage to a key water main that served thousands of properties in the Eden Valley area. The damage occurred where the water main crossed a river, and the conditions in the area were treacherous with continuing heavy rain and strong winds. Thanks to our contingency plans and the dedicated hard work of our people around the clock, we were able to repair the damage in just three days and restore supply fully in five days.

COVID-19 then challenged us to deliver an unprecedented level of change to working practices. Our primary concern at this time is the safety of our people and those they work alongside. We moved over half of our people to remote working and, of those remaining in offices and sites, many moved locations to maintain compliance with government guidelines on social distancing. Non-essential tasks have been postponed but we are continuing with our construction activity where we can do so safely for our people and those with whom they are in contact.

Many of our employees are designated as key workers, continuing to provide essential water and wastewater services at a time when sanitation is even more important. We are proud of the dedicated way in which they, like all the amazing key workers, have continued to leave their families each day in this difficult time to serve their communities.

We worked to ensure all our people have access to the correct equipment to comply with sanitation and personal protective equipment (PPE) requirements, and we rapidly increased our internal communications to ensure our people are kept informed about the latest national guidelines and what we are doing to respond to the pandemic. We set up a dedicated area of our intranet to assist with employees' mental health during the lockdown, recognising that this can be a particularly challenging time from a psychological perspective as well as a practical one.

Thanks to the flexibility and hard work of our employees we have maintained great water services throughout this time, and it is pleasing to see that this is appreciated by customers as well. Our satisfaction scores have never been higher and the latest scores are the highest in the sector.

As well as maintaining our own services, we want to help where we can with the economic impacts COVID-19 is having. None of our employees have been furloughed, and we accelerated payments to suppliers as well as paying particular attention to the more fragile elements of our critical supply chain as part of the industry-wide incident response.

The most pressing economic impact for the sector is on non-household retail where the closure of businesses has interrupted payments to retailers, causing liquidity issues in this market. The potential implications on our non-household retail joint

venture, Water Plus, have led to a reduction in the carrying value of our investment, along with other charges. Ofwat has introduced a number of measures to help support the industry and, while the pandemic is ongoing and we do not yet know the full impact it will have on the economy, as a result of these measures and the actions we have taken, Water Plus is now on a firmer footing.

Delivering a strong financial performance

Our financial performance from an underlying statutory perspective has been strong again this year. Underlying earnings per share is 63.0 pence, an increase of 5 per cent and more than covering the dividend for the year. The main drivers of this increase are our allowed regulatory revenue profile and lower infrastructure renewals expenditure, partly offset by an increase in the underlying net finance expense due to higher RPI inflation applied to our index-linked debt, higher depreciation, and a share of small, underlying losses of joint ventures.

Our underlying tax charge at 13 per cent is lower than the headline rate of corporation tax at 19 per cent, reflecting a change in how we derive our underlying profit after tax and EPS figures. We now present our underlying profit measures excluding the impact of deferred tax to better reflect the regulatory revenue allowances. On our previous basis, including the impact of deferred tax, our underlying tax charge for 2019/20 would have been 19 per cent, in line with the headline rate of corporation tax.

Reported earnings per share is much lower at 15.7 pence due to around £300 million of adjusting items during the year. This includes non-cash impacts such as accelerated depreciation on bioresources assets we are no longer using and a significant deferred tax charge, as well as restructuring costs as we prepare for the next regulatory period and the expected impact of COVID-19. These adjusting items are outlined in the reconciliation table on page 91, and more information can be found on page 90.



Key dates in 2019/20

- Apr 2019**
 - > 2020–25 draft determination (DD) published
- May 2019**
 - > Submission of company representations on DD
- Jul 2019**
 - > Updated cost of capital guidance published with slow track DDs
- Dec 2019**
 - > 2020–25 final determination (FD) published
- Jan 2020**
 - > FD accepted and AMP7 dividend policy announced
- Feb 2020**
 - > Storms Dennis and Ciara
- Mar 2020**
 - > Significantly changed our way of working as a result of the COVID-19 pandemic

"We have shared over £600 million with customers in the last ten years, out of over £1 billion outperformance earned, reinvesting this into our services to deliver further improvements."

Chairman and Chief Executive Officer's review

The board has proposed a final dividend of 28.40 pence per ordinary share, taking the total dividend for 2018/19 to 42.60 pence. This is an increase of 3.2 per cent, in line with our policy for this regulatory period of targeting an annual growth rate of at least RPI inflation through to 2020.

We continue to maintain a strong balance sheet, healthy liquidity, and a low-dependency pension scheme that is in surplus on an IAS 19 basis. We accelerated around £100 million of deficit repair contributions in April 2019, getting us to this low-dependency funding position, which is a significant value driver for our business. We have a consistent policy of targeting gearing of 55–65 per cent, measured as net debt to regulatory capital value, which has been supportive of United Utilities Water Limited's (UUW) A3 stable credit rating with Moody's. At 62 per cent, our gearing is one of the lowest in the sector, our credit ratings are in line with our targets, and as at 31 March 2020 we have around £1.2 billion liquidity. This is a strong and responsible position to be in, mitigating financial risk for all our stakeholders and giving us a high degree of resilience and financial flexibility as we move into AMP7.

Exceeding our targets for the 2015–20 period (AMP6)

We delivered outperformance against all four principal areas of our regulatory contract in AMP6.

In customer service, we continued to improve year on year in Ofwat's Service Incentive Mechanism (SIM). Last year was the final year of measurement for this mechanism, and we were scored as upper quartile in the sector and awarded a SIM outperformance payment of £6 million for our performance across AMP6.

Our outcome delivery incentives (ODIs) for AMP6 were heavily skewed to the downside, and we started the period with a significant challenge that saw the most likely net outcome at around a £90 million penalty. Our performance transformation and acceleration of investment, along with tremendous hard work from our people, has seen us earn a net £43.9 million cumulative outperformance payment over the period, which is a significant achievement against our original expectations and sees us as one of the top performers in the sector.

This year we earned a net ODI outperformance payment of £22.4 million. This included our West Cumbria pipeline project, a hugely complex project that is ahead of schedule, meeting or beating all its AMP6 targets, and earning an outperformance payment of £21.6 million.

We delivered total expenditure (totex) outperformance of around £100 million against the final determination allowance, in addition to the significant cost savings we were already delivering to close the gap between the allowance and our original business plan submission for AMP6.

Our industry-leading treasury management helped us lock in a low cost of debt, which has delivered significant financing outperformance compared with the industry allowed cost for AMP6.

The total outperformance across these areas has been shared with customers. We reinvested £350 million during AMP6, including £250 million that has helped increase our operational resilience and £100 million that we invested this year to target improving our performance against our most challenging ODIs for AMP7. We are in a strong position as we move into the next period.

Well prepared for the 2020–25 period (AMP7)

Our embedded culture of innovation, including our pioneering Systems Thinking approach, alongside the acceleration of investment to deliver improvements earlier in the five-year period, underpins the business plan we submitted for AMP7, helping us to achieve fast-track status.

We made a number of representations to Ofwat during the year on the draft determinations, received in April for fast-track companies, and we accepted the final determination for 2020–25 in January 2020.

We announced that the board has set a group dividend policy for AMP7 of annual growth by CPIH inflation, based on expected returns from UUW for AMP7 performance, including the base dividend return of 4 per cent (nominal) on the equity portion of the shadow RCV, together with accumulated outperformance in prior periods that has been retained by the group after sharing with customers.

Alongside this, we announced our intention to continue with our 55–65 per cent target gearing range and to maintain long-term issuer credit ratings for UUW of A3 with Moody's and BBB+ with Standard & Poor's (S&P), and a senior unsecured debt rating for UUW of at least A- with Fitch.

The way Ofwat measures customer satisfaction is changing in AMP7, with higher outperformance payments available in this area. SIM will be replaced by C-MeX measuring household customer satisfaction and D-MeX measuring developer satisfaction. This year has been used as a pilot for C-MeX, and we were pleased that our contractor scores ranked third of 17 companies for the year, and first in the third and fourth quarter surveys. While we expect to see an upward trend in scores for the industry as a whole, this gives us confidence of being in a strong position in AMP7.

Acceleration of capital spend in AMP6 proved to be a successful strategy in delivering early benefit against ODIs, and we plan to do the same again in AMP7. Fast-track status gave us early visibility of our targets – we have robust plans for the common ODIs in AMP7, with the £100 million reinvestment of outperformance already showing improvement in our expected performance, and our bespoke ODIs offer some unique opportunities. We have awarded the first tranche of our capital programme at a value of £300 million with the next tranche of £250 million to be awarded in the next few months, and we have continued with the majority of our construction programme throughout the COVID-19 lockdown.

 Read more about [our performance](#) in 2019/20 on pages 78 to 91

 Read more about [our plans for 2020–25](#) on pages 42 to 45

The low cost of debt we have already locked in compares favourably with the cost of debt allowance for embedded debt, and we have historically demonstrated our ability to raise debt at efficient levels compared with the industry average, underpinned by our robust credit quality. We expect to continue to perform well against the rest of the industry in financing across AMP7.

Strong environmental, social and governance (ESG) performance

Behaving in a responsible manner is one of our three strategic themes and has always been a core part of how we operate. We have a strong track record of performance across all the components of ESG.

We have reduced our carbon footprint by 73 per cent since 2005/06, ahead of the target we set ourselves for 2020, with 95 per cent of the electricity we use having zero emissions. We lead the sector in our approach to catchment management, including our award-winning sustainable catchment management programme (SCaMP) and more recently taking this further with catchment systems thinking (CaST), which sees us working with the EA and other stakeholders to deliver the best overall approach to catchment management in the most efficient way. In the EA's annual assessment of performance we have demonstrated the best overall performance, achieving industry-leading 4 star status in three of the last four years and 3 star status this year, with particularly strong performance in the way we minimise pollution.

We focus on having a positive impact on society. We lead the industry in affordability and vulnerability assistance with a wide range of schemes for customers, many of which are firsts for the industry. This is more important than ever as we help those customers struggling as a result of the economic impacts of COVID-19. Over 120,000 customers benefit from the most comprehensive range of affordability schemes in the industry. We led the sector in establishing Priority Services, a scheme designed to provide additional support to customers with health or financial difficulties during an incident. We now have over 100,000 customers registered for this service. We contributed over £35 million to communities and our Trust Fund during AMP6 and committed to provide £71 million to help customers in difficulty over AMP7.

Excellent governance is part of who we are. We were delighted to secure the Fair Tax Mark in July 2019, and have attained World Class ranking in the Dow Jones Sustainability Index for 13 consecutive years. Ofwat has awarded us top self-assurance status for three consecutive years – the only company in our sector to achieve this – reflecting the highest level of trust and confidence in our transparency and reporting. We place great value on financial resilience, with the strongest credit rating in the sector and a pension position that compares favourably to most, if not all, companies in the Financial Times Stock Exchange (FTSE) index. This means the obligations to our past and current employees are well funded, properly resourced, and on a sound footing for the future with minimal reliance on the company and protecting employees and shareholders from the risk of a large pension deficit.

Outlook

We can reflect on our performance improvements across the last five-year price review period with satisfaction. We have shared £350 million of our outperformance through additional investment, providing better service to customers and enhancing the environment, and we have delivered financial performance that supports the payment of the final dividend in August 2020, in line with our AMP6 commitment.

The economic implications of COVID-19 will provide a challenging backdrop to the AMP7 regulatory period. United Utilities will continue to prioritise the implementation of its delivery plans, albeit reviewing and adapting these plans as necessary, and we fully intend to play our part in the recovery of the north west economy. It is, however, too early to predict the full impact of COVID-19 on inflation, the economy more generally and on our business, and we will review our dividend policy for AMP7 as a clearer picture of the post COVID-19 economic environment emerges.

Grateful to our stakeholders for their support

We want to say a huge thank you to our employees for the dedication and hard work they have demonstrated this year, to the trade unions for their incredible support in helping us with the flexibility to arrive at safe working practices during COVID-19, and to customers and other stakeholders for their continued support.



Sir David Higgins
Chairman



Steve Mogford
Chief Executive Officer

The strategic report on pages 14 to 105 was approved at a meeting of the board on 21 May 2020 and signed on its behalf by Steve Mogford, Chief Executive Officer.



£44m

ODI
outperformance
earned over
2015–20



73%

reduction in our
carbon footprint
since 2005/06

2019/20 highlights

Operational highlights

Our operational performance transformation, sector-leading Systems Thinking approach, and innovation culture continue to deliver sustainable improvements in operational performance.



The best service to customers





At the lowest sustainable cost





In a responsible manner



Our performance

Our operational performance over 2015–20 has delivered a total net wholesale ODI outperformance payment of £43.9 million. During the economic and social disruption caused by the COVID-19 pandemic we have been focused on customers, continuing to deliver reliable water and wastewater services and supporting those facing financial difficulties. We have the widest range of financial support schemes, are now providing tailored support to over 100,000 vulnerable customers signed up to our Priority Services scheme, and have made £3.5 million available to help those facing the most significant problems.

Key performance indicators

- Wholesale ODI composite
- SIM – qualitative
- SIM – quantitative

Our future plans

Our plans for 2020–25 see us delivering even better service alongside real reductions in average customer bills, with stretching targets including a 34 per cent reduction in water quality contacts and 58 per cent reduction in supply interruptions. Customers will receive matching benefits where outperformance leads to dividends that are much higher than proposed in our business plan. This is in addition to £71 million voluntary funding committed to our CommUnity Share scheme over 2020–25 to provide financial assistance for customers who need it.

Our performance

Our total expenditure (totex) allowance for the 2015–20 period was a significant challenge compared with the costs in our original business plan. Through a combination of efficiency in our capital programme and Systems Thinking, we closed the gap and outperformed our allowance on an underlying basis by around £100 million. Our excellence in treasury management helped us lock in a low cost of debt and, on an underlying basis before an additional bad debt charge for the expected future impact of COVID-19, we outperformed our revenue allowance (including margin) by around £13 million.

Key performance indicators

- Totex outperformance
- Financing outperformance
- Household retail cost to serve

Our future plans

We have improved our efficiency and reduced our totex needs through innovation, market testing, and better challenge of cost needs. Ofwat rated our business plan one of the most efficient in the sector, and we enter AMP7 at the run-rate required to meet this totex. We have locked in a cost of debt on our embedded debt that is better than the industry average, and maintain a robust capital structure with a target gearing range of 55–65 per cent, helping us maintain efficient access to debt capital markets throughout the economic cycle.

Our performance

We have reduced our carbon footprint 73 per cent since 2005/06, with over 95 per cent of electricity from renewable sources, and committed to six pledges to mitigate climate change. We have been rated 'World Class' on the Dow Jones Sustainability Index for 13 consecutive years, and achieved leading 4 star status for three of the last four years in the Environment Agency's annual assessment. We have reduced average household bills 10 per cent in real terms since 2010 with further reductions anticipated in AMP7, and gave over £35 million to communities and our Trust Fund during the 2015–20 period.

Key performance indicators

- Annual average leakage
- EA performance assessment
- Dow Jones Sustainability Index rating

Our future plans

Through responsible and effective pension risk management, we have secured a self-sufficient position for our defined benefit pension scheme, meaning current and future pensioners are protected without reliance on the company. We have stretching AMP7 targets for the environment, including a 15 per cent reduction in leakage and 20 per cent reduction in pollution incidents and our plans include strategic water resource development to support the North West and delivery of a north-south water trading approach to improve long-term drought resilience.

 Read more about [our operational performance](#) on pages 78 to 83

 Read more about [our operational KPIs](#) on pages 56 and 57

Financial highlights

We delivered a robust set of financial results for the year ended 31 March 2020, with strong underlying performance and maintaining healthy liquidity and a responsible level of gearing.

Underlying operating profit*	Effective interest rate	Gearing: net debt to RCV
£743.9m <small>(2019: £684.8m)</small>	3.4% <small>(2019: 3.3%)</small>	62% <small>(2019: 61%)</small>
Operating profit*	Liquidity	Dividend per share
£630.3m <small>(2019: £634.9m)</small>	£1.2bn <small>(2019: £1.0bn)</small>	42.60p <small>(2019: 41.28p)</small>
<p>Our performance</p> <p>We have delivered another year of tight control over our underlying cost base. Underlying operating profit increased by £59 million, largely reflecting allowed regulatory revenue changes and lower infrastructure renewals expenditure, with higher underlying depreciation largely offset by a reduction in our remaining underlying cost base.</p> <p>Reported operating profit was £114 million lower than underlying operating profit mainly due to accelerated depreciation in relation to bioresources assets and costs relating to the ongoing COVID-19 pandemic.</p> <p>Key performance indicators</p> <ul style="list-style-type: none"> ● Underlying operating profit ● Underlying earnings per share <p>Our future plans</p> <p>We have made great strides in efficiency in recent years, driving sustainable cost reductions in both wholesale and retail.</p> <p>The total expenditure (totex) needs projected in our business plan were deemed to be one of the most efficient in the sector, and we exit the 2015–20 period at the run-rate needed to meet the required level of totex for 2020–25.</p> <p>The COVID-19 pandemic creates some uncertainty in the economic environment and practical considerations in the delivery of our work, but we remain committed and determined to deliver our plans for the next period at a continued efficient cost.</p>		
<p>Our performance</p> <p>Effective debt management continues to give us a robust financing position. Our average underlying interest rate increased slightly this year from 3.3 per cent to 3.4 per cent mainly due to higher RPI inflation on our index-linked debt. We have £3.5 billion RPI-linked debt at an average rate of 1.4 per cent real, £0.5 billion CPI-linked debt at an average rate of 0.2 per cent real, and £3.2 billion nominal debt at an average rate of 2.9 per cent nominal.</p> <p>We maintain a robust liquidity position, with liquidity comfortably covering the £0.7 billion debt that falls due for repayment across the next 12 months.</p> <p>Our future plans</p> <p>The low cost of debt we have already locked in, due to our industry-leading treasury management, compares favourably with Ofwat's cost of debt allowance for embedded debt in the 2020–25 period. The introduction of indexation on new debt will mean companies neither benefit nor suffer from outturn rates being significantly different from the rates assumed in setting the allowance, but we have historically demonstrated our ability to raise debt at efficient levels compared with the industry average and outperformed the benchmark index used for setting the cost of debt. We expect to continue to perform well against the rest of the industry in financing across AMP7.</p>		
<p>Key performance indicators</p> <ul style="list-style-type: none"> ● Gearing: net debt/RCV ● Dividend per share ● Total shareholder return <p>Our future plans</p> <p>We are maintaining our target gearing range for AMP7 at 55–65 per cent, supporting our stable A3 credit rating with Moody's, and our low-dependency pension position means we are no longer making deficit repair contributions and our employees and shareholders are protected from the risk of a large pension deficit.</p> <p>We announced our AMP7 dividend policy in January when we accepted the final determination, targeting annual growth by CPIH inflation. However, it is too early to predict the full impacts of COVID-19, and we will review this policy as a clearer picture of the post COVID-19 economic environment emerges.</p>		

 Read more about [our financial KPIs](#) on pages 58 and 59

 Read more about [our financial performance](#) on pages 84 to 91

* A guide to alternative performance measures and a reconciliation between underlying operating profit and reported operating profit is shown on pages 90 and 91.

WHAT MATTERS

Customer service and operational performance

We have transformed our performance in recent years and are well positioned as we enter AMP7.

AMP6 net ODI outperformance payout

£43.9m

We delivered another net outperformance payment against our outcome delivery incentives (ODIs) in 2019/20, leading to a cumulative outperformance payment for the five-year period. This demonstrates our continued commitment to improving our performance, despite facing some weather-related challenges this year.



Progress this year

3rd

Ranked third water and wastewater company in the shadow year of C-MeX, with ongoing improvement resulting in us ranking first overall in the third and fourth quarter surveys. In AMP7 C-MeX replaces SIM, in which we dramatically improved from 13th to third ranking across AMP6.

Our future plans

£350m

We voluntarily reinvested around half of our AMP6 outperformance, with £250 million improving our resilience for the future, and £100 million targeted at the biggest challenges in our performance targets for AMP7, enabling us to make a flying start on further improvements.



STRATEGIC REPORT

Delivering our purpose	16
Our business model	28
– Our key resources	32
– Our external drivers and relationships	34
– How we plan for the future	36
– Our plans for 2020–25	42
– How we create value for stakeholders	46
– How we respond to challenges	48
How we measure our performance	54
Contributing to the UN SDGs	64
Our approach to climate change (TCFD)	66
Our performance in 2019/20	78
Our risk management	92
S172(1) Statement	102
Non-financial information statement	103
Glossary	104
Time for a tea break	105

Delivering our purpose

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



Our purpose

To provide great water and more for the North West.

Our vision

To be the best UK water and wastewater company.

Our strategic themes

The best service to customers

At the lowest sustainable cost

In a responsible manner

Our core values

Customer focused

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

Innovative

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

Trustworthy

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



Our strategy is broken down into three strategic themes, which form the framework for what we do.



The best service to customers



At the lowest sustainable cost



In a responsible manner



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

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

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

These strategic themes run through everything we do

Our operational performance measurement, key performance indicators, risk assessment and remuneration policy are all aligned to these three strategic themes.

→ Read more about [our KPIs](#) on pages 54 to 59

→ Read more about [our risk management](#) on page 92 to 101

→ Read more about [our operational performance](#) on pages 78 to 83

→ Read more about [our remuneration report](#) on page 156 to 185

Delivering our purpose

Providing great water means appreciating the circular nature of the water cycle and interacting with it in a responsible way.

Delivering clean water

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

Cleaning and returning wastewater

566

wastewater treatment works

7,000

kilometres of rivers

1,300

kilometres of coastline

Removing wastewater and generating energy

78,000

kilometres of wastewater pipes

196,000

tonnes of sewage sludge every year

37

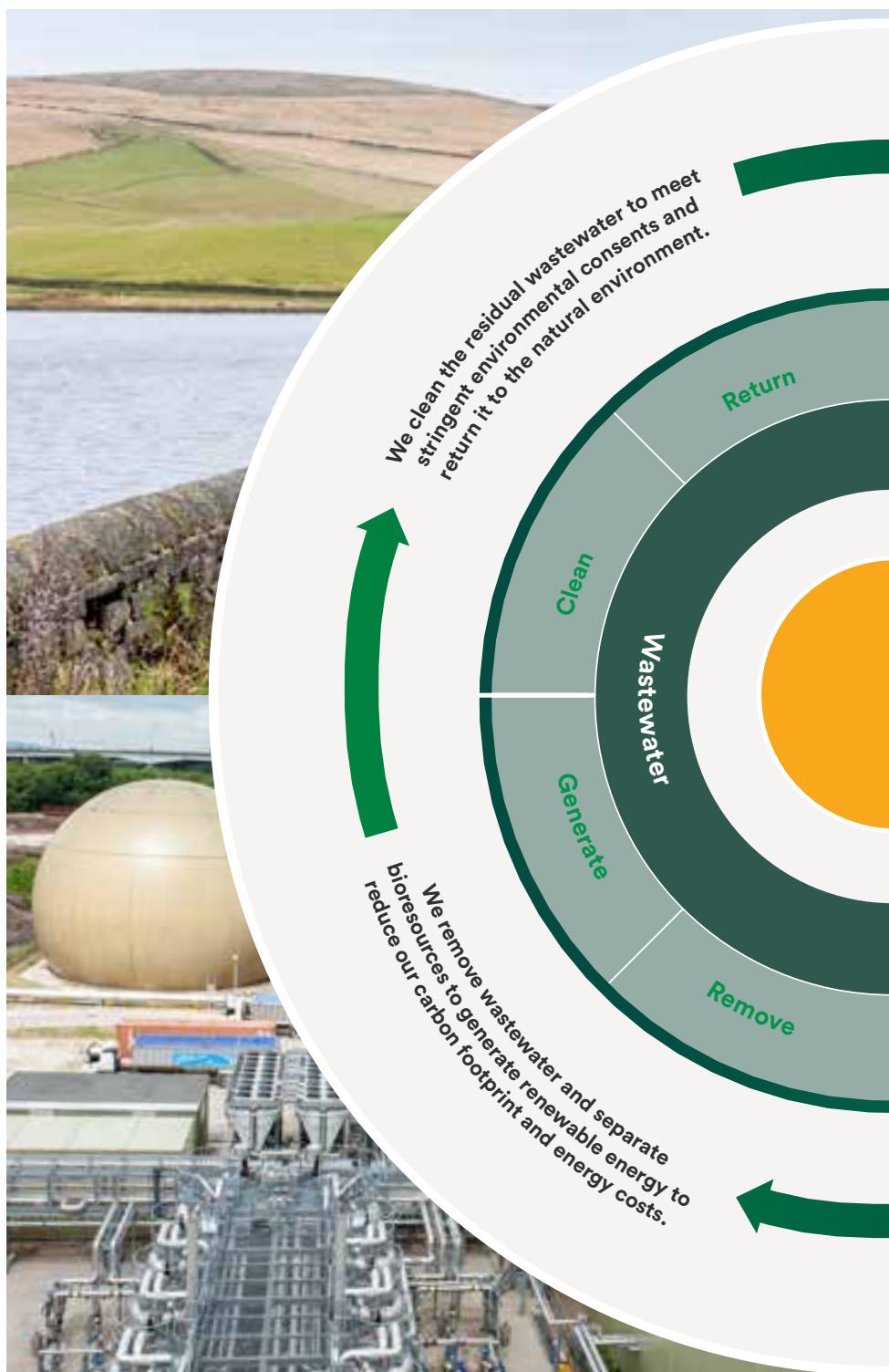
renewable energy facilities

Removing wastewater

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

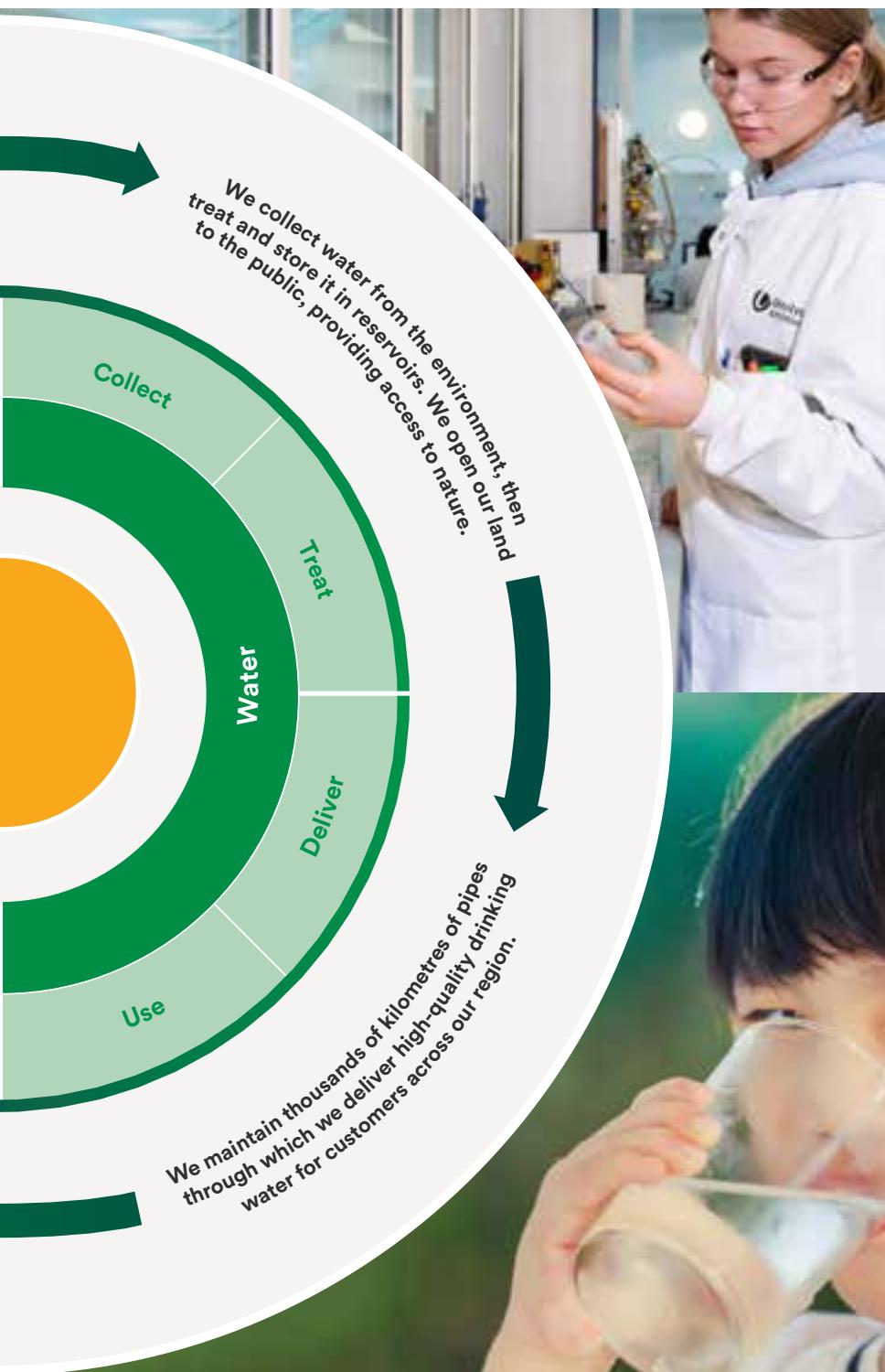
Household retail

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



Did you know...

We invested around £4 billion over 2015–20, including £350 million additional investment of outperformance earned over the period, and the final determination for AMP7 sees us investing around a further £3 billion over 2020–25.



Collecting and treating water

56,000

hectares of land

166

reservoirs

86

water treatment works

Delivering water to customers

42,000

kilometres of water pipes

1.8 billion

litres of clean water every day

7.3 million

customers served 24 hours a day

Improving social mobility in our region

This is important to help the north west economy thrive and offers us a diverse workforce.

We are committed to increasing the diversity of our workforce and providing career and employment opportunities to deprived and disadvantaged young people to help improve social mobility in our region.

Our open employee recruitment practice promotes a level playing field for people from disadvantaged backgrounds and circumstances including lowering qualification criteria to allow individuals to successfully apply.

This year, we ran two youth programmes. We supported over 20 young people, who were not in education, employment and training, to graduate from our six-week programme. The course is designed to break down barriers and help the participants become more employable and work ready. For the first time, we ran a cohort in one of our targeted communities, Blackburn, where 76 per cent of the participants went on to secure paid employment immediately after graduating from the programme.

This year, 12 of our managers volunteered to mentor a care leaver student in their second year of study at the University of Salford. Managers were given specialist training on how to mentor a care leaver student. Their role was to provide insight into progression within the industry, give expert advice and guidance with CVs and application forms, prepare students for the workplace and provide mentees with opportunities to enhance their knowledge and expertise in practical environments.

We recruited university ambassadors from four of our targeted universities across the North West this year. The ambassadors support us in promoting our employment opportunities to under-represented groups within their universities. We have recruited the ambassadors based on their own diversity, and have worked with them to promote our summer placements, 12-month internships and graduate opportunities.

Social mobility is fundamental for a fair society and for regional economic prosperity. As a result of our activity to recruit people from disadvantaged backgrounds and circumstances into the business, we have converted over 60 people into paid employment, providing a pathway out of poverty and ultimately increasing an individual's social mobility. It is estimated the social value of this is in the region of £9 million.

Generating value for:



We serve the North West of England

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

Economic factors

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

- › **7.3 million** population expected to grow significantly in the next 25 years
- › **22,700⁽¹⁾** jobs actively supported by our work, with over **5,000** direct employees
- › **Tourism** relied on by Lake District, Liverpool and coastal area

Social factors

We are leading the sector on affordability and vulnerability.

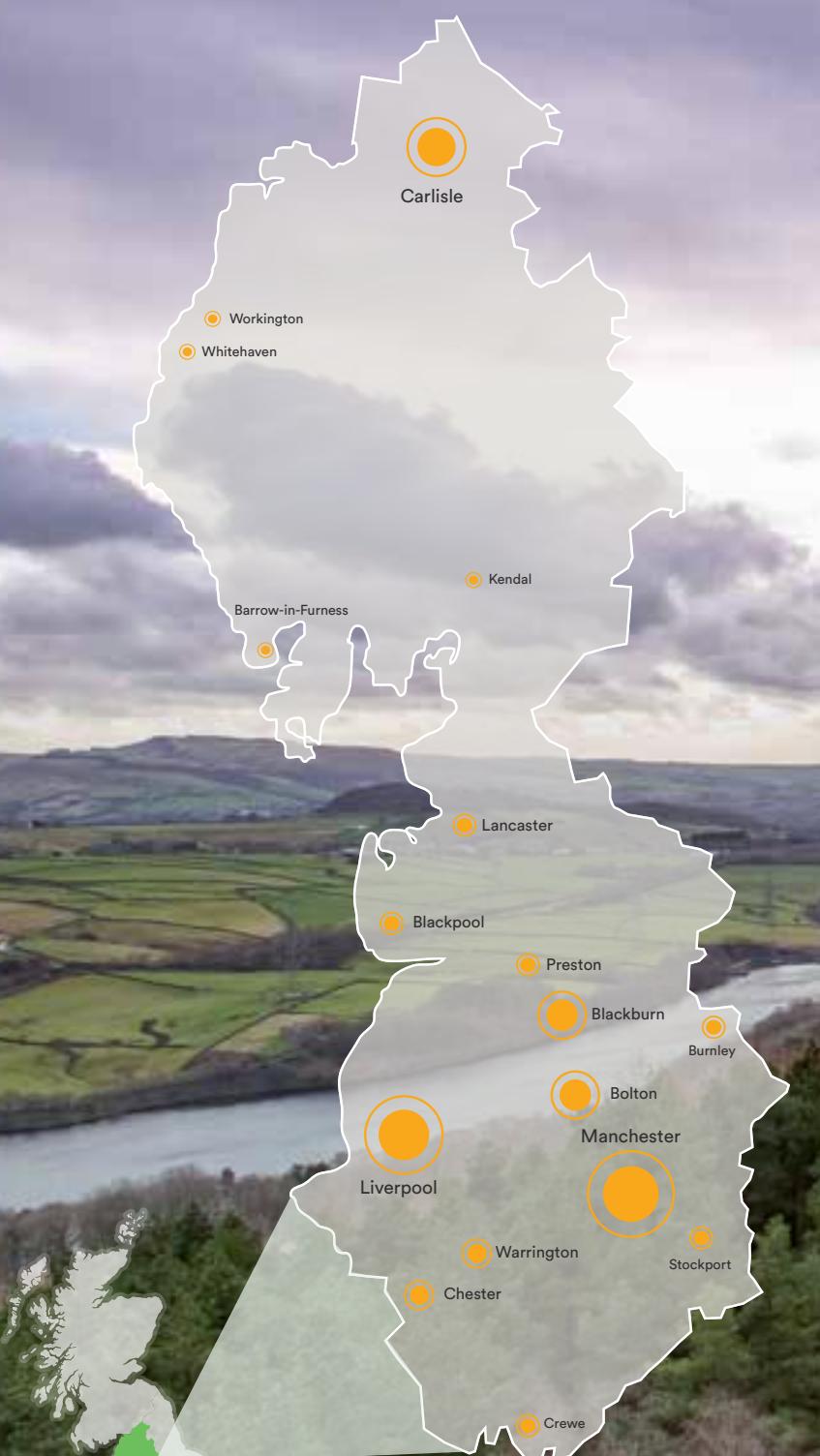
- › **41 per cent** of the most deprived areas in the country
- › **47 per cent** of households have less than £100 savings to cope with unexpected bills
- › **18 per cent** of households are affected by water poverty, **20 per cent** higher than the national average

Environmental factors

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

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

⁽¹⁾ based on our 2020 to 2025 business plan



Delivering our purpose

Providing ‘more’ means creating value for our stakeholders. We actively engage with our different stakeholder groups in order to understand what matters most to them.

Identifying who our stakeholders are and engaging to understand what matters to them enables us to provide more for the North West and create long-term value for all.

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

Understanding what matters to stakeholders will only be achieved by building strong, constructive relationships and engaging regularly. These relationships are subject to robust governance

to ensure the insights generated are taken into account in decision-making at executive and board level. Read more on page 102. This is important to building and maintaining trust. The board's corporate responsibility committee meets four times a year, with stakeholder engagement as one of its standing agenda items, and the chair of the independent customer challenge group (YourVoice) regularly attends board meetings to provide its perspective.

The following pages detail how we engage with, and are influenced by, each of our key stakeholder groups. Our analysis of what matters most to stakeholders, and how these issues affect our ability to create long-term value, is set out in our material issues matrix on page 27.

There are nine key stakeholder groups that influence our planning and activities:





WHAT MATTERS

Engaging our stakeholders

Keeping Cumbrian communities informed of pipeline plans.

From 2022 we will need to stop abstracting water from Ennerdale Water and the River Ehen in West Cumbria to avoid the risk of damage to the protected species that rely on these water sources.

To achieve this, we're linking customers in West Cumbria to our regional water network by building a major new pipeline from Thirlmere.

So far, we've completed the longest-ever tunnel of its type in the UK and completed over a million man hours with no lost time accidents while making sure we work carefully to protect the Lake District National Park.

Putting stakeholders at the heart of this project has resulted in a sector-leading approach to stakeholder management for major water infrastructure in England.

We have worked closely with regulators, stakeholders, local communities and contractors, and this constant dialogue has ensured the highest standard of environmental protection and transparency.

This continuous engagement has helped minimise the impact that construction on this scale inevitably brings to local communities.

Working in partnership with local organisations such as the Cumbria Community Foundation, we established two funds of just over £1 million in total to award financial grants to projects that provide social and environmental benefits to the local area.

These funds will leave a lasting legacy long after the pipeline is finished, benefiting people and communities across Cumbria for years to come.

Generating value for:



Delivering our purpose

Our approach to engagement extends across all of our stakeholders.



Communities

Why we engage

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

How we engage

When communities come together, whether that is around a particular issue or location, they can often make powerful representations to the company. Much of this engagement is face to face, although social media and other digital communication is on the increase with online communities such as Watertalk, our online customer research panel.

We engage through facilitated workshops and community partnerships, such as those involving communities affected by the construction of the West Cumbria pipeline. Issues raised by communities can present opportunities to improve what we do to help others, while some can be complex and difficult to handle, especially where competing interests between different stakeholder groups are present, and require time and effort to work through.

Read more about [our stakeholder engagement in West Cumbria](#) on page 23

Top three material issues

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



Customers

Why we engage

Serving over seven million people and 200,000 businesses in the North West means it's important we get our services right. But to deliver a great service in a way that customers value, we need to listen and engage with them in ways that are relevant. We know customer expectations are ever changing, and often more demanding, so we constantly look for ways to engage with, and understand, evolving customer expectations of us as their water company.

How we engage

We are always interested to hear what customers think about us and devote considerable time asking for, receiving and analysing customer feedback. We get this through everyday interactions, online customer panels and more detailed weekly research on key themes that are important to them. We have changed how we communicate and deliver services based on customer feedback, such as the introduction of Priority Services and our Instagram account. Our business plan for 2020–25 was shaped by unprecedented levels of customer engagement.

The independent customer challenge group, YourVoice, aims to ensure customers are at the heart of our business planning, and the Chair regularly attends our board meetings. YourVoice provides challenge and critical support on the delivery of commitments as well as contributing to the shape of future business plans.

Top three material issues

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



Employees

Why we engage

Our employees are the face of the company and we could not deliver our services without them. It is essential we build productive relationships based on trust. We know that the more engaged, skilled and motivated our people are, the better service they provide to our customers, at a lesser cost. In addition to our own employees there are over 13,000 as part of our supply chain in the North West who are essential to our performance.

How we engage

Employees know our business better than anyone, with a diverse range of views and experience, making them well placed to identify opportunities for improvement.

We have a highly-engaged workforce who take pride in their work and value opportunities to learn new skills, and we maintain an open and honest dialogue between trade unions and the business. Line managers play a vital role in supporting employees, with regular one-to-one meetings, and our engagement survey now achieves UK high-performing norms. Our Employee Voice panel consists of 24 members from across the company providing a means by which employee perspectives are heard by the board. We have several employee-led networks such as LGBT and multi-cultural networks, an early careers board and we encourage employees to share innovative ideas via many forums.

Read more about [improving social mobility in our region](#) on page 20

Top three material issues

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



 Read more about [our approach to materiality](#) on page 27



Environment

Why we engage

We rely on the environment and play a key role in protecting and enhancing it across the North West. As the environment has no voice of its own, we engage with interested groups such as environmental regulators, non-governmental organisations, campaigners and local communities to find the best ways to tackle environmental issues, like climate change and reducing plastic pollution. We work with other water companies to collectively make a difference.

How we engage

The environment is one of our key resources so it is important for the sustainability of our business that we protect and enhance it; see page 32. We conduct facilitated workshops with environmental stakeholders to understand their priorities and have undertaken a large number of customer research projects.

Environmental stakeholders tell us that working together is the best way to ensure resilience in the natural environment, especially where climate change is concerned. We work with environmental partners across the North West to identify new ways to deliver improvements, and engage with several groups to explore opportunities to deliver shared environmental outcomes.

 Read more about [working with the environment to find better solutions](#) on page 51

Top three material issues

-  Resilience
-  Environmental impacts
-  Climate change



Investors

Why we engage

It is important that shareholders have confidence in the company and how it is managed, given their investment in our business. We have over 70,000 shareholders, from large institutions who manage the pensions of millions of people to private individuals who are looking for a return on their hard-earned money. So that we can finance improvements to our assets and services, we maintain relationships with a diverse range of banks.

How we engage

Engagement with shareholders gives us a broad insight into their priorities, which is taken into account in our decision-making and our strategic direction. By providing updates on strategy and performance, we can assist them in their understanding and decision-making.

Through our investor relations programme, we actively engage with shareholders and analysts who write research reports on our company and industry. Regular engagement activities are supplemented by ad hoc events, such as the capital markets day held this year on the business plan determination for the 2020–25 period. We supply information to several investor-led indices on environmental, social and governance matters, such as the Dow Jones Sustainability Index.

 Read more about [how we measure our performance as a responsible business](#) on pages 62 to 63

Top three material issues

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



Suppliers

Why we engage

Good relationships with suppliers help ensure projects are delivered on time, to good quality, at efficient costs, and can bring innovative approaches and solutions that create shared value. We work with around 2,500 suppliers to deliver our services, and the availability of goods and services in the market influences our strategy and how we operate.

How we engage

We rely on suppliers to deliver our services. We engage suppliers through workshops, including targeted sessions on innovation, and one-to-one feedback. Like-minded suppliers sign up to our sustainable supply chain charter and support the commitments set out within it, such as the commitment on human rights.

Feedback from suppliers revealed it can be difficult to access the company, especially when they have new products and services that could help us be more efficient and deliver better service. We established our Innovation Lab to help address this issue.

Top three material issues

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

Delivering our purpose



Media

Why we engage

It is through both traditional media and social media platforms that many of our stakeholders receive their information about us and our activities. The media is influenced by the issues that matter to those stakeholders as well as influencing them through what it reports.

How we engage

Given the essential nature of our services, it is important that coverage is fair, balanced and accurate, and this requires effective two-way dialogue between the company and the media. This is achieved through proactive engagement by our media team, which is available 24/7, providing content to media outlets, as well as dedicated resources to drive proactive messaging on social media channels.

Top three material issues

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



Politicians

Why we engage

Politicians influence the long-term national water strategy and environmental priorities, matters that affect how all businesses operate, and champion issues raised by their constituents.

How we engage

We undertake direct engagement with national and local government, as well as elected representatives and devolved administrations on topics of public interest, helping us to understand their issues so we can seek solutions to shared environmental, social, economic and governance issues. We engage with regional and national politicians across the different political parties.

Top three material issues

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



Regulators

Why we engage

Through proactive, constructive engagement with economic, quality and environmental regulators, we agree to deliver commitments over specified time frames.

Read more about [our regulatory environment](#) on page 35

How we engage

We actively engage to shape the policy and regulatory framework within which we operate, covering customer, economic, environmental, social and governance matters. These priorities need to be balanced and viewed over a long-term horizon, and maintaining relationships is key to this. The priorities and objectives of regulators can change over time so active engagement to provide our perspective around future policy is important to us.

We hold regular meetings with all our regulators, including working on joint projects such as Natural Course, which aims to build capacity to protect and improve the north west water environment.

Read more at [naturalcourse.co.uk](#)

Top three material issues

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

Managing our material issues

Our approach to materiality

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

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

In defining the strategic relevance of an issue to the company, we have adopted the integrated reporting framework definition of materiality, which states: “a matter is material if it could substantively affect the organisation’s ability to create value in the short, medium or long term”. Value, in this context, may be created internally (for the company, investors and employees) and there can be external value (for customers, communities, suppliers and the environment). Value may be financial or non-financial.

Our assessment of the level of interest to stakeholders is based on a balance of views obtained from customers, investors, regulators, communities, and subject matter experts from the company on an ongoing basis, as well as the extensive insights gathered for the regulatory price review process.

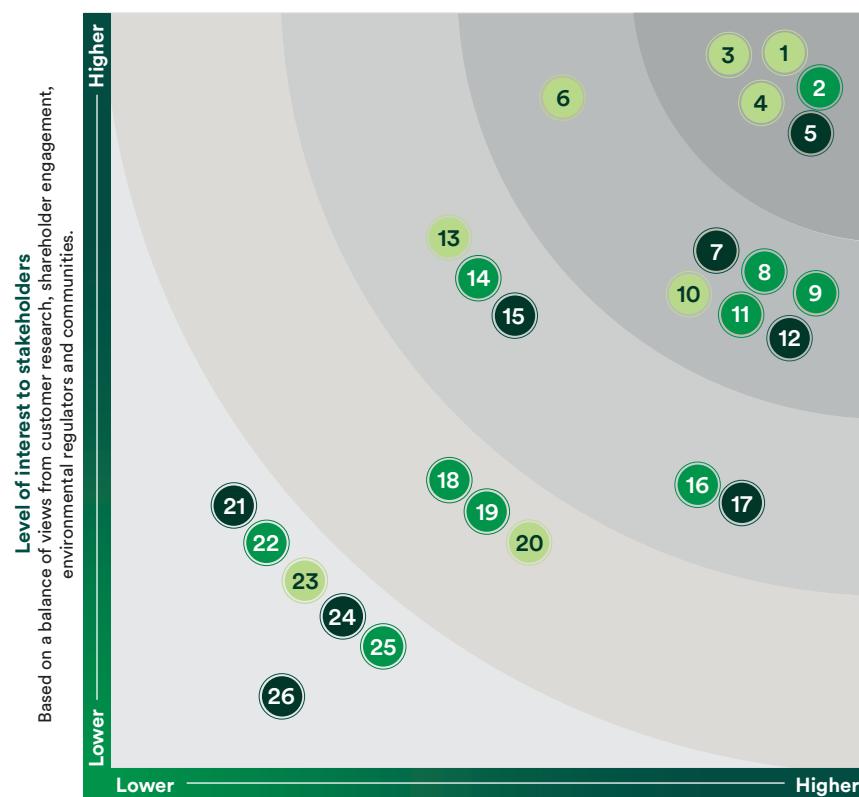
We have cross-referenced and aligned these issues with our principal risks and uncertainties, and our approach was reviewed by responsible business consultancy Corporate Citizenship, which commented that “alignment with United Utilities’ way of creating value gives life and credibility to the materiality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

 Read more about how we deliver value to our stakeholders on pages 46 and 47

 Read about how the board considers stakeholders in its decision-making in our [S172 \(1\) Statement](#) on page 102

Material issues matrix

We consolidated feedback from our various stakeholder groups, as detailed above, which resulted in 26 material issues. These issues are impacted by factors that may be external, internal or both; for example, affordability and vulnerability affect customers due to external social and economic factors, and the support services we provide for those customers are an internal factor, so this issue is impacted by both. The 26 issues are plotted on the matrix below, from lower to higher in terms of level of interest to stakeholders and how much it can affect our ability to create value.



Effect on our ability to create value
Based on the potential effect on our ability to create value over the short, medium and long term. Value can be created for United Utilities, investors, regulators, employees, the public, and/or the environment. Value can be financial and non-financial.

External factors

- 5 Political and regulatory environment
- 7 Climate change
- 12 Cyber security
- 15 North west regional economy
- 17 Natural resources
- 21 Social media
- 24 Land management and access
- 26 Human rights

Internal factors

- 2 Resilience
- 8 Financial risk management
- 9 Corporate governance and business conduct
- 11 Innovation
- 14 Data security
- 16 Energy use
- 18 Responsible supply chain
- 19 Health, safety and wellbeing
- 22 Employee relations
- 25 Community investment

Both external and internal factors

- 1 Trust, transparency and legitimacy
- 3 Customer service and operational performance
- 4 Leakage and water efficiency
- 6 Affordability and vulnerability
- 10 Sewer flooding
- 13 Environmental impacts
- 20 Competitive markets
- 23 Diverse and skilled workforce

Our business model

Our key resources

Natural resources

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

People

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

Assets

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

Financing

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

→ Read more about [our key resources](#) on pages 32 and 33

Our strategy and core values

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

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

 **The best service to customers**

 **At the lowest sustainable cost**

 **In a responsible manner**

→ Read more about [our strategy and core values](#) on page 16

Our planning horizons

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

→ Read more about [our approach to planning](#) on page 36

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

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

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

1 year 5 years 25+ years

Our external drivers and relationships

Natural environment

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

Stakeholders

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

→ Read more about [external drivers and relationships](#) on pages 34 and 35

Technology and innovation

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

Economic environment

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

Regulatory environment

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

Political environment

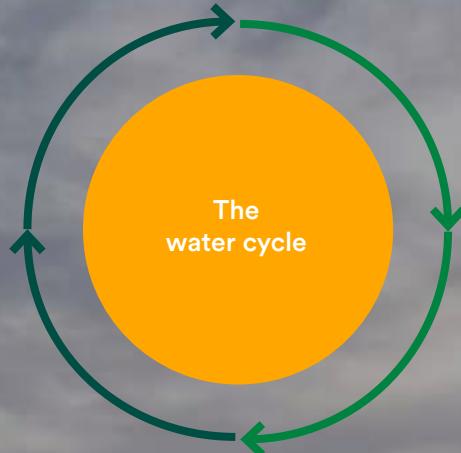
This includes regional and national politicians as well as policy makers, and we must understand the key policy issues affecting our industry.

What we do

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

We maintain and operate thousands of kilometres of pipes and hundreds of treatment works, as well as renewable energy facilities that use our land and bioresources from wastewater treatment to generate clean electricity to help power our operations.

→ Read more about [our water cycle](#) on pages 18 and 19



How we do it

In order to deliver these essential services in the most effective way, we take an integrated approach that considers what is most material to our stakeholders and to our ability to create value; our risk management; our commitment to environmental, social and governance matters; and our pioneering Systems Thinking approach to operating our network and assets.

→ Read more about [our approach](#) on pages 4 and 5

Our prioritisation of issues

We engage with our stakeholders to understand their priorities and balance their different and often conflicting views

Our risk management

We manage a wide variety of risks to enable us to focus on delivering a sustainable and resilient service for the long-term

Our commitment to ESG matters

We operate in an environmentally and socially conscious manner and uphold the highest standards of corporate governance

Systems Thinking

We operate our network as a system rather than discrete assets, and we have a backbone of sensors that enable remote monitoring and control

The value we generate



Communities

We build partnerships and work with schools in our region to develop skills and help people get back to work. We encourage employee volunteering programmes to help create better places, stronger communities, and accomplish more to address local issues together.

How we measure this

- › KPI – DJSI rating
- › Other metrics including charitable donations, community funding, and employee volunteering



Customers

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

How we measure this

- › KPI – Wholesale ODI composite
- › KPI – SIM qualitative
- › KPI – SIM quantitative
- › Other metrics including complaints, digital services, assistance schemes, and water efficiency savings



Employees

We focus on attracting, developing and retaining a diverse workforce, and ensuring we look after their health, safety and wellbeing. We run graduate and apprenticeship programmes, and encourage younger students to pursue science, technology, engineering and mathematics careers, to help ensure the next generation of skilled employees.

How we measure this

- › Engagement score, diversity and gender pay, training and development, accident frequency, and pensions



Environment

We maintain and enhance reservoirs, catchment land, rivers and bathing waters that provide a home for wildlife, areas for recreation, and a major pull for tourism. We strive to reduce our environmental impact and generate renewable energy.

How we measure this

- › KPI – Leakage
- › KPI – EA performance assessment
- › KPI – DJSI rating
- › Other metrics including carbon footprint, waste to beneficial use, and natural capital value added



Investors

Many of our investors are pension funds and charities and the income we provide is relied on by millions. We manage risk prudently and provide an appropriate return, investing in our assets for growth and resilience. Regulatory incentives help align shareholder value with what matters to customers and the environment.

How we measure this

- › KPI – Totex outperformance
- › KPI – Financing outperformance
- › KPI – Household retail cost to serve
- › Financial metrics including RoRE and TSR



Suppliers

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

How we measure this

- › Metrics such as average time taken to pay invoices, and proportion of suppliers paid on time



Read more about [how we create value for our stakeholders](#) on pages 46 and 47

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



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

Our business model

Our key resources

Natural resources

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

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

How we manage this key resource

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

Our Systems Thinking approach is central to how we manage water supply. We have an integrated supply zone covering most of our region, our West-East Link Main allows us to transfer water between Manchester and Liverpool, and where there is a potential shortfall we can bring more supplies online to meet demand. 46 per cent of households in our region now have water meters installed, and we encourage customers to save water by raising awareness, sharing tips, and providing free water-saving devices.

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

Our activities produce various wastes, including sludges, which we manage in a sustainable way with less than 2 per cent going to landfill. We use recycled products where practical, and are working to reduce our use of plastics and raw materials to minimise our environmental impact.

People

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

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

How we manage this key resource

We support thousands of jobs in the North West, including graduate and apprenticeship programmes, helping to secure a legacy for the future in our region. We are committed to paying our suppliers on time and are a signatory to the Prompt Payment Code, and we provide our employees with competitive wages and benefits, an attractive pension offering, and the opportunity to join the employee healthcare scheme and our share incentive plan.

We provide comprehensive training and development opportunities, including digital skills to help with our Systems Thinking approach and enable remote working where practical, which has become more important this year with restrictions during the COVID-19 pandemic. We promote diversity and equal opportunity to drive a comprehensive and balanced skill set, and we recruit and

promote employees on the basis of merit. Read more about diversity on pages 133 to 135. We are committed to protecting the health, safety and wellbeing of our people, and have been awarded the workplace wellbeing charter.

We measure employee engagement through an annual survey, and regularly achieve results higher than the UK norm. We monitor and measure employee performance through annual reviews, and employees at all levels of the company participate in the bonus scheme, so they benefit from company success. The bonus performance measures are the same for all employees as those for the executive directors, and can be found on page 164.

Assets

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

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

How we manage this key resource

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

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

long-term resilience, saving future operating costs and reducing future customer bills.

We saw in AMP6 the benefit of accelerating our investment to deliver improvements sooner, and we plan to take the same approach in AMP7, bringing forward some of our capital spend earlier in the five-year period. During the COVID-19 pandemic, we have halted non-essential work but we are continuing with construction projects where we are able to do so safely for our employees and those with whom they are in contact.

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

Financing

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

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

How we manage this key resource

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

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

We aim to avoid a concentration of refinancing in any one year, and fund long term where possible. Our debt portfolio has a very long average life, and we monitor liquidity forecasts with a policy of having resources available to cover the next 15–24 months of projected cash flows to ensure forward funding needs are met.

We have clear and transparent hedging policies covering credit, liquidity, interest rate, inflation and currency risk, and these are aligned with the regulatory model.

 Read more about [these policies](#) on pages 232 to 239

Our prudent approach to managing financial risks is one of our competitive advantages, as set out on page 6.

Our business model

Our external drivers and relationships

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



Stakeholders

One of the key external drivers is what matters to our stakeholders, as our plans and the way we operate are influenced by their views.

 Read more about these material issues on page 27

Natural environment

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

Stakeholders

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

Technology and innovation

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

Economic environment

We are impacted by market rate movements, such as interest rates and inflation, but we seek to manage these prudently to reduce risk as far as practical. As well as these direct impacts on the company, the economic climate impacts our customers and their ability to pay their bills. We operate in an area with high levels of extreme deprivation, so helping vulnerable customers is particularly important for us.

Regulatory environment

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

Political environment

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

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

Our industry and market

Customers in England and Wales are served by 11 licensed water and wastewater companies and smaller companies providing water-only services. Our regulated entity, United Utilities Water Limited, is the second largest, based on the size of our Regulatory Capital Value (RCV). We serve over seven million people, with over three million household customers making up around two-thirds of our revenue, and over 200,000 businesses. As a monopoly provider of essential services, we are regulated by various bodies as set out below.

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

This was the final year of AMP6 and we have accepted the final determination for AMP7, covering the 2020–25 period.

 Read more about [our plans for 2020–25](#) on pages 42 to 45

Our focus is now on delivering and trying to outperform our final determination through:

- › Spending less than our total expenditure (totex) allowance through innovation and efficiency;
- › Beating the Outcome Delivery Incentive (ODI) targets for operational performance;
- › Delivering higher customer satisfaction than the other companies in our industry; and
- › Raising debt finance at a cost below the industry allowed cost of debt.

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

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

11

licensed water and wastewater companies

2nd

largest water and wastewater company in England and Wales

£51 billion

allowance across the industry to deliver further improvements in the next five years

Our regulators

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

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

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

 Read more about [our stakeholder engagement](#) on pages 22 to 27



Our business model

How we plan for the future

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

Our approach to planning

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

- › What the material issues are, to stakeholders and to our ability to create value;
- › Our assessment of principal risks and uncertainties;
- › Our environmental, social and governance (ESG) commitments; and
- › How our plans will fit with our Systems Thinking approach.

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

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

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

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

Materiality and risk assessment

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

Read more about [our material issues](#) on page 27 and [our risk management](#) on pages 92 to 101

Our planning horizons

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

5 years

1 year

25+ years

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

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

Monitoring performance

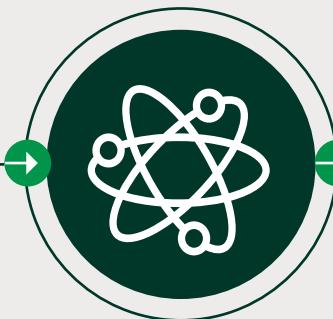
We continuously assess our performance against our plans using key performance indicators (KPIs) and other performance metrics of interest to our stakeholders.

Read more about [how we measure our performance](#) on pages 54 to 63

2022

2025

2025+



We will extend our integrated water supply network into West Cumbria



We aim to lift 66,500 more customers out of water poverty through financial assistance



We will work to enable future national water trading

Long-term planning (25+ years)

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

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

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

- › Climate change;
- › Population growth;
- › The UK's exit from the European Union;
- › A more open, competitive market;
- › More stringent environmental regulations;
- › Developments in technology; and
- › Combining affordable bills with a modern, responsive service.

There is a section of our website dealing with our future plans, where we examine the challenges ahead and how we will focus our resources and talents in order to meet them.

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

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

We create long-term value for stakeholders by:

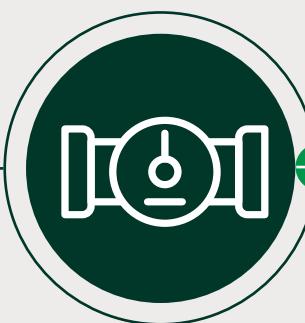
- › Systems Thinking and innovation;
- › Long-term planning and responding to challenges and opportunities, including management of water resources;
- › Sustainable catchment management;
- › Disciplined investment, based on a sustainable whole-life cost modelling approach, to ensure the resilience of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

2030



We will work with others to achieve 'Blue Flag' beaches along our coastline

2045



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

2045



We aim to reduce leakage by over 40 per cent

Our business model

How we plan for the future

Our five-year plans centre around regulatory targets. We set one-year targets but maintain flexibility in these to adapt to meet challenges that arise in the year.

Medium-term planning (5 years)

The majority of the group's activities sit within our regulated water and wastewater business, therefore our medium-term planning predominantly sets out how we will deliver against the final determination (FD) we receive from Ofwat for each five-year period.

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

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

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

The improvements we delivered in operational performance, efficiency, bad debts and cash collection over the 2015–20 period helped us put forward efficient totex proposals in our business plan for 2020–25, and this was reflected in Ofwat's assessment in which we were awarded fast-track status and given one of the lowest cost challenges in the sector. This gave us time to get a flying start on our plans for 2020–25. We accepted the FD in January 2020 and are well prepared for this next period, having invested £100 million over 2019/20 to accelerate planned improvements and achieve a flying start.

 Read more about [how we've invested to deliver early improvement](#) on page 45

Our strategy of delivering the best service to customers at the lowest sustainable cost in a responsible manner helps us create value for our stakeholders by delivering or outperforming the FD, as set out on page 17. Since 2015 we have published an Annual Performance Report (APR), which reports our regulatory performance in a format that helps customers and other stakeholders understand it and compare it with other companies in the sector. This includes reporting of Return on Regulated Equity (RoRE), which is made up of the base allowed return and any outperformance/underperformance, on an annual and cumulative basis for each five-year period.

Short-term planning (1 year)

Short-term planning helps us work towards our medium and long-term goals and provides us with measurable targets so that we can continually monitor and assess our progress, which helps us ensure the long-term resilience and sustainability of our business.

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

To avoid short-term decision-making and ensure management is focused on the long-term performance of the company, as well as these annual targets executive directors are remunerated through long-term incentive plans that assess three-year performance, measured during the current period through total shareholder return, sustainable dividends and customer service.

 See details of the [2019/20 annual bonus and vested long-term incentive plans for our executive directors](#) on pages 166 to 167

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

It is vital that we retain flexibility within this short-term planning so we can adapt to meet challenges that may arise during each year, and deliver high-quality and resilient services to customers in the most effective and cost-efficient way possible. This may involve bringing enhancements forward to deliver improvements for customers early, investing further into the business to maintain service, or delaying projects to occur later in the regulatory period in order to prioritise expenditure and allow our people to spend their time dealing with any unexpected challenges that arise.

The challenges presented by COVID-19 and its impacts in the latter part of this financial year and continuing into 2020/21 are a clear example of why this flexibility is crucial. We enacted our robust contingency plans, enabling us to quickly and efficiently move thousands of our people to home-working and introduce additional safeguarding measures for those that remained on sites or in the field, while maintaining reliable water and wastewater services that are critical for public health at this time.

 Read more about [our response to the challenges of COVID-19](#) on page 83



Our APRs are published in July each year at unitedutilities.com/corporate/about-us/performance



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

WHAT MATTERS

Securing resilience in our largest aqueduct

It took over ten years of planning and preparations to be able to drain and inspect the aqueduct.

The Haweswater Aqueduct (HA) is the most significant supply of potable water to Manchester and critical to other supply areas. Completed in the 1950s, the aqueduct is capable of transporting 500 million litres of potable water, by gravity alone, to customers in our region. Having served us well for over half a century, we needed to get inside it and carry out inspections of the structure.

It took over ten years of planning and preparations to keep customers supplied while the HA was temporarily drained for inspection and essential repairs. More than 400 workers delivering 45 separate projects ensured the network of supporting treatment works could take the strain while the HA was offline. This included building a brand new pipeline (the WestEast Link Main) to allow us to move water from North Wales into Manchester if needed. We started pre-construction work on this pipeline in 2006, and by 2010 it was operational. This was a crucial step in allowing us to drain and shut down the HA for the first time in its history in 2013 and again in 2016.

The inspections revealed a number of issues that could potentially lead to service failures in the future. We undertook an extensive risk analysis and mitigated those risks where we could by carrying out localised repairs, but it was clear that significant further investment is needed. We took the decision to immediately address one section of the existing aqueduct that was in more urgent need of attention. Construction is well underway and this section will be commissioned at the start of AMP7.

We established the Haweswater Aqueduct Resilience Programme (HARP), which will be one of the largest infrastructure projects in the UK, to manage the replacement of six separate tunnel sections of the aqueduct, totalling 50 kilometres in length and up to 3.5 metres in diameter. This will be delivered through a new delivery model, Direct Procurement for Customers (DPC), and this is the largest scheme being undertaken using this approach during AMP7 by any water company. Under this model we will appoint a third party to design, construct and finance the scheme under a long-term contract. We anticipate that this will allow more innovation from the market to deliver even better value to customers for this critical project.

Generating value for:



Our business model

How we plan for the future



In its initial assessment of our business plan for 2020–25, Ofwat commended our approach to resilience as sector leading.

Our approach to resilience

Innovation is a critical enabler for resilience, and our Systems Thinking approach gives us an advantage. Sensors across our network and remote monitoring and control from the Integrated Control Centre at head office allow us to spot issues and respond proactively before customers are impacted and/or the issue becomes more serious. For example, spotting changes in pressure in the network to identify issues so that we can send a team out to repair them before customers are affected.

As well as our use of innovation, we have enhanced our approach to resilience through lessons learned from previous events. We introduced new incident management procedures with detailed contingency plans and a director-led incident review board in response to events in 2015 and 2016. Another development in our approach as a result of lessons learned was the introduction of Priority Services, which offers tailored support to the more vulnerable members of society in emergencies.

Operational resilience

The main risks to the resilience of our operational assets are the potential for failure of ageing infrastructure and the challenges presented by climate change and population growth forecasts.

Our 2019 Water Resources Management Plan considered a range of future challenges, including:

- › Extreme drought, freeze-thaw, and flooding;
- › Climate change (100 scenarios under the latest UK climate projections (UKCP09) at the time of creating the plan); and
- › Demand (population growth, economic trends and patterns of water use).

We assessed risks over the 2020–45 planning period and looked beyond this into the 2080s. We published two adaptation reports, in 2011 and 2015,

which outline our holistic, integrated and partnership approach to a range of short and long-term challenges, including a changing climate.

Our plans for 2020–25 include engaging with suppliers on a Direct Procurement for Customers (DPC) project to address our biggest operational asset risk: the Haweswater Aqueduct.

Read more about our [Haweswater Aqueduct Resilience Programme](#) on page 39

Skills resilience

We have some key highly skilled roles, and our talent succession pipeline is critical to the seamless transfer of skills from one generation to another.

We have active graduate and apprenticeship programmes, we have partnered with Teach First, and we are an active participant in the STEM (science, technology, engineering and mathematics) programme encouraging the younger generation to study and pursue careers in these fields.

Read more about how we're [building skills resilience](#) on page 41

Corporate and financial resilience

As a public listed company, we consistently adhere to the highest levels of governance, accountability and transparency.

Long-term financial resilience starts with a strong and robust balance sheet and a prudent risk management approach, and we believe we are at the frontier in this respect. We have maintained a responsible level of gearing and well-controlled pension position for many years, and our prudent financial risk management is one of our competitive advantages.

Read more about [our competitive advantages](#) on page 6

Read more about [our approach to climate change](#) on pages 66 to 77



WHAT MATTERS

Building skills resilience

We train and develop our employees as well as recruiting for the future through active graduate and apprentice programmes.

Every year we offer dozens of the North West's brightest talents a place on one of our sought-after training schemes.

Investing in new talent is essential to ensure we have the skills and leaders we need for the future.

We're proud of our contribution to the wider economic health of our region. We're responsible for around 1 per cent of all jobs in the North West and every year help to launch successful careers with our award-winning apprenticeship and graduate schemes and our scheme for young people who are not in education, employment or training.

As part of our skills agenda, we deliver tens of thousands of training days for our staff and support hundreds more in further education.

This year, we added some new roles to our apprenticeship scheme and promoted the programme more widely with LearnLive.

We delivered two separate youth programmes in partnership with the Department for Work and Pensions, and our supply chain, to targeted communities in the North West.

We've supported more than 20 young people, who are not in education, employment or training, to become work ready. Our scheme provides under-represented communities with opportunities, aims to break down existing barriers and support participants into the workplace.

This year, we hosted five mentoring circles sessions in partnership with our recruitment provider Rullion. The sessions were targeted at unemployed 18–24 year olds who are black, Asian and minority ethnic (BAME), or living with disabilities or long-term health conditions.

Our graduate recruits have made an invaluable contribution to our COVID-19 incident team.

Generating value for:



Our business model

Our plans for 2020–25

What we plan to deliver in AMP7

“We have transformed our performance and exit the current period as a high-performing, responsible company – well prepared for the next period. One of the benefits of being fast-tracked was the ability to begin implementation of our delivery plans and make a flying start. We are confident we will rise to the challenges ahead and continue to create long-term value for all of our stakeholders.”

Steve Mogford
Chief Executive Officer
21 May 2020

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

Our business plan was shaped by what matters to stakeholders

In preparing our business plan, we undertook our most extensive ever engagement campaign, reaching 1.7 million people and asking over 140,000 customers and stakeholders across our region for their views on what matters most to them.

The feedback was very clear – stakeholders wanted lower bills, improved services (including extra support for those customers in vulnerable circumstances), and a commitment to continue to protect the environment in the region. This feedback was fundamental in shaping our proposals.

We have made a flying start to our plans for the 2020–25 period (AMP7)

Fast-track status allowed us to start early with our delivery plans. We have tendered and selected our two delivery partners for the period and awarded contracts for the first tranche of our capital programme, getting us ahead of the curve and giving our partners time to start the design stage.

We reinvested £350 million of outperformance earned over the 2015–20 period, with £250 million targeted to increase our resilience, and £100 million invested in 2019/20 to give us a flying start to the 2020–25 period. We have used this to improve performance sooner in areas with the most challenging outcome delivery incentive (ODI) targets such as leakage, supply interruptions and sewer flooding. This means we will start the period in a stronger position.

We will deliver further improvements and share our success

We are targeting stretching service levels for customers and the environment, and aim to support even greater numbers of vulnerable customers, while average bills are predicted to fall in real terms.

We are committed to sharing success with customers, who will receive matching benefits if outperformance leads to dividends that are much higher than proposed in our business plan, consistent with our responsible approach over the last ten years, during which we have voluntarily shared over £600 million of our delivered outperformance.

Delivering a better service and real bill reductions

Key deliverables:

- › 13.8 per cent real reduction in average customer bills over 2020–25 in the final determination
- › Targeting 34 per cent reduction in customer contacts about water quality and 58 per cent reduction in supply interruptions

Our 46 performance commitments contain a broad spectrum of areas in which we are targeting further improvements for customers and the environment in 2020–25. We aim to reduce the number of customer contacts about taste and smell and the number of supply interruptions, all at an efficient cost with the help of our Systems Thinking approach and innovation culture. As a result, the average customer bill is expected to reduce in real terms over the period, on top of the 10 per cent real bill reductions we have already delivered since 2010.

Link to strategic themes:



Helping vulnerable customers

Key deliverables:

- › Committed £71 million voluntary funding to provide financial assistance for customers
- › Targeting to help 66,500 customers out of water poverty through financial assistance
- › One of the first water companies to achieve BSI accreditation for Priority Services

In its initial assessment Ofwat commended our plan for including “ambitious, innovative and sector-leading proposals to make customers’ bills affordable and on providing support for vulnerable customers”.

This is particularly important in our region, which has high levels of extreme deprivation. Our planned bill reductions will help customers struggling financially, and on top of this we are aiming to lift thousands out of water poverty through financial assistance, and have committed £71 million voluntary funding into our CommUnity Share scheme to provide help for customers who need it. We lead the sector with over 100,000 customers now registered for Priority Services, and this year we became one of the first water companies to achieve British Standards Institution (BSI) accreditation for this, in line with the common ODI target for 2020–25.

Link to strategic themes:



Driving further environmental improvements

Key deliverables:

- › Targeting 20 per cent reduction in pollution and 15 per cent reduction in leakage
- › Committed to targets for improving water quality in the natural environment, and a unique commitment to enhance natural capital value

Our targets for 2020–25 include stretching performance improvements for the environment, with significant reductions in pollution and leakage. We have committed to targets for improving water and air quality, reducing the risk of sewer flooding, and protecting the environment from the impact of growth and new development. Our unique natural capital ODI incentivises us to create added value for stakeholders by using non-conventional catchment solutions to deliver water quality improvements through natural capital approaches and assets.

Link to strategic theme:



Strategic themes

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



Our business model

Our plans for 2020–25



Strategic themes



The best service to customers



At the lowest sustainable cost



In a responsible manner

Efficient total expenditure (totex) proposals

Key deliverables:

- › £5.8 billion net totex allowance
- › We exit this year at the required run rate for our totex allowance for the 2020–25 period
- › 50:50 customer cost sharing rates for out/under-performance on totex

We submitted efficient totex proposals in our business plan, as reflected in Ofwat's assessment in which we were given one of the lowest cost challenges in the sector. The sustainable savings we have delivered in the 2015–20 period give us confidence in our ability to deliver, and we exit the current period at the required totex run rate. In the areas where out/under-performance against our totex allowance is shared with customers, our fast-track status means we benefit from more favourable cost-sharing rates than many of our peers. Our totex allowance includes £57 million for preparatory work needed to progress with our Haweswater Aqueduct Resilience Programme through Direct Procurement for Customers and £44 million for strategic water resource development.

Read more about our [Haweswater Aqueduct Resilience Programme](#) on page 39

Link to strategic theme:



Opportunities represented by our ODIs

Key deliverables:

- › More balance in our ODI outperformance payment/penalty ranges compared with the 2015–20 period
- › Range of 1.5 per cent reward to 1.8 per cent penalty (as a percentage of regulated equity) set out in the final determination
- › £100 million flying start investment improves our most likely performance

We have 46 performance commitments for the 2020–25 period, including seven that are comparable with the same targets set across the industry, five common commitments that have company-specific targets, 27 bespoke commitments with financial incentives, and seven that are purely reputational. The likely range of possible outcomes presented by Ofwat in the final determination equates to a total over the 2020–25 period of between £337 million outperformance payment and £387 million penalty on ODIs, including C-MeX and D-MeX. However, our projected performance has been improved by the reinvestment of £100 million of earned outperformance during AMP6, targeted at improving performance against our three most challenging targets – sewer flooding, leakage and supply interruptions. Outperformance payment and/ or penalties against ODIs in AMP7 will be applied as an adjustment to revenues on a two-year lag basis.

Link to strategic theme:



Sharing our success with customers

Key deliverables:

- › Customers will receive matching benefits where outperformance leads to dividends that are much higher than proposed in our business plan
- › Consistent with our responsible approach over the last ten years

Over the last two regulatory periods (2010–15 and 2015–20) we have voluntarily shared over £600 million with customers from the outperformance we have delivered, as part of being a responsible business. For the 2020–25 period we will continue to share our success with customers, and have committed to this upfront. If dividends are much higher than proposed in our business plan, through us earning and distributing additional outperformance over the period, customers will receive matching benefits through us making further contributions to the CommUnity Share scheme (in addition to the £71 million voluntary contribution we have already committed to). We will consult with customers and shareholders, overseen by the independent customer challenge group, YourVoice, to determine the best use for any additional funding.

Link to strategic theme:





WHAT MATTERS

Investing to deliver early improvement

£100 million of earned outperformance has been reinvested to give us a flying start to our AMP7 targets.

One of the benefits of being fast-tracked was that we could immediately start building programmes of work to deliver service improvements. We used the £100 million outperformance reinvestment to give us a flying start against our most challenging performance targets in the 2020–25 period.

Supply interruptions – we have seen dramatic improvements in our performance in recent years due in no small part to our investment in a fleet of alternative supply vehicles (which enable us to inject water directly into the network rather than customers experiencing a loss of supply), and our use of technology and artificial intelligence (with sensors across our systems and predictive analytics to spot potential issues before they impact customers). We have used our flying start money to invest in around 700 sensors on our pressure monitoring valves, enabling us to control pressure remotely from our Integrated Control Centre.

Leakage reduction is critical to the long-term resilience of our water supply. We have met our leakage targets for many years but these get tougher in AMP7 as this is a more prominent area of focus for customers and other stakeholders, particularly with the likely impact of climate change on water availability. Meeting these new targets requires us to look at conventional interventions alongside our continued use of Systems Thinking. Using our flying start investment we have deployed around 44,000 of a planned 100,000 acoustic loggers across our system in order to identify leakage that would otherwise be very hard to find.

Sewer flooding is another area of focus. Around 80 per cent of sewer flooding in the North West is caused by blockages, and around 80 per cent of those blockages are caused by customers flushing things they should not. Our strategy for reducing blockages will drive improvements in sewer flooding. We have developed integrated drainage area studies to understand the connections in our network, and models that can run live scenarios so we can understand where there are potential problems in our network and ensure we are doing the right maintenance at the right time. We have used our flying start investment to conduct over 1,000 kilometres of sewer surveys and used latest modelling technologies to prioritise the repair and re-lining of sewers.

Generating value for:



Our business model

How we create value for stakeholders



Communities

Short-term

- › We look after beautiful landscapes and beaches and open our land to the public, which supports the regional tourism industry and offers communities health and wellbeing benefits through access to relaxation and recreation.
- › We encourage employees to volunteer on projects that address local issues, helping to create better places and stronger communities.
- › Working in partnership with others means we can accomplish more together to tackle mutual issues, such as partnering to develop employability skills for those who need it most.

Long-term

- › The health and wellbeing benefits through our provision of access to nature for recreation and relaxation helps reduce the burden on health services.
- › Managing land responsibly means we leave the north west environment in a better condition for future generations.
- › We work with teachers and children to raise awareness about water and the natural environment, giving the next generation an understanding of the true value water brings and how we can all play our part in protecting the services nature provides.

Link to strategic themes



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



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



Providing access to our land enables communities to enjoy the physical and mental wellbeing benefits that green spaces can bring.



Customers

Short-term

- › We focus on delivering a reliable service so customers can simply get on with their lives and not have to worry about their water and wastewater services.
- › When they do need to contact us, we provide a helpful service, talking and listening to customers so we can understand and meet their expectations.
- › We maintain bills that are good value for money through innovation and efficiency.
- › Where customers are struggling with affordability and vulnerability, we provide tailored support through Priority Services and payment assistance schemes.

Long-term

- › Our water and wastewater services make a major contribution to the long-term health and wellbeing of customers in the North West.
- › Through long-term financing and the regulatory framework, we are delivering multi-million pound infrastructure projects to improve services and resilience for the long term. We ensure the cost of this is shared fairly and affordably between those that benefit now and in the future.
- › We focus on earning the trust of customers, for example by keeping personal details safe and through transparent reporting, to ensure they can have complete peace of mind.

Link to strategic themes



We will continue to invest in our assets and people over the next five years to meet stretching targets customers support.



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



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



Employees

Short-term

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

Long-term

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

Read more about how we're [maintaining a secure pension position for employees](#)
on page 89

Link to strategic themes



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



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



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

Strategic themes



The best service to customers



At the lowest sustainable cost



In a responsible manner



Environment

Short-term

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

Long-term

- › By promoting campaigns to educate the public and younger generations on water usage, it helps protect this valuable resource and reduce usage now and for years to come.
- › We innovate and invest in new technologies to solve environmental challenges for future generations.
- › We manage our land in a way that safeguards habitats for indigenous wildlife, as well as protecting 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 environment.

Link to strategic themes



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



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



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



Investors

Short-term

- › Since many of our shareholders are pension funds, charities and employees, the income we provide through dividends benefits millions of people every year.
- › We are committed to high ethical standards of business conduct, strong corporate governance and acting with integrity so shareholders can have confidence in the way we do business.
- › We maintain a high level of quality and transparency, enabling shareholders to have trust and confidence in what we report. To illustrate this, we were delighted to secure the Fair Tax Mark in July 2019.

Long-term

- › Our shareholders have placed their money into our business as a long-term investment and we provide an appropriate return through a combination of short-term dividend income and long-term growth.
- › We plan far into the future and invest in our infrastructure to ensure the sustainability of the business and the services we provide.
- › We manage risk prudently so shareholders can have confidence in our stability and resilience in the round.
- › Our innovation culture drives continuous improvements, enabling us to be at the frontier of our industry and ahead of peers.

Link to strategic themes



Our regulatory incentives are greater with better performance for customers, so aligning shareholder return with improving customer service.



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



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



Suppliers

Short-term

- › We spend significant amounts of money with our suppliers each year to help deliver maintenance and enhancement projects across our asset base, and this helps support thousands of jobs in our region.
- › By investing in our infrastructure we are helping to keep the economy flowing. We generate thousands of jobs through our capital programme and provide income for workers in the region.
- › While our operations and suppliers are mainly UK and European, they work closely with us to address human rights; in particular, modern slavery.

Long-term

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

Link to strategic themes



Working on our behalf, suppliers are a face for our business. Ensuring they are motivated to deliver good quality work helps us deliver the best service to customers.



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



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

Our business model

How we respond to challenges

Challenge: Delivering a reliable service in a changing world

In an increasingly digital and instant economy, customers expect more from services now than ever before. This includes the water sector, with high expectations not just for the reliability of services but the water we supply and the assets we operate. Many of our assets are ageing compared to other utilities. In order to meet the expectations of customers and regulators, it is critical that we combine modern technology into our networks and management of customer service. Quick response to issues raised by stakeholders, often through digital means such as social media, is part of this growing expectation. Ensuring a reliable service in the face of a growing population, changing climate and increasing expectations of service requires integrated long-term thinking and targeting investment to ensure both short and longer-term reliability.

The importance of how we respond to this challenge can be seen in some of the material issues identified:



Resilience



Customer service
and operational
performance



Innovation

How we respond

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

During the year we needed to react quickly to repair a pipeline damaged by severe flooding during Storm Ciara, which was further impacted by the remote location of the pipeline and adverse weather conditions. Co-ordinating the incident through our Integrated Control Centre we were able to mobilise our fleet of ASVs to keep customers supplied during the repair and ensure regular communications with our customers.

→ Read more about [responding to extreme weather](#) on page 49

The availability of regional water supply was also impacted during the year by restricted production capacity at our Oswestry water treatment works due to ongoing work trialling a potential solution to a water discolouration issue.

Link to strategic themes



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



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



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

Our future plans

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

Challenge: Securing long-term operational resilience

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

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

The importance of how we respond to this challenge can be seen in some of the material issues identified:



Resilience



Customer service
and operational
performance

How we respond

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

→ Read more about [our approach to resilience](#) on page 40

We monitor the performance and health of our assets, with the help of sensors across the network, and this allows us to be proactive. For example, by monitoring pressure in the water network we can spot issues and fix them before we get a burst, saving costs and sparing customers the impact. Where possible, we design our assets to work in tandem with the natural environment, which provides more sustainable and efficient solutions, such as our innovative catchment management approach. Read more on page 51.

Link to strategic themes



Our Systems Thinking approach is improving the reliability and resilience of our assets, reducing unplanned service interruptions, and enabling us to be more proactive.



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



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

Our future plans

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

WHAT MATTERS

Responding to extreme weather

Keeping the taps flowing during Storm Ciara.

Hundreds of employees worked around the clock in treacherous conditions to keep customer taps flowing as Storm Ciara swept across the UK on Sunday 9 February 2020.

In Cumbria, the heavy rain and strong winds damaged a 100 metre section of water main where it crossed a river near Shap. The damage jeopardised water supplies to approximately 8,000 properties in the Eden Valley area.

The Cumbria Local Resilience Forum co-ordinated a response including prioritising snow clearance on the A6 to allow access by our water-on-wheels tankers.

In all, around 500 employees pulled out all the stops so that by 6pm on Wednesday 12 February the water main was repaired. It was then fully recharged with 90 million litres of water and all customer taps were turned back on by Friday 14 February.

Contingency planning for the storm began three days before it hit the UK to make sure we were well prepared. This included:

- > More than 40 water-on-wheels tankers to help maintain supply;
- > 144,000 litres of bottled water made available from ten manned water stations. More than 60,000 bottles were handed out to customers;
- > 347 deliveries of bottled water to Priority Services customers;
- > A special helpline for farmers struggling to make sure livestock had access to water. Around 100 farmers were assisted with tankers or bowsers; and
- > 17,000 proactive messages, 5,500 social media interactions and 16 broadcast interviews to keep the community updated.

Feedback from the community after the incident was overwhelmingly positive, including a letter of gratitude from a local Parish Council and even an offer of discounted fish and chips for United Utilities employees.



Generating value for:



Our business model

How we respond to challenges

Challenge: Protecting and enhancing the natural environment

The UK government's current goal is to be the first generation to leave the environment in a better state than we found it. Water management is a key part of this and our industry has a leading role to play. However, the cost of solutions has an impact on customer bills and so we need to balance this goal with the need to maintain affordability and avoid bill shocks. Environmental regulators set stringent consents for our activities to ensure the environment is protected. We take these obligations seriously and work hard to maintain compliance. This requires striking a balance with environmental impacts, such as the use of natural resources and emissions of greenhouse gases.

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

The importance of how we respond to this challenge can be seen in some of the material issues identified:



Natural resources



Land management and access



Environmental impacts

How we respond

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

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

A phased, long-term approach to address all of the concerns and interests of our many stakeholders, including environmental regulators, ensures that the necessary work can be delivered without the costs placing too much pressure on customer bills by agreeing to spread some of the spend required by legislation over several years.

Our catchment land is open to the public with millions of visits a year, and we work with partners to improve the quality of rivers and bathing waters in our region, providing access to the recreational benefits of the natural environment and boosting the local tourism industry.

Link to strategic themes



Our consultation tells us customers value the natural environment in our region and want us to protect and enhance it, while maintaining affordable bills.



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



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

Our future plans

We are expanding our catchment systems thinking approach to more catchments to create further value for the natural environment, and we have started some of our AMP7 environmental improvement plans early this year.



Read more about [our catchment systems thinking approach](#) on page 51

Challenge: Adapting to a changing climate

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

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

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

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

The importance of how we respond to this challenge can be seen in some of the material issues identified:



Environmental impacts



Leakage and water efficiency



Climate change

How we respond

Our response to climate change risk involves mitigation (minimising our greenhouse gas emissions) and adaptation (ensuring our services are resilient to a changing climate). Where practical, we generate renewable energy on our sites through solar panels, wind turbines, and the use of bioresources at wastewater treatment works, helping to reduce our emissions. We have reduced our carbon footprint by 73 per cent since 2005/06. During the year we have committed to six pledges to help us achieve significant further reductions in emissions.

Read more about [our approach to climate change](#) on page 66 to 77

We have detailed plans that set out how we will adapt to meet the challenges of climate change, and we are targeting a 15 per cent reduction in leakage over AMP7. We work with third parties to encourage sustainable drainage solutions to help cope with surface water in periods of heavy

rainfall, and we encourage customers to use less water.

Link to strategic themes



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



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



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

Our future plans

We have a detailed 25-year Water Resources Management Plan, Drought Plan, and two adaptation reports published in 2011 and 2015 that set out how we aim to adapt to meet the challenges of climate change. Read more at [unitedutilities.com/corporate/about-us/our-future-plans](#)

WHAT MATTERS

Catchment systems thinking

Working with the environment to find better solutions.

We're moving away from purely asset-based solutions towards a more integrated approach where man-made and natural assets work together more effectively to improve the water environment.

This catchment systems thinking includes blue-green infrastructure solutions and looks at a catchment as a wider system where our assets are only a part of the whole. By understanding all the risks and benefits we can consider how to combine asset and catchment solutions for better outcomes, aligning the needs of multiple stakeholders and pooling investment.

As part of this innovative approach we're working with leading academic institutions, customers and stakeholders to design and deliver sustainable treatment solutions, alongside interventions, in 26 catchments across our region.

One of the best ways to deliver this integrated catchment strategy is by using markets which engage multiple stakeholders, aligning their interests and allowing them to trade catchment interventions effectively. We are adopting the use of alternative market mechanisms and innovative business models to align our interests with others in the catchments and incentivise different ways to deliver improvements. Through this combined approach, we are exploring the concept of 'blended finance' (which offers both financial and non-financial returns) to deliver environmental schemes that go beyond statutory requirements because they seek added natural capital value.

We are piloting this model in the River Elms catchment with representation from a wider group of stakeholders including Green Alliance, 3 Keel, Natural England, Nestlé and First Milk. This pilot is assisting Defra's development of its catchment system operator concept.

Our natural capital performance commitment will ensure the natural environment is protected and improved in the way we deliver our services.

Generating value for:



Our business model

How we respond to challenges

Challenge: Helping customers with affordability and vulnerability

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

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

The importance of how we respond to this challenge can be seen in some of the material issues identified:



Affordability and
vulnerability



NW regional
economy

How we respond

We have a leading approach to affordability and vulnerability, with the sector's widest range of assistance schemes. We are helping over 120,000 customers through our affordability schemes, more than double the commitment we made at the start of the 2015–20 period, and through our Payment Matching Plus scheme 15,000 customers became water debt free this year. We offer flexible payment plans and the option for customers to take a payment break if they experience a change in circumstances and we have widened eligibility for our 'Back on Track' social tariff for an initial interim period to 2020/21 and 2021/22.

We led the sector in establishing our Priority Services scheme, with dedicated teams providing additional support to customers with health, mental or financial difficulties during an incident. This scheme is now accredited by the British Standards Institute (BSI), and over 100,000 customers are now registered for this support with more joining every day.

Read more about [our affordability and vulnerability support](#) on page 79

Link to strategic themes



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



Through initiatives such as our affordability schemes, our underlying household bad debt expense has halved in the last five years.



For three years, we have brought together regional organisations through our Affordability Summit and launched the 'North West Hardship Hub'.

Our future plans

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

Challenge: Maintaining trust and confidence

Strong relationships are based on trust. Being open, honest and transparent is key to building and maintaining trust and legitimacy. As well as reporting openly this means setting out commitments and delivering on them. Our stakeholders want to know that we are treating suppliers fairly, safeguarding human rights, and protecting personal information from the risk of cyber-crime.

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

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

The importance of how we respond to this challenge can be seen in some of the material issues identified:



Trust,
transparency
and legitimacy



Corporate
governance
and business
conduct

How we respond

We have open and transparent reporting around all of our equity and debt financing arrangements, do not use offshore financing vehicles, and our reporting is trusted by Ofwat who has awarded us 'self-assurance' status three years in a row.

Our human rights policy can be found on our website, with links to other related policies including our modern slavery policy and sustainable supply chain charter.

Read more at [unitedutilities.com/corporate/responsibility/our-approach/human-rights](#)

Cyber-crime has been on the increase and, as the holder of customer information, is a threat we take very seriously. Read more about how we manage this risk on page 99.

We work with suppliers and contractors whose business principles, conduct and standards align with our own. Our key suppliers have committed to our sustainable supply chain charter. We support the appointment of a small business commissioner to investigate companies who do not treat suppliers fairly, are a signatory to the Prompt Payment Code, and fully comply with rules on reporting payments to suppliers.

Link to strategic themes



We engage continually with customers to understand their expectations in relation to service and behaviour, through things like our quarterly Brand Tracker.



We maintain a stable A3 credit rating with Moody's for United Utilities Water Limited, which helps us maintain efficient access to the debt capital markets.



We obtained the Fair Tax Mark and retained self-assurance in Ofwat's Company Monitoring Framework assessment for three years.

Our future plans

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

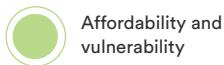
Challenge: Protecting corporate and financial resilience

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

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

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

The importance of how we respond to this challenge can be seen in some of the material issues identified, such as resilience, and financial risk management.



Affordability and vulnerability



NW regional economy

How we respond

We build skills resilience through training and development, including digital skills. We have graduate and apprentice schemes, and ambassadors that work with schools and education institutes to encourage the younger generation to pursue STEM careers. We maintain good relationships with employees and trade unions, to ensure an engaged and motivated workforce, and we continually strive to build diversity across all types of role and all levels within our business. We have a Gender Equality Network that helps by providing role models, mentoring and opportunities. Women are represented at all levels of our company, and a third of our combined board and executive team is female, as can be seen below. Further information on diversity can be found on pages 133 to 135.

As a public listed company, we consistently adhere to the highest levels of governance, accountability and assurance. We have a strong and robust balance sheet, a secure pension position, and take a prudent approach to financial risk management, as detailed on page 6.

Link to strategic themes



In its initial assessment of our business plan for 2020–25, Ofwat commended our approach to resilience as sector leading and setting the standard for others to follow.



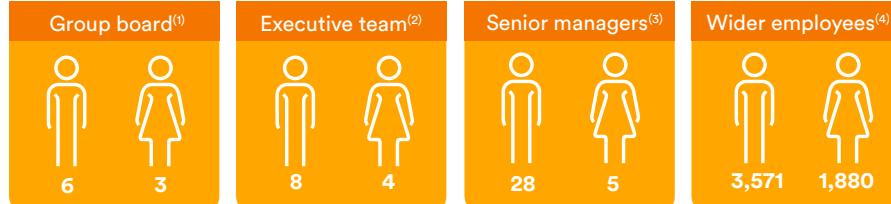
Our robust capital structure and relatively low gearing provide long-term financial resilience and future financial flexibility.



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

Our future plans

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



(1) Group board as at 31 March 2020

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

(3) As at 31 March 2020, there were eight male and three female employees appointed as statutory directors of subsidiary group companies but who do not fulfil the Companies Act 2006 definition of 'senior managers'

(4) Wider employees as at 31 March 2020



How we measure our performance

Find more information on our performance

Read more about our performance against our regulatory commitments in our APR, published in July of each year on our website at unitedutilities.com/corporate/about-us/performance

In addition to our KPIs and regulatory targets, we monitor our performance against an assortment of metrics that are of interest to our many stakeholders. We report against these within this report on pages 60 and 61 and on our website at unitedutilities.com/corporate/responsibility/our-approach/cr-performance

To help measure progress on how well we are delivering our purpose and adding value for all our stakeholders, we monitor and measure our performance against a range of operational and financial key performance indicators (KPIs), as well as other performance indicators for each stakeholder group.

Our KPIs for the 2015–20 period

We have a range of metrics for our KPIs for the current regulatory period, covering important areas such as customer service and environmental performance, as well as financial indicators.

Our operational KPIs are aligned with our strategic themes, and reflect the outcomes we have committed to deliver for customers and other stakeholders, including the environment. A description of these operational KPIs, our targets for each, and our performance against these targets can be seen on pages 56 and 57.

Our financial KPIs assess both the profitability and sustainability of our business from a financial perspective. A description of these financial KPIs and our performance against our targets can be seen on pages 58 and 59. We set internal budgets for financial KPIs but we do not have externally declared targets for these.

Our operational and financial KPIs remain consistent with last year, being the final year of the current regulatory period, albeit we have updated the definition of underlying earnings per share, as we now report this measure excluding the impact of deferred tax, in line with the approach taken by our listed peers. We have set new KPIs for the 2020–25 period, as set out on the next page.

Our executive bonuses and long-term incentives are closely aligned to our financial and operational performance KPIs, as highlighted in the remuneration report on page 162.

Annual Performance Report (APR)

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

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

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

Our APRs for previous years are available on our external website, and the APR for 2019/20 will be published in July 2020.

Other performance indicators

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

As discussed on pages 22 to 27, we engage with a variety of stakeholders and this gives us a view of what matters most to them. We report on a selection of other stakeholder metrics on pages 60 and 61 of this report, based on the measures shown to be of highest interest to our stakeholders.

For example, on customer service our KPIs are Ofwat’s measures, the qualitative and quantitative Service Incentive Mechanism (SIM), but on page 60 we report on the level of customer complaints, use of digital communication channels, customers helped through assistance schemes, and the impact of water efficiency measures.

On environmental performance, our KPIs include performance against our leakage target and the overall assessments by the Environment Agency and Dow Jones Sustainability Index, and on page 61 we report on more specific environmental performance indicators, such as carbon footprint, proportion of waste going to beneficial use rather than landfill, and measures of natural capital.

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

Planned changes for the 2020–25 period (AMP7)

Aligning closer to our stakeholders

In line with our purpose, we measure our performance by reference to the value we create for each of our stakeholder groups. We have increased this alignment for the 2020–25 period (AMP7), in which we have selected one operational key performance indicator (KPI) for each of our stakeholder groups. We will retain the linkage with our strategic themes, recognising that there is some overlap and therefore not restrict measures to just one of these themes.

Our KPIs for the 2020–25 period

Our financial KPIs will be largely the same as the 2015–20 period, with the addition of having low-dependency defined benefit pension schemes with nil deficit. This recognises the increasing importance of this strong and secure position for our people, which represents a significant driver of relative value.

For our operational KPIs we have selected one main metric for each stakeholder group, based on the top material issues identified through our stakeholder engagement as set out on pages 22 to 27.



Communities

We will report our community investment over the 2020–25 period as the key measure for communities. We will target increasing this investment by at least 10 per cent over the period compared to the average between 2010 and 2020. This measure links to “In a responsible manner”.



Customers

We will report our ranking on Ofwat’s customer measure of experience (C-MeX), as customer sentiment is likely to be influenced by a broad range of service components and so best satisfies the spectrum of what matters to customers. We will target being upper quartile within the industry each year. This measure links to “The best service to customers”.



Employees

We will report employee satisfaction as the key measure for employees, with a target to be at least as good as the UK high performance norm. This measure links to “In a responsible manner”.



Environment

We are retaining the Environment Agency’s Environmental Performance Assessment as a key metric for our performance to create value for the environment in AMP7, and will target upper quartile performance within the industry each year. This measure links to “In a responsible manner”.



Investors

We will report Return on Regulated Equity (RoRE) as the key measure for shareholders, encompassing regulatory out/under-performance across financial and operational efficiency, customer satisfaction, and regulatory performance targets. Our targets will be updated throughout the period in line with guidance on the individual components of RoRE. This measure links to both “The best service to customers” and “At the lowest sustainable cost”.



Suppliers

We will report the percentage of invoices paid within 60 days as our main metric for suppliers, targeting at least 95 per cent in line with the requirements of the Prompt Payment Code. This measure links to “In a responsible manner”.



Other performance indicators in AMP7

We have selected one main metric as the key performance indicator for each stakeholder group. We will, however, continue to report our performance against the many other metrics for our stakeholders, as we have done this year, within our annual reports, our APRs, and on our corporate website.

How we measure our performance

Our operational KPIs



— The best service to customers



— At the lowest

Wholesale outcome delivery incentive (ODI) composite

Definition

Net outperformance payment/(penalty) accrued across United Utilities' 19 wholesale financial ODIs, more detail of which can be found in our Annual Performance Report.

Target

End the 2015–20 regulatory period with around £40 million cumulative net ODI outperformance payment.

Link to bonus/LTP

Bonus – direct
LTP – indirect

Status

Achieved/confident of achieving target

Performance

We delivered another strong performance against our ODIs this year, against our toughest targets to date. This reflects us delivering great service to customers and other stakeholders, and results in a net outperformance payment for the year.

- › 2019/20: £22.4 million outperformance payment (cumulative £43.9 million outperformance payment)
- › 2018/19: £19.2 million outperformance payment (cumulative £21.4 million outperformance payment)
- › 2017/18: £7.0 million penalty (cumulative £2.2 million outperformance payment)
- › 2016/17: £6.7 million outperformance payment (cumulative £9.2 million outperformance payment)

Service incentive mechanism (SIM) – qualitative

Definition

Ofwat-derived index based on quarterly customer satisfaction surveys, measuring the absolute and relative performance of the water companies. Each company receives a score in the range of zero to five, with five being the best attainable score.

Target

To move towards the upper quartile in the medium term.

Link to bonus/LTP

Bonus – direct
LTP – direct

Status

Achieved/confident of achieving target

Performance

We ended the four-year SIM measurement period to 2018/19 ranked as fourth water and wastewater company, earning an outperformance payment of £6 million. For AMP7 SIM is being replaced by C-MeX, which we reported against this year, ranking third water and wastewater company and fourth of 17 companies, achieving first place on the contactor element in the last two quarters.



Service incentive mechanism (SIM) – quantitative

Definition

Ofwat-derived composite index based on the number of customer contacts, assessed by type, measuring the absolute and relative performance of the water companies. Each company receives a SIM point total, where the lowest score represents the best performance.

Target

To move towards the upper quartile in the medium term.

Link to bonus/LTP

Bonus – direct
LTP – direct

Status

Achieved/confident of achieving target

Performance

As reported above, we ended the four-year SIM measurement period to 2018/19 ranked as fourth water and wastewater company overall, across qualitative and quantitative SIM. The new C-MeX measure does not separate out qualitative and quantitative measurements.



Total expenditure (totex)

Definition

Progress to date on delivering our promises to customers within the cumulative 2015–20 wholesale totex final determination allowance.

Target

To outperform Ofwat's final determination totex allowance by £100 million over the 2015–20 regulatory period.

Link to bonus/LTP

Bonus – indirect
LTP – indirect

Status

Achieved/confident of achieving target

Financing

Definition

Progress to date on financing expenditure outperformance secured versus Ofwat's industry allowed cost of debt of 2.59 per cent real over the 2015–20 period.

Target

To beat Ofwat's industry allowed cost of debt.

Link to bonus/LTP

LTP – indirect

Status

Achieved/confident of achieving target

Household retail cost

Definition

Cost to serve in our household retail business compared with Ofwat's revenue allowance (including margin).

Target

To minimise costs compared with Ofwat's revenue allowance.

Link to bonus/LTP

Bonus – indirect
LTP – indirect

Status

Achieved/confident of achieving target

sustainable cost

outperformance

Performance

Our totex allowance for the 2015–2020 regulatory period represented a significant challenge compared with the costs we originally submitted as part of our business plan. We have closed the gap to our allowance as well as now outperforming it.

- › 2015–20: Outperformed the final determination allowance for its original scope by around £100 million over the 2015–20 regulatory period
- › Totex was a new measure for the 2015–20 period, hence no prior years' comparators



— In a responsible manner

Leakage – average annual leakage

Definition

Average annual water leakage from our network quantified in megalitres (ML) per day.

Target

To meet our regulatory leakage target of 462.65 ML per day for each year in the 2015–20 regulatory period, as set by Ofwat.

Link to bonus/LTP

Bonus – indirect

Status

Achieved/confident of achieving target

Performance*

In 2019/20 we have met our regulatory leakage target for the 14th consecutive year.

- › 2019/20: Met target
- › 2018/19: Met target
- › 2017/18: Met target
- › 2016/17: Met target
- › 2015/16: Met target
- › 2014/15: Met target

* Final figure for leakage will be reported in our Annual Performance Report, available on our website in July

outperformance

Performance

Our leading treasury management helped us lock in a low cost of debt, which has delivered significant financing outperformance for the 2015–20 regulatory period compared with the industry allowed cost.

- › 2015–20: Exceeded £450 million outperformance
- › 2010–15: Exceeded our £300 million target outperformance

Environment Agency performance assessment

Definition

Composite assessment produced by the Environment Agency (EA), measuring the absolute and relative performance of the 11 water and wastewater companies across a broad range of areas, including pollution.

Target

To be a first quartile performer (i.e. at least 4th) on a consistent basis.

Link to bonus/LTP

Bonus – indirect

Status

Achieved/confident of achieving target

Performance

In the EA's latest assessment, published in July 2019 for the 2018 year, we were awarded three stars (out of four) across a range of operational metrics, placing us joint second alongside four other companies. Our performance has earned industry-leading 4 star status in three of the last four years, in line with our target of being an upper quartile company on a consistent basis.

- › 2018: Joint 2nd
- › 2017: Joint 1st
- › 2016: Joint 1st
- › 2015: Joint 2nd
- › 2014: 2nd

to serve

Performance

On an underlying basis we delivered a good performance in 2019/20, outperforming this year's revenue allowance (including margin) by around £13 million. This excludes an additional regulatory bad debt charge of £20 million associated with the higher risk of future non-payment of household customer bills as a result of COVID-19, which is an adjusted item as set out on pages 90 and 91.

- › 2019/20: £13 million outperformance on an underlying basis
- › 2018/19: £5 million outperformance
- › 2017/18: £9 million outperformance
- › 2016/17: £14 million outperformance
- › 2015/16: £10 million outperformance

Dow Jones Sustainability Index rating

Definition

Independent rating awarded using sustainability metrics covering economic, environmental, social and governance performance.

Target

To retain 'World Class' rating each year

Status

Achieved/confident of achieving target

Performance

We have a strong focus on operating in a responsible manner and are the only UK water company to have a World Class rating as measured by the Dow Jones Sustainability Index. For 2018/19, which is the latest year for which information is available, we achieved World Class rating for the 13th consecutive year.

- › 2018/19: 'World Class'
- › 2017/18: 'World Class'
- › 2016/17: 'World Class'
- › 2015/16: 'World Class'
- › 2014/15: 'World Class'

How we measure our performance

Our financial KPIs

Underlying operating profit

£744m

2019/20	£744m
2018/19	£685m
2017/18	£645m
2016/17	£623m
2015/16	£604m

Underlying earnings per share

63.0p

2019/20	63.0p
2018/19	59.8p
2017/18	49.0p
2016/17	48.9p
2015/16	51.1p

Dividend per share

42.60p

2019/20	42.60p
2018/19	41.28p
2017/18	39.73p
2016/17	38.87p
2015/16	38.45p

Definition

The underlying operating profit measure excludes from the reported operating profit any restructuring costs and significant non-recurring items. The group determines adjusted items consistently in the calculation of its underlying operating profit measure 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 the current year performance. A reconciliation is shown on pages 90 to 91.

Link to bonus/LTP

Bonus – direct
LTP – indirect

Status

● Close to achieving target but more work to be done

Performance

Underlying operating profit of £744 million was up £59 million, largely reflecting the inflationary increase in our allowed revenue and lower infrastructure renewals expenditure (IRE), which was mainly due to the phasing of our five-year capital projects that had a significant element of IRE spend.

Definition

This measure deducts underlying net finance expense and underlying taxation from underlying operating profit to calculate underlying profit after tax and divides this by the average number of shares in issue during the year. Underlying net finance expense makes consistent adjustments to the reported net finance expense, including the stripping out of fair value movements. Underlying taxation strips out deferred tax (including any tax credits or debits arising from changes in the tax rate from reported taxation), any prior year adjustments or exceptional tax. Reconciliations to the underlying measures above are shown on pages 90 to 91.

Link to bonus/LTP

LTP – indirect

Status

● Close to achieving target but more work to be done

Performance

Underlying earnings per share was up 3.2 pence at 63 pence due to the increase in underlying operating profit partly offset by a higher underlying net finance expense due to higher RPI inflation on our index-linked debt, and a share of small underlying losses of joint ventures.

Definition

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

Link to bonus/LTP

LTP – direct

Status

● Achieved/confident of achieving target

Performance

Recognising the strong performance we have delivered in the year, and finishing the 2015–20 period as a leading company, the board has proposed an increase in the dividend of 3.2 per cent to 42.6 pence per share, in line with our AMP6 policy of targeting growth in line with RPI inflation.

Note 1: For both our operational and financial KPIs, where we have declared external targets we assess our performance against the most recent public targets. Where there are no externally declared targets we assess our performance against our internal budget; however, our internal budget is not disclosed. Green status indicates that we have achieved or are confident of achieving our target. Amber status indicates that we are close to achieving our target but there remains some work to be done. Red status indicates that we are missing our target.

Gearing: net debt to RCV

62%

2019/20	62%
2018/19	61%
2017/18	61%
2016/17	61%
2015/16	61%

Total shareholder return

+17%

2019/20	+17%
2018/19	+20%
2017/18	-25%
2016/17	+19%
2015/16	+2%

Definition

Group net debt (including derivatives) divided by UUW's regulatory capital value (RCV). From 2016/17 onwards this uses shadow RCV, adjusted for actual spend, while prior years used Ofwat's published RCV in out-turn prices in line with previous methodology.

Target

Maintain gearing within a range of 55 per cent to 65 per cent.

Status

● Achieved/confident of achieving target

Performance

Our gearing has increased slightly this year but remains within our target range of 55 per cent to 65 per cent, supporting a solid investment grade credit rating.

Definition

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

Link to bonus/LTP

LTP – direct

Status

● Close to achieving target but more work to be done

Performance

Our total shareholder return was 17 per cent positive over the year to 31 March 2020.

Note 2: In some instances the remuneration committee has used metrics with similar names but calculation methodologies which they consider more appropriate for executive remuneration, as set out in the remuneration report on pages 156 to 185.

How we measure our performance

Our other performance indicators

We have a wide range of stakeholders who take an interest in the way we do business. The following table provides a broad set of performance measures covering Environmental, Social and Governance issues that are of interest to our stakeholders. Further information on how we manage our business in a responsible manner can be found in the responsibility pages of our corporate website.



Communities

Area	Measure	Status	Performance	Further information	
Employee volunteering	Number of hours employee volunteering	●	2,373 2,620		Responsibility pages on our website
Charity	Match funding to charity through employee efforts	—	£101,004 £157,046		Responsibility pages on our website
Community Investment (LBG data)	Total community investment	●	£2,261,374 £2,931,479		Responsibility pages on our website
	How investment was made				
	Cash £1,959,502 Time	£47,454	In-kind £2,632	Management costs £251,786	
	Cash £2,717,856 Time	£52,409	In-kind £0	Management costs £161,214	
	Type of support				
	Charitable gift £38,823	Community investment £1,818,035		Commercial initiative £152,730	
	Charitable gift £159,545	Community investment £2,610,719		Commercial initiative £0	



Customers

Area	Measure	Status	Performance	Further information	
Complaints	Total number of domestic customer complaints	●	5,942 7,007		Our performance (best service to customers) on page 78
	Average speed of complaint resolution	●	3 days 3 days		Our performance (best service to customers) on page 78
Fines	Drinking Water Inspectorate (DWI) fines	●	0 2 (£150,000 and £50,000)		Our performance (best service to customers) on page 78
Digital	Number of customers using online services – My Account	●	984,780 860,648		Our performance (best service to customers) on page 78
Customer assistance	Number of customers assisted by Priority Services	●	99,992⁽¹⁾ 74,505		Our performance (best service to customers) on page 78
Customer water efficiency	Total customer water savings from measures promoted by United Utilities	●	4.25 MI/d 4.43 MI/d		Our business model (key resources) on page 32



Employees

Area	Measure	Status	Performance	Further information	
Employee engagement	Overall employee engagement	●	84% 81%		Our performance (in a responsible manner) on page 82
	Percentage of employees with trade union membership ⁽²⁾	—	45% 45%		Our business model (key resources) on page 32
Gender pay reporting	Mean gender pay gap	●	11.3% 13.2% ⁽³⁾		Corporate governance report on pages 132 to 135
	Median gender pay gap	●	13.8% 15.3%		Corporate governance report on pages 132 to 135
Employee development	Average number of days of training per FTE per year	●	4.44 days 3.57 days		Our performance (in a responsible manner) on page 82
Health and safety	Employee Accident Frequency Rate (per 100,000 hours)	●	0.110 0.152		Our performance (in a responsible manner) on page 82
	Contractor Accident Frequency Rate (per 100,000 hours)	●	0.083 0.092		Our performance (in a responsible manner) on page 82
Workforce profile	2020 84% White 2% BAME 14% non-disclosed		66% Male 34% Female 1.91% Disability (including long-term health conditions)		
	2019 83% White 2% BAME 15% non-disclosed		65% Male 35% Female <1% Disability (including long-term health conditions)		

(1) This figure increased to over 100,000 shortly after the year end.

(2) Based on employees who pay their union subscriptions via their payroll.

(3) The mean gender pay gap figure for 2019 has been amended from 13.1 per cent to 13.2 per cent since the production of last year's Annual Report.



Environment

Area	Measure	Status	Performance	Further information
Carbon and Energy	Carbon footprint	●	159,243 tCO₂e 167,856 tCO ₂ e	➡ Our approach to climate change on pages 66 to 77
	Energy used	●	984 GWh 976 GWh	➡ Our approach to climate change on pages 66 to 77
Waste	Total waste	●	752,480 tonnes 694,846 tonnes	➡ Responsibility pages on our website
	Waste to beneficial use	●	98% 96%	➡ Responsibility pages on our website
Leakage	Total leakage at or below target of 462.65 Ml/d	●	Met Target Met target	➡ Annual Performance Report published in July
Fines	Number of incidents resulting in fines	●	0 0	➡ Our performance (in a responsible manner) on page 82
	Enforcement undertakings	●	1 (£511,000) 5 (£1.5 million)	➡ Our performance (in a responsible manner) on page 82
Natural capital	Number of trees planted on catchment land	●	29,696 27,190	➡ Responsibility pages on our website
	No net loss of biodiversity across capital programme	●	100% 100%	➡ Responsibility pages on our website



Investors

Area	Measure	Status	Performance	Further information
Compliance	UK Corporate Governance Code	●	Compliant Compliant	➡ Director's report on pages 188 to 190
	Dow Jones Sustainability Indices	●	World Index World Index	➡ Summary of investor indices on page 63



Suppliers

Area	Measure	Status	Performance	Further information
Payment statistics	Average time taken to pay invoices	●	14 days 25 days	➡ Supplier pages on our website
	Suppliers paid on time	●	97% 98.57%	➡ Supplier pages on our website

Status key:

- Deterioration on previous year
- Same as previous year
- Improvement on previous year, no scope for improvement or the target has been achieved
- Not applicable

Performance key:

- 2019/20**
- 2018/19

We have used a red, amber green colour coding to indicate whether performance in 2019/20, when compared to 2018/19, has improved, stayed broadly the same or deteriorated. Measures where there is no scope for improvement, or the target has been achieved, are also recorded green.

Responsible business

One of our strategic themes deals with operating and behaving in a responsible manner. This is a core part of who we are as a business and has been for many years.

Responsible business is in our DNA

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

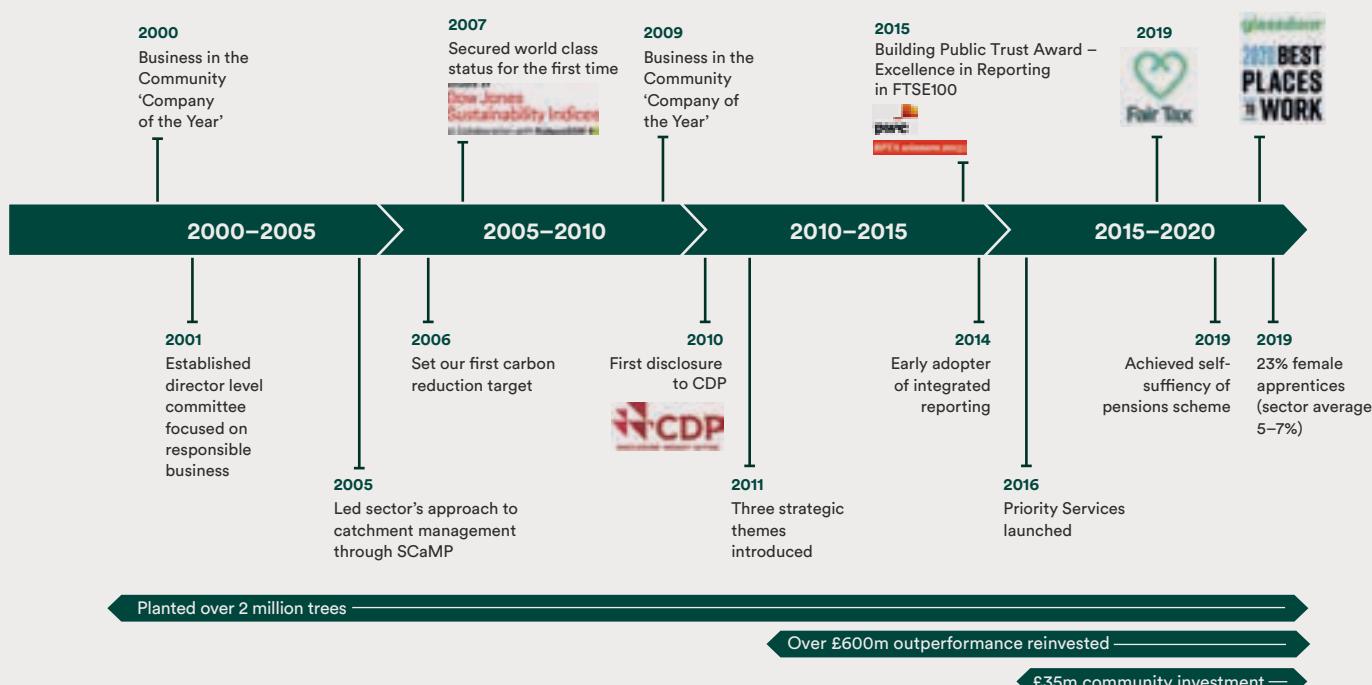
This is not just about what we do, but how we do it. A key strength is the continuity of our approach with a clear purpose and strategic objectives. This long-standing commitment to responsible business has provided a solid foundation upon which to evolve existing programmes, develop new initiatives, and respond to the changing world in which we operate.

Creating long-term value for all

Having tangible, externally recognised measures of our behaviour and performance helps retain the trust of those who take an interest in the way we do business. We collate and monitor a wide range of performance measures to assess our progress and report these publicly. We align ourselves to recognised management standards and accreditations to give confidence in the way we are operating.



For more information on how we manage our business in a responsible manner, please visit unitedutilities.com/corporate/responsibility





Index/rating	Description	Performance
 Dow Jones Sustainability Indices in collaboration with SAM	The Dow Jones Sustainability Index ranks the sustainability approach of the top 10 per cent of the world's biggest companies based on long-term economic, environmental and social criteria.	For 2019, our overall performance was 79 per cent and we attained World Class status for the 13th consecutive year. We were awarded SAM Silver Class in the Sustainability Yearbook 2020.
	The FTSE4Good Index measures the performance of companies who demonstrate strong ESG practices against globally recognised responsible business standards.	We have been named in the FTSE4Good Index every year for the last 17 years. Latest review June 2019.
 ISS ESG	ISS recently expanded its methodology used by investors to identify governance risks within their portfolios to include environmental and social risks.	In the annual review of November 2019 our status was assessed as Prime.
 MSCI ESG RATINGS AA	Provides ESG ratings on an AAA to CCC scale according to exposure to industry specific ESG risks and ability to manage those risks relative to peers.	As of 2019, United Utilities Group PLC received an MSCI ESG rating of AA.
	Sustainalytics provides ESG risk ratings which summarise company performance in relation to industry peers and gives an overview of ESG controversies.	In 2020 Sustainalytics has given us a low risk rating with a score of 19.1. This positions us as 2 out of 40 in the water utility sector.
	Euronext Vigeo Eiris indices are composed of the highest-ranking listed companies according to an evaluation of their ESG performance.	We are part of the UK 20 (the 20 most advanced companies in the UK) as of December 2019.
	Composition of the Ethibel Sustainability Indices is based on a best-in-class approach to companies included in their sustainable Investment Register combined with ethical exclusion criteria.	United Utilities Group PLC has been reconfirmed as a constituent of the Ethibel Sustainability Index (ESI) Excellence Europe since 8 May 2020.

Contributing to the UN SDGs

SUSTAINABLE
DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) are a collection of 17 global goals to be achieved by the year 2030, and were adopted by a summit of the United Nations (UN) in 2015. They are designed to be the blueprint to achieve a better and more sustainable future for all, aiming to end poverty, fight inequality and tackle climate change.

Since they were published, stakeholder interest has increased in the contributions companies are making to the UN SDGs.

Our approach to operating in a responsible manner aligns quite naturally with these goals. We have identified six that are the most material to our business and the nature of the essential services that we provide, and to which we contribute the most.

The following details how we contribute to meeting each of these six SDGs.



Read more at unitedutilities.com/sdgs





Clean water and sanitation – Ensure availability and sustainable management of water and sanitation for all

This is our core function and the reason we exist – providing safe, resilient and affordable water and wastewater services to customers across the North West of England.

Part of this goal is about avoiding wasting water, and we promote water efficiency through campaigns, advice, education and free water saving gadgets for customers.

We protect and enhance water-related ecosystems across our region.

 Read more about [catchment systems thinking](#) on page 51



Decent work and economic growth – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Our daily operations provide direct and indirect employment for 22,700 people, and we are a big contributor to the north west economy.

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

 Read more about [building skills resilience](#) on page 41



Industry, innovation and infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

We invest heavily in infrastructure, including just under £4 billion in capex between 2015–20 to improve the performance and resilience of our assets and operations to impacts such as those arising from climate change.

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



Sustainable cities and communities – Make cities and human settlements inclusive, safe, resilient and sustainable

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

 To find out more about our community activity see unitedutilities.com/globalassets/documents/pdf/community-activity-booklet.pdf



Climate action – Take urgent action to combat climate change and its impacts

Responding to the climate emergency is an imperative for us all.

Reducing our greenhouse gas emissions and ensuring that we, and the region we serve, are resilient to the impacts that a changing climate might bring are key to our long-term planning. Read more about our approach to climate change on pages 66 to 77.

 Read more about [our approach to climate change](#) on pages 66 to 77



Peace, justice and strong institutions – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

We run our business in a responsible manner, and trustworthy is one of our core values.

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

Our approach to climate change

Task Force on Climate-related Financial Disclosures (TCFD)



Overview

Climate change has been a subject of strategic and operational focus for us for over two decades. The impact of the environment on our activities, and the impact of our activities on the environment influences how we deliver water and wastewater services to customers. Our response to climate change focuses on its two component parts:

Adaptation – we have used scenario analysis in our business planning and risk management since 1999 to ensure we adapt and improve our resilience to effects of climate change. Our approach to enhancing the resilience of our service is based on Systems Thinking which enables us to look at individual elements of a bigger system and how they interact with the other constituent parts in any given scenario.

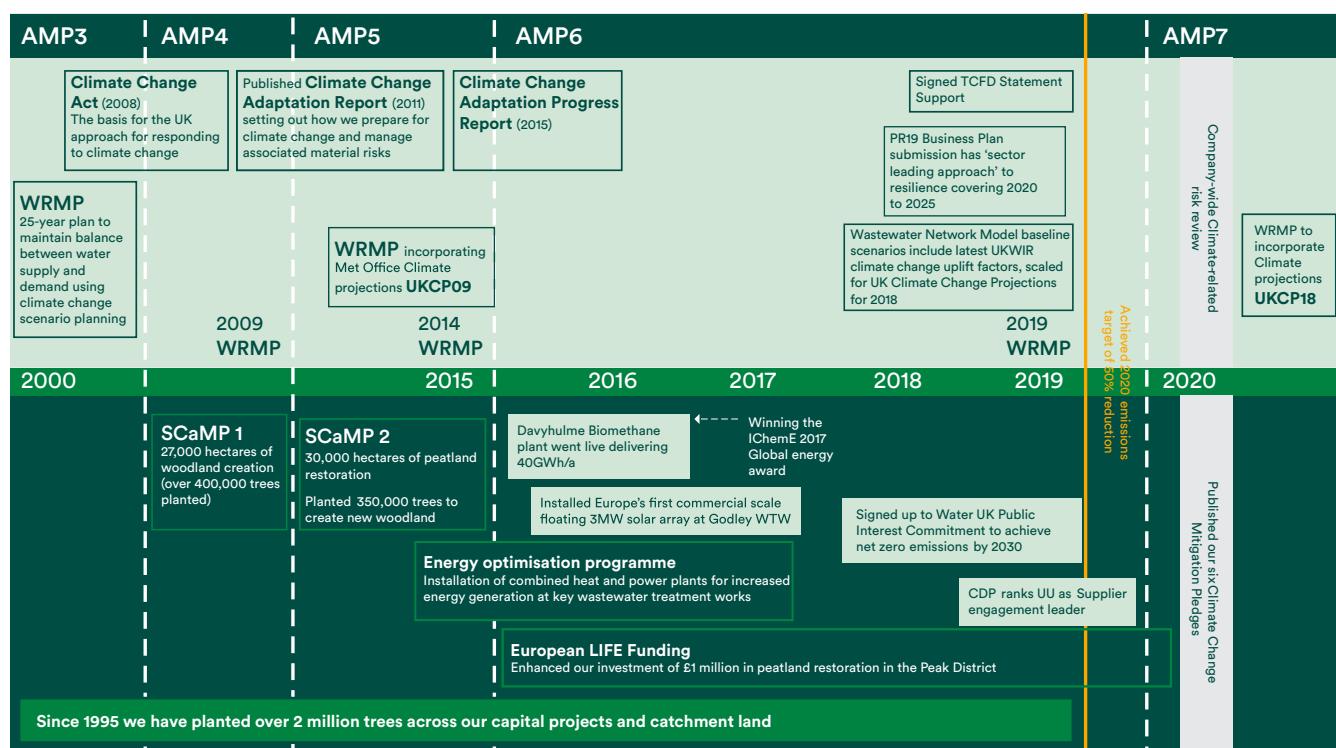
Mitigation – we seek to minimise our contribution to climate change by reducing greenhouse gas emissions, especially through

our energy and land management strategies, in line with reduction targets first set in 2006. Our contribution to limiting climate change comprises six company-specific pledges.

This is supported by clear and effective governance, strategy, risk management, metrics and targets.

Decades of understanding and responding to climate change

Climate change and the resultant shifts in weather patterns have the potential to significantly impact our operations and the broader environment and ultimately the long-term viability of the water and wastewater services we provide. Hazards such as droughts, floods, storms or heatwaves will continue to become more frequent and more intense. At the same time, we need to decarbonise our operations and limit the amount of greenhouse gases we emit. The illustration below summarises some key activities we've undertaken since 2000 to manage both.



Adapting service to a changing climate

Our first climate change adaptation report in 2011, and the second in 2015, highlighted over 100 climate change risks, focusing our strategic planning on the most significant physical risks. Our next adaptation report will include an increased focus on transitional risks.

Over the last eight years, we have adopted a Systems Thinking approach which enables us to forecast how changes in weather conditions will impact us in a predictable way. It allows us to understand how areas of our service are vulnerable to climate change and adapt our plans to improve performance and resilience across key service areas; for example, water supply, leakage, sewer flooding and pollution.

Systems Thinking enables us to adapt to climate change over multiple time horizons. In our Water Resource Management Plan (WRMP), climate data is embedded in over 1,000 scenarios to understand how we can create the right supply demand balance against significant uncertainty for the next 25 years.

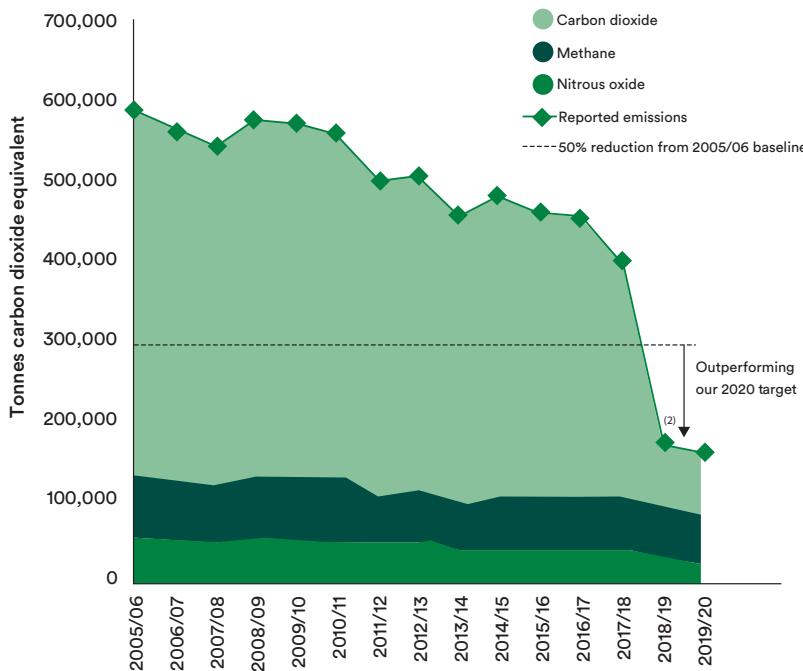
A similar baseline risk and vulnerability assessment is being taken as part of our Drainage and Wastewater Management Plans (DWMPs) to understand future performance compared to a baseline. This will identify where we are at risk of failing to meet strategic planning objectives such as internal flooding or wastewater treatment works compliance.

In the shorter term, flooding and droughts have become more prevalent across the North West and they are the forerunners to longer-term climate change impacts. Operationally, Systems Thinking enables us to use big data including weather forecasts to predict demands week to week and set out our system appropriately to manage this – which, despite these extreme weather events, has supported delivery of some of our best performance.

Our contribution to mitigating climate change

As part of our strategy and commitment to decarbonisation we have been tracking and publishing our greenhouse gas emissions since 2001. Our most recent target, set in 2015, was to reduce our greenhouse gas emissions by 50 per cent from the 2005/06 baseline by 2020 (and to achieve a 60 per cent reduction by 2035).

Our gross greenhouse gas emissions since 2005/06⁽¹⁾



⁽¹⁾ Our gross greenhouse gas emissions include scope 1, 2 and 3 as detailed on page 75.

⁽²⁾ The significant reduction in greenhouse gas emissions between 2017/18 and 2018/19 was due to the purchase of a large proportion of our electricity from certified renewable sources. As a result, in 2018/19 we switched from the location-based accounting method to the market-based method to report our headline emissions (see page 75 for more details).

As part of our mitigation strategy, we have outperformed our target, reducing emissions by 73 per cent since 2005/06. Through this strategy we have embedded greenhouse gas emission impact assessments in our project appraisals and financial approvals processes and signed up to the ambitious industry-wide Water UK Public Interest Commitment to achieve net zero emissions by 2030.

Transparency and disclosure

We are committed to transparency and regularly publish carbon and climate change disclosures. For over a decade, we have participated in CDP's Climate Change Programme assessment, where we have been ranked in the top 3 per cent of companies globally and recognised as a Supplier Engagement Leader in 2019.



In addition to our CDP submission, we report in adherence with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standards (2015) and the Science Based Targets Initiative (SBTI).

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

Our approach to climate change

TCFD

Governance

Chief Executive Officer Steve Mogford has the highest level of responsibility for the group's preparedness for adapting to climate change and driving our mitigation strategy. Russ Houlden, Chief Financial Officer, has executive responsibility for risk management, a large part of which relates to climate change. Non-executive directors have a collective responsibility to challenge constructively and monitor the delivery of the risk and control framework set by the board, as described on page 136.

We have a strong track record of risk management and disclosure of climate change and we continually mature our understanding of the risks. The table below summarises progress over the last investment cycle (2015–20) and sets out plans for the coming year.

Governance

Progress (2015–20):

- › CEO led engagement with executive team to deliver required standards in managing climate change risks and opportunities through our existing governance structure (see page 116);
- › Executive led improvements to governance of climate change – achieved 'leadership level' in 2019 CDP governance category; and
- › Carbon valuation appraisal model and guidance included across capital approval processes and governance.

Plans (2020/21):

- › Executive oversight of required enhancements to attain an overall top score across all categories for the 2020 CDP assessment.

Strategy

Progress (2015–20):

- › Set out AMP7 performance commitments with financial incentives for air quality and natural capital (see page 43);
- › Water resources and flood models including climate scenario analysis, informed by CP09 forecasts;
- › Published our second adaptation report, in 2015, outlining our holistic, integrated and partnership approach to a changing climate;
- › Climate change resilience explicitly set out in our PR19 business plan;
- › Strategic commitments and pledges made for emissions reductions; and
- › Recognised as a Supplier Engagement Leader by CDP in 2019.

Plans (2020/21):

- › Whole life costing and investment appraisals changes, with prioritisation to include variable carbon pricing;
- › Company-wide climate-related scenario analysis;
- › Publication of a climate change adaptation progress report (2020) which will include a review of climate risks in line with Defra's categorisation for adaptation;
- › Implementation of climate change resilience plans (physical and transitional) in AMP7; and
- › PR24 strategic planning to include climate mitigation pledges and long-term climate projections.

Risk management

Progress (2015–20):

- › Identification and alignment of climate change risks and opportunities into company risk management framework;
- › Completed robust review to identify which corporate risks would be influenced by climate change; and
- › Published the risks identified as being particularly sensitive to climate change.

Plans (2020/21):

- › Further formalisation of climate change physical and transitional risks into corporate risk framework and integration into risk management systems.

Metrics and targets

Progress (2015–20):

- › Achieved highest mark 'leadership level' in 2019 CDP assessment of targets and emission reductions initiatives;
- › Step change in maturity of understanding our GHG emissions; and
- › Refreshed climate change mitigation strategy to deliver science-based targets and carbon commitments and pledges.

Plans (2020/21):

- › Review scope 3 emissions for consistency with the GHG protocol principles to set a science-based scope 3 target by 2021;
- › Manage scope 3 emissions as part of our 'United Supply Chain'; and
- › Establish tracking and reporting against our climate mitigation strategy commitments.

1st

comprehensive report covering the TCFD recommendations



Governance

Strategy

Risk management

Metrics and targets

The TCFD has four core elements under which it recommends organisations report on their approach to climate change.

Corporate Citizenship Review

The text of our TCFD disclosure was reviewed by Corporate Citizenship, a leading sustainability consultancy, to ensure that it accords with current Task Force on Climate-related Financial Disclosures best practice.

Risk management

Climate-related risks (physical and transitional) are managed through our embedded risk management framework and across our governance and reporting processes. Our approach ensures the identification, assessment and management of climate change risks to reduce impact and likelihood and maximise opportunities.

Mitigation metrics are aligned to limiting global temperature rises to 1.5°C. Adaptation metrics account for the risks and uncertainties associated with higher temperature rises (including 2°C and 4°C) and how the many potential variations in climate change impact the delivery of service improvements. Targets are set with risk and uncertainty included.

While climate change is largely a downside risk for our business, we have identified some potential opportunities. For instance, in addition to energy generation, a reduction in the frequency of extreme cold weather could reduce the number of freeze-thaw burst events and warmer conditions may improve the efficiency of biological treatment processes.

As part of our risk management activities, we have assessed our risks to identify those most adversely impacted by climate change. While the most significant are all physical risks, transitional risks are also managed through our risk management framework.

-  **Failure to treat wastewater (exceedance of permits)**
-  **Failure of above ground water and wastewater assets (flooding)**
-  **Failure of the wastewater network (sewer flooding)**
-  **Water network failure**
-  **Failure of wastewater assets (serious pollution)**
-  **Water sufficiency event**
-  **Failure to treat sludge**

Many of these risks are subject to complex modelling which incorporates the impact of climate change and the associated adaptation options in our long-term plans.

Our 25-year WRMP is a sophisticated example of a climate change risk assessment. We've worked with the United Kingdom Meteorological Office for many years to understand how weather metrics, like temperature and rainfall, affect the consumption of water by customers. We understand the likely fluctuations in how our supply system responds in different circumstances, defining the headroom required to take into consideration climate change uncertainty using the latest UK climate projections and drought indicators.

Our plan considers how resilient our water supply system is to a host of non-drought hazards related to climate change, including flooding, freeze-thaw, contamination, asset failure and power failure. We are planning a programme of work to improve resilience across the next 25 years.

DWMPs are being developed to offer the same level of climate change scenario assessments for sewerage planning.

We are in the process of incorporating longer-term climate change impacts more explicitly in our corporate risk framework by considering the scale of impact based on current controls under two scenarios to 2050 and 2100. This will be undertaken initially for the most significant climate risks, then all other climate risks, bringing several benefits. It further raises the profile of climate change adaptation and allows the board enhanced insight into climate risks from within existing risk management processes. It will highlight where climate risks are not well understood or where existing controls are deemed inadequate to manage the risk in the long-term to allow corrective action to be taken.

Looking ahead, we will need to undertake research to better understand how climate factors will impact some aspects of performance, continue to collaborate with others to better understand interdependencies and work in partnership to address risk, and cultivate innovation to find new ways to cope with operating in a different environment.

The following table highlights where further details recommended by the TCFD can be found in this report.

Topic	Where to find out more
Governance	See our corporate governance report. Our corporate responsibility committee report on pages 152 to 155 provides a summary of committee discussions on climate change. A summary of the board and its management committees can be found on page 116.
Strategy	Details of our corporate strategy are on pages 16 to 19 and our business model is on pages 28 to 31. See how we plan for the future on pages 36 to 44 and our approach to managing resilience on page 40.
Risk management	Our risk management framework is presented on pages 92 to 101, including our principal risks and uncertainties.
Metrics and targets	Our KPIs and other performance indicators can be found in how we measure our performance on pages 54 to 63, with operational performance on pages 78 to 83 and financial performance on pages 84 to 91.

Our approach to climate change

TCFD

Strategy to manage climate related risk and issues

- › Incorporating the wide range of uncertainty when planning for the long-term;
- › Scenario analysis to understand the business impact of climate change and plan accordingly; and
- › Ambitious greenhouse gas emissions targets to contribute to limiting global temperature rise.

Strategy: adapting to and mitigating climate change

Our strategy to adapt to a changing climate and how we manage uncertainty

Adapting to the impacts of climate change needs to accommodate the levels of uncertainty in the global delivery of a 1.5°C rise. There is a large degree of uncertainty in the longer term because of outcomes from different emissions scenarios and the complexity of climate modelling.

Climate change trends are occurring slowly against the backdrop of normal, natural weather variation which makes it challenging to identify when climate change is happening and when trigger levels are reached. Our strategies are increasingly cognisant of that uncertainty and seek to deliver flexible and adaptive plans that can evolve as the reality emerges.

Across our strategy and planning framework we assess the impact of climatic change in rainfall, temperature and storms (wind speed). In addition to the 1.5°C rise targeted globally, we assess various scenarios at both 2°C and 4°C. This is critical to managing uncertainty and establishing a baseline from which we can understand future performance and where we are at risk of failing to meet strategic planning objectives such as internal flooding, wastewater treatment works compliance and the supply demand balance.

Understanding the range of weather impacts is therefore central to our scenario baseline and the potential future variations used are set out below.

Projected changes for North West England at a global mean warming of 2°C above pre-industrial levels. Aligned to the UK Climate Projections 2018 (UKCP18) Derived Projections of Future Climate over the UK, Met office (November 2018)

Type of change	Low	Median	High
Winter temperature	0 to +1°C	+1 to +2°C	+2 to +3°C
Summer temperature	0 to +1°C	+1 to +2°C	+2 to +3°C
Winter rainfall	-10%	+10%	+20%
Summer rainfall	-30%	+10%	+20%
Winter wind speed	-0.6m/s	-0.2m/s	+0.4m/s
Summer wind speed	-0.4m/s	-0.2m/s	+0.2m/s
Daily temperature (min/max) – winter	+1.5°C		+1.0°C
Daily temperature (min/max) – winter	+2.0°C		+2.0°C

Projected changes for North West England at a global mean warming of 4°C above pre-industrial levels. Aligned to the UKCP18 Derived Projections of Future Climate over the UK, Met office (November 2018)

Type of change	Low	Median	High
Winter temperature	+1 to +2°C	+2 to +3°C	+3 to +4°C
Summer temperature	+2 to +3°C	+3 to +4°C	+4 to +5°C
Winter rainfall	+10%	+20%	+20%
Summer rainfall	-40%	-30%	-10%
Winter wind speed	-0.4m/s	+0.2m/s	+0.4m/s
Summer wind speed	-0.6m/s	-0.4m/s	-0.2m/s
Daily temperature (min/max) – winter	+3.0°C		+3.0°C
Daily temperature (min/max) – winter	+4.5°C		+4.5°C

In the next 12 months, we will test thousands of weather scenarios for our WRMP, including the impact of a high scenario. This assumes a 5°C increase by 2100 on our supply capabilities. A complicated hydrological assessment of the process of turning rainfall into flow will be undertaken to understand the impact on water resource levels. Across the 10,000 climate change projections investigated, we take a well-balanced distribution to narrow these down to 100 scenarios. They are then put through our rainfall runoff model so we can understand the impact on supply from the amount of water available year on year. We work closely with the Environment Agency and leading experts to select the most appropriate scenario to use in planning. The uncertainty brought from the other scenarios is then analysed and included in our headroom calculations, thus ensuring we can quantifiably understand the levels of risk in our available water supply.

As always there is stringent governance to ensure these projections are correctly developed and used. Internal, external and regulator audits are undertaken to ensure we use these projections in line with UK Water Industry Research (UKWIR) best practice and Defra guidelines.

The next 12 months are critical for DWMPs as we complete and publish the outputs of our Baseline Risk and Vulnerability Assessment. This will be the result of modelling our systems and applying several impacts, including climate change, to determine future performance and risks associated with that performance.

Model updates currently in progress (2020) to understand the climate change impact of service delivery for drainage and wastewater

Model	Climate change impact	Risk and performance level assessment
Hydraulic network models	Rainfall scenarios alongside future population change and urban creep	Future hydraulic flooding performance
Asset risk projection model (Pioneer)	Apply climate change impacts via changes in blockage rates	Future flooding and pollution performance with optimised system recommendations for asset interventions
Wastewater treatment works model	Changes to permit limits based on environmental models (rainfall and temperature)	Future likelihood of wastewater treatment works compliance
Source Apportionment – GIS	Input models using rainfall impacts on increasing river levels alongside temperature increases	Future water quality in the receiving water course informing the risk in achieving future permit limits

This assessment will allow us to understand, for our base-allowed investment, the levels of service expected. Coping with 3°C will require higher levels of investment than coping with 1.5°C and so, if that were to become the likely scenario, we would need to engage with stakeholders on the appropriate sharing of that cost between generations of customers.

With this understanding, a primary objective of our adaptation strategy is to prioritise interventions that deliver resilience for all climate variables. For example, reducing leakage and encouraging lower water consumption will create headroom within our supply-demand balance and provide an increasingly resilient service. This is especially important as changing rainfall patterns will affect the rate at which our reservoirs refill. Similarly, encouraging more sustainable drainage and reducing surface water into combined sewer systems will help reduce the impact of variations from future storm intensity, and frequency, on performance for customers and the environment.

A further objective of our adaptation strategy is to address the transitional

risks we have as an energy intensive business, including those resulting from decarbonisation and exposure to additional taxation. Our energy strategy is focused on using less and generating more. This year we generated 191 Gigawatt hours (GWh), equivalent to almost a quarter of the electricity we consumed.

Future contributions to limiting global temperature rise to 1.5°C – a science-based target

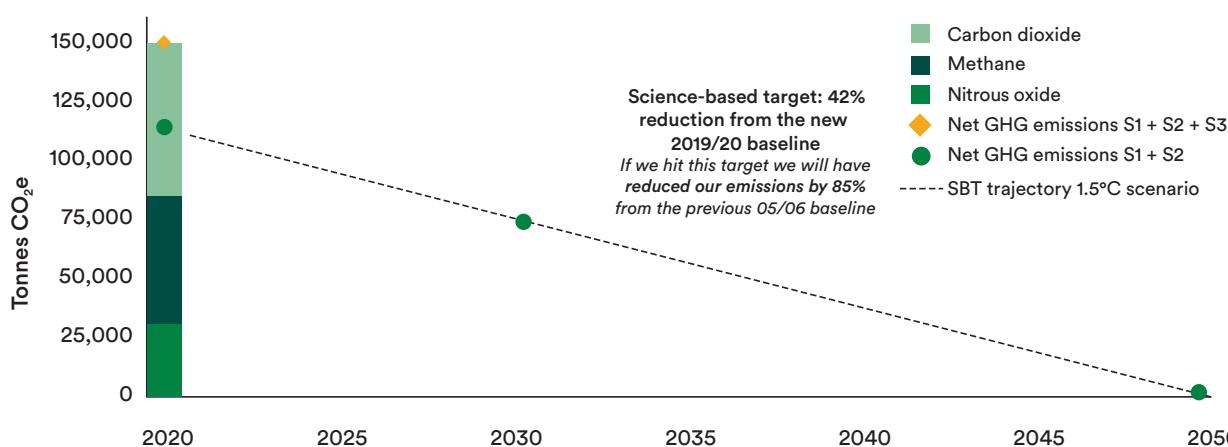
Our emissions reduction strategy is focused on scope 1 and 2 emissions (see 'greenhouse gas emissions by scope' on page 75). We have committed to achieve science-based targets, based on the Paris Agreement's highest level of ambition, to limit global temperature rise to 1.5°C above pre-industrial levels. This is in line with the SBTi Criteria and Recommendations⁽¹⁾ guidance on the most recent emissions scenarios, policies and greenhouse gas accounting standards.

SBTi guidance requires a medium and long-term target to be set based on those global temperature limiting ambitions. It requires a new baseline to be set from the most recent year for which data is available, which for us is 2019/2020.

We have committed to a medium-term target for a further 42 per cent reduction in emissions by 2030 from a new 2019/20 baseline. The science-based approach presents a target of a 100 per cent reduction by 2050.

We share the water sector's ambition to achieve net zero emissions by 2030 and this is likely to require purchasing some carbon offsets given the challenge to eliminate wastewater treatment process emissions. Our strategy accommodates the different accounting rules for purchasing offsets. Under the guidelines set by the SBTi, purchased offsets are not permitted in the delivery of any science-based targets, so these will not be an option for our 2030 and 2050 science-based target commitments. However, in delivering the sector commitment of net zero by 2030, purchase of offsets are permitted and will therefore be assessed alongside other strategic options.

(1) Science Based Target initiative Criteria and Recommendations Version 4.0



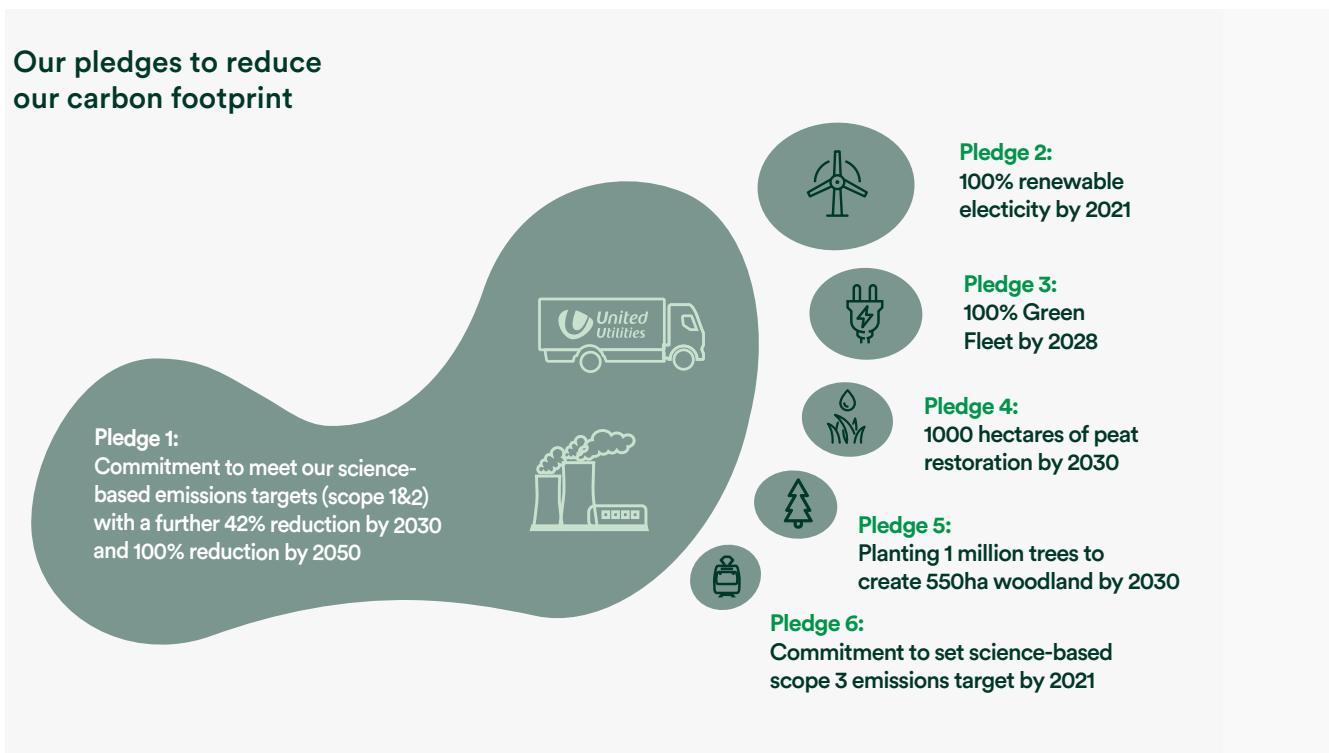
Our approach to climate change

TCFD



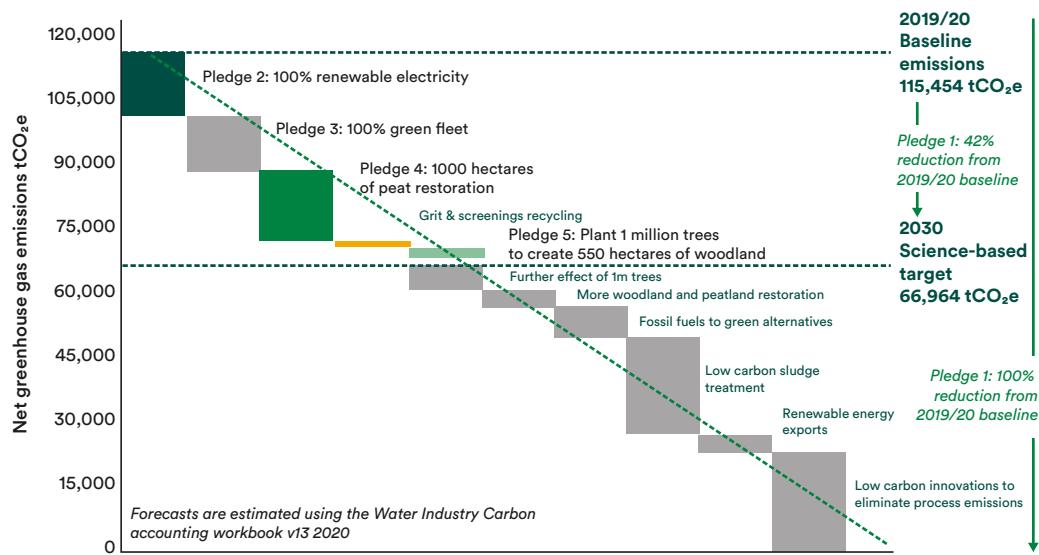
Our climate change mitigation strategy

Our strategy to deliver these science-based targets covers three key areas: to optimise energy consumption; generate more renewable energy; and lower our emissions. Our work to reduce emissions includes: wastewater process and storage; sludge process; biogas use and sludge disposal; fleet fuel and management; fuel use; renewable energy; land use; natural capital; and waste and resources. Our current strategy is summarised in a series of six pledges:





The chart below sets out the key areas of our strategy and the contribution they make in delivering our science-based target to limit global temperature rise to 1.5°C above pre-industrial levels. The data presented shows scope 1 and scope 2 emissions.



Next year, we will focus on reducing scope 3 emissions⁽¹⁾. This will cover influencing emissions of employees, commercial partners and suppliers and emissions of customers. Further, we will develop future standards, technologies, markets and financial solutions to support the delivery of our net zero ambition with a further commitment to set a science-based scope 3 target by 2021.

(1) The Greenhouse Gas Protocol classifies scope 3 emissions as indirect upstream and downstream emissions that occur in the value chain of the reporting company.

Our approach to climate change

TCFD



Per capita consumption



reduction in supply interruptions



sludge treatment compliance

Metrics and targets

Adaptation – delivering an improved service despite climate change

We have a number of key metrics and targets that demonstrate our capability of adapting to climate change and increasing the resilience of our service. These metrics and targets are focused on the corporate risks identified in our adaptation report that are most adversely impacted by climate change.

Water sufficiency

In order to release headroom in our water supply demand balance we have set short and long-term targets against key performance commitments. Our targets for reducing per capita consumption (how much customers use) and leakage will reduce the demand for water in all climate scenarios.

Per capita consumption: Household consumption has increased slightly over the last five years with the average person currently using around 140 litres per day. Our plan is to work with customers and stakeholders to reduce that figure to around 135 litres by 2025 and to around 115 litres by 2045. We have developed an AMP7 water efficiency programme, primarily aimed at reducing household consumption, and working with the non-household sector to drive water efficiency across the board.

Leakage: We have achieved our regulatory leakage target every year for 14 years. From 2015 to 2020, we have delivered a stable level of leakage and, by 2025, we plan to reduce leakage by 15 per cent. In the longer term, to 2045, we plan to reduce leakage by just over 40 per cent. In the last 12 months, we have installed around 44,000 noise monitoring devices (100,000 by 2025) to locate hidden leaks in the most challenging parts of our water network and enable overall reductions in leakage.

Water network failure

We have assessed our ability to maintain water supply to our customers, even in extreme weather events, and we have set improving targets for supply interruptions.

We have reduced interruptions to supply by nearly 40 per cent since 2015. Supported by Systems Thinking and the use of machine learning and artificial intelligence, we are targeting a further 50 per cent reduction by 2025, from a 2020 baseline.

Failure of the wastewater network

To reduce the impact of variations from future storm intensity and frequency on the performance of our wastewater network we are targeting significant reductions in sewer flooding.

We have set ourselves a target to reduce it by 20 per cent by 2025 and 70 per cent by 2045.

Failure to treat sludge

Climate change puts an additional strain on the treatment and recycling of sludge particularly with the flooding of farmland which is the outlet for recycled sludge (biosolids). By taking a Systems Thinking approach and managing our assets as a regional system we can mitigate for loss of treatment capacity by transporting the sludge to other treatment centres or by using capacity in the market.

To measure the success of this approach we set stringent targets for 100 per cent sludge treatment compliance with regulatory requirements and we have achieved this for five consecutive years.

In addition, and new for AMP7, we are targeting 100 per cent conformity to best practice requirements set out by the national Biosolids Assurance Scheme.

Failure to treat wastewater (exceedance of permits)

The impact on climate change can affect the wastewater treatment process in a number of ways: prolonged dry periods can lead to septicity and rivers to run low; high rainfall intensity can cause high flows to be passed through to treatment facilities, outfalls to block and river banks to erode.

We have managed this risk through our treatment compliance metric which assesses our wastewater treatment compliance against environmental permits. Having delivered a stable level of service over AMP6 we are joint industry leaders in the Environment Agency's Environmental Performance Assessment across AMP6 and achieved 4 star status for three consecutive years.

We are striving to meet 100 per cent level of compliance for this measure in AMP7.

Failure of wastewater assets (serious pollution)

Pollution incidents can occur when the sewer system becomes overwhelmed and it overflows into the nearby watercourse.

Despite the upward pressure from climate change, since 2012 we have achieved 37 per cent reduction in the total number of pollution incidents (category 1, 2 and 3) and an industry-leading position for serious pollution incidents (category 1 and 2).

We have set targets to reduce the number of pollution incidents by a further 27 per cent by the end of AMP7.

Our contribution to mitigating climate change – carbon and energy

Careful operational energy management and increasing renewable energy generation means we have achieved a further reduction of 8,613 tCO₂e this year.

Our total greenhouse gas emissions for the financial year 2019/20 were 159,243 tCO₂e, 73 per cent below the 2005/06 baseline.

This performance means we have outperformed our target to reduce our operational greenhouse gas emissions by 50 per cent from the 2005/06 baseline and to achieve a 60 per cent reduction by 2035.

We are now committing to achieve new medium and long-term science-based targets, based on the Paris Agreement's highest level of ambition, to limit global temperature rise to 1.5°C above pre-industrial levels.

2019/20 scope 1 and 2 net emissions, which were 115,424 tCO₂e, will form the baseline for our science-based targets.

Reporting and assurance

We measure and report the greenhouse gases that result from all United Utilities' activities. We have used the financial control approach so our energy and greenhouse gas emissions reports are aligned with the consolidated financial statements for United Utilities Group PLC. This includes its subsidiaries listed in section A8 on page 251.

Our measurement and reporting is aligned to the GHG Protocol Corporate Accounting and Reporting Standard (2015) and the recommendations of the TCFD. We report as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations following the 2019 UK Government Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance and our

reporting is compliant with the international carbon reporting standard (ISO 14064, Part 1) and assured by the Certified Emissions Measurement and Reduction Scheme (CEMARS).

How we measure our greenhouse gas emissions

A carbon footprint is calculated by converting all emissions of Kyoto Protocol gases into a carbon dioxide equivalent (tCO₂e). Emissions are categorised as direct, indirect or avoided emissions.

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

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

Avoided emissions are reductions from the purchase, or export, of renewable energy.

Gross emissions are the sum of all three scopes. Net emissions are the gross emissions minus reductions from avoided emissions.

The GHG Protocol recommends using two methods to quantify emissions – the 'location-based' method which uses average grid electricity emissions factors and the 'market-based' method which is specific to the actual electricity purchased. We report results using both methods and use the gross 'market-based' figure to report our headline emissions.

Key energy and carbon metrics 2019/20

159,243 tCO₂e

total greenhouse gas emissions

73%

reduction from our 2005/06 baseline

191 GWh

renewable energy generated – equivalent to 23.8 per cent of our electricity consumption

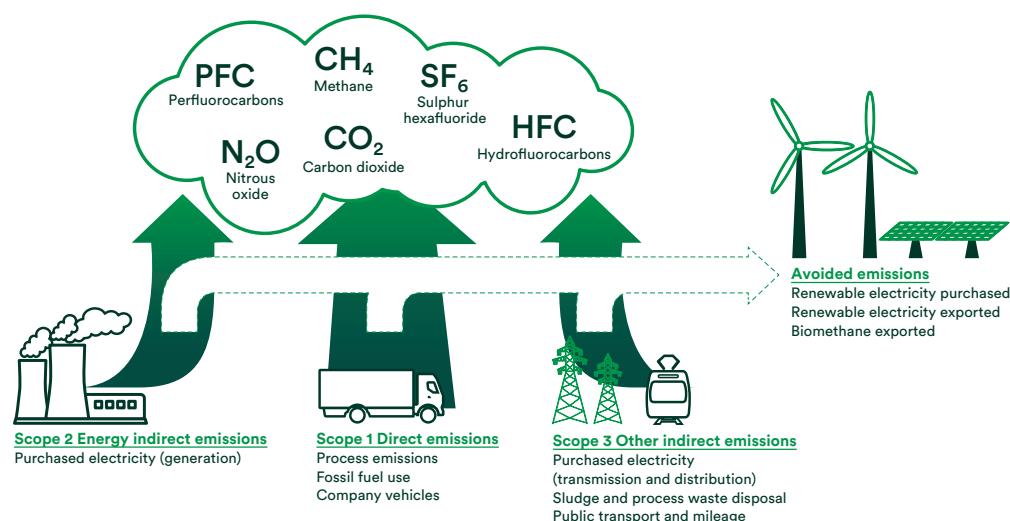
95%

electricity consumption from renewable sources – 760.5 GWh

115,424 tCO₂e

science-based target baseline (scope 1 and 2 net GHG emissions)

Greenhouse gas emissions by scope



Our approach to climate change

Energy and Carbon

United Utilities' greenhouse gas emissions	Current year	Previous years		Baseline Year
		2018/19 tCO ₂ e ⁽²⁾	2017/18 tCO ₂ e	
		2019/20 tCO ₂ e	2005/06 tCO ₂ e	
Scope 1 Direct emissions				
Direct emissions from burning of fossil fuels	17,129	16,809	14,324	17,638
Process emissions from our treatment plants – including refrigerants	84,048	88,136	91,456	125,032
Transport: company owned or leased vehicles	15,739	14,409	11,803	7,514
Total Scope 1 Direct emissions	116,916	119,354	117,583	150,183
Scope 2 Energy indirect emissions				
Grid electricity purchased – generation	Market-based ⁽¹⁾ Location-based	11,789 164,521	18,503 187,171	28,287 230,167
Total Scope 2 Energy indirect emissions		11,789	18,503	230,167
Scope 3 Other indirect emissions				
Business travel (public transport and private vehicles)		2,123	2,236	2,504
Emissions from sludge and process waste disposal		27,410	26,186	23,048
Grid electricity purchased – transmission and distribution	Market-based ⁽¹⁾ Location-based	1,005 13,967	1,577 15,955	2,644 21,520
Total Scope 3 Other indirect emissions		30,538	29,999	47,072
GROSS GHG EMISSIONS⁽²⁾		159,243	167,856	394,822
Avoided emissions from renewable electricity exported		(3,979)	(3,434)	(2,303)
Avoided emissions from biomethane exported		(9,302)	(8,446)	(8,577)
Avoided emissions from renewable electricity purchased	Location-based	–	–	(173,876)
Total avoided emissions		(13,281)	(11,880)	(184,756)
NET GHG EMISSIONS⁽³⁾		145,962	155,976	210,066
				584,420

(1) Market-based figures for electricity purchased on a standard tariff have been calculated using specific emissions factors from published generator fuel mix disclosures.

(2) Operational emissions for 2005/06 and 2017/18 use the location-based method, 2018/19 and the current year use the market-based method.

(3) Emissions from our regulated business have been estimated using the Water Industry Carbon Accounting Workbook V13 2020 v3 which encompasses the UK Government GHG Conversion Factors for Company reporting 2019.

United Utilities' greenhouse gas emissions intensity

As in previous years we state our emissions as tonnes CO₂e per £million revenue. We also report the metric tonnes CO₂e per megalitre (using the location-based method) broken down by clean water and wastewater, as these are common metrics for our industry.

	tCO ₂ e	Current year		
		2019/20	2018/19	2017/18
Gross emissions per £m revenue	tCO ₂ e	85.7	92.3	225.6
Net emissions per £m revenue	tCO ₂ e	78.5	85.7	121.0
Regulated emissions per megalitre of treated water	Kg CO ₂ e/ML	27.19	38.22	60.43
Regulated emissions per megalitre of sewage treated	Kg CO ₂ e/ML	83.80	102.43	116.75

Energy use, generation and export

	2019/20 GWh	2018/19 GWh
Energy use		
Electricity	801.3	807.8
Gas	38.3	33.0
Other fuels ⁽¹⁾	144.4	135.0
Total energy use	984.0	975.8
Electricity purchased		
Renewable Tariff	602.9	601.5
0g CO ₂ e/kWh		
Supplier Standard Tariff	40.8	59.7
289g CO ₂ e/kWh		
Total electricity purchased	643.7	661.2
Renewable energy generated		
CHP	121.5	115.7
Solar	42.6	34.6
Wind	5.7	4.8
Hydro	6.8 ⁽²⁾	4.6
Biomethane ⁽³⁾	14.2	13.2
Total renewable energy generated	190.8	172.9
Renewable energy exported		
Electricity	18.1	13.0
Biomethane ⁽³⁾	14.2	13.2
Total renewable energy exported	32.3	26.2

- (1) Energy use for other fuels includes fuel used in processing and transport plus business mileage in private vehicles converted to GWh using UK Government GHG Conversion Factors for Company Reporting.
- (2) Renewable energy from hydro includes Oswestry which was not incorporated into the emission reporting pending review of ROC.
- (3) Biomethane generated and exported to grid is expressed as an electricity equivalent.

Emissions and energy use

This year we consumed 984 GWh of energy including electricity, gas and other fuels purchased for use on-site and for transport. We increased generation across all our renewable sources of hydro, solar photovoltaics, wind, biomethane and energy recovery using sewage sludge to power combined heat and power (CHP) generators. We generated the equivalent of 191 GWh of renewable electricity, an increase of 18 GWh on last year and though we exported 6.1 GWh more we reduced our electricity purchased by 17.5 GWh.

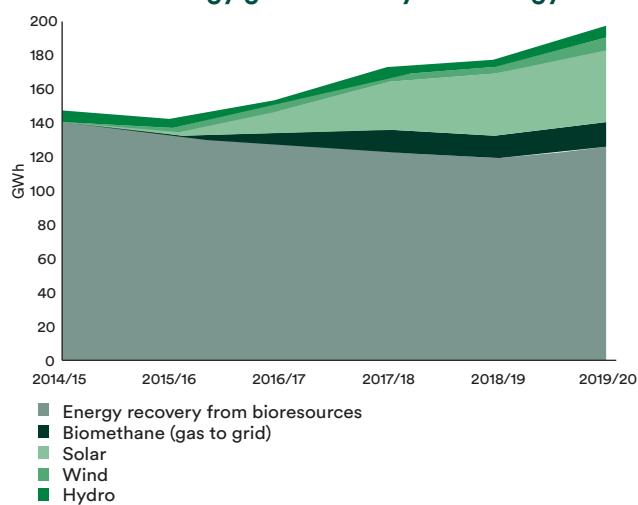
Having largely addressed emissions from electricity, it is mostly methane and nitrous oxide emissions arising from wastewater treatment that remain. Understanding and reducing these emissions forms a long-term challenge for the industry as a whole.

Energy efficiency action taken

Our energy management strategy aims to achieve an appropriate balance between managing energy consumption, use of renewables and self-generation and being smart about how we operate our assets to get best value while maintaining security of supply.

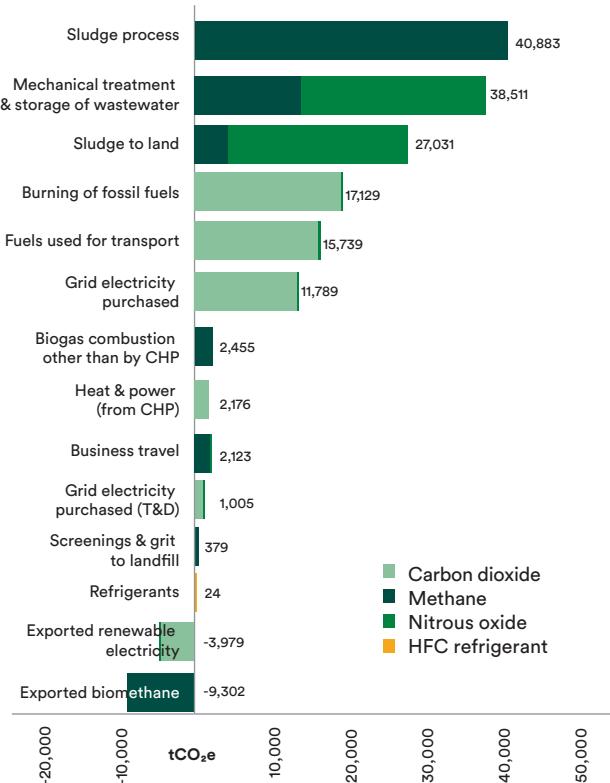
We have continued to develop our Energy Management Programme which brings together processes, asset optimisation and data analytics. We have implemented a wide range of projects to reduce consumption and drive more dynamic control of our assets to reduce energy costs. To improve data capabilities we have rolled out an innovative sub-metering solution installing over 1,200 meters. Two major solar installations were completed with a combined capacity of 11.5 MW.

Renewable energy generation by technology



In the past year we completed our Energy Saving Opportunities Scheme (ESOS) submission to the Environment Agency which includes potential opportunities for efficiency and generation improvements. We were shortlisted for the Energy Institute Energy Management Award in November 2019.

Breakdown of our 2019/20 emissions by activity and greenhouse gas



Summary: good progress – ambitious, deliverable plans

We've been focused on climate change for over 20 years and have made good progress. We have committed to playing our part in limiting climate change to 1.5°C, we aim to maintain and improve services whether the climate change is 1.5°C, 2°C or 4°C, and we have the appropriate governance, strategy, risk management and metrics to make sure this happens.

Our performance in 2019/20

Operational performance



— The best service to customers

Customer service: Putting customers at the heart of everything we do has helped us deliver substantial improvements in customer service in recent years, becoming the most improved company in the 2010–15 regulatory period with a reduction of over 70 per cent in the overall number of customer complaints.

We have continued to improve at a faster rate than the industry average in AMP6, positioning us as one of the leading water and wastewater companies. We outperformed against Ofwat's SIM measure across the first four years of AMP6 (the measurement period) and have performed well this year against the shadow C-MeX pilots. We finished third out of the water and wastewater companies, and fourth out of the 17 companies in the sector in total, for the year overall. We finished first in the third and fourth quarter surveys of customers who have contacted us. This performance is mirrored in the number of complaints that we receive. Since 2015/16 we have seen a 41 per cent reduction in complaints and a 65 per cent reduction in repeat complaints.

During AMP6, we have developed new services that increase the speed and quality of the customer service we provide. These include a new system that enables us to proactively keep customers informed of events on our network, increasing the hours we are available for customers to contact us, and increasing the channels by which they can contact us so they do not always need to call.

We have driven an increase in digital engagement through a new customer-centric website, the introduction of an easy to use mobile app and a substantially enhanced social media presence on commonly used platforms such as Facebook and Twitter. In support of our most vulnerable customers we launched our Priority Services proposition, setting up dedicated teams for those that need it most, and now have over 100,000 customers registered.

We have received external recognition for the improvements that we have made in the quality of service that we deliver to customers. We are one of only 14 companies nationally to be awarded the Service Mark with Distinction from the Institute of Customer Service, the only water company to receive Shaw Trust Accessibility status for our website and the only water company to be awarded the 'Best Practice' Accreditation (CICM) from the Chartered Institute of Credit Management.

Leading north west service provider: We are consistently ranked in the top three out of ten leading organisations in the North West, through an independent brand tracker survey which is undertaken three times per year. This covers key attributes such as reputation, trustworthiness and customer service and in the most recent survey, we have been ranked first for

being both environmentally and socially responsible. We are behind only Amazon and Aldi, and ahead of seven other major organisations across utilities, telecoms, media, banking and retail.

Robust water supply: Customers benefit from our robust water supply and demand balance, along with high levels of water supply reliability; although, with our water resources predominantly being from impounding reservoirs, we remain at risk from short intense dry periods of weather. Our overall water quality continues to be good, and our water quality service index and Mean Zonal compliance both slightly improved compared with the prior year. We have consistently delivered a reliable water service. Although we have experienced some water no-supply incidents in the 2015–20 regulatory period, our Systems Thinking approach and the largest water tanker fleet in the industry has resulted in sustainable year on year performance improvements.

Throughout February 2020 the UK experienced a succession of severe winter storms. Although the storms did cause some service interruptions, our workforce worked tirelessly throughout this period to minimise the impact on customers and the environment.

Reducing sewer flooding: We have continued to invest heavily in schemes, projects and programmes of work designed to reduce the risk of flooding of customers' homes, including incidence-based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys and other innovative technologies. Our plan for the 2015–20 regulatory period included a target of reducing sewer flooding incidents by over 40 per cent, in line with customers' affordability preferences. During that period, we have delivered an average reduction of 38 per cent. Although marginally below our target, this represents strong performance given the unprecedented storm events over the five year period. In terms of internal repeat flooding (occurring more than once in ten years) we have delivered a reduction of over 70 per cent over AMP6.

Our final determination for the 2020–25 regulatory period includes a target of reducing internal sewer flooding by 73 per cent. Although a challenging target, we have invested some of our outperformance reinvestment in 2019/20 targeting improved performance in this area. Our wastewater network will continue to benefit from significant investment going forward in terms of innovative proactive targeting of operational flood risk and through ground-breaking monitoring of the sewer network which will be underpinned by artificial intelligence techniques to interpret and forecast flood risk. In addition, we will continue to seek to work in collaboration with other external flood authorities and

associated partners, paying our fair share, to address the widespread flooding events that hit our region, as we aim to help mitigate the effect of changing weather patterns likely to result from climate change.

Key performance indicators:

Outcome delivery incentives (ODIs): We have 19 wholesale financial ODIs, ten of which are structured to provide the potential to earn a reward for good performance or for us to be penalised for poor performance. The other nine wholesale financial ODIs are structured in order to protect customers in key areas and do not offer a reward for good performance, only a penalty for poor performance.

In 2019/20 we have delivered another strong performance against our ODIs, resulting in a net outperformance payment of £22.4 million. During the year we achieved the final AMP6 milestone in relation to our West Cumbria project, earning an outperformance payment of £21.6 million. We are pleased with our overall AMP6 performance, having earned a total net outperformance payment of £43.9 million over the five-year period. This demonstrates the benefits of our targeted investment alongside our Systems Thinking approach and given the ODI targets have typically become tougher each year, it is particularly pleasing that our best performance has been achieved in the final two years of the AMP. This gives us confidence heading into AMP7.

Service incentive mechanism (SIM): We have previously stated our target was to move towards the upper quartile in the medium-term, and we are particularly pleased with the progress we have made over AMP6, ending the four year period to 2018/19 in fourth place overall for the water and wastewater companies and earning an outperformance payment of £6 million.

In AMP7, SIM will be replaced by a new customer service measure, C-MeX, with the industry reporting against C-MeX for the year 2019/20 (although not contributing to any outperformance or underperformance) before the measurement period begins in AMP7.

There are two elements to C-MeX, a contactor survey based on a survey of customers who have contacted the company and a perception survey of a random selection of individuals who may or may not have had a previous interaction with the company.

For the contactor element, we achieved first place (out of 17 companies) in each of the final two quarters. For the perception survey, we achieved eighth place in the fourth and final quarter. This means on the combined scores we were fourth in the final quarter and also fourth out of the 17 companies and third out of the water and wastewater companies for the year overall.



WHAT MATTERS

Supporting vulnerable customers

Delivering industry-leading assistance schemes.

With more than a quarter of households in the North West earning less than £21,000 a year and just under a fifth experiencing water poverty, affordability continues to be a key focus for us.

We've continued to build on our affordability support and became the first water company to have our affordability schemes included in the Turn 2 Us customer support search tools.

We introduced a friends and family helpline for customers who want to assist loved ones who are struggling financially, and we held our third Affordability Summit in Liverpool, welcoming more than 180 attendees.

The Hardship Hub continues to prove a useful tool for the region's debt advice community, with over 500 registered users.

In the last 12 months an additional 25,487 customers registered for our Priority Services scheme, meaning we now have more than 100,000 customers benefiting from our tailored services which help support their particular needs.

After completing a number of audits with British Standards Institute, in February 2020 we successfully passed the verification for 'inclusive service provision for identifying and responding to consumer vulnerability for water supply and wastewater services'.

We continue to work with external charities and organisations from around the region, with expertise in customer vulnerability, to help promote the Priority Services scheme. We provide financial assistance to more than 100,000 customers, and through our Payment Matching Plus scheme, 15,000 customers became water debt free in 2019/20.

To help prevent customers getting into debt we provide flexible payment plans and the option for low income customers to take a payment break if they experience a change of circumstances.

We continue to actively promote our support schemes through customer communications, doorstep visits, social media and partner organisations. Last year, our customer outreach managers carried out over 250 visits to 120 organisations to spread awareness of our schemes.

Generating value for:



Our performance in 2019/20

Operational performance



— At the lowest sustainable cost

Power and chemicals: Our Systems

Thinking approach and more effective use of operational site management continues to optimise power and chemical usage alongside combined heat and power assets to generate renewable energy. In addition to the electricity we generate from bioresources, we are developing other renewable energy facilities. This is primarily in the area of solar, where we have invested £62 million across the 2015–20 regulatory period. We continue to lock-in our power commodity costs, providing greater cost certainty for the next regulatory period.

Proactive network management: Through our Systems Thinking approach we are more proactive in the management of our assets and networks. We have improved our predictive modelling and forecasting through better use of sensors in our network and better analysis of other data, such as weather forecasting, enabling us to address more asset and network problems before they affect customers. This reduces the level of reactive work and improves our performance and efficiency.

Customer receipts and financial support: Our region suffers from high levels of income deprivation and we offer wide-ranging schemes to help customers struggling to pay. We now have 120,000 customers on affordability schemes, more than double the commitment we made at the start of AMP6. Notwithstanding our industry-leading debt management processes, we expect bad debt to continue to be a challenging area for us due to the level of deprivation in our region and the impact COVID-19 will have on the ability of customers to pay their bills.

Prior to any COVID-19 impact, our household bad debt expense had been maintained at the 1.8 per cent of revenue we communicated at the half year. This is a reduction from the 2.1 per cent last year, reflecting our ongoing attention to bad debt through initiatives such as our affordability schemes. At 31 March 2020, recognising the higher risk of future non-payment of household customer bills as a result of COVID-19, we have increased our reported bad debt expense by £17 million. Although this is excluded from underlying profit measures as an adjusted item, on a reported basis the impact is to increase household bad debt to 3.1 per cent of revenue.

Pensions: We have taken progressive steps to de-risk our pension provision. The group had an IFRS retirement benefit surplus of £754 million as at 31 March 2020, compared with a surplus of £484 million as at 31 March 2019. Further details of the

group's pension provision are provided in the pensions section on pages 222–223 and 240–224.

In April 2019, the group accelerated £103 million of deficit repair contributions to its defined benefit pension schemes. This represents the final acceleration of deficit repair contributions agreed with the schemes' trustees and reduces the pension scheme deficit repair contributions due from the company down to £nil.

Capital delivery and regulatory commitments:

We place great emphasis on delivering our commitments efficiently and on time, and have a robust commercial capital delivery framework in place. Across the 2015–20 regulatory period, we have worked with a single engineering partner and four design and construction partners to deliver our regulatory capital investment programme of just under £4 billion. We have involved our partners much earlier in project definition and have packaged projects by type, geography and timing in order to deliver efficiencies. Projects have been allocated on an incentive or competitive basis leading to our partners presenting a range of solutions, innovations and pricing.

We accelerated our 2015–20 investment programme in order to improve services for customers and deliver early operational and environmental benefits. Regulatory capital investment in 2019/20 was £722 million including £143 million of IRE, £184 million of additional investment made available through sharing our net outperformance and £13 million additional capex associated with the dry weather in the summer of 2018. This, combined with our investment in the first four years of the regulatory period, brings our total spend to just under £4.0 billion across the 2015–20 regulatory period.

We are driving more effective and efficient delivery of our capital programme and applying a tougher measurement mechanism to our time, cost and quality index (TCQi) score for this regulatory period. Despite this tougher approach, our TCQi score remains high at 95 per cent, representing very good performance.

Key performance indicators:

Total expenditure (totex) performance:

Our totex allowance for the 2015–2020 regulatory period represented a significant challenge compared with the costs we originally submitted as part of our business plan. Not only have we closed the gap but we have now delivered the original scope for around £100 million less than our allowance. This has been achieved through

a combination of driving efficiency into our capital programme and through Systems Thinking.

Financing outperformance: Our leading treasury management helped lock in a low cost of debt, delivering significant financing outperformance for the 2015–20 regulatory period compared with the industry allowed cost.

Household retail cost to serve: We have continued to deliver against a challenging benchmark set for AMP6. Our target has been to minimise our costs compared with our revenue allowance and on an underlying basis we have delivered a good performance in 2019/20, outperforming this year's revenue allowance (including margin) by around £13 million. This reflects underlying performance and therefore excludes an additional regulatory bad debt charge associated with the higher risk of future non-payment of household customer bills as a result of COVID-19. The statutory bad debt charge component of this (£17 million) is excluded from underlying profit measures as an adjusted item as outlined in the underlying profit measures table on pages 90 and 91. On an underlying basis, cost to serve is in line with the regulatory cost allowance of £35 per household and we are confident that our cost plans will move us towards upper quartile performance in AMP7.



WHAT MATTERS

Improving cost and service levels in our procurement process

New methodology makes significant savings, helping us deliver more efficient services for customers.

When we co-sponsored a PhD programme in partnership with the University of Salford and the Engineering and Physical Sciences Research Council (EPSRC), we realised that there was the potential to engage with markets and our supply chain differently.

That was the beginning of our journey towards the introduction of the Market Engagement Methodology (MEM), which has resulted in £359 million in savings for customers and led to us winning the Chartered Institute of Procurement and Supply (CIPS) Best Process Improvement Award.

From the formation of our AMP6 and AMP7 capital works agreements through to our major networks delivery transformation, we sought to engage our supply chain by focusing on what is best for both parties and looking at where we can improve in terms of cost and service level.

The MEM process moves beyond the confines of traditional approaches. Working with more than 20 different organisations over an 18-month programme, we analysed, challenged and tested the entirety of our spend base.

By using automated tools and through rigorous challenges with new and existing suppliers, we transformed our procurement approaches towards over £2 billion worth of spend across a variety of categories through the AMP, and committed to the delivery of £359 million worth of savings directly through to our customers.

Generating value for:



Our performance in 2019/20

Operational performance



— In a responsible manner

Behaving responsibly is fundamental to delivering on our purpose, and the group has for many years included corporate responsibility factors in its strategic decision-making. Our environmental, social and governance performance across a broad front has received external recognition. Earlier in the year, we achieved a World Class rating in the Dow Jones Sustainability Index for the 13th consecutive year, again achieving industry leading performance status in the multi-utility/water sector. We look at our performance across a range of other environmental, social and governance (ESG) indices, where we also perform well.

Leakage: We have continued our strong operational focus on leakage, alongside our network resilience improvements and a range of initiatives such as active pressure management, acoustic loggers, satellite technology and the UK's first leakage sniffer dogs specially trained to pinpoint the exact location of leaks.

We continue to encourage customers to save water through water efficiency programmes as this enables them to help preserve this precious resource and can save money on their water bill.

Our final determination for 2020–25 assumes a 15 per cent reduction in leakage. Although a challenging target, we have invested some of our outperformance reinvestment in 2019/20 in our water network to help further improve our performance in this area.

Environmental performance: This is a high priority for us and an area where we have performed well, achieving Industry Leading Company status in the Environment Agency's annual assessment in three of the last four years. This is a result of our approach to managing our assets in an integrated way to minimise the number of environmental incidents. Further detail is provided in the KPI section on the right of this page.

Carbon footprint: We set a target to reduce our carbon footprint by 50 per cent by 2020 compared with a 2005/06 baseline, and achieved this target a year early. A major contributor to this has been the purchase of certified renewable electricity, with over 95 per cent of the electricity we use having zero emissions. This year our total greenhouse emissions were 159,243 tonnes of carbon dioxide equivalent, a reduction of 73 per cent since 2005/06.

We generated the equivalent of 191 gigawatt hours, an increase of 18 gigawatt hours on the previous year. This illustrates good progress in our energy strategy to use less and generate more renewable energy.

We have committed to six climate change mitigation pledges – see page 72.

Employees: Our primary concern throughout the COVID-19 pandemic has been to protect the safety of our employees and those they work alongside. We have put safeguarding measures in place, distributed additional personal protective clothing and issued key worker cards to frontline employees to explain their presence in communities. We have not furloughed any employees and recognising that some may face challenging financial issues within their own families as a result of changing circumstances, we created a Staff Outreach Scheme to provide one-off grants through a confidential application process.

We continue to work hard to engage all of our employees in the transformation of the group's performance. Employee engagement was at 84 per cent this year, consistent with the UK high-performing norm. We remain committed to maintaining high levels of employee engagement.

We have been successful in attracting and retaining people and have continued with our apprentice and graduate programmes for 2019/20. We now have a total of 36 graduates and 102 apprentices across the business. Our investment in recruiting graduates and apprentices is already benefiting the company, with 269 employees who have previously been on either the graduate or apprentice scheme having secured permanent roles across our business.

Over the last 12 months all of our employees have attended health, safety and wellbeing training as part of our home safe and well programme, which has been designed to support colleagues understand how our individual decision-making and behaviour can ensure we look after ourselves and each other.

More than 300 colleagues then volunteered to become front line coaches and following their training are now 'peer influencing' colleagues to think again about the activities they are undertaking and consider if there is a safer way to do it. We are seeing a positive improvement in our performance.

Our employee accident frequency rate for 2019/20 was 0.110 accidents per 100,000 hours, representing a 27.6 per cent improvement on last year's outturn of 0.152. Our contractor accident frequency also showed improvement, with 0.083 accidents per 100,000 hours compared to 0.092 in 2018/19. We retained our Gold award status with the Royal Society for the Prevention of Accidents, achieving this status for the eighth year.

We are continuing our strong focus on health, safety and wellbeing and have undertaken extensive engagement across our business to enable the further development of our plans.

Communities: We continue to support partnerships, both financially and

in terms of employee time through volunteering with other organisations across the North West. Our approach to integrated catchments helps to tackle water quality issues in lakes, rivers and coastal waters across the North West, and our LoveMyBeach contribution includes employees volunteering to help to keep our region's beaches tidy. We continue to support local communities through contributions and schemes such as providing debt advisory services, and our partnership with Beaumont Collegiate Academy FabLab and STEM centre which will enable students from across the North West to gain first-hand experience of using hi-tech equipment and learn more about STEM in a fun and engaging way.

Key performance indicators:

Leakage: Although leakage is included within our outcome delivery incentives, we publish our leakage position separately, with it being an important measure from a corporate responsibility perspective. In 2019/20 we have again met our regulatory leakage target of 463 megalitres per day.

Environmental performance: In the Environment Agency's latest assessment, published in July 2019, we were awarded three stars (out of four) across a range of operational metrics. This is lower than our performance in the previous year where we were awarded the industry-leading 4 star status for the third consecutive year. Our lower score in the most recent assessment was primarily the result of a slight deterioration of performance against the delivery of our National Environment Programme where two projects were delivered late. The two projects were delayed due to unforeseen issues with land purchase, planning difficulties and complex interactions with a flood risk scheme. We have since made good progress with delivery and we are now operating the relevant assets in line with their new Environmental Permit requirements. We brought forward the delivery of two other major schemes to offset the environmental impact. Overall, our performance, earning industry-leading 4 star status in three of the last four years is in line with our medium-term goal of being an upper quartile company on a consistent basis.

Corporate responsibility: We are committed to operating in a responsible manner and are the only UK water company to have a World Class rating as measured by the Dow Jones Sustainability Index. For 2018/19, we achieved our World Class rating for the 13th consecutive year. We demonstrate a very strong performance across a number of leading corporate responsibility indices and report these publicly in our annual report and on our website; for example, we have been named in the FTSE4Good Index every year for the last 17 years, and reconfirmed as part of the Euronext Vigeo Index UK 20.

WHAT MATTERS

Protecting customers and employees

Our response to the COVID-19 pandemic.

We've responded to the COVID-19 pandemic by focusing on the essential services we provide, with our primary concern being the safety of our people and those they work alongside. Many of our employees are designated as key workers and it's important that during this challenge customers know they can rely on us to continue to supply their drinking water and take away their wastewater.

Where customers have found it difficult to pay their bills we've increased the extensive financial assistance we already provide, for instance by widening eligibility for our 'Back on Track' social tariff for an initial interim period to 2020/21 and 2021/22, alongside encouraging those in vulnerable circumstances to sign up to our Priority Services scheme.

For our employees, we've put safeguarding measures in place, distributed additional personal protective clothing and issued key worker cards to frontline employees to explain their presence in communities. We have not furloughed any employees and recognising that some may face challenging financial issues within their own families as a result of changing circumstances, we created a Staff Outreach Scheme to provide one-off grants through a confidential application process.

To assist our suppliers and contractors we have committed to temporarily accelerating payment terms to seven days.

To safeguard communities, we injected £3.5 million into the United Utilities Trust Fund and took the difficult decision to close our recreational car parks, while keeping pathways open for local walking and exercise.

We've shown our support for other key workers and supported employee fundraising with additional matched funding. We regularly liaise with local resilience forums to provide help dealing with the pandemic wherever we can.

We've been issuing weekly updates to key stakeholders, openly sharing details of our actions, and using social media channels to communicate regularly with customers.

We will continue with this wide-ranging response until restrictions are removed.

Generating value for:



Our performance in 2019/20

Financial performance

United Utilities delivered a robust set of financial results for the year ended 31 March 2020.

Revenue

2019/20	£1,859.3m
2018/19	£1,818.5m

Underlying operating profit⁽¹⁾

2019/20	£743.9m
2018/19	£684.8m

Reported operating profit

2019/20	£630.3m
2018/19	£634.9m

RCV gearing⁽²⁾ (%)

62%

Total dividend per ordinary share (pence)

42.60p

Revenue

Revenue was up £41 million, at £1,859 million, largely reflecting our allowed regulatory revenue changes.

Consistent with Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM), we have reduced revenue by £14 million in 2019/20 (outturn prices). This consists of two components; first reflecting actual volumes being higher than our original assumptions during AMP6, and secondly reductions relating to the 2014/15 'AMP5 blind year', which is £5 million in 2019/20.

The impact of COVID-19 has resulted in reduced consumption from businesses and has therefore reduced revenue by around £5 million in 2019/20 with a more significant impact likely in 2020/21. By way of illustration, for every 1 per cent per annum reduction in non-household consumption, revenue will reduce by around £4 million. However, a significant amount of uncertainty persists and therefore, at this point, it is difficult to predict the impact for 2020/21. Furthermore, shortfalls in revenue are recovered in future years under the regulatory revenue control.

Operating profit

Underlying operating profit at £744 million was £59 million higher than last year. This reflects the £41 million increase in revenue and a £22 million decrease in IRE partly offset by a £7 million increase in underlying depreciation. The remaining cost base has decreased by £4 million as a result of a £19 million decrease in property rates largely due to an £8 million refund received and an £8 million reduction in accrued property rates relating to wastewater assets, and smaller reductions across the rest of the cost base partly offset by a £10 million credit in the prior year resulting from the settlement of a historical commercial claim and a £9 million increase in power costs largely due to electricity price increases. During the current year operating costs of £3 million and infrastructure renewal expenditure of £4 million were incurred in response to Storms Ciara and Dennis that occurred in February 2020.

Reported operating profit decreased by £5 million, to £630 million, reflecting the increase in underlying operating profit being more than offset by an increase in adjusted items. Adjusted items for 2019/20 included £83 million of accelerated depreciation of bioresources assets that have been taken out of use. A further £19 million relates to costs associated with COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills, and £12 million relates to restructuring costs. In the prior year, adjusted items included £36 million of costs associated with the dry weather of 2018, £7 million associated with the equalisation of pension benefits between males and females in relation to Guaranteed Minimum Pension (GMP) benefits, and £7 million of restructuring costs.

Investment income and finance expense

The underlying net finance expense of £246 million was £15 million higher than last year, mainly due to the impact of new debt and interest rate swaps traded since March 2019, and higher RPI inflation on the group's index-linked debt.

Interest of £95 million on non index-linked debt was £11 million higher than last year due to a higher level of debt following new issuances and associated interest rate swaps traded in the period. The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £100 million, compared with a net charge of £98 million last year. As at 31 March 2020, the group had approximately £3.5 billion of RPI-linked debt at an average real rate of 1.4 per cent, and £0.5 billion of CPI-linked debt at an average real rate of 0.2 per cent.

The higher RPI inflation charge compared with last year contributed to the group's average underlying interest rate of 3.4 per cent being higher than the rate of 3.3 per cent for the year ended 31 March 2019. The average underlying interest rate represents the underlying net finance expense divided by average debt.

Reported net finance expense of £289 million was £84 million higher than last year, principally reflecting an increase in the fair value losses on debt and derivative instruments, from a £9 million gain in 2018/19 to a £76 million loss in 2019/20 and the £5 million expected credit losses on our loans to Water Plus.

- (1) Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on pages 90 and 91.
(2) Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited shadow RCV (out-turn prices).

The group fixed the interest rates on the majority of its non index-linked debt for the 2015–20 regulatory period at a net effective nominal interest rate of around 3.2 per cent (excluding the impact of cost of carry).

Profit before tax

Underlying profit before tax was £492 million, £32 million higher than last year. This reflects the £59 million increase in underlying operating profit, partly offset by the £15 million increase in underlying net finance expense and a £6 million share of underlying losses of joint ventures compared with a £7 million profit last year.

Our joint venture Water Plus has been operating in a challenging environment due to billing data issues stemming from the market opening in April 2017, and delivered a disappointing operating result for the year to March 2020. Prior to the onset of COVID-19, Water Plus had been making progress with its recovery plan but the impact COVID-19 has had on the ability of business customers to pay has resulted in a far more challenging operating environment for Water Plus. Our share of Water Plus losses for the year amounted to £51 million, of which £46 million has been recognised in the income statement, comprising our £14 million share of Water Plus underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19. As a result of the £46 million of losses recognised in the income statement, our long-term interest (comprising our equity investment in and zero coupon shareholder loans to Water Plus) has been written down to £nil. In addition we have recognised an allowance for expected credit losses of £5 million on our loans to Water Plus. Further detail is provided in note 12 (Joint Ventures) of our consolidated financial statements.

The underlying measure of profit before tax reflects the adjusted items, as outlined in the operating profit section above, the Water Plus adjustments, and other consistently applied presentational adjustments, as outlined in the underlying profit measures on pages 90 and 91.

Reported profit before tax decreased by £133 million to £303 million reflecting the £5 million reduction in reported operating profit, a £84 million increase in reported net finance expense including fair value movements and a £38 million share of losses of joint ventures compared with a £7 million share of profits last year.

Tax

The group continues to be fully committed to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs and we were delighted to secure the Fair Tax Mark in July last year.

In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its 5,000 strong workforce. The total payments for 2019/20 were around £250 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges as well as corporation tax.

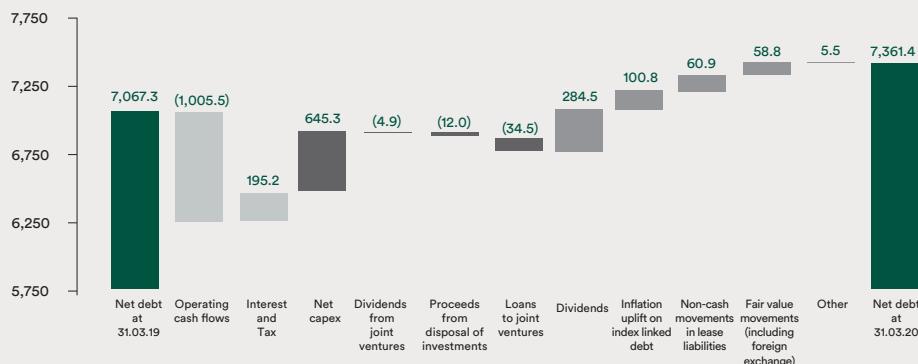
In 2019/20, we paid corporation tax of £72 million, which represents an effective cash tax rate on underlying profits of 15 per cent, which is 4 per cent lower than the headline rate of corporation tax of 19 per cent. We paid six rather than the usual four quarterly instalment payments as we transition to the new quarterly instalment regime. After adjusting for these one off additional payments, the key reconciling items to the headline rate of corporation tax continue to be allowable tax deductions on capital investment and pension payments, these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby enables a medium-term cash tax rate forecast. We expect the average cash tax rate on underlying profits to remain below the headline rate of tax for the medium term. The key risk to sustaining this rate is any unexpected changes in tax legislation or practice and, as necessary, we would actively engage with the relevant authorities in order to manage this risk.

As well as the payments we also received a repayment of corporation tax of £16 million which relates to agreement of prior years' UK tax matters.

The current tax charge was £51 million in 2019/20, compared with £42 million in the previous year. There were current tax credits of £12 million in 2019/20 and £3 million in 2018/19, following agreement of prior years' tax matters.

Summary of net debt movement



Our performance in 2019/20

Financial performance

For 2019/20, the group recognised a deferred tax charge of £158 million, compared with £34 million for 2018/19. Of the deferred tax charge for 2019/20, £136 million relates to the government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020. Excluding the deferred tax adjustment for the change in tax rate of £136 million in the current year, the total effective tax rate was around 20 per cent for the current year and around 17 per cent for the prior year. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to be in line with the headline rate of corporation tax for the medium-term. In 2019/20, there are £157 million of tax adjustments taken to equity, primarily relating to remeasurement movements on the group's defined benefit pension schemes – including the adjustment arising from a change in the rate at which the deferred tax liabilities are measured, from 17 per cent to 35 per cent, being the rate applicable to refunds from a trust.

Profit after tax

Underlying profit after tax of £430 million was £22 million higher than last year, principally reflecting the £32 million increase in underlying profit before tax.

For 2019/20 we have changed the approach we use to derive underlying profit after tax to exclude the impact of deferred tax. This approach is in line with the regulatory model whereby cash tax is 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. This approach is consistent with the approach taken by our listed peers and with what we believe to be the direction of travel of the International Accounting Standards Board's (IASB) rate-regulated activities project. Our prior year numbers have been restated for comparability.

Reported profit after tax decreased by £257 million to £107 million, principally reflecting the £133 million decrease in the reported profit before tax and a £124 million increase in the reported deferred tax charge largely resulting from the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

Earnings per share

Underlying earnings per share increased from 59.8 pence to 63.0 pence. This underlying measure is derived from underlying profit after tax. As noted above, we have changed the approach we use to derive underlying profit after tax to exclude the impact of deferred tax, with our prior year numbers restated for comparability.

Basic earnings per share decreased from 53.3 pence to 15.7 pence for the same reasons that caused the decrease in profit after tax.

Dividend per share

Reflecting performance in the year and across AMP6 more generally, the board has proposed a final dividend of 28.40 pence per ordinary share in respect of the year ended 31 March 2020. Taken together with the interim dividend of 14.20 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2019/20 of 42.60 pence. This is an increase of 3.2 per cent, compared with the dividend relating to last year, in line with the group's AMP6 dividend policy of targeting a growth rate of at least RPI inflation each year through to 2020. The inflationary increase of 3.2 per cent is based on the RPI element included within the allowed regulated revenue increase for the 2019/20 financial year (i.e. the movement in RPI between November 2017 and November 2018).

The final dividend is expected to be paid on 3 August 2020 to shareholders on the register at the close of business on 26 June 2020. The ex-dividend date is 25 June 2020.

The AMP7 dividend policy announced in January 2020 targets a growth rate of CPIH inflation each year through to 2025, with further details set out below. It is, however, too early to predict the full impact of COVID-19 on inflation, the economy more generally and on our business, and we will review our dividend policy for AMP7 as a clearer picture of the post COVID-19 economic environment emerges.

Policy period – the dividend policy aligns with the five-year regulatory period which runs from 1 April 2020 to 31 March 2025.

Policy approval process – the dividend policy was considered and approved by the United Utilities Group board in January 2020, as part of a comprehensive review of the 2020–25 regulatory final determination in the context of a detailed business planning process, with due regard for the group's financial metrics, credit ratings and long-term financial stability, and is reviewed at least annually.

Distributable reserves – as at 31 March 2020, the company had distributable reserves of £3,105 million. The total external dividends relating to the 2019/20 financial year amounted to £291 million. The company distributable reserves support over ten times this annual dividend.

Financing headroom – supporting the group's cash flow, we adopt a funding/liquidity headroom policy of having available resources to cover the next 15–24 months of projected cash outflows on a rolling basis.

Cash flows from subsidiaries – the basis for UUG dividend distributions in AMP7 comprises expected returns from UUW based on AMP7 performance, including the base dividend return of 4 per cent (nominal) on the equity portion of the shadow RCV, together with accumulated outperformance in prior periods that has been retained by the group after sharing with customers. The UUW board has determined that there should be no dividend payments made by UUW during the financial year 2020/21 and that any eventual dividend that may ultimately be earned relating to the 2020/21 financial year will be deferred into the future when prevailing uncertainties have been resolved and the financial position has become more clear. This does not impact the UUG board's decision in relation to the payment of dividends for 2020/21 and the UUG board will continue to monitor UUW's AMP7 performance in order to support the external payment of dividends to shareholders.

Financial stability – the water industry has invested significant capital since privatisation in 1989 to improve services for customers and provide environmental benefits, a large part of which is driven by legislation. Water companies have typically raised borrowings to help fund the capital investment programme. Part of total expenditure is additive to the regulatory capital value, or RCV, on which water companies earn a regulated level of return. RCV gearing is useful in assessing a company's financial stability in the UK water industry and is one of the key credit metrics that the credit rating agencies focus on. We have had a relatively stable RCV gearing level over the last ten years, always within our target range of 55 to 65 per cent, supporting a stable A3 credit rating for UUW with Moody's. RCV gearing at 31 March 2020 was 62 per cent and the movement in net debt is outlined in the cash flow section on the following page. Given the level of uncertainty associated with the economic impact of COVID-19, and specifically the future outlook for inflation, it is probable that our RCV gearing will increase above its current level and we will therefore continue to monitor the position as greater clarity emerges.

Annual dividend approval process – the group places significant emphasis on strong corporate governance, and before declaring interim and proposing final dividends the UUG board undertakes a comprehensive assessment of the group's key financial metrics.

Policy sustainability – at the time of approving the policy in January 2020, the board was satisfied that on average across AMP7 as a whole the projected dividend would be covered by underlying profit after tax and that the policy would be sufficient to withstand reasonable changes in assumptions, such as inflation, opex, capex

and interest rates. Extreme economic, regulatory, political or operational events, which could lead to a significant deterioration in the group's financial metrics during the policy period, may present risks to policy sustainability. In particular, the longer-term economic impacts resulting from COVID-19 could impact the group's financial metrics, and these could include sustained levels of high unemployment, corporate failures and lower inflation affecting revenues, financing costs and RCV.

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2019 was £810 million, and therefore broadly consistent with £832 million in the previous year. The group's net capital expenditure was £645 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under IFRS. Cash flow capex differs from regulatory capex, since regulatory capex includes infrastructure renewals expenditure and is based on capital work done in the period, rather than actual cash spent.

Net debt including derivatives at 31 March 2020 was £7,361 million, compared with £7,067 million at 31 March 2019. This increase largely reflects regulatory capital expenditure, payments of dividends, interest and tax, the inflationary uplift on index-linked debt, fair value movements and the impact of IFRS16 resulting in a non-cash increase in lease liabilities, partly offset by operating cash flows and a repayment of loans owed from joint ventures.

Fair value of debt

The group's gross borrowings at 31 March 2020 had a carrying value of £8,363 million. The fair value of these borrowings was £8,834 million. This £471 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has decreased from £1,089 million at 31 March 2019 due primarily to an increase in credit spreads.

Debt financing and interest rate management

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 62 per cent at 31 March 2020. This is slightly higher than the 61 per cent as at 31 March 2019 and remains within our target range of 55 to 65 per cent.

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

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

Gross debt – total carrying value £8,363 million



Yankee bonds (USD)	£397.5m
Euro bonds (EUR)	£193.4m
HKD bonds (HKD)	£279.8m
GBP bonds	£2,339.8m
GBP RPI-linked bonds	£1988.7m
GBP CPI-linked bonds	£174.0m
GBP CPI-linked loans	£101.3m
GBP fixed rate and RPI-linked bonds swapped to CPI linked	£275.3m
EIB and other RPI-linked bonds	£1,543.0m
Other EIB loans	£572.0m
Lease obligations	£57.6m
Other borrowings	£440.7m

Cash and short-term deposits at 31 March 2020 amounted to £528 million. Over 2015–20, we had a financing requirement totalling around £2.5 billion. This was fully funded before the end of the AMP with subsequent finance raised prefunding our AMP7 requirement. In total over 2020–25, we expect to raise around £2.1 billion to cover refinancing and incremental debt, supporting our five-year investment programme.

We remain one of the sector leaders in the issuance of CPI-linked debt having previously achieved CPI-linkage on £465 million of our debt portfolio, in response to Ofwat's decision to transition away from RPI inflation linkage. In November 2019, we increased the CPI-linkage in our debt portfolio by a further £50 million (to £515 million) by increasing the amount outstanding on UUW's financing subsidiary, United Utilities Water Finance PLC's (UUWF) £250 million public bond with a maturity date in July 2033, by an additional £50 million and simultaneously swapping to CPI.

In February 2020, UUWF raised £250 million 1.75 per cent fixed rate notes in the public bond market with an 18-year maturity.

Since September 2019, the group has extended a £50 million committed bank facility by one year out to 2024, and £100 million of facilities by one year out to 2025. In addition, since March 2020, the group has renewed £50 million of committed bank facilities for a five-year term, and extended a £100 million facility for approximately a further three years to April 2026.

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

A3

stable credit rating
with Moody's

£2.1bn

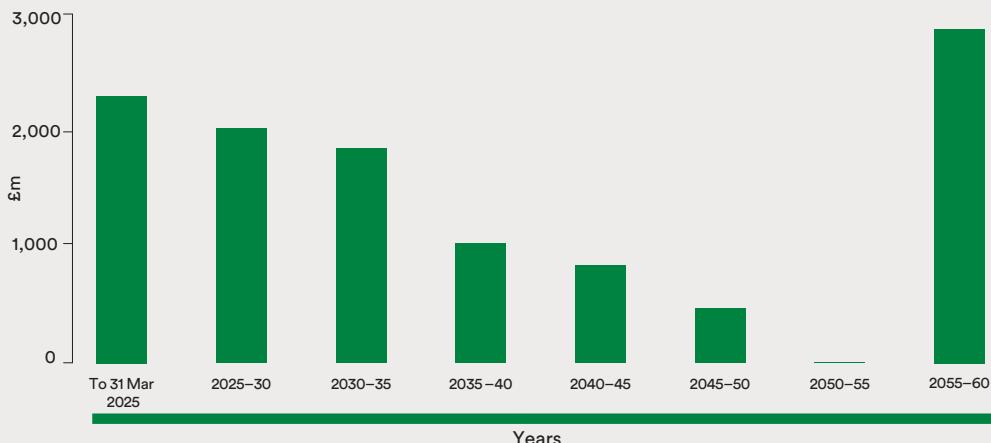
expected financing
for AMP7

Our performance in 2019/20

Financial performance



Term debt maturity per regulatory period



Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2020, approximately 48 per cent of the group's net debt was in RPI-linked form, representing around 30 per cent of UUW's regulatory capital value, with an average real interest rate of 1.4 per cent. A further 7 per cent of the group's net debt was in CPI-linked form, representing around 4 per cent of UUW's RCV, with an average real rate of 0.2 per cent. The long-term nature of this funding provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

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

Historically, this has been supplemented by fixing substantially all remaining floating rate exposure across a forthcoming regulatory period around the time of the price control determination. Recognising Ofwat's intention to apply debt indexation for new debt raised during the 2020–25 regulatory period, we have retained the hedge to fix underlying interest costs on nominal debt out to ten years on a reducing balance basis, but have not supplemented this with the additional 'top up' fixing at the start of the new regulatory period.

Liquidity

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

At 31 March 2020, the group had around £1.2 billion of available liquidity, comprising cash and short-term deposits (enhanced by new finance raised in the period), plus committed undrawn revolving credit facilities. Of this, £722 million covers short-term debt and debt maturities which fall due across the next

12 months. After taking this into account, the group has headroom of £436 million, providing flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme. The group plans to raise between £500 million and £800 million of term funding in 2020/21 and the group has recently re-established a Euro Commercial Paper Programme, which would facilitate access to the Bank of England's Covid Corporate Financing Facility (CCFF), should the group need to do so. The Bank of England has confirmed our eligibility to participate in the CCFF. Whilst we do not expect to use this facility, we see it as prudent contingency planning to have it available to the group.

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

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

Pensions

As at 31 March 2020, the group had an IAS 19 net pension surplus of £754 million, compared with a net pension surplus of £484 million at 31 March 2019. This £270 million increase is as a result of the acceleration of £103 million deficit repair contributions to the group's defined benefit schemes made in April 2019, and a spike in credit spreads at 31 March 2020 due to COVID-19 that resulted in a temporary decrease in the valuation of liabilities. The scheme specific funding basis does not suffer volatility due to credit spread movements to the same extent as it uses a prudent, fixed credit spread assumption and is hedged for inflation and interest rates. Any inflation and credit spread movements are therefore not expected to have a material impact on the pension liabilities calculated on a scheme specific funding basis.

Further detail on pensions is provided in note 19 (Retirement benefit surplus) of our consolidated financial statements.



WHAT MATTERS

Maintaining a secure pension position for employees

Our pension schemes have low dependency on the company, giving significant protection to employees and shareholders.

As a responsible employer, we are committed to ensuring that the pension promises we have made are kept and that we help our employees to plan for retirement.

We have £4 billion of pension assets under management. Around 14,000 former employees and more than 99 per cent of our current employees are members of one of our two pension schemes.

Working closely with the trustees of our pension schemes we have taken a responsible approach to pension risk management for many years. This has provided us with the most robust and resilient defined benefit pension schemes in the water industry, and two of the strongest in the UK.

With our schemes invested in low risk assets, and interest rates, inflation and growth asset risk all effectively hedged, we have significantly reduced the financial volatility experienced by the pension schemes and further improved resilience for the future.

Combined with the acceleration of payment of our remaining deficit repair contributions (totalling around £126 million) in 2019, this means the pension scheme has minimal reliance on the company in order to meet all of its liabilities – in other words, we have achieved ‘low dependency’ in line with the recommendations of The Pensions Regulator published in March 2020. This means that customers and shareholders are protected from significant exposures to pension scheme deficits.

We provide financial awareness seminars to all of our employees in the early, mid and late stages of their careers that cover a broad range of money management topics including financial planning, managing debt and pensions.

We offer highly competitive pensions to our employees, with an employer contribution of up to 14 per cent of salary to our defined contribution arrangement. Our defined contribution arrangement has been awarded the Pensions Quality Mark plus accreditation.

Following on from the closure of our defined benefit schemes to new members over a decade ago, in 2018 we made significant amendments for existing members with the introduction of hybrid benefits.

This put the scheme on a more sustainable cost basis for the future and further reduced the risk of future scheme deficits.

Generating value for:



Our performance in 2019/20

Financial performance

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 under International Financial Reporting Standards (IFRSs) as adopted by the European Union in the group's consolidated income statement, which can be found on page 201. As such, they represent non-GAAP measures.

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

Adjustments in arriving at underlying profit measures

Dry weather event	An extreme period of hot and dry weather during the summer of 2018 led to significant strain being placed on our water resources and network and as a result our reservoir levels ran extremely low. Activities were carried out to safeguard supplies, generating significant costs which would not have been incurred under normal conditions. Given the infrequent nature of periods of dry weather of this severity, this event is not considered part of the normal course of business.
GMP equalisation	The group has recognised an additional past service cost in respect of its defined benefit pension schemes. This reflects a change in benefits following a legal ruling during the year relating to the equalisation of Guaranteed Minimum Pension (GMP) benefits between males and females. This one-off adjustment, which is not representative of costs incurred in the normal course of business, is a direct consequence of the ruling and is not expected to reoccur in future years.
Bioresources asset write-down	Following a strategic review of the group's bioresources activities, the likelihood of future economic benefit being derived from certain assets is now considered remote in light of improvements in alternative lower-cost and more environmentally friendly processes. This has resulted in a material asset write-down resulting from a strategic review coming out of the PR19 process and that considers the group's zero-carbon commitments. As such, it is not considered to be part of the normal course of business, with similarly material write-downs not expected to reoccur in future years.
COVID-19	The group has incurred significant costs resulting from the COVID-19 pandemic, including incremental expected credit losses on household and non-household customer receivables caused by the economic impact of business closures and expected increases in unemployment, and operating expenses relating to the response to the pandemic. The group's joint venture, Water Plus, has also been significantly impacted by the pandemic, resulting in the business recognising an impairment of certain assets and a higher allowance for expected credit losses, which feeds through to the group's share of losses from joint ventures. This has also caused the group to recognise an allowance for expected credit losses in relation to loans extended to Water Plus. Due to the unprecedented nature of the pandemic and the associated economic shock in the current year, these costs are not deemed to be representative of normal business performance when compared against prior periods.
Restructuring costs	The group has incurred restructuring costs in the past in relation to a number of discrete events which can cause volatility in the reported results. Management adjusts internally for these costs to provide an underlying view of performance which it views as being more representative of the normal course of business and more comparable period to period.
Net fair value losses/(gains) on debt and derivative instruments	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macro economic factors which are outside the control of management and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believes it is useful to adjust for this to provide a more representative view of performance.
Interest on derivatives and debt under fair value option	Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for net fair value gains on debt and derivatives, it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.
Net pension interest income	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position. Management believes it is useful to adjust for this to provide a more representative view of performance.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. Management believes it is appropriate to adjust for these significant costs to provide a representative cost of borrowings and current year performance which is better aligned to the return on capital it earns through revenue.
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. This adjustment has been made for the first time in the current year, with prior year comparatives re-presented to take account of this adjustment.
Agreement of prior years' tax matters	The agreement of prior years' tax matters can be significant, volatile and often related to final settlement of numerous prior year periods. Management adjusts for this to provide a more representative view of the tax charge/credit in relation to current year performance.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit

	Year ended 31 March 2020	Year ended 31 March 2019
	£m	£m
Operating profit		
Reported operating profit	630.3	634.9
Dry weather event	–	36.1
GMP equalisation	–	6.6
Bioresources asset write-down	82.6	–
COVID-19 – expected credit loss on non-household receivables	1.4	–
COVID-19 – expected credit loss on household receivables	16.7	–
COVID-19 – operating expenses	1.1	–
Restructuring costs	11.8	7.2
Underlying operating profit	743.9	684.8
Net finance expense		
Finance expense	(313.0)	(222.5)
Investment income	24.0	17.1
Reported net finance expense	(289.0)	(205.4)
COVID-19 – expected credit losses on loans to JVs	5.0	–
Net fair value losses/(gains) on debt and derivative instruments	76.3	(9.5)
Interest on swaps and debt under fair value option	16.5	30.6
Net pension interest income	(14.0)	(9.5)
Adjustment for capitalised borrowing costs	(40.6)	(37.4)
Underlying net finance expense	(245.8)	(231.2)
Share of (losses)/profits of joint ventures		
COVID-19 – Water Plus impairment losses and expected credit losses	(38.1)	6.7
Underlying share of (losses)/profits of joint ventures	(6.1)	6.7
Reported profit before tax	303.2	436.2
Adjustments in respect of operating profit	113.6	49.9
Adjustments in respect of net finance expense	43.2	(25.8)
Adjustments in respect of share of (losses)/profits of joint ventures	32.0	–
Underlying profit before tax	492.0	460.3
Reported profit after tax	106.8	363.4
Adjustments in respect of profit before tax	188.8	24.1
Deferred tax adjustment*	157.5	34.0
Agreement of prior years' UK tax matters	(12.2)	(2.8)
Tax in respect of adjustments to underlying profit before tax	(11.3)	(10.8)
Underlying profit after tax*	429.6	407.9
Earnings per share		
Reported profit after tax (a)	106.8	363.4
Underlying profit after tax (b)	429.6	407.9
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Reported earnings per share, in pence (a/c)	15.7	53.3
Underlying earnings per share, in pence (b/c)	63.0	59.8
Dividend per share	42.60p	41.28p

* Approach used to derive underlying profit after tax has been changed to exclude the impact of deferred tax to better reflect the regulatory revenue allowances, with prior year numbers restated for comparability.

Our risk management

Principal risks and uncertainties

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for the North West.

Our approach to risk management

A key objective of our approach is to support the sustainable achievement of the strategic themes that underpin our vision to be the best UK water and wastewater company delivering:

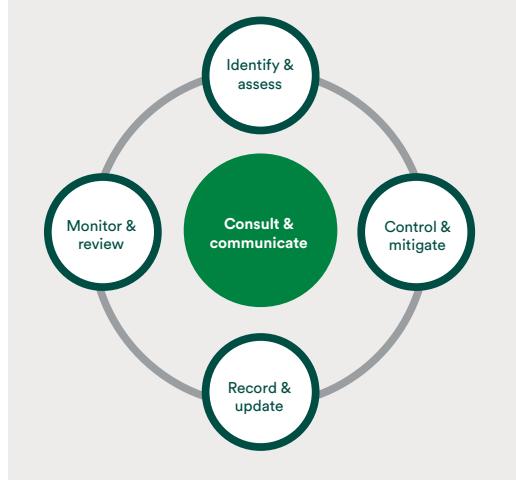
- › The best service to customers;
- › At the lowest sustainable cost;
- › In a responsible manner.

From this starting point our emphasis is on our capacity and capability to manage risk and uncertainty, and to build and maintain long-term resilience across the corporate, financial and operational structures of the group.

Our risk management framework provides the foundation for the business to anticipate threats to delivering an effective service. In addition, our approach enables us to understand the new and emerging circumstances that present themselves in unstable and challenging times. Key components of the framework include:

- › An embedded group-wide risk management process that is aligned to ISO 31000:2018;
- › 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
- › A portfolio of policies, procedures, guidance and training to enable consistent, group-wide participation by our people.

Figure 1: Assessment and management process



How we identify and assess risk

The risk profile is commensurate with the issues and opportunities inherent to our operations as a listed water and wastewater business, and takes into

account our statutory and regulatory obligations as well as the expectations of our stakeholders. In this way the profile illustrates risks that represent key elements of major end-to-end processes or systems, in line with our Systems Thinking approach.

The assessment of individual risks considers both the internal and external business environment as well as the effectiveness of cross-business controls. Each risk is sponsored by a senior manager who is responsible for the assessment of the risk, and for implementing preventative and responsive controls, although accountability for different aspects of the controls may lie across various departments. Although operational and project level risk assessment occurs continuously throughout the year, the activity culminates in the biannual Business Unit Risk Assessment (BURA), which reviews the strategic and tactical level business risks that underpin our principal risks (as illustrated on pages 96 to 99). Each business risk is event based, with the assessment considering first the likelihood of the event occurring based on multiple causal factors, and secondly the full range of potential impacts and their severity should the event occur, from a minimum (best case) to a maximum (worst case) scenario.

All business areas are accountable for undertaking the BURA process, which is aligned to the full and half-year reporting cycle. The process involves group level evaluation, benchmarking and calibration to enable a consistent approach, an appreciation of the most significant risks from a financial and reputational context, and an assessment of how these relate to our risk appetite.

Oversight and governance process

The board ensures that its oversight of risk remains effective through a number of established reporting routes.

Twice yearly the board receives a full update on the risk profile as part of the full and half-year reporting cycle. This provides an overview of the nature and extent of risk exposure in the context of the group's principal risks, and emphasises the most significant risks in both their current state relative to the risk appetite, and target state of acceptable exposure. This practice is in compliance with the UK Corporate Governance Code, and enables reports to be provided to the board for each full and half-year statutory accounting period. The board is therefore able to:

- › Make decisions on the level of risk it is prepared to manage in order to deliver on the group's strategy;
- › Engage with the business to put appropriate controls in place, and to ask questions and test the appropriateness of plans;
- › Report externally on the long-term viability of the company in an informed manner; and
- › Monitor and review the effectiveness of procedures, systems and risk management thinking.

The most significant risks reflect three categories: the ten highest business risk exposures (likelihood and impact) from across the group (see also pages 100 to 101); the ten highest risk exposures with an operational context; and risks that have a remote likelihood of occurrence but a significant impact should they occur. The board is advised of significant new or emerging risks pending assessment, risks which carry serious reputational impact, and those which would not otherwise be reported under the criteria described above, but because of associated uncertainty are kept under a watching brief.

Risk-specific governance and steering groups provide a picture of ongoing individual risks, and these feed into the executive-led Group Audit and Risk Board (GARB), which focuses on governance, risk and compliance.

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

Key developments

Continuous improvement is a key feature of our business risk management framework. In recent years we have matured fundamental aspects of our enterprise-wide risk management approach. This has

been delivered through focusing on inherent risk, cross-business assessment of control, response and recovery, as well as prevention and consideration of extreme impacts in addition to more routine impacts. These fully align to our business-wide initiatives for Systems Thinking and resilience, and going forward we will continue to support the maturity of these through the further embedment of the Business Risk Management Framework.

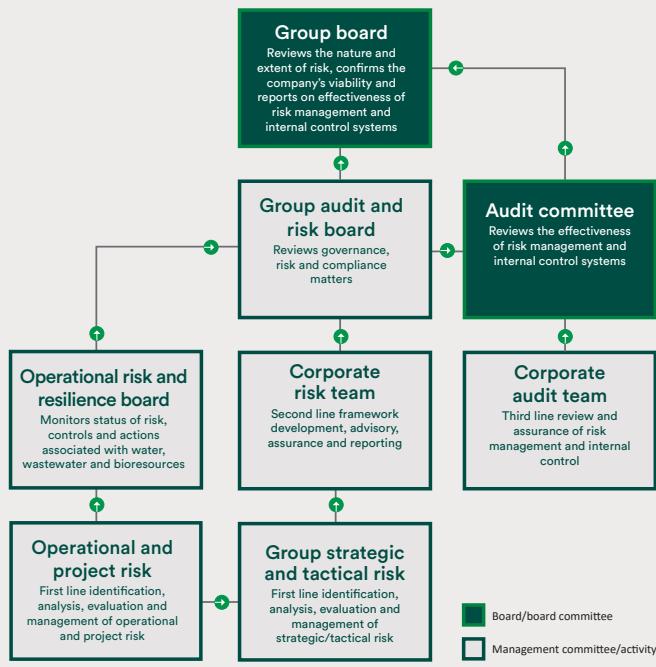
Aligned to this approach is the introduction of a separate New and Emerging Risk forum over the last 12 months. This takes place in addition to the BURA process to ensure that changing circumstances from both the external and internal business environments are taken into account, and we continue to consult with external bodies to keep up to date with potential threats to the sector. In January 2020 we undertook a cross-business assessment of insider risk with the Centre for the Protection of National Infrastructure (CPNI). We have recently set up a dedicated anti-fraud forum to understand potential threats and impacts, and to develop mitigation strategies.

We have carried out a review of the National Risk Register for Climate Change to cross reference our own risk profile and use the assessment parameters to reassess our existing risks in the longer term. This has better enabled us to understand potential

Figure 2: Governance and reporting process

Our approach is in accordance with the UK Corporate Governance Code and incorporates reporting to the group board for every full and half-year statutory accounting period. This enables the board to:

- › Determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;
- › Oversee the management of those risks and provide challenge to executive management where appropriate;
- › Express an informed opinion on the long-term viability of the company; and
- › Monitor risk management and internal control systems and review their effectiveness.



Our risk management

Principal risks and uncertainties

impacts and determine future strategies and associated funding requirements.

As a utility company we take part in multi-agency partnerships via Local Resilience Forums (LRFs) and in November 2018 we developed a specific pandemic plan to provide support to our well-established incident management process. This plan has been the basis for our COVID-19 incident management team, which was established in January 2020 to maintain our key operations during the incident, and to promote and support government advice on containment, delay and social distancing.

Profile features

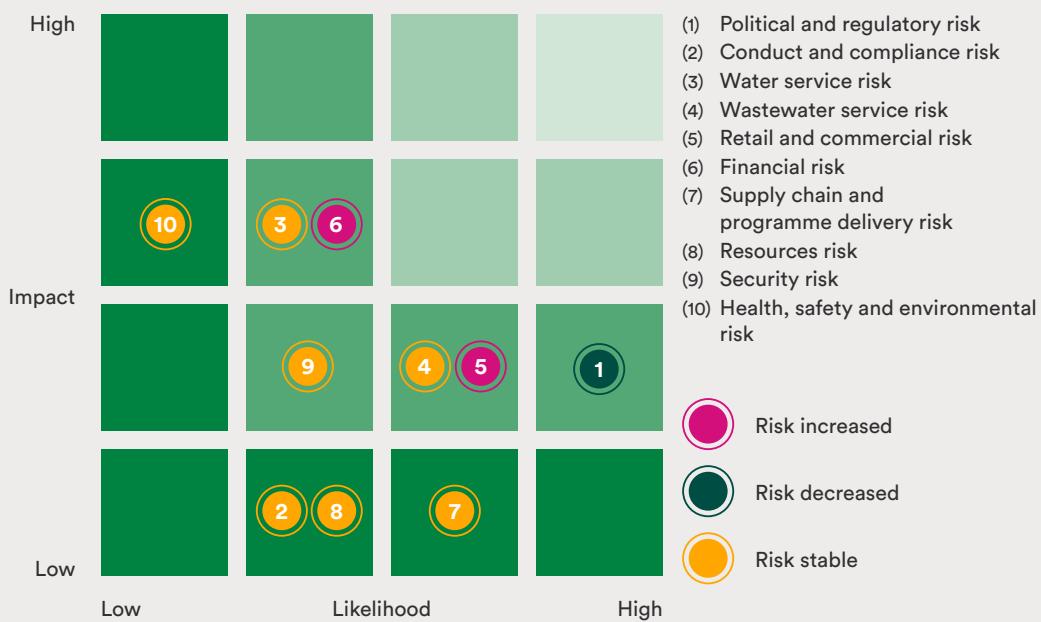
Our business risk profile, underpinning the principal risks, consists of approximately 100 risks. Although the profile (as reported to the board) remains relatively static in terms of its headline inherent risk factors, the detail reflects the changing nature of the political and regulatory environment, the transition between the regulatory Asset Management Periods (AMPs), and emerging circumstances including those associated with COVID-19.

From a political and regulatory perspective the final determination in December 2019 saw the crystallisation of tougher targets and penalty/outperformance payment structures for operational risks. While we accepted the final determination, four companies have made a referral to the Competition and Markets Authority (CMA) which has potential implications for the sector as we start to look at the next price review (PR24). The General Election, which took place in December 2019, ended the immediate threat of nationalisation for the water sector and better informed some uncertainties around Brexit. Despite this, uncertainty remains in respect of perceptions of sector legitimacy and Brexit, including the potential for no suitable trade deal with the EU and the potential implications for our supply chain, particularly chemicals.

Looking more closely at operational and programme delivery risk, the transition between AMPs is particularly relevant for our capital programme. This involves AMP6 closedown work and related AMP7 early start, working with new partners and contractors, and delivering novel approaches. This will include the new Direct Procurement for Customers (DPC) methodology and model, which we are utilising for our scheme to replace sections of the Haweswater Aqueduct. While DPC is Ofwat's favoured approach for certain types of qualifying large projects of significant spend, it brings a number of uncertainties, risks and challenges, including achieving value for money, contract terms and risks, and the effect on the remainder of our operations and financial structures (including our capital structure). Another key change for AMP7 is the introduction of a new customer measure of experience (C-MeX), which looks beyond direct customer experience of operational activity to a broader perception of the company and brand orientation. Climate change remains a key focus area, especially because of its impact on our water resources, asset base and operations, and on the environment that we strive to protect and enhance. Our commitment to the principles set by the Financial Stability Board's Task Force on Climate-related Disclosures is described in detail on pages 66 to 75.

The COVID-19 pandemic has radically changed global economies, compounding a number of the risk exposures already captured within this business risk profile. These include risks in relation to financing performance, revenue and cash collection, and supply chain and operational delivery risks for water and wastewater. As well as considering our existing risks, we work with our trade body (Water UK) to understand additional potential scenarios, their associated implications and to plan mitigation.



Figure 3: Risk map

The risk map provides an indicative only view of the current exposure of each of the principal risks relative to each other; illustrating the likelihood of occurrence relative to the associated internal or external drivers; whether the risk is believed to have increased, decreased or remained stable over the last 12 months; and the most likely impact should an event occur.

Principal risks

We have set out over the following pages the principal risks in tabular form that could have a material impact on the group's business model, future performance, solvency or liquidity and reputation. These principal risks are a combination of event-based risks and a description is provided as to how they might cause losses or gains to arise. Areas of potential exposure are illustrated and mitigating controls described. The tables set out individual matters that are currently significant risks, issues or areas of uncertainty, and which could affect our overall risk exposure.



Our risk management

Principal risks and uncertainties

Risk exposure

An indication of each category's current exposure relative to the previous year is shown by the coloured disc surrounding the risk number.



Strategic themes

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

Regulatory and legal

1

Political and regulatory risk

Developments connected with the political and regulatory environment, including changes to legislation.

Main strategic theme



Principal/significant impacts

- › In view of the current global impact of COVID-19 and the government's response to it, there is the potential for the costs of administration to increase, for sources of income and funding to be impacted and for greater uncertainty of returns as well as increased uncertainty within the debt and equity markets causing blockages to the raising of finance and the refinancing of debt in the medium to long term;
- › Continuing challenges in relation to perceptions of legitimacy of the water industry leading to increased scrutiny from parliament, regulators and customers; and
- › The beginning of AMP7 from April 2020 and the delivery of our new business plan in a period of great uncertainty.

Management and mitigation

We continue to take part in government and regulatory consultations, despite the uncertain conditions associated with COVID-19, in order to influence outcomes in respect of policy and legislation. Our communications with customers continue so that their needs and expectations can be factored into our thinking.

Current key risks, issues and uncertainties

- › The global COVID-19 pandemic and its impact on the stability and certainty of regulation;
- › Challenges to the legitimacy of the water industry;
- › Ofwat's final determination and the commencement of AMP7;
- › Greater regulatory scrutiny of competitive markets; and
- › Ongoing and new impacts of Brexit, including the effects on regulatory and legislative regimes.

2

Conduct and compliance risk

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

Main strategic theme



Principal/significant impacts

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

Management and mitigation

Despite the influence of COVID-19 on all our activities, we continue to place high importance and focus on corporate responsibility. Our well established internal forums and our work with communities, landowners, environmental groups and other stakeholders allow us to remain engaged with and be aware of issues and concerns including ethical supply chains, modern slavery risks, the needs of vulnerable customers and diversity and equality within our own employee population. We monitor closely all legislative and regulatory developments, including, in particular, the ongoing passage of the Environment Bill and the frameworks regulating water quality, sludge and industrial emissions. The revised requirements introduced by such changes are incorporated into our operations and approach by means of policy, training and working practices. We work with our regulators but challenge them in a constructive and cost-effective manner where appropriate, and we defend litigation involving third parties and seek recoveries of outlay and losses.

Current key risks, issues and uncertainties

- › Developing competitive markets;
- › Material litigation;
- › Tighter regulation of personal data (including GDPR); and
- › Significant fines for non-compliance.

Core operations and service provision

3

Water service risk

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

Main strategic theme



Principal/significant impacts

- › Danger to public health caused by poor water quality;
- › The impact on communities caused by interruptions to water supply; and
- › COVID-19 restrictions affecting construction activity.

Management and mitigation

As a critical supplier we have continued to deliver on our essential water supply duties during the COVID-19 pandemic. Our centralised planning capabilities, use of Systems Thinking, risk assessment, quality assurance and testing processes enable us to maintain a resilient service. Our business plan for AMP7 contains necessary capital programmes to enhance and maintain our service to customers.

We embrace innovation and are working on projects to ensure security of supplies in the long term. The continuation of our 25-year Water Resources Management Plan enables the delivery of sustainable and secure water supplies, taking into account risk factors including climate change, scarcity of supplies and population growth.

Current key risks, issues and uncertainties

- › Failure of supply and distribution system;
- › Scarcity of supplies;
- › Drought;
- › Population growth;
- › Adverse weather events;
- › Stricter regulation of abstraction activities;
- › Uncertainty of global supply chain in the light of Brexit; and
- › COVID-19 and its effect on the supply chain and our construction activities.

4

Wastewater service risk

A failure to remove and treat wastewater.

Main strategic theme



Principal/significant impacts

Pollution incidents, interruptions to drainage services and sewer flooding could lead to damage to the natural environment, disruption to businesses and domestic customers and could result in significant fines and reputational harm. The evolving markets of bioresources and sludge treatment introduce uncertainty. COVID-19 restrictions have affected construction activity.

Management and mitigation

Our innovative and efficient business processes, including Systems Thinking, centralised planning and control, quality assurance, risk management, sampling and monitoring of discharge consents enable a proactive and predictive approach to controlling and minimising incidents. Our business plan for AMP7 contains necessary capital programmes to maintain and enhance our service to customers.

Current key risks, issues and uncertainties

- › Failure of networks;
- › Failure to treat wastewater;
- › Adverse weather events and their effect on the capacity of the sewer network;
- › Pollution events;
- › Odour nuisance;
- › Population growth and its impact on existing infrastructure;
- › Significant environmental fines;
- › COVID-19 and its effect on the supply chain and our construction activities;
- › Changes to the regulatory regime; and
- › Effects of Brexit on the chemicals supply chain.

5

Retail and commercial risk

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

Main strategic theme



Principal/significant impacts

Particularly in the context of the economic downturn caused by the measures taken to control the COVID-19 pandemic, there is a risk of financial losses and an impact on profitability. This is associated with poor cash flow, an increase in bad debt, potential regulatory penalties and reputational harm, including as a result of decreased customer satisfaction.

Management and mitigation

Our customer-focused initiatives aim to drive excellent service and enhance the experience of all our customers. We have an award-winning Priority Services scheme for vulnerable customers and those needing help to pay, which has driven up our success in recovering charges in a personalised and sympathetic way. Bad debt risk is managed through the adoption of best practice collection techniques, segmentation of customers based on their credit risk profile and the use of data sharing where appropriate to better understand customers' circumstances to determine the most effective and collaborative collection and support activities. The wholesale business maintains processes, systems, data and organisational capacity and capability to deal fairly with market participants and the central market operator in the business retail market in order to generate and collect revenue. Similarly strong governance applies to non-United Utilities Water operations and businesses.

Current key risks, issues and uncertainties

- › Competition in the bioresources, water and wastewater markets;
- › Socio-economic deprivation in the North West;
- › Effects of COVID-19 on customers' ability to pay;
- › Economic downturn and the effect on domestic bad debt;
- › C-MeX and D-MeX;
- › Non-household retail competition and the ability to treat other participants equally;
- › Wholesale revenue collection;
- › The challenges associated with being involved in a joint venture water retail business (Water Plus) operating in a competitive environment; and
- › Business retail customer payments, debt and bad debt during the period and aftermath of COVID-19.

Our risk management

Principal risks and uncertainties

Functional service and support

6

Financial risk

Potential inability to finance the business appropriately.

Main strategic theme



Principal/significant impacts

- › The COVID-19 pandemic has introduced significant uncertainty into global financial markets, exacerbating the potential for worse credit ratings, associated funding costs or reduced access to debt capital markets leading to lower liquidity and adversely impacting the economic return on the regulatory capital value (RCV); and
- › Tax inefficiencies, under or over payment of tax, deflation, interest rates and energy prices and a potential worsening of the pension scheme funding position could all lead to a significant increase in costs to the group.

Management and mitigation

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

Current key risks, issues and uncertainties

- › Failure to achieve AMP7 financing outperformance;
- › COVID-19;
- › Low inflation;
- › Financial market conditions;
- › Interest rates and funding costs due to economic uncertainty associated with COVID-19 and Brexit; and
- › Paying an appropriate amount of tax.

7

Supply chain and programme delivery risk

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

Main strategic theme



Principal/significant impacts

The potential failure to meet our obligations and customer outcomes, including DPC, resulting in an impact at future price reviews, negative reputational impact with customers and regulators. COVID-19 restrictions have challenged financial resilience in supply chains and created an impact on cash flow.

Management and mitigation

Supply chain management is utilised to deliver an end-to-end contract management service, including contract strategy, tendering and category management, which provides a risk-based approach and relationship management programme for suppliers. We prioritise our investment programmes, projects and integrated business and asset plans. We have created better alignment and integration between our capital delivery partners and engineering service providers including alignment with our operating model.

Our programmes and project management capabilities are well established with strong governance and embedded processes to support delivery, manage risks and achieve business benefits. We utilise a time, cost and quality index (TCQI) as a key performance indicator and enhance our performance through a dedicated programme change office to deliver change in a structured and consistent way.

Current key risks, issues and uncertainties

- › New partnership structures and arrangements in AMP7;
- › DPC, including early exit;
- › Technical quality and innovation;
- › Brexit and increased uncertainty of availability of materials sourced from Europe; and
- › Effects of COVID-19.

8

Resources risk

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

Main strategic theme



Principal/significant impacts

- › The potential inability to recruit, retain or deploy knowledge and/or expertise;
- › The potential inability to respond and recover due to non-resilient business activity; and
- › COVID-19 could lead to significant staff absences, both through illness and covering of other essential roles.

Management and mitigation

Developing our people with the right skills and knowledge, combined with delivering effective technology to support the business meeting its objectives.

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

Current key risks, issues and uncertainties

- › Risks to health and safety of the workforce caused by COVID-19;
- › Delivering required employee engagement;
- › Personal development, talent management and succession planning; and
- › Optimising technology and innovation.

Hazard-based	
9 Security risk <p>Potential for malicious activity (physical or technological) against people, assets or operations.</p> <p>Main strategic theme</p>  <p>Principal/significant impacts</p> <ul style="list-style-type: none"> › The potential for a loss of data/information and the consequent effect on service provision; and › The potential for catastrophic damage to our property, infrastructure and non-infrastructure and the consequent effect on service provision. <p>Management and mitigation</p> <p>Physical and technological security measures and awareness training combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. Externally, we work closely with our industry peers, the Centre for the Protection of National Infrastructure (CPNI), the National Cyber Security Centre (NCSC), the Drinking Water Inspectorate and Defra to shape the sector approach to security, particularly cyber security, and to understand how we can best deliver the appropriate levels of protection to our business and in compliance with the Network and Information Systems Directive (NIS). Ongoing system and network integration improves operational resilience and we maintain robust incident response, business continuity and disaster recovery procedures. We maintain insurance cover for loss and liability, and the instrument of appointment (licence) of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat/customers in the event of a catastrophic incident.</p> <p>Current key risks, issues and uncertainties</p> <ul style="list-style-type: none"> › Cybercrime, particularly during the COVID-19 pandemic; › Terrorism; › Fraud; and › Ownership of Critical National Infrastructure and National Infrastructure. 	10 Health, safety and environmental risk <p>Potential harm to people (employees, contractors or the public) and the environment.</p> <p>Main strategic theme</p>  <p>Principal/significant impacts</p> <ul style="list-style-type: none"> › The effects of COVID-19 on employees, contractors and customers; › The potential for serious injury or loss of life in remote, extreme circumstances; › The potential for catastrophic damage to private, public or commercial property/infrastructure including the consequent effect on water and wastewater service provision; and › The potential for serious impact on wildlife, fish or natural habitats resulting in significant fines and reputational damage. <p>Management and mitigation</p> <p>We have developed a strong health and safety culture where 'nothing we do at United Utilities is worth getting hurt for' is supported by strong governance and management systems certified to OHSAS 18001. We actively seek to improve health, safety and wellbeing across the group through targeted improvements and benchmarking against our peers. Also certified to ISO 14001, we seek to protect and improve the environment through the responsible delivery of our services. This includes helping to support rare species and habitats through targeted engagement and activity and commitment to reducing our carbon footprint by designing out waste from our operations, generating our own energy and looking at ways to reduce our use of raw materials. We recognise the impact the environment can have on our service provision with extreme weather and climate change being integrated into our risk, planning and decision-making processes.</p> <p>Current key risks, issues and uncertainties</p> <ul style="list-style-type: none"> › COVID-19; › Impounding reservoirs containing significant volumes of water; › Other critical asset failure; › Multiple hazards including process safety, use or accidental release of chemicals, excavation, tunnelling and construction work; and › Fluvial and coastal flooding associated with climate change.

Risk exposure

An indication of each category's current exposure relative to the previous year is shown by the coloured disc surrounding the risk number.

 Increased

 Decreased

 Stable

Strategic themes

 The best service to customers

 At the lowest sustainable cost

 In a responsible manner

Our risk management

The group's top ten event-based risks

As described previously, the board regularly considers the group's most significant risks in our business risk profile and which underpin the principal risks set out on the previous pages. The following are summaries of the ten highest business risk exposures in an operational context (likelihood and impact) from across the group.

1 Failure of significant water supply systems with the current lowest resilience due to asset deterioration, leading to water quality issues and/or supply interruptions to a large proportion of the United Utilities customer base. Potential impacts include penalties, additional cost, customer compensation and reputational damage. Mitigation includes capital projects for asset replacement as well as extensive programmes of asset monitoring, surveys and maintenance.

Risk stable

2 Partial failure of the wastewater network owing to hydraulic capacity, operational capacity or equipment failure relative to changing and extreme weather conditions. Impacts include sewer flooding and consequent penalties, additional cost, customer compensation and reputational damage. Mitigation includes the combination of the Drainage and Wastewater Management Plans (DWMPs) and embedment of the Wastewater Network Operating Model. These include preventative maintenance, inspection regimes, asset condition surveys, sewer rehabilitation projects, customer campaigns and sewer cleaning programmes.

Risk stable

3 Data and technology assets could be significantly compromised due to malicious or accidental activity, leading to a major impact to key business processes and operations. Potential consequences include penalties, additional costs, customer compensation and reputational damage, as well as impacts to business services, regulatory compliance, financial and operational performance. Mitigation includes multiple layers of control with an approach that covers people, process and technology. This includes a secure perimeter with segmented internal network zones and a core data network supported by infrastructure and system access controls, with constant monitoring and 24/7 incident and forensic response capability.

Risk stable

4 Failure to adequately treat wastewater due to operational capacity and capability of wastewater treatment works, leading to environmental permit breaches, with potential impacts including penalties, additional cost, customer compensation and reputational damage. Mitigation includes an improved effective operations and maintenance programme and operating procedures including proactive maintenance, operative training and compliance audits.

Risk stable

5 The unintended introduction of sewage and other pollutants into the environment due to the capacity and/or capability of wastewater treatment or network assets, leading to extensive environmental impact and pollution with potential ODI penalties, prosecution fines, additional opex, capex and reputational damage. Mitigation includes our proactive strategy of identifying defects and collapses through the use of extensive field CCTV surveys, staff training and incident analysis. In addition we are developing a Pollution Incident Reduction Plan and are improving our capabilities further through the development of Integrated Drainage Area Studies and Wastewater Network Management.

Risk stable

6 Competition in the bioresources market following the reforms set out in the Water Act 2014, Water2020 and PR19 process, leading to a loss of business and reduced operational efficiency. Mitigation includes delivering operational efficiency, continued engagement with Ofwat and a strategic review of the bioresources business.

Risk stable

7 Failure to achieve AMP7 financing outperformance because of falling CPIH inflation impacting the effective real rate on embedded fixed rate nominal debt, resulting in a lower level of financing outperformance than expected. Mitigation includes board approval of our interest rates and inflation management strategies, ongoing monitoring of markets and regulatory developments against financial outperformance projections.

Risk stable

8 Delay to the Haweswater Aqueduct Resilience Programme, triggered by exit from the Direct Procurement for Customers process. Causes could include the market's failure to present a better value proposition than in-house delivery, lack of market appetite/capability to deliver the scheme, or unacceptable business impacts caused by financing. Impacts include increased risks of failure due to project delays, additional/unrecoverable cost and the requirement for significant finance to be raised for in-house procurement. Mitigation includes adoption of HM Treasury's Green Book process, regular liaison with Ofwat, market engagement and financial modelling. We are progressing direct United Utilities activity including ecological surveys and ground investigations, which are both key activities to progressing the planning applications, and developing the commercial aspects of the DPC.

Risk increasing

9

Partial failure of the water distribution system caused by network characteristics, asset condition, operational strategies, extreme weather or third party damage leading to the loss of treated water and failure of the leakage target. Impacts include incurring ODI penalties, extra opex to recover the leakage target and reputational damage. Mitigation includes leakage detection engineers, sounding valves and fittings within the network, monitoring and managing pressure and flow, and analysing and interrogating system data to assess and allocate leak detection and repairs to the right area.

Risk decreasing

10

Failure to treat sludge due to a combination of treatment capacity and quality of sludge produced at wastewater treatment works, leading to higher operating costs, loss of revenue from renewable energy and the potential for sludge to be inadequately disposed of. Mitigation is by a bioresource production planning process which incorporates regular testing and analysis, a digester and tank cleaning programme and a focused maintenance programme.

Risk stable

New and emerging risks and issues

We continue to review and monitor external and internal risk factors to understand and assess new and emerging risks, as well as the evolution of existing risks. This enables us to plan our strategy and operations to minimise threats of this nature. Notable new and emerging risks and some possible impacts are set out below.

- › **No suitable trade deal with the EU:** Additional cost of products sourced directly or indirectly from the EU. The most critical product category is chemicals for the treatment of water and sludge production.
- › **COVID-19:** In the short term, there is a risk of reduced recovery of household debtors, non-household charges to retailers and the additional impact flowing from the risk of reduced recovery of business customer receivables within Water Plus. In addition, reduction in resource because of illness or self-isolation and the impacts of social distancing have potential impacts on service delivery, capital project delivery, ODIs and C-MeX. In the longer term, economic impacts resulting from COVID-19 could include sustained levels of high unemployment and corporate failures affecting debt collection and lower inflation affecting revenues, financing costs and RCV.
- › **Customer Measure of Experience (C-MeX):** A new regulatory customer service measure is being introduced for the new AMP which introduces a much broader set of customer factors and measures than the previous service element, opening up a new group of customers and experiences which could affect our performance ratings.
- › **Plastics:** Implications associated with the current attention on single use plastics and microplastic pollution in water, wastewater effluent discharge and sludge disposal (see biosolids recycling).

- › **Biosolids recycling to agriculture:** The practice of disposing of biosolids to agriculture could be banned (partially or in full) in the UK based on similar actions within Europe.
- › **Water scarcity and water trading:** Water scarcity is an emerging issue within the UK, which has knock on implications to UU in relation to the proposed strategic transfer of water from the North West to the South East of England and the associated service, commercial and reputational impacts.

Material litigation

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



Promoting the success of the company for the benefit of all

S172(1) Statement

Throughout this annual report, we provide examples of how we: take into account the likely consequences of long-term decisions; build relationships with stakeholders; understand the importance of engaging with our employees; understand the impact of our operations on the communities in our region and the environment we depend upon; and attribute importance to behaving as a responsible business. The board appreciates the importance of effective stakeholder engagement and that stakeholders' views should be considered in its decision-making. More details on stakeholder engagement can be found on pages 24 to 26.

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

The board of directors of United Utilities Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) S172 Companies Act 2006, in the decisions taken during the year ended 31 March 2020 including:

Acceptance of the final determination

A key decision taken during the year was the acceptance by the UUW Board of Ofwat's final determination (FD) of the 2020–2025 business plan. Whilst some concessions were made in our decision to accept the FD, the directors believe that in doing so:

- › There will be a long-term beneficial impact on the group and all of its stakeholders, giving the company the certainty needed to deliver a better quality, more reliable water and wastewater service for customers in the North West of England to 2025 and beyond. We will continue to operate our business within tight budgetary controls and in line with regulatory targets providing particular benefits to customers in relation to affordability, and recognising those more vulnerable customers. In accepting the FD, we recognised the extensive engagement undertaken with customers, enabling us to gain an understanding of their views and priorities, communicating and listening through new channels and underpinned by working with the independent customer challenge group YourVoice (see page 24). We are working to enhance our operational resilience through both investment and innovation (see page 40);
- › Closely related to the acceptance of the FD was the board's approach to setting the company's dividend policy for the same period (see page 10). As the board of directors, our intention is to behave responsibly toward our

shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plan. As part of the group's dividend policy, we have committed to continue to share the gains of outperformance with customers and shareholders.

COVID-19

The business implications of the COVID-19 pandemic have been fast moving and uncertain but the directors consider that the decisions made will be in the best long-term interests all the company's stakeholders:

- › We have committed to helping those customers who have been affected by COVID-19 and are having difficulty paying their bills at this time. We are giving those customers the option to request a three-month payment holiday and we have widened the eligibility for our 'Back on Track' social tariff for an initial interim period to 2020/21 and 2021/22. To support local communities, £3.5 million has been donated to our Trust Fund to make sure that financial support is available to as many customers as possible who are struggling to pay their bills due to a change in their income (see page 83). Money is also given to debt advice charities;
- › We aim to act responsibly and fairly with our stakeholders and engage with them to gain an understanding of their needs. We have been engaging with our supply chain to get a better understanding of the financial difficulties that many are experiencing, and have committed to temporarily altering payment terms with suppliers in the short term, paying them within seven days where possible to assist with their cash flow. In some cases, we have agreed to a number of temporary concessions to contractual terms to address changes to working practices, to ensure suppliers can recover additional costs they have incurred where appropriate (see page 83);
- › We took the decision that we would not use the government's furlough scheme and that we would continue to support all our workforce throughout the situation, as we believe this

is the responsible approach of an organisation like ours. We have established a Staff Outreach Scheme under which employees facing financial hardship because of COVID-19 (perhaps due to a family member losing their job or having their earnings reduced) can apply for financial assistance from the company;

- › Recognising the difficulty being experienced by many customers in our region, all members of the board volunteered a 20 per cent reduction to their salary/fees for three months, with the money instead being shared with organisations supporting those in the front line helping communities cope with COVID-19;
- › We believe these actions are in line with our culture and the high standards of business conduct and good governance we set ourselves (see pages 17 and 46).

Employees

- › We continue to be a responsible employer in our approach to employees, ensuring we communicate and engage with them regularly in a variety of ways and that the voice of the workforce is heard and taken into account when making decisions. We recognise our employees are fundamental to the long-term success of our business. Their health, safety and wellbeing is one of our primary considerations in the way we operate and the support we provide to them (see page 46);
- › We provide rates of pay that exceed the voluntary Living Wage that applies to our region, along with a range of benefits including company-funded healthcare for employees at all levels;
- › More than 99 per cent of our current employees are members of one of our two pension schemes, along with around 14,000 former employees. We have £4 billion of pension assets under management. The board approved the decision to accelerate the payment of the remaining deficit repair contributions (totalling around £126 million) in 2019, meaning that the pension scheme has minimal reliance on the company in order to meet all

Non-financial information statement

The table below constitutes the company's non-financial information statement, produced to comply with sections 414CA(1) and 414CB(1) of the Companies Act 2006. Our business principles set out how we behave as a business and are applicable to the areas of disclosure required by s414CB(1). The stakeholder metrics table (see page 60) also includes data in relation to the areas of disclosure required by s414CB(1).



Our business principles can be found on our website: unitedutilities.com/corporate/about-us/governance/business-principles/

Reporting requirement	Information necessary to understand our business and its impact, policy, due diligence and outcomes	Policies, guidance and standards which govern our approach (some of which are only published internally)
 Environmental matters	<p>Reflecting the needs of the environment:</p> <ul style="list-style-type: none"> › Natural resources – see page 32 › Natural environment – see page 34 › Reducing our carbon footprint – see pages 66 to 77 	<ul style="list-style-type: none"> › Waste and resource use policy › Environmental policy – see the responsibility pages on our website › Water Resources Management Plan – see page 37 › Emissions target – see pages 66 to 77
 Employees	<p>Reflecting the needs of our employees:</p> <ul style="list-style-type: none"> › Competitive base salaries and benefits – see page 171 › Health and safety – see page 60 › Mental wellbeing – see pages 9 and 46 › Gender pay report 2019 – see pages 60 and 154 › Engagement – see pages 24 and 189 › Board diversity – see page 129 	<ul style="list-style-type: none"> › Health and safety policy › Equality, diversity and inclusion policy › Flexible working arrangements › Agency worker policy › Mental wellbeing policy › Human rights policy – see page 52 › Board diversity policy – see page 129
 Respect for human rights	<p>Reflecting the needs of our stakeholders:</p> <ul style="list-style-type: none"> › Suppliers – see page 25 › Diversity within our workforce – see pages 20, 53, 129, 132 to 135 	<ul style="list-style-type: none"> › Employee data protection policy › Slavery and human trafficking statement › Human rights policy – see page 52
 Social matters	<p>Reflecting the needs of our stakeholders:</p> <ul style="list-style-type: none"> › Customers – see page 24 › Community – see page 24 › Environment – see pages 25 and 66 › Suppliers – see page 25 › Regulators – see page 26 	<ul style="list-style-type: none"> › YourVoice – see page 22 › Charitable matched funding guidance › Volunteering policy › Sustainable supply chain charter – see page 52 › Commercial procurement policy
 Anti-corruption and anti-bribery	<p>Reflecting the needs of employees and suppliers:</p> <ul style="list-style-type: none"> › Employees – see pages 46 and 151 › Suppliers – see page 47 	<ul style="list-style-type: none"> › Anti-bribery policy › Fraud investigation and reporting processes › Whistleblowing policy › Internal financial control processes › Commercial procurement policy

of its liabilities. As a result, customers and shareholders are protected from significant exposures to future potential pension scheme deficits (see page 89);

- › Employees throughout the business participate in the annual bonus scheme, ensuring a shared focus on the performance of the business plan. The directors' remuneration policy provides that: the executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce; the performance measures for the annual bonus align with the company's key strategic goals for the year, reflecting predominately financial and operational objectives; and for the long-term plan, the measures are 50 per cent on the Return on Regulated Equity (RoRE) and 50 per cent on a basket of customer measures.

Carbon commitment

- › By its very nature, the long-term success of our business is reliant on long-term planning, particularly in relation to the environment and climate change. In line with the UK's commitment in the 2008 Climate Change Act, we have committed to achieving science-based targets to reduce our emissions. As part of our climate change mitigation strategy we have made a series of pledges to deliver these targets and to setting further targets across our full value chain, including transitioning to using 100 per cent renewable energy by 2021 and a 100 per cent green fleet by 2028 (see page 72).

Glossary

AMP: Asset Management Plan period – the five-year regulatory price control periods since privatisation. AMP6 was the sixth AMP since privatisation and ran from 1 April 2015 to 31 March 2020. AMP7 is the seventh AMP since privatisation and will run from 1 April 2020 to 31 March 2025.

C-MeX: Customer measure of experience. This measure of customer satisfaction for AMP7 replaces SIM as a measure of the service customers receive from their water company.

CDP: Formerly the Carbon Disclosure Project, CDP through its environmental disclosure system supports companies to measure and manage their risks and opportunities on climate change, water security and deforestation.

CPI/CPIH: Consumer Price Index/Consumer Price Index including Housing. CPIH is the UK government's preferred measure of inflation, and will be used by Ofwat as its primary inflation index in AMP7. CPI is the closest proxy for CPIH for which debt and derivatives are available in the financial markets.

CCW: Consumer Council for Water, an independent body that represents customers' interests relating to price, service and value for money as well as conducting independent research and investigating customers' complaints relating to water quality.

D-MeX: Developer measure of experience – new measure of developer satisfaction for AMP7.

Defra: Department for Environment, Food & Rural Affairs, a UK government department responsible for setting policies and regulations on environmental, food and rural issues. Defra sets the overall water and sewerage policy framework in England, including setting standards and drafting legislation.

DWI: Drinking Water Inspectorate. The DWI regulates the quality of the drinking water that we supply and ensures its safety and compliance with Water Quality Regulations.

EA: Environment Agency. The EA is the principal adviser to the UK Government and main body set up to protect and improve the environment in England and Wales. They work in collaboration with other organisations to reduce flood risk, promote sustainable development, and secure environmental and social benefits.

ESG: Environmental, social and governance – describes areas that characterise a sustainable, responsible or ethical investment in a business or company.

Fast-track category: Our business plan was graded in Ofwat's Initial Assessment of Plans, leading to a faster timeline during the price review and rewarded with an additional 0.11 per cent allowed return above the base allowance for non-fast track companies.

FD: Final determination – the regulatory settlement Ofwat gives each company to deliver for each five-year regulatory price control period.

K factor: Percentage annual increase or decrease in allowed regulatory revenue before inflation.

KPIs: Key performance indicators. We measure our performance against a range of operational and financial KPIs plus a variety of other metrics.

ODIs: Outcome delivery incentives – the outperformance payments and penalties associated with operational performance against agreed regulatory targets.

Ofwat: Independent economic regulator for the water and wastewater sector in England and Wales, responsible for protecting customers' interests while ensuring water companies finance and conduct their functions effectively.

PR19: The Price Review process for AMP7, concluded in December 2019.

Price Review: The process through which each water and wastewater company submits a business plan for the next five-year period, and Ofwat sets the price and service package it must deliver.

Priority Services: A scheme aimed at customers who may need additional support with their water and wastewater services due to age, disability, illness, or other vulnerable circumstances.

RPI: Retail Price Index – until recently (see CPIH) this was the UK Government's preferred measure of inflation, and prior to AMP7 RPI was used by Ofwat as its primary inflation index to calculate inflation of revenue and RCV.

SIM: Service Incentive Mechanism, Ofwat's measure of the service customers experience from their water company, which will be replaced by C-MeX in AMP7.

STEM: Science, Technology, Engineering and Mathematics – technical fields in which we need to avoid a shortage of skills in the long term.

Systems Thinking: Our industry-leading approach to the way we operate our network and assets, which is one of our competitive advantages and a key value driver.

TCFD: Task Force on Climate-related Financial Disclosures – set up to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

Totex: Total expenditure – this comprises operating costs (opex), infrastructure renewals expenditure (IRE) and capital expenditure (capex).

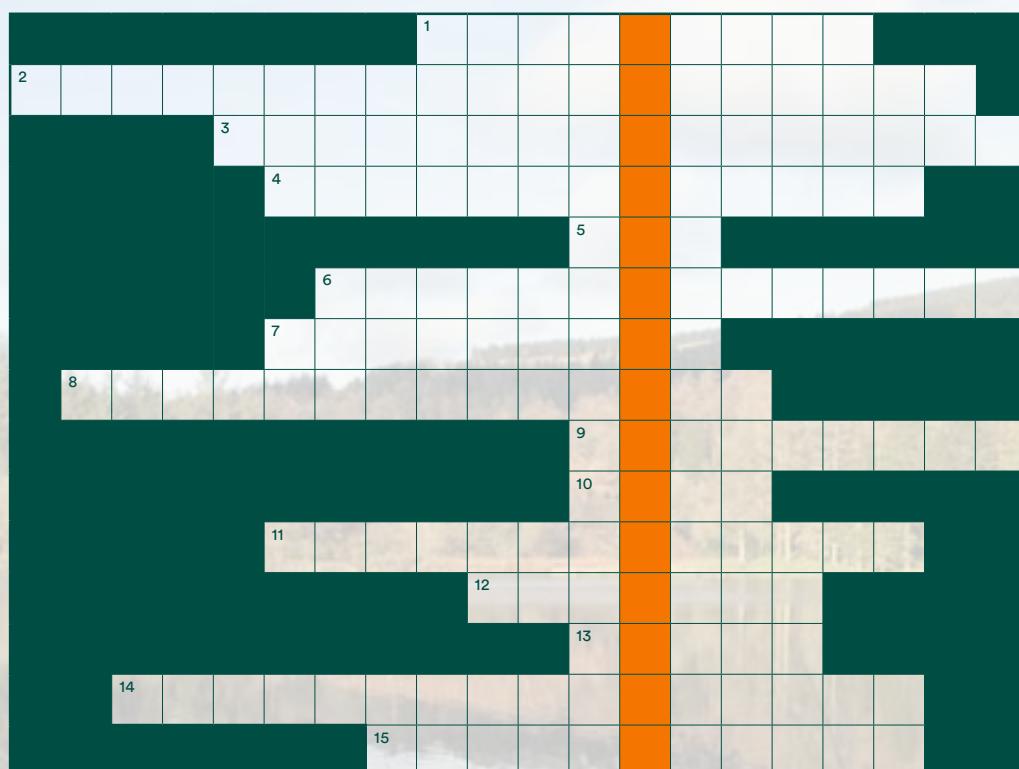
UUG: United Utilities Group PLC, the listed group company.

UUW: United Utilities Water Limited, the regulated entity.

YourVoice: The independent customer challenge group whose aim is to ensure customers are at the heart of our business planning.

Time for a tea break

As a bit of fun, we've included a little test with the puzzle below. All the answers can be found within this strategic report, so please feel free to refer to the pages referenced if you are unsure of any of the answers, and once you complete the puzzle the letters in orange running vertically will spell out one of our competitive advantages (which you can read more about on page 7).



Questions

1. We have committed to six pledges to reduce our greenhouse gas _ (9)
➡ Read more on pages 66 to 77
2. We held our third _ this year in Liverpool (13,6)
➡ Read more on page 79
3. Training and development, and our graduate and apprentice programmes, help us build _ (6, 10)
➡ Read more on page 41
4. Scheme we created to help our employees who may face challenging financial issues within their families as a result of COVID-19 (5,8)
➡ Read more on page 83
5. Acronym for the new methodology we are using to engage with markets and our supply chain (3)
➡ Read more on page 81
6. We are improving _ in our region to help the economy and offer a diverse workforce (6,8)
➡ Read more on page 20
7. Region of England in which we operate (5,4)
➡ Read more on page 21
8. AMP7 performance commitment to ensure the environment is protected and improved in the way we deliver our services (7,7)
➡ Read more on page 43
9. Major new pipeline allows us to supply West Cumbria from _ (9)
➡ Read more on page 23
10. Acronym for the mobile sensors that allow remote monitoring in leak detection (4)
➡ Read more on page 7
11. We have achieved _ in our pension schemes in line with the recommendations of The Pensions Regulator (3,10)
➡ Read more on page 89
12. We aim to reduce _ by 15% by 2025 and over 40% by 2045 (7)
➡ Read more on pages 37 and 43
13. Name of the storm that damaged a pipeline this year causing emergency repairs (5)
➡ Read more on page 49
14. New pipeline that was needed to allow us to inspect the Haweswater Aqueduct (4,4,4,4)
➡ Read more on page 39
15. £100 million investment of AMP6 outperformance is giving us a _ to our AMP7 targets (6,5)
➡ Read more on page 45



WHAT MATTERS

Trust, transparency and legitimacy

We adhere to the highest levels of corporate governance. Fairness and transparency is key to the way we report, the way we operate, and the way we interact with all our stakeholders.

Ofwat has awarded us
Self-assured

status for the last three years – the only company in our sector to achieve this reflecting the highest level of trust and confidence in our transparency and reporting.





Progress this year

Fair tax mark

achieved recognising that we are paying the right amount of corporation tax in the right place, at the right time.

Our future plans

Purpose-led

We will continue demonstrating how we are delivering on our purpose to provide great water and more for the North West.



GOVERNANCE

Corporate governance report

- Board of directors	108
- Letter from the Chairman	112
- Nomination committee	126
- Audit committee	140
- Corporate responsibility committee	152
- Remuneration committee report	156
- Tax policies and objectives	186
Directors' report	188
Statement of directors' responsibilities	191

Corporate governance report

Board of directors



Sir David Higgins

Chairman



Responsibilities: Responsible for the leadership of the board, setting its agenda and ensuring its effectiveness on all aspects of its role.

Qualifications: BEng Civil Engineering, Diploma Securities Institute of Australia, Fellow of the Institute of Civil Engineers and the Royal Academy of Engineering.

Appointment to the board: 13 May 2019; assumed role of Chairman with effect from 1 January 2020.

Committee membership: Nomination (chair).

Skills and experience: Sir David has spent his career overseeing high profile infrastructure projects including: the delivery of the Sydney Olympic Village and Aquatics centre; Bluewater Shopping Centre, Kent; and the delivery of the 2012 London Olympic Infrastructure Project.

Career experience: Former chief executive of: Network Rail Limited; The Olympic Delivery Authority; and English Partnerships. Previous non-executive roles: chairman of High Speed Two Limited and Sirius Minerals plc. In December 2019 he stepped down as non-executive director and chair of the remuneration committee at Commonwealth Bank of Australia.

Current directorships/business interests: Chairman of Gatwick Airport Limited. He is also Chairman of United Utilities Water Limited.

Independence: Sir David met the 2018 UK Corporate Governance Code's independence criteria (provision 10) on his appointment as a non-executive director and chairman designate.

Specific contribution to the company's long-term success: Sir David's experience of major infrastructure projects and his knowledge and understanding of the role of regulators will be invaluable in meeting the challenges of the next regulatory period and beyond. As chairman of the nomination committee he is responsible for ensuring the succession plans for the board and senior management identify the right skillsets to face the challenges of the next asset management period.



Steve Mogford

Chief Executive Officer (CEO)



Responsibilities: To manage the group's business and to implement the strategy and policies approved by the board.

Qualifications: BSc (Hons) Astrophysics/Maths/Physics.

Appointment to the board: January 2011.

Committee membership: Corporate responsibility.

Skills and experience: Steve's experience of the highly competitive defence market and complex design, manufacturing and support programmes has driven forwards the board's strategy of improving customer service and operational performance at United Utilities. His perspective of the construction and infrastructure sector provides valuable experience and insight to support United Utilities' capital investment programme.

Career experience: Previously chief executive of SELEX Galileo, the defence electronics company owned by Italian aerospace and defence organisation Finmeccanica, chief operating officer BAE Systems PLC and a member of its PLC board. His early career was spent with British Aerospace PLC.

Current directorships/business interests: Non-executive and senior independent director G4S PLC and chair of the risk committee. He is also Chief Executive Officer of United Utilities Water Limited.

Specific contribution to the company's long-term success: As chief executive, Steve has driven a step change in the company's operational performance, which led to fast-track status in the PR19 price review process and a resulting efficient transition into the 2020–25 asset management period.



Russ Houlden

Chief Finance Officer (CFO)



Responsibilities: To manage the group's financial affairs and to contribute to the management of the group's business and to the implementation of the strategy and policies approved by the board.

Qualifications: BSc (Hons) Management Sciences, Fellow of the Chartered Institute of Management Accountants, Chartered Global Management Accountant and a Fellow of the Association of Corporate Treasurers.

Appointment to the board: October 2010.

Committee membership: Treasury.

Skills and experience: Russ's skills and experience in accounting in other commercial and regulated companies, along with his extensive experience of driving performance improvement, provides the group with valuable expertise in pursuing its strategy of improving customer service and in providing our services at the lowest sustainable cost.

Career experience: Previously chief financial officer at Telecom New Zealand and finance director of: Lovells; BT Wholesale; BT Networks and Information Services; ICI Polyurethanes; and ICI Japan. Former chairman of the financial reporting committee of the 100 Group until March 2020.

Current directorships/business interests: Member of the supervisory board and chairman of the audit committee Orange Polska SA. He was appointed a non-executive director of Babcock International Group PLC on 1 April 2020 with a view to becoming chairman of its audit and risk committee in July 2020. He is also Chief Financial Officer of United Utilities Water Limited.

Specific contribution to the company's long-term success: Russ has helped drive the transformation of the operational performance of the business and delivered the group's competitive advantage in financial risk management and excellence in corporate reporting.



Mark Clare

Senior independent non-executive director



Responsibilities: Responsible, in addition to his role as an independent non-executive director, for discussing any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chairman or Chief Executive Officer.

Qualifications: Chartered Management Accountant (FCMA).

Appointment to the board: November 2013.

Committee membership: Nomination and remuneration.

Skills and experience: Through his previous roles at British Gas and BAA, Mark has a strong background operating within regulated environments. His extensive knowledge of customer-facing businesses is particularly valuable for United Utilities in the pursuit of our strategy to improve customer service.

Career experience: Previously chief executive Barratt Developments plc. A former trustee of the Building Research Establishment and the UK Green Building Council. Senior executive roles held in Centrica plc and British Gas. Former non-executive director: BAA plc and Ladbrokes Coral PLC.

Current directorships/business interests: Non-executive chairman Grainger plc and non-executive director Premier Marinas Holdings Limited. He is also an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: As senior independent non-executive director, Mark led the selection process culminating in the appointment of Sir David Higgins, succeeding Dr John McAdam, as Chairman. He applies his own considerable board experience gained during his career to United Utilities and provides a sounding board to the executive in certain areas.



Sara Weller

Independent non-executive director



Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's activities concerning directors' remuneration.

Qualifications: MA Chemistry.

Appointment to the board: March 2012.

Committee membership: Nomination and remuneration (chair).

Skills and experience: Sara's experience of customer-facing businesses, together with her knowledge of operating within a regulated environment, provides the board with valuable perspective as the company improves its service to customers.

Career experience: Previously managing director of Argos; senior executive roles at Mars, Abbey National and J Sainsbury plc. Former non-executive and senior independent director Mitchells and Butlers plc and chair of the remuneration committee. Other non-executive roles: the Department for Communities and Local Government; the Higher Education Funding Council for England; the Planning Inspectorate; and she stepped down as a council member at Cambridge University with effect from 31 December 2019. In April 2020, she stepped down from her non-executive role at the Department of Work and Pensions.

Current directorships/business interests: Non-executive director Lloyds Banking Group plc; and will be appointed as a non-executive director of BT Group plc in July 2020. She is also an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: As chair of the remuneration committee, Sara has played a key role in guiding and reviewing directors' remuneration policy and ensuring engagement with shareholders prior to any proposals for change made.

Board role

- Chairman
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- Nomination committee
- Corporate responsibility committee
- Treasury committee
- Remuneration committee
- Audit committee
- Chair of the committee

Corporate governance report

Board of directors



Brian May

Independent non-executive director



Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the audit committee.

Qualifications: BSc (Hons) Actuarial Science, Chartered Accountant FCA.

Appointment to the board: September 2012.

Committee membership: Nomination, audit (chair), treasury (chair) and remuneration.

Skills and experience: Brian was appointed group finance director of Bunzl plc in January 2006 and he retired from the board of Bunzl plc on 31 December 2019. Brian's background and the various finance roles that he has held are major assets to the board.

Career experience: Brian has been chair of the audit committee since September 2013 and has considerable knowledge of the company and the specifics of the utilities sector.

Current directorships/business interests:

Brian was appointed as non-executive director of Convatec Group Plc and a member of its audit and risk committee and its remuneration committee on 2 March 2020. He is also an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Brian contributes his considerable expertise in finance to the company primarily through the important roles as chair of both the audit committee and the treasury committee, which are important in overseeing the risk management of the group. The industry knowledge he has gained over the seven years he has been a board member enabled him to focus on, and contribute to, key risk areas during the regulatory price review process for the 2020–25 regulatory period.



Stephen Carter CBE

Independent non-executive director



Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's agenda on acting responsibly as a business.

Qualifications: Bachelor of Laws (Hons).

Appointment to the board: September 2014.

Committee membership: Nomination, audit and corporate responsibility (chair).

Skills and experience: As the chief executive of a FTSE 100 listed company, Stephen brings current operational experience to the board. His public sector experience provides additional insight in regulation and government relations. His day-to-day experience in the information and technology industries ensures that the board is kept abreast of these areas of the company's operating environment.

Career experience: Previously held senior executive roles at Alcatel Lucent Inc. and a number of public sector/service roles, including serving a term as the founding chief executive of Ofcom. Former chairman Ashridge Business School. A Life Peer since 2008.

Current directorships/business interests: Group chief executive Informa plc and non-executive director Department for Business, Energy and Industrial Strategy. He is also an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Stephen's experience as a current chief executive and his previous work in the public sector and government provides valuable insight.



Alison Goligher

Independent non-executive director



Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: BSc (Hons) Mathematical Physics, MEng Petroleum Engineering.

Appointment to the board: August 2016.

Committee membership: Nomination, remuneration and corporate responsibility.

Skills and experience: Alison has strong technical and capital project management skills, having been involved in large projects and the production side of Royal Dutch Shell's business. This experience of engineering and industrial sectors provides the board with additional insight into delivering United Utilities' capital investment programme.

Career experience: Royal Dutch Shell (2006 to 2015), her most recent executive role was Executive Vice President Upstream International Unconventionals. Prior to that she spent 17 years with Schlumberger, an international supplier of technology, integrated project management and information solutions to the oil and gas industry. Alison stepped down as a board member of Edinburgh Business School in October 2019.

Current directorships/business interests: Non-executive director Meggitt PLC and a part-time executive chair Silixa Ltd. She is also an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Alison's understanding of the operational challenges of large capital projects and the benefits of deploying technology provides valuable insight into addressing the longer-term strategic risks faced by the business. Her role as the designated non-executive director for workforce engagement will provide the board with a better understanding of the views of employees and greater clarity on the culture of the company.



Paulette Rowe

Independent non-executive director



Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: MEng + Man (Hons), MBA.

Appointment to the board: July 2017.

Committee membership: Nomination and audit.

Skills and experience: Paulette has spent most of her career in the regulated finance industry and so provides the board with additional perspective and first-hand regulatory experience. Her experience of technology-driven transformation will contribute to United Utilities' customer experience programme and its Systems Thinking approach.

Career experience: Previously held senior executive roles in banking and technology at Facebook, Barclays and the Royal Bank of Scotland/NatWest. Former trustee and chair of children's charity The Mayor's Fund for London.

Current directorships/business interests: CEO of Integrated and Ecommerce Solutions and member of the Paysafe Group executive since January 2019. Paysafe, a former FTSE 250 company, is now privately owned by PE firms CVC and Blackstone. She is also an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Paulette's wide-ranging experience in regulated sectors, profit and loss management, technology and innovation enables her to provide a first-hand contribution to many board topics of discussion. In her current executive role she often faces many of the same issues, and has been able to provide support to senior management at United Utilities.

Board role

- Chairman
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- N Nomination committee
- C Corporate responsibility committee
- T Treasury committee
- R Remuneration committee
- A Audit committee
- Chair of the committee

Changes to board directors:

Dr John McAdam stepped down as Chairman with effect from 31 December 2019;

Steve Fraser resigned as Chief Operating Officer with effect from 31 August 2019;

Russ Houlden's retirement as CFO was announced on 5 February 2020, he will not be seeking reappointment at the company's AGM in July 2020. On leaving the group, Russ will also cease to be a director of United Utilities Water Limited; and

Sara Weller is not seeking reappointment at the AGM in July 2020, she will also cease to be a director of United Utilities Water Limited.

Corporate governance report

Letter from the Chairman



Quick facts

- > Sir David Higgins met the independence criteria as set out in provision 10 of the 2018 UK Corporate Governance Code (the Code) when he was appointed.
- > The Code requires that at least half of the board, excluding the chair, should be non-executive directors whom the board considers to be independent. At United Utilities, six out of the remaining eight directors are independent non-executive directors.
- > The company secretary attends all board and committee meetings and advises the Chairman on governance matters. The company secretariat team provides administrative support.
- > The directors' biographies (see pages 108 to 111) include specific reasons why each director's contribution is, and continues to be, important to the company's long-term sustainable success.
- > All directors are subject to annual election at the annual general meeting (AGM) held in July. It was concluded, from both the analysis of the results of the individual evaluation of board members and the evaluation of the board holistically, each director continues to contribute effectively to board meetings and engaged fully with the evaluation process. As a result, the board recommends that shareholders vote in favour of those standing for a further term at the forthcoming AGM, as they will be doing in respect of their individual shareholdings.

Quick links



Schedule of matters reserved for the board
unitedutilities.com/corporate-governance

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at frc.org.uk

We have reconsidered our purpose as a company. As a provider of an essential service in our region our purpose is to provide great water and more for the North West. Our culture of behaving responsibly has been part of the United Utilities ethos for many years, and aligns with our purpose.

Sir David Higgins Chairman

Dear Shareholder

What matters...

I write to you for the first time as Chairman, having assumed the role on 1 January 2020. I can tell you, unequivocally, that what matters to the board during this difficult time is ensuring we do whatever we can to keep our employees safe, supporting our customers and communities and playing our part in dealing with the tragedy of the COVID-19 pandemic. We provide a vital service to our customers and, in doing so, our front line operational employees, indeed defined as 'key workers' by the Government, have continued to work to ensure our customers can rely on our services in a time that is anything but 'business as usual'. Yet again, as I know they have done on many previous difficult occasions, United Utilities' employees have risen to the challenge. As a business, the impact on our financial performance will not fully be known for some months but we are very well aware of that many customers and suppliers have been put under severe financial difficulty, and we are reminded of the enduring position the company has in the communities it serves in the North West. Measures have been put in place to help customers struggling to pay their water bills and those who may need extra support through our Priority Services offering. We are supporting our supply chain partners by altering payment terms to pay, on a temporary basis, within seven days wherever possible, rather than 14 to assist with their cash flow. Furthermore, we intend to support all of our workforce and have no intention of using the government's furlough scheme.

The board has been kept fully informed of the implementation of changes to normal ways of working. Wherever possible employees have worked from home and social distancing has been facilitated for those unable to work from home and among our operational employees.

As a business we were challenged again during the year by the weather, most notably Storm Ciara, when a supply pipe burst resulting in a loss of water to customers in the Eden Valley in Cumbria. We

were able to put quickly contingency plans in place delivering supplies to customers that had registered for our Priority Services, and to around 100 livestock farmers impacted by the incident. Our employees worked relentlessly throughout the dreadful weather conditions to minimise disruption to customers.

Governance

The board has conducted its meetings, and those of its committees, remotely through audio or video calls since March 2020 and, while perhaps not as efficient or as satisfactory as face-to-face meetings, it has enabled the board to continue to function. We are comfortable that the integrity of our governance structure will be maintained during this period, notwithstanding the practical changes that have been made. A diagram showing the interrelationships of the various board committees can be found on page 116. Reports from each of the committee chairs about their work can be found on the following pages. The diagram also includes the group's principal management committees.

In the following pages of this corporate governance report we have set out how we have applied the principles and reported against the provisions of the 2018 UK Corporate Governance Code.

Purpose and culture

During the year we have reconsidered our purpose as a company. As a provider of an essential service in our region our purpose is to provide great water and more for the North West. Our culture of behaving responsibly has been part of the United Utilities ethos for many years, and aligns with our purpose. The board has a number of opportunities to consider cultural metrics, particularly in relation to its business as usual reporting on employees, customers and risk, but has also undertaken a more holistic review of the company's culture, developing a dashboard as the basis to assess and monitor culture in future years (see page 121).

Strategy

The strategic themes of the group have remained unchanged as the board believes that its approach will promote the group's long-term sustainable success, our customers' interest, create value for shareholders and take account of our other stakeholders. The board's intention is to hand over the business to our successors in a better and more resilient position for the future. Within our region, our activities often have multiple touch points on individuals' lives. United Utilities is a monopoly supplier of water and wastewater services to domestic households. Many customers are also our shareholders, either directly or indirectly holding shares through pension scheme investments. Indeed, many of our employees are also customers, shareholders and future pensioners, and have an interest in the group's long-term success. As individual directors we are mindful of our statutory duty to act in the way each of us considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, as set out in S172 of the Companies Act 2006 (the Act). There are times when difficult decisions must be taken requiring each of us to exercise independent judgement and apply reasonable care, skill and diligence in the decision-making

process. As the board of directors, we recognise our responsibilities to our different but mainly interrelated stakeholder groups and our wider societal responsibilities. As required by S414CZA of the Act, our S172(1) Statement is set out on page 102.

People

The board has reached the stage in its life cycle, consistent with the beginning of the new asset management period, when there are a number of board changes to report. After over 11 years as Chairman, Dr John McAdam stepped down on 31 December 2019. Both Russ Houlden, our chief financial officer and Sara Weller, chair of the remuneration committee will be leaving the board following the AGM. Steve Fraser also left the company during the year. On behalf of the board I would like to express our thanks to these board colleagues for the contributions they have made to the business. Details of the board's succession planning and efforts concerning diversity can be found in the report of the nomination committee on pages 129 and 132.

Risk

Our approach toward risk is very much aligned with our culture. We are an organisation that provides a vital service to its customers and we recognise the responsibilities of this, and our intention is to act responsibly towards our stakeholders, in particular our customers, in the provision of our services to them. As a board, we must take long-term decisions to ensure our successors are able to operate the business efficiently for customers, and we need to build our assets to meet future demand and circumstances. We are a commercial organisation operating within a regulated framework and accepting some level of risk is a normal consequence of doing business. It is the board's and the executive team's role to understand the risks associated with each activity of the business and ensure that actions are taken to mitigate these risks.

Investors

We are in regular contact with our large investors through a regular scheduled programme of meetings attended by either our CEO or CFO, or both. I have also offered meetings to major shareholders this year which I will progress as soon as restrictions allow. The programme is supported by the activities of our investor relations team who are readily available to address investors' queries. Feedback is regularly shared with board colleagues.

Sir David Higgins
Chairman

Compliance against the 2018 UK Corporate Governance Code

1

Board leadership and company purpose

→ See page 114

2

Division of responsibilities

→ See page 125

3

Composition, succession and evaluation

→ See page 128

4

Audit, risk and internal control

→ See page 136

5

Remuneration

→ See page 156

Corporate governance report

1

Board leadership and company purpose

Code Principle	Evidence and outcomes
Principle A: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	See pages 114 to 120 for our reporting against provision 1 and the S172(1) Statement on page 102.
Principle B: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	See pages 121 to 123 for our reporting against provisions 2 and 5.
Principle C: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	See page 132 regarding succession pipeline, and page 136 for the board's approach to risk management and internal control.
Principle D: In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	See pages 122 to 124 in relation to our engagement with shareholders and stakeholders for our reporting against provision 3.
Principle E: The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	See page 121 to 122 in relation to engagement with employees for our reporting against provisions 5 and 6.



Overview of the board's responsibilities

- > Sets the strategy of the group, ensuring the long-term success of the group for customers, investors and wider stakeholders;
- > Is responsible for challenging and encouraging the executive team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set;
- > Has responsibility for ensuring the company's internal control systems (including financial, operational and compliance) and processes are sound and fit for purpose (see pages 136 to 139);
- > Must ensure that the company has the necessary financial resources and people with the necessary skills to achieve its objectives. It also reviews managerial performance annually;
- > Approves appointments to and removal from the board and membership of the committees;
- > Applies the principles of the Code and reports against the provisions; and
- > Has oversight of major capital expenditure projects within UUW that exceed £150 million, and any project which materially increases the group's risk profile or is not in the ordinary course of the group's business.

Full details of the matters that the board has reserved for its own decision-making, due to their importance to the business or the working of the board, can be found on our website at:



unitedutilities.com/corporate-governance

Providing great water and more for the North West

Understanding what matters

Board members, individually and collectively, are cognisant of their statutory duties as set out in the Companies Act 2006 (the Act). In accordance with section 172 of the Act, directors are individually required to act in the way they consider, in good faith would most likely be to promote the success of the company for the benefit of its members as a whole. In doing so, the directors must have regard to the likely consequences of any decision in the long term and the interests of employees, customers, suppliers, the community and the environment, and on the company's reputation.

Incorporating sustainability in our stewardship

Historically, a board's success criteria has primarily been judged on the company's financial performance and while this is still fundamental, boards of companies are now encouraged to adopt a more holistic approach to their stewardship. It is the responsibility of the directors to exercise their judgement, balancing the use of the company's resources to ensure its sustainable long-term success and at times, the requirements and criteria for assessing our success by our different stakeholders groups will be in competition. Sustainability is a key component of the way in which we manage our business. We set out on pages 46 to 48 how we create value for our shareholders and other stakeholders. Our board governance ethos, our culture and the way we operate as a business is to behave responsibly towards all our stakeholders.

Investing in a high quality and resilient future

When we formulated our business plan for the 2020–25 asset management period and which was submitted to Ofwat in September 2018, our engagement with customers indicated that they wanted high-quality, sustainable and resilient water and wastewater services at a price they could afford. We recognise that customers place their faith in us to deliver a responsible approach to managing risk. We consulted widely with our customers and other stakeholders and applied the insight from this engagement to our long-term plans for the next asset management period and beyond. Understanding the implications of extreme weather events and the return frequency of such events is an ever emerging risk for us.

Being a guardian for future generations

On behalf of the board, the corporate responsibility committee has taken the lead in overseeing management's development of a climate change mitigation strategy as part of the transition to a low carbon future. Notwithstanding this, the board is fully versed on the impacts of climate change from an operational perspective. There have been a number of extreme weather events impacting our region and our operations in recent years, most recently Storm Ciara. When such incidents occur, the CEO keeps board members fully apprised of the impact on operations and our response via conference call and other forms of communication.



Working with our regulators – our final determination

We were asked, when Ofwat published its initial assessment of our business plan in January 2019, to commit to more stretching targets further enhancing our offering to a number of stakeholders groups. We worked with Ofwat towards this objective, culminating in the final determination published in December 2019 and accepted by the UUW board on 28 January 2020. Further information on the final determination can be found on page 42.

The financial implications of the final determination were taken into account when deciding on the company's dividend policy for 2020–25 (see page 10) and is included in the statement by the directors in performance of their statutory duties in accordance with S172(1) of the Act set out on page 102.

Long-term planning for AMP7 and beyond

We create value by delivering or outperforming our five-year regulatory contract that has been agreed with Ofwat, and doing so in accordance with our strategic themes of providing the best service to customers, at the lowest sustainable cost and in a responsible manner. Planning is vital to ensure our long-term sustainable success and for effective management of the business and allocation of our resources – the details of our planning horizons are set out on pages 36 to 38.

Delivering against our regulatory contract

Under the current regulatory model, we are a monopoly supplier of water and wastewater services to our domestic customers. Simplistically, the opportunities for improving our financial performance are based on outperforming our five-year contract. Underlying this is a complex set of regulatory key performance indicators, including total expenditure outperformance (totex), the outcome delivery incentive mechanism (ODI), customer measure of experience (C-MeX) and financing expenditure (see pages 56 to 59) which are managed and monitored by the business.

Risk management and internal control

The principal risks and uncertainties to the success of the business, which are agreed by the board, and the ways in which these risks are managed, monitored and mitigated are set out on pages 92 to 101.

Corporate governance report

Governance structure for our board and our committees

The board has responsibility for establishing the strategy, which is broken down into the three strategic themes. The governance structure encompassing the board, its principal committees and the principal management committees (and set out in the diagram below) contributes to ensuring that the group focuses on its strategic themes. The committees have specific roles and responsibilities, which are directly linked to implementing the three strategic themes which are represented by the coloured icons on the diagram.

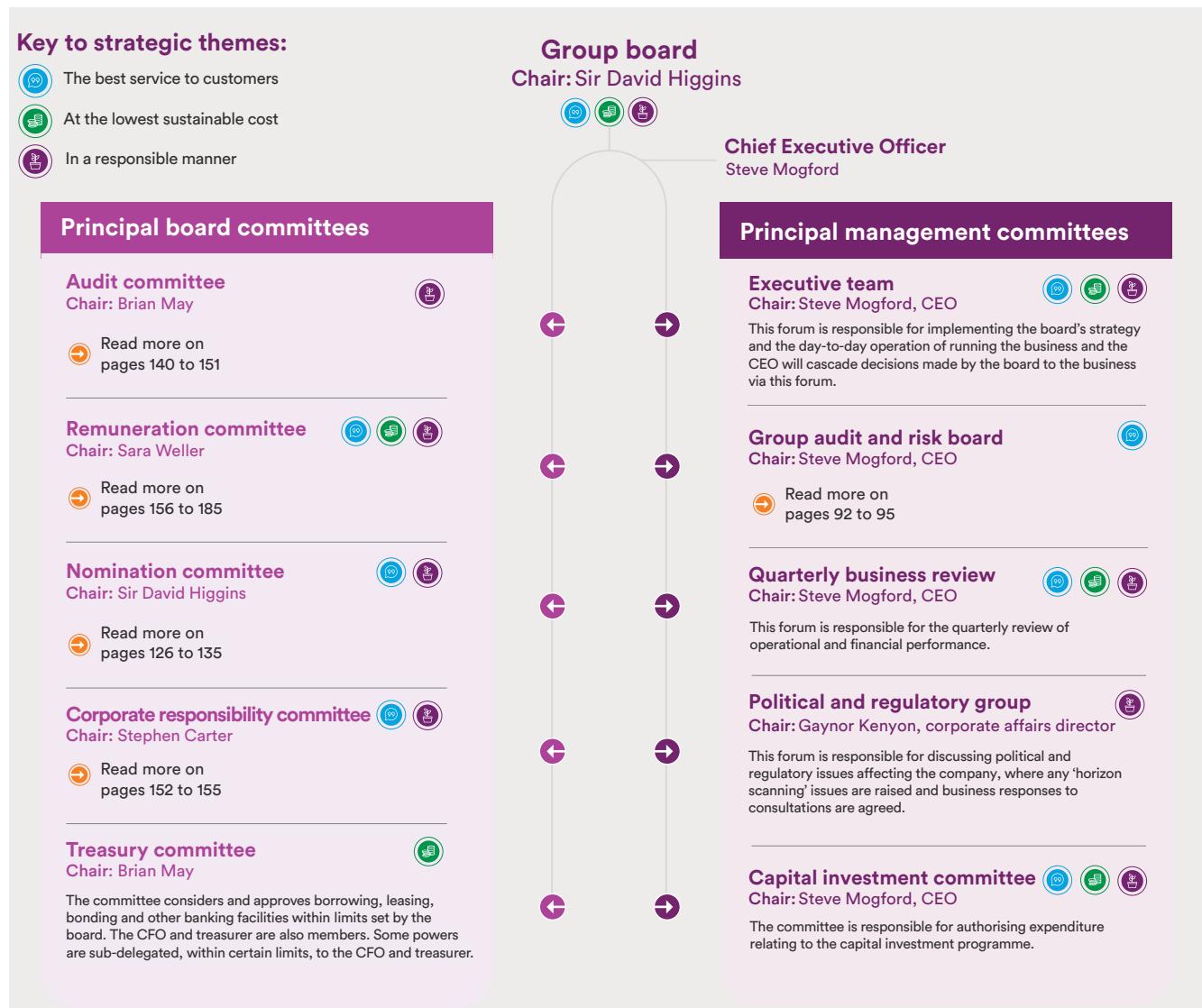
In line with the Code, the board delegates certain roles and responsibilities to its principal board committees. While the board retains overall responsibility, a sub-committee structure allows these committees to probe the subject

matters more deeply and gain a greater understanding of the detail. The committees then report back to the board on the matters discussed, decisions taken, and where appropriate, make recommendations to the board on matters requiring its approval. The reports of the principal board committees required by the Code can be found on the subsequent pages. Minutes of the board and principal board committee meetings (with the exception of the remuneration committee) are tabled at board meetings and the chairs of each of the board committees report verbally to the board on their activities. The Chairman chairs the nomination committee; all other principal board committees are chaired by independent non-executive directors who have particular skills or interests in the activities of those committees.

The executive team is chaired by the CEO, and its members are the senior managers

who have a direct reporting line to the CEO. Our executive team meets monthly; it is responsible for the day-to-day running of the business and other operational matters and implementing the strategies that the board has set. Short biographies of the executive team can be found on our website at unitedutilities.com/executive-team. The diagram below shows the principal management committees and a brief description of their roles. These committees are vital to the implementation of the group's strategic themes. These committees enable senior management to meet to understand, delegate the implementation of appropriate actions, and monitor progress and provide challenge as needs be. The board received reports from the CEO and CFO at every scheduled board meeting, providing the board with an updated overview of the business, its financial and operational performance.

Governance structure of the board and its principal committees and the principal management committees



Summary of board activity in 2019/20

Actions	Outcomes	Cross reference	Link to strategic themes
Leadership and employees			
Review of health, safety and wellbeing activities and consideration of health and safety incidents of employees and contractors and implementing an improved health and safety culture within the business branded as 'home safe and well'.	Ongoing roll-out of 'home safe and well' training programme and development and implementation of wellbeing policies and activities.	See pages 46 and 82	
Review of board succession plan.	Succession plans for the roles of Chairman and CFO implemented during the year.	See page 128	 
Reviewed ongoing development of our employer brand and our aspiration for a multi-generational and diverse workforce.	Board kept apprised of potential succession pipeline and progress in improving diversity.	See pages 132 to 135	
Reviewed the structure and composition of the executive management team to address business challenges of the 2020–25 asset management period and beyond.	Endorsed the restructuring of the executive management team and associated reporting lines.	See page 127	
Reviewed and discussed the results of the annual employee engagement survey and received updates on employee voice workforce engagement mechanisms including the Employee Voice panel chaired by Alison Goligher, the non-executive director designated for engagement with the workforce.	Awaiting the findings from a number of working groups proposed by Employee Voice panel including: encouraging greater collaboration among employee network groups; and gaining a better understanding of what culture means for employees.	See page 121	 
Reviewed the company's dashboard of cultural metrics and associated analysis.	Monitored and assessed culture and agreed it was aligned with the company's purpose, values and strategy.	See page 121	 
Reviewed and amended the board diversity policy to better reflect diversity criteria, thereby including 'social and ethnic backgrounds, cognitive and personal strengths'.	The board diversity policy was amended to include a measurable ethnicity objective expressed in our policy as the board should include 'one director of non-white ethnicity' by 2021.	See page 129	 
Strategy			
Discussed and reviewed the price review submissions and outputs throughout the process and implications for the group, and Ofwat's final determination for the 2020–25 asset management period.	Endorsed the acceptance of the final determination in January 2020.	See page 42	  
Considered the financial implications of the final determination for the company's dividend policy for the 2020–25 asset management period.	Approved the company's dividend policy for the 2020–25 asset management period.	See page 86	
Received regular updates at each meeting of items with a strategic component, such as emerging changes to regulation, major capital expenditure and business structuring decisions.	Facilitated more informed board discussion and planning.	-	  
Discussed the group's preparations in relation to Brexit.	Agreed action plan to mitigate and make preparations in relation to Brexit, with ongoing monitoring of the Government proposals for terms of exit.	See pages 94, 96 and 155	
Discussed the impact of proposed renationalisation of the water sector.	External legal and financial advice sought.	See page 94	

Corporate governance report

Summary of board activity in 2019/20

Actions	Outcomes	Cross reference	Link to strategic themes
Governance			
Reviewed and debated the risk profile of the group, and in particular the principal risks, emerging risks and risk appetite, including a review of the most significant operational risks.	Endorsed management's view that the risk appetite approach remained fit for purpose and should continue to be applied for the foreseeable future.	See page 92	  
Reviewed the risk management systems, including financial, operational and compliance controls and reviewed the effectiveness of the internal control systems.	The risk management and internal control systems were considered to be effective.	See page 136	  
Reviewed and discussed developments in cyber crime.	Approved the activities undertaken to enhance the effectiveness of the group's security controls.	See page 99	 
Reviewed the terms of reference for the audit, remuneration, treasury and corporate responsibility committees and received post-meeting reports from the chairs of each committee summarising discussions and actions.	Approved amendments to the terms of reference of the company's committees as recommended particularly relating to the 2018 Code.	–	 
Reviewed biannual updates on changes and developments in corporate governance.	Matters implemented as considered appropriate.	–	
Reviewed and discussed the external evaluation of the board, its committees and individual directors and conflicts of interest.	Identified action points and any ongoing training needs.	See page 131	 
Reviewed the performance of the statutory auditor and recommendation for reappointment both at the 2020 AGM and for a further term following the completion of the statutory auditor tender process.	Accepted the recommendation from the audit committee that KPMG be reappointed at the 2020 AGM and as the preferred candidate following the tender process for the statutory auditor.	See page 146	 
Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain.	Approved the 2020/21 slavery and human trafficking statement.	See page 190	 
United Utilities Water Limited (UUW) regulated business and its stakeholders			
Regular review and monitoring of the business plan submission for the 2020–25 regulatory period as it progressed to the announcement of acceptance of Ofwat's final determination in January 2020.	The board was kept fully informed throughout the price review process.	See page 42	  
Reviewed customer service performance measures.	In year customer performance measures monitored along with preparations for monitoring customer service in AMP7.	See page 55	  

Key to strategic themes:



The best service to customers



At the lowest sustainable cost



In a responsible manner

Actions	Outcomes	Cross reference	Link to strategic themes	
Other group business	Considered exercise of the put option to dispose of the group's interest in the Muharraq sewerage treatment plant and associated statutory entities both in Bahrain and in the Jebel Ali Free Zone, Dubai.	Disposed of the group's interests in Muharraq in accordance with the arrangements agreed in 2011.	–	 
Regular review of progress of Water Plus, the group's joint venture with Severn Trent serving commercial customers.	Approved the renewal of working capital arrangements.	See page 148	   	
Shareholder relations	Received and discussed a presentation by Rothschild Investor Advisory on investors' views and perceptions of the group in relation to, among other things: strategy; the group's unique selling proposition; dividend policy; and how the company compares with other listed water and wastewater companies.	Provide the board with indirect view of investor perceptions.	See page 122	  
Regularly received and discussed feedback from roadshows, presentations and face-to-face meetings between investors and the CEO and/or the CFO and other communications received from large investors.	Provide the board with direct view of investor perceptions and provide point of comparison with indirect approach.	See page 122	   	
Financial	Reviewed the 2020–25 business plan and the 2020/21 budget.	Approved the 2020–25 business plan and the 2020/21 budget.	–	   
Reviewed and approved the half and full-year results and associated announcements.	Approved the half and full-year results and associated announcements.	–	   	
Reviewed management's proposed going concern and long-term viability statement.	Approved the going concern and long-term viability statement.	See page 137	   	
Reviewed tax policies and objectives proposed by management for 2019/20.	Approved tax policies and objectives for 2019/20.	See page 186	   	
Reviewed the annual pensions update.	Pensions strategy affirmed.	See page 88	   	
Reviewed the annual treasury update.	Approved the treasury policies; the group's funding requirements for the year and the potential sources to meeting these funding requirements; and managing the group's interest rate and other market risk exposure.	See page 87	   	
Reviewed the annual insurance arrangements for 2020/21.	Approved the annual insurance arrangements for 2020/21.	–	   	
Reviewed progress with material litigation involving the group.	Strategy to defend claims robustly affirmed.	See page 101	   	

Corporate governance report

Attendance at board and committee meetings

Nine scheduled board meetings were planned and held during the year (2019: eight). A number of other board meetings and telephone conferences were held during the year, as the need arose. The table below shows the number of scheduled meetings attended and the maximum number of scheduled meetings that the directors could have attended. Only in exceptional circumstances would directors not attend board and committee meetings. Similarly, every effort is made to attend ad hoc meetings either in person or via the use of video or telephone conferencing facilities if needs be. None of our non-executive directors has raised concerns over the time commitment required of them to fulfil their duties. Scheduled meetings are normally held face-to-face, but due to the COVID-19 restrictions, meetings were held remotely via audio or video conference.

On the evening before most scheduled board meetings all the non-executive directors meet either by themselves, or together with just the CEO, or with the entire board and the company secretary, and this time is usefully spent enabling board colleagues to share views and consider issues impacting the company. Time together also helps to build relationships on a personal level, which contributes to better relationships and decision-making around the board table.

	Board meetings ¹	Audit committee	Remuneration committee	Nomination committee	Corporate responsibility committee	Treasury committee
Sir David Higgins	(8) ⁽²⁾ 8			(5) 5		
Dr John McAdam	(5) ⁽³⁾ 7			(2) ⁽⁵⁾ 3		
Steve Mogford	(9) 9				(4) 4	
Russ Houlden	(9) 9					(3) 3
Steve Fraser	(4) ⁽⁴⁾ 4					
Mark Clare	(9) 9			(6) 6	(5) 5	
Sara Weller	(9) 9			(6) 6	(5) 5	
Brian May	(9) 9	(5) 5	(6) 6	(5) 5		(3) 3
Stephen Carter	(9) 9	(5) 5		(5) 5	(4) 4	
Alison Goligher	(9) 9		(6) 6	(5) 5	(4) 4	
Paulette Rowe	(9) 9	(5) 5		(5) 5		

 Meetings attended  Possible meetings

Actual number of meetings attended/maximum number of scheduled meetings which the directors could have attended during the financial year ended 31 March 2020.

- (1) Nine board meetings were scheduled this year, with the additional meeting relating to the endorsement of the final determination as accepted by the UUW board.
- (2) Sir David Higgins was appointed to the board on 13 May 2019.
- (3) Dr John McAdam was unable to attend two meetings of the board and a nomination committee meeting due to unforeseen circumstances. He resigned on 31 December 2019.
- (4) Steve Fraser resigned on 31 August 2019.

Purpose, values and strategy

As established by the board, our company's purpose, values and strategy, were revised during the year, following initial work by the corporate responsibility committee. We engaged the services of Corporate Citizenship and Edmonds Elder to help us provide a clearer articulation of why we exist and to recommend how we can communicate this more effectively to all our stakeholders. A diagram of this can be found on page 16.

Our purpose is to provide great water and more for the North West. Our vision is to be the best UK water and wastewater company through providing the best service to customers, at the lowest sustainable cost and in a responsible manner. In reviewing the company's purpose, the board took into account information and views from stakeholders, utilising much of the research and engagement that contributed to our business plan submission and the feedback obtained from customers as part of the company's brand refresh undertaken during the year. For the year ended 31 March 2020, the board is satisfied that the formulation of our aspirations in terms of our purpose, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all.

Our values demonstrate how we behave individually and collectively as the board and how we ask our employees to behave. Our employees are fundamental to delivering our strategy and achieving our purpose. Our values of being customer focused, trustworthy and innovative underpin our culture of behaving as a responsible business in the way we interact with all the stakeholders we serve. We must continually reinforce these values so that the right behaviours cascade throughout the organisation, ensuring our culture of behaving responsibly drives what we do. Key to this is taking action to address any issues where there is misalignment with the company's culture. As well as our engagement survey we run regular employee barometers to ask employees what they are seeing, hearing and feeling. This approach allows us to act quickly if there are any areas of misalignment and take immediate action.

We have been accredited with the Fair Tax Mark which recognises organisations that 'demonstrate that they are paying the right amount of corporation tax in the right place at the right time' (see page 187).

Culture and employee engagement

Our employees are at the heart of the culture of our business and further insight and evidence, as part of the board's assessment and monitoring of culture, has been gathered, and fed back to the board by Alison Goligher, the current designated non-executive director for engagement with the workforce. During the year Alison has met with employees and visited a number of the company's sites. Furthermore, Alison chairs the newly formed Employee Voice panel (the panel) formed from representatives of a number of employee groups and employee networks already in existence within the business and with representatives drawn from across the geographical region. Alison is keen to ensure, through these interactions, that there is a two-way flow of communication and information between the board and the workforce.

1

Dashboard of cultural metrics

In addition to the existing reporting, management has developed a dashboard of cultural metrics in order to provide a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The dashboard comprises relevant metrics derived from: the annual employee engagement survey; human resources policies in relation to diversity and associated training; whistleblowing reporting; health, safety and wellbeing policies and practices; and business principles measures and other key performance indicators.

2

Corporate responsibility committee review of dashboard

Prior to its review by the board, the dashboard was presented to the corporate responsibility committee. In future years, the committee will review the dashboard biannually.

3

Annual board review of dashboard

The board was satisfied that policy, practices and behaviours within the business were aligned with the company's purpose, values and strategic themes, although there was more work to do to encourage colleagues to look out for each other's health and safety.

Corporate governance report

Employee voice

Outcomes from the work to bring our employees' voices to the board include the transfer of the governance of the annual employee survey to the Employee Voice panel. Changes made by the panel included: enhancing the underlying anonymity of the survey and providing more opportunity for employees to provide greater insight into their views.

Employee groups, as set out in the table below from within the business, were approached and employees from within these groups volunteered to join the panel.



It is expected that the members of the panel will be rotated every two years. There is an open invitation to all board members to attend meetings of the panel, which will be rotated around the company's sites. It is the intention, going forward, that a member of staff based at the location where the meeting is being held will be also be invited to attend. The panel has met three times during the year. The initial pilot meeting established terms of reference discussed ways of working and the structure of the panel. Working sub-groups, made up of panel members, were formed to focus on specific aspects of the business including cross networks, culture and the employee engagement survey. Each sub-group provided an update on progress made at the second meeting, next steps and identified metrics to track progress against. Updates will be provided by Alison twice a year on the activities and findings of the panel to the corporate responsibility committee and reported annually to the board.

Listening to our employees

Employees' views are measured annually through the employee engagement survey with the objective of taking any required action to improve how employees feel about the company and understand its direction. Employees are provided with information through briefings and access to online materials, to enable them to understand the financial and economic factors affecting the group's performance. Along with our employee relations team, our CEO holds regular face-to-face meetings with senior trade union representatives to facilitate a two-way flow of information and engagement with the views of employees' representatives.

Set out on page 22 is the company's approach to our engagement with and creating value for employees, with health, safety and wellbeing being a priority. Furthermore, an explanation of the company's approach to rewarding the workforce can be found in the report of the remuneration committee on page 171.

Whistleblowing policy

The following sets out the company's compliance with Code provision 6.

As part of our two-way flow of communication the board has responsibility for reviewing the group's arrangements for individuals to raise matters of concern and the arrangements for the investigation of such matters. The group's whistleblowing policy (the policy) supports the culture within the group where genuine concerns may be reported and investigated without reprisals for whistleblowers. We operate a confidential telephone helpline and a web portal to enable employees (including agency workers and contractors) to raise matters or concerns for possible incidents of fraud, dishonesty, corruption, theft, security and bribery. Furthermore, employees are encouraged to raise any matters relating to health and safety and any activities of the business that have caused or may cause damage to the environment, such as pollution or other contamination. Both the helpline and web portal are operated by a third party enabling any concerns to be reported anonymously. The policy states that no employee will be victimised for raising a matter in accordance with the policy. Matters raised with the helpline/portal are in the first instance raised with the relevant director and investigated by senior managers independent of any involvement of the issues being considered. Details of the findings of the investigation and proposed solution are considered by the whistleblowing committee (whose membership comprises the company secretary, customer services and people director, head of internal audit and commercial director) and which meets quarterly. The board routinely reviews matters considered by the whistleblowing committee, the outcome of the investigation and the ways in which the matters were brought to a conclusion thus ensuring that the core value of integrity is upheld and fostering an environment where employees feel it is 'safe to speak up' and to do so without fear of reprisal.

Board engagement with shareholders and other stakeholders

Shareholders

The board as a whole accepts its responsibility for engaging with shareholders and is kept fully informed about information in the marketplace including:

- > The investor relations adviser produces an annual survey of investors' views and perceptions about United Utilities, the results of which are presented and discussed by the board;
- > The board receives regular updates and feedback on investor meetings involving the CEO, CFO and/or investor relations team and reports from sector analysts to ensure that the board maintains an understanding of investors' priorities; and
- > The executive and non-executive directors are available to meet with major shareholders and institutional investors; this is also one of the specific roles of the senior independent director. When revising the directors' remuneration policy, the chair of the remuneration committee has invited engagement from the company's major shareholders. Feedback from any such engagement would be shared with all board members.

Institutional investors

We are always keen to engage with our shareholders, hear their views and update them on developments in our business. As well as current investors, we engage actively with institutional investors who do not currently hold shares in United Utilities, as we are keen to ensure our business is well understood across the investment community, and to hear and discuss the views of all investors.

We have an active investor relations programme, which includes:

- > An invitation to major shareholders to meet with the Chairman;
- > A regular schedule of face-to-face meetings between the CEO and CFO and representatives from our major shareholders, supplemented with meetings hosted by our investor relations team;
- > Presentations by the CEO and CFO to groups of institutional investors, both on an ad hoc basis and linked to our half and full-year results announcements;
- > The programme covers a range of major global financial centres, typically including the UK, Europe, North America and the Asia Pacific region;
- > Regular feedback is provided to the board on the views of our institutional investors following these meetings; and
- > Close contact is also maintained between the investor relations team and a range of City analysts that conduct research on United Utilities.

In 2019/20, through our investor relations programme, we met or offered to meet with 82 per cent (2018/19: 78 per cent), by value, of the active targetable institutional shareholder base (after adjusting for shareholders who do not typically meet with companies, such as indexed funds).

Frequent areas of common interest arising in meetings with investors include operational and environmental performance, customer service, capital investment, efficiency initiatives, regulatory performance, regulatory changes and political risk. Investors are always keen to observe financial stability and are interested in: the level of gearing versus regulatory assumptions; cost of finance; our debt portfolio and debt maturity profile; future

financing requirements; and dividends. Investors are also keen to understand how the company is performing relative to the price review allowances and targets each year, along with the potential implications of regulatory change and political risk.

Retail shareholders

Despite the privatisation process being around 30 years ago, we have retained a large number of individual shareholders with registered addresses in the North West of England – in fact, over 50 per cent of registered shareholdings on the share register. We have historically always held our AGM in our region in Manchester, which enables our more local shareholders, many of whom are also our customers, to attend the meeting. We endeavour to hold the meeting at a venue that is both centrally located in the city (to enable shareholders to use public transport should they so wish) while being mindful of the costs.

There is a considerable amount of information on our website, including our online report which provides information on our key social and environmental impacts and performance during the year. Together with the annual and half-yearly results announcements, our annual report and financial statements are also available on our website; these are the principal ways by which we communicate with our retail shareholders. Our company secretariat and investor relations teams, along with our registrar, Equiniti, are on hand to help our retail shareholders with any queries. Information for shareholders can also be found on the inside back cover of this document, with a number of useful website addresses.

Other stakeholders

The board has direct contact with other stakeholder representatives including: Ofwat and YourVoice (the independent customer challenge group). Indeed, the chair of YourVoice regularly attends parts of UUW board meetings to provide an opportunity for discussion, in-depth customer insight and the sharing of views.

Prior to the AGM in 2019, Sara Weller, as chair of the remuneration committee, consulted with shareholders in relation to the revised directors' remuneration policy, which was proposed to shareholders for approval at the 2019 AGM, which was approved by 99.41 per cent of the votes cast.

Engagement with representatives of all our stakeholder groups occurs widely across many aspects of the business, and more information can be found on pages 22 to 27.

Further information on stakeholder engagement can be found in the report of the corporate responsibility committee on page 152 and on the responsibility pages of our website. The stakeholder metrics table (see page 60) provides data on a number of stakeholder and cultural indicators.

Corporate governance report

Outcome of 2019 AGM

At the 2019 AGM, votes were cast in relation to approximately 67 per cent of the issued share capital. All 23 resolutions proposed by the board were passed by the required majority; there were no significant votes cast against the board's recommendations.

Votes cast in favour of the reappointment of the board directors were as follows:

Dr John McAdam	99.15%	Alison Goligher	99.26%
Steve Mogford	99.66%	Russ Houlden	99.43%
Stephen Carter	99.18%	Brian May	99.12%
Mark Clare	99.18%	Paulette Rowe	99.34%
Steve Fraser	99.52%	Sara Weller	99.03%

Sir David Higgins was elected with 99.77% of the votes cast in favour.

Relations with banks and credit investors

Running a water and wastewater business, by its very nature, requires a long-term outlook. Our regulatory cycle is based on five-year periods, and we raise associated funding in order to build and improve our water and wastewater treatment works and associated network of pipes for each five-year cycle and beyond. We are heavily reliant on successfully raising long-term funding from banks and credit investors to fund our capital investment programme and refinance upcoming debt maturities.

This requires long-term support from our credit investors who invest in the company by making term funding available in return for receiving interest on their investment and repayment of principal on maturity of the loans or bonds. We arrange term debt finance in the bond markets (with maturities typically ranging from seven years to up to 50 years at issue). Debt finance is raised via the group's London listed multi-issuer Euro Medium Term Note Programme, which gives us access to the sterling and euro public bond markets and privately arranged note issues. Committed credit facilities are arranged with our relationship banks on a bilateral basis. Additionally, the European Investment Bank (EIB), which is the financing arm of the European Union (EU), remains our single biggest lender, currently providing around £1.8 billion of loan funding supporting past capital investment programmes.

Given that the UK left the EU on 31 January 2020, we are unlikely to obtain future funding from the EIB under its existing mandate, with our existing loan portfolio with the EIB entering into 'run-off' in line with the scheduled maturities of each loan. A greater proportion of the group's term finance is therefore likely to come from the debt capital markets, and during the year the group raised a total of £650 million of term funding in the sterling bond market.

The group currently has gross borrowings of *circa* £8,363 million. Given the importance of debt funding to our group, we have an active credit investor programme coordinated by our group treasury team, which provides a first point of contact for credit investors' queries and maintains a dedicated area of the company's website. One-to-one meetings are held with credit investors through a programme aimed at the major European fund managers known to invest in corporate bonds that may be existing holders of the group's debt or potential holders.

Regular mailings of company information are sent in order to keep credit investors informed of significant events. The treasury team has regular dialogue with the group's relationship banks and the EIB and the credit rating agencies. More information can be found on our website at unitedutilities.com/corporate/investors/credit-investors

Rating agency services continue to be provided to the group by Moody's Investors Service Limited, Fitch Ratings Ltd and S&P Ratings Europe Limited under contracts signed at the beginning of 2020 for an initial three-year term. Existing and future debt capital markets issuance by the group will therefore continue to benefit from solicited ratings with all three rating agencies.

Chairman of the board

The role and behaviour of the Chairman is fundamental to the effective operation and decision-making of the board and in creating an atmosphere where open and frank discussion is facilitated and encouraged. The roles and responsibilities of the Chairman are set out as part of the company's governance framework. Sir David Higgins took over the role as Chairman after Dr John McAdam stepped down with effect from 31 December 2019. Sir David was appointed to the board in May 2019, as chairman designate; he was independent on appointment when assessed against the circumstances set out in provision 10 of the Code. United Utilities Group PLC is Sir David's first chairmanship of a UK-based FTSE 100 company, and as such the nomination committee felt that a handover period between John and Sir David would be of particular benefit, and at a particularly critical time for the company in its five-year regulatory cycle. The 2019/20 annual board and committee evaluation process was conducted in December/January prior to Sir David assuming chairmanship of the board, and reflected John's tenure as chairman.

It is the role of the Chairman, supported by the company secretary, to drive forward the business agenda of board meetings to ensure that the board is kept abreast of the regulatory drivers and strategic needs of the business.

It is also the role of the Chairman, supported by the company secretary, to ensure that the directors receive accurate, timely and clear information. The Chairman and company secretary hold regular meetings to discuss agenda items and board materials. Board packs are distributed electronically five days before the meeting. Ensuring board materials are of an appropriate length, on what can be particularly complex and technical issues, is a constant challenge.

2**Division of responsibilities**

Code Principle	Evidence and outcomes
Principle F: The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensure that directors receive accurate, timely and clear information.	See page 124. Sir David Higgins was independent on appointment when assessed against the circumstances set out in provision 10, his biography is on page 108.
Principle G: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	See pages 108 to 111 for our reporting against code provision 10; and the governance structure of the board and its principal committees on page 116.
Principle H: Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	See page 125.
Principle I: The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	The board evaluation seeks the view of board members on the whether it receives the necessary support and information, see page 130.

Conflicts of interest and time commitment

The following section sets out the company's compliance with Code provision 7.

The company's articles of association contain provisions which permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chairman of any potential conflict or potential new appointment or directorship, and the board reviews the position of each director annually. No changes were recorded that would impact the independence of any of the directors.

The board does not specify the precise time commitment it requires from its non-executive directors in taking on the role as they are expected to fulfil it and manage their diaries accordingly. The board is content that none of its directors are overcommitted and unable to fulfil their responsibilities as a board director for United Utilities and are not overboarded. Each individual's circumstances are different, as is their ability to take on the responsibilities of a non-executive directorship role. Should a director be unable to attend meetings on a regular basis, not be preparing appropriately or not contributing appropriately to board discussions, the Chairman would be responsible for discussing the matter with them and agreeing a course of action. During the year, Brian May was appointed as a non-

executive director at Convatec Plc with effect from 2 March 2020; Brian sought permission from the board prior to accepting the appointment, which the board endorsed taking into account that Brian had retired from his executive director's role at Bunzl Plc on 31 December 2019. The board approved the appointment of Sara Weller, as a non-executive director of BT Group Plc with effect from July 2020.

Executive directors are not normally allowed to take on more than one non-executive position. During the year, Russ Houlden, whose retirement was announced on 5 February 2020, was appointed as a non-executive director of Babcock International Group PLC (Babcock) with effect from 1 April 2020, in addition to his membership of the supervisory board and his role as chairman of the audit committee at Orange Polska SA. The board regarded Russ's request in relation to the non-executive position at Babcock to be an acceptable exception to the normal rules, given his impending retirement from United Utilities.

Corporate governance report

Nomination committee



Quick facts

- > All members of the committee are independent, thus fulfilling the Code requirement that a “majority of members of the nomination committee should be independent non-executive directors”.
- > The role of the committee is to lead the process for appointments to the board and ensure plans are in place for orderly succession to both the board and senior management positions and oversee a diverse pipeline for succession.
- > The company secretary attends all meetings of the committee.
- > The customer services and people director has responsibility for human resources, regularly attends meetings and is responsible for engaging with executive search recruitment advisers.
- > The CEO is not a member of the committee, but from time to time is invited to attend. Neither the Chairman nor the CEO would participate in the recruitment of their own successor.

Quick link



Terms of reference –
unitedutilities.com/corporate-governance

Nomination committee members



Sir David Higgins (chair)



Stephen Carter



Brian May



Mark Clare



Paulette Rowe



Alison Goligher



Sara Weller

Board members and senior managers need to be in tune with the culture of the company, particularly as we start our new five-year asset management period.

Sir David Higgins Chair of the nomination committee

Dear Shareholder

On joining the board, all independent non-executive directors become members of the nomination committee. I assumed the role as chairman of the committee with effect from 1 January 2020, after Dr John McAdam stepped down from the board on 31 December 2019.

We announced on 5 February 2020 that Russ Houlden, after over nine years as CFO, would be retiring from the board and not seeking reappointment at the AGM in July 2020. On 28 February 2020, it was further announced that Phil Aspin, group controller, would succeed Russ as CFO. The nomination committee instigated a thorough benchmarking exercise notwithstanding the knowledge that Phil was a particularly strong internal candidate and has been part of our succession plans for a number of years. Phil has shown his deep understanding of all aspects of the business and its needs, along with his independent mindset and strong technical and commercial skills. He has been a core part of the team in the group's transformational journey over the last ten years and it is particularly satisfying to promote an internal candidate to this important role.

On 16 March 2020 it was announced that Sara Weller, after eight years on the board and chair of the remuneration committee, was not seeking reappointment and would be standing down from the board on the conclusion of the AGM in July 2020. Steve Fraser, our former Chief Operating Officer, left the business with effect from 31 August 2019, to join Cadent Gas Limited.

Suffice to say, the nomination committee has been kept busy putting into practice our succession plans, which address both contingency planning needs and requirements in the short to medium term, and incorporate a reasonable degree of certainty on timescales for key board positions. The committee's role is to ensure and that the board and senior management have the appropriate balance of skills

and experience to support the group's strategic objectives and that any developmental needs are met. Board members and senior managers need to be in tune with the culture of the company, particularly as we start our new five-year asset management period.

When Steve Fraser left the business on 31 August 2019, reporting lines were changed with certain members of the senior management team, each of whom had previously reported to Steve Fraser, reporting directly to Steve Mogford, CEO, resulting in a larger executive team of 15. Short biographies can be found on our website at unitedutilities.com/executiveteam. Excluding the CFO and CEO, there are 13 senior managers in the executive team, of which 30 per cent are women.

Historically, independent non-executive directors at United Utilities have served a term of between seven and nine years; a pattern that has facilitated the refreshing of the board in recent years almost on an annual basis, along with ensuring a high degree of continuity. Notwithstanding this, the specifics of each of the non-executive directors' time of departure have been driven by their own personal circumstances. Serving beyond a nine-year term is identified in the Code as being one of the reasons that could affect a non-executive director's independence. Currently two-thirds of board members are independent non-executive directors, fulfilling provisions 10 and 11 of the Code. Biographies of board directors can be found on pages 108 to 111.

Our board diversity policy (see page 129) is taken into account during every candidate selection process. Ultimately, we do strive to appoint the person we believe is best matched to the role in terms of what they have to offer the company and to make a positive contribution to the board conversation and board dynamics. Diversity of outlook and interest is essential to ensuring we have a variety of views to contribute to discussions and the decision-making process.

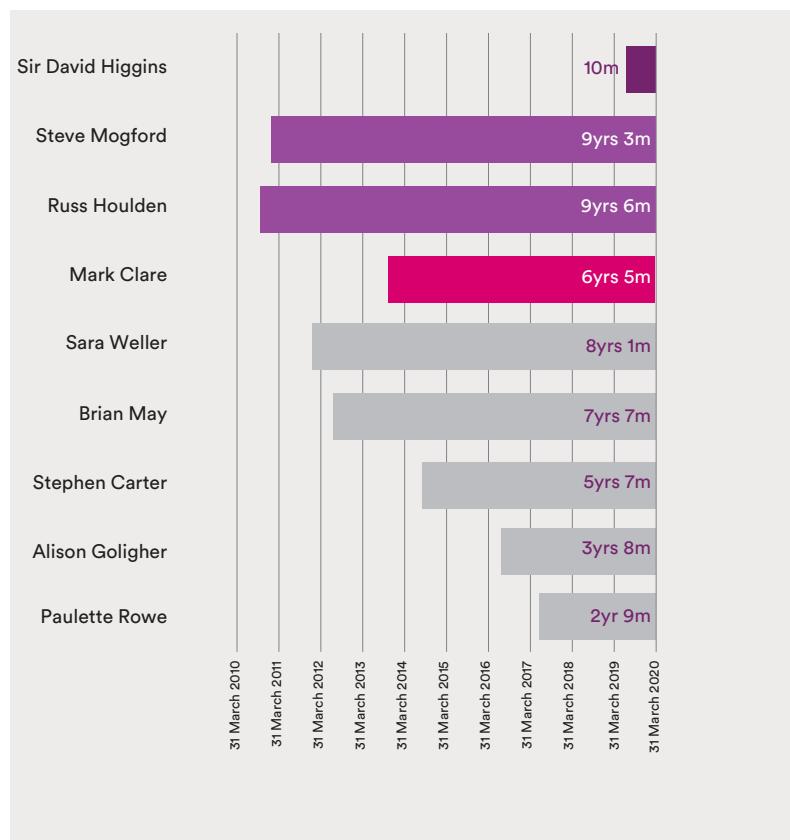
Sir David Higgins Chair of the nomination committee



Main responsibilities of the committee

- > Lead the process for board appointments and make recommendations to the board about filling vacancies on the board, including the company secretary;
- > Consider the succession planning of directors and members of the executive team;
- > Make recommendations to the board on refreshing the membership of the board's principal committees;
- > Review directors' conflict authorisations;
- > Consider the request from executive directors for election to the boards of other companies and make a recommendation to the board; and
- > Consider requests from non-executive directors for election to the boards of other companies; this role has been delegated to the Chairman (other than in respect of his own requests).

Directors' tenure as at 31 March 2020



Corporate governance report

Nomination committee

3

Composition, succession and evaluation

Code Principle	Evidence and outcomes
Principle J: Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	An explanation of the board appointments and succession planning activities can be found on page 128 and forms our disclosure as part of provision 23. Our disclosure against provision 20 is on page 128. In relation to provision 23, our policy on board diversity is on page 129 and details of the gender balance of senior management on page 132. Information on the company's approach to diversity and inclusion is set out on pages 132 to 135.
Principle K: The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	Biographies of the board can be found on pages 108 to 111. An overview of directors' areas of expertise is set out in the skills matrix on page 129 and the length of service of board members on page 127. Board biographies include our reporting against provision 18.
Principle L: Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	Details of the board evaluation and disclosure against provision 23 can be found on pages 130 to 131.

What has been on the committee's agenda during the year?

Board succession

In line with the board succession plan, and the approximate timescales therein, the process of the appointment of the successor to Russ Houlden as CFO was undertaken resulting in the announcement in February 2020 that Phil Aspin, group controller, would be appointed as CFO at the conclusion of the AGM on 24 July 2020 following Russ Houlden's retirement from the board. The committee is supported during any recruitment process by the customer services and people director, Louise Beardmore, as part of her human resources responsibilities. The executive search firm Lygon Group were engaged as part of the recruitment process and, against the brief for the role, undertook the benchmarking exercise against a number of external candidates. As a member of the senior management team, and part of the board succession plans, Phil has been very visible to the board for a number of years. Phil joined the business in 1994 having qualified as a chartered accountant with KPMG, and has held various senior roles within the group's finance function. In his role as group controller he has responsibility for financial and regulatory accounting; prior to this role he was group treasurer and is a member of the Association of Corporate Treasurers.

The succession planning matrix tool and skills matrix (see opposite) for board directors is used to support the planning process for board appointments. The succession planning matrix highlights the Code governance requirements; existing directors' terms of appointment and a forecast/anticipated time frame when an individual might leave the business; the projected strategic needs of the business and resulting preferred experience of any potential new board member; existing potential internal successors to a role (where identified) and those who could act as an interim should the need arise. A candidate suitable for the role of CEO would need to demonstrate that their management approach would fit with the company's culture of behaving responsibly. The committee would seek to consult with the incumbent CEO, given his unique knowledge and perspective of the group, on his view of the needs of the business going forwards. Neither the Chairman nor the CEO would be involved in the appointment process of their successor.

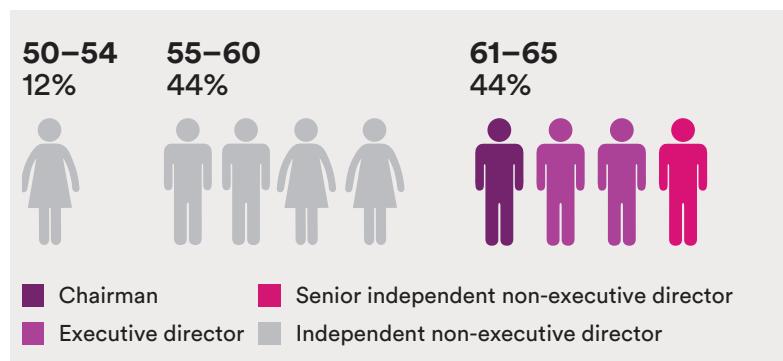
Other than providing executive search services on previous occasions Lygon Group have no other connection with the company.

Membership of the principal board committees

Sir David Higgins became a member of the nomination committee on appointment and took over as chair with effect from 1 January 2020. On Sara Weller leaving the board at the conclusion of the AGM in July, Alison Goligher will become chair of the remuneration committee.

The board is satisfied that the membership of the audit committee is in accordance with Code provision 24, and that the membership of the remuneration committee is in accordance with provision 32.

Age and gender profile



Board diversity

The board diversity policy is to 'ensure the selection process for board appointments provides access to a range of candidates. Any appointments will be made on the basis of merit and objective criteria, and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, but with due regard for the benefits of diversity on the board, including gender diversity.' The objective of the policy is for new directors to bring something different to the board table, be it in terms of experience, skills, perspective, interests or other attributes. As referred to above, our board diversity policy would be brought to the attention of any executive search firm used as part of the selection and appointment process for a board position. Feedback would be sought from the search

firm in terms of their success in attracting potential candidates with diversity of attributes and from any interview process conducted by other board members and taken into consideration in identifying suitable candidates. We recognise the benefits of diversity, and its contribution to the effectiveness of the board decision-making process and have met our measurable targets with 33 per cent female representation on the board and one director of non-white ethnicity. Furthermore, we recognise the benefits of diversity across our entire employee population with initiatives in place to support women in the workplace and the ethnic imbalance of our workforce and aligns with our strategic theme of operating our business in a responsible manner (see page 53).

Summary of board diversity policy

- > Ensure the selection process for board appointments provides access to a range of candidates. Any such appointments will be made on the basis of merit and objective criteria, and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- > Ensure that the policies adopted by the group will promote diversity in the broadest sense among senior managers who will in turn aspire to a board position.
- > In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms as recommended by the Davies Report.
- > Adopt measurable objectives from time to time for achieving gender diversity at board level, which shall be to maintain at least 25 per cent, and aspire to 33 per cent female representation by 2020, and to have at least one director of non-white ethnicity by 2021.

Skills matrix of board directors

								
	Finance/ accounting	Utilities	Regulation	Government	Construction/ engineering	Industrial	Customer- facing	FTSE companies
Sir David Higgins								
Steve Mogford								
Russ Houlden								
Mark Clare								
Sara Weller								
Brian May								
Stephen Carter								
Alison Goligher								
Paulette Rowe								

Corporate governance report

Nomination committee

Sir David's induction programme

During the year the Chairman undertook two extended visits to the company's main offices in Warrington where he met with all members of the executive team:

- > Met with the digital services director to gain an understanding of the digital monitoring and control of the group's water and wastewater network and assets and the work of the innovation team;
- > Met with the company secretary to gain an understanding of the group's corporate structure, governance arrangements and associated processes and met with Slaughter and May the group's legal adviser to receive an external perspective on governance and best practice;
- > Met with the CFO and members of the finance function and gained external perspective from the group's statutory auditor, KPMG;

- > Met with the corporate affairs director and head of the press office;
- > Met with the customer services and people director to discuss the actions undertaken by the business to improve service to customers and the group's employee agenda and the director of health, safety and wellbeing;
- > Met with the director of wastewater and the water process and scientific services director to gain an understanding of the company's operations and about the company's bioprocessing facilities from the bioresources director;
- > Met with the strategy and regulation director and the environment and asset strategy director to discuss the requirements of the economic and quality regulators; and
- > Met with the engineering director and the network and capital delivery director and visited the West Cumbria pipeline project and the Haweswater aqueduct resilience project.

Evaluation of the board and board committees

Our board evaluation was conducted internally this year; our last external evaluation was conducted by Lintstock consultants in 2018.

The evaluation process was facilitated by the company secretary and his team. For more information, see page 131.

A summary of the internal analysis of the 2019/20 evaluation is as follows:

2019/20 areas of assessment	Commentary and actions
Board composition and expertise	The composition of the board was considered to be a diverse group of high-quality non-executive and executive directors, with a variety of skills, expertise and knowledge.
Board agenda	The board was well informed about the regulatory environment within which the company operates and had a good understanding of the views of customers, regulators and investors. The agendas were well balanced, and site visits were welcomed and added significant value, and with the introduction of the Employee Voice panel, the board would gain a more in-depth insight into the views of employees and the culture of the group.
Board dynamics	The relationship between the board members was appropriate. Board meetings were conducted in an atmosphere of open communication, meaningful and equal participation from all board members and the proper resolution of issues.
Board support	The timeliness of the distribution of board documentation was satisfactory, but could be improved. Executive summaries of board papers were used effectively although board packs were sometimes considered to be too lengthy.
Wider strategic oversight	The involvement of the board in the development of the strategic direction of the group was considered to be appropriate. Moving forwards, more focus was needed on longer term business priorities such as climate change, technology and innovation, resilience and people development.
Risk management and internal control	The board's approach to the management of risk and to its systems of internal control were considered to be appropriate. The information received relating to risk management was rated highly with good visibility of operational and reputational risks.
Succession planning and human resource management	Succession plans for the board were in place with outline timescales, with both the Chairman and the CFO's succession being addressed during the year.
Committees	<p>The composition and performance of the audit, remuneration, nomination, corporate responsibility and treasury committees were considered to be appropriate. The feedback to the board by committee chairs was full and transparent and meetings chaired effectively. Specific comments/actions were identified as follows:</p> <ul style="list-style-type: none">> Nomination committee: continuing the focus on succession planning for executive and non-executive board positions;> Remuneration committee: ensuring the remuneration package for any new executive director was in line with market practice; the different perspectives of the remuneration consultants were fully explored and that the committee was kept abreast of relevant governance best practice;> Audit committee: the authors of committee papers to focus on the key issues to be brought to the attention of the committee particularly in relation to the risk management systems and controls; and> Corporate responsibility committee: the priorities for discussion over the next 18 months should be identified.

2019/20 areas of assessment	Commentary and actions
Individual directors	<p>The individual performance of all the directors was assessed: all the non-executive directors were considered to be contributing effectively to the board, and all directors demonstrated the expected level of commitment to their roles. Individual directors were asked to identify how they could improve their overall contribution to the board and its committees and if they had any skill or knowledge gaps that could be addressed. The following were identified: gaining a more in-depth knowledge of the company and its customers; arranging more opportunities for interaction with members of the executive team together with field and operational site visits to specific areas of the business outside of board meetings.</p> <p>The review of the Chairman's performance (led by the senior independent director) concluded that Dr McAdam had continued to demonstrate an effective and unbiased perspective, notwithstanding that he had served for over 11 years as a board director by 31 December 2019, when he stood down from the board. It was agreed that, during the year, Dr McAdam had fulfilled the expected commitment to the role and was an effective leader of the board. The directors offering themselves for reappointment at the 2020 AGM are set out in the biographies of the board directors on pages 108 to 111.</p>
2018/19 evaluation recommendations	Actions taken during 2019/20
The timeliness of the distribution of board documentation was satisfactory, but could be improved. Executive summaries of board papers were used effectively although board packs were sometimes considered to be too lengthy.	Board paper templates were reissued to the executive team and authors of board/committee papers, encouraging greater focus on key issues, and where appropriate, S172 duties.
Nomination committee: more regular meetings would be required over the next year within agreed timescales.	The workload of the nomination committee, primarily in addressing the succession of the Chairman and the CFO necessitated a significant increase in the number of meetings held during the year.
Audit committee: the balance between detail and simplification in audit papers should continue to be reviewed.	Audit committee papers have focused on key issues, with greater use of appendices for the explanation of detail.
Corporate responsibility committee: the implications of the outcome for the business plan submission for the committee's agenda should be kept under review.	Following acceptance of the final determination in January 2020, the committee has included a number of discussion points to its agenda such as natural capital, surface water management and air quality.

Ongoing board development and training

Board directors regularly receive updates to improve their understanding and knowledge about the business and, in particular, its regulatory environment. As part of the individual director's element of the board evaluation exercise, directors are asked to identify any skills or knowledge gaps they would like to address. Directors made a number of suggestions, as set out above.

Consideration of environmental and social issues are fundamental to the way in which we operate as a responsible business at United Utilities; such matters are central to board discussions (see the summary of board activity on pages 117 to 119). The board's approach to these matters is reflected in our strategic themes, and our corporate culture of behaving in a responsible manner as reflected throughout the strategic report. Through presentations and discussions with representatives of YourVoice, the independent customer challenge group, whose role is predicated on protecting customer interest in how the group goes about its business, the board is kept informed of customer, in-region environmental affairs and social matters.

Internal board evaluation

1 Questionnaires

- > The evaluation was based on the completion of questionnaires (including questions to be scored and free text questions) by board members assessing both the performance of the board and each of its principal committees, as well as that of the Chairman and each of the individual non-executive directors.
- > Board members were also asked to provide a view on how well the actions identified in the 2018/19 evaluation had been addressed.
- > In addition to board members, other members of the executive team who regularly attend and support the various committee meetings were also asked to participate in the evaluation process.

2 Appraisal

- > The results were reviewed by the company secretary.

3 Consultation

- > The results, once reviewed by the company secretary, were then discussed with the Chairman and the chair of the relevant committee, tabled at a meeting of the relevant committee, and then presented to the board.

4 Evaluation

- > The Chairman reviewed the performance of the individual directors. Mark Clare, as the senior independent non-executive director led the review of Dr John McAdam's performance as Chairman, which was shared with board colleagues.

5 Outcomes

- > The Chairman followed up on the evaluation findings with appropriate actions.

Corporate governance report

Nomination committee

In addition to this less formal approach to board development, during the year the board also received briefings from both Slaughter and May (legal and governance matters) and KPMG (governance changes relating to reporting requirements), along with a number of other advisers. A number of board members also attended a number of events organised by Ofwat for non-executive directors.

Our non-executive directors are conscious of the need to keep themselves properly briefed and informed about current issues and to deepen their understanding of the business. During the year, as part of the ongoing work to ensure the board has a direct link to understand the views of employees (see page 122), Alison has spent time meeting employees in different areas of the business to gain an understanding of everyday life and the culture of the business. Alison attended the North West affordability summit organised by the company bringing together agencies and support groups from across the region. The Chairman, Alison Goligher and Paulette Rowe attended the management conference in February 2020.

Induction of new non-executive directors

An induction programme is designed for each new non-executive director. It would include one-to-one meetings with the Chairman and each of the existing non-executive directors. They will have one-to-one meetings with the CEO, CFO and the company secretary along with other members of the executive team. They will also meet members of the operational teams and visit some of the key operational sites and capital projects to ensure they get a first-hand understanding of the water and wastewater business. New directors receive a briefing on the key duties of being a director of a regulated water company, including the role of the regulated company's holding company. They will also meet with the strategy and regulation director and are required to meet with representatives of Ofwat.

Wider succession pipeline and talent management

For a number of years, we have had a written succession plan for our executive directors and other members of the executive team, which includes outline timescales. The plan identifies an interim internal successor to fill a role in the short term should the need arise, and the longer-term development needs of potential successors to be able to fulfil a role on a more permanent basis. As with all our board appointments, we would always aim to appoint the best person to fulfil a role. It would be common, when recruiting for a senior role, for an external search to be conducted alongside an internal candidate recruitment process.

Any changes that are required to the profile of the management team to reflect the changing needs of the business are considered by the board in the executive succession plan. Succession and development initiatives for senior executives include executive mentoring and coaching and participating in an executive business school programme. Leadership development centres have been delivered to identify and validate potential for future director and senior leader positions and develop a number of role-ready diverse candidates to provide the group with leadership capacity in an increasingly complex environment. Senior managers are encouraged to take on a non-executive directorship role as part of their personal development, but it is recognised that this is very much a personal commitment for each individual. We continue to work towards improving our gender balance across our employee population as part of our ongoing diversity and inclusion plan.

30 per cent of our executive team (excluding the CEO and CFO) is made up of women. The gender balance of the direct reports of the executive team are 61 per cent male and 39 per cent female. We are keen to develop our succession pipeline of female senior managers so that, over time, they can be considered for executive board appointments or as potential candidates for non-executive directorships in other companies. Our current talent programme at a senior level is well embedded and we believe a non-executive appointment for senior managers provides an excellent opportunity for both personal and career development. It is a way of gaining valuable experience that may be applied at United Utilities so long as no conflicts of interest occur. Our graduate and apprentice programmes are thriving and we are focusing more effectively on middle/junior management succession. Our gender pay data can be found on page 135. Historically, our industry has been male dominated, but we have measures in place to increase diversity in broad terms, including gender among our employees.

During the year, board directors have a number of opportunities to meet with members of the executive team, both formally when senior managers are required to present at board meetings on matters related to their responsibilities, and on more informal occasions. From time to time, board members also have the opportunity to attend events and meet with members of the apprentice and graduate population and other employees identified as potential talent within the business.

What we have done to improve diversity and inclusion in 2019/20

Our commitment to providing a diverse and inclusive workforce, now and for the future, is more relevant than ever before. We need fantastic people to enable us to deliver a great public service. We want to make sure we are reaching and recruiting from every community and then supporting employees to achieve their full potential.

Our diversity and inclusion steering group is tasked with driving the inclusion strategy and has five key focus areas and uses data and metrics to monitor progress:

- > Removing barriers by working with target communities to attract a more diverse workforce;
- > Taking positive action by evolving how we recruit employees;
- > Providing support for all employees to ensure they feel valued and included regardless of their gender, age, race, disability, sexual orientation or social background;
- > Developing our leaders, managers and employees to raise the importance of inclusion within our workplace; and
- > Providing flexible working opportunities so that current and future can balance home and working life.

Gender

Throughout 2019/20, our workforce profile has remained quite static at 65 per cent male and 35 per cent female. This is primarily due to the limited supply of females with the relevant skills available in the market and the legacy of a traditional male-orientated bias in science, technology, engineering and maths (STEM) careers.

Any meaningful and significant change in our gender balance will also require a shift in wider society and in the education system. Research indicates that there continues to be significantly fewer females than males studying STEM subjects in secondary schools and universities, which means that females continue to be under-represented in jobs requiring such skills. Indeed, females made up only circa 15 per cent of the UK workforce employed in core STEM-related jobs in 2018 (WISE campaign summary of Office for National Statistics Labour Force Survey data).

The United Utilities Aspiring Manager Programme has 44 per cent female participants. The overall number of female graduates is 41 per cent; this number has been growing year on year for the past five years. As we offer predominantly STEM-based programmes, we are encouraged to see a more gender balanced pool of future talent. The apprentice population is 18 per cent female, an increase from 9 per cent since 2014/15, and this compares favourably with other companies in the sector.

We continue to:

- > Celebrate the success of those of our senior and emerging female leaders included in the Northern Women Future List;
- > Look for targeted development for our future female leaders with cross company mentoring schemes and targeted personal development to support future progression;
- > Actively encourage employees to join the gender equality network within the business;
- > Be part of the 30 per cent Club campaign to achieve the target of 30 per cent female representation in senior leadership teams by 2020; and
- > Inspire future generations through our education-based STEM programmes actively promoting STEM-related educational paths, careers and opportunities specifically to females across the North West.

Disability

In the North West, 19 per cent of the working age population are disabled or live with a long-term health condition. Less than 1 per cent of our employees have declared disabilities or long-term health conditions. Our ability network aims to support employees with, or those who support, people with a disability or long-term health conditions. Having gained Disability Confident status, we have continued to offer guaranteed interviews and make reasonable adjustments for people who are registered with a disability. We will continue to promote this to attract candidates from the widest talent pool.

Throughout 2019/20, we have delivered disability awareness training to over 150 managers, with 92 per cent of participants rating the training as excellent.

Louise Beardmore, customer services and people director, sponsors and raises awareness of dyslexia across the business. We continue to participate in national events such as National Dyslexia week to educate, create awareness and provide support for employees with various conditions.

Ethnicity

The black, Asian and minority ethnic (BAME) representation of our workforce is 2 per cent (15 per cent of our workforce choose not to disclose ethnicity). Attracting a future pipeline of employees from multi-cultural backgrounds remains a priority.

In 2019 we launched a multicultural employee network that aims to support colleagues and educate the wider workforce by providing insight and stories from a range of cultural backgrounds.

Corporate governance report

Nomination committee

We have strategic partnerships with schools, colleges and universities, with higher levels of BAME presence among their student population, in order to improve the ethnicity of our workforce profile. We have recruited a number of university ambassadors from our partnered universities to actively promote our opportunities to BAME networks across their universities.

We are members of the National Apprenticeship Champions Diversity Network Forum, which works alongside other companies in the UK, to address the challenge of recruiting more apprentices from BAME backgrounds. We have joined the Energy and Utility Skills Diversity Forum to enable us to promote and contribute to the agenda in our sector.

Social mobility

In 2018, we signed up to the UK Government's Social Mobility Pledge, committing to provide support to people from communities with low social mobility. Youth unemployment in the North West is higher than the national average at 11.2 per cent. We recognise that our region's young people come from a range of socio-economic backgrounds, which can contribute, along with personal challenges, to the difficulties of finding work.

Social Mobility Commission research revealed that 41 per cent of people living in the North West believe that opportunities to progress in their region are poor; while 78 per cent of people in London think their progression opportunities are good.

Therefore we provide employment, enrichment and educational opportunities to targeted communities

who experience low social mobility. For the past six years, we have continued to lead our youth programme in collaboration with our supply chain partners. This programme supports young people from across our region who are not in education, employment or training (NEET) to become work ready. This collaboration has supported over 120 young people, with 74 per cent of participants in paid employment after the programme. The Prince's Trust measure the social value of the programme at £150,000 per person.

United Utilities are in their second year of supporting Salford University's Care Leaver Mentoring programme, where senior leaders mentor a second year student who has come through the care system. We have also lead mentoring circle sessions with five separate DWPs across the North West, which support 18 to 24 year-olds who are either BAME or have disabilities or long-term health conditions.

Flexible working

Based on employee feedback, we have refocused our approach on flexible working, as well as complying with, often exceeding our statutory obligations to provide flexible and part-time working patterns that reflect all stages of the employee life-cycle. We have introduced a 'happy to talk flexibly' approach to recruitment, changed our policies to remove barriers to flexible working and remain committed to considering modifying working practices.





LGBT+

Our Identity+ network, which supports lesbian, gay, bisexual and transgender communities, has over 500 members. Throughout 2019/20, our network has continued to have an active presence across our communities ensuring they attend or sponsor as many north west pride events as possible. This year, we have introduced a new training course for managers delivered by The Proud Trust. The focus of the session is to equip our colleagues, managers and senior leaders with the right tools and information to help them support our LGBT colleagues and contribute to our ethos of an inclusive workplace for all.

Gender pay

The utilities industry is traditionally male-dominated, with the vast majority of jobs requiring STEM skills.

The main driver of our gender pay gap is the shape of our workforce and the challenges faced within our industry when trying to attract and recruit employees.

Overall, 35 per cent of our workforce is female. We have a higher proportion of men in more senior roles within our organisation and more males in STEM skilled trades and higher-paid roles, which contributes to our current gender pay gap. In line with our overall aim to have a workforce that is representative of our region and our customer base, this is an imbalance we are striving to overcome.

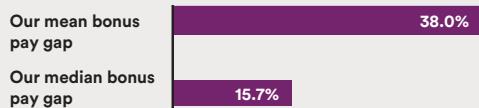
We have relatively long-serving employees which, when combined with low employee turnover rates, means the overall composition of our workforce is broadly unchanged from last year. So adjusting our gender balance will take time. We are continuing to undertake initiatives to address our imbalance and make improvements over the next couple of years.

Our gender pay gap figures are shown below. Further details can be found in the full report at unitedutilities.com/corporate/responsibility/employees/diversity/

Median and mean gender pay gap



Median and mean bonus gender pay gap⁽³⁾



90.5 per cent of males and 95.9 per cent of females received a bonus payment. Levels are less than 100 per cent as the eligibility criteria requires a minimum level of service to be completed during the bonus year and therefore some new starters may not be eligible.

(1) Source: Office for National Statistics October 2019.

(2) Source: company payroll data for the month of April 2019.

(3) Source: company payroll data, bonus paid in the 12 months period preceding 30 April 2019.

Corporate governance report

4

Audit, risk and internal control

Code Principle	Evidence and outcomes	
Principle M: The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	In accordance with provision 25, an explanation of how the independence and effectiveness of the external audit process can be found on page 144, and the reappointment of the statutory auditor on page 147.	> is satisfied that it has carried out a robust assessment of the emerging and principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; and
Principle N: The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Our disclosure against provision 27 can be found on page 144.	> has reviewed the effectiveness of the risk management and internal control systems including all material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified. After review, it was concluded that through a combination of the work of the board, the audit committee and the UUW board (which has particular responsibility for operational and compliance controls), the company's risk management and internal controls were indeed effectively monitored throughout the year.
Principle O: The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Our risk management framework and principal risks are on pages 92 to 101. Further information on the company's internal audit function and controls can be found on pages 150 to 151.	In the review of the effectiveness of risk management and internal controls systems, the board also took into account the:
Board's approach to risk management and internal control The board discharges its responsibility for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives through the risk appetite framework. As a key part of the risk management framework, risk appetite captures the board's desire to take and manage risk relative to the company's obligations, stakeholder interests and the capacity and capability of our key resources. The board is also responsible for ensuring that the company's risk management and internal control systems are effectively managed across the business and that they receive an appropriate level of scrutiny and board time. The group's risks predominantly reflect those of all regulated water and wastewater companies. These generally relate to the failing of regulatory performance targets or failing to fulfil our obligations in any five-year planning cycle, potentially leading to the imposition of fines and penalties, in addition to reputational damage. Political risk is also closely monitored.		> biannual review of significant risks (see page 95) and emerging risks (see page 101); > outcome of the biannual business unit risk assessment process (see page 150); > activities and review of the effectiveness of the internal audit function (see page 150); > opinion provided by internal audit in relation to their work, that "the governance, risk management and internal control framework was suitably designed and effectively applied within the areas under review"; > self-assessment provided by management confirmed compliance with a range of key internal policies, processes and controls (see page 151); > review of reports from the group audit and risk board (see page 150); > oversight of treasury matters in particular debt financing and interest rate management (see page 87); and > review of the business risk management framework and management's approach and tolerance towards risk (see page 92).

Going concern and long-term viability

The following section sets out the company's compliance with part of Code provision 30 and 31.

The board, following the review by the audit committee, concluded that it was appropriate to adopt the going concern basis of accounting (see page 207). Similarly, in accordance with the principles of the Code, the board concluded, following the recommendation from the audit committee, that it was appropriate to provide the long-term viability statement (see below). Assurance supporting these statements was provided by the review of: the group's key financial measures and contingent liabilities; the key credit financial ratios; and the group's liquidity and ongoing ability to meet its financial covenants. As part of the assurance process, the board also took into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks, and include emerging and more topical risks.

These principal risks and uncertainties are detailed on pages 92 to 101, as are the risk management processes and structures used to monitor and manage them. Biannually, the board receives a report detailing management's assessment of the most significant risks facing the company. The report gives an indication of the level of exposure, subject to the mitigating controls in place, for the risk profile of the group, while also highlighting the reputational and customer service impact. This provides the board with information in two categories: group-wide business risks; and wholesale operational risks. The board also receives information during the year from the treasury committee (to which the board has delegated matters of a treasury nature – see the structure diagram on page 116) including such matters as liquidity policy, the group's capital funding requirements and interest rate management. The board believes, because of the nature of the regulatory regime of the water sector and the contribution to the longer-term planning horizon for the sector of Ofwat's business plan assessment process, under the current regulatory and statutory framework a period of seven years to assess the group's long-term viability is appropriate.

Long-term viability statement

The directors have assessed the viability of the group, taking account of the group's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of the group's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the seven year period to March 2027.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework does not substantively change. The long-term planning detailed on page 37 assesses the group's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the group's strategic planning process, and is key to achieving the group's aim of providing the best service to customers at the lowest sustainable price and in a responsible manner over the longer term, underpinning our business model set out on pages 28 to 31.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the group. Specifically, risks associated with the possible ongoing impact of the COVID-19 pandemic have been considered and factored into the various scenarios modelled as part of the group's assessment. An overview of our risk management approach that supports the group's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 92 to 101.



Corporate governance report

Viability assessment: resilience of the group

The viability assessment is based upon the group's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- > The group's current liquidity position – with £1.2 billion of available liquidity at March 2020 providing a significant buffer to absorb short-term cash flow impacts;
- > The group's robust capital solvency and credit rating positions – with a debt to regulatory capital value (RCV) ratio of 62 per cent, a robust pension position and current credit ratings of A3/BBB+/A- with Moody's, S&P and Fitch respectively, this provides considerable headroom supporting access to medium-term liquidity where required;
- > The group's expected performance, underpinned by its historical track-record; and
- > The current regulatory framework within which the group operates – which provides a high degree of cash flow certainty over the regulatory period and the broader regulatory protections outlined below.

The group has a proven track-record of being able to raise new forms of finance in most market conditions, and expects to continue to do so into the future. This is despite the group no longer having access to future EIB funding following the UK's exit from the EU.

From a regulatory perspective, the group benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure

that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing reasonable returns on capital; and secure that water and wastewater supply systems have long-term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

Viability assessment: resilience to principal risks facing the business

The directors have assessed the group's viability based on the resilience of the group and its ability to absorb a number of 'severe but reasonable' scenarios, derived from the principal risks facing the group, as set out on pages 92 to 101. The baseline plan against which the viability assessment has been performed reflects the estimated impact of a 'long peak' COVID-19 scenario on the group. This assumes restrictions and social distancing extend through the summer of 2020 resulting in a one-year GDP reduction of 8 per cent which takes 10 quarters to recover; unemployment peaking at 9 per cent; CPIH inflation reducing to zero in the year to March 2021 and averaging 1.0 per cent over the period to March 2025 before increasing back to 2.0 per cent; and non-household business revenues reduced by around 30 per cent in the year to March 2021. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of the group's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the group's TCFD disclosures



on pages 66 to 77; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; longer term, economic impacts resulting from COVID-19, including unemployment and corporate failures affecting debt collection and lower inflation affecting revenues, financing costs and RCV; and the potential for a restriction to the availability of financing resulting from a capital markets crisis. While a scenario in which no trade deal is reached ahead of the conclusion of the transition period following the UK's withdrawal from the EU may have adverse operational and financial impacts on the group, this is not considered to represent a significant risk to the group's ongoing viability.

The scenarios considered are underpinned by the group's established risk management processes, taking into account those risks with a greater than 10 per cent (1 in 10) cumulative likelihood of occurrence. In addressing the risks associated with COVID-19 the further downside scenario considered is one in which the pandemic gives rise to a potential depression with persisting levels of high unemployment and short-term deflation, followed by medium term low inflation. This is assumed to result in elevated levels of bad debt, increased totex costs, outcome delivery incentive penalties and lower CPIH inflation, in each case, across the whole viability period.

The assessment has considered the impact of these scenarios on the group's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the group's ability to absorb the impact of all severe but reasonable scenarios modelled, without the need to rely on the key mitigating actions detailed below.

As part of the assessment, reverse stress tests of extreme theoretical scenarios have been performed to understand the headroom in the group's ability to absorb all severe but reasonable scenarios.

Viability assessment: key mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the group, the effectiveness of which are underpinned by the strength of the group's capital solvency position.

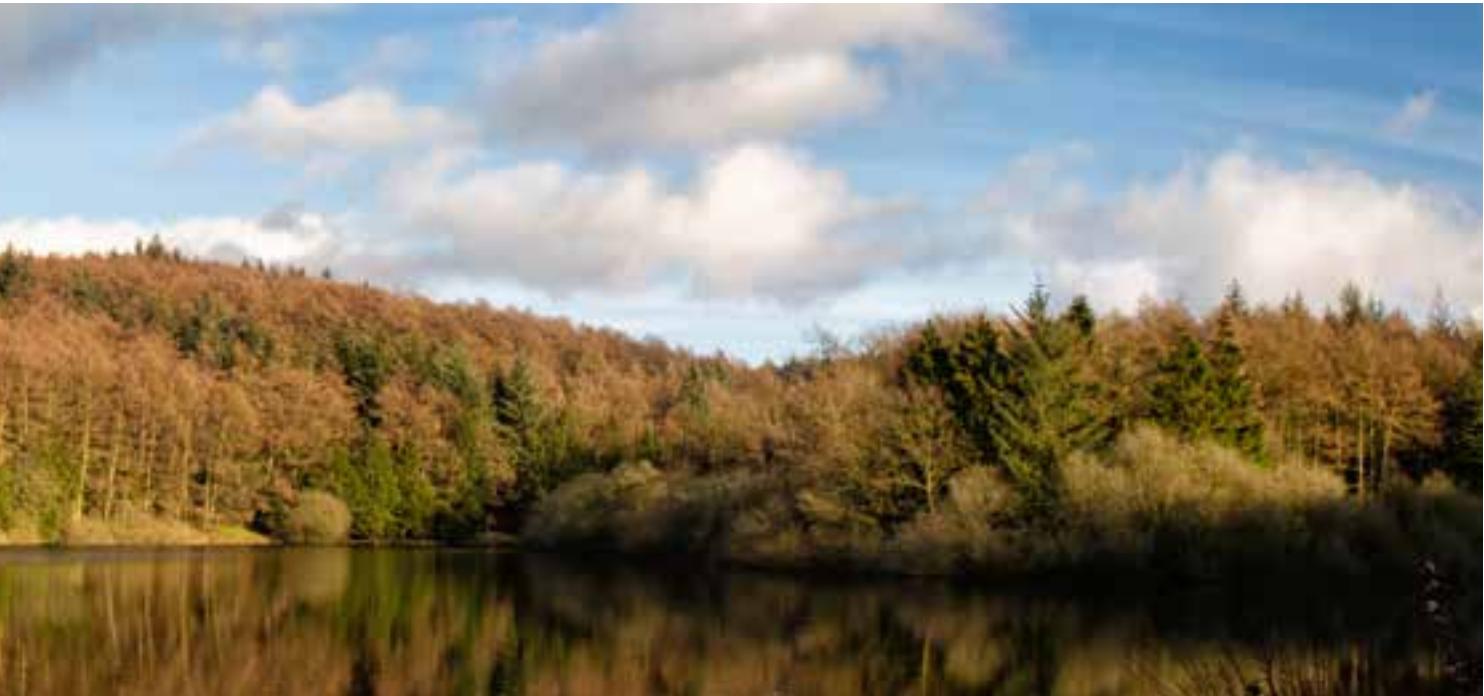
As well as the protections that exist from the regulatory environment within which the group operates, a number of actions are available to mitigate more severe scenarios, which include: the raising of new finance; capital programme deferral; the closeout of derivative asset positions; the restriction of dividend payments; and access to additional equity.

Governance:

The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the group's external auditor, KPMG, as part of their normal audit procedures.

Going concern:

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation note to the accounts.



Corporate governance report

Audit committee



Quick facts

- > Brian May has chaired the committee since July 2013. He is a chartered accountant and is considered by the board to have recent and relevant financial experience, having served as finance director of a FTSE 100 company, from which he retired in February 2020.
- > All members of the committee are independent non-executive directors and the board is satisfied that the committee as a whole has competence relevant to the sector. Attendance at audit committee meetings is set out on page 120, and the relevant directors' biographies can be found on pages 108 to 111.
- > Other regular attendees at meetings at the invitation of the committee include the CEO, the CFO, the company secretary, the head of audit and risk, the group controller, and representatives from the statutory auditor, KPMG LLP (KPMG). None of these attendees are members of the committee.
- > The representatives from KPMG and the head of audit and risk each have time with the committee and the company secretary to raise freely any concerns they may have without management being present.
- > The committee is authorised to seek outside legal or other independent professional advice as it sees fit, but has not done so during the year.

Quick links



Terms of reference –
unitedutilities.com/corporate-governance

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at frc.org.uk

Audit committee members



Brian May
(chair)



Paulette Rowe



Stephen Carter

During the year, the audit committee conducted a competitive tender process for the role of statutory auditor and made a recommendation to the board in January 2020 that the incumbent auditor KPMG should be appointed for a further term.

Brian May Chair of the audit committee

Dear Shareholder

In my report this year I have sought to provide shareholders with an understanding of the work we have done as the audit committee to provide assurance on the integrity of the annual report and financial statements for the year ended 31 March 2020, coupled with insight into the outcome of the audit tender conducted during the year. Much of the work of the committee is necessarily targeted at the regulated activities of UUW, which represent over 98 per cent of group revenues and is a reflection of our commitment to safeguarding the interests of our stakeholders, particularly our shareholders and customers.

All directors have a duty to act in a 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 have regard to other stakeholders as set out in S172 of the Companies Act 2006. The directors' responsibility statement in respect of the 2019/20 annual report and financial statements can be found on page 191.

The particular role of the audit committee is to ensure that the interests of shareholders are properly protected in relation to the company's financial reporting and internal control arrangements, and to provide challenge to the decisions and approach made by the management team relating to the content and disclosures within the company's financial reports. As articulated in the Code, "the board should present a fair, balanced and understandable assessment of the company's position and prospects". The board asks the audit committee to advise on whether in fact "the annual report and accounts, taken as a whole, is fair balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy". The audit committee's role is to ensure that management's disclosures reflect the supporting detail or challenge them to explain and justify their interpretation and, if necessary, re-

present the information. The committee reports its findings and makes recommendations to the board accordingly. The committee is supported in this role by using the expertise of the statutory auditor, who in the course of the audit, considers whether accounts have been prepared in accordance with IFRS and whether adequate accounting records have been kept. Furthermore, the company's own internal audit team also contributes to the assurance process by reviewing compliance with internal processes. The statutory auditor presents its findings to the shareholders as the owners of the business, and its report can be found on pages 194 to 200.

During the year, the audit committee conducted a competitive tender process for the role of statutory auditor. KPMG were first appointed by shareholders on 22 July 2011; the 2019/20 audit has been their ninth consecutive year in office as auditor to the group. Last year's audit committee report indicated that we expected to conduct the tender process during 2020, with a view to the successful bidder providing statutory audit services for the year ending 31 March 2022. In light of the FRC's Revised Ethical Standard (2019) relating to auditor independence rules, applicable from March 2020, whereby a new statutory auditor cannot have provided internal audit services to public interest entities for 12 months prior to the start of the first period for which they are statutory auditor, the committee accelerated the timing of the tender process in order not to preclude any bidder on this basis. Three bids were received and 'challenger' firms were invited to participate. The committee concluded the tender process and made a recommendation to the board in January 2020, that the incumbent auditor KPMG should be appointed for a further term. There are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into. Further detail on the tender process can be found on page 145. The primary factor for the committee in making this recommendation was that KPMG offered a more compelling case for the provision of a high-quality audit.

As reported last year, KPMG implemented an audit quality transformation plan, following criticism by the FRC in their 2017/18 audit quality inspection report on the firm and other enhancements to improve audit quality as identified in their 2019 audit plan for the company (see page 144). Furthermore, in KPMG's audit plan for the year ended 31 March 2020, they set out their proposals to address areas identified by the FRC for improvement in its 2018/19 audit quality inspection report.

Auditor independence is a key principle, and was an important factor considered during the tender process. As a general point, the auditor must be independent of the company and it is the committee's responsibility to ensure that the three-way relationship between the committee, the auditor and the company's management is appropriate and there is no undue influence by any of the parties on the other thereby ensuring the integrity of the audit



Main responsibilities of the committee

- > Make a recommendation to the board for the appointment or reappointment of the auditor, and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor.
- > Establish policies for the provision of any non-audit services by the auditor.
- > Review the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- > Review the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues considered by the committee in relation to the financial statements and how these were addressed.
- > Review the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems.
- > Review the group's procedures for reporting fraud and other inappropriate behaviour and to receive reports relating thereto.
- > Report to the board on how it has discharged its responsibilities.
- > Apply the principles of the Code and report against the provisions.

process and the annual report and financial statements. Independence is a key focus for the auditor, whose staff must comply with their firm's own ethics and independence criteria which must be consistent with the FRC's Revised Ethical Standard (2019). Information on how the committee assesses the independence of the auditor can be found on page 144.

The committee revised the group's policy on non-audit services to reflect the FRC's Revised Ethical Standard (2019) whereby the only non-audit services that a statutory auditor is permitted to provide to a public interest entity are those required by law or regulation, loan covenant reporting, other assurance services closely linked to the audit and/or reporting accountant services.

We continue to be committed to providing meaningful disclosure of the committee's activities. As chair of the audit committee, I am intent on ensuring that the committee's agenda is kept under review and keeps abreast of relevant developments, particularly in the area of audit reform following the recent reviews by Sir John Kingman, The Competition and Markets Authority, and Sir Donald Brydon, and we await further guidance from the FRC and BEIS in relation to the implementation of changes proposed in these reviews. The details of the annual evaluation process of the committee's performance can be found on page 130.

I would like to extend my thanks to committee colleagues for their work and support during the year, particularly in relation to the audit tender process and extra focus at the year end to consider the matters in the financial statements impacted by COVID-19. As non-executive directors, my colleagues and I have no hesitation in seeking a full explanation from management or the auditor on any matter we feel necessary.

This report was approved by the committee at its meeting held on 19 May 2020.

Brian May
Chairman of the audit committee

Corporate governance report

Audit committee

What has been on the committee's agenda during the year?

The committee has an extensive agenda of items of business focusing on the audit, assurance and risk processes within the business which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team. In doing so it ensures that high standards of financial governance, in line with the regulatory framework as well as market practice for audit committees going forward, are maintained. There were five scheduled meetings of the committee during the year, one of which was held specifically to consider the outcome of the audit tender process. Subsequent to the year end, the committee met on two further occasions to address matters in the financial statements impacted by COVID-19. Items of business considered by the committee during the year are set out in the table below.

Actions	Outcomes	Cross reference
Reviewed and discussed the reports from the financial reporting team on the financial statements, considered management's significant accounting judgements, and the policies being applied both at the full and half year and how the statutory audit contributed to the integrity of the year end financial reporting.	Recommendations were made to the board, supporting the approval of the half and full-year accounts and financial statements.	See page 147
Reviewed the regulatory reporting process relating to the annual performance report for UUW as required to be submitted to Ofwat and noted the differences between the regulatory and statutory accounts.	Contribution to the assurance of the regulatory reporting to the UUW board.	–
Reviewed the company's approach to the adoption of International Financial Reporting Standards (IFRS) IFRS 16 Leases, first impacting the 31 March 2020 financial statements.	Adoption of approach to new reporting standard IFRS 16.	See page 207
Reviewed the proposed audit strategy for the 2019/20 statutory audit, including the level of materiality applied by KPMG, audit reports from KPMG on the financial statements and the areas of particular focus for the 2019/20 audit, and tasked management to resolve any issues relating to internal controls and risk management systems.	Monitoring progress made by statutory audit team against the agreed plan, and consideration of issues as they arise.	See page 194
Reviewed the basis of preparation of the financial statements as a going concern as set out in the accounting policies.	Recommendation made to the board to support the going concern statement.	See page 207
Reviewed the long-term viability statement proposed by management.	Recommendation made to the board to support the long-term viability statement.	See page 137
Reviewed the impact of COVID-19 on the financial statements.	Approved accounting treatments and the impact of COVID-19 on the financial statements and in particular expected credit losses and carrying values in joint ventures.	See pages 147 to 149
Reviewed the results of the committee's assessment of the effectiveness of the 2018/19 audit.	The committee concluded that the audit was effective and a recommendation was made to the board on the reappointment of KPMG as the auditor for the year ending 31 March 2021 at the forthcoming annual general meeting.	See page 146
Reviewed whether the company's position and prospects as presented in the 31 March 2020 annual report and financial statements were considered to be a fair, balanced and understandable assessment of the company's position and prospects.	Recommendation made to the board that the 31 March 2020 annual report and financial statements was a fair, balanced and understandable assessment of the company's position and prospects.	See page 143
Reviewed the non-audit services and related fees provided by the auditor for 2019/20 and the policy on non-audit services provided by the auditor for 2020/21.	Approved the non-audit services and related fees provided by KPMG for 2019/20 and approved an updated policy for non-audit services provided by the auditor.	See page 145

Actions	Outcomes	Cross reference
Negotiated and agreed the statutory audit fee for the year ended 31 March 2020.	Statutory audit fee paid as agreed by the committee.	See page 145
Conducted a competitive tender process for the role of statutory auditor.	Recommendation made to the board to retain KPMG as statutory auditor for the year ending 31 March 2022.	See page 145
Reviewed the effectiveness of the risk management and internal control systems.	Recommendation made to the board that the risk management and internal control systems were effective.	See page 150
Review of the committee's terms of reference.	Terms of reference were considered to be 2018 Code compliant.	See page 140
Monitored fraud reporting.	Reviewed the company's anti-fraud policies and processes and alleged incidents of fraud and the outcome of their investigation.	See page 151
Biannual oversight and monitoring of the group's compliance with the Bribery Act.	Reviewed compliance with the company's ongoing anti-bribery programme.	See page 151
Approved the strategic internal audit planning approach and reviewed reports on the work of the internal audit function from the head of audit and risk.	Monitored the implementation of the 2019/20 internal audit plan. Reviewed findings of specific internal audit and implementation of any resulting actions by management.	See page 150
Considered the issues and findings brought to the committee's attention by the internal audit team.	The committee was satisfied that management had resolved or was in the process of resolving any outstanding issues or concerns in relation to matters scrutinised by the internal audit team.	See page 149
Reviewed the quality and effectiveness of internal audit and the effectiveness of the current co-source arrangements.	Concluded that the internal audit team, supported by the PwC co-source resource was effective.	See page 150
Reviewed the internal audit plan for 2020/21.	Approved the internal audit plan for 2020/21.	See page 149
Reviewed the conclusions of the committee's annual evaluation. The internally facilitated evaluation was undertaken as part of the overall board evaluation. The review explored: time management; the composition of the committee and the management of the meetings; the committee's processes and support; the agenda and work of the committee; and the priorities for change. All elements of the workings of the committee reviewed scored well.	The board reviewed the results of evaluation of the committee and concluded that the committee continued to be effective.	See page 130

How we assessed whether “the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy”

The following section sets out the company's compliance with part of Code provision 27.

The directors' responsibility for preparing the annual report and financial statements is set out on page 191.

The board delegates to the committee the review of the annual report and financial statements with the intention of providing advice to the board on whether, as required by the Code, “the annual report

and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy”.

To make this assessment, the committee received copies of the annual report and financial statements to review during the drafting process to ensure that the key messages being followed in the annual report were aligned with the company's position, performance and strategy being pursued and that the narrative sections of the annual report were consistent with the financial statements. The significant issues considered by the committee in relation to the financial statements include those identified by the auditor in their report on pages 194 to 200.

Corporate governance report

Audit committee

The committee received regular updates on the calculation of underlying operating profit measures as one of the principal alternative performance measures (APMs). A guide to APMs can be found on page 90. APMs are used in accordance with the ESMA guidelines and management highlights any impact on APMs as a result of changes to accounting methods/transactions.

The key performance indicators included in the strategic report (see pages 56 to 59) were, among others, those used by management and some of which reflect the regulatory measures to be monitored by either Ofwat, the DWI or the EA during the 2015–20 asset management period.

Additionally, the committee was satisfied that all the key events and issues which had been reported to the board in the executive team's monthly board reports during the year, both good and bad, had been adequately referenced or reflected within the annual report.

How we assessed the effectiveness of the statutory audit process

The committee, on behalf of the board, is responsible for the relationship with the auditor, and part of that role is to examine the effectiveness of the statutory audit process. Audit quality is regarded by the committee as the principal requirement of the annual audit process.

KPMG present the strategy and scope of the audit for the forthcoming financial year at the meeting of the committee held in September, highlighting any areas which would be given special consideration. KPMG report against this audit scope at subsequent committee meetings, providing an opportunity for the committee to monitor progress and raise any questions. Private meetings are also held at each committee meeting between the audit committee and representatives of the auditor without management being present in order to encourage open and transparent feedback by both parties. KPMG also meet with management at regular intervals during the annual audit process.

As reported in the 2019 audit committee report, KPMG had implemented an Audit Quality Transformation Plan (AQTP) addressing improvements identified by the FRC in its 2017/18 audit quality inspection report relating to the firm. KPMG's AQTP included: a more standardised audit approach; their intention to hold companies to account for the quality of the information provided to them in the audit process; their intention to provide more feedback to companies on the findings of their audit and provide additional senior level support to the KPMG audit teams during the audit. Furthermore, KPMG identified further audit quality improvements in the 2018/19 audit plan, presented in September 2018, including: delivering both a more standardised and structured audit programme; ensuring the KPMG audit team had an understanding of emerging issues; enhanced project management; greater use of technology as an 'enabler' to the audit process; more visibility of senior KPMG support to the audit team on site; greater challenge to management in general and increased scrutiny of pension scheme assets and liabilities.

On completion of the annual audit process, all members of the committee, as well as key members of the senior management team and those who regularly provide input into the audit committee or have regular contact with the auditor, completed a feedback questionnaire seeking their views on how well KPMG performed the audit. The questionnaire was issued in July 2019. Views were sought from respondents, and it was confirmed in the responses, that KPMG had delivered the audit quality improvements as identified in its 2018/19 audit plan.

Views of the respondents were sought in terms of:

- > The robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity;
- > Whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit;
- > The quality of the delivery of the audit and whether planned quality improvements had been delivered;
- > The expertise of the audit team conducting the audit;
- > That the degree of professional scepticism applied by the auditor was appropriate;
- > The appropriateness of the communication between the committee and the auditor in terms of technical issues;
- > The quality of the service provided by the auditor;
- > Their views on the quality of the interaction between the audit engagement partner, the audit senior manager and the company; and
- > Whether the statutory audit contributed to the integrity of the group's financial reporting.

The feedback was collated and presented to the committee's meeting in September 2019, at which the conclusions were discussed and any opportunities for improvement brought to the attention of the auditor. As part of a process of continual improvement the committee requested that management and KPMG collaborate to enhance performance in certain limited areas.

In summary, the committee noted KPMG's delivery of improvements to its policies and processes most importantly impacting audit quality, and in relation to the additional oversight provided by senior KPMG personnel during the 2018/19 audit, it was agreed that the statutory audit process and services provided by KPMG were satisfactory and effective.

How we assessed the independence of our statutory auditor

The following section sets out the company's compliance with part of Code provision 26.

There are two aspects to auditor independence that the committee monitors to ensure that the auditor remains independent of the company.

First, in assessing the independence of the auditor from the company, the committee takes into account the information and assurances provided by the auditor confirming that all its partners and staff involved with the audit are independent of any links to United Utilities. KPMG confirmed that all its partners and staff complied with their ethics

and independence policies and procedures which are fully consistent with the FRC's Ethical Standard including that none of its employees working on our audit hold any shares in United Utilities Group PLC. KPMG is also required to provide written disclosure, an independence confirmation letter, at the planning stage of the audit disclosing matters relating to KPMG's independence and objectivity, including any relationships that may reasonably be thought to have an impact on its independence and the integrity and objectivity of the audit engagement partner and the audit staff. The audit engagement partner must change every five years and other senior audit staff rotate at regular intervals.

Secondly, the committee develops and recommends to the board the company's policy on non-audit services and associated fees that are paid to KPMG. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (i.e. United Utilities Group PLC) that are closely linked to the audit itself or that are required by law or regulation, as such services could impede their independence. Permitted non-audit services fees paid to the statutory auditor are subject to a fee cap of no more than 70 per cent of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period in which the cap will apply.

The cap will first apply for the group in the year ending 31 March 2021 and, as such, our year ended 31 March 2020 will be the third year of the initial three-year rolling period over which the annual statutory audit fee will be measured for this purpose. The committee revised the non-audit services policy incorporating the 70 per cent fee cap as described above with effect from 1 April 2017. During the year, the company's policy was amended to reflect the FRC's Revised Ethical Standard (2019), so that permitted services (which remain subject to the 70 per cent cap, apart from the regulatory audit) can be approved by the CFO subject to a cap of £10,000 applied for individual items. Individual items in excess of £10,000 require the approval of

the committee. Auditor provided permitted services include the non-audit fees paid to the statutory auditor for: the interim review; the regulatory audit; agreed upon procedures for regulatory reporting and the Euro Medium Term Note Programme and Law Debenture Trust compliance work.

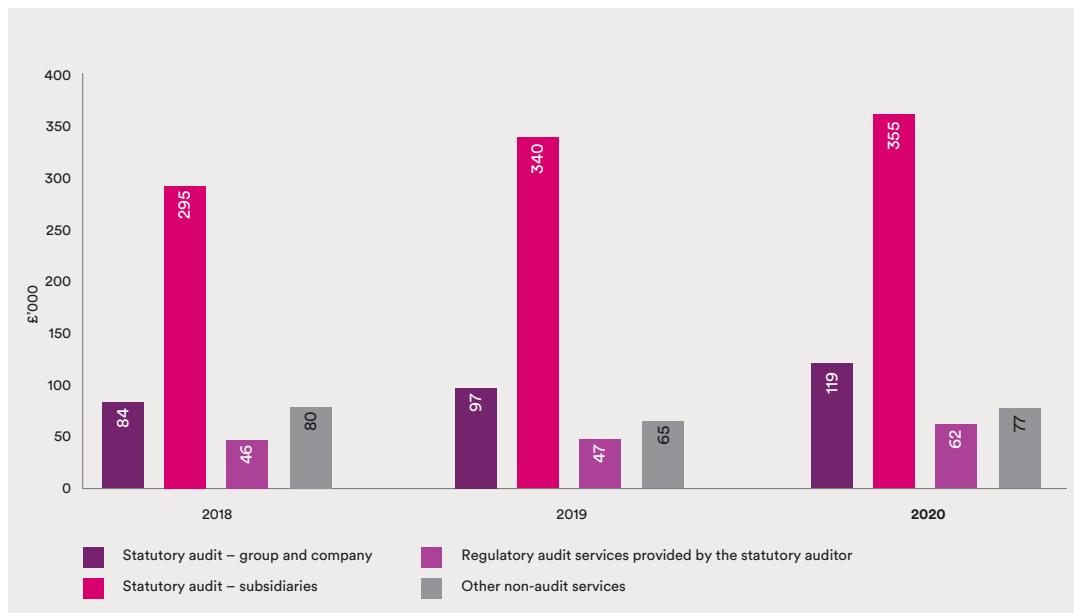
Fees for non-audit services are shown in the bar chart below (2020: £77,000) and represent 16.4 per cent of the total audit fees (2019: £65,000; 2018: £80,000). Fees paid to KPMG include the cost of the UUW regulatory assurance work they undertake, which is separate to the regulatory audit. While this work could be performed by a different firm, the information is in fact more granular breakdowns of data that form part of the statutory audit, and by KPMG undertaking the work it reduces duplication and saves considerable cost.

Work undertaken by KPMG in auditing management's methodology and processes in the implementation of new international financial reporting standards and related disclosures and judgements is included in the statutory audit fee.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee was satisfied that KPMG continue to be independent, and free from any conflicting interest with the group.

Statutory audit tender process

During the year, the committee led and supervised a formal tender process for external audit services. Prior to this, a formal tender was last undertaken in 2011 when KPMG were appointed, commencing their appointment as auditor and presented their first report to shareholders for the year ended 31 March 2012. As previously reported, the committee undertook an audit tender review in September 2015, which concluded that KPMG as incumbent, would remain in office and the committee would next undertake a competitive tender for external audit services for the year ended 31 March 2022, most probably during 2020. The company, as a public interest entity, is required to conduct a competitive tender process every 10 years, and rotate auditors after 20 years at most.



Corporate governance report

Audit committee

The FRC's Revised Ethical Standard (2019) introduced the requirement that an auditor must not have provided certain non-audit services in the financial year immediately preceding the first year on which they will perform a statutory audit. It was therefore decided to conduct the audit tender process prior to the end of the 2019/20 financial year so that any selected firm would be in a position to take on the statutory audit for 2021/22.

Summary of the statutory audit tender process

The committee's primary objective throughout the tender process, and in making its recommendation to the board, was to review the audit approach and ensure best practice in the delivery of the group's audit. Maximising value to the group and its stakeholders in terms of: audit quality; reliability of assurance; the identification of potential improvements to business and accounting processes and the reporting thereof.

A timeline of the process is set out opposite. In conducting the tender and making an appointment ahead of 1 April 2020 for the audit for the year ending 31 March 2022, sufficient time would be available for a firm to cease to provide non-audit services, as set out in the FRC's Revised Ethical Standard (2019) prior to commencing their tenure, including those services for which a 'cooling in' period may apply and to allow a new auditor to shadow the incumbent during the audit for the year ending 31 March 2021, if applicable.

A selection panel was established consisting of: the chairman of the audit committee; a member of the committee; the Chairman; the CFO and the group controller, thereby ensuring a wide range of views were taken into account and a considerable amount of financial expertise supported the committee in the decision-making process. The audit committee as a whole was kept fully appraised of the progress of the tender by the chairman of the committee. The group controller and his team were responsible for leading on the logistics of the tender process. Ahead of the request for proposal (RFP) being issued, two 'challenger' firms confirmed that they did not wish to participate in the tender and a third 'Big 4' firm was conflicted from participating. Industry sector expertise was an important factor in the selection of the firms invited to tender, given the regulatory complexities of the business. All three of the firms that participated demonstrated considerable experience of the utility sector and/or water sector and the industry experience of the key members of the audit teams demonstrated the same.

Each firms' proposal consisted of a written tender document and face-to-face presentations. Their responses were evaluated by the selection panel against the following criteria and weightings, as had been set out in the RFP:

- > Quality assurance and independence 35 per cent;
- > Audit team and credentials 25 per cent;
- > Service approach 25 per cent; and
- > Pricing 15 per cent.

Outcome of statutory audit tender process

Following the selection panel process, the audit committee met on 28 January 2020 to review and

discuss the bidders' proposals and how these proposals met the assessment criteria, following which the committee made its recommendation that KPMG (the incumbent) was its preferred candidate, with Deloitte being identified as the committee's second choice candidate. The recommendation was made to the board at its meeting held later in the day on 28 January 2020. The board accepted the committee's recommendation that KPMG would be reappointed as statutory auditor for the year ending 31 March 2022. There are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

KPMG were identified as the preferred candidate due to: the strength and experience of its team in relation to regulation; KPMG's quality transformation journey in recent years provided a bedrock for further quality enhancements going forward; the proposed audit engagement partner demonstrated a genuine enthusiasm for driving further audit quality; and its targeted approach to the use of data analytics. Furthermore, in reaching the assessment, the committee considered the ranking of the firms both including and excluding the pricing criteria. In both scenarios KPMG proved to be preferred candidate. Ian Griffiths will be appointed as KPMG's audit engagement partner for the year ending 31 March 2021, having shadowed Bill Meredith during the 2019/20 audit process.

Statutory auditor reappointment for the year ending 31 March 2021

The following section sets out the company's compliance with part of Code provision 26.

The 2019/20 year-end audit has been KPMG's ninth consecutive year in office as auditor. Bill Meredith, audit engagement partner, who has considerable audit experience of other FTSE 100 utility companies, is in his fourth year in the role. The audit engagement partner changes at least every five years. United Utilities has complied fully with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 March 2020.

At its meeting on 19 May 2020, the committee recommended to the board that KPMG be proposed for reappointment, for the year ending 31 March 2021 at the forthcoming AGM in July 2020. There are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

Going concern and long-term viability

The committee challenged and scrutinised management's detailed assessment of the group's long-term viability and its ability to continue as a going concern. In doing this the committee took into account the risks facing the business, and its ability to withstand a number of severe but reasonable scenarios including the impact of a potential 'long peak' COVID-19 scenario (see page 138). Having considered management's assessment the committee approved the long-term viability statement set out on page 137.

Significant issues considered by the committee in relation to the financial statements and how these were addressed

The following section sets out the company's compliance with part of Code provision 26.

In relation to the group's financial statements, the committee reviewed the following principal areas of judgement (as noted in the accounting policies where applicable):

Impact of COVID-19

The impact of the COVID-19 pandemic has resulted in higher levels of estimation uncertainty and considerably more judgements having been required than in most years. The impacts of the pandemic on the issues considered are outlined below, where applicable.

Capitalisation of fixed assets

Fixed assets (see page 217) represents a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.

- > In considering the work performed by KPMG during the year in this area, the committee assessed the reasonableness of the group's capitalisation policy and the basis on which expenditure is determined to relate to the enhancement or maintenance of assets. These were both deemed to be appropriate; and
- > The committee also reviewed the recovery of the capital overhead rate which management has applied during the year and which the committee had approved in the year ended 31 March 2015 for the five year regulatory period ending 31 March 2020. The committee concluded that the rate still remained appropriate.

Write down of bioresources assets

During the year the group undertook a strategic review of its bioresources operations, considering a range of alternative processes to some of those that have been employed historically.

- > The committee considered the outcome of this review and the implications this had for the future use of certain assets, including those involving incineration. On the basis that lower cost and more environmentally friendly routes are considered more likely to be used, the committee concurred with the directors' judgment that the likelihood of future economic benefit being derived from the identified assets is now considered to be remote. Accordingly, the committee agreed that it was appropriate to accelerate the depreciation of these assets in the current year, bringing their net book value down to nil. (See page 213 for more detail).

Revenue recognition and allowance for doubtful receivables

Due to the nature of the group's business, the extent to which revenue is recognised and doubtful customer debts are provided against is an area of considerable judgement and estimation. This is particularly the case in the current year, where the economic impacts of COVID-19 are highly uncertain but are expected to have an adverse effect on the ability of certain customer groups to pay their bills.



Audit tender timeline

23 September 2019

Meeting of the audit committee to confirm the acceleration of the timescale of tender process and providing an update on firms who had expressed an interest in bidding.

October 2019

Individual meetings were held between the representatives of the interested firms and the chairman of the audit committee and the CFO.

1 November 2019

Issue of RFP to firms and provision of information via a data portal.

7 November 2019

Meetings held for bidding firms to meet United Utilities personnel including members of the financial control team and the regulatory reporting team.

13 November 2019

Meeting of the audit committee to discuss progress with the tender process.

28 January 2020

Board meeting which considered and approved the audit committee's recommendation to appoint its preferred candidate, KPMG, as auditor in respect of the year ending 31 March 2022.

28 January 2020

Meeting of the audit committee to consider and discuss the findings of the selection panel and to make a recommendation to the board on the preferred and second choice candidates.

9 January 2020

Presentations by bidding firms to the selection panel.

20 December 2019

RFP submissions and summary briefing papers circulated to the selection panel.

29 November 2019

Deadline for receipt of bids.

Corporate governance report

Audit committee

- > The committee reviewed the current underlying levels of doubtful debt and credit note provisioning (see page 220 for more detail). The committee challenged management over the appropriateness of the overall levels of provisioning following these reviews and were satisfied that the resulting net debtor balance was appropriate;
- > The committee also reviewed the COVID-19 overlay and considered the assumptions applied to the various segments of the customer base in arriving at an expected credit loss assessment. The committee was satisfied that while highly judgemental and uncertain, the assumptions used and the methodology applied were appropriate in light of the COVID-19 pandemic.

Retirement benefits

The group's defined benefit retirement schemes are an area of considerable judgement, the performance and position of which is sensitive to the assumptions made. In addition, as a result of high levels of market volatility resulting from the COVID-19 pandemic, the valuation of certain defined benefit pension scheme assets required significant levels of judgment compared with more stable economic circumstances.

- > The committee sought from management an understanding as to the factors which led to the increase in the IAS19 net retirement benefit surplus during the period and noted that the scheme specific funding basis had not been impacted by this volatility. In line with previous years, management presented an explanatory note (see page 241) in order to communicate most effectively what is a complex area for the benefit of the group's stakeholders. The committee was satisfied with the explanations provided by management and approved their inclusion in the financial statements;
- > The committee reviewed the methodology and assumptions used in calculating the defined benefit scheme surplus (see page 242 for more details). The group employs the services of an external actuary to perform these calculations and determine the appropriate assumptions to make. After considering the above, the committee concluded that the approach taken and assumptions made – including changes to the basis on which mortality assumptions are set – were appropriate and fairly balanced in determining the net retirement benefit surplus; and

- > The committee also reviewed the assumptions underlying management's valuation of 'level 3' defined benefit pension scheme assets, which requires considerable judgement. These assumptions include the market proxies used as a reference in deriving a view of the assets' fair values and adjustments required to take account of movements in these resulting from the COVID-19 pandemic. Having considered these together with the audit work KPMG performed in relation to the asset valuations, the committee concluded that the approach taken was appropriate and in accordance with the requirements of IFRS 13 'Fair Value Measurement'.

Carrying value of loans to and investments in the Water Plus joint venture

The group has interests relating to its Water Plus joint venture in the form of an investment in the company's ordinary share capital (see page 218) and loans receivable (see page 245), the recoverability of which are considered with reference to the estimated future cash flows of the joint venture. The COVID-19 pandemic has particularly impacted businesses, forcing many to close temporarily, which has in turn impacted Water Plus as a non-household retailer. This has resulted in significant losses being recognised by Water Plus, which have caused the company to fall into a net liabilities position at 31 March 2020. Consequently, the group's equity investment in Water Plus, together with zero coupon loan notes extended to the joint venture, have been reduced to nil.

- > The committee has reviewed management's assessment of the nature of the group's financial interests in Water Plus. Having sought to understand management's assessment, the committee concurred with the view that zero coupon loan notes extended to Water Plus represent part of the group's long-term interest against which losses in excess of the group's equity interest should be allocated.
- > The committee also reviewed and challenged the assumptions and judgements underpinning management's expected credit loss assessment in respect of loans extended to Water Plus, and concurred with the approach taken and judgements made. Following robust discussion on this issue, the committee confirmed that it was satisfied that the carrying values of these interests at the reporting date are appropriate.

Derivative financial instruments

The group has a significant value of swap instruments, the valuation of which is based upon models which require certain judgements and assumptions to be made (see page 239). Management perform periodic checks to ensure that the model-derived valuations agree back to third-party valuations and KPMG check a sample against their own valuation models. It was confirmed to the committee that such testing had been undertaken during the year and there were no significant issues identified.

Taxation

The committee considered the tax risks that the group faces and the key judgements made by management underpinning the provisions for potential tax liabilities and deferred tax assets. In addition, the committee took account of KPMG's assessment of these provisions. Based upon the above, the committee was satisfied with the judgements made by management.

Underlying profit adjustment

During the year the committee considered and challenged management's treatment of items as adjustments to underlying profit measures and satisfied itself that those items being reported as adjustments met the requirements of the group's policy (see pages 90 to 91). In doing this the committee specifically scrutinised and satisfied itself over the appropriateness of management's decision to include the write down of certain bioresources assets and costs associated with the COVID-19 pandemic during the year as an adjusting item when calculating underlying profit measures. In addition the committee satisfied itself of the appropriateness of a new adjustment in relation to deferred tax when calculating underlying profit measures (see page 90).

In reading the above significant issues considered by the committee, shareholders might also wish to examine the auditor's report and their assessment of risks of material misstatement on pages 194 to 200.

The main features of the group's internal controls and risk management systems are summarised below:

Internal audit function

The internal audit function is a key element of the group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the audit committee, the board and to senior management. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of risk management systems, business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by employees in the areas under review. Once any recommendations are agreed with management, the internal audit monitors their implementation and reports to the committee on progress made at every meeting.

A five-year strategic audit planning approach is applied. This facilitates an efficient deployment of internal audit resource in providing assurance coverage over time across the whole business, as well as greater variation in the nature, depth and breadth of audit activities. This strategic approach supports the annual audit plan, which is then endorsed by management, and which the committee also approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the development of the plan considers risk assessments, issues raised by management, areas of business and regulatory change, prior audit findings and the cyclical review programme. The purpose, scope and authority of internal audit is defined within its charter which is approved annually by the audit committee.

Corporate governance report

Audit committee

Internal audit, led by the head of audit and risk, covers the group's principal activities and reports to the committee and functionally to the CFO. The head of audit and risk attends all scheduled meetings of the audit committee, and has the opportunity to raise any matters with the members of the committee at these meetings without the presence of management. He is also in regular contact with the chair of the committee outside of committee meetings.

The in-house team is expanded as and when required with additional resource and skills co-sourced from external providers – primarily PwC at present. The committee keeps the relationship with PwC under review to ensure the independence of the internal audit function is maintained and there is a documented process to manage possible conflicts of interest with the co-sourced resource. Ensuring that PwC remain independent in the course of its work is crucial to the integrity of its work.

The internal audit function also liaises with the statutory auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the audit committee and board. During the year, the committee reviewed the current operating model, in particular the balance of in-house versus co-sourced resource, and concluded that, while minor improvements were identified, the current approach was satisfactory.

Assessing the effectiveness of the internal audit function

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs including the ongoing audit reports received, the audit committee's interaction with the head of audit and risk, an annual review of the department's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each committee meeting as well as any other periodic quality reporting requested.

An annual stakeholder survey in the form of a feedback questionnaire is circulated to committee members, senior management and other managers who have regular contact with the internal audit function, including representatives from the auditor KPMG and the co-source audit provider PwC. The responses were anonymous to encourage open and honest feedback, and were consistently favourable, as were previous surveys.

Periodically, the quality and effectiveness of the internal audit function is also assessed externally, with the most recent review being undertaken in early 2019. Taking all these elements into account, the committee concluded that the internal audit function was an effective provider of assurance over the organisation's risks and controls and appropriate resources were available as required.

Risk management systems

The committee receives updates and reports from the head of audit and risk on key activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. The group designs its risk management activities in order to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

Supplementing the more detailed ongoing risk management activities within each business area, the biannual business unit risk assessment process (BURA) seeks to identify how well risk management is embedded across the different teams in the business. The BURA involves a high-level review of the effectiveness of the controls that each business unit has in place to mitigate risks relating to activities in their business area, while also identifying new and emerging risks and generally to facilitate improvements in the way risks are managed. The outcome of the BURA process is communicated to the executive team and the board. This then forms the basis of the determination of the most significant risks that the company faces which are then reviewed by the board. The group utilises risk management software to underpin the company's risk management process. The maturity of the risk management framework and its application across the business is assessed on an annual basis against a defined maturity model. This assessment provides an objective appraisal of the degree of maturity in how the risk management system is being applied and the quality of each risk in terms of quantification and management. The results of the maturity assessment are reported to the GARB, and actions agreed with business units.

An external assessment of the risk management process last took place in 2017/18.

Internal controls

The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our 'business as usual' activities and are documented in the company's internal control manual which covers financial, operational and compliance controls and processes. Internal control systems are the responsibility of the CFO, with the support of the GARB, the financial control team and the internal audit team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work which the committee approves each year as well as aspects being tested by other internal assurance providers. Compliance with the internal control system is monitored annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited on a sample basis by the internal audit team and reported to the committee.

Anti-fraud and anti-bribery

The audit committee is responsible for reviewing the group's procedures for detecting fraud, and the systems and controls for preventing other inappropriate behaviour. In the first instance of an incident being reported, a summary of the allegations is passed to the fraud and whistleblowing committee (consisting of the company secretary, customer services and people director, commercial director and head of internal audit and risk) to decide on the appropriate course of action and investigation and by whom.

During the year, the audit committee was kept fully appraised in regular updates on the progress and findings of investigations of cases of alleged

fraud and any remedial actions taken. A number of employees have been selected and received specialist training in order to conduct investigations of cases of alleged fraud.

The company has an anti-bribery policy to prevent bribery being committed on its behalf, which all employees must follow, and processes in place to monitor compliance with the policy. As part of the anti-bribery programme, employees are also required to comply with the group's hospitality policy. The hospitality policy permits employees to accept proportionate and reasonable hospitality for legitimate business purposes only. Our employees and representatives of our suppliers must also comply with the group's sustainable supply chain charter which explains that we will not tolerate corruption, bribery and anti-competitive actions and we expect our suppliers to comply with applicable laws and regulations, and in particular never to offer or accept any undue payment or other consideration, directly or indirectly, for the purposes of inducing any person or entity to act contrary to their prescribed duties.

As part of the internal control self-assessment checklist (part of the group's internal control processes), senior managers in consultation with their teams are required to confirm, among other things, that they have complied with the group's anti-bribery and hospitality policies. The anti-bribery programme is monitored and reviewed biannually by the committee. Our sustainable supply chain policy also sets out that we do not tolerate corruption, bribery and unfair anti-competitive actions by our own behalf or that of our suppliers.

 The anti-bribery policy is available at unitedutilities.com/corporate/about-us/governance

 The sustainable supply chain charter is available at unitedutilities.com/corporate/responsibility/stakeholders/suppliers



Corporate governance report

Corporate responsibility committee



Quick facts

- > The corporate responsibility committee has existed for over twelve years.
- > The committee comprises three directors appointed by the board, two of whom are independent non-executive directors.
- > The company secretary, corporate affairs director and customer services and people director attend all meetings of the committee.
- > Senior operational directors attend the committee to report on the environmental and social impact of particular topics and initiatives.

Quick link



Terms of reference –
unitedutilities.com/corporate-governance

Corporate responsibility committee members



Stephen Carter
(chair)



Alison Goligher



Steve Mogford

Value creation lies at the heart of the company's purpose-led thinking, a topic considered by the committee on several occasions this past year.

Stephen Carter
Chair of the corporate responsibility committee

Dear Shareholder

I am pleased to report on the work of the corporate responsibility committee in 2019/20.

The COVID-19 pandemic is testing all businesses, many of whom place responsible business at the heart of what they do and are therefore making decisions in the best interests of their stakeholders.

As can be seen on page 83, United Utilities' response to COVID-19 has been as broad as it has been deep. Across the key stakeholders for whom the company creates value, actions have been taken to support vulnerable customers by, for example, offering payment breaks, and helping suppliers by reducing the time taken to pay them. Considerable focus has been given to support the health and wellbeing of employees.

This concept of value creation lies at the heart of the company's purpose-led thinking, a topic considered by the committee on several occasions this past year. The committee supported focusing on what matters to stakeholders and better understanding how to quantify the value the company generates. The company already has strong credentials in this regard and the committee agreed that the company faces a challenge to communicate better its deep commitment to responsibility so that stakeholders appreciate why the company acts in the way it does, as well as understanding what it does.

Purpose and the emergence of environmental, social and governance (ESG) matters, especially from an investor perspective, have become much more prominent over the last year. The committee recognised that this isn't something new for the company – for example, this is the fourth consecutive year the committee's report to shareholders has been structured under ESG headings and the Dow Jones Sustainability Index is similarly structured that way. I am pleased to report the company retained its world class ranking for the 12th consecutive year.

As a standing item, the committee discussed the interaction between corporate responsibility (CR), communications and reputation, returning on several occasions to topics such as the debate over public ownership and the implications of Brexit on environmental and employment legislation. With that in mind, the committee took much interest in the company's refreshed brand and welcomed in particular the emphasis on the North West. Demonstrating the sector's purpose, so that stakeholders can have full confidence that companies are run in their interests, remains an important task.

This can only be achieved if the company can prove it is acting with purpose through measurement and 'proof points', especially where the achievement is independently assessed by others. The committee was pleased to see the company secure a 'Building Public Trust' award for its 2019 Strategic Report. It was noted that performance across several other investor indices, such as Sustainalytics and Vigeo-Eiris, is also improving. Further, an estimated 75 per cent of the stretching targets tracked by the committee to measure the company's CR performance were expected to be achieved.

This year, the committee discussed over forty papers covering ESG topics. These included governance items, those with a mandatory driver or of regulatory interest and stimulus from items of best practice. Topics covered for the first time by the committee included how the company's emerging digital strategy takes responsible business issues into account. This topic, alongside climate change, was identified by the committee in a paper on significant CR trends for 2019 requiring closer examination. Other first-time topics included air quality and the company culture.

Because of heightened external interest in climate change, the committee discussed the company's carbon strategy on several occasions and, most importantly for a water company, climate change adaptation topics too, such as surface water flooding and sustainable urban drainage. It supported recommendations, subsequently agreed by the board, to adopt a science-based target for emissions reductions.

Changes to the UK Corporate Governance Code in 2018 have resulted in some additional responsible business topics being debated by the committee, in particular in relation to employees. One committee member is the designated non-executive director for 'employee voice' and the committee was updated on progress in establishing the Employee Voice panel, including greater visibility of the work of the company's employee networks such as disability, identity and ethnicity. On behalf of the board, the committee reviewed the company's gender pay report.

The committee reviewed progress in tackling what remains an issue of continued significance to the North West, helping customers on lower incomes given the ongoing social and economic challenges in the region. The committee examined the company's dashboard that tracks actions to support customers



Main duties of the committee

The board approved an updated set of Terms of Reference for the committee in May 2019. Minor amendments were made to take into account the revised Corporate Governance Code and the evolution of corporate reporting with greater emphasis on integrated reporting.

The main duties are to:

- > Consider and recommend to the board the broad corporate responsibility policy taking into account the company's desired CR positioning;
- > Keep under review the group's approach to CR and ensure it is aligned with the group strategy;
- > Review CR issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- > Monitor and review the status of the company's reputation and examine the contribution the group's corporate responsibility activities make towards protecting and enhancing this;
- > Monitor and review compliance with the board's CR policy and scrutinise the effectiveness of the delivery of the CR policy requirements;
- > Develop and recommend to the board CR targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators;
- > Monitor and review the steps taken by the company to support customers in vulnerable circumstances; and
- > Review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually.

in vulnerable circumstances and it was apprised of the third affordability summit that brought together over 100 people from the debt advice community.

2020 marks the end of one business planning period, AMP6, and the start of the next, AMP7, and I have been chair of the corporate responsibility committee for most of that time. The company's long-standing CR commitment provides a solid foundation upon which to deal with the growing complexity of managing responsible business issues. This helps to build legitimacy among the opinions of customers, regulators, Government and other stakeholders.

As a listed company, United Utilities complies with the 2018 UK Corporate Governance Code and continues to drive for the highest standards of board leadership, transparency and governance.

Stephen Carter
Chair of the corporate responsibility committee

Corporate governance report

Corporate responsibility committee

The committee's agenda during the year:

Environmental

Climate change mitigation strategy

Agreement was sought from the committee to an updated climate change mitigation strategy. It endorsed the company's intention for emissions to reduce to 'well-below 2°C or 1.5°C' instead of 'within 2°C', bringing its ambition into line with science-based targets. The committee was briefed on the revised mitigation plan, comprising 21 work streams, each owned by a specific executive director. It was agreed that the updated strategy and accompanying explanation should be published in the 2020 Annual Report, prepared in accordance with the requirements of the Taskforce for Climate-related Financial Disclosure. This can be found on pages 66 to 75.

Natural capital and integrated catchments

A paper on the delivery of natural capital through an integrated catchment approach was presented to the committee. It supported the company's ambition to act as catchment system operator with the aim of balancing, in real-time, the operation of assets and catchments with actions taken by third parties, such as the agricultural sector and local and flood risk management authorities. Such an approach has the potential to improve both water quality and flood risk through solutions co-developed and co-invested through key partnerships with private and public sectors. The committee recognised the growing importance of catchments and an anticipated shift to catchment scale thinking in AMP8. Read more about catchment systems thinking on page 51.

Air quality

The topic was presented to the committee for the first time. It noted that benchmarking across other water and wastewater companies highlighted that increasing renewable power capacity, purchasing green energy and adopting clean vehicle technologies tended to be the most commonly referenced air quality responses. More often than not, these were in the context of greenhouse gas emissions rather than specific air pollutant emissions. It was explained that the company was intending to determine the potential risk of sources of air pollutant emissions across its operations and a clean air working group had been established to develop an action plan. The committee welcomed the fact the company has the sector's first performance commitment on clean air.

Surface water management and sustainable drainage (SuDS)

Another topic presented to the committee for the first time, the company's surface water strategy was reviewed by the committee and included SuDS adoption and training, influencing sustainable development and lobbying on the national planning policy framework, targeted separation of surface water, charging incentives and partnership working. The committee acknowledged the breadth of issues involved in managing surface water and the number of responsible authorities involved. It was explained that significant improvements to the natural capital of the North West could be achieved through SuDS and other surface water interventions and the company was pioneering many solutions.

Social

Affordability and vulnerability – lower income groups

At several of its meetings, the committee returned to the topic of affordability and vulnerability, primarily through its review of a lower income scorecard. Twice yearly, progress against 22 measures covering household retail cash, debt and affordability is presented to the committee. It noted the considerable progress assisting lower income groups and the efforts being made where performance was not quite at target levels. The committee was informed the Digital Economy Act 2017 contained new powers for data share arrangements between the Department for Work and Pensions (DWP) and water companies to assist people living in water poverty and that the company was in regular contact with the DWP to realise this opportunity.

Affordability summit

The committee welcomed the third affordability summit held by the company, bringing together over one hundred people from the region's debt advice community. It discussed the introduction of specific customer segments where there can be a lack of support and advice such as those aged 18–25 years now becoming accountable for household bills and gaining access to credit, often for the first time.

Gender pay reporting

The committee reviewed the company's draft gender pay report noting that, compared to the previous year, the median and mean pay gaps had improved slightly. It was briefed on plans to focus on recruitment given low attrition rates at United Utilities, to magnify the female voice across the organisation and to focus on part-time and flexi-working for the middle quartile.

Governance

Corporate governance

- > Corporate Governance Code (culture) – the committee discussed corporate culture and the role of the board following changes to the 2018 UK Corporate Governance Code and the publication of Ofwat's Board Leadership Transparency and Governance Principles. The paper outlined the approach for the board to monitor and assess culture, ensuring that the company's culture and behaviour is aligned with business purpose, strategy and values. The committee offered some improvements to the approach and asked which of the measures used to monitor culture are independent and externally validated.
- > Employee Voice – on behalf of the board, the committee scrutinises the approach to Employee Voice. It was updated on progress, including several visits made by non-executive director Alison Goligher to meet employee groups and subject matter experts. It was reported to the committee that an Employee Voice panel had been established and had met on three occasions, prioritising improved collaboration between employee network groups and enhancing how employee feedback is received throughout the year. In addition, a 'workforce profile' dashboard was under development to help the panel see potential trends in key metrics.

- > Committee evaluation – in its annual evaluation, the committee concluded that it was effective in the discharge of its duties, recognising the importance of striking the right balance between the annual cycle of work and new and emerging items.
- > Business principles refresh – the company's mandate for corporate responsibility, the business principles, was set ten years ago so the committee discussed the future shape of the CR mandate, especially in the context of purpose-led thinking. It agreed that the principles should be replaced by a purpose hierarchy and that the company's purpose statement be updated to be more engaging and to convey why it exists beyond financial gain. This can be seen on page 16. The committee encouraged the company to focus on developing a set of measures, or proof points, and creating compelling communications to demonstrate to its stakeholders that United Utilities is a purpose-led business.

Reputation and engagement

- > **Engagement and reputation** – this topic remained a standing agenda item, allowing time to examine the relationship between responsible business topics and reputation. An assessment of the company's key reputational risks also remained a standing item. The committee looked closely at how the company manages and tracks reputation, discussing what drives this with different stakeholder groups, what headwinds are evident and what actions are being taken to mitigate, or even advance, reputation. The committee highlighted the importance of developing policy positions as part of the company's overall approach.
- > **Brand update** – in 2019, the company refreshed its brand, moving from 'Helping Life Flow Smoothly' to 'Water for the North West'. The committee supported this direction and agreed it aligned well with the company's CR priorities.
- > **Measuring and reporting CR performance** – the committee reviewed the company's 2019/20 CR scorecard and noted that the year-end performance was expected to be 75 per cent of targets achieved.

Several topics discussed by the committee cut across each element of ESG:

Cross cutting

Overview of CR trends

A paper providing a summary of key CR trends for the coming 12 months was presented to the committee and it agreed that six were particularly relevant: digital and responsible business; future work and employee wellbeing; responsible investing; land use and carbon; innovative markets and finance; and improved public health. The committee asked that over the course of future meetings, each topic be brought to the committee for further examination and it suggested that a regional perspective be taken into account, alongside what each means to the company's stakeholders.

Brexit and regulatory convergence – environmental and employment legislation

The committee was provided with an updated assessment on the potential and actual impact of Brexit on environmental and water regulation and employment legislation. It was briefed that most EU law, including environmental law, will continue to apply in the UK. From an environmental perspective, the committee understood that what follows Brexit is being set out in the Environment Bill and the Agriculture Bill. It was updated on key elements relevant to the company. The committee was apprised of company efforts to support employees who are EEA nationals to complete the settlement process.

Digital

Digital was the first of the CR trends to be brought before the committee. The committee was apprised on how the developing digital strategy was taking responsible business issues into account, being helped by the adoption of a responsible digital framework to identify any potential enhancements to the approach. It was reassured that the emerging approach was consistent with operating as a responsible business. It asked for a further update later in 2020 to understand the company's priorities, ultimate ambition against the framework and other trends such as the sourcing strategy for skills and diversity from the perspective of age rather than gender.

In addition to papers discussed by the committee, it also receives several papers for noting. Generally, these provide progress updates 12 months after the committee debated the topic. In 2019/20, papers tabled for noting included:

- > **Social** – United Utilities Trust Fund and community investment.
- > **Governance** – human rights policy and Modern Slavery Act statement and updates on the work of the management CR panel.
- > **Cross cutting** – sustainable supply chain progress, including duty to report; social media; and implementing a value framework (six capitals).



Looking to the next year, the committee will:

- > Take stock of the company's corporate responsibility journey so far, its current status and its ambition;
- > Consider new and emerging issues and opportunities which, in some cases, will be discussed by the committee for the first time such as future work patterns and employee wellbeing, models of new leadership, access and recreation and green finance;
- > Review new, or updated, responsible business strategies such as waste and circular economy including plastics, a value framework and United Supply Chain;
- > Consider the responsible business themes emerging for PR24 including topics such as natural capital;
- > Return to issues previously discussed to examine progress such as what Brexit means for environmental and employment legislation, human rights, talent and young people, diversity and inclusion, carbon strategy, and digital;
- > Review performance, specifically the dashboard tracking the company's efforts to support customers on low incomes and progress against responsible business proof points;
- > On behalf of the board, review progress and issues arising from the Employee Voice panel;
- > Continue its focus on the interaction between CR, communications and reputation;
- > Oversee matters of general governance including the human rights policy and gender pay report; and
- > Consider matters of corporate responsibility committee governance such as the committee's terms of reference.

Corporate governance report

Annual statement from the remuneration committee chair



Quick facts

- > The Code requires that “the board should establish a remuneration committee of at least three independent non-executive directors”.
- > The role of the committee is to set remuneration terms for all executive directors, other senior executives and the Chairman.
- > By invitation of the committee, meetings are attended by the Chairman, the CEO, the company secretary, the customer services and people director, the head of reward and the external adviser to the committee.

Quick link



Terms of reference –
unitedutilities.com/corporate-governance

Remuneration committee members



Sara Weller
(chair)



Alison
Goligher



Mark Clare



Brian May

Index

- Read more about how our remuneration approach complies with the UK Corporate Governance Code on page 158
- Read more about At a glance summary: executive directors' remuneration on pages 159 to 161
- Read more about Annual report on remuneration on pages 162 to 176
- Read more about Directors' remuneration policy on pages 177 to 184

Our executive pay arrangements are aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all.

Sara Weller Chair of the remuneration committee

Dear Shareholder

I am pleased to introduce the directors' remuneration report for the year ended 31 March 2020, which includes an 'at a glance' summary, the annual report on remuneration for the year ended 31 March 2020, and an abridged version of our directors' remuneration policy which was approved by shareholders at our 2019 AGM.

I will step down from the board at the 2020 AGM so this will be my last statement as Chair of the committee, a position I have held since 2012. Much has been achieved in those eight years, a period in which the corporate governance environment has evolved significantly. During that time we have always sought to fully embrace the changing landscape and have implemented remuneration arrangements that are transparent and well-aligned to our purpose, vision and strategy, incentivising great customer service and the creation of long-term value for all.

The year in focus

During this year there have been a number of changes to the composition of the board along with announcements of future departures and appointments. In each case the committee carefully considered the implications on remuneration, exercising discretion and judgement appropriately and delivering on commitments made in the new directors' remuneration policy, such as aligning the pension arrangements of future executive directors with those of the workforce. Further details relating to the various changes are shown on page 159.

Reflecting on performance, as is detailed elsewhere in this Annual Report, during AMP6 we delivered well against all principal areas of our regulatory contract. Improvements in our customer service performance have been delivered year-on-year, and moving to be one of the top performers in the sector on ODIs is a significant achievement when we look back at our position at the start of AMP6 in 2015.

In the very last weeks of the 2019/20 performance year, we saw the emergence of the COVID-19 pandemic, to which the company reacted rapidly and made significant moves to respond. As described elsewhere, the committee concluded that this period did not significantly impact the overall performance in the year for remuneration purposes; however the impact on considerations for future years is considerable and I will come back to that later in this letter.

Recognising the difficulty being experienced by many customers in our region, all members of the board volunteered a 20 per cent reduction to their salary/fees for three months, with the money instead being shared with organisations supporting those in the front line helping communities cope with COVID-19.

Implementation of the directors' remuneration policy during 2019/20

Salary

The committee believes that executive directors' salaries remain appropriately positioned relative to the market. Whilst our policy is that executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce, for the second consecutive year, Steve Mogford and Russ Houlden each received a base salary increase of 2 per cent (with effect from 1 September 2019), which was lower than the 3 per cent headline increase applied across the wider workforce. Salaries will next be reviewed in September 2020.

Annual bonus

To ensure shared focus on the business plan at all levels, employees throughout the company participate in the annual bonus scheme, alongside the executive directors. The bonus measures used during the year reflect the importance and challenge of the targets set by our regulators for the period 2015–20.

We have seen another very good year of customer service, operational and financial performance in 2019/20, despite the challenges presented by the storms during early 2020.

The customer service element of the annual bonus is based on C-MeX and written complaints. As disclosed in our 2019 directors' remuneration report, the outcome of the C-MeX measure was originally intended to be based on our ranking on the customer service survey only (a sub-component of the overall C-MeX measure). When it became clear that relative ranking positions for the customer service sub-component would not be available as initially expected, the committee used its discretion to adjust this element to instead be based on the overall combined C-MeX ranking (which includes a perception survey sub component alongside the customer service survey). The committee was satisfied that this was appropriate, noting that it is ultimately the overall combined C-MeX score that determines future incentives and penalties and so it aligned well with shareholder interests. Continued enhancements of the services we provide have resulted in ever-improving standards of customer service, including being ranked in first position in the final two customer service surveys conducted by Ofwat in the year, and in third position overall on combined C-MeX across the whole year. Our approach on affordability received the highest Ofwat rating possible in their assessment of our business plan and our Priority Services proposition continues to set the industry standard in supporting vulnerable customers, with over 100,000 now registered.

This has been another year of strong performance against our outcome delivery incentives (ODIs) including a significant ODI reward payment in relation to our West Cumbria project. We are pleased with our overall AMP6 performance and well placed to make a strong start to AMP7.

Underlying operating profit increased in 2019/20, although the committee used its discretion to reduce the outcome for this part of the scorecard to account for the performance of Water Plus, of which Steve Mogford and Russ Houlden were directors. The efficient and effective delivery of the capital programme is reflected in our time, cost and quality index (TCQi) score which remains high at 95.1 per cent.

When considering the personal contributions of the executive directors, amongst other achievements during the year, the committee was mindful of their leadership throughout the price review process, including the acceptance of the final determination and the steps taken since then to start AMP7 strongly. Additionally, the fact that the departure of executive directors during the year and in the coming months have been managed through internal promotions is testament to the comprehensive succession and talent processes established within the company.

Overall company results, together with the strong personal performance of the executive directors, has resulted in annual bonus out-turn of around 71 per cent of maximum (compared to the 2018/19 outcome of around 79 per cent of maximum) and a company-wide

bonus pool totalling around £17 million (which is the same as in the prior year). Half of the annual bonuses earned by the executive directors will be deferred into shares for a period of three years.

Long-term incentives

The Long Term Plan awards which were granted in 2017, and whose performance is measured over the three years to 31 March 2020, will vest in the summer of 2020 at an estimated 79 per cent. This reflects the continued delivery of high standards of customer service set in recent years, and the achievement of the stretch level of sustainable dividend performance. In December 2019 some of the uncertainty that had affected the water sector in recent years was lifted, which meant that the good underlying business performance was better reflected in the share price. This resulted in the target for the relative total shareholder return measure being partially met. As noted on page 166, as a result of Ofwat transitioning from SIM to C-MeX, the committee used its discretion to amend the customer service element of the award to be based on the new C-MeX measure and written complaints. The final outcome of this element will not be known until the volume of written complaints received by other companies are published later in 2020 and the overall vesting level can be confirmed. The awards for the executive directors will vest only after the completion of a two-year holding period, during which the shares will remain subject to withholding provisions. The committee believes that this approach aligns the interests of the executive directors with those of shareholders and customers.

Agenda for 2020/21

As we look forward to the start of the new AMP, and specifically the 2020/21 performance year, the committee is very mindful of the challenging conditions arising from both the short and the longer-term potential impact of the COVID-19 pandemic.

Having reviewed the annual bonus measures for the new regulatory period the committee has concluded that they continue to support the business strategy. The measures will continue into AMP7, although the customer service elements will be based on Ofwat's new C-MeX measure, together with a goal to continue to further reduce customer complaints. The committee has removed the element based on personal performance for the executive directors to focus reward on the other scorecard elements. Further details are shown on page 168.

2020 LTP awards will be based on the structure approved at the 2019 AGM, with equal weighting given to performance on Return on Regulated Equity (RoRE) and a basket of customer measures. Further details can be found on page 168.

For all incentives the committee will continue to focus on setting stretching targets that drive excellent customer service, operational and financial performance and enhance long-term shareholder value.

Finally, since our new policy was approved at the 2019 AGM, and reflecting shifts in market guidance and best practice, the Committee agreed that post-employment shareholding requirements will be introduced from May 2020 and that pension arrangements for incumbent directors will be aligned to those of the workforce as part of the next policy, expected to be presented to shareholders at the 2022 AGM. Work will be undertaken to ensure that those developments to our governance approach are implemented robustly. We will also continue to enhance the way in which we hear and take account of the voice of the wider workforce.

I am grateful for the support that our approach to remuneration has received from shareholders during my time as Chair of the committee. I am delighted to announce that Alison Goligher, who has been a member of the Committee since 2016, will take over as Chair of the committee when I leave the board in the summer. We hope we will continue to receive your support again this year for the resolution relating to remuneration at the forthcoming AGM.

Sara Weller
Chair of the remuneration committee

Corporate governance report

Code principle – remuneration

5 Remuneration

Code Principle	Evidence and outcomes
Principle P: Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	We describe how our remuneration philosophy aligns with business strategy on page 162.
Principle Q: A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	This is detailed in the committee's terms of reference which are available on the company website. The committee consults with shareholders when changes to policy are being considered.
Principle R: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The shareholder approved directors' remuneration policy outlines the ways in which the committee may exercise discretion. An example of the use of discretion in 2019/20 is the adjustment to the outcome of executive directors bonuses as detailed on page 164.

The following table summarises how the remuneration policy, approved by shareholders at the 2019 AGM, fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

 Clarity The committee is committed to providing transparent disclosures to shareholders and the workforce about executive remuneration arrangements and, to this end, the directors' remuneration report sets out the remuneration arrangements for the executive directors in a clear and transparent way. Our AGM allows shareholders to ask any questions on the remuneration arrangements, and we welcome any queries on remuneration practices from shareholders throughout the year.	 Simplicity Our remuneration arrangements for executive directors, as well as those throughout the group, are simple in nature and understood by all participants, having been operated in a similar manner for a number of years. Executive directors receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the annual bonus) and a single long-term incentive (the Long Term Plan).	 Predictability Payouts under the annual bonus and LTP schemes are dependent on the performance of the company over the short and long-term, and a significant proportion of executive director remuneration is performance-linked. These schemes have strict maximum opportunities, with the potential value at threshold, target and maximum performance scenarios provided in the directors' remuneration report.
 Risk The committee has designed incentive arrangements that explicitly do not encourage inappropriate risk-taking. The committee retains overarching discretion in both the annual bonus and LTP schemes to adjust payouts where the formulaic outcomes are not considered reflective of underlying business performance and individual contributions. Robust withholding and recovery provisions apply to variable incentives.	 Proportionality Payments from variable incentive schemes require strong performance against challenging conditions over the short and longer term. Performance conditions have been selected to support group strategy and consist of both financial and non-financial metrics. The committee retains discretion to override formulaic outcomes in both schemes to ensure that they are appropriate and reflective of overall performance.	 Alignment to culture Performance measures used in our variable incentive schemes are selected to be consistent with the company's purpose, values and strategy. The use of annual bonus deferral, LTP holding periods and our shareholding requirements provide a clear link to the ongoing performance of the group and ensure alignment with shareholders, which continues after employment.

Corporate governance report

At a glance summary: executive directors' remuneration

Board changes

A number of changes to the composition of the board have taken place during the year. In each case the committee carefully considered the implications on remuneration.

Departure of Steve Fraser

Steve Fraser resigned and left his role as chief operating officer on 31 August 2019. He was paid his contractual salary and benefits until his leave date but his eligibility to receive a bonus in respect of 2019/20 was forfeited. At the point of his departure Steve had three unvested DBP awards. The rules of the DBP do not require the committee to exercise discretion over unvested awards held by leavers, and so his awards will remain unvested until their original vesting date i.e. three years after their respective grant date.

Steve's 2016 LTP award vested on 10 September 2019. He remained entitled to receive the vesting award because he was still employed at the point that the performance period ended on 31 March 2019. The award was not subject to a further holding period because it was granted in 2016 prior to his appointment as an executive director. His 2017 and 2018 LTP awards lapsed on his termination, and the committee exercised its discretion when determining that he should not receive a 2019 LTP award. Clawback and malus provisions applicable to the incentive schemes continue to apply in line with the relevant scheme rules.

Chairman succession

Sir David Higgins was appointed as a non-executive director and chairman designate of the company with effect from 13 May 2019, and as Chairman commencing on 1 January 2020 when Dr John McAdam stepped down from the board. The annual fee paid in respect of his period as non-executive director and chairman designate was £80,000, and when his responsibilities as Chairman started on 1 January 2020, his annual fee increased to £300,000. In line with the remuneration policy, Dr McAdam ceased to receive fees following his departure and received no other benefits or payments in relation to his stepping down from the board.

Retirement of Russ Houlden (in July 2020)

On 5 February 2020, Russ Houlden submitted notice of his intention to step down from the board the day after the AGM on 24 July 2020 and retire from executive director responsibilities. Russ will be treated in line with the remuneration policy for retirees. His outstanding DBP awards will continue to vest on the normal vesting dates, in accordance with the rules. The committee exercised its discretion to allow good leaver status for his outstanding LTP awards. The performance conditions and holding period requirements will continue to apply and a pro rata reduction will be made to the 2018 and 2019 LTP awards to reflect the proportion of the performance period served. The committee determined that he will not be granted a 2020 LTP award. His bonus for 2019/20 will be paid as normal, with 50 per cent being deferred in to the DBP for three years. He will be eligible for a prorated bonus payment in June 2021 in relation to the bonus year 2020/21 but in line with the plan rules any bonus due then will be paid in cash in full with no element deferred into shares. Due to the vesting and deferral requirements, he will continue to maintain an interest in shares of the company for at least two years post cessation of employment. The committee has taken steps to ensure that the ongoing treatment of his outstanding incentives may be revisited in certain circumstances after his departure.

Appointment of Phil Aspin (in July 2020)

On 28 February 2020 it was announced that, following a rigorous appointment process, Phil Aspin would succeed Russ Houlden as chief financial officer after the AGM in July 2020. Phil's remuneration package will be set in accordance with the approved remuneration policy and will include a pension contribution aligned with the workforce rate. Full details will be included in next year's directors' remuneration report.



Corporate governance report

At a glance summary: executive directors' remuneration

Remuneration philosophy

There are three key principles of our approach to executive remuneration.

Align

to our purpose, vision and strategy

Incentivise

great customer service

Create long-term value

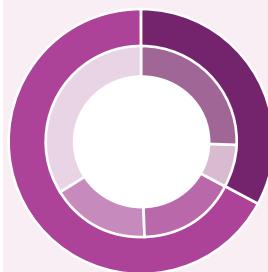
for all of our stakeholders

Executive directors' remuneration policy

Elements of executive directors' pay

A significant proportion of executive directors' pay is performance-linked, long-term and remains 'at risk' (i.e. subject to withholding and recovery provisions for a period over which the committee can withhold vesting or recover sums paid):

Fixed vs performance-linked (%)⁽¹⁾



Fixed	33%
Base salary	26%
Pension and other benefits	7%
Performance-linked	67%
Annual bonus – cash	17%
Annual bonus – shares	17%
Long Term Plan (LTP)	33%

Short-term vs long-term (%)⁽¹⁾



Short-term	50%
Base salary	26%
Pension and other benefits	7%
Annual bonus – cash	17%
Long-term	50%
Annual bonus – shares	17%
Long Term Plan (LTP)	33%

(1) Based on maximum payout scenario for executive directors assuming the normal maximum award level of 130 per cent of salary for the Long Term Plan (LTP).

Pay at risk



Further details on what triggers the withholding and recovery provisions can be found on pages 179 to 180.

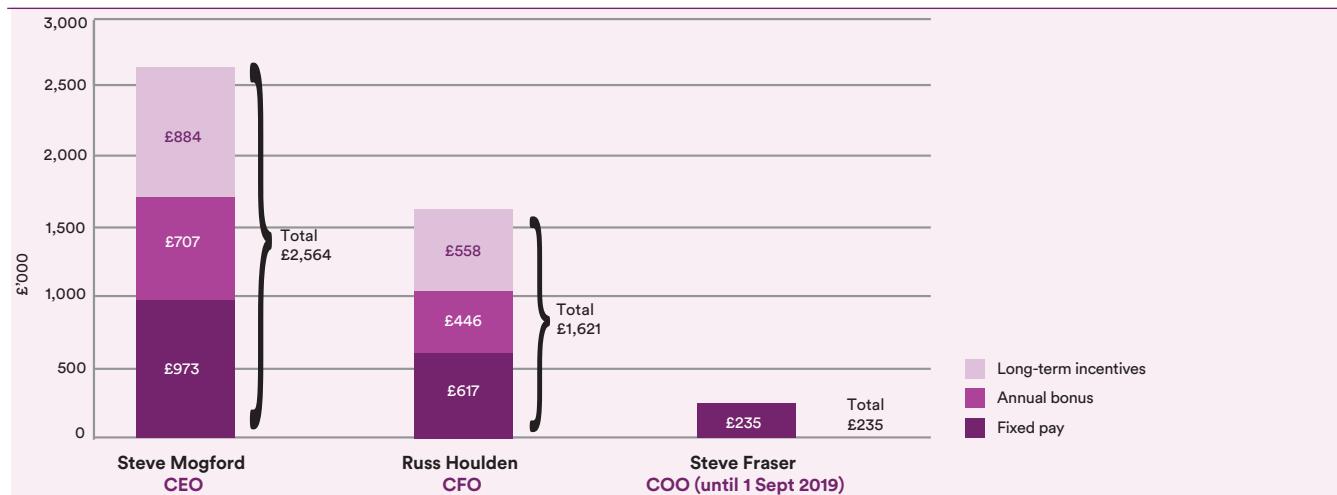
Implementation of directors' remuneration policy in 2019/20

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2019/20. For further details see the annual report on remuneration on pages 162 to 176.

Key element	Implementation of policy in 2019/20
Base salary	> Salary increase of 2.0 per cent from 1 September 2019 (the general employee base salary increase in 2019 was 3.0 per cent).
Benefits and pension	> Market competitive benefits package. > Cash pension allowance of 22 per cent of base salary.
Annual bonus	> Maximum opportunity of 130 per cent of base salary. > 2019/20 annual bonus outcome of 70.7 per cent of maximum. > 50 per cent of 2019/20 annual bonus deferred in shares for three years. > Withholding and recovery provisions apply.
Long Term Plan	> Award of 130 per cent of base salary. > Estimated long-term incentive vesting of 79 per cent for the performance period 1 April 2017 to 31 March 2020. These awards will vest after an additional two-year holding period. > Withholding and recovery provisions apply.
Shareholding guidelines	> Personal shareholdings for Steve Mogford and Russ Houlden remain above the 200 per cent of salary minimum guideline.

Single total figure of remuneration for executive directors for 2019/20

Fixed pay comprises base salary, benefits and pension. Further information on the single figure of remuneration can be seen on page 163.



Key performance indicators (KPIs) performance

Annual bonus – Year ended 31 March 2020					Long Term Plan – Three years ended 31 March 2020			
Underlying operating profit ⁽¹⁾	C-MeX ranking versus the other WASCs	Written complaints	Outcome delivery incentive (ODI) composite	Time, Cost and Quality index (TCQi)	Total shareholder return (TSR) ⁽²⁾	Underlying dividend cover ⁽³⁾	Customer service excellence ⁽⁴⁾	
£882.7m	3rd out of 11	14.63	£22.4m	95.1%	17.5%	1.32	4th out of 11	

Key:

● At or above stretch target ● Between threshold and stretch targets ● Below threshold target

(1) For the purpose of annual bonus, underlying operating profit excludes infrastructure renewals expenditure and property trading.

(2) Between threshold and stretch versus the comparator group. See page 166 for further details.

(3) Average underlying dividend cover over 2017/18, 2018/19 and 2019/20.

(4) The estimated ranking versus the other WASCs in a combined customer service measure comprising C-MeX and written complaints.

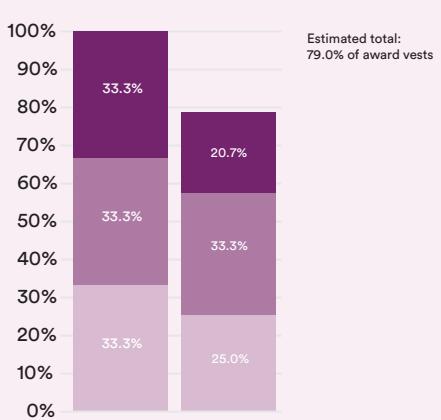
Annual bonus and Long Term Plan (LTP) outcomes

The charts below show the results of the performance against targets for the annual bonus and LTP schemes. Further information on the annual bonus can be seen on page 164 and on the LTP on page 166.

2019/20 Annual bonus outcome



Estimated 2017 Long Term Plan (LTP) outcome



Corporate governance report

Annual report on remuneration

Aligning our remuneration philosophy to business strategy

Our remuneration philosophy is aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all of our stakeholders.

The following table provides a summary of how our incentive framework in 2019/20 aligns with our business strategy and the results that it delivers. Many of the performance measures are key performance indicators (KPIs) for the regulatory period 2015–20 (see pages 56 to 59).

Alignment to strategy		Link to strategic themes	A long-term approach to creating sustainable value
Annual bonus			
Underlying operating profit	Key measure of shareholder value.		✓
Customer service in year	Delivering the best service to customers is a strategic objective.		✓
> C-MeX ranking	Ofwat can apply financial incentives or penalties depending on our customer service performance.		
> Written complaints			
Maintaining and enhancing services for customers	Delivering the best service to customers is a strategic objective.		✓
> Outcome delivery incentive (ODI) composite	There is a direct financial impact on the company of Ofwat incentives and penalties for delivery/non-delivery of customer promises.		
> Time, cost and quality of the capital programme (TCQi)	Keeping tight control of our capital programmes ensures we can provide a reliable service to our customers at the lowest sustainable cost.		
Personal	Focused on specific areas of individual contribution.		✓
Compulsory deferral of bonus	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.		✓
Long Term Plan (LTP)			
Relative total shareholder return (TSR)	Direct measure of delivery of shareholder returns, rewarding management for the outperformance of a comparator group of companies.		✓
Return on Regulated Equity (RoRE)	Outperformance will result in an increase to RoRE which should translate into higher returns for investors through share price performance.		✓
Customer service excellence	This is fundamental to delivering our vision of becoming the best UK water and wastewater company. This measure has a direct financial impact on the company as Ofwat can apply financial incentives or penalties depending on our customer service performance.		✓
Additional two-year holding period	Ensures continued alignment with shareholder interests and provides an additional period over which withholding can be applied.		✓
Shareholding guidelines	It is important that each executive director builds and maintains a significant shareholding in shares of the company to provide alignment with shareholder interests.		✓

Key:



The best service to customers



At the lowest sustainable cost



In a responsible manner

Executive directors' remuneration for the year ended 31 March 2020

Single total figure of remuneration for executive directors (audited information)

Year ended 31 March	Fixed pay						Variable pay					
	Base salary £'000		Pension £'000		Benefits £'000		Annual bonus £'000		Long-term incentives £'000		Total £'000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020 ⁽¹⁾	2019 ⁽²⁾	2020	2019
Steve Mogford	769	754	169	166	35 ⁽³⁾	28	707	774	884	707	2,564	2,429
Russ Houlden	486	476	107	105	24	25	446	486	558	446	1,621	1,538
Steve Fraser ⁽⁴⁾	185	440	41	97	9	21	0	452	0	167	235	1,177

(1) The long-term incentive amount is in respect of the Long Term Plan (LTP) award which was granted in June 2017 for which the outcome is based on performance over the three-year period from 1 April 2017 to 31 March 2020. The LTP amount is estimated as the vesting percentage for the one-third relating to customer service excellence will not be known until later in 2020, and the awards for Steve Mogford and Russ Houlden will not vest until the end of an additional two-year holding period. Steve Fraser's 2017 LTP award lapsed on his departure. For the purposes of this table, the value of LTP awards has been calculated using an average share price over the three-month period from 1 January 2020 to 31 March 2020 of 960.2 pence per share. This is higher than the share price at the time these awards were made to participants and accordingly some of the value shown is attributable to share price appreciation. See page 166 for further details.

- (2) The long-term incentive amount for the year ended 31 March 2019 is in respect of the LTP award that was granted in June 2016 and whose performance period ended on 31 March 2019. The figure stated in last year's report was based on a latest best estimate (LBE) for the customer service excellence measure which indicated an overall vesting outcome of 60 per cent. The final confirmed outcome for the measure was better than the LBE which meant the actual overall vesting outcome was 64.4 per cent. The figure for 2019 has been updated to reflect this. Additionally, dividend equivalents accrued to 31 March 2020 have been added. The awards for Steve Mogford and Russ Houlden are not due to vest until April 2021 following an additional two-year holding period and for the purposes of this table have been valued on the basis of the average share price over the three-month period from 1 January 2020 to 31 March 2020 of 960.2 pence per share. Steve Fraser's award was granted prior to his appointment to the board and so no holding period applied.
- (3) The increase in the value of benefits for Steve Mogford relates primarily to his group income protection benefit. With effect from 1 April 2019 the cost of providing the benefit increased and so this is reflected in the value of benefits shown in the table above. The underlying value he would actually receive if he were to access the benefit did not change.
- (4) Steve Fraser's final date of employment with the company was 31 August 2019 and therefore salary, benefits, pension and annual bonus figures for Steve Fraser in year ended 31 March 2020 reflect part-year earnings for the period from 1 April 2019 to 31 August 2019.

Base salary

Executive director	Base salary £'000	
	1 September 2019	1 September 2018
Steve Mogford	775.2	760.0
Russ Houlden	489.6	480.0
Steve Fraser ⁽¹⁾	443.7	443.7

(1) Steve Fraser's final date of employment with the company was 31 August 2019. He received no salary increase in 2019.

Executive director salaries were increased by 2.0 per cent with effect from 1 September 2019. This is lower than the 3.0 per cent increase applying to the general workforce in 2019. The committee judged that the increase was supported by very good individual and business performance.

Pensions

The current executive directors receive a cash allowance of 22 per cent of base salary in lieu of pension, and no changes are expected to the pensions cash allowance percentage for the current executive directors during the year commencing 1 April 2020. Pension arrangements for the chief executive officer will be aligned to those of the wider workforce as part of the next directors' remuneration policy, expected to be put to shareholders at the 2022 AGM. When Phil Aspin joins the board as chief financial officer in July 2020 his pension arrangements will align with the workforce rate.

Benefits

For executive directors, benefits include: a car allowance of £14,000; health, life cover and income protection insurance; travel costs; and communication costs.

No material changes are expected to benefits during the year commencing 1 April 2020.

External appointments

Steve Mogford is the senior independent director of G4S PLC for which he received and retained an annual fee of £79,500 for the year ended 31 March 2020. Russ Houlden is an independent member of the supervisory board, and audit committee chairman, of Orange Polska SA, for which he received and retained annual fees of around £81,000 for the year ended 31 March 2020.

Corporate governance report

Annual report on remuneration

Annual bonus

Annual bonus in respect of financial year ended 31 March 2020 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2020 are set out below. The table on page 162 summarises how these performance measures are linked to our business strategy.

Measure	Threshold (25% vesting)	Target	Stretch (100% vesting)	Payout as a % of maximum	Steve Mogford weighting (% of award) Outcome	Russ Houlden weighting (% of award) Outcome
Underlying operating profit⁽¹⁾						
	£851.8m	£876.8m	£901.8m	40.9%	30.0%	30.0%
	Actual: £882.7m				12.3%	12.3%
Customer service in year						
C-MeX ranking versus the other WASCs ⁽²⁾	6th position	4th position	3rd position	100%	12.0%	12.0%
	Actual: 3rd position				12.0%	12.0%
Written complaints	16.62	16.06	15.50	100%	4.0%	4.0%
	Actual: 14.63				4.0%	4.0%
Maintaining and enhancing services for customers						
Outcome delivery incentive (ODI) composite	(£21.6m)	(£10.5m)	£37.1m	72.4%	24.0%	24.0%
	Actual: £22.4m				17.4%	17.4%
Time, cost and quality of capital programme (TCQi) ⁽³⁾	85.0%	91.5%	98.0%	77.7%	20.0%	20.0%
	Actual: 77.7%				15.5%	15.5%
Personal objectives (see page 165 for further detail)						
Steve Mogford				95.0%	10.0%	
	Actual: 95%				9.5%	
Russ Houlden				95.0%	10.0%	
	Actual: 95%				9.5%	
Total:						
Actual award (% of maximum)				70.7%	70.7%	
Maximum award (% of salary)				130%	130%	
Actual award (% of salary)⁽⁴⁾				91.9%	91.9%	
Actual award (£'000 – shown in single figure table)⁽⁴⁾				707	446	

(1) The underlying operating profit figure for bonus purposes is based on the underlying operating profit on page 91 and excludes infrastructure renewals expenditure and property trading. Recognising the performance of Water Plus during the year, of which Steve Mogford and Russ Houlden were directors, the committee used its discretion to reduce the underlying operating profit outcome used for assessing their bonus outcomes, such that the vesting on that measure was adjusted from 61.8 per cent to 40.9 per cent as shown in the table.

(2) As disclosed in the 2019 DRR, this element of the 2019/20 annual bonus was originally intended to be based on a ranking versus the other water and wastewater companies using Ofwat's C-MeX customer service survey (a sub-component of the overall C-MeX measure). When it became clear that relative ranking positions for the customer service survey component would not be available as initially expected, the committee resolved to adjust this element to be based instead on the overall C-MeX measure, with targets set to be of equivalent difficulty.

(3) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

(4) Under the Deferred Bonus Plan, 50 per cent of the annual bonus will be deferred in shares for three years.

Further detail of achievement against personal objectives

Personal objectives represent 10 per cent of the total bonus opportunity. Assessment of outcomes against personal objectives is summarised in the table below:

Steve Mogford

Personal objectives related to:	Performance summary
<ul style="list-style-type: none"> > Leadership of the company's preparations for the new regulatory period 2020–25 and the ongoing relationship with the Regulator > Mitigating the effect of unexpected events on operational performance and customer service > Succession planning > Developing the right organisation culture 	<p>The committee assessed that Steve Mogford's performance warranted an outcome of 95 per cent in respect of the personal objective element of his bonus, including:</p> <ul style="list-style-type: none"> > Continued development of the company's relationship with the regulator including engagement contributing to the final determination outcome, and positioning the company well in discussions on supporting customer affordability during the recovery period following COVID-19. > Strong leadership of the company's response to addressing the impact of the storms (Ciara and Dennis) during early 2020 and the rapid and effective mobilisation of the response to COVID-19. > Delivery of an effective internal talent pipeline, such that both the departure of Steve Fraser during the year and the planned retirement of Russ Houlden in July 2020 have been managed through internal promotions. > Continued growth of the senior leadership team's capabilities and impact, as evidenced in the delivery of improving operational performance, services to customers and levels of workforce engagement scores.

Russ Houlden

Personal objectives related to:	Performance summary
<ul style="list-style-type: none"> > Preparations for the new regulatory period 2020–25 > Cyber security > Financing activities > Succession planning 	<p>The committee assessed that Russ Houlden's performance warranted an outcome of 95 per cent in respect of the personal objective element of his bonus, including:</p> <ul style="list-style-type: none"> > Material contribution to the company's final determination outcome. > Led the design of the company's response to the new NIS cyber security requirements including the formulation of the company's plan for compliance. > Continued to lead the delivery of the company's financing competitive advantage, with low cost financing raised within the context of a low risk hedging strategy delivering significant value to customers and shareholders, benefiting service resilience and the environment. > Delivered, over several years, a high engagement, high performance Finance function and developed the talent within it, thereby facilitating the appointment of an internal candidate as the next CFO.

Deferred Bonus Plan awards made in the year ended 31 March 2020 (audited information)

Bonuses are earned by reference to performance in the financial year and paid in June following the end of the financial year. Fifty per cent of any bonus is deferred into shares under the Deferred Bonus Plan. These awards vest after three years and are subject to withholding provisions. There are no service or additional performance conditions attached.

The table below provides details of share awards made on 17 June 2019 in respect of deferred share bonus payments made to executive directors for the 2018/19 financial year.

Executive Director	Type of award	Basis of award	Number of Shares	Face value of award ⁽¹⁾ (£'000)	End of deferral period
Steve Mogford	Conditional shares	50% of bonus	46,960	£387	18.6.2022
Russ Houlden	Conditional shares	50% of bonus	29,485	£243	18.6.2022
Steve Fraser	Conditional shares	50% of bonus	27,417	£226	18.6.2022

(1) The face value has been calculated using the closing share price on 14 June 2019 (the dealing day prior to the date of grant), which was 824.2 pence per share.

Corporate governance report

Annual report on remuneration

Long-term incentives

Performance for Long Term Plan awards

2017 Long Term Plan (LTP) awards with a performance period ended 31 March 2020 (audited information)

The 2017 LTP awards were granted in June 2017 and performance was measured over the three-year period from 1 April 2017 to 31 March 2020. Executive directors' awards will normally vest in April 2022, following an additional two-year holding period. The unvested shares will remain subject to withholding provisions over this two-year holding period.

Note that the final outcome for the customer service excellence measure (which forms one-third of the award) will not be known until the customer service scores for the other water and wastewater companies are published in late summer 2020. The values of the 2017 LTP awards in the single total figure of remuneration table are therefore estimated and will be restated in next year's report once the final outcome is known.

The table below shows how the long-term incentive amount in respect of the 2017 LTP was calculated:

Measure	Threshold (25% vesting)	Intermediate	Stretch (100% vesting)	Vesting as a % of maximum	Steve Mogford weighting	Russ Houlden weighting
Relative total shareholder return (TSR)						
TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies) ⁽¹⁾	Median TSR	Straight-line between threshold and stretch	Median TSR 1.15	62.0%	33.3%	33.3%
Actual: TSR between threshold and stretch						
Company TSR of 17.5% was between threshold TSR of 9.4% and stretch TSR of 25.8%						
Sustainable dividends						
Average underlying dividend cover over the three-year performance period	1.05	1.13	1.15	100%	33.3%	33.3%
Actual: 1.32						
Underpin: Dividend growth of at least RPI in each of the years 2017/18, 2018/19 and 2019/20 ⁽²⁾	✓ Met					
Customer service excellence⁽³⁾						
Ranking for the year ended 31 March 2020 out of the 11 water and wastewater companies using a combined customer service measure comprising C-MeX performance and customer complaints ⁽⁴⁾	Median rank (6th position)	Straight-line between threshold and stretch	Upper quartile rank (3rd position)	75.0%	33.3%	33.3%
Estimate: 4th position						
Overall underpin						
Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance	✓ Assumed met. The committee will make a final assessment of the company's performance once the outcome of the customer service excellence measure is known.					
Estimated vesting (% of award)						
Number of shares granted						79.0%
Number of dividend equivalent shares						65,391
Number of shares before performance conditions applied						12,963
Estimated number of shares after performance conditions applied						8,183
Three-month average share price at end of performance period (pence)⁽⁵⁾						116,535
Estimated value at end of performance period (£'000 – shown in single figure table)⁽⁶⁾						73,574
92,062						58,123
960.2						960.2
884						558

(1) For the purposes of calculating TSR, the TSR index is averaged over the three months prior to the start and end of the performance period. TSR is independently calculated by the committee's advisers.

(2) Subject to approval of the final dividend by shareholders at the 2020 AGM.

(3) As disclosed in the 2018 DRR, this element of the 2017 LTP was originally based on a ranking versus the other water and wastewater companies using Ofwat's Service Incentive Mechanism (SIM) combined score, with 25 per cent vesting for a median ranking and 100 per cent vesting for an upper quartile ranking. As a result of Ofwat transitioning from SIM to C-MeX as its primary assessment of customer service, the committee resolved to adjust this element of the 2017 LTP to be based on the new C-MeX measure and written complaints, with targets set to be of equivalent difficulty. A similar adjustment has been made in respect of the 2018 LTP, details of which will be included in next year's report.

(4) This is an estimate as the final outcome will not be known until the volume of written complaints received by other companies are published later in 2020.

(5) Average share price over the three-month period from 1 January 2020 to 31 March 2020.

(6) 5.2 per cent of the value vesting is attributable to share price appreciation which equates to £44,000 for Steve Mogford and £28,000 for Russ Houlden.

Long Term Plan awards granted in the year

2019 LTP awards with a performance period ending 31 March 2022 (audited information)

The table below provides details of share awards made to executive directors on 28 June 2019 in respect of the 2019 LTP:

Executive director	Type of award	Basis of award	Face value of award (£'000) ⁽¹⁾	Number of shares under award	% vesting at threshold	End of performance period ⁽²⁾
Steve Mogford	Conditional shares	130% of salary	£988	125,126	25%	31.3.2022
Russ Houlden	Conditional shares	130% of salary	£624	79,027	25%	31.3.2022

(1) The face value has been calculated using the closing share price on 27 June 2019 (the dealing day prior to the date of grant) which was 789.6 pence per share.

(2) An additional two-year holding period applies after the end of the three-year performance period.

During the 2018/19 shareholder consultation process on the new directors' remuneration policy the committee concluded that there was shareholder support for the introduction of a new Return on Regulated Equity (RoRE) measure in the LTP under the new policy.

In recognition that setting meaningful targets for the sustainable dividend measure that could cross regulatory periods (from AMP6 to AMP7) would be challenging the committee indicated to shareholders that it might replace the 1/3 sustainable dividends element that would normally have applied to the 2019 LTP awards with one based on RoRE, and where delivery of the dividend policy would operate as an overall underpin. No negative feedback was received from shareholders on this proposal, and so the committee proceeded with the change.

Details about the 2019 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2019 to 31 March 2022. The table on page 162 summarises how these performance measures are linked to our business strategy.

Measure	Targets		
	Threshold (25% vesting)	Stretch (100% vesting)	Weighting
Relative total shareholder return (TSR)			
TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies) ⁽¹⁾ measured over the three-year performance period	Median TSR	Median TSR x 1.15	33.3%
Return on Regulated Equity (RoRE)⁽²⁾			
Average RoRE compared to the average allowed return set by the regulator across the three-year performance period	Average RoRE of -0.5% below the average allowed return	Average RoRE of 1% above the average allowed return	33.3%
Customer service excellence			
Ranking for the year ended 31 March 2022 out of the 11 water and wastewater companies using a combined customer service measure comprising C-MeX performance and customer complaints	Median rank (6th position)	Upper quartile rank (3rd position)	33.3%
Overall underpin			
Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.			

(1) For the purposes of calculating TSR, the TSR index is averaged over the three months prior to the start and end of the performance period. TSR is independently calculated by the committee's advisers.

(2) Stretching targets were set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance.

Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance.

Corporate governance report

Annual report on remuneration

Incentives in 2020/21

Ensuring alignment with our business plan

The performance measures used in our incentive schemes during 2020/21 will be aligned directly with the business plan, with a material weighting on measures that are linked to delivery for customers. Further details about the measures used and the stretching targets set will be provided in next year's directors' remuneration report.

Annual bonus in respect of the financial year commencing 1 April 2020

The maximum bonus opportunity for the year commencing 1 April 2020 will remain unchanged at 130 per cent of base salary.

In a change to previous years, and consistent with the directors' remuneration policy, the annual bonus for 2020/21 will be wholly aligned to the group bonus scorecard, with no personal performance element. In making this change, the committee considered that individual contributions are already directly reflected in the outcomes of the group scorecard and therefore a standalone element was no longer required.

In addition, unlike the approach adopted during AMP6, there will be no additional weighting applied to the underlying operating profit (UOP) measure, with the 10 per cent weighting being redistributed to the scorecard measures. This change is driven by the fact that there are lower allowed revenues in AMP7 due to the lower WACC and the importance to the overall financials of delivering the customer measures and ODIs as they provide greater opportunity to earn value and impact Return on Regulated Equity.

The table below summarises the measures, weighting and targets for the 2020/21 bonus. Targets that are considered commercially sensitive will be disclosed retrospectively in the 2020/21 annual report on remuneration.

Measure	Targets			
	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Weighting (% of award)
Underlying operating profit ⁽¹⁾	Commercially sensitive			25.0%
Customer service in year				
C-MeX ranking out of the 17 water companies	8th position	6th position	4th position	20.0%
Written complaints	14.63	14.49	14.36	
Maintaining and enhancing services for customers				
Outcome delivery incentive (ODI) composite	Commercially sensitive			35.0%
Time, cost and quality of capital programme (TCQi) ⁽²⁾	80%	87.5%	95%	20.0%
Total				100%

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

(2) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

2020 LTP awards with a performance period ending 31 March 2023

As part of the directors' remuneration policy review during 2018/19 the committee consulted with shareholders on changing the structure of the LTP with effect from the 2020 awards, such that they would be based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures. Shareholders subsequently approved the new policy at the 2019 AGM and so the new structure will apply when the 2020 LTP awards are granted. The award level for executive directors will remain unchanged at 130 per cent of base salary.

Stretching targets will be set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance.

In respect of the customer basket the committee will finalise the selection of measures having reflected on the group's research in relation to customer priorities. The basket will demonstrate our focus on customer delivery, as committed to Ofwat in our PR19 business plan, and will recognise evolving expectations in regard to Environmental, Social and Governance matters.

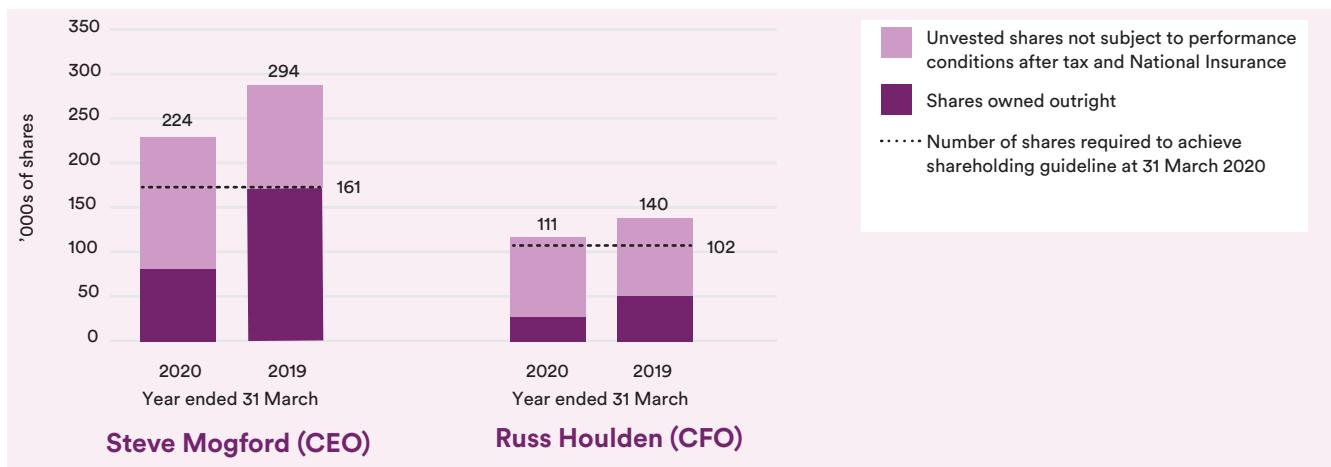
The targets for both the RoRE and customer basket measures are still being determined. Full details of the targets set will be disclosed in the 2020/21 annual report on remuneration.

Executive directors' interests in shares

Executive directors' shareholding (audited information)

Executive directors are expected to reach a shareholding guideline of 200 per cent of salary, normally within five years of appointment. With effect from 19 May 2020 the shareholding guideline was updated to include a post-employment shareholding requirement, under which executive directors must continue to hold the lower of 200 per cent of salary in shares or their shareholding on departure, for two years after ceasing employment with the group. Executive directors in role before 19 May 2020 must retain shares vesting from future incentive awards if not doing so would take their shareholding below the guideline. Executive directors appointed on or after 19 May 2020 must retain shares vesting from all incentive awards (including in-flight awards) if not doing so would take their shareholding below the guideline. The committee has put in place legal mechanisms to enable the post-employment shareholding requirements to be enforced.

Details of beneficial interests in the company's ordinary shares as at 31 March 2020 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding guideline level. Steve Mogford and Russ Houlden both continue to exceed the target shareholding guideline level of 200 per cent of salary.



Further details of the executive directors' shareholdings and share plan interests are given in the table below and in the appendix on page 185.

Director	Shareholding guideline (% of salary)	Number of shares required to meet shareholding guideline ⁽¹⁾		Number of shares owned outright (including connected persons)		Unvested shares not subject to performance conditions ⁽²⁾		Total shares counting towards shareholding guidelines ⁽³⁾		Shareholding as % of base salary at 31 March 2020 ⁽¹⁾	Shareholding guideline met at 31 March 2020	Unvested shares subject to performance conditions ⁽⁴⁾
		2020	2019	2020	2019	2020	2019	2020	2019			
Steve Mogford ^{(5) (6)}	200%	161,466	70,178	158,299	289,524	255,366	223,646	293,665	277%	Yes	381,010	352,738
Russ Houlden ^{(5) (6)}	200%	101,979	14,195	55,040	182,219	160,669	110,791	140,217	217%	Yes	240,605	222,701
Steve Fraser ^{(5) (7)}	200%	92,418	60,902	60,608	64,065	43,069	94,864	83,457	n/a	n/a	0	129,081

(1) Share price used is the average share price over the three months from 1 January 2020 to 31 March 2020 (960.2 pence per share).

(2) Unvested shares subject to no further performance conditions such as matching shares under the ShareBuy scheme. Includes shares subject only to withholding provisions such as Deferred Bonus Plan shares in the three-year deferral period and Long Term Plan shares in the two-year holding period.

(3) Includes unvested shares not subject to performance conditions (on a net of tax and National Insurance basis), plus the number of shares owned outright.

(4) Includes unvested shares under the Long Term Plan.

(5) In the period 1 April 2020 to 19 May 2020, additional shares were acquired by Steve Mogford (34 ordinary shares) and Russ Houlden (34 ordinary shares) in respect of their regular monthly contributions to the all-employee ShareBuy scheme. These will be matched by the company on a one-for-five basis. Under the scheme, matching shares vest one year after grant provided the employee remains employed by the company.

(6) On 1 April 2020, shares granted on 30 June 2015 under the Long Term Plan vested for Steve Mogford and Russ Houlden following their additional two-year holding period. Steve Mogford had 66,320 shares vesting, of which 31,249 shares were sold to cover tax and National Insurance. Steve retained the remaining balance of 35,071 shares. Russ Houlden had 41,869 shares vesting, of which 19,728 shares were sold to cover tax and National Insurance. Russ retained the remaining balance of 22,141 shares.

(7) Steve Fraser left the company on 31 August 2019 and the shares reflect his shareholding at his departure date, valued using the average share price over the three months from 1 January 2020 to 31 March 2020. As at 31 March 2020 he continued to have a beneficial interest in 64,953 shares.

Dilution limits

Awards granted under the company's share plans are satisfied by market purchased shares bought on behalf of the company by United Utilities Employee Share Trust immediately prior to the vesting of a share plan. The company does not make regular purchases of shares into the Trust nor employ a share purchase hedging strategy and shares are bought to satisfy the vesting of share plans. The rules of the Deferred Bonus Plan do not permit awards to be satisfied by newly issued shares and must be satisfied by market purchased shares. The rules of the Long Term Plan permit the awards to be satisfied by newly issued shares but the company has decided to satisfy awards by market purchased shares.

Should the company's method of satisfying share plan vestings change (i.e. issuing new shares) then the company would monitor the number of shares issued and their impact on dilution limits set by The Investment Association in respect of all share plans (10 per cent in any rolling 10-year period) and executive share plans (5 per cent in any rolling 10-year period).

No treasury shares were held or utilised in the year ended 31 March 2020.

Corporate governance report

Annual report on remuneration

Other information

Company performance and CEO remuneration comparison

The TSR chart below illustrates the company's performance against the FTSE 100 over the past ten years. The FTSE 100 has been chosen as the appropriate comparator as the company is a member of the FTSE 100 and it is considered to be the most widely published benchmark for this purpose. The chart shows the growth in the value of a hypothetical £100 holding invested in the company over the ten year period. The table below the TSR chart shows the remuneration data for the CEO over the same period as the TSR chart.



Year ended 31 March	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO single figure of remuneration (£'000)	Steve Mogford 377	1,421	1,549	2,378	2,884	2,760 ⁽¹⁾	2,233	2,221 ⁽²⁾	2,429 ⁽³⁾	2,564
	Philip Green 3,073	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Annual bonus payment (% of maximum)	Steve Mogford 90.6	72.0	84.4	78.2	77.4	54.5	83.7	74.9	79.0	70.7
	Philip Green 90.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTP vesting (% of maximum) ⁽⁴⁾	Steve Mogford n/a ⁽⁵⁾	n/a ⁽⁵⁾	n/a ⁽⁵⁾	93.5	97.5	33.6	54.5	55.4	64.4 ⁽³⁾	79.0 ⁽⁷⁾
						100 ⁽⁶⁾				
	Philip Green 28.1 ⁽⁸⁾	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
		100 ⁽⁹⁾								

(1) This includes the payout from the 2013 Long Term Plan (LTP) as well as £1.028 million in respect of Steve Mogford's one-off Matched Share Investment Scheme that ended on 5 January 2016.

(2) The payout from the 2015 LTP, which vested on 1 April 2020 after the end of a two-year holding period, has been updated to reflect the additional dividends accruing on this award and the closing share price on the date of vesting of 867.8 pence per share.

(3) The payout and vesting percentage for the 2016 LTP have been restated to reflect the additional dividend equivalents accruing on these awards, final vesting outcome and updated share price. See page 163 for further details.

(4) For performance periods ended on 31 March, unless otherwise stated.

(5) Steve Mogford was not a participant in any long-term incentive plans that had performance periods ending during 2011 to 2013. For those who did participate in those plans, the vesting as a percentage of maximum was 37.5 per cent for those vesting in 2012 and 35.3 per cent for those vesting in 2013.

(6) The retention period applicable to Steve Mogford's Matched Share Investment Scheme ended on 5 January 2016.

(7) The 2017 Long Term Plan amount vesting percentage is estimated. See page 166 for further details.

(8) 2008 Performance Share Plan (PSP) and Matching Share Award Plan (MSAP).

(9) The retention period applicable to Philip Green's Matched Share Investment Scheme ended on 12 February 2011.

Date of service contracts

Executive directors

Date of service contract

Steve Mogford

5.1.11

Russ Houlden

1.10.10

Pay arrangements across the wider workforce and their alignment with our executive pay approach

The committee has always been mindful of the alignment of executive pay arrangements and those of the wider workforce, and as is demonstrated in the table below there is a high level of alignment and consistency of approach.

When reviewing salaries and assessing incentive outcomes for the executives the committee takes account of how those elements of remuneration have been (or will be) applied across the wider workforce in respect of the same periods. At least annually the committee reviews a report detailing all elements of the workforce's pay and benefits, with any notable changes since the previous review being clearly identified and discussed.

The committee has mechanisms through which it hears from and engages with the workforce on executive pay, and its alignment with wider arrangements. As a member of the committee, insights related to remuneration that arise via Alison Goligher in her role as Employee Voice non-executive director can be quickly and appropriately considered, and Alison provides a formal report to the committee at least annually in this respect. Additionally, Alison hosts sessions with the Employee Voice panel which cover the alignment of our executive pay approach with that of the wider workforce.

Cascade of remuneration through the organisation

Employee group (number of employees covered)	Element of pay	Description
Employees at all levels (circa 5,500)	Salary	We aim to attract and retain employees of the experience and quality required to deliver the company's strategy. Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce. For 2019 the average base salary increase for employees was 3 per cent (2 per cent for executive directors).
	Health and wellbeing benefits	All employees are eligible for company-funded healthcare. Employees have access to a Best Doctors service for them and their families. Financial awareness courses are available for all employees to help with their financial wellbeing and cover a broad range of money management topics such as financial planning, managing debt and pensions
	Flexible benefits	All employees have access to a variety of additional voluntary benefits to suit their lifestyle, and can choose from a range of deals and discounts all year round. Employees can donate to their chosen charities directly from their pay if they want to. Around 70 per cent of employees take up at least one of these flexible options.
	Pension	Employees at all levels can participate in our award-winning pension arrangements and 99 per cent of our employees do so. The company doubles any contributions that employees make up to a maximum of 14 per cent of salary. As part of the pension scheme employees receive company-funded life assurance.
	ShareBuy	Any employee can become a shareholder in our company and share in our success by participating in our ShareBuy scheme. For every five shares an employee buys the company gives another one free. Just over half of the workforce participate in our ShareBuy scheme.
	Annual bonus cash	Employees at all levels participate in the annual bonus scheme, receiving financial rewards based on the performance of the company and achievement of personal objectives. Specific weightings and award levels vary by grade. There is a strong level of alignment in measures throughout the organisation.
CEO, CFO and senior executives (7)	Annual bonus - deferred shares	Each of the executive directors and senior executives is required to defer a proportion of their bonus into shares for three years.
CEO, CFO, executives and directors (circa 60)	Long Term Plan (LTP)	Executives and directors may be invited to participate in the LTP. Performance conditions are the same for all participants but award sizes vary.

Corporate governance report

Annual report on remuneration

Percentage change in CEO's remuneration versus the wider workforce

The figures below show how the percentage change in the CEO's salary, benefits and bonus earned in 2018/19 and 2019/20 compares with the percentage change in the average of each of those components for a group of employees.

Change in CEO remuneration



Change in employee remuneration⁽³⁾



(1) On 1 September 2019, Steve Mogford received a base salary increase of 2.0 per cent.

(2) See page 164 for further details.

(3) The increase in the value of benefits for Steve Mogford relates primarily to his group income protection benefit. With effect from 1 April 2019 the cost of providing the benefit increased and so this is reflected in the value of benefits shown in the single figure table. The underlying value he would actually receive if he were to access the benefit did not change.

(4) To aid comparison, the group of employees selected by the committee are all those members of the workforce who were employed over the complete two-year period.

(5) Includes promotional increases. The headline salary increase for employees was 3.0 per cent.

CEO pay ratios

New legislation requires listed companies with more than 250 employees to publish the ratio of their CEO's pay to that of the 25th percentile (P25), median (P50) and 75th percentile (P75) total remuneration of full-time equivalent employees. The regulations provide for three calculation approaches to determine the pay ratio (Options A, B and C).

The data in the tables below has been calculated using Option A which is considered to be the most accurate methodology and uses the same calculation basis as required for the CEO's total remuneration as shown in the single figure table on page 163.

- > We identified all employees who received base salary during the year ended 31 March 2020 and who were still employed on that date.
- > The calculations were carried out using their total pay and benefits received in respect of the year ended 31 March 2020, including bonuses earned by reference to performance in the financial year and paid in June following the end of the financial year.
- > For employees who were employed on a part-time basis, or who were not employed for the full year, their remuneration has been annualised to reflect the full-time equivalent.
- > No other estimates or adjustments have been used in the calculations and no other remuneration items have been omitted.

Financial year	Method	Pay ratios		
		P25	P50	P75
2019/20	Option A	77:1	58:1	46:1

Along with the above ratios comparing total remuneration, the committee will keep under review the ratios for salary and salary plus annual bonus, and track how these change over time. With a significant proportion of the remuneration of the CEO linked to company performance and share price movements over the longer term, it is expected that the headline ratios will depend primarily on the Long Term Plan (LTP) outcome, and accordingly may fluctuate from year to year. Participation in the LTP is currently limited to around 60 executives and directors, with none of the individuals identified as P25, P50 and P75 in this group. On the other hand, employees at all levels participate in the annual bonus scheme, and so the committee considers this ratio as well as the ratio comparing only salary, to provide helpful additional context.

Pay ratios for different elements of remuneration	Pay ratios		
	P25	P50	P75
Total remuneration (as above)	77:1	58:1	46:1
Salary plus annual bonus	47:1	37:1	31:1
Salary	26:1	20:1	17:1

The table below shows the total remuneration, salary plus annual bonus, and salary at each of the three quartiles.

	£'000			
	CEO	P25	P50	P75
Total remuneration	2,564	33	44	56
Salary plus annual bonus	1,476	32	40	48
Salary	769	30	38	44

With this being the first full year under the revised reporting requirements, there is limited data against which to compare the pay ratios above. The committee will consider the pay ratios in the context of the ratios reported in future years as well as other important metrics such as the gender pay gap and employee engagement levels.

Relative importance of spend on pay

The table below shows the relative importance of spend on pay compared to distributions to shareholder.



Non-executive directors

Single total figure of remuneration for non-executive directors (audited information)

	Salary/fees £'000		Taxable benefits £'000		Total £'000	
	2020	2019	2020	2019	2020	2019
Dr John McAdam ⁽¹⁾	232	307	2	1	234	308
Sir David Higgins ⁽²⁾	126	n/a	3	n/a	129	n/a
Stephen Carter	80	78	1	0	81	78
Mark Clare	81	80	3	0	84	80
Alison Goligher	68	66	0	0	68	66
Brian May	84	82	3	0	87	82
Paulette Rowe	68	66	2	0	70	66
Sara Weller	81	80	1	0	82	80

(1) Dr John McAdam retired from the board on 31 December 2019.

(2) Sir David Higgins joined the board as a non-executive director and chairman designate with effect from 13 May 2019, receiving annual fees of £80,000. On his appointment as Chairman, effective 1 January 2020, his annual fees increased to £300,000.

Fees

Non-executive director annual fee rates were reviewed and increased with effect from 1 September 2019 as shown below. Base fees were increased by 2.0 per cent which is lower than the 3.0 per cent increase applying to the general workforce in 2019. Additional fees for the senior independent non-executive director and the chairs of committees were not increased.

Role	Fees £'000	
	1 Sept 2019	1 Sept 2018
Base fee: Chairman ^{(1) (2)}	315.0	309.0
Base fee: other non-executive directors ⁽³⁾	68.2	66.9
Senior independent non-executive director ⁽³⁾	13.5	13.5
Chair of audit and treasury committees ⁽³⁾	16.0	16.0
Chair of remuneration committee ⁽³⁾	13.5	13.5
Chair of corporate responsibility committee ⁽³⁾	12.0	12.0

(1) Approved by the remuneration committee.

(2) With effect from 1 January 2020 the base fee for the Chairman was set at £300,000.

(3) Approved by a separate committee of the board.

Corporate governance report

Annual report on remuneration

Non-executive directors' shareholding (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2020 held by each of the non-executive directors and their connected persons are set out in the table below.

Non-executive directors	Date first appointed to the board	Number of shares owned outright (including connected persons) at 31 March 2020 ⁽¹⁾
Dr John McAdam ⁽²⁾	4.2.08	1,837
Sir David Higgins	13.5.19	3,000
Stephen Carter	1.9.14	3,075
Mark Clare	1.11.13	7,628
Alison Goligher	1.8.16	3,000
Brian May	1.9.12	3,000
Paulette Rowe	1.7.17	3,000
Sara Weller	1.3.12	11,000

(1) From 1 April 2020 to 19 May 2020 there have been no movements in the shareholdings of the non-executive directors.

(2) Dr John McAdam had 1,837 shares when he stepped down from the board with effect from 1 January 2020.

The remuneration committee

Summary terms of reference

The committee's terms of reference were last reviewed in November 2019 and are available on our website:

corporate.unitedutilities.com/corporate-governance

The committee's main responsibilities include:

- > Determining and recommending to the board the policy for executive director remuneration, having reviewed and taken into account workforce remuneration and related policies and the alignment of incentives and reward with culture;
- > Setting the individual employment and remuneration terms for executive directors and other senior executives, including: recruitment and severance terms, bonus plans and targets, and the achievement of performance against targets;
- > Approving the general employment and remuneration terms for selected senior employees;
- > Setting the remuneration of the Chairman;
- > Proposing all new long-term incentive schemes for approval of the board, and for recommendation by the board to shareholders; and
- > Assisting the board in reporting to shareholders and undertaking appropriate discussions as necessary with institutional shareholders on aspects of executive remuneration.

Composition of the remuneration committee

Member	Member since	Member to
Sara Weller (chair since 27.7.12)	1.3.12	To date
Mark Clare	1.9.14	To date
Alison Goligher	1.8.16	To date
Brian May	16.5.17	To date

The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors.

Support to the remuneration committee

By invitation of the committee, meetings are attended by the Chairman of the company, the chief executive officer, the company secretary (who acts as secretary to the committee), the customer services and people director and the head of reward, who are consulted on matters discussed by the committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other employees where the committee feels that such additional contributions will assist the decision-making process.

The committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers.

During the year, the committee was assisted in its work by the following external advisers:

Adviser	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2020	Additional services provided in year ended 31 March 2020	Fees paid by company for these services in respect of year and basis of charge
New Bridge Street (to 31 December 2019)	Committee	Reappointed following committee review in 2013	General advice on remuneration matters and support for the directors' remuneration policy review	Benchmarking of roles not under the committee's remit and advice on non-executive director remuneration. Provision of market information relevant to the price review submission	£67,000 on a time/cost basis
Mercer (from 1 January 2020)	Committee	Appointed following a tender process in 2019	General advice on remuneration matters	Benchmarking of roles not under the committee's remit and advice on non-executive director remuneration	£22,000 on a time/cost basis

The independent consultants New Bridge Street (a trading name of Aon Hewitt Limited, an Aon PLC company) and Mercer are members of the Remuneration Consultants Group and, as such, voluntarily operate under the Code of Conduct in relation to executive remuneration consulting in the UK. The committee is satisfied that the advice they received from external advisers is objective and independent.

In addition, during the year the law firm Eversheds Sutherland provided advice to the company in relation to the company's share schemes.

Key activities of the remuneration committee over the past year

The committee met seven times in the year ended 31 March 2020.

Regular activities

- > Approved the 2018/19 directors' remuneration report;
- > Reviewed the pay comparator group;
- > Reviewed the base salaries of executive directors and other members of the executive team;
- > Reviewed the base fee for the Chairman;
- > Assessed the achievement of targets for the 2018/19 annual bonus scheme, reviewed progress against the targets for the 2019/20 annual bonus scheme, and considered the targets for the 2020/21 annual bonus scheme;
- > Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2016 and set the targets for LTP awards made in 2019;
- > Reviewed and approved awards made under the annual bonus scheme, Deferred Bonus Plan (DBP) and LTP;
- > Monitored progress against shareholding guidelines for executive directors and other members of the executive team;
- > Reviewed the committee's performance during the period;
- > Amended the committee's terms of reference, taking account of best practice and changes introduced by the 2018 UK Corporate Governance Code, including the committee assuming responsibility for the setting of remuneration for all members of the executive team;
- > Considered governance developments and market trends in executive remuneration, including in the wider utilities sector; and
- > Noted progress on the company's gender pay gap reporting.

Other activities

- > Reviewed the executive pay arrangements and consulted with shareholders on the proposed directors' remuneration policy;
- > Determined the remuneration arrangements for departing and new/designate board members falling under the remit of the committee;
- > Reviewed the shareholding guidelines including the introduction of post-employment shareholding requirements; and
- > Agreed to align pension arrangements for future executive directors with those of the wider workforce and that pension arrangements for current executive directors would align as part of the next policy review.

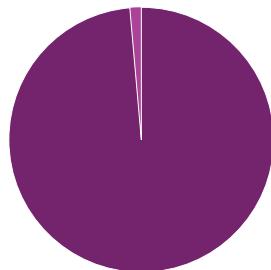
Corporate governance report

Annual report on remuneration

2019 AGM: statement of voting

At the last annual general meeting on 26 July 2019, votes on the remuneration-related resolutions were cast as follows:

Approval of the directors' remuneration policy



■ Votes for 458,175,960

(99.41% of votes cast)

■ Votes against 2,709,122

(0.59% of votes cast)

460,885,082 **667,337**

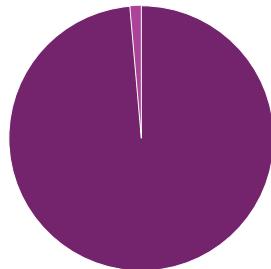
Total votes cast

Votes withheld

(abstentions)

Approval of the directors' remuneration report

(other than the part containing the directors' remuneration policy)



■ Votes for 454,289,863

(98.54% of votes cast)

■ Votes against 6,734,908

(1.46% of votes cast)

461,024,771 **527,648**

Total votes cast

Votes withheld

(abstentions)

The directors' remuneration report was approved by the board of directors on 19 May 2020 and signed on its behalf by:

Sara Weller

Chair of the remuneration committee



Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

This appendix to the directors' remuneration report sets out an abridged version of the remuneration policy for the company which was approved by shareholders at the AGM on 26 July 2019. The policy took effect from the date of approval and is intended to apply until the 2022 AGM.

In the interests of clarity, the report includes some minor annotations to additionally show, where appropriate, how the policy will be implemented in 2020/21. A full version of the shareholder approved policy can be found in the Annual Report and Financial Statements for the year ended 31 March 2019.

Overview of remuneration policy

The company's remuneration arrangements are designed to promote the long-term success of the company. The company does not pay more than is necessary for this purpose. The committee recognises that the company operates in the North West of England in a regulated environment and therefore needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

The committee monitors the remuneration arrangements to ensure that there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the company's strategy, and if the strategy is delivered within an acceptable level of risk, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

The committee understands that listening to the views of the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged.

Although employees are not consulted directly on executive remuneration policy, employee engagement surveys are carried out annually and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements. The committee takes into account the general base salary increase and remuneration arrangements, including pension provision, for the wider employee population when determining remuneration policy for the executive directors. Processes are in place for the committee to review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the 'employee voice'.

Policy table for directors

Base salary

Purpose and link to strategy: To attract and retain executives of the experience and quality required to deliver the company's strategy.

Operation	Maximum opportunity
Normally reviewed annually, typically effective 1 September.	Current salary levels are shown in the annual report on remuneration.
Significant increases in salary should only take place infrequently, for example where there has been a material increase in:	Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce, unless one or more of the conditions outlined under 'Operation' is met.
> the size of the individual's role; > the size of the company (through mergers and acquisitions); or > the pay market for directly comparable companies (for example, companies of a similar size and complexity).	Where the committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance.
Performance measures	
On recruitment or promotion to executive director, the committee will take into account previous remuneration, and pay levels for comparable companies, when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	None.



Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

Pension	
Purpose and link to strategy: To provide a level of benefits that allow for personal retirement planning.	
Operation	Maximum opportunity
Executive directors are offered the choice of: <ul style="list-style-type: none">> a company contribution into a defined contribution pension scheme;> a cash allowance in lieu of pension; or> a combination of a company contribution into a defined contribution pension scheme and a cash allowance.	The maximum opportunity is aligned to the approach available to the wider workforce, currently: <ul style="list-style-type: none">> up to 14 per cent of salary into a defined contribution scheme;> cash allowance of broadly equivalent cost to the company (up to 14 per cent of salary less employer National Insurance contributions at the prevailing rate, i.e. up to 12 per cent of base salary for 2019/20); or> a combination of both such that the cost to the company is broadly the same. <p>For executive directors appointed to role before 26 July 2019 a cash allowance of 22 per cent of salary is payable. Their pension arrangements will be aligned to the wider workforce as part of the next policy review.</p>
Performance measures	
None.	
Benefits	
Purpose and link to strategy: To provide market competitive benefits to help recruit and retain high-calibre executives.	
Operation	Maximum opportunity
Provision of benefits such as: <ul style="list-style-type: none">> health benefits;> car or car allowance;> relocation assistance;> life assurance;> group income protection;> all employee share schemes (e.g. opportunity to join the ShareBuy scheme);> travel; and> communication costs.	As it is not possible to calculate in advance the cost of all benefits, a maximum is not predetermined.
Performance measures	
None.	
Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit).	
Executives will be eligible for any other benefits that are introduced for the wider workforce on broadly similar terms and additional benefits might be provided from time to time if the committee decides payment of such benefits is appropriate and in line with emerging market practice.	



Annual bonus

Purpose and link to strategy: To incentivise performance against personal objectives and selected financial and operational KPIs that are directly linked to business strategy. Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.

Operation

A maximum of 50 per cent of bonus awarded paid as cash.

A minimum of 50 per cent of bonus awarded deferred into company shares under the Deferred Bonus Plan (DBP) for a period of at least three years.

DBP shares accrue dividend equivalents.

Not pensionable.

Bonuses and DBP shares are subject to recovery provisions in certain negative circumstances including: material misstatement of audited financial results; an error in the calculation; or gross misconduct.

Additionally, withholding provisions can also apply to DBP shares in cases of: serious reputational damage; serious failure of risk management; or other circumstances that the committee may determine.

Maximum opportunity

Maximum award level of up to 130 per cent of salary, for the achievement of stretching performance objectives.

Performance measures

Payments predominantly based on financial and operational performance, with a minority based on achievement of personal objectives.

Targets and weightings set by reference to the company's financial and operating plans.

Bonus outcomes are subject to the committee being satisfied that the company's performance on the measures is consistent with underlying business performance and individual contributions. The committee will exercise discretion on bonus outcomes if it deems necessary.

100 per cent of maximum bonus potential for stretch performance; up to 50 per cent of maximum for target performance; and up to 25 per cent of maximum for threshold performance. No payout for below-threshold performance.



Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

Long Term Plan (LTP)

Purpose and link to strategy: To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.

Operation

Awards under the Long Term Plan are rights to receive company shares, subject to certain performance conditions.

Each award is measured over at least a three-year performance period.

An additional holding period applies after the end of the three-year performance period so that the total vesting and holding period is at least five years.

Vested shares accrue dividend equivalents.

Shares under the LTP are subject to recovery and withholding provisions in certain negative circumstances, including: material misstatement of audited financial results; an error in the calculation; or gross misconduct.

Additionally, withholding provisions can also apply in cases of: serious reputational damage; serious failure of risk management; or other circumstances that the committee may determine.

Maximum opportunity

The normal maximum award level will be up to 130 per cent of salary per annum.

The overall policy limit is 200 per cent of salary. It is not anticipated that awards above the normal level will be made to current executive directors and any such increase on an ongoing basis will be subject to prior consultation with major shareholders.

Performance measures

The two performance conditions are Return on Regulated Equity and a basket of customer measures. The weighting of each of these two components is 50 per cent.

Any vesting is also subject to the delivery of the dividend policy during the respective performance period, and the committee being satisfied that the company's performance on these measures is consistent with underlying business performance. The committee will exercise discretion on LTP outcomes if it deems it necessary.

The committee retains discretion to set alternative performance measures for future awards but will consult with major shareholders before making any changes to the currently applied measures.

100 per cent of awards vest for stretch performance; and up to 25 per cent of awards vest for threshold performance. No awards vest for below-threshold performance.

Non-executive directors' fees and benefits

Purpose and link to strategy: To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.

Operation

The remuneration policy for the non-executive directors (with the exception of the Chairman) is set by a separate committee of the board. The policy for the Chairman is determined by the remuneration committee (of which the Chairman is not a member).

Fees are reviewed annually taking into account the salary increase for the general workforce and the levels of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 September.

Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain board sub-committees, and to the senior independent non-executive director.

In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the board may pay extra fees on a pro rata basis to recognise the additional workload.

No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or employee share schemes.

The company repays any reasonable expenses that a non-executive director incurs in carrying out their duties as a director, including travel, hospitality-related and other modest benefits and any tax liabilities thereon, if appropriate.

Maximum opportunity

Current fee levels are shown in the annual report on remuneration.

The value of benefits may vary from year to year according to the cost to the company.

Performance measures

Non-executive directors are not eligible to participate in any performance-related arrangements.

Notes to the policy table

Selection of performance measures and targets

Performance measures for the annual bonus are selected annually to align with the company's key strategic goals for the year and reflect financial, operational and personal objectives. 'Target' performance is typically set in line with the business plan for the year, following rigorous debate and approval of the plan by the board. Threshold to stretch targets are then set based on a sliding scale on the basis of relevant commercial factors.

Only modest rewards are available for delivering threshold performance levels, with rewards at stretch requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus are given in the annual report on remuneration.

The current Long Term Plan (LTP) measures were selected by the committee following an extensive review and shareholder consultation in 2018/19. These measures are considered to align with the company's key strategic goals and be closely linked to the creation of long-term shareholder value. LTP targets are set taking into account a number of factors, including reference to market practice, the company business plan and analysts' forecasts where relevant. The LTP will only vest in full if stretching business performance is achieved.

Annual bonus and long term-incentives - flexibility, discretion and judgement

The committee will operate the company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards.

These include making awards and setting performance criteria each year, dealing with leavers, and adjustments to awards and performance criteria following acquisitions, disposals, changes in share capital and to take account of the impact of other merger and acquisition activity. The committee retains discretion within the policy to adjust the targets, set different measures and/or alter weightings for the annual bonus plan, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the long-term incentive plans to adjust performance conditions to ensure that the awards fulfil their original purposes (for example, if an external benchmark or measure is no longer available). All assessments of performance are ultimately subject to the committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the annual remuneration report.

Historic awards

All historic awards that were granted under any current or previous share schemes operated by the company and remain outstanding remain eligible to vest based on their original award terms.

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

Alignment of executive director remuneration with the wider workforce

The remuneration approach is consistently applied at levels below the executive directors. Key features include:

- > market competitive levels of remuneration, incentives and benefits to attract and retain employees;
- > employees at all levels participate in a bonus scheme with the same corporate performance measures as for executive directors; and
- > all employees have the opportunity to participate in the HMRC-approved share incentive plan, ShareBuy.

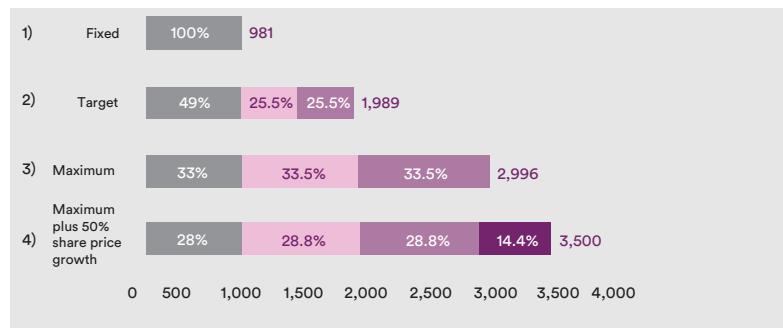
At senior levels, remuneration is increasingly long-term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

Scenarios for total remuneration

The charts below show the payout under the remuneration policy for each executive director under four different scenarios.

Steve Mogford CEO

£'000s



Notes on the scenario methodology:

- > 'Fixed' is base salary effective 31 March 2020 plus cash allowance in lieu of pension of 22 per cent of salary and the value of benefits as shown in the single total figure of remuneration table for 2019/20;
- > 'Target' performance is the level of performance required for the annual bonus and Long Term Plan to pay out at 50 per cent of maximum;
- > 'Maximum' performance would result in 100 per cent vesting of the annual bonus and Long Term Plan (i.e. 260 per cent of salary in total);
- > 'Maximum performance plus 50 per cent share price growth' shows maximum performance plus the impact on the Long Term Plan of a hypothetical 50 per cent increase in the share price;
- > Annual bonus includes amounts compulsorily deferred into shares;
- > Long Term Plan is measured at face value, i.e. no assumption for dividends or changes in share price (except in the fourth scenario); and
- > Amounts relating to all-employee share schemes have, for simplicity, been excluded from the charts.

Russ Houlden CFO

£'000s



Fixed

Annual bonus

Long Term Plan

Additional Long Term Plan value if share price grows by 50%

Shareholding guidelines

The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests. Shareholding guidelines are therefore operated and the details of how these are currently applied are provided in the annual report on remuneration. With effect from 19 May 2020 the guidelines were updated to include post-employment shareholding requirements as outlined on page 169.

External directorships

The company recognises that its executive directors may be invited to become non-executive directors of other companies outside the company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the company. Any external appointments are subject to board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a director's performance). Directors will be allowed to retain any fees received in respect of such appointments.

Service contracts and letters of appointment

Executive directors' service contracts are subject to up to one year's notice period when terminated by the company and at least six months' notice when terminated by the director.

The policy on payments for loss of office is set out in the next section.

The Chairman and other non-executive directors have letters of appointment rather than service contracts. Their appointments may be terminated without compensation at any time. All non-executive directors are subject to re-election at each AGM.

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the company's registered office during normal hours of business and will be available at the company's AGM. Copies of non-executive directors' letters of appointment can be viewed on the company's website.

Approach to recruitment remuneration

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved remuneration policy in force at the time of appointment.

Buy-out awards

The committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the company (and therefore shareholders). Any such payments would be limited to a reasonable estimate of value of remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash and/or share-based), time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

Maximum level of variable pay

The maximum level of long-term incentives that may be awarded to a new executive director will be limited to the maximum Long Term Plan limit of 200 per cent of salary per annum on an ongoing basis. Therefore, the maximum level of overall variable pay that may be offered will be 330 per cent of salary (i.e. 130 per cent annual bonus plus 200 per cent Long Term Plan) per annum on an ongoing basis. These limits are in addition to the value of any buy-out arrangements which are governed by the policy above.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next annual report on remuneration.

Base salary and relocation expenses

Base salary levels for new executive directors will be set in accordance with the policy, taking into account the experience of the individual recruited. The committee has the flexibility to set the salary of a new appointee at a discount to the market level initially, with a series of planned increases implemented over the following years to bring the salary to the appropriate market position, subject to individual performance in the role.

The committee may agree that the company will meet certain relocation and/or incidental expenses as appropriate.

Annual bonus performance conditions

Where a new executive director is appointed part way through a financial year, the committee may set different annual bonus measures and targets for the new executive director from those used for other executive directors (for the initial part-year only).

Appointment of non-executive directors

For the appointment of a new Chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. Non-executive directors' fees are set by a separate committee of the board; the Chairman's fees are set by the remuneration committee.

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

Payment for loss of office

The circumstances of the termination, including the individual's performance and an individual's duty and opportunity to mitigate losses, are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing employees may be phased in order to mitigate loss. Our policy is shown in the table below:

Provision	Summary terms
Compensation for loss of office	<ul style="list-style-type: none">> An executive director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain contractually specified events such as gross misconduct.> No termination payment if full notice is worked.> Otherwise, a payment in respect of the period of notice not worked of basic salary, plus pension and car allowance for that period.> Half of the termination payment will be paid within 14 days of date of termination.> The other half will be paid in monthly instalments over what would have been the second half of the notice period. This will be reduced by the value of any salary, pension contribution and car allowance earned in new paid employment in that period.
Treatment of annual bonus on termination	<ul style="list-style-type: none">> A time prorated bonus may be payable for the period of active service; however, there is no automatic entitlement to payments under the bonus scheme. Any payment is at the discretion of the committee and is subject to recovery and withholding provisions as detailed in the policy table.> Performance targets would apply in all circumstances.
Treatment of deferred bonus on termination	<ul style="list-style-type: none">> Determined on the basis of the relevant plan rules. Full details can be found on the company's website.> Deferred bonuses are subject to recovery and withholding provisions as detailed in the policy table.> The default treatment is that any outstanding awards will vest in full on the normal vesting date with no time prorating applying.
Treatment of unvested long-term incentives on termination	<ul style="list-style-type: none">> Determined on the basis of the relevant plan rules. Full details can be found on the company's website.> Normally, any outstanding awards will lapse on date of cessation of employment (if that occurs during the performance period).> However, under the rules of the plans, in certain prescribed circumstances, such as death, disability, mutually agreed retirement or other circumstances at the discretion of the committee, 'good leaver' status can be applied. In these circumstances, a participant's awards vest on a time prorated basis subject to the satisfaction of relevant performance criteria, with the balance of awards lapsing. The committee retains the discretion not to time prorate if it is inappropriate to do so in particular circumstances. The committee will take into account the individual's performance and the reasons for their departure when determining whether 'good leaver' status can be applied.
Treatment of pensions on termination	<ul style="list-style-type: none">> On redundancy, an augmentation may apply in relation to benefits accrued under a United Utilities defined benefit pension scheme, in line with the trust deed and rules of the appropriate section.

Outplacement services, reimbursement of legal costs and any other incidental expenses may be provided where appropriate. Any statutory entitlements or compromise claims in connection with a termination of employment would be paid as necessary. Outstanding savings/ shares under all-employee share plans would be transferred in accordance with the terms of the plans as approved by HMRC.

Change of control

On a change of control, executive directors' incentive awards will be treated in accordance with the rules of the applicable plans. In summary:

- > Bonus payments will take into account the extent to which the performance measures have been satisfied between the start of the performance period and the date of the change of control, and the value will be prorated to reflect the same period.
- > Deferred bonuses will generally vest on the date of a change of control, unless the committee permits (or requires) awards to roll over into equivalent shares in the acquirer.
- > Long Term Plan awards will generally vest on the date of a change of control taking into account the extent to which any performance condition has been satisfied at that point. Time prorating will normally apply unless the committee determines otherwise.

Corporate governance report

Appendix 2: Executive directors' share plan interests 1 April 2019 to 31 March 2020

	Award date	Awards held at 1 April 2019	Granted in year	Vested in year	Lapsed/forfeited in year	Notional dividends accrued in year ⁽¹⁾	Awards held at 31 March 2020
Steve Mogford							
Shares not subject to performance conditions at 31 March 2020							
DBP	16.6.16	31,068	–	31,068	–	–	–
DBP	16.6.17	45,031	–	–	–	2,207	47,238
DBP	18.6.18	49,584	–	–	–	2,430	52,014
DBP ⁽²⁾	17.6.19	–	46,960	–	–	2,302	49,262
LTP	30.6.14	66,415	–	66,415	–	–	–
LTP	30.6.15	63,221	–	–	–	3,099	66,320
LTP	28.6.16	110,496	–	–	40,691	4,842	74,647
ShareBuy matching shares ⁽³⁾	1.4.19 to 31.3.20	47	43	47	–	–	43
Subtotal		365,862	47,003	97,530	40,691	14,880	289,524
Shares subject to performance conditions at 31 March 2020							
LTP	27.6.17	111,089	–	–	–	5,446	116,535
LTP	25.6.18	131,153	–	–	–	6,429	137,582
LTP ⁽⁴⁾	28.6.19	–	125,126	–	–	1,767	126,893
Subtotal		242,242	125,126	0	0	13,642	381,010
TOTAL		608,104	172,129	97,530	40,691	28,522	670,534
Russ Houlden							
Shares not subject to performance conditions at 31 March 2020							
DBP	16.6.16	19,430	–	19,430	–	–	–
DBP	16.6.17	28,256	–	–	–	1,384	29,640
DBP	18.6.18	31,102	–	–	–	1,524	32,626
DBP ⁽²⁾	17.6.19	–	29,485	–	–	1,444	30,929
LTP	30.6.14	41,920	–	41,920	–	–	–
LTP	30.6.15	39,913	–	–	–	1,956	41,869
LTP	28.6.16	69,737	–	–	25,681	3,056	47,112
ShareBuy matching shares ⁽³⁾	1.4.19 to 31.3.20	48	43	48	–	–	43
Subtotal		230,406	29,528	61,398	25,681	9,364	182,219
Shares subject to performance conditions at 31 March 2020							
LTP	27.6.17	70,136	–	–	–	3,438	73,574
LTP	25.6.18	82,828	–	–	–	4,060	86,888
LTP ⁽⁴⁾	28.6.19	–	79,027	–	–	1,116	80,143
Subtotal		152,964	79,027	0	0	8,614	240,605
TOTAL		383,370	108,555	61,398	25,681	17,978	422,824
Steve Fraser							
Shares not subject to performance conditions at 31 March 2020							
DBP	16.6.16	8,518	–	8,518	–	–	–
DBP	16.6.17	11,276	–	–	–	552	11,828
DBP	18.6.18	23,227	–	–	–	1,138	24,365
DBP ⁽²⁾	17.6.19	–	27,417	–	–	1,343	28,760
LTP	28.6.16	26,175	–	17,436	9,639	900	0
ShareBuy matching shares ⁽³⁾	1.4.19 to 31.3.20	48	15	20	43	–	0
Subtotal		69,244	27,432	25,974	9,682	3,933	64,953
Shares subject to performance conditions at 31 March 2020							
LTP	27.6.17	26,328	–	–	27,234	906	0
LTP	25.6.18	76,578	–	–	79,213	2,635	0
Subtotal		102,906	0	0	106,447	3,541	0
TOTAL		172,150	27,432	25,974	116,129	7,474	64,953

(1) Note that these are subject to performance conditions where applicable.

(2) See page 165 for further details.

(3) Under ShareBuy, matching shares vest provided the employee remains employed by the company one year after grant. During the year Steve Mogford purchased 214 partnership shares and was awarded 43 matching shares (at an average share price of 857 pence per share). Russ Houlden purchased 214 partnership shares and was awarded 43 matching shares (at an average share price of 857 pence per share). Steve Fraser purchased 75 partnership shares and was awarded 15 matching shares (at an average share price of 857 pence per share).

(4) See page 166 for further details.

Corporate governance report

Tax policies and objectives

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- > only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- > do not engage in marketed, aggressive or abusive tax avoidance;
- > do not use tax havens for tax avoidance purposes;
- > are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- > maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

We expect to adhere fully to the HMRC framework for co-operative compliance.

Our Chief Financial Officer (CFO) has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the Head of Tax.

The Head of Tax has day-to-day responsibility for managing the group's tax affairs and engages regularly with key stakeholders from around the group in ensuring that tax risk is proactively managed. Where appropriate, he will also engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the group's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the group and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The group is committed to actively engaging with relevant authorities in order to manage actively any such risk.

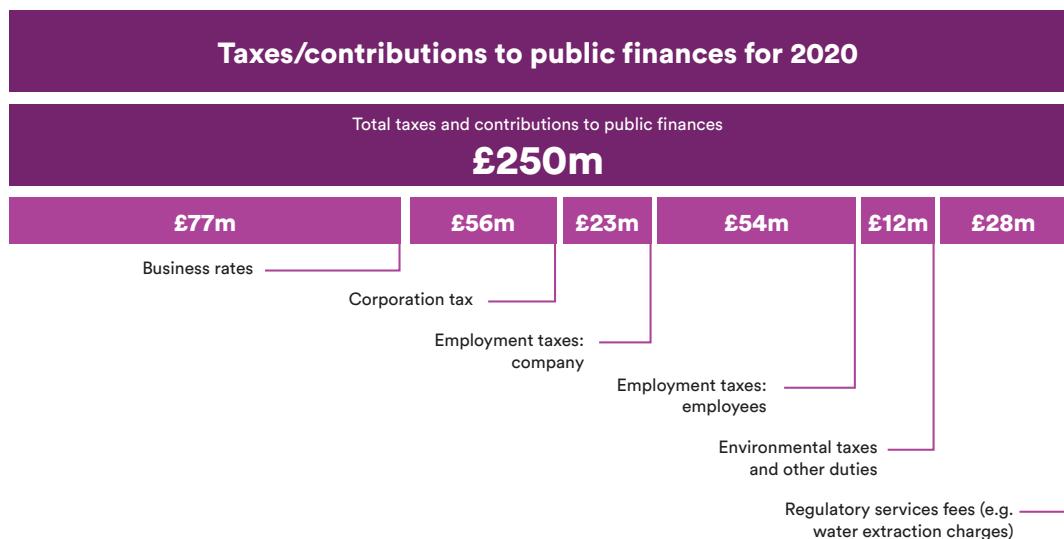
In any given year, the group's effective cash tax rate on underlying profits may fluctuate from the standard UK rate due to the available tax deductions on capital investment and pension contributions. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.

Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers reducing their bills. For 2019/20, the impact of tax deductions on capital investment alone reduced average household bills by around £25.

The group's principal subsidiary, United Utilities Water Limited (UUW), operates solely in the UK and its customers are based here. All of the group's profits are taxable in the UK (other than profits relating to the group's 35.3 per cent holding in Tallinn Water which are fully taxable in Estonia on distribution).

The investment in Tallinn Water is directly held via United Utilities (Tallinn) BV, a Dutch holding company. There is no tax advantage to this historic intermediate holding company and the only income of the Dutch company is the annual dividends received from Tallinn Water of around £4 million, which are fully taxable within Estonia and wholly paid onto the UK. The group's only other overseas subsidiary is a dormant company resident in Thailand, where the group had historic trading operations. This company is awaiting the necessary formalities before being dissolved and has no income.

Every year, the group pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2020 of around £250 million are set out below.



The above tax policy disclosure meets the group's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2020.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- > How much tax we pay;
- > How we ensure that we pay the right tax at the right time; and
- > How we ensure that our tax affairs are transparent for all our stakeholders.

Recognising the group's commitment to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs, we were delighted to secure the Fair Tax Mark independent certification.



Directors' report

Statutory and other information

Our directors present their management report, including the strategic report, on pages 16 to 103 and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2020.

Business model	A description of the company's business model can be found within the strategic report on pages 28 to 53.												
Dividends	Our directors are recommending a final dividend of 28.40 pence per ordinary share for the year ended 31 March 2020, which, together with the interim dividend of 14.20 pence, gives a total dividend for the year of 42.60 pence per ordinary share (the interim and final dividends paid in respect of the 2018/19 financial year were 13.76 pence and 27.52 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, the final dividend will be paid on 3 August 2020 to shareholders on the register at the close of business on 26 June 2020.												
Directors	The names of our directors who served during the financial year ended 31 March 2020 can be found on pages 108 to 111.												
Reappointment	Our articles of association provide that our directors must retire at every annual general meeting following their last election or reappointment by our shareholders which is consistent with the recommendation contained within the 2018 UK Corporate Governance Code (the Code) that all directors should be subject to annual election by shareholders. This has been the case at all the AGMs since 2011. Information regarding the appointment of our directors is included in our corporate governance report on pages 126 to 132.												
Interests	Details of the interests in the company's shares held by our directors and persons connected with them are set out in our directors' remuneration report on pages 156 to 185 which is hereby incorporated by reference into this directors' report.												
Corporate governance statement	The corporate governance report on pages 108 to 185 is hereby incorporated by reference into this directors' report and includes details of our compliance with the Code. Our statement includes a description of the main features of our internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the 2018 version of the Code, as applicable to the company for the year ended 31 March 2020, can be found at the Financial Reporting Council's website frc.org.uk . Copies of the matters reserved for the board and the terms of reference for each of the main board committees can be found on our website.												
Share capital	<p>At 31 March 2020, the issued share capital of the company was £499,819,926 divided into 681,888,418 ordinary shares of 5 pence each and 273,956,180 deferred shares of 170 pence each. Details of our share capital and movements in our issued share capital are shown in note 23 to the financial statements on page 225. The ordinary shares represented 71.3 per cent and the deferred shares represented 28.7 per cent respectively of the shares in issue as at 31 March 2020.</p> <p>All our ordinary shares have the same rights, including the rights to one vote at any of our general meetings, to an equal proportion of any dividends we declare and pay, and to an equal amount of any surplus assets which are distributed in the event of a winding-up.</p> <p>Our deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding-up. The rights attaching to our shares in the company are provided by our articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company renews annually its power to issue and buy back shares at our AGM and such resolutions will be proposed at our 2020 AGM. Our directors' powers are conferred on them by UK legislation and by the company's articles. At the AGM of the company held on 26 July 2019, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £11,364,806 and were empowered to allot equity securities for cash on a non-pre-emptive basis to an aggregate nominal amount of £1,704,721.</p>												
Voting	Electronic and paper proxy appointment and voting instructions must be received by our registrars (Equiniti) no less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day.												
Transfers	<p>There are no restrictions on the transfer of our ordinary shares in the company, nor any limitations on the holding of our shares in the company, save: (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.</p> <p>There are no agreements known to us between holders of securities that may result in restrictions on the transfer of securities or on voting rights. All our issued shares are fully paid.</p>												
Major shareholdings	<p>At 21 May 2020, our directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority:</p> <table border="1"> <thead> <tr> <th></th> <th>Per cent of issued share capital</th> <th>Direct or indirect nature of holding</th> </tr> </thead> <tbody> <tr> <td>Lazard Asset Management LLC</td> <td>9.93</td> <td>Indirect</td> </tr> <tr> <td>BlackRock Inc.</td> <td>5.13</td> <td>Indirect</td> </tr> <tr> <td>Norges Bank</td> <td>3.01</td> <td>Direct</td> </tr> </tbody> </table>		Per cent of issued share capital	Direct or indirect nature of holding	Lazard Asset Management LLC	9.93	Indirect	BlackRock Inc.	5.13	Indirect	Norges Bank	3.01	Direct
	Per cent of issued share capital	Direct or indirect nature of holding											
Lazard Asset Management LLC	9.93	Indirect											
BlackRock Inc.	5.13	Indirect											
Norges Bank	3.01	Direct											

Purchase of own shares	At our AGM held on 26 July 2019, our shareholders authorised the company to purchase, in the market, up to 68,188,841 of our ordinary shares of 5 pence each. We did not purchase any shares under this authority during the year. We normally seek such an authority from our shareholders annually. At our 2020 AGM, we will again seek authority from our shareholders to purchase up to 68,188,841 of our ordinary shares of 5 pence each with such authority expiring at the end of our AGM held in 2021.
Change of control	<p>As at 31 March 2020, Ocorian Corporate Services (UK) Limited was the trustee that administered our executive share plans and had the ability to exercise voting rights at its discretion which related to shares that it held under the trust deed constituting the trust. In the event of a takeover offer which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust.</p> <p>In the event of a change of control, the participants in our all-employee share incentive plan (ShareBuy) would be able to direct the trustee of ShareBuy, Equiniti Share Plan Trustees Limited, how to act on their behalf.</p>
Information required by UK Listing Rule 9.8.4	<p>Details of the amount of interest capitalised by the group during the financial year can be found in note 6 to the financial statements on page 214. In line with current UK tax legislation, the amount is fully deductible against the group's corporation tax liability, resulting in tax relief of £7.7 million.</p> <p>There are no other disclosures to be made under Listing Rule 9.8.4.</p>
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 also maintains an appropriate level of directors' and officers' liability insurance.
Political donations	<p>We do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the group and our political stakeholders. This includes promoting United Utilities' activities at the main political parties' annual conferences, and occasional stakeholder engagement in Westminster. The group incurred expenditure of £23,627 (2019: £9,338; 2018: £21,662) as part of this process. At the 2019 AGM, an authority was taken to cover such expenditure.</p> <p>A similar resolution will be put to our shareholders at the 2020 AGM to authorise the company and its subsidiaries to make such expenditure.</p>
Trade associations	We are members of a small number of trade associations. Some of these have a national focus, such as Water UK, the representative body of the UK water industry, which considers industry-wide priorities such as development of markets, customer trust, resilience, and legislation and regulation, and the Confederation of British Industry, which provides a policy-making voice for firms at a regional, national and international level. Others focus on specific professions such as the 100 Group representing the views of the finance directors of FTSE 100 and large UK private companies and the GC 100, the voice of general counsel and company secretaries in FTSE 100 companies. The company is also a member of regional bodies, such as the North West Business Leadership Team which encourages engagement across the public and private sectors to promote the sustainable economic development and long term wellbeing of the North West. Our total contribution to these associations in 2019/20 was £400,916 (2018/19: £399,658).
Employees	<p>Our policies on employee consultation and on equal opportunities for all employees can be found on pages 32 and 46. Applicants with disabilities are given equal consideration in our application process, and disabled colleagues have equipment and working practices modified for them as far as possible and where it is safe and practical to do so. Importance is placed on strengthening employees' engagement (see page 24). The effect of our regard towards employees in relation to the decisions taken during the financial year is included in our S172(1) Statement on page 102.</p> <p>Employees are encouraged to own shares in the company through the operation of an all employee share incentive plan (ShareBuy).</p> <p>Information on our average number of employees during the year, can be found in note 3 on page 212.</p>
Environmental, social and community matters	Details of our approach, as a responsible business, is set out in our business principles, which can be found on our website at unitedutilities.com/corporate/about-us/governance/business-principles/ . Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on pages 22 to 27. The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our S172(1) Statement on page 102.

Directors' report

Statutory and other information

Customers and suppliers and key stakeholders	<p>Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on pages 22 to 27. 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 page 102.</p> <p>Our sustainable supply chain charter sets out how we work with our suppliers, which can be found on our website at: unitedutilities.com/corporate/about-us/governance/suppliers/how-we-buy/sustainable-supply-chain/, we are also a signatory to the Prompt Payment Code. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for Business, Energy & Industrial Strategy's website. Information is published on a six-monthly basis. For the six months to 31 March 2020, our average time taken to pay invoices was 15 days; in the previous six months it was 14 days.</p>
Energy and carbon report	Our TCFD reporting includes our energy and carbon report on pages 76 to 77 and is hereby incorporated by reference into this directors' report.
Approach to technology development	We are committed to using innovative, cost-effective and practical solutions for providing high-quality services and we recognise the importance of ensuring that we focus our investment on the development of technology and that we have the right skills to apply technology to achieve sustainable competitive advantage and also that we continue to be alert to emerging technological opportunities.
Financial instruments	Our risk management objectives and policies in relation to the use of financial instruments can be found in note A4 on page 232.
Events occurring after the reporting period	Details of events after the reporting period are included in note 26 on page 226.
Slavery and human trafficking statement	Our statement can be found on our website at: unitedutilities.com/human-rights

Annual General Meeting

Our 2020 annual general meeting (AGM) will be held on 24 July. Full details of the resolutions to be proposed to our shareholders, and explanatory notes in respect of these resolutions, can be found in our notice of AGM. A copy can be found on our website.

At our 2020 AGM, resolutions will be proposed, among other matters:

- > to receive the annual report and financial statements; to approve the directors' remuneration report; to declare a final dividend; and to reappoint KPMG LLP as auditor; and
- > to approve the directors' general authority to allot shares; to grant the authority to issue shares without first applying statutory rights of pre-emption; to authorise the company to make market purchases of its own shares; to authorise the making of limited political donations by the company and its subsidiaries; and to enable the company to continue to hold general meetings on not less than 14 clear days' notice.

Information given to the auditor

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

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

Reappointment of the auditor

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

Approved by the board on 21 May 2020 and signed on its behalf by:

Simon Gardiner
Company Secretary

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

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) (IFRSs as adopted by the EU) 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 IFRSs as adopted by the EU;
- > assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- > use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

- > the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- > the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Approved by the board on 21 May 2020 and signed on its behalf by:

Sir David Higgins
Chairman

Russ Houlden
Chief Financial Officer

WHAT MATTERS

Resilience

Our continued investment in our assets and risk management approach helps ensure we maintain operational, financial and corporate resilience for the long term.

We demonstrate a

Sector-leading

approach to resilience according to Ofwat's initial assessment of our business plan submission for the 2020–25 period.





Progress this AMP

£250m

additional investment made to improve our resilience further, shared from outperformance we earned over AMP6.

Our future plans

HARP

Major resilience programme to replace sections of our Haweswater Aqueduct over AMP7 and AMP8 being progressed through direct procurement for customers.



FINANCIAL STATEMENTS

Independent auditor's report to the members of United Utilities Group PLC only	194
Consolidated income statement	201
Consolidated statement of comprehensive income	201
Consolidated and company statements of financial position	202
Consolidated statement of changes in equity	203
Company statement of changes in equity	204
Consolidated and company statements of cash flows	205
Guide to detailed financial statements disclosures	206
Accounting policies	207
Notes to the financial statements	211
Notes to the financial statements – appendices	227
Five-year summary – unaudited	252
Shareholder information	253

Independent auditor's report to the members of United Utilities Group PLC only

1. Our opinion is unmodified

We have audited the financial statements of United Utilities Group PLC (the company) for the year ended 31 March 2020, 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 207 to 210 and 246 to 250.

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 2020 and of the group's profit for the year then ended;
- › the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- › the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the shareholders on 22 July 2011. The period of total uninterrupted engagement is for the nine financial years ended 31 March 2020. 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: including 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 (unchanged from 2019 with the exception of going concern, which is a new key audit matter), 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.

Overview

Materiality: group financial statements as a whole	£22.0m (2019: £20.0m) 4.5% (2019: 4.7%) of normalised group profit before tax
Coverage	98% (2019: 98%) of group profit before tax
Key audit matters	vs 2019
Recurring	Revenue recognition and allowance for household customer debts ▲
	Capitalisation of costs relating to the capital programme ◀ ▶
	Retirement benefit obligations valuation ◀ ▶
	Carrying value of interest in Water Plus joint venture ▲
	Recoverability of investment in United Utilities PLC (parent company only) ◀ ▶
New	Going concern
	New

	The risk	Our response
Revenue recognition and provisions for household customer debt	<p>Subjective estimate:</p> <p>At each balance sheet date:</p> <ul style="list-style-type: none"> › judgement is required to identify properties where there is little prospect that cash will be received for revenue that has been billed due to either the occupier not being able to be identified or a past history of non-payment of bills relating to that property and therefore whether the revenue should be recognised; and › assumptions involving a high degree of estimation uncertainty are required to assess the recoverability of trade receivables. <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of trade receivables has a high degree of estimation uncertainty, in particular because of the potential effects of the COVID-19 pandemic, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (see pages 208 and 209 accounting policies) disclose the sensitivity estimated by the group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> › Accounting analysis – assessing the derecognition of revenue for compliance with relevant accounting standards where the collection of consideration is not probable on the date of initial recognition; › Control observation – testing the group's controls over revenue recognition and provision for household customer debt, including reconciliations between sales and cash receipts systems and the general ledger; › Methodology choice – 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; and › Assessing transparency – assessing the adequacy of the group's disclosures of its revenue recognition and customer debt provisioning policies, including the judgement involved in recording revenue and estimation uncertainty of the doubtful debts provision. <p>Our results:</p> <ul style="list-style-type: none"> › We found the amount of revenue recognised to be acceptable (2019: acceptable); and › we considered the level of doubtful debt provisioning to be acceptable (2019: acceptable).
Capitalisation of costs relating to the capital programme	Subjective classification:	<p>Our procedures included:</p> <ul style="list-style-type: none"> › Accounting analysis – assessing the group's capitalisation policy for compliance with relevant accounting standards; › Control observation – testing controls over the application of the policy in the period, including review of project business case submissions, and attending a sample of capital approval meetings to observe the judgements made and evaluating the documented conclusions; › Tests of details – critically assessing the capital nature of a sample of projects against the capitalisation policy and then for a sample of cost transactions ensure that the costs capitalised agree to respective project purchase order authorisation and purchase invoice; › Tests of details – identify and assess the impact of existing projects where the capitalisation rate has changed during the year; › Historical comparisons – critically assess the proportion of capitalised overhead costs using historical comparisons and expected changes based on enquiry and our sector knowledge; and challenged the estimates made by management for a sample of specific cost centres; and › Assessing transparency – assessing the adequacy of the group's disclosures of its capitalisation policy, including the judgement involved in assessing expenditure as capital and the judgement relating to the allocation of overhead costs. <p>Our results:</p> <ul style="list-style-type: none"> › We found the group's classification of expenditure as capital or operating to be acceptable (2019: acceptable).

Independent auditor's report to the members of United Utilities Group PLC only

	The risk	Our response
Retirement benefit obligations valuation £3,057.6 million (2019: £3,425.2 million) Refer to page 148 (Audit committee report), pages 209 to 210 (accounting policies), and notes 19 and A5 (financial disclosures)	<p>Subjective valuation:</p> <p>The valuation of the retirement benefit obligations depends on a number of estimates, including the discount rates used to calculate the current value of the future payments to pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments, and the life expectancy of pension scheme members.</p> <p>There is a considerable amount of estimation uncertainty involved in setting the above assumptions and a small change in the assumptions and estimates may have a significant impact on the retirement benefit obligations.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (see note A5) disclose the sensitivities estimated by the group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> › Our actuarial expertise – we use our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the retirement benefit obligations, and perform a comparison of key assumptions against our own benchmark ranges derived from externally-available data and against those used by other companies reporting on the same period; › Methodology assessment – we use our own actuarial specialists to assess the appropriateness and consistency of the methodology applied by management in setting the key assumptions; › Assessing external actuary's credentials – we assess competence and independence of the external actuary engaged by the group; and › Assessing transparency – we consider the adequacy of the group's disclosure in respect of retirement benefits, in particular the gross defined benefit obligations and the assumptions used, which are set out in notes 19 and A5 to the financial statements. <p>Our results:</p> <ul style="list-style-type: none"> › We found the resulting estimate of the retirement benefit obligations to be acceptable (2019: acceptable).
Carrying value of interest in Water Plus joint venture £nil interest in joint venture (2019: £36.7 million) Refer to page 148 (Audit committee report), page 210 (accounting policies) and note 12 (financial disclosures)	<p>Forecast-based valuation:</p> <p>The carrying value of the group's interest in the Water Plus joint venture is dependent on estimates of the recoverable amount of intangible assets within Water Plus, which are more subjective because of the potential effects of the COVID-19 pandemic.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> › Assessing methodology – we challenged the group's assessment of whether the separate loans made to Water Plus formed part of the group's interest in the joint venture and considered whether this was in accordance with the relevant accounting standards; › we assessed the principles and integrity of the cash flow model used to estimate the recoverable amount of intangibles within Water Plus; › Our valuation expertise – we challenged the assumptions used in the calculation of the discount rates, including comparisons with external data sources and by involving our own valuation specialist to assist us in assessing the discount rate assumptions applied; › Sensitivity analysis – we performed our own sensitivity analysis, including reasonably possible changes in forecast cash flows and an alternative discount rate assumption, to assess the level of sensitivity to these changes; and › Assessing transparency – we assessed whether the group's disclosures about both the accounting judgement of what comprises the group's interest in Water Plus and the sensitivity of the outcome of the impairment assessment to a reasonably possible change in the discount rate and cash flows reflected the risks inherent in the estimates. <p>Our results:</p> <ul style="list-style-type: none"> › We found the resulting estimate of the recoverable amount of the intangible assets within Water Plus and the carrying value of the group's interest in the Water Plus joint venture to be acceptable (2019: acceptable).

	The risk	Our response
Going concern Refer to page 207 (accounting policies)	<p>The financial statements explain how the board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the group's and company's business model and how those risks might affect the group's and company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The evaluation of going concern is based on forecast cash flows which have a greater level of estimation risk because of the impact of the COVID-19 pandemic.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> › Funding assessment – we have considered the availability of existing debt arrangements and committed loan facilities, including a review of compliance with covenants and expected maturity dates; › Historical comparison – we have compared the budget to actual results for several periods to confirm the accuracy of management's forecasts; › Benchmark assumptions – we compared the key assumptions in the forecast including lower expected household collections, lower non-household consumption and delayed collection of household charges and increased contractor costs to third party evidence such as independent sector forecasts; › Sensitivity analysis – we considered sensitivities over the level of available financial resources indicated by the group's financial forecasts, taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively, including the potential effects of the COVID-19 pandemic; › Evaluating directors' intent – we evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, including assessment of mitigating actions within their control; and › Assessing transparency – we assessed the completeness and accuracy of the matters covered in the going concern disclosure through the procedures performed above along with our assessment of the viability statement. <p>Our results:</p> <ul style="list-style-type: none"> › We found the going concern disclosure, including the assessment that there was no material uncertainty to be acceptable (2019: acceptable).
Recoverability of parent company's investment in United Utilities PLC Investment in United Utilities PLC £6,326.8 million (2019: £6,326.8 million). Refer to page 246 (accounting policies) and note 13 (financial disclosures)	<p>Low risk, high value:</p> <p>The carrying amount of the parent company's investment in United Utilities PLC represents 99 per cent (2019: 99 per cent) of the company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> › Tests of detail: compare the carrying amount of the investment with the draft balance sheet of United Utilities PLC to identify whether the net assets, being an approximation of the minimum recoverable amount, is in excess of the carrying amount and if not, comparing it with the expected value of the business based on a suitable premium to the regulatory capital value. <p>Our results:</p> <ul style="list-style-type: none"> › We found the group's assessment of the recoverability of the investment in United Utilities PLC to be acceptable (2019: acceptable).

Independent auditor's report to the members of United Utilities Group PLC only

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 £22.0 million (2019: £20.0 million), determined with reference to a benchmark of group profit before tax of £303.2 million, normalised to exclude net fair value gains or losses on debt and derivative instruments as disclosed in note 6, of £76.3 million, the accelerated depreciation of certain bioresources assets in note 4 of £82.3 million; and impairment within the Water Plus joint venture in note 12 of £32.0 million, of which it represents 4.5 per cent (2019: 4.7 per cent). The group team performed procedures on the items excluded from normalised group profit before tax.

Materiality for the parent company financial statements as a whole was set at £20.0 million (2019: £19.5 million), determined with reference to a benchmark of company total assets, of which it represents 0.3 per cent (2019: 0.3 per cent).

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £0.5 million (2019: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 34 (2019: 34) reporting components, we subjected six (2019: seven) to full scope audits for group purposes and one (2019: none) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

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

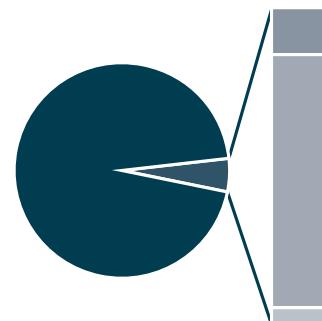
The group team approved the component materialities, which ranged from £2.5 million to £20.0 million (2019: £2.5 million to £19.5 million), having regard to the mix of size and risk profile of the group across the components.

The group team visited none (2019: none) of the component locations to assess the audit risk and strategy. During the course of the audit, we visited each of the seven (2019: we visited six of seven) components and held meetings. At these meetings, the findings reported to the group team were discussed in more detail and any further work required by the group team was then performed by the component auditor.

The work on one of the seven components (2019: one of the seven components) was performed by a component auditor and the rest, including the audit of the parent company, was performed by the group team. The group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

Normalised group profit before tax

£493.8m (2019: £426.7m)



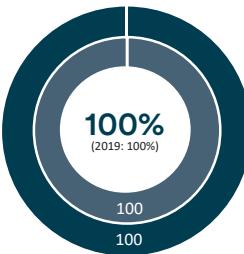
Materiality
Whole financial statements materiality £22m
(2019: £19.0m)

Range of materiality at 7 components £2.5m to £20.0m
(2019: £2.5m to £19.5m)

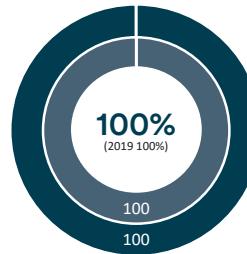
£0.5m
Misstatements reported to the audit committee (2019: £0.5m)

■ Normalised group profit before tax
■ Group materiality

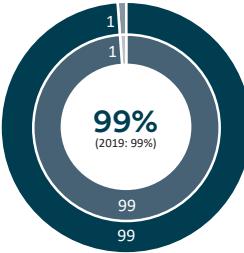
Group revenue



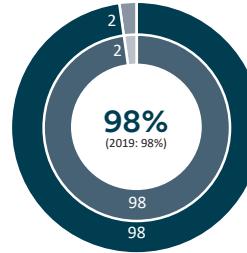
Group profit before tax



Group total assets



Group profit before tax



■ Full scope for group audit purposes 2020
■ Full scope for group audit purposes 2019
□ Residual components

■ Specified risk-focused audit procedures 2020
■ Specified risk-focused audit procedures 2019

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or the group or to cease their operations, and as they have concluded, that the company's and the group'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').

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group and the company will continue in operation.

We identified going concern as a key audit matter (see section 3 of this report). based on the work described in our response to that key audit matter, we are required to report to you if:

- › we had anything material to add or draw attention to in relation to the directors' statement in the accounting policies note to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the group and company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- › the related statement under the Listing Rules set out on page 189 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. 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:

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

Directors' remuneration report

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- › the directors' confirmation within the long-term viability statement on pages 137 to 139 that they have carried out a robust assessment of the emerging and principal risks facing the group, including those that would threaten its business model, future performance, solvency and liquidity;
- › the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- › the directors' explanation in the long-term viability statement of how they have assessed the prospects of the group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules, we are required to review the long-term viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the group's and company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- › we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- › the section of the annual report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We are required to report to you if the corporate governance statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

Independent auditor's report to the members of United Utilities Group PLC only

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 191, 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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities 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

Irregularities – ability to detect

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 and through discussion with the directors and other management (as required by auditing standards), and 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. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

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 and taxation legislation; and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Ofwat, Environment Agency, Drinking Water Inspectorate, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal

correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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.

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Peter's Square, Manchester, M2 3AE
21 May 2020

Consolidated income statement for the year ended 31 March

	Note	2020 £m	2019 £m
Revenue	2	1,859.3	1,818.5
Employee benefits expense	3	(161.4)	(169.6)
Other operating costs	4	(403.4)	(422.8)
Allowance for expected credit losses – trade and other receivables	4	(41.8)	(26.5)
Other income	4	3.4	3.6
Depreciation and amortisation expense	4	(482.8)	(393.2)
Infrastructure renewals expenditure		(143.0)	(175.1)
Total operating expenses		(1,229.0)	(1,183.6)
Operating profit		630.3	634.9
Investment income	5	24.0	17.1
Finance expense	6	(308.0)	(222.5)
Allowance for expected credit losses – loans to joint ventures	A6	(5.0)	–
Investment income and finance expense		(289.0)	(205.4)
Share of (losses)/profits of joint ventures	12	(38.1)	6.7
Profit before tax		303.2	436.2
Current tax charge	7	(38.9)	(38.8)
Deferred tax charge	7	(157.5)	(34.0)
Tax	7	(196.4)	(72.8)
Profit after tax		106.8	363.4
Earnings per share			
Basic	8	15.7p	53.3p
Diluted	8	15.6p	53.2p
Dividend per ordinary share	9	42.60p	41.28p

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 March

	2020 £m	2019 £m
Profit after tax	106.8	363.4
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedge effectiveness	(2.0)	0.4
Tax on items taken directly to equity	0.4	(0.1)
Foreign exchange adjustments	1.3	(0.8)
Other comprehensive income that may be reclassified to profit or loss	(0.3)	(0.5)
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains on defined benefit pension schemes	154.6	73.0
Change in credit assumptions for debt reported at fair value through profit or loss	34.2	6.6
Cost of hedging – cross-currency basis spread adjustment	1.3	(2.2)
Deferred tax adjustments in respect of prior years on net fair value gains	(2.4)	–
Tax on items taken directly to equity	(157.1)	(13.1)
Other comprehensive income that will not be reclassified to profit or loss	30.6	64.3
Total comprehensive income	137.1	427.2

Consolidated and company statements of financial position at 31 March

	Note	2020 £m	2019 £m	Group 2020 £m	Company 2019 £m
ASSETS					
Non-current assets					
Property, plant and equipment	10	11,510.9	11,153.4	—	—
Intangible assets	11	189.0	202.7	—	—
Investments in joint ventures	12	46.8	79.0	—	—
Other investments	13	0.1	11.5	6,326.8	6,326.8
Trade and other receivables	15	97.0	148.1	—	—
Retirement benefit surplus	19	754.1	483.9	—	—
Derivative financial instruments	A4	617.8	387.8	—	—
		13,215.7	12,466.4	6,326.8	6,326.8
Current assets					
Inventories	14	16.6	14.9	—	—
Trade and other receivables	15	245.9	249.5	81.3	82.2
Current tax asset		37.7	16.4	—	—
Cash and short-term deposits	16	528.1	339.3	—	—
Derivative financial instruments	A4	0.1	101.3	—	—
		828.4	721.4	81.3	82.2
Total assets		14,044.1	13,187.8	6,408.1	6,409.0
LIABILITIES					
Non-current liabilities					
Trade and other payables	22	(761.2)	(697.3)	—	—
Borrowings	17	(7,518.1)	(7,115.6)	(1,752.0)	(1,718.4)
Deferred tax liabilities	20	(1,462.6)	(1,146.0)	—	—
Derivative financial instruments	A4	(135.4)	(66.1)	—	—
		(9,877.3)	(9,025.0)	(1,752.0)	(1,718.4)
Current liabilities					
Trade and other payables	22	(334.4)	(321.2)	(14.2)	(14.7)
Borrowings	17	(845.0)	(700.2)	(0.8)	(0.5)
Provisions	21	(16.4)	(16.8)	—	—
Derivative financial instruments	A4	(8.9)	(13.8)	—	—
		(1,204.7)	(1,052.0)	—	(15.2)
Total liabilities		(11,082.0)	(10,077.0)	(1,767.0)	(1,733.7)
Total net assets		2,962.1	3,110.8	4,641.1	4,675.4
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	24	499.8	499.8	499.8	499.8
Share premium account		2.9	2.9	2.9	2.9
Other reserves	23	336.7	338.3	1,033.3	1,033.3
Retained earnings		2,122.7	2,269.8	3,105.1	3,139.4
Shareholders' equity		2,962.1	3,110.8	4,641.1	4,675.4

There has been a change in the presentation of reserves (see note 23).

These financial statements for the group and United Utilities Group PLC (company number: 6559020) were approved by the board of directors on 21 May 2020 and signed on its behalf by:

Steve Mogford
Chief Executive Officer

Russ Houlden
Chief Financial Officer

Consolidated statement of changes in equity for the year ended 31 March

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
At 31 March 2019	499.8	2.9	338.3	2,269.8	3,110.8
Profit after tax	–	–	–	106.8	106.8
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (see note 19)	–	–	–	154.6	154.6
Change in credit assumption for debt reported at fair value through profit or loss	–	–	–	34.2	34.2
Cash flow hedge effectiveness	–	–	(2.0)	–	(2.0)
Cost of hedging – cross-currency basis spread adjustment	–	–	1.3	–	1.3
Deferred tax adjustments in respect of prior years on net fair value gains	–	–	(2.4)	–	(2.4)
Tax on items taken directly to equity (see note 7)	–	–	0.2	(156.9)	(156.7)
Foreign exchange adjustments	–	–	1.3	–	1.3
Total comprehensive (expense)/income	–	–	(1.6)	138.7	137.1
Dividends (see note 9)	–	–	–	(284.5)	(284.5)
Equity-settled share-based payments (see note 3)	–	–	–	1.5	1.5
Exercise of share options – purchase of shares	–	–	–	(2.8)	(2.8)
At 31 March 2020	499.8	2.9	336.7	2,122.7	2,962.1

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 31 March 2018	499.8	2.9	327.9	2,120.3	2,950.9
Adjustment on initial application of IFRS 9	–	–	12.7	(12.7)	–
Adjustment on initial application of IFRS 15	–	–	–	5.9	5.9
At 1 April 2018	499.8	2.9	340.6	2,113.5	2,956.8
Profit after tax	–	–	–	363.4	363.4
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (see note 19)	–	–	–	73.0	73.0
Change in credit assumption for debt reported at fair value through profit or loss	–	–	–	6.6	6.6
Cash flow hedge effectiveness	–	–	0.4	–	0.4
Cost of hedging – cross-currency basis spread adjustment	–	–	(2.2)	–	(2.2)
Tax on items taken directly to equity (see note 7)	–	–	0.3	(13.5)	(13.2)
Foreign exchange adjustments	–	–	(0.8)	–	(0.8)
Total comprehensive (expense)/income	–	–	(2.3)	429.5	427.2
Dividends (see note 9)	–	–	–	(274.4)	(274.4)
Equity-settled share-based payments (see note 3)	–	–	–	4.0	4.0
Exercise of share options – purchase of shares	–	–	–	(2.8)	(2.8)
At 31 March 2019	499.8	2.9	338.3	2,269.8	3,110.8

* Other reserves comprise the group's cumulative exchange reserve, capital redemption reserve, merger reserve, cost of hedging reserve and cash flow hedging reserve. Further detail of movements in these reserves is included in note 23.

Company statement of changes in equity for the year ended 31 March

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2019	499.8	2.9	1,033.3	3,139.4	4,675.4
Profit after tax	–	–	–	251.5	251.5
Total comprehensive income	–	–	–	251.5	251.5
Dividends (see note 9)	–	–	–	(284.5)	(284.5)
Equity-settled share-based payments (see note 3)	–	–	–	1.5	1.5
Exercise of share options – purchase of shares	–	–	–	(2.8)	(2.8)
At 31 March 2020	499.8	2.9	1,033.3	3,105.1	4,641.1

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2018	499.8	2.9	1,033.3	3,162.9	4,698.9
Profit after tax	–	–	–	249.7	249.7
Total comprehensive income	–	–	–	249.7	249.7
Dividends (see note 9)	–	–	–	(274.4)	(274.4)
Equity-settled share-based payments (see note 3)	–	–	–	4.0	4.0
Exercise of share options – purchase of shares	–	–	–	(2.8)	(2.8)
At 31 March 2019	499.8	2.9	1,033.3	3,139.4	4,675.4

At 31 March 2020, 31 March 2019 and 31 March 2018, the company's entire retained earnings balance was distributable to shareholders.

The company's other reserves comprises a capital redemption reserve that arose as a result of a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009.

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The result of the company for the financial year was a profit after tax of £251.5 million (2019: £249.7 million).

Consolidated and company statements of cash flows for the year ended 31 March

	Note	2020 £m	2019 £m	Group 2020 £m	Company 2019 £m
Operating activities					
Cash generated from operations	A1	1,005.5	995.5	287.0	278.8
Interest paid		(149.4)	(143.0)	(33.4)	(28.0)
Interest received and similar income		9.9	7.3	–	–
Tax paid		(71.5)	(27.5)	–	–
Tax received		15.8	–	5.8	10.4
Net cash generated from operating activities		810.3	832.3	259.4	261.2
Investing activities					
Purchase of property, plant and equipment		(652.8)	(622.3)	–	–
Purchase of intangible assets		(27.2)	(39.9)	–	–
Proceeds from sale of property, plant and equipment		–	2.1	–	–
Grants and contributions received	22	34.7	35.2	–	–
Repayment/(extension) of loans to joint ventures	A6	34.5	(6.0)	–	–
Dividends received from joint ventures	12	4.9	2.2	–	–
Proceeds from disposal of investments	13	12.0	1.0	–	–
Net cash used in investing activities		(593.9)	(627.7)	–	–
Financing activities					
Proceeds from borrowings net of issuance costs		805.4	568.4	27.6	16.0
Repayment of borrowings		(545.9)	(668.6)	–	–
Dividends paid to equity holders of the company	9	(284.5)	(274.4)	(284.5)	(274.4)
Exercise of share options – purchase of shares		(2.8)	(2.8)	(2.8)	(2.8)
Net cash used in financing activities		(27.8)	(377.4)	(259.7)	(261.2)
Net increase/(decrease) in cash and cash equivalents		188.6	(172.8)	(0.3)	–
Cash and cash equivalents at beginning of the year		324.6	497.4	(0.5)	(0.5)
Cash and cash equivalents at end of the year	16	513.2	324.6	(0.8)	(0.5)

Guide to detailed financial statements disclosures

In the interest of providing clear and relevant information to the users of our financial statements we have included summary information within the notes to the financial statements, with additional detailed information included in appendices where required. These notes and appendices can be grouped as follows:

Notes and appendices	Page	Notes and appendices	Page
<i>Operations – information relating to our operating results</i>			
1 Segmental reporting	211	4 Operating profit	213
2 Revenue	211	18 Leases	221
3 Directors and employees	212	A1 Cash generated from operations	227
<i>Financing – information relating to how we finance our business</i>			
5 Investment income	214	17 Borrowings	221
6 Finance expense	214	24 Share capital	225
8 Earnings per share	216	A2 Net debt	227
9 Dividends	217	A3 Borrowings	230
16 Cash and cash equivalents	220	A4 Financial risk management	232
<i>Working capital – information relating to the day-to-day working capital of our business</i>			
14 Inventories	219	22 Trade and other payables	223
15 Trade and other receivables	219	A6 Related party transactions	245
16 Cash and cash equivalents	220		
<i>Tax – information relating to our current and deferred taxation</i>			
7 Tax	215	20 Deferred tax liabilities	223
<i>Employees – information relating to the costs associated with employing our people</i>			
3 Directors and employees	212	A5 Retirement benefits	240
19 Retirement benefit surplus	222		
<i>Long-term assets – information relating to our long-term operational and investment assets</i>			
10 Property, plant and equipment	217	13 Other investments	219
11 Intangible assets	218	19 Retirement benefit surplus	222
12 Investment in joint ventures	218	A5 Retirement benefits	240
<i>Other – other useful information</i>			
21 Provisions	223	26 Events after the reporting period	226
23 Other reserves	224	A7 Accounting policies	246
25 Contingent liabilities	226	A8 Subsidiaries and other group undertakings	251

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. Further detail can be found in note A7.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). They have been prepared on the historical cost basis, except for the revaluation of financial instruments, accounting for the transfer of assets from customers, and the revaluation of infrastructure assets to fair value on transition to IFRS.

The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods presented. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results, ultimately, may differ from these estimates.

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

In assessing the appropriateness of the going concern basis of accounting the directors have reviewed the resources available to the group in the form of cash and committed bank facilities as well as consideration of the group's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of the COVID-19 pandemic on the group. This baseline plan assumes restrictions and social distancing extend through the summer of 2020 resulting in a one year GDP reduction of 8 per cent which takes 10 quarters to recover, unemployment peaking at 9 per cent, CPIH inflation reducing to zero in the year to March 2021 and then increasing gradually, and non-household business revenues reduced by around 30 per cent in the year to 31 March 2021 before being rebalanced through the revenue cap in subsequent years. This baseline plan has then been subject to a further more extreme downside stress scenario with elevated levels of bad debt persisting in the medium term, increased totex costs, outcome delivery incentive penalties and lower CPIH inflation. Mitigating actions were considered to include access to new debt finance; deferral of capital expenditure; close out of derivative asset balances; access to additional equity and deferral of dividends.

Having considered these matters, the directors do not believe there are any material uncertainties to disclose in relation to the group's ability to continue as a going concern.

Adoption of new and revised standards

The following standards, interpretations and amendments, effective for the year ended 31 March 2020, are relevant to the group but have had no material impact on the group's financial statements:

- › IFRIC 23 'Uncertainty over Income Tax Treatments' (issued on 7 June 2017);
- › Amendments to IFRS 9 'Prepayment Features with Negative Compensation' (issued on 12 October 2017);
- › Amendments to IAS 28 'Long-term interests Associates and Joint Ventures' (issued on 12 October 2017);
- › Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement' (issued on 7 February 2017); and

- › Annual Improvements to IFRS Standards 2015–2017 Cycle (issued on 12 December 2017)

The following standards, interpretations and amendments, effective for the year ended 31 March 2020, have had a material impact on the group's financial statements – this impact is discussed further below:

- › IFRS 16 'Leases' (issued on 13 January 2016)

IFRS 16 'Leases'

The group adopted IFRS 16 on 1 April 2019, applying the modified retrospective transitional approach permitted by the standard in which both the right-of-use assets and lease liabilities brought onto the balance sheet were based on the present value of future lease payments at the adoption date calculated using the appropriate discount rate at 1 April 2019. Prior year comparatives have not been restated. The group has utilised the practical expedient permitted by the standard whereby a single discount rate has been applied to portfolios of leases with reasonably similar characteristics. Following initial adoption of the standard, lease liabilities and right-of-use assets for new leases are based on the appropriate discount rate at the date the new contract is entered into.

The value of right-of-use assets and lease liabilities brought onto the balance sheet on 1 April was £54.4 million; there has been no effect on retained earnings at the adoption date. The income statement charge during the year ending 31 March 2020 has been £3.5 million, split between £1.9 million of depreciation of the right-of-use assets and £1.6 million in relation to the finance charge recognised on the lease liabilities. This compares with £3.3 million of operating lease expenses that would have been recognised under IAS 17. Although the adoption of IFRS 16 has directly impacted the profit for the group during the period, the modest £0.2 million impact means that the EPS and diluted EPS of the group have not been materially changed by the adoption of IFRS 16. There has been no net cash flow impact arising from the application of the new standard.

At 31 March 2020, the value of right-of-use assets included within property, plant and equipment was £57.4 million and the value of lease liabilities included within borrowings was £57.6 million, of which £54.7 million was classified as non-current and £2.9 million was classified as current.

As part of the group's transition to IFRS 16 an exercise was carried out to assess whether contracts it has entered into are, or contain, leases as defined by the new standard. This has resulted in some differences between the population of contracts identified as containing leases under previous accounting standards, and for which operating lease commitments were disclosed at 31 March 2019, and the population of contracts deemed to contain leases under IFRS 16. Had all operating lease commitments disclosed under previous accounting standards at 31 March 2019 been recognised as leases under IFRS 16, by discounting future lease payments using the group's weighted average incremental borrowing rate applied to lease liabilities of 3.09 per cent, the right-of-use assets and lease liabilities brought onto the balance sheet would have been £18.0 million higher. Expenses relating to those contracts that do not contain leases within the scope of IFRS 16 continue to be recognised as operating expenses in the income statement over the term of the agreement.

The typical items which the group leases include land, buildings, operational assets and vehicles. The right-of-use assets and lease liabilities are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 'Property, Plant and Equipment' and the

Accounting policies

liability increased for the accretion of interest (being the unwinding of the discounting applied to the future lease payments) and reduced by lease payments. The group does not act as a lessor.

The key judgements associated with applying this standard relate to the identification and classification of contracts containing a lease within the scope of IFRS 16 and the discount rate to use in calculating the present value of future lease payments on which the reported lease liability and right-of-use asset is based when it is not implicit in the lease contract.

Due to the nature of the group's operations, many of the current leases have long remaining terms, which causes the discount rate to be a key factor in determining the value of the lease liability. When the interest rate is not implicit in the lease, which is the case for materially all of the group's leases recognised under IFRS 16, the discount rate which is used is based on the relevant group company's nominal incremental borrowing rate adjusted for the payment profile and term of each lease.

The group has applied recognition exemptions permitted by the standard in relation to short-term leases and leases of low-value items.

The adoption of IFRS 16 has not impacted the group's ability to comply with any banking or financing covenants.

Clarifications on the application of IFRS 16 made in IFRIC agenda decisions during the year ('Subsurface rights' – June 2019; 'Lessee's incremental borrowing rate' – September 2019; 'Lease term and useful life of leasehold improvements' – November 2019; 'Definition of a lease – decision making rights' – January 2020) have not affected our application of the standard.

Early adopted new and revised standards

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

In January 2020, the EU endorsed the IASB-published amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' in respect of interest rate benchmark reform, effective for annual periods beginning on or after 1 January 2020 with early adoption permitted. These amendments provide temporary exceptions from applying specific hedge accounting requirements where a hedging relationship is directly or indirectly affected by the market-wide interest rate benchmark reform, where certain financial market benchmark reference rates (such as LIBOR) will be required to be changed to nearly risk-free alternative rates.

As the group has a significant proportion of debt and derivative financial instruments designated in fair value hedge relationships that are linked to LIBOR, which is expected to be replaced by an alternative interest rate benchmark after 2021, these amendments are applicable to the group's hedge accounting. The temporary exceptions provided for in the amendments mean that no changes to the group's hedge accounting are expected to the extent that they are impacted by interest rate benchmark reform. In accordance with the published provisions, these amendments are adopted retrospectively to hedging relationships that existed at the start of the reporting period. The relief set out in this amendment will end at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flows is no longer present, or the discontinuation of the hedging relationship.

The group's treasury function is actively considering and preparing for the potential implications of interest rate benchmark reform in anticipation of any changes.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies set out in note A7, the group is required to make certain estimates, judgements

and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the carrying amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates, judgements and assumptions could have a material effect on the financial statements.

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. The group has considered the potential financial statement impacts, including asset lives and impairments and identified that the environmental impact of certain bioresources assets were considered as part of the strategic review leading to the conclusion that the chances of any future economic benefit being derived from these assets is now considered remote and resulting in accelerated depreciation as set out in the Property, Plant and Equipment section below.

On an ongoing basis, the group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

The following paragraphs detail the estimates and judgements the group believes to have the most significant impact on the annual results under IFRS, including specific considerations in light of the COVID-19 pandemic.

Revenue recognition and allowance for doubtful receivables

Accounting judgement – The group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. When 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 reasonably assured. There are two different criteria whereby management does not recognise revenue for amounts which have been billed to the customer on the basis that collectability is not reasonably assured. These are as follows:

- › The customer has not paid their bills for a period of at least two years; and
- › The customer has paid their bills in the preceding two years; however, has previously had bills de-recognised and has more than their current year debt outstanding.

This two-criteria approach resulted in a £19.4 million reduction in revenue compared with what would have been recognised had no adjustment been made for amounts where collectability is not reasonably assured. 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 reasonably assured (i.e. the second criteria were disapplied), the required adjustment to revenue would have been £8.5 million lower.

Accounting estimate – At each reporting date, the company and each of its subsidiaries evaluate the estimated recoverability of trade receivables and record allowances for expected credit losses based on experience. Estimates associated with these allowances are based on, among other things, a consideration of actual collection history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. At 31 March 2020, the allowance for expected credit losses relating to household customer debt of £49.4 million was supported by a six-year cash collection projection. Based on a five-year or seven-year cash

collection projection the allowance for doubtful receivables would have increased by £2.3 million or reduced by £0.8 million respectively.

In the current year, the expected future impact of the COVID-19 pandemic on the ability of some customers to pay their bills has specifically been taken into consideration as part of the expected credit loss assessment for trade receivables. This has given rise to a further £16.7 million incremental increase in the allowance for expected credit losses based on judgements around the likely impact of the pandemic on the non-payment risk profile of the group's customer base on a segmented basis. Scenarios have been modelled based on a moderate, shorter-term pandemic impact, and a more severe and longer-lasting impact. In arriving at the £16.7 million increase, the outcomes of these scenarios have been weighted on a 50:50 basis representing management's best estimate of their relative probability. If this weighting were 70:30 towards either the more severe scenario or the more moderate scenario, the incremental allowance relating to the COVID-19 pandemic would be +/- £1.6 million respectively.

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 date of the last meter reading and the billing date. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing through to each reporting date. The estimated usage is based on historical data, judgement and assumptions; actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined. Revenue recognised for unbilled amounts for these customers at 31 March 2020 was £54.6 million. Had actual consumption been 5 per cent higher or lower than the estimate of units supplied, this would have resulted in revenue recognised for unbilled amounts being £4.5 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.

Revenue in relation to wholesale charges billed to non-household retailers is recognised based on a series of settlement statements produced by the Central Market Operating System (CMOS). These statements are based on a combination of meter readings and estimated consumption. Due to the iterative nature of the settlement process, the final wholesale charge for a period is not known until 16 months after that period. Accordingly, an estimate of credit notes that may need issuing in the future, for example where future statements include allowances or premises subsequently marked as vacant, is required. The estimated credit note provision is based on an analysis of historic changes to wholesale charges as settlement statements are received. At 31 March 2020, the credit note provision, and therefore the revenue not recognised in relation to billed amounts, was £21.5 million.

Due to temporary business closures required as a result of lockdown measures introduced by the UK Government during March 2020, the level of non-household consumption fell significantly in the final two weeks of March. As part of its measures to protect liquidity within the non-household market, Ofwat introduced a change to the market code to allow retailers to temporarily mark premises as vacant where they had been forced to close. Due to the timing of the code change, the impact of increased vacancy had not flowed through to CMOS billing reports at the end of March 2020, an estimate of the expected reduction in revenue compared with what was billed for March 2020 has, therefore, been required. The level of revenue not recognised

since lockdown measures began, is £7.1 million based on estimates received from retailers pending a full analysis, reduction in consumption during this period. If actual consumption was 20 per cent lower in this period the revenue not recognised would have been around £5.5 million, and if actual consumption were 40 per cent lower the revenue not recognised would have been around £8.7 million.

Property, plant and equipment

Accounting judgement – The group recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure requires an accounting judgement, particularly when projects have both elements within them. Enhancement spend was 67 per cent of total spend in relation to infrastructure assets during the year. A change of +/- 1 per cent would have resulted in £4.4 million less/more expenditure being charged to the income statement during the period. In addition, management capitalises time and resources incurred by the group's support functions on capital programmes, which requires accounting judgements to be made in relation to the appropriate capitalisation rates. Support costs allocated to PPE represent 44 per cent of total support costs. A change in allocation of +/- 10 per cent would have resulted in £5.6 million less/more expenditure being charged to the income statement during the period.

Accounting estimate – The estimated useful economic lives of PPE and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE and intangibles investment to the group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. Although historically few changes to estimated useful economic lives have been required, during the current year PPE with a net book value of £82.3 million was written down to £nil following a review of the group's bioresources strategy, which concluded that because of improvements in alternative lower-cost and more environmentally friendly processes the likelihood of these assets generating future economic benefit is now considered to be remote. As such these assets are deemed to have reached the end of their useful economic lives earlier than previously anticipated. Excluding this accelerated depreciation, the depreciation and amortisation expense for the year was £397.9 million. A 10 per cent increase in average asset lives would have resulted in a £37.4 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £42.7 million increase in this figure.

Retirement benefits

Accounting estimate – The group operates two defined benefit pension schemes which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. Profit before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality, and increases to pensions in payment and deferred pensions. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note A5.

Accounting policies

Accounting estimate – Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £232.1 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 2020. The fair value of these assets has been estimated based on the latest available observable prices, updated with reference to movements in comparable observable indices to the reporting date, and adjusted for judgements to reflect differences in the liquidity and credit components of the asset pricing. Judgement is required in estimating the fair value of these assets, with the values estimated to fall within a range of £219 million and £245 million.

Joint ventures – Water Plus

Accounting judgement – The group's financial interests in Water Plus Group Limited, a joint venture with Severn Trent PLC, comprise an investment in the ordinary shares of Water Plus, and loans issued to the joint venture in the form of revolving credit facilities and a zero coupon shareholder loan note, further details of which are included in note A6. Judgement is required in determining whether these loans form part of the group's long-term interest in Water Plus whose value would be reduced in accordance with the group's share of joint venture losses in excess of the value of its equity investment when applying the equity method in accordance with IAS 28 'Investments in Associates and Joint Ventures'. As they bear interest, have a relatively near-term expiry date and tend to fluctuate as amounts are drawn down and repaid, the revolving credit facilities are not considered to be part of the group's long-term interest in Water Plus. In contrast, the zero coupon shareholder loan notes are considered to be part of the group's long-term interest given that they do not bear interest and have a longer-term maturity. Had an alternative judgement been applied such that the revolving credit facilities were considered to be part of the group's long-term interest in Water Plus, the group's £5.3 million unrecognised share of Water Plus's losses for the year (see note 12) would have been recognised in the income statement resulting in a higher share of losses from joint ventures, and the carrying value of the amount owed by Water Plus in respect of the revolving credit facility (see note A6) would have been reduced by this amount. Similarly, had an alternative judgement been applied such that the zero coupon shareholder loan note were not considered to be part of the group's long-term interest in Water Plus, the group's share of Water Plus losses for the year would have been £9.5 million lower.

Accounting estimate – During the year, the impact of the COVID-19 pandemic crystallised an impairment of £51.1 million in Water Plus, which was recognised in relation to the joint venture's goodwill and certain intangible assets and was a significant contributor to Water Plus's losses for the year, of which the group has allocated its share against its equity investment and other long-term interest in the joint venture. The impairment assessment undertaken by the management of Water Plus was calculated based on the company's value in use, determined by discounting the estimated future cash flows of the Water Plus business to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business. The inputs into the value in use assessment were subject to judgements in respect of the future cash flows included in the Water Plus five-year business plan, discount rate, and terminal growth rate. If the future cash flows were 10 per cent higher than those included in the Water Plus impairment assessment this would have resulted in a £12.0 million reduction in the group's share of Water Plus losses, eliminating the £5.3 million unrecognised loss and reducing by £6.7 million the share of Water Plus losses recognised by the group. This would have resulted in a corresponding £6.7 million increase in the carrying value of the zero coupon shareholder loan notes forming

part of the group's long-term interest in Water Plus. If the future cash flows had been 10 per cent lower this would have resulted in the group's unrecognised share of losses increasing by £12.0 million.

Accounting estimate – The significant economic impact of the COVID-19 pandemic has given rise to a significant increase in credit risk in respect of loans extended to Water Plus. Accordingly, these balances have been assessed for expected credit losses, which have been estimated based on a forward-looking economic assessment derived from Water Plus's latest board-approved business plan out to 2025, assuming a 2 per cent growth rate beyond this point and Water Plus securing external financing of a portion of its working capital in the year ending 31 March 2023. A 2.5 per cent (1 in 40 years) probability of a loss event occurring in a given year during which loan balances are assumed to be outstanding has been considered against the forward-looking economic assessment and applied against the assumed outstanding loan balances. Various scenarios have then been modelled based on higher and lower generation of free cash that could be used to repay the loans, and these have been probability-weighted to give an expected credit loss estimated at £5.0 million as at 31 March 2020. Within the expected credit loss assessment the most significant source of estimation uncertainty is considered to be the level of trade receivables that could be recovered in the event of Water Plus suffering a liquidation event, with the group having estimated that 70 per cent of Water Plus's gross trade receivables could be recovered. If the recovery rate were 60 per cent, the group's expected credit losses in respect of loans to Water Plus would have been £2.1 million higher, and if the recovery rate were 80 per cent the group's expected credit losses would have been £2.2 million lower.

Derivative financial instruments

Accounting estimate – The model used to fair value the group's derivative financial instruments requires management to estimate future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate. Sensitivities relating to derivative financial instruments are included in note A4.

Notes to the financial statements

1 Segmental reporting

The board of directors of United Utilities Group PLC (the board) is provided with information on a single-segment basis for the purposes of assessing performance and allocating resources. The group's performance is measured against financial and operational key performance indicators which align with our three strategic themes to deliver the best service to customers, at the lowest sustainable cost, in a responsible manner. The board reviews revenue, operating profit and gearing, along with operational drivers at a consolidated level (see page 91). In light of this, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

2 Revenue

The group's revenue predominantly arises from the provision of services within the United Kingdom, with less than 1 per cent of external revenue and non-current assets being overseas.

	2020 £m	2019 £m
Wholesale water charges	784.8	767.4
Wholesale wastewater charges	939.5	905.8
Household retail charges	83.8	86.7
Other	51.2	58.6
	1,859.3	1,818.5

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removal and treatment of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Wholesale water and wastewater charges relate to services provided to household customers and non-household retailers. Household retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. These wholesale charges and the applicable retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers. No margin is applied to wholesale water and wastewater services provided to non-household retailers.

Other revenues comprise a number of smaller non-core income streams, including those relating to energy generation and export, and those associated with activities, typically performed opposite property developers, which impact the group's capital network assets including diversions works to relocate water and wastewater assets, and activities that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

Notes to the financial statements

3 Directors and employees

Directors' remuneration

	2020 £m	2019 £m
Fees to non-executive directors	0.8	0.8
Salaries	1.4	1.7
Benefits	0.3	0.4
Bonus	0.7	0.9
Share-based payment charge	1.0	2.4
	4.2	6.2

Further information about the remuneration of individual directors and details of their pension arrangements are provided in the Directors' remuneration report on pages 163 to 176.

Remuneration of key management personnel

	2020 £m	2019 £m
Salaries and short-term employee benefits	6.4	5.2
Share-based payment charge	1.3	3.1
	7.7	8.3

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

Employee benefits expense (including directors)

Group	2020 £m	2019 £m
Wages and salaries	229.6	234.2
Employee-related taxes and levies	23.8	24.1
Severance	7.2	4.8
Post-employment benefits:		
Defined benefit pension expense (see note 19)	12.3	18.0
Defined contribution pension expense (see note 19)	22.5	23.0
	34.8	41.0
Charged to other areas including regulatory capital schemes	(134.0)	(134.5)
Employee benefits expense	161.4	169.6

Included within employee benefits expense were £11.8 million (2019: £7.2 million) of restructuring costs.

In the prior year, £6.6 million of costs associated with the equalisation of Guaranteed Minimum Pension (GMP) benefits were recognised, along with £1.4 million of employee costs incurred in relation to the group's response to a severe dry weather event.

The total expense included within employee benefits expense in respect of equity-settled share-based payments was £1.5 million (2019: £4.0 million). The company operates several share option schemes, details of which are given on pages 166 to 169 in the Directors' remuneration report.

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

	2020 number	2019 number
Average number of employees during the year	5,302	5,267

Company

The company has no employees.

4 Operating profit

The following items have been charged/(credited) to the income statement in arriving at the group's operating profit:

	2020 £m	2019 £m
Other operating costs		
Hired and contracted services	96.6	112.2
Power	78.9	72.8
Property rates	75.9	94.7
Materials	75.1	77.8
Regulatory fees	28.3	32.5
Loss on disposal of property, plant and equipment	13.9	3.9
Cost of properties disposed	0.4	4.7
Settlement of commercial claims	–	(9.9)
Other expenses	34.3	34.1
	403.4	422.7
Allowance for expected credit losses – trade and other receivables		
Allowance for expected credit losses – trade and other receivables (see note 15)	41.8	26.5
	41.8	26.5
Other income		
Other income	(3.4)	(3.6)
	(3.4)	(3.6)
Depreciation and amortisation expense		
Depreciation of property, plant and equipment: owned assets (see note 10)	441.6	357.3
Amortisation of intangible assets (see note 11)	41.2	35.9
	482.8	393.2

Included within depreciation of property, plant and equipment for the current year is £82.3 million relating to the accelerated depreciation of certain bioresources assets, primarily incineration assets at the group's Mersey Valley Sludge Processing Centre, known as Shell Green. These assets have been fully depreciated in the year following a strategic bioresources review, as the likelihood of the group deriving future economic benefit from them is now considered remote in light of improvements in alternative lower-cost and more environmentally friendly processes. In addition to this, inventory spares held for use by these assets have been written down to £nil.

During the current year, the group incurred operating costs of £19.2 million relating to the COVID-19 pandemic, comprising £16.7 million in relation to allowances for expected credit losses in respect of household trade receivables and £1.4 million allowances for expected credit losses in respect of non-household trade receivables.

Property rates expenses in the current year include the impact of an £8.1 million refund in relation to rates paid in previous years resulting from a revision to the rateable value of the group's water assets as agreed with the Valuation Office Agency (VOA). This reduction ensures that the cumulative property rates paid by the group are appropriately recorded. In addition to this, accrued property rates relating to wastewater assets have been reassessed during the current year resulting in an £8.2 million reduction in rates costs reflecting properties identified as being non-rateable and management's revised estimate of the likely rates payable on properties whose rateable values are yet to be assessed.

During the current year, operating costs of £3.1 million and infrastructure renewals expenditure of £4.7 million were incurred in response to Storms Ciara and Dennis that occurred in February 2020.

During the prior year, as a result of the group's response to a severe dry weather event, there were £36.1 million of expenses incurred, comprising £24.2 million of other operating costs, £10.1 million of infrastructure renewals expenditure and £1.4 million of employee costs (see note 3).

Research and development expenditure for the year ended 31 March 2020 was £1.0 million (2019: £1.2 million)

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

	2020 £'000	2019 £'000
Audit services		
Statutory audit – group and company	119	97
Statutory audit – subsidiaries	355	340
	474	437
Non-audit services		
Regulatory audit services provided by the statutory auditor	62	47
Other non-audit services	77	65
	613	549

Notes to the financial statements

5 Investment income

	2020 £m	2019 £m
Interest receivable on short-term bank deposits held at amortised cost	6.0	3.3
Interest receivable on loans to joint ventures held at amortised cost (see note A6)	4.0	4.3
Net pension interest income (see note 19)	14.0	9.5
	24.0	17.1

6 Finance expense

	2020 £m	2019 £m
Interest payable		
Interest payable on borrowings held at amortised cost ⁽¹⁾	231.7	232.0
	231.7	232.0
Fair value losses/(gains) on debt and derivative instruments		
Fair value hedge relationships:		
Borrowings ⁽²⁾	87.1	47.4
Designated swaps ⁽²⁾⁽³⁾	(68.6)	(29.7)
	18.5	17.7
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss ⁽⁴⁾	57.8	32.8
Associated swaps	(49.8)	(37.1)
	8.0	(4.3)
Fixed interest rate swaps ⁽⁵⁾	52.3	19.1
Net receipts on derivatives and debt under fair value option	(15.3)	(40.6)
Inflation swaps ⁽⁵⁾	13.4	–
Other	(0.6)	(1.4)
	49.8	(22.9)
Net fair value losses/(gains) on debt and derivative instruments ⁽⁶⁾	76.3	(9.5)
	308.0	222.5

Notes:

- (1) Includes a £100.8 million (2019: £98.3 million) non-cash inflation expense repayable on maturity in relation to the group's index-linked debt and £1.6 million (2019: £nil) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.
- (2) Includes foreign exchange losses of £14.8 million (2019: £37.6 million gains). These losses/gains are largely offset by fair value gains/losses on derivatives.
- (3) Under the provisions of IFRS 9 'Financial instruments', a £1.3 million fair value gain resulting from changes to the foreign currency basis spread (2019: £2.2 million loss) has been 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 £34.2 million fair value gain resulting from changes in the group's own credit risk (2019: £6.6 million gain) has been recognised in other comprehensive income rather than 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 £16.0 million income (2019: £30.6 million) due to net interest on derivatives and debt under fair value option and £0.5 million income (2019: £nil) due to non-cash inflation uplift on index-linked derivatives.

Interest payable is stated net of £40.6 million (2019: £37.4 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. This has been calculated by applying a capitalisation rate of 3.2 per cent (2019: 3.1 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

In addition to the £308.0 million finance expense, a £5.0 million allowance for expected credit losses was recognised during the year (2019: £nil) in respect of loans to the group's joint venture, Water Plus (see note A6 for further details).

7 Tax

	2020 £m	2019 £m
Current tax		
UK corporation tax	51.1	41.6
Adjustments in respect of prior years	(12.2)	(2.8)
Total current tax charge for the year	38.9	38.8
Deferred tax		
Current year	16.4	35.4
Adjustments in respect of prior years	5.6	(1.4)
	22.0	34.0
Change in tax rate	135.5	–
Total deferred tax charge for the year	157.5	34.0
Total tax charge for the year	196.4	72.8

The deferred tax charge of £135.5 million (2019: £nil) reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

The adjustments in respect of prior years relate to agreement of prior years' UK tax matters.

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

	2020 £m	2020 %	2019 £m	2019 %
Profit before tax	303.2		436.2	
Tax at the UK corporation tax rate	57.6	19.0	82.9	19.0
Adjustments in respect of prior years	(6.6)	(2.2)	(4.2)	(1.0)
Change in tax rate	135.5	44.7	–	–
Net expense/(income) not taxable	9.9	3.2	(1.8)	(0.4)
Deferred tax rate adjustment	–	–	(4.1)	(0.9)
Total tax charge and effective tax rate for the year	196.4	64.7	72.8	16.7

The prior year deferred tax rate adjustment comprises the deferred tax movement calculated at the then future tax rate from April 2020 of 17 per cent rather than the current rate of 19 per cent.

In the prior year, there is also an adjustment for items included in retained earnings, following the adoption of IFRS 15.

The increase in the net expense not taxable is mainly due to the increase in losses from our joint venture interest in Water Plus.

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

	2020 £m	2019 £m
Profit before tax	303.2	436.2
Profit before tax multiplied by the standard rate of UK corporation tax of 19%	57.6	82.9
Relief for capital allowances in place of depreciation	(82.1)	(91.0)
Disallowance of depreciation charged in the accounts	81.6	64.8
Financial transactions timing differences	11.7	1.0
Pension timing differences	(22.5)	(11.7)
Relief for capitalised interest	(7.7)	(7.1)
Other timing differences	2.6	4.5
Adjustments to tax charge in respect of prior years	(12.2)	(2.8)
Joint venture net losses/(profits)	7.2	(1.3)
Expenses not deductible/(income not taxable) for tax purposes	0.5	(1.8)
Depreciation charged on non-qualifying assets	2.2	1.3
Current tax charge for the year	38.9	38.8

The group's current tax charge is lower than the UK headline rate of 19 per cent, primarily due to a range of adjustments which are simply timing differences between recognition of the income or expense in the accounts and in the related tax computations submitted to HMRC. These include deductions in relation to capital spend, pension timing differences, unrealised profits or losses in relation to financing and related treasury derivatives and capitalised interest.

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 lower than the prior year due to the atypical bioresources asset write down in the period, together with the reduction in the rate of long life plant and machinery tax allowances from 8 per cent to 6 per cent from April 2019.

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

The current year pension timing differences of £22.5 million was higher than the prior year mainly due to the company making accelerated deficit repair contributions of £103.0 million in April 2019.

The current year adjustments to tax charge in respect of prior years of £12.2 million was higher than the prior year mainly due to the agreement of various capital allowance matters from earlier years.

The joint venture profits in the prior year are mainly our share of profits relating to AS Tallinna Vesi. In the current year, the AS Tallinna Vesi profits are offset by our share of the losses in relation to Water Plus.

	2020 £m	2019 £m
Tax on items taken directly to equity		
Deferred tax (see note 20)		
On remeasurement gains on defined benefit pension schemes	150.0	12.4
Adjustments in respect of prior years on net fair value gains	2.4	–
On net fair value gains on credit assumptions for debt reported at fair value through profit and loss and cost of hedging	6.7	0.8
Total tax charge on items taken directly to equity	159.1	13.2

The tax adjustments taken to equity, primarily relate to remeasurement movements on the group's defined benefit pension schemes including the adjustment arising from a change in the rate at which the deferred tax liabilities are measured, from 17 per cent to 35 per cent. This change in rate reflects a revised judgement as to the most likely method by which the defined benefit pension surplus would be realised. Whereas previously it was assumed that the surplus could be realised through a reduction in future contributions, management now consider that the most likely method of realisation would be through a refund, which would be taxed at the rate applicable to refunds from a trust (currently 35 per cent).

8 Earnings per share

	2020 £m	2019 £m
Profit after tax attributable to equity holders of the company – continuing operations	106.8	363.4
	2020 pence	2019 pence
Earnings per share		
Basic	15.7	53.3
Diluted	15.6	53.2

Basic earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 681.9 million, being the weighted average number of shares in issue during the year (2019: 681.9 million). Diluted earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 683.6 million, being the weighted average number of shares in issue during the year including dilutive shares (2019: 683.4 million).

The difference between the weighted average number of shares used in the basic and the diluted earnings per share calculations represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings per Share'. Potential dilutive ordinary shares comprise outstanding share options awarded to directors and certain employees (see note 3).

The weighted average number of shares can be reconciled to the weighted average number of shares, including dilutive shares, as follows:

	2020 million	2019 million
Average number of ordinary shares – basic	681.9	681.9
Effect of potential dilutive ordinary shares – share options	1.7	1.5
Average number of ordinary shares – diluted	683.6	683.4

9 Dividends

	2020 £m	2019 £m
Amounts recognised as distributions to equity holders of the company in the year comprise:		
Ordinary shares		
Final dividend for the year ended 31 March 2019 at 27.52 pence per share (2018: 26.49 pence)	187.7	180.6
Interim dividend for the year ended 31 March 2020 at 14.20 pence per share (2019: 13.76 pence)	96.8	93.8
	284.5	274.4
Proposed final dividend for the year ended 31 March 2020 at 28.40 pence per share (2019: 27.52 pence)	193.7	187.7

The proposed final dividends for the years ended 31 March 2020 and 31 March 2019 were subject to approval by equity holders of United Utilities Group PLC as at the reporting dates, and hence have not been included as liabilities in the consolidated financial statements at 31 March 2020 and 31 March 2019.

10 Property, plant and equipment

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 2018	367.2	5,386.3	7,250.8	526.6	1,228.4	14,759.3
Additions	5.5	60.8	126.3	11.6	522.0	726.2
Transfers	(12.1)	43.3	87.3	6.5	(125.0)	–
Disposals	(0.9)	–	(42.3)	(6.5)	–	(49.7)
At 31 March 2019	359.7	5,490.4	7,422.1	538.2	1,625.4	15,435.8
Opening balance adjustment on adoption of IFRS 16	48.6	–	4.4	1.4	–	54.4
Additions	6.0	140.5	157.5	10.1	445.4	759.5
Transfers	6.0	131.1	358.8	24.1	(520.0)	–
Disposals	(13.6)	(31.5)	(251.2)	(13.1)	–	(309.4)
At 31 March 2020	406.7	5,730.5	7,691.6	560.7	1,550.8	15,940.3
Accumulated depreciation						
At 1 April 2018	119.7	385.4	3,092.3	371.4	–	3,968.8
Charge for the year	8.3	35.4	279.3	34.3	–	357.3
Transfers	(0.5)	0.5	–	–	–	–
Disposals	(0.6)	–	(37.7)	(5.4)	–	(43.7)
At 31 March 2019	126.9	421.3	3,333.9	400.3	–	4,282.4
Charge for the year	9.8	44.4	353.5	33.9	–	441.6
Disposals	(13.5)	(31.2)	(237.1)	(12.8)	–	(294.6)
At 31 March 2020	123.2	434.5	3,450.3	421.4	–	4,429.4
Net book value at 31 March 2019	232.8	5,069.1	4,088.2	137.9	1,625.4	11,153.4
Net book value at 31 March 2020	283.5	5,296.0	4,241.3	139.3	1,550.8	11,510.9

Included within the net book value at 31 March 2020 is £57.4 million relating to leased assets. Further details on the group's leases are disclosed in note 18.

During the year ended 31 March 2019, there was a transfer of £17.8 million cost and associated £0.5 million accumulated depreciation from land and buildings to infrastructure assets following a data cleanse exercise in respect of the fixed asset register.

At 31 March 2020, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £432.6 million (2019: £300.7 million). In addition to these commitments, the group has long-term expenditure plans which include investments to achieve improvements in performance required by regulators and to provide for future growth.

Company

The company had no property, plant and equipment or contractual commitments for the acquisition of property, plant and equipment at 31 March 2020 or 31 March 2019.

Notes to the financial statements

11 Intangible assets

Group	Total £m
Cost	
At 1 April 2018	395.6
Additions	40.9
At 31 March 2019	436.5
Additions	27.6
Disposals	(22.7)
At 31 March 2020	441.4
Accumulated amortisation	
At 1 April 2018	197.9
Charge for the year	35.9
At 31 March 2019	233.8
Charge for the year	41.2
Disposals	(22.6)
At 31 March 2020	252.4
Net book value at 31 March 2019	202.7
Net book value at 31 March 2020	189.0

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

At 31 March 2020, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £2.6 million (2019: £1.5 million).

Company

The company had no intangible assets or contractual commitments for the acquisition of intangible assets at 31 March 2020 or 31 March 2019.

12 Investment in joint ventures

Group	£m
At 1 April 2018	75.2
Share of profits of joint ventures	6.7
Dividends received from joint ventures	(2.2)
Currency translation differences	(0.7)
At 31 March 2019	79.0
Share of losses of joint ventures	(38.1)
Less: Losses allocated to other components of long-term interest	9.5
Dividends received from joint ventures	(4.9)
Currency translation differences	1.3
At 31 March 2020	46.8

The group's interests in joint ventures mainly comprise its 50 per cent interest in Water Plus Group Limited (Water Plus) and its 35.3 per cent interest in AS Tallinna Vesi (Tallinn Water). Water Plus is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement. Joint management of Tallinn Water is based on a shareholders' agreement.

The group's total share of Water Plus losses for the year was £51.5 million (2019: £0.4 million share of losses), of which £46.2 million has been recognised in the Income Statement and £5.3 million has not been recognised as at 31 March 2020 (2019: £nil not recognised). The £46.2 million recognised share of losses comprises £36.7 million that has been allocated to the group's equity investment, and £9.5 million allocated to the zero coupon shareholder loan notes extended to Water Plus as these form part of the group's long-term interest in the joint venture. The share of losses recognised against each component of the group's net investment in Water Plus has reduced each of them to £nil at 31 March 2020. Of the £46.2 million recognised share of losses, £32.0 million represents the group's recognised share of Water Plus's losses relating to the COVID-19 pandemic, including the crystallisation of an impairment of goodwill and certain other intangible assets recognised by Water Plus, and a significant incremental charge to recognise additional expected credit losses in relation to trade and other receivables. The remaining £14.2 million relates to the group's share of Water Plus's underlying loss for the year.

12 Investment in joint ventures continued

As at 31 March 2020, the carrying value of the group's 35.3 per cent interest in Tallinn Water was £46.8 million (2019: £42.4 million). Tallinn Water recognised a provision of EUR 13.2 million in its latest financial statements relating to possible third-party claims. The maximum potential undiscounted payments if potential claims were recognised by the courts would amount to EUR 33.1 million. If the value of actual claims exceed the amount provided in the future this would impact the group's share of profits of the joint venture and the joint venture's carrying value under the equity method of accounting in the period in which this occurs.

Other than the fact that at 31 March 2020 Water Plus did not have any distributable reserves, there are no restrictions on the ability of the group's joint ventures to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the group.

Details of transactions between the group and its joint ventures are disclosed in note A6.

Company

The company had no investments in joint ventures at either 31 March 2020 or 31 March 2019.

13 Other investments

	2020 £m	2019 £m
Group		
At the start of the period	11.5	7.1
Change in fair value	0.6	4.4
Reduction in investment stake	(1.1)	(1.0)
Disposal of investment	(10.9)	–
Currency translation differences	–	1.0
At the end of the period	0.1	11.5

On 3 December 2019, the group completed the disposal of its overseas investment in the Muharraq sewerage treatment plant (STP). Consideration for the disposal was equal to the fair value at which the asset was carried resulting in no gain or loss on disposal.

Company

At 31 March 2020, the company's investments related solely to its investments in United Utilities PLC, which was recorded at a cost of £6,326.8 million (2019: £6,326.8 million).

14 Inventories

	2020 £m	2019 £m
Group		
Properties held for resale	4.5	4.7
Other inventories	12.1	10.2
	16.6	14.9

Company

The company had no inventories at 31 March 2020 or 31 March 2019.

15 Trade and other receivables

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade receivables	81.2	102.2	–	–
Amounts owed by subsidiary undertakings	–	–	81.3	82.2
Amounts owed by related parties (see note A6)	147.9	182.9	–	–
Other debtors and prepayments	39.1	34.4	–	–
Accrued income	74.7	78.1	–	–
	342.9	397.6	81.3	82.2

At 31 March 2020, the group had £97.0 million (2019: £148.1 million) of trade and other receivables classified as non-current, of which £95.0 million (2019: £143.5 million) was owed by related parties.

The carrying amounts of trade and other receivables approximates to their fair value at 31 March 2020 and 31 March 2019.

Notes to the financial statements

15 Trade and other receivables continued

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

Group		2020 £m	2019 £m
At the start of the year		56.5	63.4
Amounts charged to operating expenses (see note 4)		41.8	26.5
Trade receivables written off		(28.0)	(33.4)
Amounts charged to deferred income		1.1	—
At the end of the year		71.4	56.5

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

At each reporting date, the group evaluates the recoverability of trade receivables and records allowances for expected credit losses which are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considers past events, current conditions and forecasts of future conditions. In the current year, an allowance for expected credit losses of £18.1 million was recognised in relation to trade and other receivables reflecting the direct impact of the COVID-19 pandemic.

At 31 March 2020 and 31 March 2019, the group had no trade receivables that were past due and not individually impaired.

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

At 31 March 2020	Aged				Carrying value £m
	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	72.8	31.6	43.4	146.9	
Allowance for expected credit losses	(19.3)	(15.7)	(36.4)	(71.4)	
Net trade receivables	53.5	15.9	7.0	76.4	

At 31 March 2019	Aged				Carrying value £m
	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	69.1	36.5	42.0	147.7	
Allowance for expected credit losses	(5.3)	(10.9)	(40.2)	(56.5)	
Net trade receivables	63.8	25.6	1.8	91.2	

At 31 March 2020, the group had £4.8 million (2019: £11.0 million) of trade receivables that were not past due.

Company

At 31 March 2020 and 31 March 2019, the company had no trade receivables that were past due.

The carrying amount of trade and other receivables approximates to their fair value at 31 March 2020 and 31 March 2019.

16 Cash and cash equivalents

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Cash at bank and in hand	33.0	4.7	—	—
Short-term bank deposits	495.1	334.6	—	—
Cash and short-term deposits	528.1	339.3	—	—
Book overdrafts (included in borrowings, see note 17)	(14.9)	(14.7)	(0.8)	(0.5)
Cash and cash equivalents in the statement of cash flows	513.2	324.6	(0.8)	(0.5)

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

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

17 Borrowings

Group		2020 £m	2019 £m
Non-current liabilities			
Bonds		5,648.5	4,814.6
Bank and other term borrowings		1,814.9	2,301.0
Lease liabilities		54.7	—
		7,518.1	7,115.6
Current liabilities			
Bonds		—	441.9
Bank and other term borrowings		827.2	243.6
Book overdrafts (see note 16)		14.9	14.7
Lease liabilities		2.9	—
		845.0	700.2
		8,363.1	7,815.8

For further details of the principal economic terms and conditions of outstanding borrowings see note A3.

Company		2020 £m	2019 £m
Non-current liabilities			
Amounts owed to subsidiary undertakings		1,752.0	1,718.4
		1,752.0	1,718.4
Current liabilities			
Book overdrafts (see note 16)		0.8	0.5
		0.8	0.5
		1,752.8	1,718.9

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

18 Leases

As part of its activities, the group typically leases items such as land, buildings and vehicles. The group does not typically lease assets on a short-term basis or enter into leases for low value assets and therefore no material costs were incurred during the year, either individually or in aggregate, in relation to lease contracts with a duration of less than 12 months or for low value assets.

Lease terms range from one year to 999 years. Due to the nature of the group's operations, many of the group's leases have extremely long terms.

The maturity profile in the following table represents the future contractual lease payments on an undiscounted basis.

	2020 £m	2019* £m
Less than 1 year	2.9	—
1 to 5 years	8.9	—
5 to 10 years	9.7	—
10 to 25 years	25.2	—
25 to 50 years	40.5	—
50 to 100 years	80.1	—
100 to 500 years	106.9	—
Longer than 500 years	3.2	—
	277.4	—

* The group has chosen to use the modified retrospective transitional approach in adopting IFRS 16 'Leases', therefore prior year comparatives have not been restated.

Right-of-use assets are included within property, plant and equipment in the statement of financial position. Details of the right-of-use assets, by class of assets are as follows:

Cost	2020 £m	2019* £m
Property	37.0	—
Land	15.8	—
Operational assets	4.8	—
Vehicles	1.7	—
	59.3	—

Notes to the financial statements

18 Leases continued

	2020 £m	2019* £m
Accumulated depreciation		
Property	0.8	–
Land	0.2	–
Operational assets	0.1	–
Vehicles	0.9	–
	2.0	–

* The group has chosen to use the modified retrospective transitional approach in adopting IFRS 16 'Leases', therefore prior year comparatives have not been restated.

Further details on additions and disposals of right-of-use assets can be found in note 10.

During the year ending 31 March 2020, £1.6 million of interest expense on lease liabilities was recognised, representing the unwinding of the discounting applied to future lease payments (see note 6).

The carrying amount of lease liabilities is included within borrowings (see note 17).

The total cash outflow for leases for the year end 31 March 2020 was £3.3 million, of this £1.6 million was payment of interest and £1.7 million payment of principal.

19 Retirement benefit surplus

Defined benefit schemes

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

Group	2020 £m	2019 £m
Current service cost	6.1	6.2
Curtailments/settlements	4.6	9.0
Administrative expenses	1.6	2.8
Pension expense charged to operating profit	12.3	18.0
Net pension interest income credited to investment income (see note 5)	(14.0)	(9.5)
Net pension (income)/expense (credited)/charged before tax	(1.7)	8.5

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £7.7 million (2019: £9.0 million) comprising current service costs and administrative expenses. Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £30.2 million (2019: £32.0 million) comprise the defined benefit costs described above of £7.7 million (2019: £9.0 million) and defined contribution pension costs of £22.5 million (2019: £23.0 million) (see note 3).

Included within curtailments/settlements is £nil (2019: £6.6 million) relating to the equalisation of GMP benefits (see note A5 for further details).

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

Group	2020 £m	2019 £m
At the start of the year	483.9	344.2
Income/(expense) recognised in the income statement	1.7	(8.5)
Contributions	113.9	75.2
Remeasurement gains gross of tax	154.6	73.0
At the end of the year	754.1	483.9

Included in the contributions paid of £113.9 million (2019: £75.2 million) were deficit repair contributions of £103.0 million (2019: £66.1 million), enhancements to benefits provided on redundancy of £1.9 million (2019: £1.6 million), payments in relation to historic unfunded, unregistered retirement benefit schemes of £1.4 million (2019: £nil), and administration expenses of £0.4 million (2019: £0.5 million). Following the 2018 actuarial valuation, contributions in relation to current service cost remained stable at £7.2 million (2019: £7.0 million).

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

Group	2020 £m	2019 £m
The return on plan assets, excluding amounts included in interest	(131.6)	58.5
Actuarial gains/(losses) arising from changes in financial assumptions	257.3	(160.6)
Actuarial (losses)/gains arising from changes in demographic assumptions	(7.2)	70.9
Actuarial gains arising from experience	36.1	104.2
Remeasurement gains on defined benefit pension schemes	154.6	73.0

For more information in relation to the group's defined benefit pension schemes see note A5.

19 Retirement benefit surplus continued

Defined contribution schemes

During the year, the group made £22.5 million (2019: £23.0 million) of contributions to defined contribution schemes which are included in employee benefits expense (see note 3).

Company

The company did not participate in any of the group's pension schemes during the years ended 31 March 2020 and 31 March 2019.

20 Deferred tax liabilities

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

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2018	1,049.9	58.5	(9.6)	1,098.8
Charged/(credited) to the income statement (see note 7)	26.8	11.3	(4.1)	34.0
Charged to equity (see note 7)	–	12.4	0.8	13.2
At 31 March 2019	1,076.7	82.2	(12.9)	1,146.0
Charged/(credited) to the income statement (see note 7)	13.2	22.0	(13.2)	22.0
Change in tax rate	127.5	9.7	(1.7)	135.5
Charged to equity (see note 7)	–	150.0	9.1	159.1
At 31 March 2020	1,217.4	263.9	(18.7)	1,462.6

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

The deferred tax charge of £135.5 million (2019: £nil) reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

Company

The company had no deferred tax assets or liabilities at 31 March 2020 or 31 March 2019.

21 Provisions

Group	Severance £m	Other £m	Total £m
At 1 April 2018	2.6	19.5	22.1
Charged/(credited) to the income statement	4.8	(0.3)	4.5
Utilised in the year	(4.6)	(5.2)	(9.8)
At 31 March 2019	2.8	14.0	16.8
Charged/(credited) to the income statement	7.2	(0.6)	6.6
Utilised in the year	(5.1)	(1.9)	(7.0)
At 31 March 2020	4.9	11.5	16.4

The group had no provisions classed as non-current at 31 March 2020 or 31 March 2019.

The severance provision as at 31 March 2020 and 31 March 2019 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 2020 or 31 March 2019.

22 Trade and other payables

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Non-current				
Deferred grants and contributions	736.8	671.2	–	–
Other creditors	24.4	26.1	–	–
	761.2	697.3	–	–

Notes to the financial statements

22 Trade and other payables continued

Current	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade payables	36.7	34.4	—	—
Amounts owed to subsidiary undertakings	—	—	12.1	12.4
Amounts owed to related parties	4.8	0.6	—	—
Other tax and social security	5.8	5.4	—	—
Deferred grants and contributions	14.5	13.3	—	—
Accruals and other creditors	227.9	232.7	2.1	2.3
Deferred income	44.7	34.8	—	—
	334.4	321.2	14.2	14.7

The average credit period taken for trade purchases is 15 days (2019: 25 days).

The carrying amounts of trade and other payables approximates to their fair value at 31 March 2020 and 31 March 2019.

Deferred grants and contributions

Group	2020 £m	2019 £m
At the start of the year	684.5	625.8
Amounts capitalised during the year	35.1	35.7
Transfers of assets from customers	47.0	39.4
Credited to equity – IFRS 15 opening balance adjustment	—	(2.6)
Credited to the income statement – revenue	(13.8)	(12.9)
Credited to the income statement – other operating expenses (see note 4)	(0.4)	(0.5)
Credited to allowance for bad and doubtful receivables	(1.1)	(0.4)
At the end of the year	751.3	684.5

23 Other reserves

Group	Cumulative exchange reserve £m	Capital redemp-		Merger reserve £m	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
		reduc-	tion reserve £m				
At 1 April 2019	(3.7)	1,033.3	(703.6)	12.0	0.3	338.3	
Other comprehensive income							
Changes in fair value recognised in other comprehensive income	—	—	—	1.3	(7.6)	(6.3)	
Amounts reclassified from other comprehensive income to profit or loss	—	—	—	—	5.6	5.6	
Deferred tax adjustments in respect of prior years on net fair value gains	—	—	—	(2.4)	—	(2.4)	
Tax on items taken directly to equity	—	—	—	(0.2)	0.4	0.2	
Foreign exchange adjustments	1.3	—	—	—	—	—	1.3
At 31 March 2020	(2.4)	1,033.3	(703.6)	10.7	(1.3)	336.7	

23 Other reserves continued

Group	Cumulative exchange reserve £m	Capital redemp- tion reserve (restated) £m	Merger reserve (restated) £m	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2018	(1.8)	1,033.3	(703.6)	–	–	327.9
Adjustment on initial application of IFRS 9	(1.1)	–	–	13.8	–	12.7
At 1 April 2018	(2.9)	1,033.3	(703.6)	13.8	–	340.6
Other comprehensive income						
Changes in fair value recognised in other comprehensive income	–	–	–	(2.2)	3.5	1.3
Amounts reclassified from other comprehensive income to profit or loss	–	–	–	–	(3.1)	(3.1)
Tax on items taken directly to equity	–	–	–	0.4	(0.1)	0.3
Foreign exchange adjustments	(0.8)	–	–	–	–	(0.8)
At 31 March 2019	(3.7)	1,033.3	(703.6)	12.0	0.3	338.3

The capital redemption reserve arose as a result of a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009. The merger reserve arose in the same year on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition. In the prior period, the group financial statements showed a merger reserve of £329.7 million and a capital redemption reserve of £nil. The opening and closing balances of these reserves have been restated to show a merger reserve of £(703.6) million and a capital redemption reserve of £1,033.3 million. This is to better reflect the nature of the transactions associated with the reverse acquisition in the group's consolidated financial statements.

On adoption of IFRS 9 on 1 April 2018, the group recognised the cost of hedging reserve as a new 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.

On adoption of IFRS 9, the group designated 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's other reserves at 31 March 2020, 31 March 2019 and 1 April 2018, were comprised entirely of a £1,033.3 million capital redemption reserve that arose as a result of a return of capital to shareholders following the acquisition of United Utilities PLC by the company in the year ended 31 March 2009.

24 Share capital

Group and company	2020 million	2020 £m	2019 million	2019 £m
Issued, called up and fully paid				
Ordinary shares of 5.0 pence each	681.9	34.1	681.9	34.1
Deferred shares of 170.0 pence each	274.0	465.7	274.0	465.7
	955.9	499.8	955.9	499.8

Details of the voting rights of each category of shares can be found within the directors' report on page 188.

The 170.0 pence deferred shares were created to facilitate a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009 (see company statement of changes in equity on page 204), and represent the amount of a special dividend paid on B shares at that time. The deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding up.

Notes to the financial statements

25 Contingent liabilities

The group has determined that the possibility of any outflow in respect of performance guarantees issued is remote and, as such, there are no contingent liabilities to be disclosed in respect of these (2019: none).

The company has not entered into performance guarantees as at 31 March 2020 or 31 March 2019.

26 Events after the reporting period

As at the time of reporting, the developing and uncertain situation in respect of the COVID-19 pandemic continues to be closely monitored. Ofwat initiated a consultation during March 2020 aimed at identifying ways in which the non-household retail market might be supported through the current challenging situation, and this remains ongoing as at the date these financial statements were approved. The outcome of this consultation will impact both non-household retailers such as Water Plus, and wholesalers such as UUW.

Notes to the financial statements – appendices

A1 Cash generated from operations

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Profit before tax	303.2	436.2	251.6	243.8
Adjustment for investment income and finance expense (see notes 5, 6 and A6)	289.0	205.4	32.9	30.5
Adjustment for share of losses/(profits) of joint ventures (see note 12)	38.1	(6.7)	–	–
Operating profit	630.3	634.9	284.5	274.3
Adjustments for:				
Depreciation of property, plant and equipment (see note 10)	441.6	357.3	–	–
Amortisation of intangible assets (see note 11)	41.2	35.9	–	–
Loss on disposal of property, plant and equipment (see note 4)	13.9	3.9	–	–
Amortisation of deferred grants and contributions (see note 22)	(13.8)	(12.9)	–	–
Equity-settled share-based payments charge (see note 3)	1.5	4.0	–	–
Changes in working capital:				
(Increase)/decrease in inventories (see note 14)	(1.7)	1.9	–	–
Decrease in trade and other receivables	4.6	11.7	2.7	4.4
(Decrease)/increase in trade and other payables	(10.1)	21.3	(0.2)	0.1
Decrease in provisions (see note 21)	(0.4)	(5.3)	–	–
Pension contributions paid less pension expense charged to operating profit	(101.6)	(57.2)	–	–
Cash generated from operations	1,005.5	995.5	287.0	278.8

The group has received property, plant and equipment of £47.0 million (2019: £39.4 million) in exchange for the provision of future goods and services (see notes 22 and A7).

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 overleaf. The tables overleaf, along with the chart reconciling opening to closing net debt, should be read in conjunction with the consolidated statement of cash flows.

Notes to the financial statements – appendices

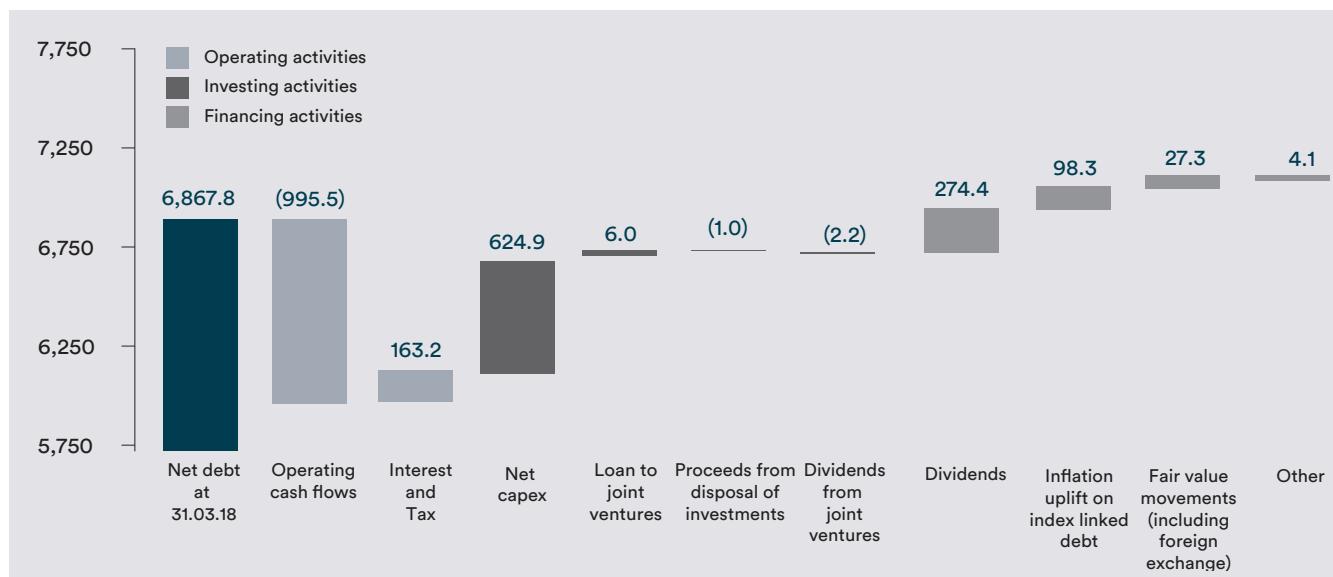
A2 Net debt continued

	Borrowings			Derivatives		Total liabilities from financing activities £m	Derivatives in a cash flow hedge £m	Cash and cash equivalents £m	Net debt £m
	Bonds £m	Bank and other term borrowings £m	Lease liabilities £m	in a fair value hedge £m	at fair value through profit or loss £m				
At 31 March 2019	(5,256.5)	(2,544.6)	–	327.1	82.6	(7,391.4)	(0.5)	324.6	(7,067.3)
Adjustment on initial application of IFRS 16	–	–	(54.4)	–	–	(54.4)	–	–	(54.4)
At 1 April 2019	(5,256.5)	(2,544.6)	(54.4)	327.1	82.6	(7,445.8)	(0.5)	324.6	(7,121.7)
Non-cash movements:									
Inflation uplift on index-linked debt	(58.2)	(42.6)	–	–	–	(100.8)	–	–	(100.8)
Fair value movements	(93.4)	(2.0)	–	57.8	(4.7)	(42.3)	(1.7)	–	(44.0)
Foreign exchange	(9.5)	(5.3)	–	–	–	(14.8)	–	–	(14.8)
Other	(1.5)	–	(6.5)	–	–	(8.0)	–	–	(8.0)
Cash flows used in financing activities:									
Receipts in respect of borrowing and derivatives ⁽¹⁾	(651.1)	(157.1)	–	–	–	(808.2)	–	808.2	–
Payments in respect of borrowings and derivatives ⁽¹⁾	421.7	109.5	1.7	10.8	2.2	545.9	–	(545.9)	–
Dividends paid	–	–	–	–	–	–	–	(284.5)	(284.5)
Exercise of share options – purchase of shares	–	–	–	–	–	–	–	(2.8)	(2.8)
Other	–	–	–	–	–	–	–	(2.8)	(2.8)
Changes arising from financing activities	(392.0)	(97.5)	(4.8)	68.6	(2.5)	(428.2)	(1.7)	(27.8)	(457.7)
Cash flows used in investing activities	–	–	–	–	–	–	–	(593.9)	(593.9)
Cash flows generated from operating activities	–	–	1.6	–	–	1.6	–	810.3	811.9
At 31 March 2020	(5,648.5)	(2,642.1)	(57.6)	395.7	80.1	(7,872.4)	(2.2)	513.2	(7,361.4)

Note:

(1) Where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.

Summary of net debt movement

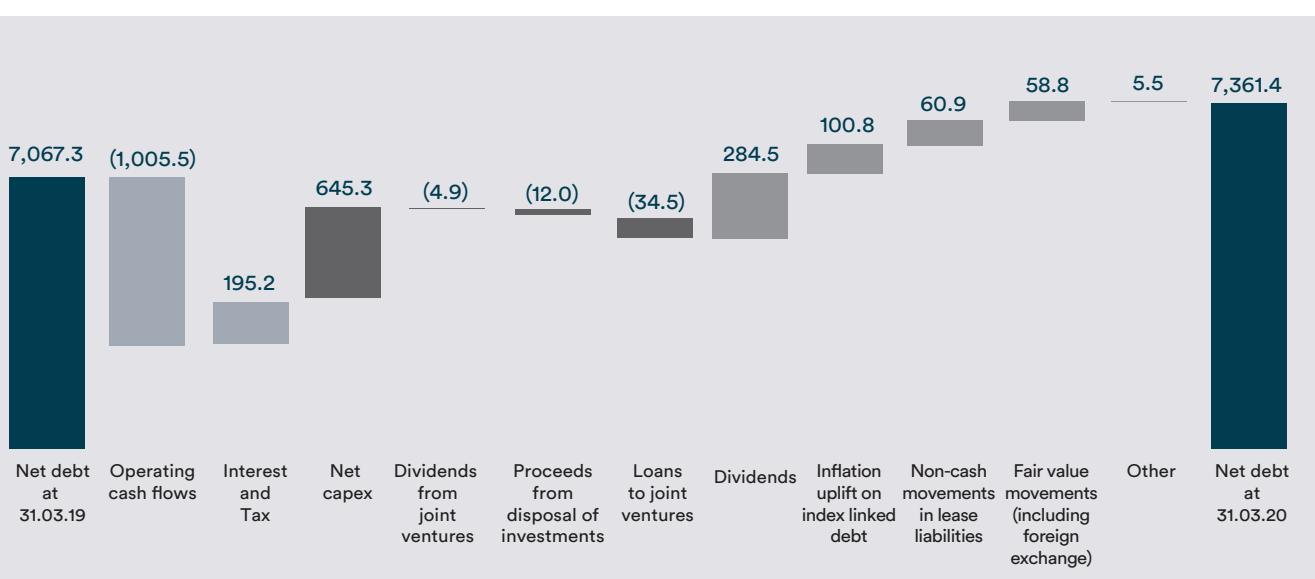


A2 Net debt continued

	Borrowings		Derivatives		at fair value through profit or loss £m	Total liabilities from financing activities £m	Derivatives in a cash flow hedge £m	Cash and cash equivalents £m	Net debt £m
	Bank and other term borrowings		Lease liabilities	in a fair value hedge					
	Bonds £m	£m	£m	£m					
At 31 March 2018	(5,306.6)	(2,593.1)	–	431.5	103.0	(7,365.2)	–	497.4	(6,867.8)
Adjustment on initial application of IFRS 9	–	–	–	–	0.9	0.9	(0.9)	–	–
At 1 April 2018	(5,306.6)	(2,593.1)	–	431.5	103.9	(7,364.3)	(0.9)	497.4	(6,867.8)
Non-cash movements:									
Inflation uplift on index-linked debt	(58.5)	(39.8)	–	–	–	(98.3)	–	–	(98.3)
Fair value movements	(33.9)	(2.1)	–	35.5	10.4	9.8	0.4	–	10.2
Foreign exchange	(35.2)	(2.4)	–	–	–	(37.6)	–	–	(37.6)
Other	(1.3)	–	–	–	–	(1.3)	–	–	(1.3)
Cash flows used in financing activities:									
Receipts in respect of borrowing and derivatives	(428.1)	(107.5)	–	(1.1)	(31.7)	(568.4)	–	568.4	–
Payments in respect of borrowings and derivatives ⁽¹⁾⁽²⁾	607.1	200.3	–	(138.8)	–	668.6	–	(668.6)	–
Dividends paid	–	–	–	–	–	–	–	(274.4)	(274.4)
Exercise of share options – purchase of shares	–	–	–	–	–	–	–	(2.8)	(2.8)
Changes arising from financing activities	50.1	48.5	–	(104.4)	(21.3)	(27.1)	0.4	(377.4)	(404.1)
Cash flows used in investing activities	–	–	–	–	–	–	–	(627.7)	(627.7)
Cash flows generated from operating activities	–	–	–	–	–	–	–	832.3	832.3
At 31 March 2019	(5,256.5)	(2,544.6)	–	327.1	82.6	(7,391.4)	(0.5)	324.6	(7,067.3)

Notes:

- (1) Where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.
- (2) During the year ended 31 March 2019, a series of cross-currency interest rate derivatives in a fair value hedge relationship settled enabling repayment of foreign currency denominated bonds. The net sterling value received in respect of these derivatives £(138.8) million is shown as a negative payment reducing the overall value of 'payments in respect of borrowings and derivatives' to better reflect the net sterling cost to the company of redeeming the bonds.



Notes to the financial statements – appendices

A3 Borrowings

Terms and debt repayment schedule

The principal economic terms and conditions of outstanding borrowings, along with fair value and carrying value, were as follows:

	Currency	Year of final repayment	Fair	Carrying	Fair	Carrying
			value	value	value	value
			2020	2020	2019	2019
Borrowings in fair value hedge relationships			2,440.0	2,590.5	2,749.3	2,765.8
4.25% 500m bond	EUR	2020	–	–	449.7	441.9
5.75% 375m bond	GBP	2022	405.1	399.4	424.5	406.2
2.0% 450m bond	GBP	2025	451.8	468.5	453.1	456.7
2.867% 320m bond	HKD	2026	33.4	35.9	31.5	32.3
2.92% 739m bond	HKD	2026	77.2	83.4	72.7	74.9
1.129% 52m bond	EUR	2027	44.2	48.6	45.2	46.0
2.37% 830m bond	HKD	2027	82.7	93.3	78.7	82.0
5.625% 300m bond	GBP	2027	380.6	398.7	390.7	393.5
5.02% JPY 10bn dual currency loan	JPY/USD	2029	94.5	106.8	92.0	99.4
2.058% 30m bond	EUR	2030	26.8	30.2	26.9	27.9
2.625% 350m bond	GBP	2031	366.4	380.5	260.0	253.0
1.641% 30m bond	EUR	2031	25.7	28.9	26.2	26.4
2.9% 600m bond	HKD	2031	62.2	67.2	58.9	56.3
1.707% 28m bond	EUR	2032	23.8	28.7	24.3	26.0
1.653% 26m bond	EUR	2032	21.9	26.2	22.3	23.7
1.70% 30m bond	EUR	2033	25.3	30.8	25.8	27.9
2.0% 50m bond	GBP	2033	51.4	53.3	–	–
5.0% 200m bond	GBP	2035	267.0	310.1	266.8	291.7
Borrowings designated at fair value through profit or loss			397.5	397.5	373.9	373.9
6.875% 400m bond	USD	2028	397.5	397.5	373.9	373.9
Borrowings measured at amortised cost			5,996.0	5,375.1	5,781.9	4,676.1
Short-term bank borrowings – fixed	GBP	2020	192.2	192.2	152.0	152.0
1.61%+RPI 50m EIB IL loan	GBP	2020	68.1	67.0	68.5	65.3
1.73%+RPI 50m EIB IL loan	GBP	2020	68.1	66.9	68.5	65.2
1.84%+RPI 50m EIB IL loan	GBP	2020	68.1	66.9	68.6	65.1
1.90%+RPI 50m EIB IL loan	GBP	2020	68.1	66.8	68.6	65.1
1.93%+RPI 50m EIB IL loan	GBP	2020	68.0	66.7	68.6	65.0
1.88%+RPI 50m EIB IL loan	GBP	2020	67.9	66.6	68.4	64.9
2.10%+RPI 50m EIB IL loan	GBP	2020	67.9	66.5	68.6	64.8
2.46%+RPI 50m EIB IL loan	GBP	2020	68.2	66.6	69.0	64.9
0.80%+LIBOR 100m loan	GBP	2022	99.7	100.0	102.6	100.0
0.47%+RPI 100m IL loan	GBP	2023	121.2	118.1	121.3	115.0
0.49%+RPI 100m IL loan	GBP	2025	118.9	113.6	120.3	110.7
0.013%+RPI 25m IL bond	GBP	2025	29.1	28.3	29.9	27.6
0.1275%+RPI 100m IL loan	GBP	2026	116.2	112.1	117.5	109.2
0.01%+RPI 20m IL bond	GBP	2028	23.1	23.6	23.4	23.2
1.23%+RPI 50m EIB (amortising) IL loan	GBP	2029	43.6	40.8	48.1	44.2
0.288%+CPI 100m IL loan	GBP	2029	110.3	101.3	–	–
1.29%+RPI 50m EIB (amortising) IL loan	GBP	2029	45.9	42.8	50.5	46.1
1.12%+RPI 50m EIB (amortising) IL loan	GBP	2029	45.3	42.5	49.7	45.7
1.10%+RPI 50m EIB (amortising) IL loan	GBP	2029	45.2	42.4	49.7	45.7
0.75%+RPI 50m EIB (amortising) IL loan	GBP	2029	46.1	43.7	50.3	46.8
0.76%+RPI 50m EIB (amortising) IL loan	GBP	2030	46.0	43.5	50.3	46.6
1.15%+RPI 50m EIB (amortising) IL loan	GBP	2030	46.6	43.4	51.0	46.5
1.11%+RPI 50m EIB (amortising) IL loan	GBP	2030	46.7	43.5	51.1	46.6
0.178%+RPI 35m IL bond	GBP	2030	42.2	39.6	43.3	38.6
0.245%+CPI 20m IL bond	GBP	2031	20.7	21.4	21.2	21.0
0.01%+RPI 38m bond	GBP	2031	43.8	44.2	44.7	43.3

A3 Borrowings continued

	Currency	Year of final repayment	Fair value	Carrying value	Fair value	Carrying value
			2020 £m	2020 £m	2019 £m	2019 £m
Borrowings measured at amortised cost (continued)						
3.375%+RPI 50m IL bond	GBP	2032	105.1	81.7	126.2	79.5
0.709%+LIBOR 100m EIB (amortising) loan	GBP	2032	71.3	75.0	81.0	81.2
0.691%+LIBOR 150m EIB (amortising) loan	GBP	2032	110.4	117.2	126.0	126.6
0.573%+LIBOR 100m EIB (amortising) loan	GBP	2033	75.5	81.3	86.4	87.5
0.511%+LIBOR 150m EIB (amortising) loan	GBP	2033	117.7	126.6	133.6	135.9
2.0% 250m bond	GBP	2033	257.0	245.7	—	—
0.01%+RPI 100m EIB (amortising) IL loan	GBP	2033	100.1	98.0	106.7	102.2
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	75.0	73.4	80.0	76.6
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	75.0	75.6	82.3	78.7
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	75.0	75.6	82.3	78.7
1.9799%+RPI 100m IL bond	GBP	2035	204.0	152.7	217.8	148.6
0.873%+LIBOR 100m EIB (amortising) loan	GBP	2035	91.3	96.9	100.6	100.0
0.840%+LIBOR 75m EIB (amortising) loan	GBP	2035	69.3	75.0	75.9	75.0
0.01%+RPI 26.5m IL bond	GBP	2036	30.3	32.8	31.7	32.3
0.379%+CPI 20m IL bond	GBP	2036	20.1	21.3	21.3	21.0
0.01%+RPI 29m IL bond	GBP	2036	32.4	33.9	34.6	33.2
0.093%+CPI 60m IL bond	GBP	2037	57.3	63.6	60.6	62.5
1.66%+RPI 35m IL bond	GBP	2037	60.5	49.0	62.9	47.7
1.75% 250m bond	GBP	2038	232.1	248.0	—	—
2.40%+RPI 70m IL bond	GBP	2039	129.6	95.5	138.0	93.0
1.7829%+RPI 100m IL bond	GBP	2040	193.5	151.1	221.9	147.0
1.3258%+RPI 50m IL bond	GBP	2041	100.7	75.4	102.9	73.4
1.5802%+RPI 100m IL bond	GBP	2042	147.3	150.6	215.5	146.6
1.5366%+RPI 50m IL bond	GBP	2043	37.9	30.1	43.6	29.2
1.397%+RPI 50m IL bond	GBP	2046	94.2	75.3	109.3	73.3
0.359%+CPI 32m IL bond	GBP	2048	28.2	33.5	32.3	32.9
1.7937%+RPI 50m IL bond	GBP	2049	97.1	75.0	122.9	72.9
Commission for New Towns (amortising) loan – fixed	GBP	2053	50.7	26.8	54.6	27.4
1.847%+RPI 100m IL bond	GBP	2056	194.6	147.7	229.9	143.9
1.815%+RPI 100m IL bond	GBP	2056	188.8	147.1	228.0	143.3
1.662%+RPI 100m IL bond	GBP	2056	186.1	146.8	221.6	143.0
1.5865%+RPI 50m IL bond	GBP	2056	92.8	73.4	109.3	71.5
1.591%+RPI 25m IL bond	GBP	2056	46.3	36.6	54.6	35.6
1.556%+RPI 50m IL bond	GBP	2056	92.4	73.0	108.8	71.1
1.435%+RPI 50m IL bond	GBP	2056	90.0	72.7	106.1	70.8
1.3805%+RPI 35m IL bond	GBP	2056	62.3	50.9	73.5	49.6
1.585%+RPI 100m IL bond	GBP	2057	284.1	141.3	215.3	137.6
0.387%+CPI 33m IL bond	GBP	2057	26.7	34.2	32.3	33.6
1.702%+RPI 50m IL bond	GBP	2057	93.6	71.3	111.2	69.4
Book overdrafts (see note 16)	GBP	2020	14.9	14.9	14.7	14.7
Lease liabilities	GBP	various	57.6	57.6	—	—
			8,833.5	8,363.1	8,905.1	7,815.8

IL Index-linked debt – this debt is adjusted for movements in the Consumer or Retail Prices Indices with reference to a base CPI or RPI established at trade date.

CPI The UK general index of consumer prices (for all items) as published by the Office for National Statistics (May 2015 = 100).

RPI The UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987 = 100).

EIB Borrowings that are held with the European Investment Bank.

Borrowings in the above table are unsecured. Funding raised in foreign currencies is swapped to sterling to match funding costs to income and assets.

During the year, the group issued a further £100 million fixed rate notes in addition to the £250 million fixed rate notes issued in the prior year. These notes were issued under the same terms with year of final repayment being 2031 and coupon rate of 2.625 per cent.

Notes to the financial statements – appendices

A4 Financial risk management

Risk management

The board is responsible for treasury strategy and governance, which is reviewed on an annual basis.

The treasury committee, a subcommittee of the board, has responsibility for setting and monitoring the group's adherence to treasury policies, along with oversight in relation to the activities of the treasury function.

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. These policies are reviewed by the treasury committee for approval on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. An operational compliance report is provided monthly to the treasury committee, which details the status of the group's compliance with the treasury policies and highlights the level of risk against the appropriate risk limits in place.

The group's treasury function does not act as a profit centre and does not undertake any speculative trading activity.

Liquidity risk

The group looks to manage its liquidity risk by maintaining liquidity within a board-approved duration range. Liquidity is actively monitored by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2020, the group had £1,208.1 million (2019: £1,039.3 million) of available liquidity, which comprised £528.1 million (2019: £339.3 million) of cash and short-term deposits and £680.0 million (2019: £700.0 million) of undrawn committed borrowing facilities.

The group had available committed borrowing facilities as follows:

Group		2020 £m	2019 £m
Expiring within one year		50.0	100.0
Expiring after one year but in less than two years		100.0	50.0
Expiring after more than two years		650.0	650.0
Total borrowing facilities		800.0	800.0
Facilities drawn ⁽¹⁾		(120.0)	(100.0)
Undrawn borrowing facilities		680.0	700.0

Note:

(1) Facilities expiring after more than two years.

These facilities are arranged on a bilateral rather than a syndicated basis, which spreads the maturities more evenly over a longer time period, thereby reducing the refinancing risk by providing several renewal points rather than a large single refinancing point.

Company

The company did not have any committed facilities available at 31 March 2020 or 31 March 2019.

Maturity analysis

Concentrations of risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the group's financial liabilities on an undiscounted basis. Derivative cash flows have been shown net where there is a contractual agreement to settle on a net basis; otherwise the cash flows are shown gross. This table does not include the impact of lease liabilities for which the maturity profile on an undiscounted basis has been disclosed in note 18.

Group At 31 March 2020	Total ⁽¹⁾ £m	Adjust- ment ⁽²⁾ £m	1 year or less £m					More than 5 years £m		
			1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	5 years £m			
Bonds	10,685.2		144.3	520.4	124.9	126.0	577.2	9,192.4		
Bank and other term borrowings	2,894.9		884.9	122.0	352.1	122.7	255.8	1,157.4		
Adjustment to carrying value ⁽²⁾	(5,274.6)	(5,274.6)								
Borrowings	8,305.5	(5,274.6)	1,029.2	642.4	477.0	248.7	833.0	10,349.8		
Derivatives:										
Payable	952.7		67.4	45.7	41.8	38.2	35.4	724.2		
Receivable	(1,508.6)		(105.7)	(90.2)	(116.9)	(82.6)	(165.3)	(947.9)		
Adjustment to carrying value ⁽²⁾	82.3	82.3								
Derivatives – net assets	(473.6)	82.3	(38.3)	(44.5)	(75.1)	(44.4)	(129.9)	(223.7)		

A4 Financial risk management continued

Group At 31 March 2019	Total ⁽¹⁾ £m	Adjust- ment ⁽²⁾ £m	1 year or less £m		1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	10,174.4		583.4		129.1	504.9	109.2	110.1	8,737.7
Bank and other term borrowings	3,008.0		293.3		680.4	125.1	356.1	125.4	1,427.7
Adjustment to carrying value ⁽²⁾	(5,366.6)	(5,366.6)							
Borrowings	7,815.8	(5,366.6)	876.7		809.5	630.0	465.3	235.5	10,165.4
Derivatives:									
Payable	1,389.0		510.2		43.7	36.6	32.6	30.1	735.8
Receivable	(1,825.0)		(607.0)		(71.5)	(70.2)	(93.8)	(64.7)	(917.8)
Adjustment to carrying value ⁽²⁾	26.8	26.8							
Derivatives – net assets	(409.2)	26.8	(96.8)		(27.8)	(33.6)	(61.2)	(34.6)	(182.0)

Notes:

- (1) Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year end and are therefore susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be 3 per cent and CPI will be 2 per cent over the life of each instrument.
- (2) The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £57.6 million (2019: £nil) of lease liabilities.

Company

The company has total borrowings of £0.8 million (2019: £0.5 million), which are payable within one year, and £1,752.0 million (2019: £1,718.4 million), which are payable within one to two years.

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash and holding of derivative instruments). While the opening of the non-household retail market to competition from 1 April 2017 has impacted on the profile of the group's concentration of credit risk, as discussed further below, the group does not believe it is exposed to any material concentrations that could have an impact on its ability to continue as a going concern or its longer-term viability.

The group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables from household customers are limited due to the customer base being comprised of a large number of unrelated households. However, collection can be challenging as the Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises, including domestic dwellings.

Following the non-household retail market opening to competition, credit risk in this area is now concentrated in a small number of retailers to whom the group provides wholesale water and wastewater services. Retailers are licensed and monitored by Ofwat and as part of the regulations they must demonstrate that they have adequate resources available to supply services. The credit terms for the group's retail customers are set out in market codes. In reaction to the impact of the COVID-19 pandemic, changes have been made to the payment terms set out within the market codes. These changes provide the option for extended credit terms for retailers. As at 31 March 2020, Water Plus was the group's single largest debtor, with amounts outstanding in relation to wholesale services of £52.7 million (2019: £39.1 million). During the year, sales to Water Plus in relation to wholesale services were £438.3 million (2019: £454.8 million). Details of transactions with Water Plus can be found in note A6.

Under the group's revenue recognition policy, revenue is only recognised when collection of the resulting receivable is reasonably assured. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 15).

The group manages its credit risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra-day gross settlement of cash flows. In addition, potential derivative exposure limits are established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit.

Credit limits are refreshed annually and reviewed in the event of any credit rating action. Additionally, a control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

Notes to the financial statements – appendices

A4 Financial risk management continued

At 31 March 2020 and 31 March 2019, 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	
	2020 £m	2019 £m	2020 £m	2019 £m
Cash and short-term deposits (see note 16)	528.1	339.3	–	–
Trade and other receivables (see note 15)*	342.9	397.6	81.3	82.2
Investments (see note 13)	0.1	11.5	–	–
Derivative financial instruments	617.9	489.1	–	–
	1,489.0	1,237.5	81.3	82.2

* Included within trade and other receivables is £95.0 million of amounts owed by joint ventures in respect of borrowings, further details of which are disclosed in note A6.

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2020, the group held £72.2 million (2019: £52.0 million) as collateral in relation to derivative financial instruments (included within short-term bank borrowings – fixed in note A3).

Market risk

The group's exposure to market risk primarily results from its financing arrangements and the economic return which it is allowed on the regulatory capital value (RCV).

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

Inflation risk

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV.

In the year to 31 March 2020, the group's regulatory assets were linked to RPI inflation; however, for the 2020–25 regulatory period, from 1 April 2020 the group's RCV will be 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 expected to remain weighted towards RPI-linked form until CPI and/or CPIH debt and swaps become available in sufficient size at an economic cost.

The group believes this is an appropriate inflation hedging policy taking into account a balanced assessment of the following factors: economic hedge of United Utilities Water Limited's (UUW) RCV and revenues; cash flow timing mismatch between allowed cost of debt and the group's incurred cost of debt; the inflation risk premium that is generally incorporated into nominal debt costs; income statement volatility; hedging costs; debt maturity profile mismatch risk; and index-linked hedging positioning relative to the water sector.

As a result of the evaluation of the above factors, the group will continue to identify opportunities to maintain around 50 per cent of the group's net debt being hedged for inflation, which can be evidenced by issuing of CPI index-linked debt since 2017 and the swapping of both nominal and RPI-linked debt to CPI since 2018. 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 £4,082.2 million at 31 March 2020 (2019: £3,775.8 million).

Sensitivity analysis

The following table details the sensitivity of profit before tax to changes in the RPI and CPI on the group's index-linked borrowings. The sensitivity analysis has been based on the amount of index-linked debt held at the reporting date and, as such, is not indicative of the years then ended. In addition, it excludes the impact of inflation on revenues and other income statement costs as well as the hedging aspect of the group's regulatory assets and post-retirement obligations.

	2020 £m	2019 £m
Increase/(decrease) in profit before tax and equity		
1% increase in RPI/CPI	(39.6)	(38.2)
1% decrease in RPI/CPI	39.6	38.2

The sensitivity analysis assumes a 1 per cent change in RPI and CPI having a corresponding 1 per cent impact on this position over a 12-month period. It should be noted, however, that there is a time lag by which current RPI and CPI changes impact on the income statement, and the analysis does not incorporate this factor. The portfolio of index-linked debt is calculated on either a three- or eight-month lag basis. Therefore, at the reporting date the index-linked interest and principal adjustments impacting the income statement are fixed and based on the annual RPI or CPI change either three or eight months earlier.

Company

The company had no material exposure to inflation risk at 31 March 2020 or 31 March 2019.

A4 Financial risk management continued

Interest rate risk

The group's policy is to structure debt in a way that best matches its underlying assets and cash flows. The group currently earns an economic return on its RCV, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV (see inflation risk section for changes being introduced by Ofwat to inflation indexation from 2020).

From 1 April 2020 for the regulatory period to 2025, Ofwat has continued to set a fixed real cost of debt in relation to embedded debt (80 per cent of net debt), but has introduced a debt indexation mechanism in relation to new debt (20 per cent of net debt), where the allowed rate on new debt will vary in line with specific debt indices. The debt indexation mechanism will be settled as an end of regulatory period adjustment.

Therefore, sterling index-linked debt is left unswapped at inception, in accordance with our inflation hedging policy goal to maintain around half of the group's net debt in index-linked form. Conventional nominal debt is hedged as set out below.

Where conventional long-term debt is raised in a fixed-rate form, to manage exposure to long-term interest rates, the debt is generally swapped at inception to create a floating rate liability for the term of the liability through the use of interest rate swaps. These instruments are typically designated within a fair value accounting hedge.

To manage the exposure to medium-term interest rates, the group fixes underlying interest rates on nominal debt out to 10 years in advance on a reducing balance basis. As such, at the start of each regulatory period, a proportion of the projected nominal net debt representing new debt for that regulatory period, will remain floating until it is fixed via the above 10-year reducing balance basis, which should approximate Ofwat's new debt indexation mechanism.

This interest rate hedging policy dovetails with our revised inflation hedging policy should we need to swap a portion of nominal debt to real rate form to maintain our desired mix of nominal and index-linked debt.

The group seeks to manage its risk by maintaining its interest rate exposure within a board-approved range. Interest rate risk is reported to the treasury committee through the operational compliance report.

Sensitivity analysis

The following table details the sensitivity of the group's profit before tax and equity to changes in interest rates. The sensitivity analysis has been based on the amount of net debt and the interest rate hedge positions in place at the reporting date and, as such, is not indicative of the years then ended.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Increase/(decrease) in profit before tax and equity				
1% increase in interest rate	122.7	130.2	(17.5)	(17.2)
1% decrease in interest rate	(131.0)	(141.3)	17.5	17.2

The sensitivity analysis assumes that both fair value hedges and borrowings designated at fair value through profit or loss are effectively hedged and it excludes the impact on post-retirement obligations. The exposure largely relates to fair value movements on the group's fixed interest rate swaps which manage the exposure to medium-term interest rates. Those swaps are not included in hedge relationships.

Hedge accounting

Details regarding the interest rate swaps designated as hedging instruments to manage interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	–	375.0	450.0	900.0
Average contracted fixed interest rate %	–	1.98	1.36	2.49

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average for the fixed interest elements of the swaps disclosed.

Further detail on the fair value hedging relationships is provided below:

Risk exposure	Nominal amount of the hedging instruments £m	Carrying amount of the hedging instruments £m	Accumulated fair value (gains)/losses on hedged items £m	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2020 ⁽¹⁾		Hedge ineffectiveness recognised in the income statement	Nominal amount of hedging instruments directly impacted by IBOR reform £m
				Hedged items £m	Hedging instruments £m		
Interest rate risk on borrowings	1,725.0	285.6	287.4	50.6	(50.1)	0.5	1,675.0

Note:

- (1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and changes in credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Notes to the financial statements – appendices

A4 Financial risk management continued

Currency risk

Currency exposure principally arises in respect of funding raised in foreign currencies. To manage exposure to currency rates, foreign currency debt is hedged into sterling through the use of cross-currency swaps and these are often designated within a fair value accounting hedge. The group seeks to manage its risk by maintaining currency exposure within board-approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report. The group and company have no material net exposure to movements in currency rates.

Hedge accounting

Details regarding the cross-currency interest rate swaps designated as hedging instruments to manage currency and interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	–	–	–	442.8
Average contracted fixed interest rate %	–	–	–	2.46

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average for the fixed interest rate elements of the swap disclosed.

Further detail on the fair value hedging relationships is provided below:

Risk exposure	Nominal amount of the hedging instruments £m	Carrying amount of the hedging instruments £m	Accumulated fair value (gains)/losses on hedged items £m	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2020 ⁽¹⁾		Hedge ineffectiveness recognised in the income statement £m	Nominal amount of hedging instruments directly impacted by IBOR reform £m
				Hedged items £m	Hedging instruments £m		
Foreign currency and interest rate risk on borrowings	442.8	125.8	132.8	(36.5)	35.6	1.0	442.8

Note:

(1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and changes in credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Interest rate benchmark reform

Globally, financial regulators are requiring that market participants cease using certain financial market benchmark reference rates (i.e. interbank offered rates, IBORs), and transition to the use of alternative nearly risk-free rate such as the Sterling Overnight Index Average (SONIA). The IASB have amended IFRS 9 'Financial Instruments', providing temporary exceptions from applying specific hedge accounting requirements in cases where hedging relationships are directly impacted by the IBOR reform. The temporary exception allows the group to assume that the economic relationship between the hedged debt and hedging derivatives remains in place, despite the uncertainties around this process. Uncertainties include whether market wide mechanisms will be available to replace references to IBORs with relevant alternative reference rates plus a spread adjustment (e.g. the expected ISDA protocol for derivatives) or whether bilateral amendments to financial instruments will need to be negotiated with each counterparty, the timing of when the IBORs will be replaced with alternative benchmark rates and how and when the spread adjustment between the IBORs and the alternative rate will be determined. This exception will be applied until the uncertainty surrounding the IBOR reform has ended, and we have judged that this uncertainty remains in place at 31 March 2020.

The London Inter-bank Offered Rate (LIBOR) is the interest rate benchmark to which the group's hedging relationships are significantly exposed. The majority of fair value hedging relationships, mitigating interest rate risk and/or currency risk, are directly affected by the reform. The amount of debt held as hedged items in these relationships is £1,675 million of fixed rate debt and £443 million of cross-currency fixed rate debt. Further detail on how the group manages these risks can be found in the interest rate risk sections of this note.

In calculating the fair value attributable to the hedged risk for the fixed rate debt, the group has assumed that once the hedging instruments transition to the alternative risk-free rate, the alternative risk-free rate plus spread will be economically equivalent to the pre-transition LIBOR currently included in the hedging instruments, and no other changes to the terms of the hedging instrument will occur.

A transition project is being undertaken to manage and respond to all aspects of IBOR reform across the business. This will encompass:

- › the amendment of existing financial instrument contracts that reference IBORs, including swaps, European Investment Bank floating rate debt, bilateral loan agreements, intercompany borrowings and committed lending facilities
- › the adoption of alternative reference rates for new financial instruments;
- › the accounting impact, covering the amendment of hedge documentation, enhanced disclosure requirements and the valuation of financial instruments; and
- › ensuring appropriate system capabilities are developed and implemented.

The group proactively monitors market developments and announcements relating to IBOR reform, and will seek to ensure that the risk of the group being economically disadvantaged by the proposed changes is minimised by ensuring that appropriate actions are taken on a timely basis. During the year ending 31 March 2020, the group has entered into a number of financial instruments that reference alternative reference rates (SONIA).

A4 Financial risk management continued

The IASB published an exposure draft relating to phase 2 of the proposed IFRS Standards amendments in April 2020. These proposed amendments aim to address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform. The group is actively considering the amendments proposed.

Repricing analysis

The following tables categorise the group's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group's exposure to floating interest rate risk.

Our largest concentration of floating interest rate risk is with index-linked instruments. This has been classified as repricing in one year or less due to the refixing of the interest charge with changes in RPI and CPI.

Group At 31 March 2020	Total £m	1 year or					More than 5 years	
		less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	5 years £m	
Borrowings in fair value hedge relationships								
Fixed rate instruments	2,590.5	—	399.4	—	—	468.5	1,722.6	
Effect of swaps	—	2,590.5	(399.4)	—	—	(468.5)	(1,722.6)	
	2,590.5	2,590.5	—	—	—	—	—	—
Borrowings designated at fair value through profit or loss								
Fixed rate instruments	397.5	—	—	—	—	—	397.5	
Effect of swaps	—	397.5	—	—	—	—	(397.5)	
	397.5	397.5	—	—	—	—	—	—
Borrowings measured at amortised cost								
Fixed rate instruments	770.3	193.2	1.0	1.1	0.7	0.8	573.5	
Floating rate instruments	686.9	686.9	—	—	—	—	—	—
Index-linked instruments	3,917.9	3,917.9	—	—	—	—	—	—
	5,375.1	4,798.0	1.0	1.1	0.7	0.8	573.5	
Effect of fixed interest rate swaps	—	(2,382.3)	50.0	164.5	575.0	350.0	1,242.8	
Total borrowings	8,363.1	5,403.7	51.0	165.6	575.7	350.8	1,816.3	
Cash and short-term deposits	(528.1)	(528.1)	—	—	—	—	—	—
Net borrowings	7,835.0	4,875.6	51.0	165.6	575.7	350.8	1,816.3	

At 31 March 2019	Total £m	1 year or					More than 5 years	
		less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	5 years £m	
Borrowings in fair value hedge relationships								
Fixed rate instruments	2,765.8	441.9	—	406.2	—	—	—	1,917.7
Effect of swaps	—	2,323.9	—	(406.2)	—	—	—	(1,917.7)
	2,765.8	2,765.8	—	—	—	—	—	—
Borrowings designated at fair value through profit or loss								
Fixed rate instruments	373.9	—	—	—	—	—	—	373.9
Effect of swaps	—	373.9	—	—	—	—	—	(373.9)
	373.9	373.9	—	—	—	—	—	—
Borrowings measured at amortised cost								
Fixed rate instruments	179.4	152.6	0.6	0.7	0.7	0.7	24.1	
Floating rate instruments	720.9	720.9	—	—	—	—	—	—
Index-linked instruments	3,775.8	3,775.8	—	—	—	—	—	—
	4,676.1	4,649.3	0.6	0.7	0.7	0.7	24.1	
Effect of fixed interest rate swaps	—	(2,330.9)	148.5	50.0	164.5	575.0	1,392.9	
Total borrowings	7,815.8	5,458.1	149.1	50.7	165.2	575.7	1,417.0	
Cash and short-term deposits	(339.3)	(339.3)	—	—	—	—	—	—
Net borrowings	7,476.5	5,118.8	149.1	50.7	165.2	575.7	1,417.0	

Company		2020		2019	
		Total £m	1 year or less £m	Total £m	1 year or less £m
Borrowings measured at amortised cost					
Floating rate instruments		1,752.0	1,752.0	1,718.4	1,718.4
Total borrowings		1,752.0	1,752.0	1,718.4	1,718.4

Notes to the financial statements – appendices

A4 Financial risk management continued

Electricity price risk

The group is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flows. The group's policy, therefore, is to manage this risk by fixing a proportion of electricity commodity prices in a cost-effective manner. The group has fixed the price on a proportion of its anticipated net electricity usage out to the end of the regulatory period from 2020 to 2025, partially through entering into electricity swap contracts.

Hedge accounting

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:

Risk exposure	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2020		Hedge ineffectiveness recognised in the income statement	Cash flow hedge reserve £m	Amount reclassified from the cash flow hedge reserve to the income statement £m
			£m	£m			
Electricity price risk	44.9	(2.2)		2.0	–	(1.3)	5.6

Due to the relative low value of the electricity swaps in comparison to that of the derivative portfolio, no maturity profile and fixed price breakdown has been disclosed.

Capital risk management

The group's objective when managing capital is to maintain efficient access to debt capital markets throughout the economic cycle. The board therefore believes that it is appropriate to maintain RCV gearing, measured as group consolidated net debt (including derivatives) to regulatory capital value (RCV) of UUW, within a target range of 55 per cent to 65 per cent. As at 31 March 2020, RCV gearing was within the range at 62 per cent (2019: 61 per cent).

Assuming no significant changes to existing rating agencies' methodologies or sector risk assessments, the group aims to maintain long-term issuer credit ratings for UUW of at least A3 with Moody's Investors Service (Moody's) and BBB+ with S&P Global (S&P) and a senior unsecured debt rating for UUW of at least A- with Fitch Ratings (Fitch). Debt issued by UUW's financing subsidiary, United Utilities Water Finance PLC, is guaranteed by UUW and is therefore rated in line with UUW.

In order to maintain its targeted credit ratings, the group needs to manage its capital structure with reference to the ratings methodology and measures used by Moody's, S&P and Fitch. The ratings methodology is normally based on a number of key ratios (such as RCV gearing, adjusted interest cover, post maintenance interest cover (PMICR) and Funds from Operations (FFO) to debt) and threshold levels as updated and published from time to time by Moody's, S&P and Fitch. The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit ratings agencies to determine a corporate's credit rating, within the thresholds approved by the board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies.

A4 Financial risk management continued

Fair values

The table below sets out the valuation basis of financial instruments held at fair value and financial instruments where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2020				
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	–	395.7	–	395.7
Derivative financial assets – held for trading ⁽¹⁾	–	222.0	–	222.0
Derivative financial assets – cash flow hedge	–	0.2	–	0.2
Investments	–	0.1	–	0.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	–	–	–	–
Derivative financial liabilities – held for trading ⁽¹⁾	–	(141.9)	–	(141.9)
Derivative financial liabilities – cash flow hedge	–	(2.4)	–	(2.4)
Financial liabilities designated as fair value through profit or loss	–	(397.5)	–	(397.5)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(1,981.5)	(458.5)	–	(2,440.0)
Other financial liabilities at amortised cost	(199.9)	(5,796.1)	–	(5,996.0)
	(2,181.4)	(6,178.4)	–	(8,359.8)
2019	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	–	329.4	–	329.4
Derivative financial assets – held for trading ⁽¹⁾	–	158.5	–	158.5
Derivative financial assets – cash flow hedge	–	1.2	–	1.2
Investments	–	11.5	–	11.5
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	–	(2.3)	–	(2.3)
Derivative financial liabilities – held for trading ⁽¹⁾	–	(75.9)	–	(75.9)
Derivative financial liabilities – cash flow hedge	–	(1.7)	–	(1.7)
Financial liabilities designated as fair value through profit or loss	–	(373.9)	–	(373.9)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(2,316.9)	(432.4)	–	(2,749.3)
Other financial liabilities at amortised cost	(680.9)	(5,101.0)	–	(5,781.9)
	(2,997.8)	(5,486.6)	–	(8,484.4)

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 £221.9 million (2019: £151.3 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 £2,181.4 million (2019: £2,997.8 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 £816.4 million decrease (2019: £1,620.2 million decrease) in 'level 1' fair value measurements is largely due to a decrease in the number of observable quoted bond prices in active markets at 31 March 2020.

During the year, changes in the fair value of financial liabilities designated at fair value through profit or loss resulted in a £23.6 million gain (2019: £26.2 million loss). Included within this was a £34.2 million gain (2019: £6.6 million gain) attributable to changes in own credit risk, recognised in other comprehensive income. The cumulative amount due to changes in credit spread was £79.0 million profit (2019: £44.8 million profit). The carrying amount is £171.4 million (2019: £147.8 million) higher than the amount contracted to settle on maturity.

Company

The company does not hold any financial instruments that are measured subsequent to initial recognition at fair value or where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

Notes to the financial statements – appendices

A5 Retirement benefits

Defined benefit schemes

The group participates in two major funded defined benefit pension schemes in the United Kingdom – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS), both of which are closed to new employees. The assets of these schemes are held in trust funds independent of the group's finances.

The trustees are composed of representatives of both the employer and employees. The trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

During April 2018, the majority of active members in the defined benefit sections of the UUPS transitioned to a hybrid section comprising both defined benefit and defined contribution elements. Pension benefits relating to pensionable service before 1 April 2018 were unaffected by the changes. This transition was a consequence of an increase in future service costs and was intended to reduce the overall costs and risk to the group while balancing the interests of employees by maintaining an element of defined benefit pension provision.

The group operates a series of historic unfunded, unregistered retirement benefit schemes. The costs of these schemes are included in the total pension cost, on a basis consistent with IAS 19 'Employee Benefits' and the assumptions set out below.

Under the schemes, employees are entitled to annual pensions on retirement. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Information about the pension arrangements for executive directors is contained in the directors' remuneration report.

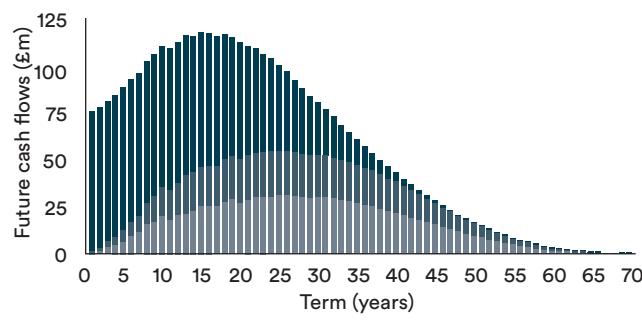
The defined benefit obligation includes benefits for current employees, former employees and current pensioners as analysed in the table below:

Group	2020 £m	2019 £m
Total value of current employees benefits	665.6	754.3
Deferred members benefits	521.9	651.4
Pensioner members benefits	1,870.1	2,019.5
Total defined benefit obligation	3,057.6	3,425.2

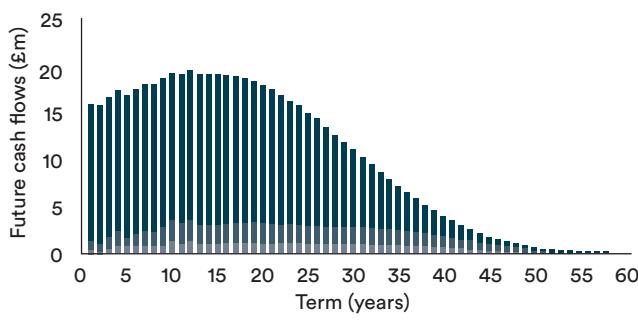
The duration of the combined schemes is around 17 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

The estimated profile of cash flows out of the schemes as retirement benefits are paid is as follows:

UUPS



ESPS



A5 Retirement benefits continued

Funding requirements

The latest finalised funding valuations of the schemes were carried out by independent qualified actuaries as at 31 March 2018, earlier than originally planned due to the aforementioned changes to the pension scheme, and determined that the schemes were both in a deficit position on a funding basis. The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19, with liabilities on a funding basis being subject to assumptions at the valuation date that are not updated between revaluations. Funding deficits vary significantly from company to company, but neither the deficits, the assumptions on which they are based, the associated sensitivities, nor the risk exposures are disclosed by many companies and, therefore, meaningful cross-company comparisons are not possible. Conversely, scheme liabilities are valued on a consistent basis between companies under IAS 19 and are subject to assumptions and sensitivities that are required to be disclosed. Consequently, the relative economic positions of companies are comparable only on an IAS 19 basis, subject to normalisation of assumptions used between companies.

A retirement benefit surplus was recognised as an asset at both 31 March 2020 and 31 March 2019 as, under both the UUPS and ESPS scheme rules, the group has an unconditional right to a refund of the surplus assuming the full settlement of the plans' liabilities in a single event, such as a scheme wind-up.

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. The group had plans in place with the schemes' trustees to address the funding deficits by 31 December 2021 for the UUPS and 30 September 2024 for the ESPS, through a series of deficit recovery contributions. This timescale has been accelerated, with accelerated deficit repair contributions of £97.6 million and £5.4 million made to the UUPS and ESPS respectively in April 2019. These payments represent the final acceleration of deficit repair contributions set out in the schedules of contributions agreed with the schemes' trustees as part of the 31 March 2018 valuation process, and reduce the deficit repair contributions payable, due from the company, to £nil.

As the 2018 valuation basis was consistent with a long-term target for self-sufficiency, the expectation is that the pension schemes will be fully funded on a low dependency basis without additional contributions from the company.

The group and trustees have agreed long-term strategies for reducing investment risk in each scheme. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets, such as corporate bonds and gilts, supplemented by swap and gilt long-term hedges of interest and inflation rates, which perform in line with the liabilities so as to hedge against changes in interest and inflation rates.

In addition, in the year ended 31 March 2020, the investment and risk management strategy continued to evolve with both UUPS and ESPS now fully hedging inflation exposure through external market swaps and gilts. Further details of the derivatives used in reducing investment risk are disclosed in the 'Further reporting analysis' section of this appendix.

The group expects to make further contributions of £7.7 million in the year ending 31 March 2021, £6.4 million and £0.9 million in respect of current service contributions to UUPS and ESPS respectively, and £0.4 million in respect of expenses to the ESPS.

The schemes' funding plans are reviewed regularly, and the next funding valuation for UUPS and ESPS is due no later than 31 March 2021.

Impact of scheme risk management on IAS 19 disclosures

Under the prescribed IAS 19 basis, pension scheme liabilities are calculated based on current accrued benefits. Expected cash flows are projected forward allowing for RPI and CPI and the current member mortality assumptions. These projected cash flows are then discounted by a high-quality corporate bond rate, which comprises an underlying interest rate and a credit spread.

The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and the forecast RPI and CPI. Both UUPS and ESPS are now fully hedging inflation exposure along with underlying interest rates through external market swaps and gilts, the value of which is included in the schemes' assets.

Consequently, the reported statement of financial position under IAS 19 remains volatile due to changes in credit spread which have not been hedged, primarily due to the difficulties in doing so over long durations, and changes in mortality as management has decided, at the current time, not to hedge this exposure due to its lower volatility in the short term and the relatively high hedging costs.

In contrast, the schemes' specific funding bases, which formed the basis for regular deficit repair contributions, are unlikely to suffer from significant volatility due to credit spread, because a prudent, fixed credit spread assumption is applied.

Pension benefits under the defined benefit element of the new UUPS hybrid section, that became effective for pensionable service from 1 April 2018, are linked to CPI rather than RPI.

In the year ended 31 March 2020, the discount rate decreased by 0.1 per cent (2019: 0.2 per cent decrease), which includes a 0.7 per cent increase in credit spreads and a 0.8 per cent decrease in gilt yields over the year. The IAS 19 remeasurement gain of £154.6 million (2019: £73.0 million) reported in note 19 has largely resulted from an increase in credit spreads during the year. The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement gain recognised on an IAS 19 accounting basis as the discount rate used for valuing obligations utilises a fixed credit spread assumption.

Guaranteed Minimum Pensions (GMP) equalisation

On 26 October 2018, the High Court issued its ruling in a landmark case involving Lloyds Banking Group on GMP. The implication of the ruling is that GMP will be equalised for males and females. The impact of GMP equalisation under the chosen C2 method of calculation is £5.5 million (0.2 per cent of liability) for the UUPS and £1.1 million (0.3 per cent of liability) for the ESPS, resulting in an overall increase in the prior year pension liability of £6.6 million as a result of additional benefits being recognised, with a corresponding amount recorded in past service costs in the income statement. Any future true-up costs will be accounted for in other comprehensive income as a change in management estimate.

Notes to the financial statements – appendices

A5 Retirement benefits continued

Reporting and assumptions

The results of the latest funding valuations at 31 March 2018 have been adjusted for IAS 19 in order to assess the position at 31 March 2020, by taking account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs, were measured using the projected unit credit method.

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuations as at 31 March 2018 for both UUPS and ESPS.

Financial assumptions

The main financial and demographic assumptions used by the actuary to calculate the defined benefit surplus of UUPS and ESPS are outlined below:

Group	2020 % p.a.	2019 % p.a.
Discount rate	2.30	2.40
Pension increases	2.80	3.45
Pensionable salary growth:		
ESPS	2.80	3.45
UUPS	1.60	2.05
Price inflation – RPI	2.80	3.45
Price inflation – CPI	1.60	2.05

The discount rate is consistent with a high-quality corporate bond rate, with 2.30 per cent being equivalent to gilts plus 160 basis points (31 March 2019: 2.40 per cent being equivalent to gilts plus 90 basis points).

In September 2019, the Chancellor of the Exchequer highlighted the UK Statistics Authority's proposals to change RPI to align with CPIH (Consumer Pricing Index, including housing costs). The Chancellor commented that any change would not be made before 2025 and possibly not until 2030. At the March 2020 budget, the Chancellor launched a public consultation on these proposals which is due to close in August 2020. To provide an indication of the differential between RPI and CPIH, broadly CPIH increases are expected to average around 1 per cent p.a. below RPI in the long-term (about the same as CPI), so this change could have a significant impact on many pension schemes. A reduction in RPI will result in a reduction to pension scheme liabilities; however, as our pension schemes are hedged for RPI inflation this will also result in a comparable reduction to pension scheme assets.

Demographic assumptions

At both 31 March 2020 and 31 March 2019, mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA year of birth tables, with a scaling factor of 106 per cent and 109 per cent for male pensioners and non-pensioners respectively and 104 per cent and 105 per cent for female pensioners and non-pensioners respectively, reflecting actual mortality experience. At 31 March 2020, mortality in retirement is based on CMI 2019 (2019: CMI 2018) long-term improvement factors, with a long-term annual rate of improvement of 1.50 per cent (2019: 1.50 per cent). The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

Group	2020 years	2019 years
Retired member – male	26.6	26.4
Non-retired member – male	27.7	27.5
Retired member – female	28.9	28.6
Non-retired member – female	30.2	30.0

Sensitivity of the key scheme assumptions

The measurement of the group's defined benefit surplus is sensitive to changes in key assumptions, which are described above. The sensitivity calculations presented below allow for the specified movement in the relevant key assumption, while all other assumptions are held constant.

This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted.

- **Asset volatility** – If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long term, create volatility in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.
- **Discount rate** – An increase/decrease in the discount rate of 0.25 per cent would have resulted in a £132.8 million (2019: £73.2 million, based on an increase/decrease of 0.1 per cent) decrease/increase in the schemes' liabilities at 31 March 2020, although as long as credit spreads remain stable this will be largely offset by an increase/decrease in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on high-quality corporate bond yields of a similar duration to the schemes' liabilities.
- **Price inflation** – An increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £124.5 million (2019: £68.4 million, based on an increase/decrease of 0.1 per cent) increase/decrease in the schemes' liabilities at 31 March 2020, as a significant proportion of the schemes' benefit obligations are linked to inflation. However, nearly all of the schemes' liabilities were hedged for RPI in the external market at 31 March 2020, 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.

A5 Retirement benefits continued

- › Mortality long-term improvement rate – An increase in the mortality long-term improvement rate to 1.75 per cent would have resulted in a £31.1 million decrease in the schemes' liabilities at 31 March 2020.
- › Life expectancy – An increase/decrease in life expectancy of one year would have resulted in a £116.6 million (2019: £137.1 million) increase/decrease in the schemes' liabilities at 31 March 2020. 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.

Further reporting analysis

At 31 March, the fair values of the schemes' assets recognised in the statement of financial position were as follows:

Group	Schemes' assets %	2020		Schemes' assets %	2019
		£m		£m	
Equities	–	–		–	0.8
Non-equity growth assets	9.3	356.4		7.7	302.5
Gilts	47.1	1,795.8		33.5	1,310.2
Bonds	48.0	1,828.1		46.2	1,805.8
Other	(4.4)	(168.6)		12.6	489.8
Total fair value of schemes' assets	100.0	3,811.7		100.0	3,909.1
Present value of defined benefit obligations		(3,057.6)			(3,425.2)
Net retirement benefit surplus			754.1		483.9

The fair values in the table above are all based on quoted prices in an active market or observable inputs, with the exception of £232.1 million (2019: £203.8 million) of assets included in 'Other', which fall within the 'Level 3' fair value categorisation in accordance with IFRS 13 'Fair Value Measurement'. The fair value of these assets has been estimated based on the latest available observable prices, updated with reference to movements in comparable observable indices to the reporting date, and adjusted for judgements to reflect differences in the liquidity and credit components of the asset pricing. Judgement is required in estimating the fair value of these assets, with the values estimated to fall within a range of £219 million and £245 million.

The assets, in respect of UUPS, included in the table above, have been allocated to each asset class based on the return the assets are expected to achieve as UUPS has entered into a variety of derivative transactions to change the return characteristics of the physical assets held in order to reduce undesirable market and liability risks. As such, the breakdown shown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

The portfolio contains a proportion of assets set aside for collateral purposes linked to the derivative contracts entered into, as described above. The collateral portfolio, comprising cash and eligible securities readily convertible to cash, provides sufficient liquidity to manage the derivative transactions and is expected to achieve a return in excess of LIBOR.

The fair value of derivatives included within pension scheme asset classification are analysed as follows:

Group	Underlying assets £m	Fair value of derivatives £m	Combined £m
At 31 March 2020			
Equities	–	–	–
Non-equity growth assets	356.4	–	365.4
Gilts	1,795.8	–	1,795.8
Bonds	1,865.0	(36.9)	1,828.1
Other	330.0	(498.6)	(168.6)
Total fair value of schemes' assets	4,347.2	(535.5)	3,811.7
At 31 March 2019			
Equities	4.8	(4.0)	0.8
Other non-equity growth assets	302.5	–	302.5
Gilts	1,310.2	–	1,310.2
Bonds	1,821.0	(15.2)	1,805.8
Other	370.0	119.8	489.8
Total fair value of schemes' assets	3,808.5	100.6	3,909.1

The derivative values in the table above represent the net market value of derivatives held within each of these asset categories as follows:

- › In the prior year, derivatives were held within the UUPS equity portfolio to gain economic exposure equivalent to around 4.0 per cent of that scheme's assets, and comprised of currency forwards with a value of £(4.0) million.

Notes to the financial statements – appendices

A5 Retirement benefits continued

- › Derivatives are used within both the UUPS and ESPS bond portfolio to hedge non-sterling exposure back to sterling:
 - › The UUPS total value of £(27.7) million comprises interest rate swaps with a value of £nil (2019: £(15.0) million) and currency forwards with a value of £(27.7) million (2019: £(2.1) million); and
 - › The ESPS total value of £(9.2) million (2019: £1.9 million) relates to interest rate swaps.
- › Derivatives are used within both the UUPS and ESPS ‘other’ portfolios to manage liability risks. Both schemes use a range of derivatives to target a high level of interest rate and inflation hedging, comprising £(485.4) million (2019: £112.7 million) in the UUPS and £(13.2) million (2019: £7.1 million) in the ESPS. These are further broken down as follows:
 - › The UUPS net value of £(485.4) million (2019: £112.7 million) comprises asset swaps with a value of £(30.2) million (2019: £(32.7) million), interest rate swaps with a value of £25.7 million (2019: £143.6 million), gilt repurchase agreements with a value of £(405.9) million (2019: £nil) and RPI inflation swaps with a value of £(75.0) million (2019: £1.8 million); and
 - › The ESPS net value of £(13.2) million (2019: £7.1 million) represents gilt repurchase agreements with a value of £(1.2) million (2019: £7.4 million), RPI inflation swaps with a value of £(10.6) million (2019: £(0.3) million), interest rate swaps with a value of £(0.4) million and total return swaps with a value of £(1.0) million.

The derivatives shown in the tables only cover those expressly held for the purpose of reducing certain undesirable asset and liability risks. The schemes invest in a number of other pooled funds that make use of derivatives. No allowance is made in the figures above for any derivatives held within these, as these are not held expressly for the purpose of managing risk. The total fair value of pooled funds held within the schemes’ assets was £698.3 million (2019: £628.1 million).

The intention is that the schemes’ assets provide a 100 per cent interest rate hedge and a 100 per cent inflation risk hedge 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	2020	2019
	£m	£m
At the start of the year	3,909.1	3,842.9
Interest income on schemes’ assets	94.3	98.4
The (loss)/return on plan assets, excluding amounts included in interest	(131.6)	58.5
Member contributions	2.6	2.9
Benefits paid	(175.0)	(166.0)
Administrative expenses	(1.6)	(2.8)
Company contributions	113.9	75.2
At the end of the year	3,811.7	3,909.1

The group’s actual return on the schemes’ assets was a gain of £37.3 million (2019: £156.9 million), principally due to gains on derivatives hedging the schemes’ liabilities.

Movements in the present value of the defined benefit obligations are as follows:

Group	2020	2019
	£m	£m
At the start of the year	(3,425.2)	(3,498.7)
Interest cost on schemes’ obligations	(80.3)	(88.9)
Actuarial gains/(losses) arising from changes in financial assumptions	257.3	(160.6)
Actuarial (losses)/gains arising from changes in demographic assumptions	(7.2)	70.9
Actuarial gains arising from experience	36.1	104.2
Curtailments/settlements arising on reorganisation	(4.6)	(9.0)
Member contributions	(2.6)	(2.9)
Benefits paid	175.0	166.0
Current service cost	(6.1)	(6.2)
At the end of the year	(3,057.6)	(3,425.2)

A6 Related party transactions

Group

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The related party transactions with the group's joint ventures and other related parties during the period, and amounts outstanding at the period end date, were as follows:

	2020 £m	2019 £m
Sales of services	438.3	455.8
Charitable contributions advanced to related parties	0.4	0.5
Purchases of goods and services	0.1	0.1
Costs recharged at nil margin under transitional service agreements	–	0.2
Interest income and fees recognised on loans to related parties	4.0	4.3
Amounts owed by related parties	147.9	182.9
Amounts owed to related parties	4.8	0.6

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 the 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 2020, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £147.9 million (2019: £182.9 million), comprising £52.9 million (2019: £39.4 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £95.0 million (2019: £143.5 million) relating to loans.

Included within these loans receivable were the following amounts owed by Water Plus:

- › £93.6 million (2019: £100.0 million) outstanding on a £100.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC, with a maturity date of 30 September 2021 (2019: maturity date of 30 September 2020), bearing a floating interest rate of LIBOR plus a credit margin. This balance comprises £98.0 million outstanding net of a £5.0 million allowance for expected credit losses (2019: £nil allowance for expected credit losses) recognised in the income statement during the year;
- › £nil (2019: £9.6 million) receivable being the £10.0 million (2019: £9.6 million) fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.5 million (2019: £nil) allowance for expected credit losses recognised in the income statement during the year, and £9.5 million (2019: £nil) of the group's recognised share of joint venture losses as the loan 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 2020 of £12.5 million, comprising the £10.0 million (2019: £9.6 million) receivable measured at fair value, and £2.5 million (2019: 2.9 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures; and
- › £nil (2019: £32.5 million) outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2021 (2019: maturity date of 30 September 2020), bearing a floating interest rate of LIBOR plus a credit margin.

A further £1.4 million of non-current receivables (2019: £1.4 million) was owed by other related parties at 31 March 2020.

The allowances for expected credit losses of £4.5 million and £0.5 million, recognised against the revolving credit facilities and zero coupon shareholder loan note respectively, together with the £9.5 million share of joint venture losses recognised against the zero coupon shareholder loan note, result from the impacts of the COVID-19 pandemic, which has resulted in Water Plus recognising significant losses during the year and has caused a significant increase in credit risk. No allowances for expected credit losses or share of joint venture losses were recognised against any of these balances in the prior year.

During the year, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £54.1 million (2019: £58.1 million), of which £32.1 million (2019: £35.1 million) related to guarantees to United Utilities Water Limited.

At 31 March 2020, amounts owed to related parties were £4.8 million (2019: £0.6 million). Included within this amount is £4.5 million due to Water Plus for the surrender of consortium relief tax losses for the year ended 31 March 2020. The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

Details of transactions with key management are disclosed in note 3.

Company

The parent company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £284.5 million (2019: £274.5 million) and total net interest payable during the year was £32.9 million (2019: £30.5 million). Amounts outstanding at 31 March 2020 and 31 March 2019 between the parent company and subsidiary undertakings are disclosed in notes 15, 17 and 22.

At 31 March 2020 and 31 March 2019, no related party receivables and payables were secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings as at 31 March 2020 and 31 March 2019.

Notes to the financial statements – appendices

A7 Accounting policies

Of the accounting policies outlined below, those deemed to be the most significant for the group are those that align with the critical accounting judgements and key sources of estimation uncertainty set out on pages 208 to 210.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries), and incorporate the results of its share of joint ventures using the equity method of accounting. The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the date control is obtained or until the date that control ceases, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used under the relevant local GAAP into line with those used by the group.

Amounts attributable to non-controlling interests are presented separately in equity and total comprehensive income where material.

Subsidiaries

Subsidiaries are entities controlled by the group. Control is achieved where the group is exposed to, or has the rights to, variable returns from its involvement in an entity and has the ability to affect those returns through its power over the entity. In the parent company accounts, investments are held at cost less provision for impairment.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures

Joint ventures are entities in which the group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The group's share of joint venture results and assets and liabilities is incorporated using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised at cost and adjusted thereafter to recognise the group's share of the profit or loss.

On losing control of a subsidiary disposed of to a joint venture, the group recognises the gain or loss attributable to measuring the investment retained in the former subsidiary at its fair value at the date when control is lost.

Revenue recognition

Revenue represents the fair value of the consideration receivable in the ordinary course of business for goods and services provided, exclusive of value added tax and foreign sales tax. Where relevant, this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end. The group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should the group consider that the criteria for revenue recognition is not met for a transaction, revenue recognition would be delayed until such time as collectability is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income. This includes

the revenue in respect of connection activities which has been impacted by IFRS 15. The revenue in respect of these activities is then released to the income statement over a period of 60 years, which is deemed to be the time over which the performance obligation for providing the connection is satisfied.

Operating profit

Operating profit is stated after charging operational expenses but before investment income and finance expense.

Borrowing costs and finance income

Except as noted below, all borrowing costs and finance income are recognised in the income statement on an accruals basis.

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument.

Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Assessing the outcome of uncertain tax positions requires judgements to be made regarding the application of tax law and the result of negotiations with, and enquiries from, tax authorities in a number of jurisdictions. A current tax provision is only recognised when the group has a present obligation as a result of a past event and it is probable that the group will be required to settle that obligation to a taxing authority.

Current tax

Current tax is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date.

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the tax is also dealt with in equity.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary timing differences

are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment (PPE) comprises water and wastewater infrastructure assets and overground assets.

The useful economic lives of these assets are primarily as follows:

- › Water and wastewater infrastructure assets:
 - › Impounding reservoirs 200 years;
 - › Mains and raw water aqueducts 30 to 300 years;
 - › Sewers and sludge pipelines 60 to 300 years;
 - › Sea outfalls 77 years;
- › Buildings 10 to 60 years;
- › Operational assets 5 to 80 years; and
- › Fixtures, fittings, tools and equipment 3 to 40 years.

Employee and other related costs incurred in implementing the capital schemes of the group are capitalised.

The group is required to evaluate the carrying values of PPE for impairment whenever circumstances indicate, in management's view, that the carrying value of such assets may not be recoverable. An impairment review requires management to make uncertain estimates concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Costs associated with a major inspection or overhaul of an asset or group of assets are capitalised within property, plant and equipment and depreciated over the period of time expected to elapse between major inspections or overhauls.

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater pipes and systems. Expenditure on the infrastructure assets, including borrowing costs where applicable, relating to increases in capacity or enhancements of the network, is treated as additions. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred. Infrastructure assets are depreciated by writing off their cost (or deemed cost for infrastructure assets held on transition to IFRS), less the estimated residual value, evenly over their useful economic lives.

Other assets

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items, including relevant borrowing costs, where applicable, for qualifying assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Freehold land and assets in the course of construction are not depreciated. Other assets are depreciated by writing off their cost, less their estimated residual value, evenly over their estimated

useful economic lives, based on management's judgement and experience.

Depreciation methods, residual values and useful economic lives are reassessed annually and, if necessary, changes are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other operating costs.

Transfer of assets from customers and developers

Where the group receives from a customer or developer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the group must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at their fair value and included within property, plant and equipment, with a credit of the same amount to deferred grants and contributions. The assets are depreciated over their useful economic lives and the deferred contributions released to revenue over the 60 years, which is the estimated period over which an average connection through which the group provides water and wastewater services is expected to be in place (or where the receipt of property, plant and equipment is solely to connect the customer to the network, the deferred contribution is released immediately to revenue). This accounting treatment has been applied to transfers of assets from customers received on or after 1 July 2009.

Assets transferred from customers or developers are accounted for at fair value. If no market exists for the assets then incremental cash flows are used to arrive at fair value.

Intangible assets

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful economic lives. The carrying amount is reduced by any provision for impairment where necessary. On a business combination, as well as recording separable intangible assets already recognised in the statement of financial position of the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the acquisition statement of financial position at fair value.

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria of IAS 38 'Intangible Assets'.

Intangible assets, which relate primarily to computer software, are generally amortised over a period of three to 10 years.

Impairment of assets

Where appropriate, assets are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows, discounted on a pre-tax basis, using a rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses in respect of non-current assets are recognised in the income statement within operating costs.

Notes to the financial statements – appendices

Where an impairment loss subsequently reverses, the reversal is recognised in the income statement and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Financial instruments

Financial assets and financial liabilities are recognised and derecognised on the group's statement of financial position on the trade date when the group becomes/ceases to be a party to the contractual provisions of the instrument.

Cash and short-term deposits

Cash and short-term deposits include cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash, have a maturity of three months or less from the date of acquisition and which are subject to an insignificant risk of change in value. In the consolidated statement of cash flows and related notes, cash and cash equivalents include cash and short-term deposits, net of book overdrafts.

Financial investments

Investments (other than interests in subsidiaries, joint ventures and fixed deposits) are initially measured at fair value, including transaction costs. Investments classified as financial assets measured at fair value through profit or loss (FVPL) in accordance with IFRS 9 'Financial Instruments' are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised in the net profit or loss for the period. The business model employed in respect of financial assets is that of a hold-to-collect model.

Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, less any impairment for irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience of the receivables balance.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Borrowings

The group's default treatment is that bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently measured at amortised cost applying the effective interest method. The difference between the net cash proceeds received at inception and the principal cash flows due at maturity is accrued over the term of the borrowing.

The default treatment of measuring at amortised cost, while associated hedging derivatives are recognised at fair value, presents an accounting measurement mismatch that has the potential to introduce considerable volatility to both the income statement and the statement of financial position. Therefore, where feasible, the group takes advantage of the provisions under IFRS 9 'Financial Instruments' to make fair value adjustments to its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

Where feasible, the group designates its financial instruments within fair value hedge relationships. In order to apply fair value hedge accounting, it must be demonstrated that there is an economic relationship between the borrowing instrument and the hedging derivative and that the designated hedge ratio is consistent with the group's risk management strategy.

Borrowings designated within a fair value hedge relationship

Where designated, bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently adjusted for any change in fair value attributable to the risk being hedged at each reporting date, with the change being charged or credited to finance expense in the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, or where the hedge relationship no longer qualifies for hedge accounting.

Under the provisions of IFRS 9 'Financial Instruments', changes in the group's own credit risk are recognised in other comprehensive income.

Borrowings designated at fair value through profit or loss

Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received and are subsequently measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement.

Derivative financial instruments

The group's default treatment is that derivative financial instruments are measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement. The group enters into financial derivatives contracts to manage its financial exposure to changes in market rates (see note A4).

Derivative financial instruments designated within a cash flow hedge relationship

Gains or losses resulting from the effective portion of the hedging instrument are recognised in other comprehensive income and in the cash flow hedge reserve with any remaining gains or losses recognised immediately in the income statement. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and cumulative change in fair value of the hedged item. At the maturity date, amounts paid/received are recognised against operating expenses in the income statement.

Upon discontinuation of a cash flow hedge, the amount accumulated in other comprehensive income remains in the cash flow hedge reserve if the hedged future cash flows are still expected to occur. Otherwise the amount is immediately reclassified to the income statement.

Derivatives and borrowings – valuation

Where an active market exists, designated borrowings and derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value valuation model. The model uses applicable interest rate curve data at each reporting date to determine any floating cash flows. Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

The valuation of debt designated in a fair value hedge relationship is calculated based on the risk being hedged as prescribed by IFRS 9 ‘Financial Instruments’. The group’s policy is to hedge its exposure to changes in the applicable underlying interest rate and it is this portion of the cash flows that is included in the valuation model (excluding any applicable company credit risk spread).

The valuation of debt designated at fair value through the profit or loss incorporates an assumed credit risk spread in the applicable discount factor. Credit spreads are determined based on indicative pricing data.

Inventories

Inventories are stated at the lower of cost and net realisable value. For properties held for resale, cost includes the cost of acquiring and developing the sites, including borrowing costs where applicable.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Employee benefits

Retirement benefit obligations

The group operates two defined benefit pension schemes, which are independent of the group’s finances, for its employees. Actuarial valuations to determine the funding of the schemes, along with future contribution rates, are carried out by the pension scheme actuary as directed by the trustees at intervals of not more than three years. In any intervening years, the trustees review the continuing appropriateness of the funding and contribution rates.

From a financial reporting perspective and in accordance with IAS 19 ‘Employee Benefits’, defined benefit assets are measured at fair value while liabilities are measured at present value, using the projected unit credit method. The difference between the two

amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 ‘IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’, on the basis that the group has an unconditional right to a refund of any surplus that may exist following the full settlement of plan liabilities in a single event.

The pension cost under IAS 19 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary, which are used to estimate the present value of defined benefit obligations. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note A5.

The cost of providing pension benefits to employees relating to the current year’s service (including curtailment gains and losses) is included within employee benefits expense, while the interest on the schemes’ assets and liabilities is included within investment income and finance expense respectively. Remeasurement gains/losses on scheme assets and liabilities are presented in other comprehensive income.

In addition, the group operates a defined contribution pension section within the United Utilities Pension Scheme. Payments are charged as employee costs as they fall due. The group has no further payment obligations once the contributions have been paid.

Share-based compensation arrangements

The group operates equity-settled, share-based compensation plans, issued to certain employees. The equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on estimates of the number of options that are expected to vest. Fair value is based on simulation models, according to the relevant measures of performance. The group has the option to settle some of these equity-settled share-based payments in cash. At each reporting date, the group revises its estimate of the number of options that are expected to become exercisable with the impact of any revision being recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

Foreign currency translation

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rates applicable on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange applicable on that date. Gains and losses arising on retranslation are included in net profit or loss for the period.

Exchange differences arising on investments in equity instruments classified as fair value through other comprehensive income are included in the gains or losses arising from changes in fair value which are recognised directly in equity. In order to hedge its exposure to certain foreign exchange risks, the group enters into derivative instruments (see note A4).

Notes to the financial statements – appendices

Group companies

On consolidation, the statements of financial position of overseas subsidiaries and joint ventures (none of which has the currency of a hyperinflationary economy) are translated into sterling at exchange rates applicable at each reporting date. The income statements are translated into sterling using the average rate unless exchange rates fluctuate significantly, in which case the exchange rate at the date the transaction occurred is used. Exchange differences resulting from the translation of such statements of financial position at rates ruling at the beginning and end of the period, together with the differences between income statements translated at average rates and rates ruling at the period end, are dealt with as movements on the group's cumulative exchange reserve, a separate component of equity. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of implementation of IFRS 3 'Business Combinations' (1 April 1999) as sterling-denominated assets and liabilities.

Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated useful economic lives of the related assets.

Leases

At inception of a contract, the group assesses whether a contract is or contains a lease. Where a lease is present, at the commencement date, a right-of-use asset and lease liability is recognised. The lease liability is measured at the present value of future lease payments due over the term of the lease. The typical items which the group leases include land, buildings and vehicles.

The lease payments are discounted using the group's incremental rate of borrowing if the interest rate implicit in the lease cannot be readily determined. For materially all of the group's leases, the group's incremental rate of borrowing is used. This rate is calculated using a number of inputs, being observable risk-free gilt rates, specific data based on bonds already in circulation for the relevant group company as well as data from the wider utility sector. Further adjustments for payment profile and the term of the lease are made.

Right-of-use assets are recognised as property, plant and equipment at cost, this is generally equivalent to the initial measurement of the lease liability. Depreciation is charged on a straight-line basis over the term of lease.

After the commencement date, the lease liability is increased for the accretion of interest (being the unwinding of the discounting applied to future leases 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.

Where leases have a term of less than 12 months or are leases of low value assets, the group has elected not to recognise right-of-use assets and lease liabilities as permitted by IFRS 16 'Leases'. Lease payments are instead charged to the income statement on a straight-line basis over the period of the lease.

A8 Subsidiaries and other group undertakings

Details of the group's subsidiary undertakings, joint ventures and associates are set out below. Unless otherwise specified, the registered address for each entity is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP, United Kingdom. For further details of joint ventures and associates please see notes 12 and 13.

	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	90.6	Property management
North West Water International Limited	Ordinary	100.0	Holding company
North West Water Limited	Ordinary	100.0	Dormant
United Utilities (Overseas Holdings) Limited	Ordinary	100.0	Holding company
United Utilities Bioresources Limited	Ordinary	100.0	Wastewater services
United Utilities Energy Limited	Ordinary	100.0	Energy generation
United Utilities Healthcare Trustee Limited	Ordinary	100.0	Corporate trustee
United Utilities International Limited	Ordinary	100.0	Consulting services and project management
United Utilities North West Limited	Ordinary	100.0	Holding company
United Utilities Pensions Trustees Limited	Ordinary	100.0	Corporate trustee
United Utilities PLC	Ordinary	100.0	Holding and management company
United Utilities Property Services Limited	Ordinary	100.0	Property management
United Utilities Renewable Energy Limited	Ordinary	100.0	Renewable energy generation
United Utilities Total Solutions Limited	Ordinary	100.0	Waste treatment
United Utilities Utility Solutions (Industrial) Limited	Ordinary	100.0	Holding company
United Utilities Water Finance PLC	Ordinary	100.0	Financing company
United Utilities Water Limited	Ordinary	100.0	Water and wastewater services
UU (ESPS) Pension Trustee Limited	Ordinary	100.0	Corporate trustee
UU Group Limited	Ordinary	100.0	Dormant
UU Secretariat Limited	Ordinary	100.0	Dormant
YCL Transport Limited	Ordinary	100.0	Non-trading
The Netherlands			
United Utilities (Tallinn) BV ⁽¹⁾	Ordinary	100.0	Holding company
Thailand			
Manta Management Services Limited ⁽²⁾	Ordinary	100.0	Management company
Joint ventures			
All joint ventures are accounted for using the equity method and are strategic to the group's activities to varying degrees.			
Great Britain			
Lingley Mere Business Park Development Company Limited	Ordinary	50.0	Development company
Selectusonline Limited	Ordinary	16.7	Procurement portal
Water Plus Group Limited ⁽³⁾	Ordinary	50.0	Holding company
Water Plus Limited ⁽³⁾	Ordinary	50.0	Water and wastewater retail services
Water Plus Select Limited ⁽³⁾	Ordinary	50.0	Water and wastewater retail services
Estonia			
AS Tallina Vesi ⁽⁴⁾	Ordinary	35.3	Water and wastewater services

* With the exception of United Utilities PLC, shares are held by subsidiary undertakings rather than directly by United Utilities Group PLC.

(1) Registered address: Herikerbergweg 88, 1101 CM Amsterdam, the Netherlands.

(2) Registered address: Unit 2201, No. 1. Soi Chan 2, Yak 3 Chan Road, Thung Wat Don Sub District, Sathorn District, Bangkok, Thailand 10120.

(3) 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, ST1 4FD, United Kingdom.

(4) Registered address: Ädalja 10, Tallinn 10614, Estonia.

Five-year summary – unaudited

The financial summary (unaudited) set out below has been derived from the audited consolidated financial statements of United Utilities Group PLC for the five years ended 31 March 2020. It should be read in conjunction with the consolidated financial statements and related notes, together with the strategic report.

Year ended 31 March Continuing operations	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	1,859.3	1,818.5	1,735.8	1,704.0	1,730.0
Reported operating profit	630.3	634.9	636.4	605.5	567.9
Underlying operating profit	743.9	684.8	645.1	622.9	604.1
Reported profit before tax	303.2	436.2	432.1	442.4	353.5
Underlying profit before tax	492.0	460.3	370.2	389.4	408.1
Reported profit after taxation	106.8	363.4	354.6	433.9	397.5
Underlying profit after tax	429.6	407.9	304.9	313.4	325.3
Reported earnings per share (basic)	15.7p	53.3p	52.0p	63.6p	58.3p
Underlying earnings per share	63.0p	59.8p	44.7p	46.0p	47.7p
Dividend per ordinary share	42.6p	41.28p	39.73p	38.87p	38.45p
Non-current assets	13,215.7	12,466.4	11,853.6	11,768.2	11,280.8
Current assets	828.4	721.4	1,149.9	657.9	626.0
Total assets	14,044.1	13,187.8	13,003.5	12,426.1	11,906.8
Non-current liabilities	(9,877.3)	(9,025.0)	(8,911.1)	(8,914.7)	(8,357.1)
Current liabilities	(1,204.7)	(1,052.0)	(1,141.5)	(689.8)	(844.2)
Total liabilities	(11,082.0)	(10,077.0)	(10,052.6)	(9,604.5)	(9,201.3)
Total net assets and shareholders' equity	2,962.1	3,110.8	2,950.9	2,821.6	2,705.5
Net cash generated from operating activities	810.3	832.3	815.6	820.8	685.6
Net cash used in investing activities	(593.9)	(627.7)	(723.2)	(804.6)	(676.8)
Net cash (used in)/generated from financing activities	(27.8)	(377.4)	184.7	22.0	(46.4)
Net (decrease)/increase in cash and cash equivalents	188.6	(172.8)	277.1	38.2	(37.6)
Net debt	7,361.4	7,067.3	6,867.8	6,578.7	6,260.5
RCV gearing ⁽ⁱ⁾ (%)	62%	61%	61%	61%	61%

Note:

(i) Regulatory capital value (RCV) gearing is calculated as group net debt (see note A2), divided by the RCV expressed in out-turn prices, of United Utilities Water Limited.

Shareholder information

Key dates

- **25 June 2020**
Ex-dividend date for the 2019/2020 final dividend
- **26 June 2020**
Record date for 2019/20 final dividend
- **24 July 2020**
Annual general meeting
- **3 August 2020**
Payment of 2019/20 final dividend to shareholders
- **25 November 2020**
Announcement of half-year results for the six months ending 30 September 2020
- **17 December 2020**
Ex-dividend date for 2020/21 interim dividend
- **18 December 2020**
Record date for 2020/21 interim dividend
- **1 February 2021**
Payment of 2020/21 interim dividend to shareholders
- **May 2021**
Announce the final results for the 2020/21 financial year
- **June 2021**
Publish the Annual Report and Financial Statements for the 2020/21 financial year

Electronic communications

We're encouraging our shareholders to receive their shareholder information by email and via our website. Not only is this a quicker way for you to receive information, it helps us to be more sustainable by reducing paper and printing materials and lowering postage costs.

Registering for electronic shareholder communications is very straightforward, and is done online via shareview.co.uk which is a website provided by our registrar, Equiniti.

Log on to shareview.co.uk and you can:

- › set up electronic shareholder communication;
- › view your shareholdings;
- › update your details if you change your address; and
- › get your dividends paid directly into your bank account.

Please do not use any electronic address provided in this annual report or in any related document to communicate with the company for any purposes other than those expressly stated.

Make life easier and have your dividends paid straight into your bank account

- › The dividend goes directly into your bank account and is available immediately;
- › No need to pay dividend cheques into your bank account;
- › No risk of losing cheques in the post;
- › No risk of having to replace spoiled or out-of-date cheques; and
- › It's cost-effective for your company.

To take advantage of this, please contact Equiniti via shareview.co.uk

or complete the dividend mandate form you receive with your next dividend cheque.

If you choose to have your dividend paid directly into your bank account you'll receive one tax voucher each year. This will be issued with the interim dividend normally paid in February and will contain details of all the dividends paid in that tax year. If you'd like to receive a tax voucher with each dividend payment, please contact Equiniti.

Online annual report

Our annual report is available online. View or download the full Annual Report and Financial Statements from:
unitedutilities.com/corporate

Shareholder information

Keeping you in the picture

You can find information about United Utilities quickly and easily on our website: unitedutilities.com/corporate. Here the Annual Report and Financial Statements, responsible business performance, company announcements, the half-year and final results and presentations are published.

Registrar

The group's registrar, Equiniti, can be contacted on: **0371 384 2041** or textphone for those with hearing difficulties: **0371 384 2255**. Lines are open 8.30 am to 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

The address is:
Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex, BN99 6DA.

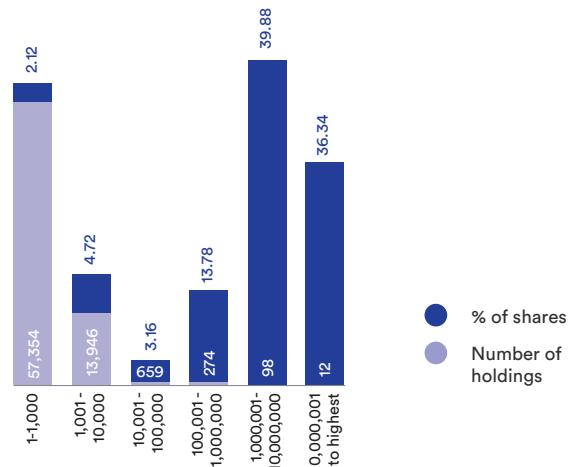
Overseas shareholders may contact them on:
+44 (0)121 415 7048

Equiniti offers a share dealing service by telephone:
0345 603 7037 and online: shareview.co.uk/dealing

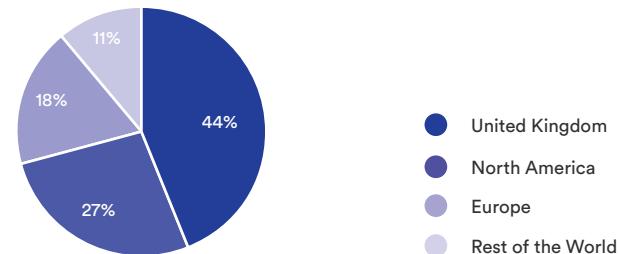
Equiniti also offers a stocks and shares ISA for United Utilities shares: call **0345 300 0430** or go to: shareview.co.uk/dealing

Key shareholder facts

Balance analysis as at 31 March 2020



Shareholders by location



Dividend history – pence per share

	2016	2017	2018	2019	2020
Interim	12.81	12.95	13.24	13.76	14.20
Final	25.64	25.92	26.49	27.52	28.40
Total ordinary	38.45	38.87	39.73	41.28	42.60

Warning to shareholders

Please be very wary of any unsolicited contact about your investments or offers of free company reports. It may be from an overseas 'broker' who could sell you worthless or high-risk shares. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. Further information and a list of unauthorised firms that have targeted UK investors is available from the Financial Conduct Authority at:

fca.org.uk/consumers/protect-yourself/unauthorised-firms

This document is printed on Revive 100% Recycled Silk which is made from 100% FSC® Recycled pulp and post-consumer waste paper. This reduces waste sent to landfill, greenhouse gas emissions, as well as the amount of water and energy consumed.



Important information

Cautionary statement:

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

Terms used in this report:

Unless expressly stated otherwise, the 'group', 'United Utilities', 'UU' or 'the company' means United Utilities Group PLC and its subsidiary undertakings; the 'regulated business', 'regulated activities' or 'UUW' means the licensed water and wastewater activities undertaken by United Utilities Water Limited (formerly United Utilities Water PLC) in the North West of England.

United Utilities Group PLC

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

Telephone +44 (0)1925 237000

Stock Code: UU.
Registered in England and Wales
Registered number 6559020



Water for the North West