Registered No: 2366616

United Utilities PLC

Annual Report and Financial Statements

31 March 2025

Strategic report

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

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

References to TCFD, TNFD and other sustainability-related reporting:
Whilst mandatory reporting under the TCFD ('Task Force on Climate-related Financial Disclosures') framework is not applicable to United Utilities PLC, this annual report makes reference to TCFD, TNFD ('Taskforce on Nature-related Financial Disclosures') and certain other sustainability-related reporting. Such information contained herein should be read in conjunction with the detailed disclosures included within the UUG 2025 consolidated Annual report and financial statements.

Strategic report

Our purpose

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

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

Greener

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

Healthier

We provide great quality drinking water and safely remove and recycle used water for around eight million people in the North West, while taking care of the beautiful landscapes across the region every day.

Stronger

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

Our strategy

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

Improve our rivers

We have a strong track record in minimising pollution, and continue to protect bathing waters across the North West. River health in the UK has grown in public interest in recent years. The industrial legacy and high rainfall in the region means that delivering the significant reduction in spills from storm overflows required by the Environment Act 2021 will be more challenging in the North West than in other areas. To address this, we have the largest investment programme in AMP8 to deliver an industry-leading reduction of more than 60 per cent in the decade to 2030. We have already accelerated work in key locations and made strong early progress, having achieved a 39 per cent reduction in average spills per overflow since 2020.

Create a greener future

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

Provide a safe and great place to work

We are committed to maintaining high levels of health, safety and wellbeing. We invest in our colleagues' training and development, helping us to attract, develop and engage great talent across the organisation, now and for the long term. We support and encourage a diverse and inclusive culture, helping to ensure our colleagues represent the communities we serve. This brings a diverse range of views and ideas, and we want colleagues to feel empowered to contribute to making things better. Our 'Call it Out' inbox enables everyone to raise any topic or suggestion for improvement directly with the CEO.

Deliver great service for all customers

We strive to continually improve our service for customers. We conducted extensive engagement in the development of our AMP8 business plan to help us understand what matters most to customers, and we have ambitious targets to further improve water quality, reduce supply interruptions, fix leaks, and reduce the risk of sewer flooding. Great service also means helping customers with affordability and vulnerability, and keeping their data secure. These continue to be ongoing priorities, and our affordability support is already sector-leading and will double in AMP8.

Strategic report

Spend customers' money wisely

We continuously challenge ourselves to improve cost efficiency in a sustainable way, so that we can keep customer bills as low as possible in the long term without compromising on service or resilience. We often look to minimise whole-life cost, using adaptive planning to deliver the best-value solutions in the long term. We exploit innovation to find better ways of working, capitalising on digital and automation opportunities. We continue to raise efficient financing and manage risk prudently. We also leverage partnerships and drive value in our supply chain – our mix of suppliers in AMP8 will help us to maximise our capital programme efficiency.

Contribute to our communities

We work closely with communities across the North West and we invest in those communities as well as opening our land for access and recreation. We actively engage and make use of partnerships to drive value for communities, such as our participation in the Love Windermere initiative. We produced individual business plans for each of the North West's five counties, recognising their unique and diverse needs and challenges, and we have mobilised our teams into county delivery squads to help manage these relationships in AMP8, and ensure we can deliver our planned improvements for each county with minimal disruption.

How we create value

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

Customers

Resilient and continually improving service
We focus on providing a continuous, resilient and reliable service for customers, ensuring clean water is available at their taps when they need it, and wastewater is taken away when it goes down their drains. Providing clean, safe drinking water and hygienic sanitation makes a major contribution to long-term health and wellbeing across the North West. We are always looking for ways we can improve further. We proactively engage and consult with customers on their priorities, and set ambitious targets, for example to further improve drinking water quality, reduce leakage, and enhance the customer experience.

Sharing the cost of long-term investment
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 pre-fund significant amounts to ensure the cost of this is shared fairly and affordably between those that benefit now and in the future, helping to keep bills affordable.

Customer support
We focus on efficiency and maintain bills that are good value for money, as well as providing help and support for those who are struggling to pay, and additional help to vulnerable customers. Our summits on affordability and vulnerability help us to share ideas and best practice, and the Hardship Hub enables debt advisers to help more people and find cross-industry help more quickly, all in one accessible place. When customers need to contact us, we are helpful, friendly and supportive, talking and listening to them so that we can understand and meet their expectations, and act quickly to resolve any issues.

Communities

Access and recreation
We look after beautiful rural landscapes and pockets of urban green space, and open much of our land to the public, supporting regional tourism and offering communities health and wellbeing benefits through access to relaxation and recreation in nature.

Strategic report

Giving back
We make direct community donations to support local groups, and the total taxes we pay – including business rates, employment taxes, and environmental taxes – contribute significant amounts to public finances, helping to fund essential public services.

Active engagement and collaborative partnership
Our operations and projects are often near homes and businesses, and we engage with these communities to build understanding and trust. Our innovative approach has allowed us to prepare targeted plans for each of the five unique counties across our region. We also work in partnerships, enabling us to accomplish more, such as engaging people with nature and river improvements.

Future generations
Our graduate and apprentice programmes provide skills development and opportunities across the region. We work with teachers and children to raise awareness about water and the natural environment, giving the next generation an understanding of the true value water brings and how we can all play our part in protecting the services that nature provides. Managing land responsibly means we leave the North West region in a better condition for future generations.

Colleagues

Health, safety and wellbeing
We have a strong focus on health, safety and wellbeing and our number one priority is that all colleagues go home safe and well at the end of each day. This applies to both physical and mental health. We promote awareness of stress and other mental health issues, promoting an all-round healthy lifestyle in the long term which, in turn, reduces the burden on healthcare services in the region. We provide pension offerings that support colleagues in later life. We also provide colleagues with up to three days' paid volunteering leave per year, match individual colleague fundraising efforts to any UK-registered charity up to £200 per person per year, and cover the admin fees of payroll giving, or 'Give As You Earn'.

Skilled and diverse workforce
We invest in training and development to enable our colleagues to grow their skills and to keep them motivated. Investing in the development of current, and future, colleagues means we will have a workforce with the right skills for the future. Promoting equity, diversity and inclusion helps ensure we have a workforce that truly represents the region.

Communication and engagement
Listening to our colleagues helps to create an engaged workforce, increasing job satisfaction, and through colleague communications and conferences we update our people on business developments so they feel part of a team. As well as regular communications within teams and monthly updates from our Chief Executive, we have open channels for colleagues to raise anything they wish, and we have hosted all-colleague events on our plans for AMP8.

Environment

Reducing the environmental impact of our services
We meet increasingly stringent environmental consent levels, such as reducing the level of phosphorus in treated wastewater, and manage our land in a way that safeguards habitats and protects wildlife. Our investment in renewable energy generation and transition to a green fleet are helping us to reduce our carbon footprint and contribution towards climate change.

Reducing spills from storm overflows
We are investing to reduce the use of storm overflows, helping to improve the quality of rivers and bathing waters. With an industry-leading investment dedicated to this over the next five years, we aim to reduce spills by more than 60 per cent this decade, having already delivered a 39 per cent reduction since 2020.

Strategic report

Innovative long-term planning
We plan far ahead to ensure our activities and investment enhance the resilience of rural and urban environments in the North West. We are increasingly looking at blue/ green nature-based solutions where practicable, and use adaptive planning to ensure we are delivering the best long-term solutions.

Protecting the long-term resilience of water resources
Investment in infrastructure, such as our West-East Link Main and West Cumbria pipeline, allows us to transfer water around the region more efficiently to avoid the depletion of individual water sources. We provide tools and tips to help customers reduce their consumption, and promote campaigns to educate the public and younger generations on water usage, all of which helps to protect this valuable resource and reduce usage now and for years to come.

Suppliers

Supporting the regional economy
Our AMP8 activities will support 30,000 jobs, directly and through our supply chain, including 7,000 new jobs created. We spend significant amounts with suppliers each year, and paying invoices on time allows them to maintain cash flow and become more resilient. Supporting jobs through our supply chain catalyses the development of skills and opportunities in the North West, providing a stimulus to benefit the regional economy in the long term.

Partnership and innovation
We encourage and incentivise innovation within our supply chain, and have a strong track record of strategic partnerships that help us to deliver more by working in collaboration. Our innovation lab invites ideas, products and solutions from innovators across the world. This creates a unique opportunity for small- and medium-sized enterprises (SMEs) and start ups, who we would otherwise not have worked with, to develop and test their products and ideas in a live customer environment with the potential to lead to long-term partnerships. We have enjoyed success with a range of partners through this initiative.

Responsible business
We act with integrity, transparency and fairness, giving suppliers confidence in the way we do business. While our operations and suppliers are mainly UK and European, so lower risk, we work closely with them to address human rights, and, in particular, modern slavery. Our United Supply Chain (USC) approach recognises suppliers as an extension of United Utilities and asks them, as a minimum, to sign up to our responsible sourcing principles.

Investors

Strong performance and sustainability credentials
Our focus on innovation drives continuous improvements, enabling us to be at the frontier of our industry. Our regulatory returns are linked to customer and environmental commitments, and we link debt investor returns to environmental and social projects through our sustainable finance framework.

Asset growth and inflation-linked dividend
Investors lend us their money in exchange for a share in the company's risk and return, and we provide an appropriate return through a combination of dividend income and long-term growth. The record levels of investment in AMP8 and long-term investment drivers will see a big step up in asset growth, and the group dividend policy is to increase annually in line with CPIH inflation, having grown at least in line with inflation since 2010. Our shareholders include charities, customers, pension funds that provide income to millions of elderly people, and many colleagues through our employee share scheme. This means that the dividends that we pay are relied upon by millions of individuals and families, both directly and indirectly.

Long-term resilience
We plan far into the future and invest in our infrastructure to ensure sustainability, and we manage risk prudently to provide stability and resilience in the round.

Strategic report

Robust governance and reporting
We maintain a high level of quality and transparency in what we report, and we are committed to high ethical standards of business conduct, strong corporate governance and doing the right thing, so investors can have confidence in the way that we do business.

Our core activities

Our core activities cover each stage of the water cycle for all customers, and associated retail activities for household customers. Business retail is undertaken through our joint venture, Water Plus, through a competitive market.

Water resources – sustainably sourcing water

• Providing great water: We collect raw water from a variety of sources, including lakes, rivers and boreholes, but predominantly from open reservoirs. We have more reservoirs than any other UK water company – the biggest are Thirlmere and Haweswater in the Lake District National Park. We own and manage 56,000 hectares of land, much of which is catchment land (the areas immediately surrounding our reservoirs).

• For a stronger, greener and healthier North West: Reservoirs provide great raw water, but have high maintenance needs and the raw water requires more treatment than some other sources. They are quick to fill when it rains, but more vulnerable to periods of dry weather than groundwater sources. Our water resources management plan helps us to ensure the long-term resilience of this precious resource. We manage our land and water resources in a sustainable way, protecting and enhancing local habitats. We optimise the use of our land to protect water quality, create natural carbon sinks by restoring peatland and planting woodland, and explore potential clean energy development. We also open much of our land to the public to enjoy nature and its health and wellbeing benefits.

Water network plus – supplying treated water 24/7

• Providing great water: We treat raw water in one of our 86 water treatment works and then store it in covered reservoirs before transporting it to homes and businesses right across the region, using over 43,000 kilometres of water pipes – that's longer than the circumference of the earth.

• For a stronger, greener and healthier North West: Every day, we deliver an average of 1.8 billion litres of safe, clean drinking water to around 8 million people and businesses. Our integrated supply network enables us to move water around the region as needed. Along with production planning and the optimisation of storage levels ahead of anticipated demand increases, and a fleet of alternative supply vehicles, this helps us to deliver a more resilient water supply. We use sensors and artificial intelligence, and have dedicated teams to detect and fix leaks across our pipes as well as helping customers identify leaks on their property, which can save them money on their bills, as well as reducing water losses. Our Haweswater Aqueduct uses gravity to transfer water from Cumbria to Manchester, helping to reduce our carbon footprint from energy-intensive pumping.

Wastewater network plus – cleaning and returning wastewater

• Providing great water: Every day, we collect used water from customers' toilets, emptied sinks, baths, showers and household appliances. 54 per cent of our sewers are combined, meaning they also take rainwater. We have over 79,000 kilometres of wastewater pipes and sewers that transport it to one of our 583 wastewater treatment works, where it is separated and treated, before being returned to the natural environment through rivers and streams, so that the water cycle can begin again.

• For a stronger, greener and healthier North West: We clean wastewater to a very high standard, meeting increasingly stringent environmental consents to protect and enhance nature and biodiversity in the North West. We have a long coastline and 34 designated bathing waters in our region that we help to look after. With more combined sewers than average, our network comes under more strain from urban water runoff when it rains. In periods of unusually high rainfall, when sewer capacity is overloaded, storm overflows are activated using a separate pipe to allow wastewater, heavily diluted with rainwater, to flow directly into rivers or the sea to help prevent flooding of streets, homes and businesses. We are investing significantly in additional storage and rainwater management solutions to reduce the need for spills, and we have already delivered a significant reduction since 2020. We are also exploring new and innovative ways of working such as nature-based solutions and partnerships with groups such as The Rivers Trust.

Bioresources – generating renewable energy

• Providing great water: Sludge is a by-product from the wastewater treatment process. It is transported to our bioresources treatment facilities, which use digestion technologies to safely and compliantly treat more than 200,000 dry tonnes of sewage sludge a year. The digestion treatment process produces biogas and biosolids.

• For a stronger, greener and healthier North West: We minimise waste from our water and wastewater operations to promote a circular economy. We use biogas to generate renewable electricity, some of which is used to power our operations and some feeds into the grid to provide a green source of energy for others to access. Self-generation reduces our carbon footprint and saves costs. We purchase electricity to cover the remaining electricity needs and 100 per cent of this is certified renewable. We have also been trialling the use of biogas to create hydrogen and graphene, which has multiple applications such as extending the life of tyres, cutting the carbon footprint of concrete, and boosting the performance of batteries and solar panels. We give biosolids to local farmers to use as a high-quality and effective fertiliser and soil conditioner. We seek to comply with all relevant rules and regulations, including Farming Rules for Water.

Our planning horizons

How we plan for the short, medium and long term

We plan across multiple planning horizons to protect long-term resilience and sustainability. We look at key trends and developments in the external environment, strategic priorities to deliver our purpose and other things that are material to our stakeholders. We undertake long-term horizon scanning, and use an adaptive planning approach to ensure we are delivering our commitments in the most efficient and effective way, whatever the future brings.

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.

Before the start of each financial year, which runs from 1 April to 31 March, we develop a business plan with annual targets in terms of improvements in service delivery, environmental targets and efficiency. These are designed to work towards the medium-term regulatory commitments, and to help us move closer to our longer-term goals. The plan is reviewed and approved by the UUG board.

Executive directors of UUG hold regular business review meetings with senior managers across the business to track progress against our annual targets, and key measures across each business area are monitored and reported through monthly executive performance reports.

It is vital that we retain flexibility within this short-term planning so that we can adapt to meet challenges that may arise during each year while continuing to deliver resilient and high-quality services to customers in the most effective and cost-efficient way possible. This may involve bringing enhancements forward to deliver improvements for customers early, investing further into the business to maintain service, or prioritise particular expenditure to focus our time and investment on dealing with unexpected challenges that may arise.

The extreme weather we have seen in recent years demonstrates how important it is that we retain this flexibility, as we are already experiencing the impacts of climate change and the challenges it brings. Prolonged dry periods can lead to drought levels being crossed, while excessive periods of rainfall at other times heightens the risk of flooding, and rapid freeze-thaw events during winter cold snaps put enormous pressure on pipes leading to more likelihood of leaks and bursts. Our adaptive approach to planning positions us well to tackle these challenges.

Strategic report

Performance against several of our stretching annual targets determines the annual bonus percentage that is awarded, both to the UUG executive directors and to all colleagues right through the organisation – this year's annual bonus metrics include performance for customers, for the environment, and for colleague health and safety, as well as financial performance. To avoid encouraging short-term decision-making and ensure management is focused on the long-term performance of the company, UUG executive directors and senior leaders are also remunerated through a long-term incentive plan (LTP). The LTP assesses three-year performance and includes return on regulated equity (RoRE) alongside a basket of customer and environmental measures.

Medium-term planning (up to 2035)
Aligned to regulatory asset management periods (AMPs), including the commitments and targets in our final determination.

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

To ensure we deliver for all stakeholders, including addressing customer preferences and environmental requirements, we align our plans to these priorities in line with key published methodologies. We undertake extensive research to engage with stakeholders to ensure that our plans reflect the best outcomes overall. Following scrutiny and challenge from Ofwat, we receive the final determination, which sets the price (in terms of total expenditure recovered through customer bills), service level, and incentive package that we must deliver over the five-year period, including an expected return to meet financing costs. This year Ofwat made its final determination for the 2025-30 period (AMP8) which we will now work to deliver.

Adaptive planning is important in meeting our medium-term targets in the most effective and efficient way, and this can be within one AMP or span multiple AMPs. During the 2020–25 period (AMP7), we adapted our total expenditure (totex) in three ways:

- We accelerated our capital programme, delivering improvements early and making a strong start to our plans;
- We extended our totex by £765 million to deliver customer and environmental improvements, accelerating delivery against obligations under the Environment Act 2021 and improving performance against outcome delivery incentives (ODIs); and
- We accelerated some AMP8 investment into AMP7, helping us to speed up delivery of environmental improvements, improving river health and reducing spills from overflows.

Our strategy and position as an upper quartile performer help us to create value for our stakeholders by delivering or outperforming the final determination. Each July we publish an annual performance report (APR) which sets out details of how we have performed for the year opposite the final determination. The APR also allows stakeholders to compare performance across the sector on metrics such as the return on regulated equity (RoRE), which comprises the base allowed return and any out/underperformance.

Long-term planning (up to 2100)
We recognise that the future is uncertain and difficult to predict. In order to maintain a reliable, high-quality service for customers over the long term, we need to anticipate and plan for a range of things that have the potential to impact on our activities.

We monitor the age and health of our assets, keep track of innovations and advancements in technology, consider long-term customer and environmental targets and commitments, and look at current and predictive data from various sources to track key risk indicators. This includes long-term economic forecasts, population growth expectations, climate and weather predictions, and legal/ regulatory consultations and changes. Depending on the context, long term can mean 25 years or up to 75 years and beyond.

We review this information as part of our long-term planning and risk management processes, through which we assess and manage opportunities and risks from developments such as climate change, population growth, increased market competition, water trading, more stringent environmental regulations, developments in technology, and combining affordable bills with a modern, responsive service. Our website has a dedicated section in which we examine key long-term challenges and how we will focus our resources and talents to meet them, including our:

- Drainage and Wastewater Management Plan – examining the risks around flooding, pollution, storm overflows, and wastewater treatment over a 25- year period;
- Water Resources Management Plan – setting out the investment needed to ensure we have sufficient water to continue supplying customers, taking into account the potential impacts of climate change, covering a 25-year period and considering consumption and climate forecasts out to 2080;
- Drought Plan – setting out the actions we will take to manage drought risk, updated every five years; and
- Adaptation progress reports – setting out the current and future predicted impacts of climate change on the business and our proposals for adapting to a changing climate.

Our long-term delivery strategy, out to 2050, was embedded into our plans for AMP8. We use whole-life cost modelling and maintain a robust financing structure to ensure we can invest efficiently to meet our long-term plans. To continue to deliver great service for the long term, we also need a continuous stream of talent. Our training and development, graduate and apprenticeship programmes, and work with schools to encourage STEM careers, all help to ensure we retain the skills we need in the North West to continue delivering for our stakeholders now and far into the future.

How we manage our dependencies and impacts

Key resources

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

Natural capital

Every stage of the water cycle relies on renewable and non-renewable environmental resources including water, land, air, minerals and forests as well as biodiversity and ecosystem health.

Water bodies

We abstract raw water for treatment and supply, and depend on water bodies to receive treated wastewater. We make long-term plans and investments to maintain resilient water resources, as well as managing periods of extreme wet or dry weather in the near term. Our catchment management programmes help us to manage the flow of water. In dry weather, our integrated supply zone allows us to move water around the region, and we encourage customers to use water efficiently. We improve final effluent quality, minimise pollution incidents, and are investing to reduce the use of storm overflows.

Land

A lot of our catchment land is managed by tenant farmers or in partnership, and we ensure it is well managed to improve water quality and help protect habitat health and biodiversity. We also depend on land for attenuating flows to support flood management. To reduce the use of storm overflows, we must find alternative ways to cope with heavy rainfall, while avoiding flooding. Enlarging sewers or building storage tanks is carbon intensive and subject to space constraints, so we are innovating with sustainable drainage and nature-based solutions where practical.

Strategic report

Natural materials

Many of our treatment and construction materials derive from natural sources, such as chemicals, wood and metals. By-products from wastewater treatment can also be used naturally. We generate renewable energy from bioresources and manage 'sludge' waste in a sustainable way, with almost all going to beneficial use such as fertiliser for land.

AMP8 focus

- Reducing spills from overflows by >60 per cent in the decade to 2030
- Addressing nutrient imbalance and reducing phosphorus levels
- Significantly reducing operational greenhouse gas emissions
- Encouraging a reduction in consumption

Financial capital

In order to protect affordability and share the cost of significant long-term infrastructure projects fairly between generations, we use debt and equity finance as well as revenue and direct procurement for customers (DPC).

Risk management

We maintain a robust capital structure, with a responsible mix of equity and debt that maintains gearing within our target range, which is one of the lowest in the sector. We have clear and transparent hedging policies covering credit, liquidity, interest rate, inflation and currency risk, and these are aligned with the regulatory model.

Cash flow management

We monitor our performance against key credit ratios to help us maintain strong and stable investment-grade credit ratings, giving us efficient access to debt markets across the economic cycle. We aim to avoid a concentration of refinancing in any one year, our debt portfolio has a very long average life, and we monitor liquidity forecasts to maintain resources to cover the next 15–24 months of projected cash flow needs.

Strong governance

Our medium-term note programme enables efficient debt issuance under pre-agreed contractual terms, our sustainable finance framework allows us to raise debt based on our strong ESG credentials, and the UUG board delegates authority to the UUG CFO so we can respond quickly to attractive financing opportunities. This helps us consistently raise efficient financing.

Engagement

We provide regular updates to equity and debt investors and establish a two-way dialogue about matters of interest to them. We maintain relationships with a range of banks and access to a broad and diverse range of markets.

AMP8 focus

- Continue to raise financial capital to fund our significant infrastructure investment programme at an efficient cost
- Maintain gearing within our target range of 55 to 65 per cent
- Retain our current strong investment-grade credit ratings

Manufactured capital

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

Long-term planning and investment

The significant investment we have made in our assets since privatisation has provided substantial benefits to customers, including reduced supply interruptions, reduced sewer flooding incidents, and improved water

Strategic report

quality. Planning for the long term helps us to understand where and when we need to invest, and we continually monitor the condition, performance and health of our assets, as well as assessing any need for new infrastructure. Our AMP8 final determination represents the biggest investment in over 100 years, and we expect to continue with a substantial investment programme for the foreseeable future, with several long-term investment drivers.

Efficient capital delivery
We manage our assets in a holistic way that seeks to minimise whole-life costs, and we embrace new technology and innovation. This helps us deliver efficient expenditure without compromising on quality of service or long-term resilience, saving future operating costs and minimising future customer bills. We also follow best practice approaches to be efficient and effective, such as ISO 5001 - Asset Management, and monitor it as part of our capital programme delivery incentive (CPDi) metric.

Managing our impact
Our assets and infrastructure projects can affect people who live nearby. We consult with these communities in the planning stage and work hard to minimise any negative impact, such as odours from our wastewater treatment works.

AMP8 focus
- Upgrading treatment works to meet new, more stringent, requirements
- Reducing leakage, sewer collapses, and unplanned outages
- Replacing lead pipes and cleaning/ re-lining water aqueducts
- Protecting sites at risk from coastal and river erosion

Intellectual capital
The knowledge and systems we have built, including our understanding of the region and the people who live here, are essential to effectively running and maintaining our assets to ensure a long-term resilient service.

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

Catchment Systems Thinking
Our innovative approach encourages us to think differently and goes beyond our catchment land to look at the wider environment, pulling together a deeper understanding of the catchment. This includes incorporating natural capital decision-making to consider what is best for the environment, customers and communities by integrating risks and driving multiple natural capital benefits, and developing better ways of working through co-governance, collaboration and partnerships.

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

AMP8 focus
- Building and maintaining strategic partnerships, working with others to maximise improvements
- Continuing to innovate and utilise new ideas to improve services
- Working with the supply chain to build new blue/green nature-based solution capabilities

Strategic report

Social capital

It is important that we maintain positive and constructive relationships with a wide variety of stakeholders, including community bodies, regulators, environmental interest groups, and political and governmental bodies.

Proactive engagement

We actively engage with all our stakeholders, as set out on pages 4 to 7, and conducted extensive customer and community research in the development of our plans for AMP8. Our supplier relationship management process ensures regular discussions to help identify issues and opportunities for a smooth and productive relationship, and we engage them on sustainable and ethical issues through our United Supply Chain approach.

Performance improvement

Part of ensuring strong and trusted relationships involves managing the quality of our service and the impact of our activities. This means delivering an improving service for customers, supporting those in vulnerable circumstances, protecting and enhancing the environment, and working with communities to minimise disruption and deliver on their priorities.

Collaboration

We seek to work alongside others to understand their priorities, exchanging information, building partnerships and working together wherever we can. We have strategic partnerships, for example with the RSPB and Love Windermere partnership, and collaborate with organisations and community groups on shared challenges such as leakage, flooding and water efficiency.

Transparent disclosures

Engagement helps us assess the issues that are most important to stakeholders, which feed into our materiality assessment as set out on pages 16 to 19. This helps to shape our plans and the disclosures in this report.

AMP8 focus

- Innovative county-based approach to planning and delivery
- Using a wider range of suppliers, matched to the specifics of each job, including more small local suppliers
- Doubling our sector-leading affordability support, helping one in six households across the North West

Human capital

Colleagues are essential in delivering our purpose and a skilled, engaged and motivated team is fundamental to great service and colleague retention, which helps ensure efficient training and better performance.

Providing opportunities

We offer opportunities for jobs and skills development across the North West, with our plans for AMP8 supporting 30,000 jobs both directly and through our supply chain. We have award-winning graduate and apprenticeship programmes, helping to develop talent and experience in the younger generations, and we support programmes such as 10,000 Black Interns.

Looking after colleagues

We are an accredited Living Wage Foundation employer, providing competitive salaries and benefits, healthcare schemes, an attractive pension offering, share incentive plan, and colleagues at all levels have the same bonus measures as the UUG executive directors, so everyone benefits from the success of the group. We measure engagement through an annual survey, consistently outperforming benchmarks. We provide comprehensive training and development opportunities, offer hybrid working where practical, and are committed to protecting the health, safety and wellbeing of our colleagues and those in our supply chain.

Inclusivity

We want our workforce to represent the local communities that we serve, with everyone feeling welcome, valued and included. We promote equity, diversity and inclusion, recruiting from the communities across the North West and supporting our colleagues with equal opportunities. Networks, representing groups of colleagues that may face specific challenges, are overseen by an executive sponsor and support colleagues through their career progression.

AMP8 focus

- Support 30,000 jobs, including creating 7,000 new jobs, directly and indirectly through our supply chain
- Continue prioritising the recruitment, development and retention of skilled and engaged colleagues
- Further improve equity, diversity and inclusion

External environment

Regulatory environment

UUW is the second largest of 11 regulated water and wastewater businesses in England and Wales, and is subject to regulation of price, performance and compliance by various bodies. These bodies exist to help protect the interests of customers and the environment and assess whether companies are meeting their obligations. Companies must prepare and maintain long-term plans for managing water resources, drought, and drainage and wastewater. We must balance incentives and requirements that can sometimes act in tension, such as the desire for rapid environmental improvements and the upward pressure this places on customers' bills. We maintain constructive dialogue to agree commitments for improvement. The Water Industry National Environment Programme (WINEP) is developed by the Environment Agency (EA), Defra, and Natural England, in consultation with water companies and other stakeholders. It sets out the actions that water companies need to take in order to meet their future environmental legislative requirements. The Drinking Water Inspectorate (DWI) can also put in place programmes of work to improve drinking water quality. These long-term plans feed into business plans submitted to Ofwat as part of the price review process. Ofwat then sets each company's final determination (FD) detailing revenue, required service levels, and the incentive package for five-year periods (AMPs). Companies can either accept the FD or appeal to the Competition and Markets Authority. 2024/25 was the final year of AMP7, and we have received our FD for the next five years (AMP8). Each company reports its performance against the FD in an annual performance report (APR) in July each year. Regulators also undertake comparative assessments of companies' performance.

Competitive retail market

Since April 2017, non-household retail activities have been open to competition, meaning businesses can choose who provides their retail services. Our non-household retail activities do not sit within UUW, but via a joint venture known as Water Plus. Details relating to Water Plus can be found in notes 11 and A5 to the financial statements on pages 93 and 128.

Ofwat and EA investigations

In November 2021, Ofwat and the EA launched separate industry-wide investigations into how companies manage their wastewater assets. In July 2024, Ofwat announced that it was opening enforcement cases for a number of water companies, including UUW, following the analysis of environmental performance and data about the frequency of spills from storm overflows. Ofwat stated that while it has concerns with the sector that it must investigate, the opening of enforcement cases does not automatically imply that companies have breached their legal obligations or that a financial penalty will necessarily follow. To date, Ofwat has not given a firm indication of the expected timeframe for its ongoing investigation or any subsequent action. The EA has made a number of data requests and undertaken site visits as part of its industry-wide investigation, with which we continue to fully comply. This investigation is focused on environmental permit compliance at wastewater treatment works and wastewater networks, with the EA having a number of enforcement options open to it if it concludes that companies have breached their permit conditions and/or illegally polluted the environment. These include the potential for criminal prosecution and unlimited fines. As with the Ofwat investigation, this remains ongoing.

Independent Water Commission

This year, the Government launched an independent commission with broad terms of reference to review the regulatory framework, regulators and incentives that govern the water industry model and strategic water

Strategic report

planning, requiring consideration of the conditions needed in the private regulated model to attract the investment needed to improve environmental performance, bring more accountability, rebuild public trust and confidence, and secure a resilient, innovative water sector and framework that will work for decades to come. Chaired by former Deputy Governor of the Bank of England, Sir Jon Cunliffe, and drawing upon a panel of experts from across multiple sectors, the commission has launched a call for evidence, to which we have contributed fully. The commission is expected to report back to the Government in the summer of 2025 with a set of recommendations.

Natural environment

Climate change
We are already experiencing more extreme rainfall events, freezing temperatures followed by rapid thawing, and prolonged dry periods. This increases the level of risk for water availability, flooding, and network damage. We have detailed plans in terms of both adaptation (building resilience against these changes) and mitigation (reducing our carbon footprint).

Population growth
The North West population is already increasing, and forecast to grow by around a million by 2050. We plan well into the future and continually adapt to strengthen our long-term operational resilience. Our water resources management plan, for instance, considers consumption forecasts out to 2080.

Protecting and restoring ecosystems
Much of the landscape in our region is legally protected for its environmental or cultural significance, including national parks and sites of special scientific interest (SSSI), and we play a role in looking after it and restoring healthy, resilient ecosystems.

Economic environment

Market rate movements
The impacts on our business of movements, such as interest rates and inflation, are complex. Cost increases are partly offset by increased allowances under the regulatory mechanism. £4.7 billion of our debt is index-linked, therefore impacted by inflation. Our regulatory capital value (RCV) also rises with inflation, and our £4.9 billion of fixed-rate debt increases in benefit as interest rates rise. Unlike many companies, our low dependency pension schemes are protected from market rate movements.

Customer affordability
The economic environment also impacts customers, with the most deprived, typically, hit the hardest. The North West has 47 per cent of the most deprived neighbourhoods – more than any other region – making the industry-leading affordability support we provide even more critical. We are doubling our support in AMP8, helping one in six households in the region, and we remain strong supporters of the CCW’s call for a national social tariff, pooling funds to help those in most need.

Political environment

Engagement and adaptability
Political decisions have the potential to impact on our operations, including changes to legislative obligations under environmental and competition law. We engage with regional and national politicians, and other policymakers, to understand developments and key issues, improving policy development where possible, and stay flexible to adapt as needed.

Environment Act 2021
The government set out an ambitious plan for reducing spills from storm overflows, as well as obligations to reduce phosphorus and address nutrient imbalance. We have already invested significant amounts to improve the quality of rivers and seas in the North West, and AMP8 will see our biggest ever environmental investment programme.

Strategic report

Water (Special Measures) Act
Passed this year, this act strengthens the power of regulators to impose special measures on failing water companies, including blocking executive bonuses, imposing penalties and potential criminal charges for law breaking.

Technology and innovation
Developments
New technology and innovation can create opportunities for improvements in service and efficiency. The use of artificial intelligence and machine learning helps us to improve performance, and is central to our Dynamic Network Management approach. We work closely with suppliers and innovators from around the world to maximise the opportunities presented by new technology and ideas.

Customer interaction
In an increasingly digital world, we must evolve our services to ensure we meet changing customer expectations. We have modernised the methods and channels through which customers can get in touch to access their bills, update their information, and receive updates on services and support.

Cyber and data security
Technology can give rise to risks, such as the threat of cyber attacks, which has increased in recent years. Protecting infrastructure, customer information and commercial data from malicious activity is a key priority.

Materiality assessment

How our strategy helps us delivery our purpose
Each of our six strategic priorities is linked to the delivery of one of the key elements of our purpose – helping us to make the North West stronger, greener and healthier.

These priorities reflect the key long-term drivers of our business and how we create value. They align with our materiality assessment, which is set out below. Each of our strategic priorities addresses one or more of the themes identified, as set out below, and by focusing on the things that matter most to stakeholders, long-term resilience, and areas of particular focus in our political and regulatory environment, our strategy directly addresses the top three material themes.

Greener:
Improve our rivers – We have a strong track record in minimizing pollution, and continue to protect bathing waters across the North West. River health in the UK has grown in public interest in recent years. The industrial legacy and high rainfall in the region means that delivering the significant reduction in spills from storm overflows required by the Environment Act 2021 will be more challenging in the North West than in other areas. To address this, we have the largest investment programme in AMP8 to deliver an industry-leading reduction of more than 60 per cent in the decade to 2030. We have already accelerated work in key locations and made strong early progress, having achieved a 39 per cent reduction in average spills per overflow since 2020. ***Material theme addressed –*** Environmental water quality and storm overflows.

Create a greener future – We are committed to protecting nature and biodiversity, and supporting customers to reduce their water consumption. We have a net zero transition plan underpinned by carbon pledges and ambitious science-based targets. We generate clean, renewable energy from bioresources and through partners. We are also looking at how we can make the best use of our land to help deliver a greener future, be that through our pledges to create woodland and restore peatland, or increasing our renewable energy generation capacity. ***Material themes addressed*** – Climate change mitigation; Water resources and leakage; Natural capital and biodiversity; Energy management; Waste management.

Strategic report

Healthier:

Deliver great service for all our customers – We strive to continually improve our service for customers. We conducted extensive engagement in the development of our AMP8 business plan to help us understand what matters most to customers, and we have ambitious targets to further improve water quality, reduce supply interruptions, fix leaks, and reduce the risk of sewer flooding. Great service also means helping customers with affordability and vulnerability, and keeping their data secure. These continue to be ongoing priorities, and our affordability support is already sector-leading and will double in AMP8. ***Material themes addressed*** – Customer service and operational performance; Drinking water quality; Affordability and vulnerability; Cyber and data security.

Provide a safe and great place to work – We are committed to maintaining high levels of health, safety and wellbeing. We invest in our colleagues' training and development, helping us to attract, develop and engage great talent across the organisation, now and for the long term. We support and encourage a diverse and inclusive culture, helping to ensure our colleagues represent the communities we serve. This brings a diverse range of views and ideas, and we want colleagues to feel empowered to contribute to making things better. Our 'Call it Out' inbox enables everyone to raise any topic or suggestion for improvement directly with the CEO. ***Material themes addressed –*** Health, safety and wellbeing; Diverse and skilled workforce; Colleague engagement.

Stronger:

Spend customers' money wisely – We continuously challenge ourselves to improve cost efficiency in a sustainable way, so that we can keep customer bills as low as possible in the long term without compromising on service or resilience. We often look to minimise whole-life cost, using adaptive planning to deliver the best-value solutions in the long term. We exploit innovation to find better ways of working, capitalising on digital and automation opportunities. We continue to raise efficient financing and manage risk prudently. We also leverage partnerships and drive value in our supply chain – our mix of suppliers in AMP8 will help us to maximise our capital programme efficiency. ***Material themes addressed*** – Financial risk management; Innovation; Responsible supply chain; North West regional economy.

Contribute to our communities – We work closely with communities across the North West and we invest in those communities as well as opening our land for access and recreation. We actively engage and make use of partnerships to drive value for communities, such as our participation in the Love Windermere initiative. We produced individual business plans for each of the North West's five counties, recognising their unique and diverse needs and challenges, and we have mobilised our teams into county delivery squads to help manage these relationships in AMP8, and ensure we can deliver our planned improvements for each county with minimal disruption. ***Material themes addressed*** – Supporting communities and Recreational land and waters.

How we assess and prioritise material themes

Our strategic priorities reflect the areas of highest focus for our business and our stakeholders. In order to ensure our disclosures cover all areas of material interest, we regularly refresh our materiality assessment, which ranks material themes based on their potential impact on our ability to create value for the company and for our stakeholders.

Stakeholder views and priorities

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

Understanding what matters to our stakeholders helps us to prioritise areas for focus and investment, enabling us to factor their views into strategic decision-making at board level, as set out in our S172(1) Statement on pages 44 to 46.

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

Strategic report

2024/25 assessment
We have carried out a thorough review of our material themes and materiality matrix. Striking the right balance between different interests and views is not easy, but our assessment process consolidated feedback based on a balance of views obtained from all of our stakeholders.

The applicability of industry-specific topics in the Sustainability Accounting Standards Board (SASB) standards were also considered as part of this assessment, as required by ISSB S1: General requirements for disclosure of sustainability-related financial information. We also considered the UN Sustainable Development Goals that we contribute towards.

Our materiality assessment is aligned closely with our assessment of principal risks and uncertainties, with close linkage between the themes highest in terms of company value (horizontal axis) and our top principal risks and common causal and consequence themes identified.

Our assessment process this year identified 29 material themes.

Our materiality assessment process:

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

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

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

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

Strategic report

Materiality matrix

Themes are plotted on the matrix from higher (top right) to lower (bottom left) in terms of their potential to impact company value and impact on the value we create for stakeholders.

1 Trust, transparency and legitimacy

Our comprehensive disclosures and integrated reporting approach provide leading levels of transparency throughout this report.

2 Resilience

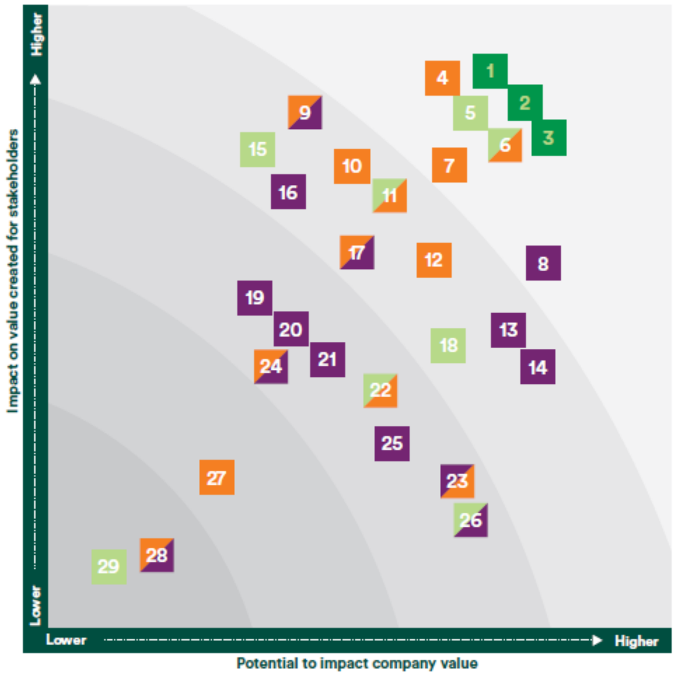
Resilience is a key consideration in our long-term planning (page 21), the way we manage our key resources (pages 22 to 23), and the ultimate focus of our risk management approach (pages 58 to 65).

3 Political and regulatory environment

Our external environment, including the political and regulatory environment, is covered on pages 24 to 25.

Key: Our material themes are aligned to one or more of the key ambitions of our purpose – stronger, greener and healthier.

- Overarching theme
- Healthier
- Greener
- Stronger



Strategic report

Our approach to risk management

Risk and resilience

Our approach to risk and resilience

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water for a stronger, greener and healthier North West, and be more resilient across our corporate, financial and operational structures. A key objective of our approach to risk and resilience is to support the sustainable achievement of the strategic priorities (see page 3) that underpin our purpose.

Focused on creating and protecting value, our risk and resilience framework provides the foundation for the business to:

- anticipate threats and variability to delivering an effective service in these challenging times;
- understand the interrelationships and interdependencies for an integrated approach;
- apply preventative measures to limit loss, or increase resistance and reliability; and
- respond and recover effectively when risks materialise.

Key components of the framework include:

- A strong and well-established governance structure giving the UUG board oversight of the nature and extent of risks the group faces, as well as the effectiveness of risk management processes and controls.
- Defined roles and responsibilities, with executive members and business unit heads being accountable for sponsoring risk management activity in their business unit; risk sponsors who are responsible for the assessment of risk and the implementation of control/risk mitigation; control and action owners who are typically subject matter experts who have the remit to mobilise resource; and a network of risk leads and coordinators who support the corporate risk team in the coordination and facilitation of the risk management process.
- An embedded group-wide risk management process (which is aligned to ISO 31000:2018 risk management guidelines) along with a portfolio of policies, procedures and guidance to enable a consistent approach to risk management.
- Regular training on risk management ranging from feedback sessions to address specific points, or more formalised training relevant to three levels of requirement: awareness, working knowledge, and practitioner. In addition, to support directors fulfill their responsibilities with regards to risk management, new appointments to the board receive training on key aspects of the risk and resilience framework, and a reminder of the framework's key principles is provided as a supplement to the biannual risk profile report.

Continuous improvement is a key feature of the framework, which incorporates an annual maturity assessment against a defined model to identify areas to enhance. Based on risk management capabilities relative to five levels of maturity, we continue to enhance risk and resilience through:

- maturing the escalation and alignment of data from operational risk assessment with strategic and tactical corporate risk;
- reinforcing non-financial impact using the six capitals and consideration of stakeholders (representing the impact on trust);
- improved cross business involvement in the assessment and mitigation of risk;
- standardisation of controls for cross-business analysis; and further development of tactical risk appetite and tolerance statements.

Governance and reporting process for risk management

We have a well-established governance and reporting structure for risk and resilience. In line with the Corporate Governance Code, the UUG board has overall responsibility for establishing, maintaining and monitoring the risk management and internal control systems, with our CFO having executive responsibility for implementing the enterprise risk and resilience framework. This includes the development and roll out of the risk and resilience policy; establishing associated governance and steering groups; and employing dedicated risk and resilience

Strategic report

teams, in particular the corporate risk team, which is responsible for the embedment of the overarching risk and resilience framework and processes.

The UUG board undertakes a comprehensive review of the business risk profile twice a year in line with the full and half-year reporting cycle. This review considers: the key features of the risk profile; the nature and extent of the group's principal risks (see pages 24 to 31) relative to the most significant event-based group and operational risks; risks relative to financial risk appetite limits; and new and emerging risks (see page 31). The UUG board also regularly undertakes reviews and deep-dives of specific risks. In combination, the UUG board's biannual risk profile review and specific risk reviews supports decision-making, and enables it to:

- decide on the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives;
- ensure appropriate controls and mitigation are in place, and test the appropriateness of plans to manage risk and realise opportunities;
- report on the long-term viability of the company in an informed manner; and
- monitor and review the effectiveness of risk management and internal control systems (see pages 124 and 125 of the UUG 2025 Annual report).

Prior to the full and half-year review by the UUG board, the executive-led GARB provides an initial oversight of the risk environment, undertaking a 'top-down' assessment of the risk profile, and we consult with professional services, national risk registers, trade associations for new and emerging risks and issues. Key points and themes are then fed into a series of director-led integrated risk reviews (IRRs) for the 'bottom-up' assessment of risks, controls and the determination of further mitigation actions. The IRRs include senior managers and subject matter experts to ensure a holistic consideration of correlating risks, the interdependency of controls, and new and emerging circumstances. The resulting risk profile and key messages are then collated by the corporate risk team and reviewed by the executive before escalation to the UUG board.

The effectiveness of risk management and internal control systems is formally reviewed on an annual basis, in accordance with the code. The assessment, which takes into account relevant governance, risk management processes, internal control systems and assurance factors, is undertaken by the GARB before escalation to the audit committee, which acts on behalf of the UUG board on this matter. See page 134 of the UUG 2025 annual report for further details of the effectiveness review and outcome. The internal audit team provides periodic independent assurance on the effectiveness of risk management. This was last undertaken in 2023 for both risk management and risk appetite and tolerance.

Risk appetite and tolerance

Focused on supporting decision-making, the risk appetite and tolerance framework consists of a package of measures.

The overarching strategic appetite statement emphasises the UUG board's principal intent is to be compliant with legal and regulatory requirements. Beyond this principal intent, the statement reflects a balanced approach of protecting and creating value relative to multiple stakeholders and associated obligations, with the differing approaches directing the extent of control applied based on four descriptors:

- Averse: a strong opposition to accept risk.
- Prudent: a careful and cautious acceptance of risk within tight boundaries.
- Moderate: willingness to accept risk provided this is within reasonable limits.
- Accepting: willingness to accept risk.

As a regulated company providing essential public services, we will not follow an Accepting risk appetite in any capacity.

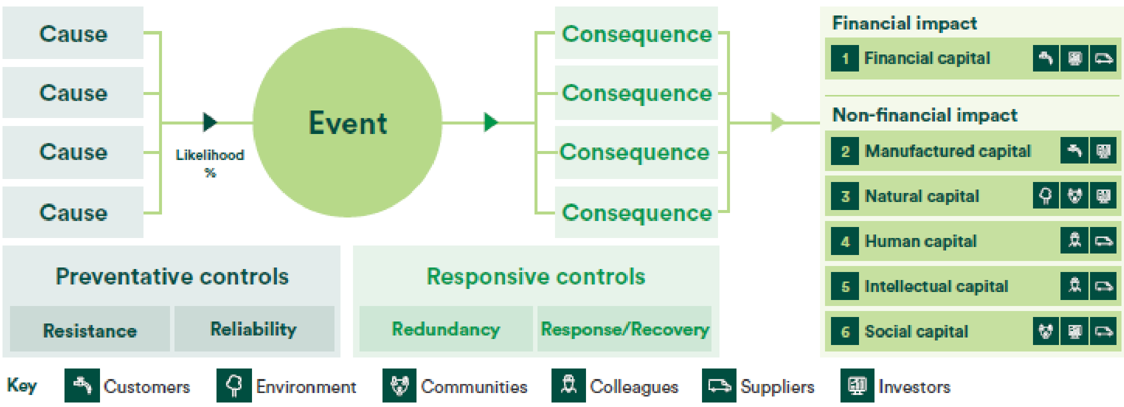
From the initial platform provided by the strategic appetite descriptors and statement, the framework looks to determine set parameters that can be used to evaluate risk and support decision making. As part of the full and half-year risk reporting to the UUG board, the risk status against target is assessed and the potential range of impact of event-based risks are compared to agreed general risk appetite financial limits. In addition, specific parameters and tolerances for each risk are in the process of being determined relevant to the day-to-day operational activity across corporate, financial and operational structures, which will further support a consistent approach to implementing risk management strategies.

How we assess and manage risk

We have a number of mechanisms in place to identify risk, including: consideration of primary and supporting activities which make up our inherent risk areas; the water cycle; cross-business horizon scanning forums; review of national and sector risk registers; and consultation with professional service firms and risk forums. Understanding the context of risk relative to our objectives and obligations is a fundamental part of the assessment. Assessment of risk takes into account new and emerging circumstances from the internal and external business environment and utilises 'bottom-up' information from operational and project risk assessments where appropriate. Risk assessments are also supported by 'top-down' assessments as described in the governance and reporting process section on page 21. This integrated 'top-down, bottom-up' approach ensures that reporting reflects the risks facing the company, serves to calibrate the risk assessments, and enables assessment of the risks relative to our appetite.

Following evaluation of the risk context, the process then quantifies the risk for likelihood and impact by considering the components of risk using a risk bow tie as illustrated in the diagram below. The likelihood of the event occurring is based on the causal factors with the financial and non-financial impacts reflecting the consequences of the event should it occur. Financial impact includes loss of revenue, additional costs, fines, regulatory penalties and compensation. Non-financial impacts align to the six capitals (see page 10) to ensure a holistic consideration of where value can be gained, lost or preserved across the wider environment and society, and represents the impact on trust (reputation) of a wide range of stakeholders. The full range of financial and non-financial impact is considered from a minimum (best case) to a maximum (worst case) scenario. Out of this range, the most likely impact scenario is assessed.

Comparing the current risk position against the desired target state, in combination with the strengths, weaknesses and gaps of the control environment, supports the decisions for further mitigation. Further mitigating action will target either the likelihood of occurrence, the impact, or a combination of both, through new or improved preventative or responsive controls. Each further mitigating action has a defined owner, specified 'resolve by' dates and progress status indicators to support monitoring.



Our risk profile

A key feature of the business risk profile is inherent risk areas. These are categories of risk that are based on the value chain of the company, reflecting the interrelationship of the primary (water service and wastewater service including bioresources), and supportive activities or areas of responsibility such as finance, supply chain, environment, and health and safety, where value can be gained, preserved, or lost. As a result, the inherent risk areas support the identification and/or gap analysis of all types of risks, facilitate analysis of correlation and interdependency, and provide the platform for determining risk appetite and tolerance, which, in turn, helps us to articulate our direction and priorities to support decision-making around risk and resilience. Underpinning the inherent risk areas are, approximately, 100 event-based risks, which are inherent to the company's objectives and obligations, and cover core elements of the production lines, systems, networks and activities across the business. Each event-based risk remains dynamic by reflecting new and emerging circumstance relative to the ever-changing external threats and internal vulnerabilities.

Common risk themes

Recognising the value of an integrated approach to risk and resilience management, we consider common themes across the event-based risks.

We have identified a number of common causal and consequence themes that relate to multiple risks. This allows us to understand correlating risk enabling us to take a holistic view of the strengths, weaknesses and gaps in our controls, and to consider the short-, medium- and long-term implications of risks materialising. Categorisation indicates seven causal themes and six consequence themes as summarised below.

Common casual themes

- Asset health: Asset deterioration, technological obsolescence and operating assets beyond their optimal capacity to cope with increased demand (population growth and/or climate change) affect operational efficiency and resilience.
- Climate change/extreme weather: Climate change projections highlight increased temperatures, rainfall, wind and more frequent extreme weather patterns with the potential to affect our service delivery and the environment that we strive to protect and enhance.
- Culture: Internal company attitude and behaviour, and external perception and wider society expectations can lead to increased threat and vulnerability as an organisation, relative to service delivery, capital programmes and reputation.
- Demographic change: Population growth/shift, evolving age profiles, and industrial developments can impact the capacity and capability of water and wastewater treatment and network assets, can affect demand on water resources, and can increase uncertainty in relation to pension obligations.
- Economic conditions: Macroeconomic events can have multiple financial implications, including lower revenue, reduced cash collection, increased operational cost through inflationary pressures and scarcity of supply, and increased cost of borrowing.
- Legislative and regulatory change: Changes in, or the interpretation of, legislation and regulation can have implications for our business model, asset base and ways of working.
- Technology and data: Ageing technology assets, and poor-quality data can threaten efficiency and security. In addition, the pace of technological change (including artificial intelligence), and seeking opportunities through increased automation and system integration, can provide challenges in the adaptability of the workforce and increase security threats.

Common consequence themes:

- Environmental impact: The potential impact to air, soil, water and biodiversity in the short and long term, based on our assets, activities, carbon emissions and waste.
- Investors: The financial, ethical and environmental performance of our activity has implications for the value of investments and the market perception of the company.
- Non-compliance: The potential inadvertent breach in legislation or regulation when undertaking our activities.
- People: The diversity, skill set, engagement and wellbeing of our colleagues, and the health and safety of our people and the public relative to both our culture and activities.

Strategic report

- Service delivery: The quality of our service delivery, capital programmes and communication, and the effect oncustomer experience and trust with the wider community.
- Suppliers: The sustainability and resilience of suppliers can be affected by our culture and activities.

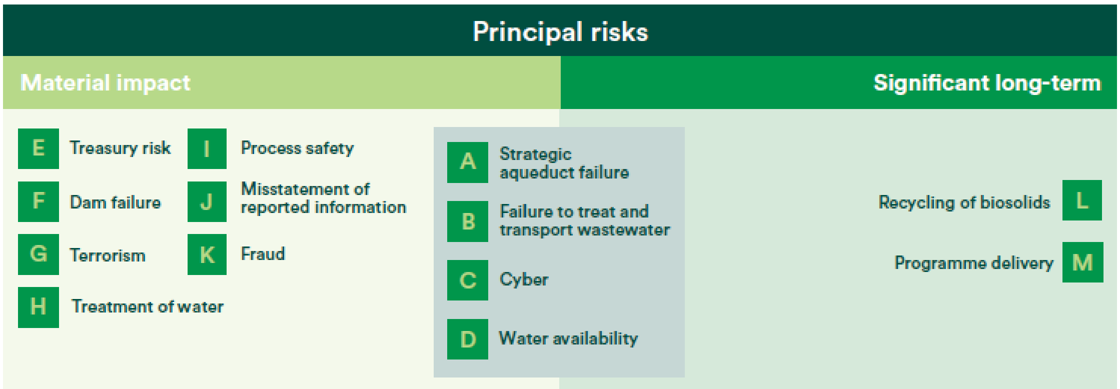
Our principal risks

In January 2024, the FRC published a revised UK Corporate Governance Code (the code), with the most significant change being in respect of Provision 29, which relates to the board monitoring the risk management and internal control framework. In accordance with the revised code, the board will make a declaration of the effectiveness of material controls from financial year 2026/27, which will supplement the existing annual assessment of risk management and internal control systems. As we take steps in preparation for the material controls declaration, we have renewed our definition of which event-based risks, individually or collectively, are to be considered as a principal risk:

- Material impact risks – risks, which in the maximum worst case, have severe one-off financial and non-financial impacts; and/or
- Significant long-term risks – risks with significant exposure (likelihood of occurrence of the event multiplied by the most likely financial impact over the long-term after consideration of the current control environment).

Our principal risks, therefore, represent those risks, which, in a remote but plausible scenario, could initiate corporate failure (material impact risks) and those risks that are likely to have a significant long-term impact on company value if they were to crystallise. As our definition of material impact risks highlights those risks that have the most significant impact (if they crystallise in the worst case), it naturally identifies risks which place significant reliance on mitigating controls. Therefore, our future material controls declaration will be in respect of the key controls which mitigate our material impact risks.

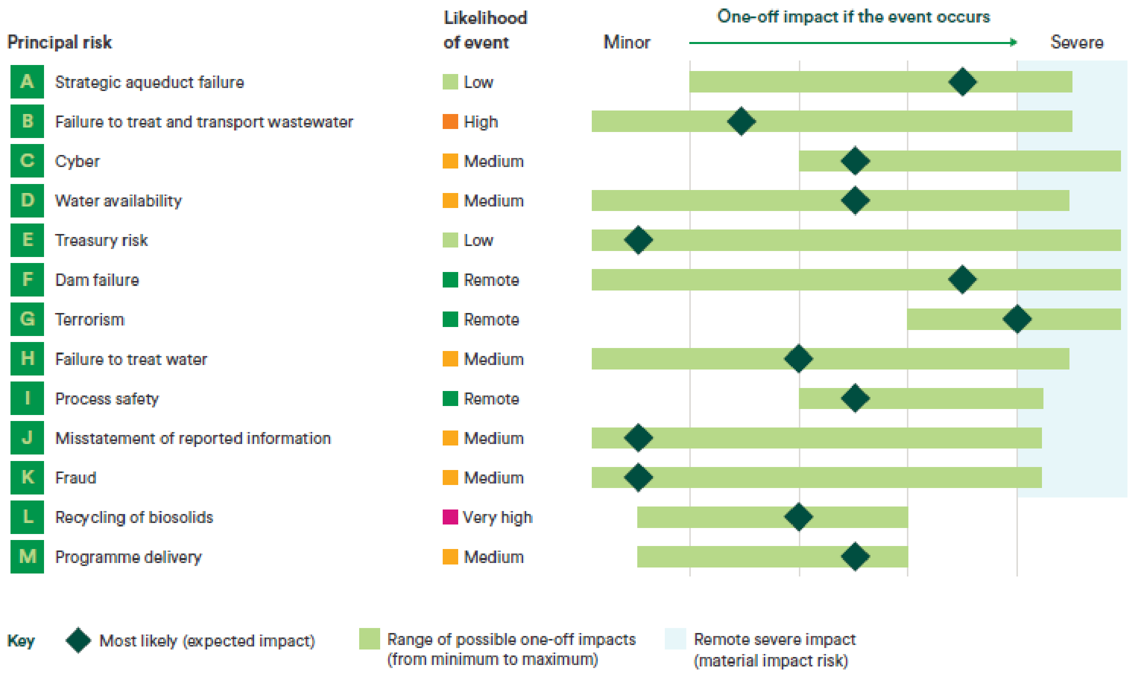
The overlap between the material impact and significant long-term risks is represented in the diagram below. A summary of the principal risks and associated mitigation/ control is provided on pages 24 to 31.



Principal risk exposure

The bar chart below illustrates the likelihood of each event-based risk occurring (relative to its causal factors) and the indicative full range of potential one-off financial impacts (from minimum to maximum) should the risk materialise. Each of the multiple impacts in the range is subject to an individual post event probability, the most likely of which is illustrated by the diamond. Where the remote maximum impact is both financially and non-financially severe (as highlighted by the blue box), it is regarded as being material, constituting a material impact risk.

Strategic report



Our principal risks

A. Strategic aqueduct failure

Risk exposure: We own and operate nine aqueducts, which transfer water from major treatment works and large service reservoirs to the wider network. Asset deterioration and damage (caused by third party or natural event) are key risk factors to water supply and/or quality relative to large proportions of our customer base. The Haweswater Aqueduct is the most significant asset of this type and currently has the lowest level of resilience.
Control/mitigation: We are committed to delivering a resilient supply of water. Material controls are:

- Rehabilitation/restoration: Current initiatives include the Haweswater Aqueduct Resilience Programme and Vyrnwy Aqueduct Modernisation Programme.
- Contingency plans: Plans to minimise environmental damage and deploy alternative supply options.

Other controls include protective easements, inspections, and monitoring of flow, pressure and turbidity via sensors and alarms.

Governance and assurance:

- Water quality first board
- Water price control
- Engineering team technical reviews
- Assurance team reviews
- Cyclical internal audits

B. Treatment and transportation of wastewater

Risk exposure: We own and operate network and treatment assets to collect and treat wastewater before it is safely returned to the environment. Risk factors to the hydraulic and operational capacity include: population growth; extreme weather (amplified by climate change); increased surface runoff due to residential and commercial developments; improper or harmful use of the sewer systems; and inherent asset health issues. Consequential failure, now subject to tightening legislation, can result in unpermitted storm or emergency overflow activations, sewer flooding and environmental damage.

Strategic report

Control/mitigation: We focus on providing reliable and resilient wastewater services. Material controls are:
- Serviceability: Desilting, cleaning and maintenance of sewers and wet wells.
- Maintenance: Inspection, servicing, repair and replacement of assets due to proactive and reactive activity.
- Dynamic Network Management: Proactive decision making and action driven by machine learning system monitoring of strategically placed sensors.
- Licence to operate: Training and competence. Other controls include customer awareness, trade effluent management and emergency response. In addition, our Better Rivers programme focuses on improving river water quality and reducing spills from storm and emergency overflow operation.

Governance and assurance:
- Wastewater Price control
- Flood committee
- Pollution committee
- Assurance team reviews
- Cyclical internal audits

C. Cyber

Risk exposure: As we continue to develop our digital capability, we become more reliant on connected technology, not only in the way we operate, but also the way in which we communicate with our customers and the wider community. Cyber incidents continue to grow in all industries with a constantly changing threat landscape. The potential for data and technology assets to be compromised is a key risk to business processes and operations.

Control/mitigation: We employ a multi-layer control environment with the material controls being:
- Infrastructure access controls: Perimeter and internal firewalls, and intrusion detection systems.
- System access controls: Restrictions to systems, data and internet usage.
- Point protection: Anti-malware suite and mail gateway service, which includes malware detection, transmission protocols, and endpoint actions.
- Monitoring and response: Capability to identify and respond to threats via our Security Operation Centre.

Other controls include awareness training, and business continuity plans.

Governance and assurance:
- Security steering group
- Security team review
- Annual internal audit
- External reviews

D. Water availability

Risk exposure: Water availability is a long-term risk for the UK relative to climate change and increased demand from population growth and increasing industrial usage. It is one of the most sensitive risks to climate change with lower-than-average rainfall and changing seasons affecting water resources, while extended periods of hot weather increases evaporation and demand. Both the environment and the capacity to supply water can be affected with the potential for water use restrictions to be implemented. Changing environmental legislation on abstraction and compensation is also a factor.

Control/mitigation: We are committed to the sustainability and resilience of water resources. Material controls are:
- Strategy: Our Water Resources Management Plan (WRMP) takes account of climate and demographic change over short-, medium- and long-term horizons.
- Production planning: Proactive activity to balance water availability and production capacity against forecast demand.

- Contingency plan: The Drought Plan sets out the actions we will take in a drought situation.

Other controls include abstraction and leakage management, and water efficiency programmes.

Governance and assurance:
- Water quality first board
- Water price control
- Assurance team reviews
- Internal audits

E. Treasury risk

Risk exposure: We are inherently exposed to liquidity, market, credit and capital risk due to our debt financing, cash and derivative holdings, defined benefit pension scheme and a significant annual commodity spend, notably energy. Risk factors include market fluctuations, cost or revenue shocks, process or system errors or failures (internal or counterparty), and company or sector poor performance. Impacts can be conflated and range significantly relating to: wholesale revenue; the cost of goods and services; the cost of debt; the group's Regulatory Capital Value; defaults and breach of covenants; inability to access debt or cash deposits; and ultimately insolvency.

Control/mitigation: We have a robust and prudent approach to financial risk management. Material controls are:
- Approved limits: Interest, inflation, commodity exposure limits, and credit rating and financial ratio tolerance levels.
- Control of work: A management system that includes authorisation, transaction parameters, segregation of duties and supervision.
- Licence to operate: Training and competence.

Other controls include company business planning and monitoring of both internal and counterparty performance. The banking resolution regime also provides protection in the event of bank failures.

Governance and assurance:
- Operational Compliance review
- Executive performance meeting
- Treasury committee
- Cyclical internal audit

F. Dam failure

Risk exposure: We own and operate a fleet of over 100 dams and service reservoirs, many of which fall under statutory regulations due to their significant capacity. The integrity of all dams is fundamental to water availability, and the safety of society and property downstream. Flood damage, overtopping, earthquake or erosion could, in remote circumstances, result in an uncontrolled release of a significant volume of water with catastrophic implications.

Control/mitigation: Focusing on maintaining extremely low probabilities of individual dam failure, material controls are:
- Portfolio Risk Assessment (PRA): Assessment of individual dams in the context of societal risk.
- Inspections: Regular monitoring by catchment teams and Supervising Engineers.
- Remedial work: Fixes based on PRA or statutory requirements "in the interest of safety" (ITIOS).

Other controls include ground maintenance to manage vegetation and erosion, and contingency plans.

Governance and assurance:
- Dam safety group
- Assurance team reviews

- Cyclical internal audits
- Panel engineer inspections

G. Terrorism

Risk exposure: The water industry is classed as one of 13 'Critical National Infrastructure' (CNI) sectors, which are defined as facilities, systems, sites, information, people, networks and processes, necessary for a country to function and upon which daily life depends. Within this definition, a number of specific UU assets are assigned a CNI or 'National Infrastructure' (NI) designation, which, although deemed as remote, could if compromised, lead to severe economic and social consequences.

Control/mitigation: We employ a multi-layered approach in accordance with the Security and Emergency Measures Direction (SEMD) of the Water Industry Act. Material controls are:
- Physical access controls: These include gates, fences, security guards, CCTV and access control systems.
- Monitoring and response: Security alarm management via our Integrated Control Centre.

Other controls include the physical hardening of assets based on priority and operational site inspections.

Governance and assurance:
- Security steering group
- Security team reviews
- Assurance team reviews
- Cyclical internal audits
- External reviews

H. Treatment of water

Risk exposure: Threats to water treatment include asset health, process failure and the contamination (natural, chemical or biological) of raw water. Climate change is a key factor of raw water contamination due to intensifying catchment erosion and runoff, more frequent wildfires and increasing algal bloom, which can produce taste and odour problems. Failure to treat water can lead to non-compliance with regulatory standards, rejection of water by consumers for aesthetics or, in extreme cases, public health issues.

Control/mitigation: We are committed to providing wholesome drinking water. Material controls are:
- Sampling & testing: Occurs across the entire system to ensure water is safe and compliant.
- Sensors & alarms: Monitors deviations from acceptable levels with alarm triggered response.
- Maintenance: Inspection, servicing, repair and replacement of assets due to proactive and reactive activity.
- Licence to operate: Training and competence.

Other controls include an end-to-end risk assessment process, contingency plans, and the monitoring of the regulatory position on emerging contaminants.

Governance and assurance:
- Water quality first board
- Water price control
- Scientific service team reviews
- Assurance team reviews
- Cyclical internal audits

I. Process safety

Risk exposure: Our activities include chemical, biological and physical processes that are inherently hazardous, with the storage of toxic and explosive gases across multiple sites (two of which fall under the Control of Major Accident Hazard (COMAH) regulations). An unintentional release of chemicals, energy, or other potentially dangerous materials (including steam) during these day-to-day activities could, in the worst case, have a serious effect on people, plant/equipment, and the environment.

Control/mitigation: We are committed to improving health and safety performance, with process safety being a primary area of focus. Material controls are:
- Control of work: A management system that includes authorisation, isolation and permit to work.
- Management of change: Risk assessment and safe, effective implementation of changes.
- Maintenance: Inspection, servicing, repair and replacement of assets due to proactive and reactive activity.
- Licence to operate: Training and competence. Other controls include monitoring through sensors and alarms and emergency/contingency plans.

Governance and assurance:
- Process safety group
- Health & safety board
- H&S team reviews
- Assurance team reviews
- Cyclical internal audits

J. Misstatement of reported information

Risk exposure: We are bound by legislation and regulation to provide statutory financial accounts and regulatory reports to demonstrate financial health, performance, compliance with legal and regulatory requirements, and provide information to stakeholders for their ongoing interest and/or investment in the company. Failure to provide accurate and/or complete information is reputationally damaging and, depending on the nature of any misstatement or misreport, could accrue significant penalties and additional scrutiny.

Control/mitigation: We are committed to reporting in an open, compliant and transparent way. Material controls are:
- Financial controls: A management system including journal procedures, analytical reviews, and control accounts.
- Regulatory reporting framework: A set of principles relating to reporting criteria, accountabilities, data capture, governance and assurance.
- Validation: The identification of potential errors and reconciliation of financial parameters. Other controls include accounting policies, schedules, risk assessment and management of queries.

Governance and assurance:
- Executive performance meetings
- Audit committee
- Compliance committee
- Financial control team review
- Regulation and compliance team review
- Internal audits
- External audit

K. Fraud

Risk exposure: The scale of UU's operations presents multiple opportunities for fraud to be perpetrated from inside and outside of the company, potentially impacting us, our stakeholders and third parties. Fraud can be committed by individuals or groups with examples including false representation, unauthorised disclosure of personal information, the supply of inferior products / false invoices, and misuse or theft of company property. The Economic Crime and Corporate Transparency Act 2023 introduced a new corporate offence for failure to prevent fraud, which can carry an unlimited fine.

Control/mitigation: We are committed to preventing fraud. Material controls are:
- Control of work: A management system that includes authorisation, delegated authority, segregation of duties, supervision and data protection procedures.

- System access controls: Restrictions to systems, data and internet usage.
- Procurement & purchasing standards: Strict procedures to procure services and purchase goods.
- Verification: Checks on invoices, bills and refunds. Other controls include awareness training, confidential reporting and a fraud risk assessment.

Governance and assurance:
- Security steering group
- Whistleblowing committee
- Audit committee
- Group board
- Departmental review
- Cyclical internal audit
- External review

L. Recycling of biosolids

Risk exposure: Wastewater treatment generates significant quantities of sludge, which is subsequently treated to produce biosolids, the majority of which are recycled to agriculture as the most practical environmental option. A reduction in the landbank could have significant implications to strategy and operations with a total loss being the worst-case scenario. Threats include: the quality of biosolids; changes in public or political perception; changes in regulations associated with emerging contaminants and climate change; and/or the willingness of farmers or landowners to receive biosolids.

Control/mitigation: Treatment, sampling and testing ensures that quality standards are met, and we work closely with farmers, landowners and contractors to ensure compliance with regulations (notably the Biosolids Assurance Scheme). We are also investing in our sludge treatment assets to ensure capacity, reliability and environmental compliance is upheld. In addition, we continue to work closely with regulators to influence policy. We are also developing contingency plans should regulation change in the near term, with a notified item included in the final determination enabling an interim determination (IDOK) if significant investment is required to develop alternative disposal outlets before 2030.

Governance/ assurance:
- Bioresource team review of BAS compliance
- Executive performance meetings
- Assurance team reviews
- Cyclical internal audit
- External BAS audits

M. Programme delivery

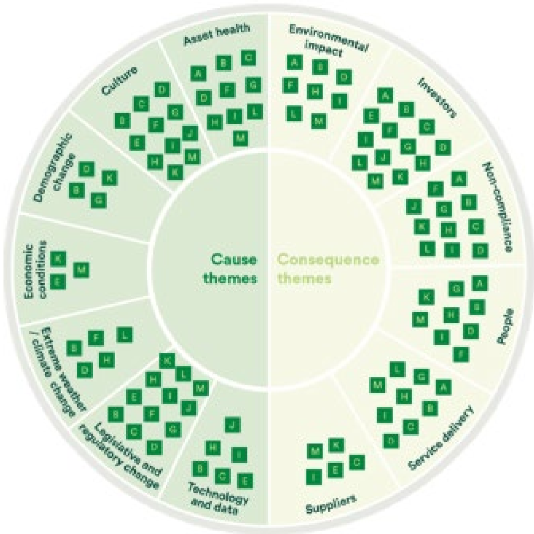
Risk exposure: The capital programme involves significant investment in the development and improvement of point and linear assets through a series of projects to improve water supply and wastewater services. Delivery to time, cost and quality is under constant challenge due to ongoing exposure to natural hazards and the capacity and capability of third parties, partners and internal resource. This risk is amplified by the significant scale of the capital programme across this and future asset management periods (AMPs) coupled with challenging cost allowances and performance commitments.

Control/mitigation: Our capital programme operating model involves multiple construction and design partners, and a large supplier base, providing both efficiency and resilience. With strong emphasis placed on safety and the environment, we adopt a supplier relationship management framework to manage contracts and performance, a runway approach for project allocation, and category management for the supply of products and materials. Performance is measured through our capital programme delivery incentive and monitoring performance commitment deliverables. For operations, a transformation programme is in development with five clear areas of focus within an agreed prioritisation framework.

Governance and assurance:

Strategic report

- Project management office
- Capital investment committee
- Executive performance meetings
- Assurance
- Assurance team reviews
- Cyclical internal audit



The wheel diagram illustrates how the principal risks relate to the common causal and consequence themes (as described on pages 23 and 24), demonstrating how new and emerging circumstances associated with the themes can influence the likelihood of a risk event occurring, the impact should the event occur, and the capacity and capability to respond through control/mitigation.

Nine of the thirteen principal risks have remained relatively stable in the last year with the following four risks demonstrating an increase in exposure:

- Failure to treat and transport wastewater: Despite improvement programmes, the increase in risk exposure reflects tightening interpretation of legislation and regulation, climate change, and population and industrial growth relative to the time required to delivery capital schemes.
- Treasury risk: The increase in risk reflects the need to raise larger volumes of debt in more diverse markets to fund the growth in capital investment, along with the investability of the water sector.
- Recycling of biosolids: The increased uncertainty regarding the continued availability and size of the landbank coupled with increasing volumes of biosolids.
- Capital delivery programme: The increased exposure reflects the scale of the current and future capital programmes required to enhance our water, wastewater and bioresource capabilities, and the associated inherent delivery risk.

New and emerging risks and opportunities

We define new and emerging risks and opportunities as those that have not previously been apparent or those existing risks and opportunities that are undergoing unprecedented growth/development or prominence, with long-term implications for the group and/or sector.

Horizon scanning activity is a key feature of the risk and resilience framework. It is undertaken routinely as part of external research and benchmarking, the assessment of event-based risks, and through dedicated forums such as the new and emerging risk forum and the compliance working group.

Where there is more understanding, assumptions can be allocated to inform the development of strategies and applied to the assessment of existing, or the new development of, risk and opportunities.

Regulatory change

While our high-quality and ambitious business plan is positive mitigation, overall sector performance and risk of contagion continues to emerge, which is currently manifesting in regulatory change.

In February 2025, the Water (Special Measures) Act was enacted, providing new risk and uncertainty in terms of the interpretation and enforcement of key provisions which include: automatic and severe penalties for wrongdoing; bringing criminal charges against persistent law breakers; monitoring of all sewage outlets; and potential implications for executive pay and reward.

Strategic report

In addition, an emerging risk and potential opportunity relates to the Cunliffe Review, which was initiated in October 2024 with the aim of overhauling the water sector by addressing inefficiencies and environmental issues with a focus on sector regulation and improving the health of water bodies.

We are keeping a watching brief over both areas of regulatory change, and as mitigation we continue to focus on delivering service improvements and meeting required targets.

Emerging contaminants

Emerging contaminants are chemicals or materials that are present in the water cycle and threaten the environment and/or human health. The majority are man-made (e.g. poly or perfluoroalkyl substances (PFAS), plastics, pesticides, pharmaceuticals and personal care products); however, climatic changes may also facilitate increased production of natural contaminants in previously non-impacted catchments.

There continues to be focus on understanding the sources of emerging contaminants, their pathways and potential impacts, along with developing effective detection, remediation, and prevention strategies.

Uncertainty relates to the timescale and extent of any corresponding changes to specific water and wastewater regulations and the associated impact on existing operations, as well as the potential effect on recycling biosolids to land.

We have aligned our operational risk assessments to emerging contaminants and participate in multiple research and industry planning activities. In addition, we have developed biosolids contingency plans and there is a notified item as part of the final determination enabling an interim determination (IDOK) if significant investment is required to develop alternative biosolid disposal outlets this AMP.

Technological innovation

We recognise technological innovation as an opportunity to improve efficiency, service levels and resilience. Artificial intelligence and machine learning is already central to our Dynamic Network Management approach that we have adopted across our wastewater system, and we continue to evolve our digital services to customers.

Technological development can also result in new and emerging risk, in particular with regards to the security and accuracy of information and the potential implications for our operations and service. In addition, our ongoing digital expansion could increase the exposure to cyber attacks. Hydrogen generation and the data centre market (driven by factors such as the expansion of artificial intelligence and cloud computing) are expected to grow substantially, both of which require significant amounts of water –putting further unprecedented demand on water resources.

Geopolitical issues

Geopolitical issues continue to emerge with recent developments in tariffs compounding the existing geopolitical tensions and supply chain complexities associated with conflicts in Ukraine and the Middle East. Emerging risks relate to potential further changes in global trade policies which may impact economic stability and inflation (which affects costs in the short-term but presents a financial opportunity in the long-term due to the regulatory mechanism).

We already have multiple suppliers, category management, and framework agreements in place, which provide protection for inherent volatility in the supply chain; however, we will continue to monitor the situation and work with our partners and supplies to ensure we continue to efficiently source key goods and materials.

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 UUG board. While our directors remain of the opinion that the likelihood of a material adverse impact on the group’s financial position is remote, based on the facts currently known to us and the provisions in our financial statements, the following three cases are worthy of note:

Strategic report

• In relation to the Manchester Ship Canal Company matter reported in previous years, the Supreme Court issued a ruling in July 2024 that overturned a number of rulings in lower courts that had previously gone in UUW's favour. This latest Supreme Court ruling provided clarity in relation to the rights and remedies afforded to the parties and others in relation to discharges by water companies into the canal and other watercourses, and brought the long-running litigation to a close. Specifically, the ruling clarified that common law claims in nuisance/trespass may be brought by MSCC (and those with proprietary rights in watercourses/water bodies) against water and wastewater companies where the relevant legal thresholds for bringing a claim have been met. No such common law nuisance/trespass claims have been received by UUW to date from either MSCC or any third party, with the likely receipt of any such claims, and their potential success and any financial implications, being unclear at the reporting date.

• As reported in previous years, in February 2009, United Utilities International Limited (UUIL) was served with notice of a multi-party 'class action' in Argentina related to the issuance and payment default of a US$230 million bond by Inversora Electrica de Buenos Aires S.A. (IEBA), an Argentine project company set up to purchase one of the Argentine electricity distribution networks that was privatised in 1997. UUIL had a 45 per cent shareholding in IEBA, which it sold in 2005. The claim is for a non-quantified amount of unspecified damages and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. The Argentine Court has scheduled various hearings to receive the testimony of fact witnesses and experts (starting in May 2023 and ongoing). UUIL will vigorously resist the proceedings given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

• As disclosed in the group's annual report for the year ended 31 March 2024, collective proceedings in the Competition Appeal Tribunal ('CAT') were issued on 8 December 2023 against United Utilities Water Limited ('UUW') and United Utilities Group PLC on behalf of, approximately, 5.6 million domestic customers following an application by the Proposed Class Representative ('PCR'), Professor Carolyn Roberts. The PCR alleges that customers have collectively paid an overcharge for sewerage services during the claim period as a result of UUW allegedly abusing a dominant position by providing misleading information to regulatory bodies. The estimated total aggregate amount the PCR is claiming against UUW (including interest) for household customers is at least £141 million. On 7 March 2025, the CAT unanimously concluded that claims could not proceed on the basis that the claims brought forward are excluded by section 18(8) of the Water Industry Act 1991. Subsequently, the PCR has applied to the CAT for permission to appeal the decision at the Court of Appeal. If permission is granted, this could result in an appeal towards the end of 2025 or in 2026. UUW believes the claim is without merit and will robustly defend it, should the certification decision be overturned on appeal. Separate letters before action were issued on 20 December 2024 in relation to similar claims in respect of non-household customers; however, it is not clear how these will proceed following the CAT's decision not to certify the claims brought in respect of domestic customers.

How we report our performance

Operational performance

In order to assess our operational performance, we look at a variety of metrics to measure how effectively we are delivering against our purpose and strategic priorities. Operational performance in this integrated report is structured according to the key elements of our purpose – greener, healthier and stronger. This also provides alignment with environmental, social and governance (ESG) matters.

For each of these elements, we have selected three key performance indicators (KPIs) and also report on a comprehensive table of other metrics that are of material interest to our stakeholders. In selecting these, we give consideration to what stakeholders tell us matters most, as well as our contribution to wider value and global goals such as the UN SDGs and climate change mitigation goals. We also disclose the key stakeholder for each metric.

We provide performance data for the last three years to enable movements and trends to be observed, and we rank performance against our targets using a traffic light system – either green, amber or red.

Strategic report

As this is the annual report and accounts for United Utilities PLC, the metrics we report relate to all activities undertaken by the group unless stated otherwise in the performance tables. Those that are not group metrics relate solely to the water and wastewater activities of our regulated entity, United Utilities Water Limited (UUW). In particular, we report against a number of regulatory performance measures, and these relate only to UUW as the regulated entity. UUW performance is, in most instances, the same as group performance for these metrics, as UUW makes up the vast majority of group activities, with only a small amount of non-regulated activity undertaken outside of UUW.

For each section – greener, healthier and stronger – we also provide a case study to help bring to life the value we are creating. This year, we have focused on areas that will be of particular importance going forward, to provide some insight into areas where we expect to particularly improve performance.

Greener – we bring to life some of the important improvements we are making around Windermere, both through our investment plans and through our work with partners and third parties around the lake.

Healthier – we demonstrate how we are building on our already industry-leading affordability support to help even more customers across the North West.

Stronger – we describe the ways we are adapting our supply chain approach to help deliver our significant capital programme, and how we have started work to ensure supply chain readiness.

Operational KPIs

Operational KPIs can be found on pages 38, 40 and 42.

As this was the final year of the 2020–25 regulatory period, AMP7, our operational KPIs remain unchanged. Next year, with the start of the new 2025–30 regulatory period, AMP8, we expect to refresh the list of KPIs and associated targets, many of which will align with regulatory targets set out in our AMP8 final determination.

TCFD and TNFD

Performance against our climate and nature targets together with our environmental KPIs, can be found within the Greener section of operational performance. These include our greenhouse gas emissions inventory and relevant local level metrics recommended by the Taskforce on Nature-related Financial Disclosures (TNFD) to enable comparison.

Regulatory performance metrics

With the regulated entity UUW making up the majority of group activities, many of the metrics that are material to our stakeholders are regulatory performance metrics and, therefore, we disclose several of these in this report.

Performance against our regulatory contract is monitored and assessed each year, and more detailed information and narrative is reported within our separate annual performance report (APR), which is published in July of each year. The APR includes performance for the current year and cumulative performance across the AMP.

This was the last year of AMP7; therefore, next year's APR will be reset to align with the performance commitments set out in the final determination we received for AMP8.

Our previous year APRs are available on our website, and the APR for 2024/25 will be published in July 2025.

Financial performance

We look at a variety of measures across income statement, balance sheet, cash flow, regulatory, and other financial metrics.

Strategic report

We provide some underlying metrics that give a more representative view of our true business performance. More information on these alternative performance measures (APMs), and a reconciliation showing the adjustments to their IFRS equivalents, can be found on pages 53 to 55.

As with operational metrics, we rank financial performance against our targets using a traffic light system – either green, amber or red. For financial metrics, some targets are not externally disclosed due to commercial sensitivity. In these instances, the ranking is against our internal one-year business plan targets.

Financial KPIs

Financial KPIs can be found on page 47. These assess both profitability and financial resilience, including income statement, balance sheet and shareholder performance metrics, and are unchanged from last year.

Financial framework and guidance

Upon acceptance of the final determination, the UUG board sets our financial framework with performance targets or forecasts against certain key financial measures. This includes our target gearing range, dividend policy, and estimated asset growth based on the regulatory total expenditure allowance.

We also provide one-year forward guidance on key financials including income statement measures, outcome delivery incentives (ODIs), and capital expenditure.

These can be found on page 93 of the UUG 2025 Annual report, which includes performance against the AMP7 financial framework as well as the framework elements that have been disclosed for AMP8. All forward-looking information should be viewed in accordance with the cautionary statement on page 250 0f the UUG 2025 Annual report.

Financial information contained in the APR

It is worth noting that there is financial information contained within the APR, which relates only to the regulated company, UUW, and its appointed activities, and is calculated in accordance with the regulatory accounting framework. This differs from IFRS reporting, and a reconciliation to IFRS reporting is provided in the APR.

For the avoidance of doubt, the financial metrics in this report relate to performance at the group level, and are calculated within the definitions given herein.

Return on regulated equity (RoRE)

RoRE is a key measure relating to the regulated activities of UUW. It measures the regulatory returns (after tax and interest) that companies have earned by reference to the notional regulated equity (calculated as 40 per cent of the regulatory capital value (RCV) in AMP7, while the other 60 per cent of the RCV is notional net debt).

RoRE comprises a base allowed return, in line with assumptions used by Ofwat in the final determination, plus/minus any out or under performance. It is reported on an annual and cumulative basis throughout each five-year asset management plan (AMP) period.

The base return is set as part of the final determination for each AMP. For AMP7, this was 3.97 per cent (real) on average, including an uplift for being a fast-track company. For AMP8 it will be around 5.15 per cent (real) on average, including an uplift for our quality and ambition assessment.

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

- delivering efficiency savings versus our cost allowance (total expenditure (totex) outperformance);
- earning outperformance payments for service delivery against our performance commitments (outcome delivery incentive (ODI) rewards); and

• raising finance at a lower cost than the industry allowed cost of debt (financing outperformance).

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

• overspending versus our total cost allowance (totex underperformance);

• incurring underperformance payments for failure to meet our performance commitments (ODI penalties); and

• incurring higher finance costs than the industry allowed cost of debt (financing underperformance).

RoRE is also impacted by the outturn tax position, which has been updated this year to reflect the recalculated tax allowances published by Ofwat in March 2025.

We have a history of outperformance, having delivered 1.4 per cent above the base return in AMP6 and 2.1 per cent above the base return in AMP7 (both on a real basis).

RoRE is both a regulatory and financial performance measure, and one of our financial KPIs, but there are operational performance components that feed into it, particularly through ODI rewards/penalties.

Executive remuneration is linked to our RoRE performance through its inclusion in the Long Term Plan (LTP). Elements that contribute to RoRE performance (ODIs and C-MeX) are also part of the annual bonus for all employees.

Remuneration linked to sustainability performance

Part of being a responsible business and delivering our purpose involves making sure that remuneration for our executive, and for all colleagues, is based on sustainability-related metrics as well as financial performance, reflecting our performance for a variety of stakeholders.

Bonus measures drive remuneration for all colleagues, and the executive and senior leaders are also remunerated against longer-term performance targets through the Long Term Plan (LTP).

Both the bonus and LTP remuneration are linked to service and delivery for customers and the environment, as well as financial targets. This includes customer satisfaction, outcome delivery incentives (ODIs), carbon measures, pollution and spills performance, and effective and efficient delivery of our capital programme.

Many of the remuneration metrics are closely aligned to our operational and financial KPIs and other operational metrics, and we report alongside our metrics whether they are linked, either directly or indirectly, to remuneration through the bonus and/or LTP.

Read more about our bonus and LTP in the remuneration report on pages 146 to 148 of the UUG 2025 Annual report.

Assurance of performance metrics

All of the performance metrics disclosed have received an appropriate level of assurance, such as independent third-party verification, regulatory reporting assurance processes, or through our own internal audit team.

The sections of this report that have received external limited assurance are marked as such on the relevant pages, including the figures in our energy and carbon report and our remuneration report.

The relevant audit opinions can be found on our website at unitedutilities.com/corporate/responsibility/our-approach/esg-performance

Benchmarking our ESG performance

Strategic report

We measure ourselves against national and international benchmarks of responsible business practice, and align ourselves to recognised management standards and accreditations to give confidence in the way we are operating. We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges. Our performance across a range of trusted indices is one of our operational KPIs. Our strong consistent performance against these external benchmarks demonstrates our commitment to operating in a responsible manner.

Many of the ESG indices draw their data from this report. We collate, monitor and report publicly on a wide range of performance measures across ESG categories. In addition to the wealth of disclosures and performance data throughout this report, further information on certain frameworks can be found on our website.

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

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

Read more at unitedutilities.com/corporate/ responsibility/our-approach/cr-reporting/wef

Sustainability Accounting Standards Board (SASB)

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

Read more at unitedutilities.com/corporate/ responsibility/our-approach/cr-reporting/sasb

Key performance indicators

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

Strategic report

Better Rivers: Better North West commitments	Carbon pledges	EA's Environmental Performance Assessment (EPA) rating[1]
The percentage of in-year milestones delivered as part of our Better Rivers programme.	Six pledges to reduce our carbon footprint. Activities include peatland restoration, woodland creation and reducing the reliance of fossil fuels of our fleet.	The Environment Agency's annual assessment across six, key sector, environmental performance measures.
Target **At least 95% of programme milestones delivered by 2025**	Target **Individual targets for each of the six carbon pledges, as set out on page 74**	Target **Upper quartile performance within the water industry each year**
Annual performance **100%** All of this year's Better Rivers programme milestones have been delivered. 2023/24: 100% of milestones for the year 2022/23: 100% of milestones for the year	Annual performance **Good progress** We have met three of the six pledges, and continue to make progress with the remainder. We have over 200 battery electric vehicles on the road and a further 200 ordered, 83 hectares of woodland will have been created by the end of the 2025 planting season, and we have reduced our scope 1 and 2 emissions by 10.5 per cent since 2020. More information can be found on page 74. 2023/24: Pledges 2, 4 and 6 met 2022/23: Pledges 2 and 6 met	Annual performance **4* 'industry leading' rating** The most recent assessment is for 2023, when we were one of only three companies awarded the top 'four star' rating, meaning we were classed by the Environment Agency (EA) as an industry-leading company. The EA will publish its annual assessment for 2024 later in 2025. 2022: Joint second (3*) 2021: Joint first (4*)
Status Met expectation/target	**Status** Met expectation/target	**Status** Met expectation/target
Key stakeholder Environment	**Key stakeholder** Environment	**Key stakeholder** Environment
Relevant material themes[2] Environmental river water quality and storm overflows Political and regulatory environment Trust, transparency and legitimacy	**Relevant material themes[2]** Climate change mitigation Energy management Trust, transparency and legitimacy	**Relevant material issues[2]** Customer service and operational performance Trust, transparency and legitimacy Political and regulatory environment
Link to remuneration[3] Bonus	**Link to remuneration[3]** LTP	**Link to remuneration[3]** LTP
Assurance[4] Internal audit team	**Assurance[4]** Independent third-party verification	**Assurance[4]** Independent third-party verification

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

(2) Read more about our materiality assessment on pages 16 to 19.

(3) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 146 to 148 of the UUG 2025 Annual report.

(4) Read more about the assurance over our performance metrics on page 36.

Strategic report

Status key

Performance against target — Met expectation/target — Close to meeting expectation/target — Behind expectation/target

Stakeholder key

Customers · Environment · Communities · Colleagues · Suppliers · Investors

Measure	2025 target	Performance 2024/25	Performance 2023/24	Performance 2022/23	Assurance[6]	Link to remuneration[2]	Key stakeholder	Status: Performance against target
Pollution incidents per 10,000km sewer network[1]	19.5	45.00	27.93	16.29	RRA	LTP		
Reduction in spills per storm overflow monitored	33% sustainable reduction[4]	39%	24%	41%	IAT	Bonus		
Treatment works compliance[1]	99%	98.46%	99.0%	98.5%	RRA	LTP		
Leakage reduction[1]	15%[3]	9%	9%	6%	RRA	LTP		
Reduction in per capita consumption[1]	6.3%[4]	3.5% decrease	2.5% decrease	0.5% increase	RRA	PC		
Internal flooding incidents per 10,000 sewer connections[1]	1.34	3.52	4.35	2.32	RRA	PC		
External flooding incidents[1]	5,859	7,315	7,063	5,916	RRA	PC		
Waste to beneficial use	98%	98.3%	98.3%	98.3%	IAT	n/a		
Enhancing natural capital for customers[1]	£4 million	£5.386 million	£15.777 million	£0	RRA	PC		
Number of trees planted	500,000	640,252	600,466	565,733	IAT	n/a		
Carbon pledge 1: reduction of scope 1 and 2 GHG emissions	14% reduction[5] (42% by 2030)	10.5% reduction	3.4% reduction	3.7% reduction	ITV	n/a		
Carbon pledge 2: renewable electricity purchased	100% by 2023	100%	100%	100%	ITV	n/a		
Carbon pledge 3: green fleet	100% by 2028	204 vehicles	91 vehicles	33 vehicles	IAT	LTP		
Carbon pledge 4: peatland restoration	1,000 hectares (ha) by 2030	3,000 ha	1,211 ha	585 ha	ITV	LTP		
Carbon pledge 5: woodland created	550 hectares (ha) by 2030	83 ha	37 ha	37 ha	ITV	LTP		
Construction services suppliers with science-based targets	66%	78%	23%	23%	IAT	LTP		
Better air quality: nitrogen oxides (NOx) emissions per unit of renewable electricity generated[1]	1.42	0.87	0.96	1.07	RRA	PC		
Energy generated directly, and with partners, as a percentage of used	25% at 2026	22.5%	22.4%	23.0%	ITV	LTP		

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

(2) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 146 to 148 of the UUG 2025 Annual report.

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

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

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

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

(6) Read more about the assurance over our performance metrics on page 36. ITV = Independent third-party verification. RRA = Regulatory reporting assurance. IAT = Internal audit team.

Strategic report

Key performance indicators

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

Colleague engagement

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

Target
At least as high as the utilities norm benchmark

Annual performance

87%

Colleague engagement has increased this year to a very high level, outperforming the utilities norm and seven points higher than the UK high performing norm benchmark.

2023/24: 81 per cent

2022/23: 82 per cent

Status
Met target

Key stakeholder
Colleagues

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

Link to remuneration[3]
n/a

Assurance[4]
Independent third-party verification

C-MeX ranking[1]

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

Target
Upper quartile against water and sewerage companies (WaSCs)

Annual performance

Second quartile

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

2023/24: top listed company, fourth WaSC, and sixth overall

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

Status
Close to meeting target

Key stakeholder
Customers

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

Link to remuneration[3]
Bonus

Assurance[4]
Regulatory reporting assurance

Customers lifted out of water poverty[1]

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

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

Annual performance

96,937

We have helped nearly 100,000 customers out of water poverty so far this AMP (including 84,726 against our regulatory target and related ODI, which applies a maximum cap on the number of company-funded customers that can be included).

2023/24: 100,758 customers

2022/23: 106,936 customers

Status
Met target

Key stakeholder
Customers

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

Link to remuneration[3]
LTP

Assurance[4]
Regulatory reporting assurance

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

(2) Read more about our materiality assessment on pages 16 to 19.

(3) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 146 to 148 of the UUG 2025 Annual report.

(4) Read more about the assurance over our performance metrics on page 36.

Strategic report

Status key

Performance against target — Met expectation/target — Close to meeting expectation/target — Behind expectation/target

Stakeholder key

Customers Environment Communities Colleagues Suppliers Investors

Measure	2025 target	Performance 2024/25	Performance 2023/24	Performance 2022/23	Assurance(5)	Link to remuneration(2)	Key stakeholder	Status: Performance against target
Customer ODIs	Year on year improvement	**£11 million(1)**	£34 million	£25 million	RRA	Bonus		
Water quality customer contacts per 10,000 population	12.2	**12.8**	13.2	14.1	RRA	Bonus		
Supply interruptions per property per year (hours:minutes:seconds)	00:05:00	**00:14:18**	00:09:39	00:38:44	RRA	PC		
Unplanned outages of peak week production capacity	2.34%	**1.78%**	2.05%	1.73%	RRA	PC		
Number of household written complaints compared to WaSCs	Upper quartile	**Third quartile(3)**	Third quartile	Second quartile	RRA	n/a		
Speed of resolution	5 days	**5 days**	3.95 days	3.9 days	RRA	n/a		
Developer satisfaction score (D-MeX)(1)	Above industry median	**Above industry median**	Above industry median	Above industry median	RRA	PC		
Number of households registered for Priority Services	In excess of 220,000 (7%)	**540,380 (16.51%)**	401,987 (12.35%)	294,490 (9.1%)	RRA	LTP		
Certification for Priority Services (4)	Maintain certification	**Maintained ISO22458**	Maintained ISO22458	ISO22458: 2022 Verification achieved	ITV	n/a		
Helping customers look after water in their home	10% increase	**34.50%**	34.30%	31.60%	RRA	PC		
Compliance Risk Index	0.00	**10.21**	6.00	3.67	RRA	LTP		
Wellbeing Charter accreditation	Retain accreditation	**Retained**	Retained	Retained	ITV	n/a		
Accident frequency rate for colleagues (per 100,000 hours)	10% year-on-year improvement	**0.078**	0.092	0.072	IAT	n/a		
Accident frequency rate for contractors (per 100,000 hours)	Year-on-year improvement	**0.078**	0.043	0.078	IAT	n/a		
Your Opinion Survey score for diversity and inclusion questions	Upper quartile against utilities norm	**Upper quartile**	Upper quartile	Upper quartile	ITV	n/a		

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

(2) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 146 to 148 of the UUG 2025 Annual report.

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

(3) Latest comparative data available 2023/24.

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

(5) Read more about the assurance over our performance metrics on page 36. ITV = Independent third-party verification. RRA = Regulatory reporting assurance. IAT = Internal audit team.

Key performance indicators

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

Capital programme delivery incentive (CPDi) Measures the extent to which we have delivered our capital projects efficiently, on time, and to the required quality standard.	**Community investment** Total community investment as measured by the Business for Societal Impact (B4SI) method.	**Performance across a range of trusted investor indices** Company performance relative to water and utilities sector participants in a selection of trusted investor ESG ratings and indices.
Target At least 85%	**Target** Average community investment between 2020 and 2025 to be at least 10 per cent higher than the average between 2010 and 2020 of £2.56 million per annum	**Target** Upper quartile
Annual performance 99.6% We have delivered a strong performance, exceeding our target again this year. 2023/24: 98 per cent 2022/23: 93 per cent	**Annual performance** £9.8m We have significantly increased our investment this year and surpassed our target, having invested £21.6 million cumulatively over AMP7, which is an increase of more than 50 per cent. 2023/24: £3.99 million 2022/23: £2.88 million	**Annual performance** Upper quartile We have maintained upper quartile performance across our selection of ESG ratings and indices. 2023/24: Upper quartile 2022/23: Upper quartile
Status Met expectation/target	**Status** Met expectation/target	**Status** Met expectation/target
Key stakeholder Investors	**Key stakeholder** Community	**Key stakeholder** Investors
Relevant material themes(1) • Customer service and operational performance • Financial risk management • Corporate governance and business conduct	**Relevant material themes**(1) • Supporting communities • Trust, transparency and legitimacy • Recreational land and waters	**Relevant material themes**(1) • Trust, transparency and legitimacy • Corporate governance and business conduct • Political and regulatory environment
Link to remuneration(2) Bonus	**Link to remuneration**(2) n/a	**Link to remuneration**(2) n/a
Assurance(3) Internal audit team	**Assurance**(3) Independent third-party verification	**Assurance**(3) Independent third-party verification

(1) Read more about our materiality assessment on pages 16 to 19.

(2) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 146 to 148 of the UUG 2025 Annual report.

(3) Read more about the assurance over our performance metrics on page 36.

Strategic report

Status key

Performance against target — Met expectation/target — Close to meeting expectation/target — Behind expectation/target

Stakeholders

Customers | Environment | Communities | Colleagues | Suppliers | Investors

Measure	2025 target	Performance 2024/25	Performance 2023/24	Performance 2022/23	Assurance[2]	Link to remuneration	Key stakeholder	Status: Performance against target
Credit rating - UUW senior unsecured debt (Moody's, S&P, Fitch)	Baa1, BBB+, A-	**Baa1, BBB+, A- (Stable outlook)**	A3, BBB+, A-	A3, BBB+, A-	ITV	n/a	Investors	Met expectation/target
Maintain sustainable finance framework	Available/ continued issuance	**Available**	Available	Available	IAT	n/a	Investors	Met expectation/target
Anti-bribery: percentage of identified colleagues completing required training	100%	**100%**	100%	100%	IAT	n/a	Investors	Met expectation/target
Number of children benefitting from education materials	20,000	**33,442**	39,131	23,253	ITV	n/a	Communities	Met expectation/target
Partnership leverage	1:4	**1:3**	1:3	1:4	RRA	n/a	Communities	Close to meeting expectation/target
Invoices paid within 60 days	At least 95%	**98.71%**	99.60%	98.91%	ITV	n/a	Suppliers	Met expectation/target
Average time taken to pay invoices	<28 days	**12**	11	12	ITV	n/a	Suppliers	Met expectation/target
Supplier Relationship Management score	90%	**94%**	95%	90%	IAT	n/a	Suppliers	Met expectation/target
CIPS ethical mark [1]	Retain accreditation	**Retained**	Retained	Retained	ITV	n/a	Suppliers	Met expectation/target
Percentage of targeted suppliers signed up to United Supply Chain	100%	**100%**	94%	89%	IAT	n/a	Suppliers	Met expectation/target
Percentage of partner and strategic suppliers that have sustainability risk assessments in place	75%	**94%**	78%	73%	IAT	n/a	Suppliers	Met expectation/target
Percentage of suppliers in high risk categories (in sustainability risk assessments) covered by enhanced due diligence audits	5%	**5%**	4%	3%	IAT	n/a	Suppliers	Met expectation/target
UK Corporate Governance Code [1]	Maintain compliance	**Compliant**	Compliant	Compliant	IAT	n/a	Investors	Met expectation/target
Fair Tax Mark [1]	Retain accreditation	**Retained**	Retained	Retained	ITV	n/a	Investors	Met expectation/target
Living Wage accreditation [1]	Secure and retain	**Retained**	Retained	Retained	ITV	n/a	Colleagues	Met expectation/target
Pension Quality Mark + [1]	Retain accreditation	**Retained**	Retained	Retained	ITV	n/a	Colleagues	Met expectation/target

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

(2) Read more about the assurance over our performance metrics on page 36. ITV = Independent third-party verification. RRA = Regulatory reporting assurance. IAT = Internal audit team.

Strategic report

S172(1) Statement

Our key decisions during the year to 31 March 2025.

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

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

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

The board of directors of United Utilities PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2025 including:

Acceptance of the final determination for AMP8

The decision

The final determination (FD) for the asset management period 2025-2030 was published by Ofwat on 19 December 2024. The UUW board accepted the FD on 29 January 2025.

Outcome

Based on the FD, our capital programme for the 2025–30 period is set at £13 billion. As part of this, the group will deliver a circa £5.7 billion enhancement expenditure plan, including an industry-leading £2.4 billion CSO programme to deliver a 60 per cent reduction in spills from storm overflows this decade.

How we engaged with stakeholders

Customer and stakeholder engagement directly informed the development of our business plan submission and strategy to deliver it through customer insight and research which was used to directly inform it. Engagement was conducted in a variety of ways including: setting up customer focus groups, workshops and online 'Your Water, Your Say' community panels in each of the counties across the North West served by United Utilities (Cumbria, Lancashire, Merseyside, Greater Manchester and Cheshire) to ensure that regional differences would be reflected in the construct of our AMP8 and enabling us to plan and communicate the outcomes for each county. 12 panel sessions were held in total providing insight incorporated into the proposed business plan, at the panel sessions held after the draft business plan submission in October 2023 – we shared how the insight gained from stakeholders had impacted our plan.

The draft determination was published by Ofwat on 11 July 2024, and the group engaged with its regulators throughout the process, answering queries and providing further information prior to submitting its revised submission to Ofwat on August 2024, with the FD published on 19 December 2024.

The board's view

The board reviewed the consequences of accepting the FD in the form published by Ofwat noting the delivery challenge of a plan of this size – with the need for investment in performance, further CSO spill reduction and the accelerated plan for bioresources. Notwithstanding the 'step up' in average customer bills in 2025/26 was larger than anticipated, UUW's average customer bills will be the fourth lowest in the industry in AMP8 - average customer bills will increase by 32 per cent from the end of 2024/25 to 2029/30, but would enable the group to address customers' views and priorities obtained during the research and testing phases of the plan – 74 per cent of customers supported our original business plan.

Notwithstanding the additional requirements in the plan, affordability support is expected to be provided to one in six households. This package of support totals £525 million, inclusive of £200 million provided by shareholders. The board carefully considered whether to challenge the FD through the appeals process. However, it determined that doing so would not best serve the long-term success of the group for the benefit of its members as a whole.

Dividend policy for AMP8

The decision
To set the dividend policy for AMP8.

How we engaged with stakeholders
The UUG dividend policy is closely related to UUW's dividend policy and the outcome of the FD. As set out above, the business plan was informed through extensive stakeholder engagement through the 'Your Water, Your Say' community panels, all-employee engagement events held in Blackpool in December 2023 and March 2025, and through our offer to MPs in our region and local authority representatives to discuss the draft business plan following its submission to Ofwat. The UUG board regularly engages with investors both directly and indirectly, including shareholders and credit investors.

The board's view

Payment of a dividend is contingent on the dividend paid by UUW. In its price review submission for AMP8, the board of UUW committed to further cementing its responsible approach to gearing, dividends and benefit sharing in AMP8 and more explicit alignment with the changes introduced in May 2023 by Ofwat in relation to its new powers to regulate water companies paying dividends. The UUW board will make decisions on dividends on an annual basis and will provide stakeholders with a clear explanation of its approach and decision as part of the UUW annual performance report. When declaring or paying a dividend, the board will:

- Take account of a full range of matters including service delivery for customers and the environment;
- Consider company performance in the round and over time, encompassing all aspects of delivery against its licence, including delivery against performance commitments, investment plans, cost efficiency and other areas of its operations;
- Give consideration to the company's current and future investment needs and financial resilience over the short and longer term; and,
- Have due regard to whether the dividend rewards efficiency and the effective management of the business, including performance across a number of periods. The board believes the underlying approach applied by the UUW board, and therefore impacting the availability of dividends available for the UUG board to pay to its shareholders would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

Haweswater Aqueduct Resilience Programme (HARP)

The decision

The UUW board supported the conclusion of the Full Business Case and approved its submission to Ofwat as part of the 'Control Point F' submission in the HARP procurement process and recommended the award of the Direct Procurement for Customers (DPC) contract to the preferred bidder, the STRABAG Equitix Consortium.

Outcome

The UUW board provided its assurance statement as part of the Ofwat Control Point F submission confirming that the full business case was produced in accordance with good industry practice, that it reflected the suite of procurement documents provided to Ofwat in support of the submission and that UUW had achieved a best value price through a competitive tender process, therefore offering value for money for customers. Ofwat has provided consent in principle to award the contract to the preferred bidder, subject to final consent upon receiving the final form of the contract.

How we engaged with stakeholders

We have secured planning permission from nine planning authorities for this complex scheme. Such an outcome has been achieved through focused engagement with communities and stakeholders explaining our plans, listening to feedback and concerns and then amending and adjusting our plans as appropriate. Prior to starting the project, we engaged with numerous stakeholders including representatives from the relevant local authorities, local highways authorities, National Highways, Natural England, Environment Agency and landowners, to help shape our plans for dealing with the risk associated with the existing tunnel sections of the Haweswater Aqueduct. Relevant councillors, community representatives and special interest groups have also been engaged and offered opportunities to meet with the project team to provide their feedback. The proposed solution was also tested with our regulator and other parties to ensure it was the most appropriate solution.

The board's view

Following a series of inspections and risk assessments it was identified that there was an increasing risk of failure associated with the existing Haweswater Aqueduct, requiring the replacement of the tunnel sections of the existing aqueduct. At PR19, UUW proposed the DPC approach to procure a Competitively Appointed Provider (CAP) to design, build, finance and maintain the new tunnel sections. Through AMP7, UUW progressed the design and development of the project including working with Ofwat to develop the commercial model for DPC to ensure that the outcome delivers best value for customers. This has involved considerable engagement with bidders and other stakeholders as well as Ofwat. UUW has utilised expert legal and financial advisers throughout the project's development and ensured the necessary assurance at each stage, including the establishment of an oversight committee, consisting of external experts with experience of major project finance initiatives and large and complex capital infrastructure projects. The board have been kept updated along the journey and is of the view that replacing the tunnel sections of the Haweswater Aqueduct continues to be the preferred option which best meets its strategic objectives and that the company has achieved a best value price through a competitive tender process therefore offering value for money for customers and would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

Key performance indicators

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

Underlying operating profit

See note 1.

Target

Not externally disclosed

Annual performance

£633 million

Reported operating profit: £631 million

Underlying operating profit has increased £116 million compared with last year, largely reflecting the revenue increase allowed as part of our revenue cap, partly offset by higher costs as a result of growth in the underlying asset base and inflationary pressures.

2023/24: £517 million

Status

Behind expectation/target

UUG Gearing

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

Target

55–65%

Annual performance

60%

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

2023/24: 59 per cent

Status

Met expectation/target

Return on regulated equity (RoRE)

Base allowed return plus or minus any out or underperformance.

Target

6-8% cumulative for AMP7

Cumulative AMP7 performance	Annual performance
6.1%	1.1%

Average RoRE for AMP7 was **6.1** per cent on a real, RPI/CPIH blended basis, outperforming the base return of 4.0 per cent. Annual performance was impacted by the phasing of totex.

2023/24: 7.5 per cent[(2)]

Status

Close to meeting expectation/target

(1) Underlying operating profit and underlying earnings per share are alternative performance measures that exclude adjusted items from their reported equivalents. Underlying operating profit excludes any significant non-recurring items. Underlying EPS deducts underlying net finance expense, underlying share of joint venture losses, and underlying taxation from underlying operating profit to calculate underlying profit after tax, and divides this by the average number of shares in issue during the year. Underlying net finance expense makes adjustments including stripping out fair value movements. Underlying taxation strips out deferred tax (including any tax credits or debits arising from changes in the tax rate) and any exceptional tax. A description of adjusted items, the framework by which these are assessed, and reconciliations between reported and underlying measures, can be found on pages 53 to 55.

(2) Prior year RoRE figures restated to reflect post-intervention PCC performance due to the impact of COVID-19, and recalculated tax allowances in line with Ofwat's information notice published in March 2025.

Strategic report

Financial performance

We delivered strong underlying financial performance this year. Revenue increased 10 per cent due to regulatory adjustments, including the 4.2 per cent CPIH-linked increase allowed as part of our revenue cap. This revenue increase, partly offset by higher costs as a result of growth in the underlying asset base and inflationary pressures resulted in underlying operating profit of £633 million, a 22 per cent increase compared to the prior year. Reported operating profit was slightly lower than underlying at £631 million, reflecting an adjusting item in respect of the residual costs associated with a fractured outlet pipe at our Fleetwood Wastewater Treatment Works in June 2023.

Our balance sheet remains one of the strongest in the sector. With RCV gearing at 60% alongside robust credit ratings, we have financing flexibility as we approach AMP8.

	£m
Year to 31 March 2024	**1,949.5**
Regulatory revenue impact	185.8
Other impacts	9.9
Year to 31 March 2025	**2,145.2**

Revenue was up £196 million, at £2,145 million, largely reflecting the inflation increase allowed as part of our revenue cap.

In 2024/25, we had a £186 million increase in the revenue cap due to regulatory adjustments, largely driven by a 9.4 per cent CPIH-linked increase partly offset by 1.4 per cent real reduction in allowed wholesale revenues as set out in our PR19 Final Determination.

Other revenue impacts largely reflects increases in consumption.

Operating profit

	£m
Underlying - Year to 31 March 2024	517.4
Revenue increase	195.7
Increase to asset base	(37.2)
Inflationary impact	(31.0)
Other	(11.7)
Underlying operating profit - Year to 31 March 2025	633.2
Adjusted items*	(2.3)
Year to 31 March 2025	**630.9**

Underlying operating profit at £633 million was £116 million higher than last year, largely reflecting the increase in revenue. Underlying operating costs have increased by £80 million compared to the prior year, largely reflecting an increase in costs associated with growth in the underlying asset base and inflationary pressures, as well as additional investment in performance ahead of AMP8.

Strategic report

Reported operating profit was lower at £631 million, reflecting lower adjusted items as detailed on pages 53 to 55.

Our industry-leading affordability schemes, combined with effective credit collection practices and utilisation of technology, have meant that current year cash collection has been strong. Our bad debt position remains stable at 1.5 per cent of statutory revenue.

Profit before tax

	£m
Underlying profit before tax – year to 31 March 2024	333.0
Underlying operating profit increase	115.8
Underlying net finance expense decrease	15.4
Share of JVs losses increase	(6.7)
Underlying profit before tax – year to 31 March 2025	**457.5**
Adjusted items *	16.4
Reported – year to 31 March 2025	**473.9**

* Adjusted items are set out on pages 54 and 55.

Underlying profit before tax of £458 million compared to a £333 million underlying profit before tax last year. The £125 million difference reflects the £116 million increase in underlying operating profit, a £15 million reduction in underlying net finance expense, partly offset by an increase in the share of losses of joint ventures of £7 million. Underlying profit before tax reflects presentational adjustments as outlined on pages 52 to 54.

Reported profit before tax decreased by £191 million to £474 million reflecting the £151 million increase in reported operating profit, a £47 million decrease in reported net finance expense, offset by an increase in the share of losses of joint ventures of £7 million.

- <u>Net finance expense</u>
  Underlying net finance expense of £165 million was £16 million lower than the prior year, reflecting lower inflation applied to our index-linked debt resulting in a £90 million decrease in non-cash indexation on our debt and derivative portfolio, partly offset by a reduction in capitalised interest and pension interest income, as well as an increase in cash interest.

  Cash interest of £171 million was £46 million higher than last year. Cash interest excludes non-cash items mainly comprising the indexation on our debt and derivative portfolio, capitalised interest and net pension interest income.

  Reported net finance expense of £146 million was £47 million higher than last year, reflecting a £32 million reduction in net fair value gains on debt and derivatives (excluding interest on debt and derivatives under fair value option) from £13 million net fair value gain last year to £19 million net fair value loss this year and a £15 million decrease in underlying net finance expense.

- <u>Joint ventures</u>
  For the year to 31 March 2025, we recognised a £10.8 million net share of losses from joint ventures in relation to Water Plus in our income statement.

Strategic report

Profit after tax

	£m
Underlying profit after tax – year to 31 March 2024	**311.6**
Underlying profit before tax increase	124.5
Reduction in underlying tax credit	(8.7)
Underlying profit after tax – year to 31 March 2025	**427.4**
Adjusted items *	(73.5)
Reported – year to 31 March 2025	**353.9**

* Adjusted items are set out on page 55.

The underlying profit after tax of £427 million is £200 million higher than the underlying profit after tax of £227 million last year, reflecting the £124.5 million increase in underlying profit before tax and the £75.7 million increase in underlying tax credit.

Reported profit after tax is lower at £354 million with the adjusted items between underlying and reported profit after tax set out on page 55.

- Tax

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

  The group makes significant contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its over 6,000 strong workforce. The total payments for 2024/25 were around £257 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges.

  In the current year, we received a net corporation tax repayment of £6.4 million which represents an effective cash tax rate of 0 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment including full expensing introduced in 2023.

  The group recognised a current tax charge of £30.1 million, relating to tax on interest receivable from the group's ultimate parent, partly offset by a prior year adjustment in relation to optimising the available research and development tax allowances on our innovation- related expenditure, for multiple prior years.

  For the year to 31 March 2025, we recognised a deferred tax charge of £90 million, compared with £49 million last year.

  The total effective tax rate, excluding prior year adjustments was 26 per cent for the year to 31 March 2025 compared with the headline rate of 25 per cent.

  There are £7.9 million of tax adjustments recorded within other comprehensive income, primarily relating to remeasurement movements on the group's defined benefit pension schemes. The rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 25 per cent (2024: 25 per cent), being the rate applicable to refunds from a trust.

Strategic report

Cash flow

Net cash generated from continuing operating activities for year to 31 March 2025 was £880 million, £151 million higher than £729 million last year, principally due to increased revenue.

The net cash generated from continuing operating activities supports the dividends paid of £344 million and partially funds some of the group's net capital expenditure of £988 million, with the balance being funded by net borrowings and cash and cash equivalents.

Pensions

As at 31 March 2025, the group had an IAS 19 net pension surplus of £302 million, compared with a surplus of £268 million at 31 March 2024. This £34 million increase has been driven mainly by £19 million of remeasurement gains, as an increase in the discount rate assumption and changes in the demographic assumptions following the triennial valuation reduce the defined benefit obligation by more than the value of the schemes assets.

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

Financing

Net debt	**£m**
At 31 March 2024	8,868.0
Cash generated from operations	(1,078.0)
Net capital expenditure	987.8
Dividends	344.1
Indexation	161.8
Interest	176.8
Fair value movements	(20.9)
Exchange rate movements on bonds and term borrowings	(13.2)
Non-cash movements in lease liabilities	27.2
Tax	21.7
Other	9.3
At 31 March 2025	**9,484.6**

Net debt at 31 March 2025 was £9,485 million, compared with £8,868 million at 31 March 2024.

Gearing, measured as group net debt including a £74 million loan receivable from joint venture divided by UUW's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms) of £15.4 billion, was 60 per cent at 31 March 2025, slightly higher than the 59 per cent at 31 March 2024 but remaining within our target range of 55 to 65 per cent.

- Cost of debt

Strategic report

As at 31 March 2025, the group had approximately £3.5 billion of RPI-linked instruments and £0.5 billion of CPI or CPIH-linked instruments held as debt. Including swaps, the group has RPI-linked debt exposure of £3.4 billion at an average real rate of 1.4 per cent, and £1.3 billion of CPI or CPIH-linked debt exposure at an average real rate of -0.6 per cent.

A significantly lower RPI inflation charge compared with last year contributed to the group's average effective interest rate of 4.0 per cent being lower than the rate of 4.7 per cent last year.

The group has fixed the interest rates on its non index-linked debt in line with its 10-year reducing balance basis at a net effective nominal interest rate of 3.5 for the current financial year.

- Credit ratings

UUW's senior unsecured debt obligations are rated Baa1 with Moody's Investors Service (Moody's), A- with Fitch Ratings (Fitch) and BBB+ with Standard & Poor's Ratings Services (S&P) and all on stable outlook. United Utilities PLC's senior unsecured debt obligations are rated Baa2 with Moody's, BBB+ with Fitch and BBB- with S&P, all on stable outlook.

- Debt financing

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

In the year to March 2025, we raised c.£1.4 billion of term funding, comprising of a 27-year £350 million sustainable public bond in May, a EUR175 million tap of a 9.8 year green bond in August, a £150 million tap of a 21.4-year public bond in September, a £75 million tap of a 13.4 year public bond in September, an 11-year NOK1.5 billion bond in October, and an 8 year EUR650 million green public bond in February. In addition, in the year to March 2025 we entered into £65 million of new relationship bank revolving credit facilities, entered into £250 million of new liquidity facilities, increased the amount of existing facilities by £75 million and extended the maturity date on £150 million of existing facilities by a further year.

- Interest rate management

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings under the regulatory model. At 31 March 2025, approximately 37 per cent of the group's net debt was in RPI-linked form, representing around 22 per cent of UUW's regulatory capital value, with an average real interest rate of 1.4 per cent. A further 14 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 9 per cent of UUW's RCV, with an average real rate of –0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is approximately 15 years.

Our AMP7 inflation hedging policy has been to target around 50 per cent of net debt to be maintained in index-linked form. We have taken the opportunity to consider the appropriateness of this policy for AMP8 and have decided to transition to a lower target of 33 per cent. This continues to reflect a balanced assessment across a range of factors and aligns more closely with Ofwat's notional company assumption and our listed peers. Transition to the new policy target will happen progressively over the period, given the significant financing requirements for AMP8.

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

- Liquidity

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

  At 31 March 2025, we had liquidity extending out to 2027, comprising cash and bank deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our ongoing capital investment programme.

Guide to Alternative Performance Measures (APMs)

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006 in the group's consolidated income statement, which can be found on page 71. As such, they represent non-GAAP measures.

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

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

Adjusted item	**Rationale**
Adjustments not expected to recur	
Fleetwood outfall pipe fracture	In June 2023, the group suffered a large-scale outfall pipe fracture at a major wastewater treatment works at Fleetwood. The specific nature of this incident, and scale of the activity involved in remediating this failure was unlike anything that would be typically experienced. As such, the associated costs, which were incurred across both operating expenditure and infrastructure renewals expenditure, were not representative of normal business activity and, therefore, the costs are excluded in arriving at underlying operating profit.
Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments,	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are, therefore, excluded in arriving at underlying net finance expense as they are determined by macro-economic factors, which are outside of the control of management and relate to instruments that are

Strategic report

excluding interest on derivatives and debt under fair value option	purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt, which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit / (loss) before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit	**Year ended 31 March 2025 £m**	**Year ended 31 March 2024 £m**
Operating profit per published results	**630.9**	**479.8**
Fleetwood outfall pipe fracture	2.3	37.6
Underlying operating profit	**633.2**	**517.4**
Net finance expense		
Finance expense	(371.9)	(389.3)
Investment income	225.7	198.5
Allowance for expected credit losses – loans to joint ventures	-	(2.4)
Net finance expense per published results	**(146.2)**	**(193.2)**
Fair value losses/(gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(18.7)	12.9
Underlying net finance expense	**(164.9)**	**(180.3)**
Share of losses of joint ventures	**(10.8)**	**(4.1)**
Profit before tax per published results	**473.9**	**282.5**
Adjustments in respect of:		
Operating profit	2.3	37.6
Net finance expense	(18.7)	12.9
Underlying profit before tax	**457.5**	**333.0**
Profit after tax per published results	**353.9**	**211.2**
Adjustments in respect of profit before tax	(16.4)	50.5
Deferred tax adjustment	89.9	48.9
Tax in respect of adjustments to underlying profit before tax	-	1.0
Underlying profit after tax	**427.4**	**311.6**

Strategic report

Average effective interest rate	Year ended 31 March 2025 £m	Year ended 31 March 2024 £m
Underlying net finance expense	(164.9)	(180.3)
Adjustments:		
Net pension interest income	(12.9)	(28.6)
Adjustment for capitalised borrowing costs	(68.5)	(81.0)
Interest on loan receivable	**(119.6)**	(112.9)
Net finance expense for effective interest rate	**(365.9)**	**(402.8)**
Average notional net debt	**(9,094)**	**(8,525)**
Average effective interest rate	**4.0%**	**4.7%**

This strategic report was approved by the board on 09 July 2025 and signed on its behalf by:

Phil Aspin
Chief Financial Officer

Directors' report

The directors present their report and the audited financial statements of United Utilities PLC and its subsidiaries for the year ended 31 March 2025.

Business model

A description of the company's business model can be found within the strategic report on pages 7 to 8.

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

Profit and dividends

The results for the year, set out in the consolidated income statement on page 71 show that the profit for the year after tax was £353.9 million (2024: £211.2 million).

The directors have not recommended a final ordinary dividend (2024: £nil). Interim ordinary dividends of £344.1 million (2024: £320.0 million).

Principal activity and review of business

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

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

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

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

Share capital

At 31 March 2025, the issued ordinary share capital of the company was £881.8 million (2024: £881.8

million) divided into 881,787,478 ordinary shares of £1.00 each and one deferred A share of £1.00.

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

Events after the reporting period

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

Going concern basis of accounting

The directors consider it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph on page 77.

Directors

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

PA Aspin
RJ Lee
BF Murphy
L Beardmore

Directors' report

Directors' indemnities and insurance

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

Colleagues

Our policies on employee consultation and on equal opportunities for all colleagues can be found on pages 23 and 52 of the UUG 2025 Annual report and financial statements. Applicants with disabilities are given equal consideration in our application process, and disabled colleagues have equipment and working practices modified for them as far as possible and where it is safe and practical to do so. Importance is placed on strengthening colleagues' engagement (see page 78 of UUG 2025 Annual report and financial statements). The effect of our regard towards colleagues in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 44 to 46.

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

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

Political donations

It is the company's policy position that we do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. The wide definition of donations in the Political Parties, Elections and Referendums Act 2000, however, covers activities that form part of the necessary relationship between the group and our political stakeholders. This can include promoting United Utilities' activities at the main political parties' annual conferences, as well as occasional stakeholder engagement in Westminster. The group incurred expenditure of £11,450 (2023/24: £8,091; 2022/23: £11,465; 2021/22 £15,834) as part of this process. At the 2024 UUG AGM, an authority was taken to cover such expenditure. A similar resolution will be put to shareholders at the 2025 AGM to authorise the company and its subsidiaries to make such expenditure.

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

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

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

Directors' report

Trade associations

We are members of a small number of trade associations. Some have a national focus, such as Water UK, the representative body of the UK water industry and others focus on specific professions such as the 100 Group representing the views of the finance directors of FTSE 100 and large UK private companies and the GC100, the voice of general counsel and company secretaries in FTSE 100 companies. The company is a member of regional bodies, such as the North West Business Leadership Team, which encourages engagement across the public and private sectors. Our total contribution to these associations in 2024/25 was £521,706 (2023/24: £394,507; 2022/23: £418,561; 2021/22: £408,441).

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

Through our membership of the North West Business Leadership Team, we have engaged with regional MPs and political stakeholders, such as local authorities and metro mayors, to explore how the business community can work more effectively with the public sector to drive economic growth in the region and tackle some of the North West's pressing social issues.

Approach to technology development

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

Environmental, social and community matters

Details of our approach, as a responsible business, is set out in the strategic report, in particular where we describe our approach to our purpose and strategic themes on page 28 of the UUG 2025 Annual report and financial statements, and our core values on page 27 of the UUG 2025 Annual report and financial statements, and how we create value for stakeholders on pages 10 to 11 of the UUG 2025 Annual report and financial statements. Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on page 26 of the UUG 2025 Annual report and financial statements. Further information is available on our website at unitedutilities.com/corporate/responsibility

The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 44 to 46.

Customers and suppliers and key stakeholders

Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on page 26 of the UUG 2025 Annual report and financial statements. The effect of our regard towards customers, suppliers, regulators and other key stakeholders in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 44 to 46.

Our United Supply Chain approach sets out how we work with our suppliers, which can be found on our website at unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supply-chain. We are a signatory to the Prompt Payment Code. We publish key statistics and other information on

Directors' report

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 2025, our average time taken to pay invoices was 12 days; in the previous six months it was 11 days.

Energy and Carbon

Our energy and carbon report can be found on page 75 of the UUG 2025 Annual report and is hereby incorporated by reference into this directors' report.

Financial instruments

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

Risk management and internal control

A description of the main features of our risk management and internal control systems in relation to the financial reporting process which forms part of this directors' report are set out on pages 124 to 125 of the UUG 2025 Annual report and financial statements.

Disclosure of information to the auditor

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

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

Reappointment of the auditor

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

Approved by the board on 09 July 2025 and signed on its behalf by:

Phil Aspin
Chief Financial Officer

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

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

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

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, reliable and, in respect of the parent Company financial statements only, prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

Approved by the board on 09 July 2025 and signed on its behalf by:

Phil Aspin
Chief Financial Officer

Independent auditor's report

to the members of United Utilities PLC

1 Our opinion is unmodified

We have audited the financial statements of United Utilities PLC ("the Company") for the year ended 31 March 2025 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 77 to 82 and 129 to 140

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 2025 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the directors on 22 July 2011. The period of total uninterrupted engagement is for the 14 financial years ended 31 March 2025. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

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

Contingent liabilities associated with certain environmental matters (Group) Financial statements disclosure in Note 23. *Refer to pages 129 - 140 (accounting policy) and page 102 (financial disclosures).*	
Dispute outcome:	**Our response**

Independent auditor's report

to the members of United Utilities PLC

The Group is subject ongoing investigations by Ofwat and the Environmental Agency ("EA") (together, the "investigations") with regards to whether the level of storm sewerage discharges are in compliance with environmental permits. In relation to the Ofwat investigation which was formally opened into the Group during the year, if a company is found to have breached its legal obligations this could result in a financial penalty of up to 10 per cent of relevant wastewater turnover and the potential penalty for an environmental offence under the EA regulations is an unlimited fine. The Group is also subject to potential collective proceedings (following application by Professor Carolyn Roberts) into potential misreporting to Ofwat and overcharging to customers as a result. The Group have concluded that no provision is required in respect of these matters, but they should be disclosed as contingent liabilities, based on the results of internal investigations and ongoing discussions with their external legal experts. Given the amounts involved in these matters are potentially significant, and the application of accounting standards to determine the amount, if any, to be provided for, is inherently subjective, as part of our risk assessment for audit planning purposes, we determined that there was a significant risk of a material misstatement and we identified this as an area requiring the allocation of senior resources within the audit team and so determined this to be a new key audit matter. Based on the developments during the year, in conducting our final audit work we determined that the assessment of the classification of any liabilities as provisions or contingent liabilities as at the balance sheet date and the transparency of disclosure of these matters is not at significant risk of material misstatement or subject to significant judgement.	We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures to address the risk included: — ***Enquiry of internal regulatory and legal teams:*** obtaining an understanding of the internal procedures undertaken by the Group to assess compliance with relevant laws and regulations and obtaining and understanding of the status of the investigations; — ***Enquiry of lawyers:*** assessing the latest advice from the Group's external legal experts and performing inquiries with them and management to further understand the collective proceedings; — ***Assessing legal expert's credentials:*** assessing whether the Group's external legal experts have sufficient expertise, are appropriately qualified and are independent of the Group; and — ***Assessing transparency:*** assessing the adequacy of the Group's disclosures in relation to these environmental matters. **Our results** Based on the risk identified and the procedures that we performed, we found the Group's assessment that these environmental matters are treated as contingent liabilities and the related disclosures to be acceptable (FY24: acceptable).

Allowances for expected credit losses relating to household customer debt Allowances for expected credit losses relating to household customer debt: £81.4m (2024: £80.7m). *Refer to pages 129 - 140 (accounting policy) and page 94 (financial disclosures).*	
Subjective estimate: At each balance sheet date assumptions involving a high degree of estimation uncertainty are required to assess the	**Our response**

Independent auditor's report

to the members of United Utilities PLC

allowances for expected credit losses relating to household customer debt. Key assumptions (as outlined in the accounting policies on page 79) include current and forecast cash collection rates. As part of our risk assessment for audit planning purposes, we determined that the recoverability of trade receivables had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality. There is also a risk of management bias in the selection of assumptions upon which estimates are based given the performance targets in remuneration schemes. The accounting policy note in the financial statements (note 1) discloses the sensitivity estimated by the Group.	We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures to address the risk included: — **Our sector experience:** challenging the Group on the appropriateness of the selection of provisioning rates in place for calculating the expected credit loss allowance and assessing the appropriateness of the customer debt provisioning policy based on historical cash collections, credits, re-bills and write-off information, and estimates of future economic scenarios and their impact on credit losses; — **Reperformance:** performing a recalculation of the provision, and verifying cash collections in the billing system; — **Benchmarking assumptions:** assessing and challenging the assumptions used by the Group in calculating the allowance for expected credit losses against externally derived publicly available data relating to other water companies; — **Sensitivity analysis:** considering the sensitivity of the expected credit loss allowance to changes in cash collection rates; and — **Assessing transparency:** assessing the adequacy of the Group's disclosures of its customer debt provisioning policy, including the estimation uncertainty of the allowances for expected credit losses relating to household customer debt. **Our results** Based on the risk identified and the procedures that we performed, we found the allowances for expected credit losses relating to household customer debt and the related disclosures to be acceptable (FY24: acceptable).

Capitalisation of costs relating to the capital programme Property, plant & equipment additions: £1,243.9m (2024: £892.5m).

Independent auditor's report

to the members of United Utilities PLC

Refer to page 132 (accounting policy) and page 91 (financial disclosures).	
Accounting treatment: The Group has a substantial capital programme which has been agreed with the Water Services Regulation Authority (Ofwat) and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. The Group's capital programme continues to be impacted by inflation, as general contracting costs have increased beyond that expected at the start of the current five year regulatory period. This could increase the incentive to treat operating costs as capital items. The determination of in year project costs as capital or operating expenditure is inherently judgmental, particularly, for certain projects where projects contain both capital and operating expenditure elements and therefore has the opportunity for manipulation. Under IAS 16 expenditure is capitalised when it is probable that the future economic benefits associated with the item will flow to the entity and where such expenditure enhances or increases the capacity of the network. We determined that the costs capitalised has a high degree of judgement, with the potential for any misstatement to be greater than our materiality for the financial statements as a whole.	**Our response** We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures to address the risk included: — **Accounting analysis:** assessing the Group's capitalisation policy for compliance with relevant accounting standards; — **Tests of details:** critically assessing the capital nature of a sample of projects against the capitalisation policy focusing on new projects approved, project overspends and forecast cost to complete; and — **Assessing transparency:** assessing the adequacy of the Group's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital. **Our results** Based on the risk identified and the procedures that we performed, we found the capitalisation of costs relating to the capital programme and the related disclosures to be acceptable (FY24: acceptable).

Recoverability of parent Company's investment in United Utilities North West Limited Investment in United Utilities North West Limited – £3,907.1m (2024: £3,907.1m) *Refer to pages 129 - 140 (accounting policy) and page 94 (financial disclosures).*	
Low risk, high value: The carrying amount of the parent Company's investment in United Utilities North West Limited represents 56% (FY24: 56%) 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.	**Our response** We performed the tests below rather than seeking to rely on the Parent Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures to address the risk included: — **Tests of detail:** compared the carrying amount of the investment with the expected value of the business based on

Independent auditor's report

to the members of United Utilities PLC

	the regulatory capital value (a recognised method of valuation within the industry). **Our results** Based on the risk identified and procedures performed, we concluded that the Parent Company's conclusion that there was no impairment of its investment in United Utilities North West Limited to be acceptable (FY24: acceptable).

We continue to perform procedures over the valuation of retirement benefit obligations. However, based on our prior year experience and level of senior audit team involvement, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit

Our application of materiality

Materiality for the Group financial statements as a whole was set at £19.0m (FY24: £17.9m). Consistent with FY24, we determined materiality with reference to a range of metrics. United Utilities is facing rising finance costs, as a result of the current high-inflationary environment, which is causing profit before tax to decline.

Materiality represents 0.9% of revenue, 0.1% of total assets and 3.0% of operating profit (FY24: 0.9% of revenue, 0.1% of total assets and 3.4% of operating profit).

Materiality for the parent Company financial statements as a whole was set at £9.0m (2024: £8.7m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.1% (2024: 0.1%).

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

Performance materiality was set at 75% (2024: 75%) of materiality for the financial statements as a whole, which equates to £14.2m (2024: £13.4m) for the group and £6.75m (2024: £6.50m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £0.95m (2024: £0.90m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Overview of the scope of our audit

This year, we applied the revised group auditing standard in our audit of the consolidated financial statements. The revised standard changes how an auditor approaches the identification of components, and how the audit procedures are planned and executed across components.

In particular, the definition of a component has changed, shifting the focus from how the entity prepares financial information to how we, as the Group auditor, plan to perform audit procedures to address Group risks of material misstatement ("RMMs"). Similarly, the Group auditor has an increased role in designing the audit procedures as well as making decisions on where these procedures are performed (centrally and/or at component level) and how these procedures are executed and supervised. As a result, we assess scoping and coverage in a different way and comparisons to prior period coverage figures are not meaningful. In this report we provide an indication of scope coverage on the new basis.

We performed risk assessment procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements and which procedures to perform at these components to address those risks.

Independent auditor's report

to the members of United Utilities PLC

In total, we identified 21 components, having considered our evaluation of the Group's legal structure, the existence of common information systems and our ability to perform audit procedures centrally.

Of those, we identified one quantitatively significant component which contained the largest percentage of total revenue and total assets of the Group, for which we performed audit procedures.

Additionally, having considered qualitative and quantitative factors, we selected two additional components with accounts contributing to the specific RMMs of the Group financial statements.

Accordingly, we performed audit procedures on three components. The work on all components including the audit of the Parent Company, was performed by the Group team.

Our audit procedures covered 98% of Group revenue.

We performed audit procedures in relation to components that accounted for 98% of the total profits and losses that made up Group profit before tax and 100% of Group total assets.

We set the component materialities, which ranged from £9m to £18m, having regard to the mix of size and risk profile of the Group across the components. The work on all components including the audit of the Parent Company, was performed by the Group team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4 Going concern

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

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

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

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

Our conclusions

- We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure in the basis of preparation section of the accounting policies note to be acceptable.

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

Independent auditor's report

to the members of United Utilities PLC

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— Inquiring of directors, the audit committee, internal audit and inspection of policy documentation relating to the ultimate parent, United Utilities Group PLC, as to the Group's high level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;

— Using analytical procedures to identify any unusual or unexpected relationships;

— Reading Board and Audit Committee minutes relating to the ultimate parent, United Utilities Group PLC; and

— Considering remuneration incentive schemes and performance targets for directors including Long Term Plan awards.

Our forensic professionals assisted us in identifying key fraud risks. This included attending the Risk Assessment and Planning Discussion and holding a discussion with the engagement partner and engagement manager.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular: the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as allowances for expected credit losses relating to household customer debt and capitalisation of costs relating to the capital programme.

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

We did not identify any additional fraud risks.

Further detail in respect of the allowances for expected credit losses relating to household customer debt and capitalisation of costs relating to the capital programme are set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

— Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals relating to revenue and cash and borrowings posted to unexpected or unrelated accounts; and

— Assessing significant accounting estimates and judgements for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Independent auditor's report

to the members of United Utilities PLC

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Compliance with regulations imposed by Ofwat, the Environment Agency, and the Drinking Water Inspectorate, Competition law, GDPR compliance, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of the contingent liabilities associated with certain environmental matters are set out in the key audit matter disclosures in section 2 of this report.

In relation to the Ofwat and the Environment Agency investigation launched in November 2021 and the potential collective proceedings in the Competition Act Tribunal that were issued in December 2023, as discussed in the Regulatory environment section and the Material Litigation report, respectively, and in note 23, we assessed disclosures against our understanding from legal correspondence and inquiries performed.

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

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

Strategic report and directors' report

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

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

Independent auditor's report

to the members of United Utilities PLC

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

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 60-61 the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St. Peter's Square
Manchester
M2 3AE
09 July 2025

Consolidated income statement

for the year ended 31 March 2025

	Note	2025 £m	2024 £m
Revenue	2	2,145.2	1,949.5
Other income		16.9	18.4
Staff costs	3	(224.1)	(205.1)
Other operating costs	4	(630.6)	(602.4)
Allowance for expected credit losses – trade and other receivables		(20.5)	(22.0)
Depreciation of property, plant and equipment		(435.7)	(406.1)
Amortisation of intangible assets		(29.2)	(32.7)
Infrastructure renewals expenditure		(191.1)	(219.8)
Total operating expenses		(1,514.3)	(1,469.7)
Operating profit		630.9	479.8
Investment income	5	225.7	198.5
Finance expense	6	(371.9)	(389.3)
Allowance for expected credit losses – loans to joint ventures	A5	0.0	(2.4)
Investment income and finance expense		(146.2)	(193.2)
Share of losses of joint ventures	11	(10.8)	(4.1)
Profit before tax		473.9	282.5
Current tax charge	7	(30.1)	(22.4)
Deferred tax charge	7	(89.9)	(48.9)
Tax	7	(120.0)	(71.3)
Profit after tax		353.9	211.2

All of the results shown above relate to continuing operations.

The accompanying notes on pages 83 to 142 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March 2025

	Note	2025 £m	2024 £m
Profit after tax		353.9	211.2
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedge effectiveness - effective portion of fair value movements		8.7	(63.0)
Tax on items that may be reclassified to profit or loss	7	(2.2)	15.8
Reclassification of items taken directly to equity		(1.3)	1.8
Tax reclassified to income statement		0.3	(0.5)
Other comprehensive income that may be reclassified to profit or loss		5.5	(45.9)
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gains /(losses) on defined benefit pension schemes	17	18.6	(368.5)
Change in credit assumptions for debt reported at fair value through profit or loss		1.9	0.6
Cost of hedging – cross-currency basis spread adjustment		3.6	4.8
Tax on items taken directly to equity	7	(6.0)	151.1
Other comprehensive income that will not be reclassified to profit or loss		18.1	(212.0)
Total comprehensive income		377.5	(46.7)

The accompanying notes on pages 83 to 142 form part of these financial statements

Consolidated and company statement of financial position

At 31 March 2025

	Note	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
ASSETS					
Non-current assets					
Property, plant and equipment	9	13,873.0	13,044.3	1.6	1.8
Intangible assets	10	105.8	124.5	-	-
Interests in joint ventures	11	1.6	12.4	1.6	12.4
Other investments	12	-	-	3,943.6	3,943.6
Trade and other receivables	13	73.6	72.7	73.5	72.8
Loans receivable	14	2,108.9	1,983.3	2,108.9	1,983.2
Retirement benefit surplus	17	302.3	268.0	75.8	72.7
Derivative financial instruments	A3	329.3	361.5	-	-
		16,794.5	15,866.7	6,205.0	6,086.5
Current assets					
Inventories – properties held for resale		2.7	3.0	-	-
Inventories – other		21.9	18.5	-	-
Trade and other receivables	13	281.2	227.8	600.6	759.8
Current tax asset	7	93.3	100.1	-	-
Cash and short-term deposits	15	1,672.6	1,399.3	185.9	142.5
Derivative financial instruments	A3	11.4	21.3	-	-
		2,083.1	1,770.0	786.5	902.3
Total assets		18,877.6	17,636.7	6,991.5	6,988.8
LIABILITIES					
Non-current liabilities					
Trade and other payables	19	(1,063.8)	(957.9)	-	-
Borrowings	16	(10,401.5)	(9,420.8)	(385.8)	(392.2)
Deferred tax liabilities	7	(2,028.4)	(1,930.6)	(18.9)	(18.1)
Derivative financial instruments	A3	(275.0)	(255.2)	-	-
		(13,768.7)	(12,564.5)	(404.7)	(410.3)
Current liabilities					
Trade and other payables	19	(605.2)	(439.8)	(133.7)	(123.5)
Borrowings	16	(526.4)	(686.2)	(82.5)	(34.3)
Provisions	18	(19.0)	(13.5)	-	-
Derivative financial instruments	A3	(17.6)	(25.4)	-	-
		(1,168.2)	(1,164.9)	(216.2)	(157.8)
Total liabilities		(14,936.9)	(13,729.4)	(620.9)	(568.1)
Total net assets		3,940.7	3,907.3	6,370.6	6,420.7
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	22	881.8	881.8	881.8	881.8
Share premium account		1,430.0	1,430.0	1,430.0	1,430.0
Other reserves	21	(10.4)	(18.6)	-	-
Retained earnings		1,639.3	1,614.1	4,058.8	4,108.9
Shareholders' equity		3,940.7	3,907.3	6,370.6	6,420.7

These financial statements for the group and United Utilities PLC (company number: 2366616) were approved by the board of directors and authorised for issue on 09 July 2025, and signed on its behalf by:

Phil Aspin
Chief Financial Officer

Consolidated statement of changes in equity

for the years ended 31 March 2025

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
Group					
At 1 April 2024	881.8	1,430.0	(18.6)	1,614.1	3,907.3
Profit after tax	-	-	-	353.9	353.9
Other comprehensive income					
Remeasurement gain on defined benefit pension schemes (see note 17)	-	-	-	18.6	18.6
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	1.9	1.9
Cash flow hedge effectiveness - effective portion of fair value movements	-	-	8.7	-	8.7
Cost of hedging - cross currency basis spread Adjustment	-	-	3.6	-	3.6
Tax on items taken directly to equity (see note 7)	-	-	(3.1)	(5.1)	(8.2)
Reclassification of items taken directly to equity	-	-	(1.3)	-	(1.3)
Tax reclassified to income statement (see note 7)	-	-	0.3	-	0.3
Total comprehensive income	-	-	8.2	369.3	377.5
Dividends (see note 8)	-	-	-	(344.1)	(344.1)
At 31 March 2025	881.8	1,430.0	(10.4)	1,639.3	3,940.7

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

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

The accompanying notes on pages 83 to 142 form part of these financial statements.

Company statement of changes in equity

for the years ended 31 March 2025

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2024	881.8	1,430.0	4,108.9	6,420.7
Profit after tax	-	-	293.8	293.8
Other comprehensive income				
Remeasurement gain on defined benefit pension schemes (see note 17)	-	-	0.3	0.3
Tax on items taken directly to equity (see note 7)	-	-	(0.1)	(0.1)
Total comprehensive income	**-**	-	294.0	294.0
Dividends (see note 8)	-	-	(344.1)	(344.1)
At 31 March 2025	881.8	1,430.0	4,058.8	6,370.6

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The results of the company for the financial year was a profit after tax of £293.8 million (2024: £293.6 million).

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

The accompanying notes on pages 83 to 142 form part of these financial statements

Consolidated statement of cash flows

for the years ended 31 March 2025

	Note	2025 £m	*Restated 2024 £m
Operating activities			
Cash generated from operations	A1	1,078.0	864.5
Interest paid		(269.3)	(180.6)
Interest received and similar income		92.5	50.7
Tax paid		(28.1)	(10.6)
Tax received		6.4	4.6
Net cash generated from operating activities		879.5	728.6
Investing activities			
Purchase of property, plant and equipment		(988.5)	(749.5)
Purchase of intangible assets		(9.5)	(14.6)
Grants and contributions received	19	9.2	27.9
Proceeds on disposal of property, plant and equipment		1.0	4.8
Repayment of loans to joint ventures	A5	0.5	-
Placement of deposits with maturity greater than three months		(768.7)	(445.0)
Receipt of deposits with maturity greater than three Months		768.7	445.0
Net cash used in investing activities		(987.3)	(731.4)
Financing activities			
Proceeds from borrowings net of issuance costs		1,373.0	1,622.7
Repayment of borrowings		(631.4)	(248.5)
Dividends paid to equity holders of the company	8	(344.1)	(320.0)
Net cash generated from financing activities		397.5	1,054.2
Net increase in cash and cash equivalents		289.7	1,051.4
Cash and cash equivalents at beginning of the year		1,379.3	327.9
Cash and cash equivalents at end of the year	15	1,669.0	1,379.3

The accompanying notes on pages 83 to 142 form part of these financial statements.

* The consolidated statement of cash flows for the year ended 31 March 2024 has been restated so as to show, within investing activities, the gross cash outflows and inflows arising from the placement and receipt of deposits with maturity greater than three months from the placement date. For the year ended 31 March 2024 these balances were previously presented on a net basis, and as such were not included on the face of the statement of cash flows.

Notes to the financial statements

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

Basis of preparation

The Group financial statements have been prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006. They have been prepared on the historical cost basis, except for the revaluation of financial instruments, accounting for the transfer of assets from customers, and the revaluation of infrastructure assets to fair value on transition to IFRS.

For the financial year ending 31 March 2025, the parent company financial statements have been prepared in accordance with UK accounting standards as applied in accordance with the provisions of the Companies Act 2006, being the first year of adoption of these UK accounting standards. The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', and accordingly these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). As a result of the adoption of FRS 101, there were no material changes to the reported financial position, financial performance or cash flows of the company.

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available in relation to financial instruments, fair value measurement, leases, the statement of cash flows, capital management, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods presented. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results, ultimately, may differ from these estimates.

The financial statements are presented in sterling and all values are rounded to the nearest million pounds (£m) except when otherwise indicated.

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

In assessing the appropriateness of the going concern basis of accounting, the directors have reviewed the resources available to the group in the form of cash and committed facilities as well as consideration of the group's capital adequacy, along with a baseline plan that incorporates latest views of the current economic climate. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe, but plausible, downside scenarios in order to assess the group's ability to operate within the amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact of £400 million arising in the assessment period; debt being refinanced as it matures at 1 per cent above the forward projections of interest rates; outcome delivery incentive penalties equivalent to 1 per cent of RoRE per annum; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

Consequently, the directors are satisfied that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and that the severe but plausible downside scenarios indicate that the Group will be able to operate within the amounts and terms (including relevant covenants) of existing facilities. The financial statements have therefore been prepared on a going concern basis.

Notes to the financial statements

Adoption of new and revised standards

There were no new standards, interpretations and amendments, effective for the year ended 31 March 2025, that were relevant to the group or would have a material impact on the group's financial statements, or that were not early adopted in previous years.

Amendments to IAS 1 'Presentation of Financial Statements'

The amendments to IAS 1 'Presentation of Financial Statements' clarify how the right to defer settlement of a liability and the conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. The amendments are effective for reporting periods beginning on or after 1 January 2024. The adoption of the amendment has not resulted in a change in the classification of the liabilities of the group. Further disclosure has been included within the notes to the financial statements in respect of liabilities that are subject to compliance with financial covenants.

Future accounting developments

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 31 March 2025 reporting period and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the following reporting period and on foreseeable future transactions. The group monitors developments across financial reporting standards and the status of adoption in the UK in assessing the extent to which these developments are likely to impact the financial statements in future periods.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies set out in note A6, the group is required to make certain estimates, judgements and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the carrying amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates, judgements and assumptions could have a material effect on the financial statements.

On an ongoing basis, the group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. As estimates carry with them an inherent level of uncertainty, the group performs sensitivity analysis where this is practicable and where, in management's opinion, it provides useful and meaningful information. This sensitivity analysis is performed to understand a range of outcomes that could be considered reasonably possible based on experience and the facts and circumstances associated with individual areas of the financial statements that are subject to estimates. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

As part of the evaluation of critical accounting judgements and key sources of estimation uncertainty, the group has considered the implications of climate change on its operations and activities, further details of which are set out below.

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

Notes to the financial statements

Retirement benefits

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

Accounting estimate* - Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £1,555.0 million (2024: £1,772.0 million) that are categorised as 'level 3' within the IFRS 13 'Fair value measurement' hierarchy, meaning that their value is not observable at 31 March 2025. This includes assets with an estimated fair value of £1,405.8 million (2024: £1,564.8 million) relating to bulk annuity policies purchased in the prior year as part of the partial buy-in transaction and £149.2 million of investments in private debt funds (2024: £202.7 million). The fair value of the bulk annuity assets is directly pegged to the present value of the defined benefit obligations that they insure, and therefore estimation of their fair value is inherently linked to the assumptions used in valuing the schemes' liabilities as set out above. Estimates of the fair value of the remaining 'level 3' assets are based on valuations performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total asset balances, updated for any subsequent cash movements between the statement date and the year-end reporting date.

Revenue recognition and allowance for doubtful receivables

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

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

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

This two-criteria approach resulted in a £41.1 million (2024: £31.0 million) reduction in revenue compared with what would have been recognised had no adjustment been made for amounts where collectability is not probable. Had management made an alternative judgement that where customers have paid in the preceding two years, and have more than their current year debt outstanding, the recoverability of the entirety of their debt was deemed to be probable (i.e. the second criteria were disapplied), the required adjustment to revenue would have been £21.9 million (£19.4 million) lower.

Accounting estimate** – At each reporting date, the company and each of its subsidiaries evaluate the estimated recoverability of trade receivables and record allowances for expected credit losses ('ECL') based on experience. Estimates associated with these allowances are based on, among other things, a consideration of how actual collection history might inform expected future recovery. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

At 31 March 2025, an allowance for expected credit losses relating to household customer debt of £81.4 million (2024: £80.7 million) was supported by a six-year cash collection projection. Based on a five-year or seven-year cash collection projection, the allowance for doubtful receivables would have increased by £1.5 million (2024: £0.3 million) or reduced by £0.9 million (2024: £0.2 million) respectively.

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

We have considered the high level of uncertainty as to how economic conditions may impact the recoverability of household receivables for a significant proportion of the group's customer base. A range of scenarios has been used to inform a probability-based assessment of the allowance for expected credit losses. These take account of cash collection rates in the current year as well as recent years, incorporating the current economic uncertainty to provide a range of views as to how recoverability of household receivables may be impacted. This assessment resulted in the release of the remainder of the management overlay, which had previously been recognised in light of the economic uncertainty; arising initially from the onset of the COVID-19 pandemic, and which is described more fully within the annual report for the year ended 31 March 2020.

The revised provisioning rates, coupled with the release of the management overlay, supports a charge equivalent to around 1.5 per cent of household revenue recorded during the period, which is slightly lower than the position at 31 March 2024.

At 31 March 2025, a charge of 1.5 per cent (2024: 1.6 per cent) is considered to be appropriate given prevailing levels of uncertainty and recognising the level of estimation uncertainty associated with the assumptions made in forecasting the year-end debt position upon which the allowance for expected credit losses is based.

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

Revenue recognised for unbilled amounts for these customers at 31 March 2025 was £172.9 million (2024: £156.4 million). Had actual consumption been 5 per cent higher or lower than the estimate of units supplied, this would have resulted in revenue recognised for unbilled amounts being £5.9 million (2024: £5.2 million) higher or lower respectively. For customers who do not have a meter, the receivable billed and revenue recognised is dependent on the rateable value of the property as assessed by an independent rating officer.

Property, plant and equipment

Accounting judgement** – The group recognises property, plant and equipment (PP&E) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity and/or resilience of the network, whereas any expenditure classed as maintenance is expensed in the period as incurred. Determining enhancement from maintenance expenditure requires an accounting judgement, particularly when projects have both elements within them. Enhancement spend was 65 per cent (2024: 48 per cent) of total spend in relation to infrastructure assets during the year. A change of +/- 5 per cent would have resulted in £27.5 million (2024: £21.0 million) less/more expenditure being charged to the income statement during the period.

Accounting estimate* – The estimated useful economic lives of PP&E and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PP&E and intangibles investment to the group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £464.9 million (2024: £438.8 million). A 10 per cent increase in average asset lives would have resulted in a £42.3 million (2024: £39.9 million) reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £46.5 million (2024: £43.9 million) increase in this figure.

Derivative financial instruments

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

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

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

Climate change

The group is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements, along with assessing climate-related risks and opportunities and the impact these could have on the financial statements.

The natural environment within which the group operates is constantly changing, and this influences how its water and wastewater services are to be delivered in the future. In addition, the group has embedded ambitious climate-related targets within its own operations, with this affecting the portfolio of assets required to deliver such services.

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

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

The group is exposed to potential asset write-downs following flooding resulting from extreme weather events, the frequency of which are expected to increase as the effects of climate change become more apparent. Following large-scale flooding, items are identified that have been damaged beyond repair and require immediate accounting write-downs. No such charges were required in the current financial year.

In addition to the risks posed by an increased likelihood of large-scale flooding events in future years, climate change presents challenges relating to prolonged periods of hot and dry weather, the frequency of which is expected to increase. This could potentially impact the viability of certain types of assets in future years such as those associated with the intake of water from the natural environment, or require a strategic reconfiguration of assets to respond to such challenges. It is expected that if any such impact were to materialise this would be over a longer period of time rather than within a single financial year, and no financial impact has been identified in the current year.

Notes to the financial statements

In recent years the group has sought to further enhance the accuracy of its useful life assessments through the introduction of more forward-looking information in asset life reviews. This includes the use of disposal data to identify trends that may inform the group's view of useful lives into the future. This information is used alongside other decommissioning data and data from strategic asset planning systems to inform useful asset lives.

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

While there are climate-related opportunities that may arise in association with how the group manages its asset base, these are generally incidental and not considered to be material compared with climate-related risks.

Notes to the financial statements

1. Segmental reporting

The board of directors of United Utilities PLC (the 'board') is provided with information on a single-segment basis for the purposes of assessing performance and allocating resources. The group's performance is measured against a range of financial and operational key performance indicators ('KPIs'), with operational KPIs aligned to the group's purpose and financial KPIs focused on profitability and financial sustainability. The board reviews revenue, operating profit and gearing, along with operational drivers at a consolidated level. In light of this, the group has a single segment for financial reporting purposes.

2. Revenue

The group's revenue arises from the provision of services within the United Kingdom.

	2025 £m	2024 £m
Wholesale water charges	897.7	819.9
Wholesale wastewater charges	1,113.7	990.8
Household retail charges	90.5	93.1
Other	43.3	45.7
	2,145.2	1,949.5

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, although following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Other revenues comprise a number of smaller non-core income streams, including property sales and income from activities, typically performed opposite property developers, which impact the group's capital network assets. This includes diversion works to relocate water and wastewater assets, and activities that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

3. Directors and employees

Directors' remuneration

	2025 £m	2024 £m
Salaries	1.6	1.5
Benefits	0.2	0.2
Bonus	0.1	0.5
Share-based payment charge	1.1	0.8
	3.0	3.0

Included within the above are aggregate emoluments of £1.4 million (2024: £1.3 million) in respect of the highest paid director.

Annual bonuses were paid to two directors in respect of the year ended 31 March 2025 (2024: four directors).

No directors accrued benefits under defined benefit schemes during the current year (2024: no directors). One director opted for a cash allowance in lieu of their company pension scheme entitlement (2024: One director).

Four directors (2024: four directors) received shares in United Utilities Group PLC in respect of qualifying services. Four directors (2024: four directors) had long-term incentive plans which vested during the year.

Notes to the financial statements

3. Directors and employees (continued)

Aggregate amounts receivable relating to long-term incentive plans of £1.1 million (2024: £0.8 million) were recognised during the year. Details of the employee Sharebuy scheme and the executive share scheme operated by United Utilities Group PLC are given in the UUG 2025 Annual report and financial statements.

Remuneration of key management personnel

	2025 £m	2024 £m
Salaries and short-term employee benefits	6.3	6.6
Share-based payment charge	3.2	1.9
	9.5	8.5

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

Staff costs (including directors)

Group	2025 £m	2024 £m
Wages and salaries[1]	372.1	341.8
Employee related taxes and levies	36.0	32.5
Severance	0.2	1.4
Post-employment benefits:		
Defined benefit pension expense (see note 17)	6.5	2.2
Defined contribution pension expense (see note 17)	36.7	32.4
	451.5	410.3
Charged to other areas including regulatory capital schemes	(227.4)	(205.2)
Staff costs	224.1	205.1

Notes:

[1] Wages and salaries excluding non-permanent staff was £334.5 million (2024: £302.5 million).

Included within employee benefits expense there were net charges of £0.2 million (2024: £1.4 million) in respect of restructuring costs. This relates to the release of restructuring costs for which a provision was recognised in previous years that is no longer required.

Conditional share awards in relation to shares of the ultimate parent undertaking, United Utilities Group PLC, have been granted to employees of the group under various schemes. Details of the terms and conditions of each scheme are given in the UUG 2025 Annual Report and financial statements. Included within wages and salaries is an expense of £4.7 million (2024: £2.1 million) relating to a recharge of share-based payment costs from the ultimate parent undertaking.

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

	2025	2024
Group		
Average number of employees during the year	6,203	6,035

Company

The average number of employees during the year was 143 (2024: 149). These employees were engaged in the provision of services to United Utilities Water Limited, and as such employee costs of £15.0 million (2024: £12.7 million) in relation to these employees have been incurred directly by that company during the year.

Notes to the financial statements

4. Operating profit

	2025 £m	2024 £m
Other operating costs		
Power	154.5	164.3
Materials	144.1	127.1
Hired and contracted services	133.5	128.7
Property rates	89.9	82.0
Regulatory fees	44.8	39.3
Insurance	14.5	13.3
Loss on disposal of property, plant and equipment	4.0	6.7
Accrued innovation costs	8.0	6.0
Other expenses	37.3	35.0
	630.6	602.4

In June 2023, the group experienced a significant outfall pipe fracture at a major wastewater treatment works at Fleetwood, for which the remediation and associated activity resulted in costs of £37.6 million being incurred during the year to 31 March 2024, with a further £2.3 million incurred during the year to 31 March 2025. These costs have been presented as an adjusting item in arriving at the group's underlying operating profit position as included in its alternative performance measures.

The £37.6 million of prior year costs are split into £23.6 million of operating costs included in the above total, and £14.0 million of infrastructure renewal expenditure. The majority of the £23.6 million of operating costs were reflected within hired and contracted services, including the cost of tankering to reduce the volume of sewage spills along the Fylde Coast while remediation activity was undertaken. Of the £2.3 million costs incurred in the year to 31 March 2025, £0.7 million of operating costs are included in the above total, with £1.6 million included within infrastructure renewal expenditure.

In addition to the costs relating to the incident at Fleetwood, other operating costs have increased compared with the same period in the prior year. This increase is predominantly due to inflationary pressures on our cost base as well as additional investment in performance ahead of AMP8, partially offset by cost control efficiencies.

Research and development expenditure for the year ended 31 March 2025, was £0.6 million (2024: £0.7 million). In addition, £8.0 million (2024: £6.0 million) of costs have been accrued by United Utilities Water Limited in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses offset amounts recognised in revenue during each year intended to fund innovation projects across England and Wales as part of an industry-wide scheme to promote innovation in the sector. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

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

	2025 £000	2024 £000
Audit services:		
Statutory audit - group and company	176	151
Statutory audit - subsidiaries	654	565
	830	716
Non-audit services:		
Regulatory audit services provided by the statutory auditor	80	80
Other non-audit services	115	102
	1,025	898

Notes to the financial statements

5. Investment income

	2025 £m	2024 £m
Interest receivable on short-term bank deposits held at amortised cost	87.3	49.1
Interest receivable on loan to joint ventures held at amortised cost (see note A5)	5.9	5.6
Net pension interest income (see note 17)	12.9	28.6
Other interest receivable	-	2.3
Interest receivable from ultimate parent undertaking	119.6	112.9
	225.7	198.5

6. Finance expense

	2025 £m	2024 £m
Interest payable		
Interest payable on borrowings held at amortised cost(1)	372.3	379.8
	372.3	379.8
Fair value (gains)/ losses on debt and derivative instruments		
Fair value hedge relationships:		
Borrowings(2)	(60.1)	(5.1)
Designated swaps(2) (3)	39.1	3.4
	(21.0)	(1.7)
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss(4)	(6.8)	(21.3)
Associated swaps(5) (6)	5.6	22.1
	(1.2)	0.8
Fixed interest rate swaps(5)	(4.1)	27.3
Net receipts on swaps and debt under fair value option	9.4	(21.3)
Inflation swaps(5)	16.5	5.3
Other	-	(0.9)
	21.8	10.4
Net fair value (gains)/losses on debt and derivative instruments(6)	(0.4)	9.5
	371.9	389.3

Notes:

(1) Includes a £142.2 million (2024: £225.9 million) non-cash inflation uplift expense repayable on maturity in relation to the group's index-linked debt and £1.9 million (2024: £1.4 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments. This also includes an accrual of interest payable of £122.7 million (2024: £82.1 million), as disclosed within note 19, which is a non-cash adjustment for interest paid within the consolidated and company statement of cash flows.
(2) Includes foreign exchange gain of £13.2 million (2024: £35.1 million gain). These gains are largely offset by fair value losses on derivatives.
(3) Under the provisions of IFRS 9 'Financial Instruments', a £3.7 million gain (2024: £4.8 million gain) resulting from changes to the foreign currency basis spread are recognised in other comprehensive income rather than profit or loss as they relate to items designated in an accounting hedge relationship.
(4) Under the provisions of IFRS 9 'Financial Instruments', a £1.9 million gain (2024: £0.6 million gain) due to changes in the group's own credit risk is recognised in other comprehensive income rather than within profit or loss.
(5) These swap contracts are not designated within an IFRS 9 hedge relationship and are classed as 'held for trading' under the accounting standard. These derivatives form economic hedges and, as such, management intends to hold these through to maturity.
(6) Includes £1.3 million income (2024: £29.3 million) due to net interest on derivatives and debt under fair value option and £19.6 million expense (2024: £25.9 million expense) due to non-cash inflation uplift on index-linked derivatives.

Notes to the financial statements

6. Finance expense (continued)

Interest payable is stated net of £68.5 million (2024: £81.0 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. This has been calculated by applying an average capitalisation rate of 5.4 per cent (2024: 6.1 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'. These borrowing costs are included within interest paid in the consolidated statement of cash flows.

7. Tax

	2025 £m	2024 £m
Current tax		
UK corporation tax	29.7	28.2
Adjustments in respect of prior years	0.4	(5.8)
Total current tax charge for the year	30.1	22.4
Deferred tax		
Current year	92.3	44.3
Adjustments in respect of prior years	(2.4)	4.6
Total deferred tax charge for the year	89.9	48.9
Total tax charge for the year	120.0	71.3

The current tax 'adjustments in respect of prior years' of £0.4 million mainly relates to claims for research and development UK tax allowances on our innovation-related expenditure, in respect of multiple prior years. It reflects an additional claim submitted during the year, along with adjustments relating to ongoing enquiries from the tax authorities in relation to these claims.

The deferred tax 'adjustments in respect of prior years' of £2.4 million in the previous year is mainly due to the utilisation of losses that were previously being carried forward.

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

	2025 £m	2025 %	2024 £m	2024 %
Profit before tax	473.9		282.5	
Tax at the UK corporation tax rate	118.5	25.0	70.6	25.0
Adjustments in respect of prior years	(2.0)	(0.4)	(1.2)	(0.4)
Net expenses not deductible	3.5	0.7	1.9	0.7
Total tax charge and effective tax rate for the year	120.0	25.3	71.3	25.3

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

Notes to the financial statements

7. Tax (continued)

	2025 £m	2024 £m
Profit before tax	473.9	282.5
Profit before tax multiplied by the standard rate of UK corporation tax of 25%	118.5	70.6
Relief for capital allowances in place of depreciation	(278.1)	(202.0)
Disallowance of depreciation charged in the accounts	99.8	94.6
Financial transactions timing differences	(2.5)	4.2
Pension timing differences	(4.0)	(9.2)
Relief for capitalised interest	(17.1)	(20.2)
Other timing differences	3.9	1.0
Adjustments to tax charge in respect of prior years	0.4	(5.8)
Joint venture losses not taxed	2.6	1.0
Expenses not deductible for tax purposes	(3.0)	(2.8)
Depreciation charged on non-qualifying assets	3.9	3.7
Current year tax losses carry forward	105.7	87.3
Current tax charge for the year	30.1	22.4

The group’s current tax charge is typically lower than the UK headline rate of 25% primarily due to a range of adjustments that are simply timing differences between recognition of the income or expense in the accounts and in the related tax computations submitted to HMRC. These include deductions in relation to capital spend, pension timing differences, unrealised profits or losses in relation to financing and related treasury derivatives and capitalised interest.

The group has historically invested in capital expenditure on projects involving Research and Development (‘R&D’) upon which claims for accelerated capital allowances have been made. The extent to which R&D allowances are available on any given asset is dependent on the specific fact pattern of the asset and project to which it relates. Reaching agreement with tax authorities as to the amount of R&D allowances available can take a number of years, and judgement is required in estimating the amount of R&D allowances likely to be received following the conclusion of these processes.

The group believes that it has made appropriate provision for periods that remain under enquiry and are yet to be agreed with tax authorities (financial years ended 31 March 2019 to 31 March 2022, inclusive), and that the carrying amount of the relevant tax assets reflects management’s estimate of the most likely amount that will be received. Should it ultimately be the case that the full asset is unable to be recovered, the company is expected to instead be able to claim standard capital allowances. As a result, in the event that the group is unsuccessful in fully agreeing the R&D claims with the tax authorities, any reduction in the associated current tax receivable in relation to this would be expected to materially reduce deferred tax liabilities in respect of accelerated tax depreciation, with any difference being due to differences in the historical tax rates at which the current tax assets are recognised and the 25 per cent rate used to calculate the deferred tax positions.

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

The relief for capitalised interest relates to amounts that are immediately deductible under the UK tax rules notwithstanding the amounts being capitalised for accounting purposes. The year-on-year amount will depend on the amount capitalised.

Other timing differences includes a range of low value items where there is a timing difference between the accounting and tax recognition.

Notes to the financial statements

7. Tax (continued)

Depreciation charged on non-qualifying assets relates to accounting depreciation where there is no corresponding tax deduction. Current-year tax losses have arisen mainly as a result of the availability of tax relief available on capital spend, these losses will be carried forward to be utilised against future taxable profits.

Pillar Two

Pillar Two legislation mandates a top-up tax for entities with an effective rate below the 15 per cent threshold. The legislation applies to the current accounting period for the first time. As of 31 March 2025, the only jurisdiction in which the group has a potential Pillar Two exposure is the UK. The entire UK profits of the group are within the scope of Pillar Two. The group will be able to take advantage of the Transitional Safe Harbour rules for this and the subsequent two accounting periods such that the current tax expense in relation to Pillar Two income taxes is nil.

It is unclear if the Pillar Two model rules create additional temporary differences whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. The International Accounting Standards Board (IASB) issued amendments to IAS 12 'Income Taxes' in 2023 introducing a mandatory temporary exception to the requirements of IAS 12, under which a company does not recognise or disclose information about deferred tax assets and liabilities in relation to the OECD/G20 BEPS Pillar Two model rules. The group applied the temporary exception at 31 March 2025.

Tax on items taken directly to equity

	2025	2024
Group	£m	£m
Deferred tax		
On remeasurement gains/(losses) on defined benefit pension schemes	4.7	(152.2)
On net fair value gains/(losses) on credit assumptions for debt reported at fair value through profit and loss and cost of hedging	0.1	(13.9)
Share-based payments	3.1	(0.3)
Total tax charge/(credit) on items taken directly to equity	7.9	(166.4)

	2025	2024
Company	£m	£m
Deferred tax		
On remeasurement gains/(losses) on defined benefit pension schemes	0.1	(39.7)
Total tax charge/(credit) on items taken directly to equity	0.1	(39.7)

The tax adjustments taken to other comprehensive income primarily relate to remeasurement movements on the group's defined benefit pension schemes. Management considers that the most likely method of realisation would be through a refund, which would be taxed at the rate applicable to refunds from a trust.

Current tax asset

	Total
Group	£m
At 1 April 2023	98.9
Charged to the income statement	(28.2)
Adjustments in respect of prior years	5.8
Payments	23.6
At 31 March 2024	100.1
Charged to the income statement	(29.7)
Adjustments in respect of prior years	(0.4)
Payments	23.3
At 31 March 2025	93.3

7. Tax (continued)

The current tax asset recognised in the consolidated statement of financial position reflects the amount of tax expected to be recoverable in the next 12 months, based on judgements made regarding the application of tax law, and the current status of negotiations with, and enquiries from, tax authorities. A significant part of the receivable relates to the R&D claims made in prior years.

Deferred tax liabilities

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

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Tax losses £m	Total £m
At 1 April 2023	1,863.9	210.3	97.9	(124.0)	2,048.1
Charged to the income statement	144.9	8.9	(17.7)	(87.2)	48.9
Credited to other comprehensive income	-	(152.2)	(14.2)	-	(166.4)
At 31 March 2024	2,008.8	67.0	66.0	(211.2)	1,930.6
Credited to the income statement-adjustments in respect of prior years	(192.1)	-	-	189.7	(2.4)
Charged to the income statement – current year	192.1	3.8	2.2	(105.8)	92.3
Charged to other comprehensive income	-	4.7	3.2	-	7.9
At 31 March 2025	2,008.8	75.5	71.4	(127.3)	2,028.4

Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 April 2023	(0.1)	56.0	55.9
Charged to the income statement	-	1.9	1.9
Credited to other comprehensive income	-	(39.7)	(39.7)
At 31 March 2024	(0.1)	18.2	18.1
Charged to the income statement	-	0.7	0.7
Charged to other comprehensive income	-	0.1	0.1
At 31 March 2025	(0.1)	19.0	18.9

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

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

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

Notes to the financial statements

7. Tax (continued)

Deferred tax on retirement benefit obligations can arise where there are year-on-year differences between the contributions paid and the associated amounts charged to the profit and loss account. However, given the fully funded nature of the group's pension schemes, any such deferred tax movements, together with the associated impact on future corporation tax payments, is not expected to be significant over the medium term.

Deferred tax on losses carried forward has been recognised as offsetting against the deferred tax on accelerated tax depreciation. These losses are generated predominantly as a result of tax relief available on our capital expenditure in the form of capital allowances. These losses will be carried forward to offset against future taxable profits. The largely offsetting prior-year adjustments reflected within accelerated tax depreciation and tax losses reflect a decision made in the current year (in line with statutory time limits) to disclaim capital allowances. This reduced the losses carried forward in relation to those earlier periods.

8. Dividends

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

	2025 £m	2024 £m
Ordinary shares		
Interim dividend for the year ended 31 March 2025 at 25.66 pence per share (2024: 23.46 pence)	226.3	206.9
Interim dividend for the year ended 31 March 2025 at 13.36 pence per share (2024: 12.83 pence)	117.8	113.1
	344.1	320.0

9. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2025 £m	2024 £m
Property, plant and equipment – owned	13,791.9	12,986.7
Right-of-use assets – leased	81.1	57.6
Net book value	13,873.0	13,044.3

9. Property, plant and equipment (continued)

Property, plant and equipment – owned

Group	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2023	367.5	6,238.4	8,504.5	504.6	1,948.0	17,563.0
Additions	2.1	79.6	224.2	6.1	580.5	892.5
Transfers	16.8	469.8	423.7	21.9	(938.3)	(6.1)
Disposals	(7.1)	(0.1)	(59.0)	(87.3)	-	(153.5)
At 31 March 2024	379.3	6,787.7	9,093.4	445.3	1,590.2	18,295.9
Additions	2.3	134.9	208.8	6.4	891.5	1,243.9
Transfers	(0.3)	185.8	450.2	43.7	(679.4)	-
Disposals	(1.5)	-	(63.3)	(16.9)	-	(81.7)
At 31 March 2025	379.8	7,108.4	9,689.1	478.5	1,802.3	19,458.1
Accumulated depreciation						
At 1 April 2023	138.8	560.0	3,933.7	416.7	-	5,049.2
Charge for the year	8.4	49.2	325.4	21.3	-	404.3
Transfers	(0.5)	(0.1)	(0.8)	-	-	(1.4)
Disposals	(2.7)	-	(53.4)	(86.8)	-	(142.9)
At 31 March 2024	144.0	609.1	4,204.9	351.2	-	5,309.2
Charge for the year	8.9	51.3	355.1	18.7	-	434.0
Transfers	-	(0.3)	0.3	-	-	-
Disposals	(1.0)	-	(59.5)	(16.5)	-	(77.0)
At 31 March 2025	151.9	660.1	4,500.8	353.4	-	5,666.2
Net book value						
At 31 March 2024	235.3	6,178.6	4,888.5	94.1	1,590.2	12,986.7
At 31 March 2025	227.9	6,448.3	5,188.3	125.1	1,802.3	13,791.9

At 31 March 2025, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £112.0 million (2024: £327.0 million). In addition to these commitments, the group has long-term expenditure plans, which include investments to achieve improvements in performance required by regulators and to provide for future growth.

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

These amounts are reflected in the 'transfers' lines in the previous table. During the year ended 31 March 2025, government grants of £0.9 million (2024: £1.9 million) related to assets were received. These have been reflected in the 'additions' line in the previous table as a deduction in arriving at the carrying value of the related assets.

Company

The company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2025 or 31 March 2024.

Notes to the financial statements

10. Intangible assets

Group	Total £m
Cost	
At 1 April 2023	452.5
Additions	15.9
Transfers	-
Disposals	(79.3)
At 31 March 2024	389.1
Additions	10.6
Transfers	(0.1)
Disposals	(0.2)
At 31 March 2025	399.4
Accumulated amortisation	
At 1 April 2023	310.2
Charge for the year	32.7
Disposals	(78.3)
At 31 March 2024	264.6
Charge for the year	29.2
Disposals	(0.2)
At 31 March 2025	293.6
Net book value at 31 March 2024	124.5
Net book value at 31 March 2025	105.8

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

At 31 March 2025, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £0.7 million (2024: £1.1 million).

Company

The company had no intangible assets or contractual commitments for the acquisition of intangible assets at 31 March 2025 or 31 March 2024.

11. Interests in joint ventures

Group and Company	Total £m
At 1 April 2023	16.5
Share of losses of joint ventures	(4.1)
At 31 March 2024	12.4
Share of losses of joint ventures	(10.8)
At 31 March 2025	**1.6**

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

Notes to the financial statements

11. Interests in joint ventures (continued)

The group's total share of Water Plus losses for the year was £10.8 million (2024: £4.1 million), all of which is recognised in the income statement. Details of transactions between the group and its joint ventures are disclosed in note A5.

12. Other investments

Company	Shares in subsidiary undertakings £m
Net book value at 1 April 2023, 1 April 2024 and 31 March 2025	3,943.6

13. Trade and other receivables

		Group		Company
	2025	2024	2025	2024
	£m	£m	£m	£m
Trade receivables	90.8	61.0	5.6	6.7
Amounts owed by subsidiary undertakings	-	-	595.1	752.3
Amounts owed by other related parties (see note A5)	101.0	100.8	73.5	73.6
Other debtors and prepayments	84.1	62.1	-	-
Accrued income	79.1	76.6	-	-
	355.0	300.5	674.2	832.6

At 31 March 2025, the group had £73.6 million (2024: £72.7 million) of trade and other receivables classified as non-current, all of which was owed by related parties.

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

The carrying amount of trade and other receivables approximates to their fair value at 31 March 2025 and 31 March 2024.

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

Group	2025 £m	2024 £m
At the start of the year	84.4	85.7
Amounts charged to operating expenses	20.5	22.0
Trade receivables written off	(22.3)	(22.8)
Amounts charged to deferred income	(0.2)	(0.5)
At the end of the year	82.4	84.4

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

Notes to the financial statements

13. Trade and other receivables (continued)

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

At 31 March 2025 and 31 March 2024, the group had no trade receivables that were past due and not individually impaired.

Group	Aged less than one year	Aged between one year and two years	Aged greater than two years	Carrying value
At 31 March 2025	£m	£m	£m	£m
Gross trade receivables	88.8	30.9	53.4	173.1
Allowance for expected credit losses	(16.2)	(13.5)	(52.7)	(82.4)
Net trade receivables	72.6	17.4	0.7	90.7

At 31 March 2024	Aged less than one year	Aged between one year and two years	Aged greater than two years	Carrying value
Gross trade receivables	66.7	27.2	51.4	145.3
Allowance for expected credit losses	(20.7)	(12.7)	(51.0)	(84.4)
Net trade receivables	46.0	14.5	0.4	60.9

At 31 March 2025, the group had £0.1 million (2024: £0.1 million) of trade receivables that were not past due.

The majority of accrued income balances represent contract assets arising from timing differences between the billing cycle and the usage of water by customers. They therefore typically reverse in subsequent months, with all amounts held in relation to these contract assets at the beginning of the reporting period having subsequently reversed into the income statement during the year. At 31 March 2025 and 31 March 2024, the group had no accrued income that was past due. In instances where the collection of consideration is not considered probable at the point services are delivered, no accrued income balance is recognised, as the criteria to recognise revenue in accordance with IFRS 15 has not been met.

14. Loans receivable

		Group		**Company**
	2025	2024	2025	2024
Amounts owed by ultimate parent (see note A5)	2,108.9	1,983.3	2,108.9	1,983.2
	2,108.9	1,983.3	2,108.9	1,983.2

Loans receivable owed by the ultimate parent undertaking, United Utilities Group PLC, are classified as non-current and bear a floating interest rate of the Bank of England base rate plus a credit adjusted spread and a credit margin and is repayable with 12 months' notice upon written request by a director of either party, with the repayment date not falling less than 366 days after the date of the request.

The carrying amount of loans receivable approximate to their fair value at 31 March 2025 and 31 March 2024.

Notes to the financial statements

15. Cash and cash equivalents

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Cash at bank and in hand	4.2	3.7	-	0.2
Short-term bank deposits	1,668.4	1,395.6	185.9	142.3
Cash and short-term deposits	1,672.6	1,399.3	185.9	142.5
Book overdrafts (included in borrowings, see note 16)	(3.6)	(20.0)	-	(0.1)
Cash and cash equivalents in the statement of cash flows	1,669.0	1,379.3	185.9	142.4

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

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

16. Borrowings

Group	2025 £m	2024 £m
Non-current liabilities		
Bonds	8,807.1	7,598.2
Bank and other term borrowings	1,441.4	1,691.4
Lease obligations (see note 20)	78.0	56.2
Amounts owed to ultimate parent undertaking	75.0	75.0
	10,401.5	9,420.8
Current liabilities		
Bonds	143.7	328.4
Bank and other term borrowings	309.6	304.2
Book overdrafts (see note 15)	3.6	20.0
Lease obligations (see note 20)	5.2	3.0
Amounts owed to ultimate parent undertaking	64.3	30.6
	526.4	686.2
	10,927.9	10,107.0

Company	2025 £m	2024 £m
Non-current liabilities		
Bonds	309.2	315.3
Amounts owed to ultimate parent undertaking	75.0	75.0
Lease obligations (see note 20)	1.6	1.9
	385.8	392.2
Current liabilities		
Book overdrafts (see note 15)	-	0.1
Lease obligations (see note 20)	0.3	0.3
Amounts owed to ultimate parent undertaking	64.3	30.6
Amounts owed to subsidiary undertakings	17.9	3.3
	82.5	34.3
	468.3	426.5

Notes to the financial statements

16. Borrowings (continued)

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

As at 31 March 2025, for the group there were £866.2 million of non-current borrowings with a single counterparty that are subject to compliance with financial covenants in respect of the level of gearing and interest cover of United Utilities Water Limited, a subsidiary of the group, which could lead to the borrowings becoming repayable within 12 months of the balance sheet date if breached. Compliance with these covenants is monitored by the group on a quarterly basis and reported to the counterparty annually. The group was compliant with these financial covenants at the reporting date.

During the year, the group issued £1,036.0 million (2024: £956.3 million) of debt under its Sustainable Finance Framework. These instruments are structured as “use of proceeds” bonds and do not include pricing mechanisms or covenants linked to financial or ESG performance. As a result, the accounting follows that of other conventional debt issuances.

Further details of the group’s outstanding borrowings as at the reporting date, including the nature and extent of associated risks and how these risks are managed, along with hedge accounting (where applicable) and the determination of fair value, are provided in note A3.

17. Retirement benefits

The group participates in two major funded defined benefit pension schemes in the United Kingdom – the United Utilities Pension Scheme (‘UUPS’) and the United Utilities PLC group of the Electricity Supply Pension Scheme (‘ESPS’) – as well as a defined contribution scheme, which is part of the UUPS, and a series of historic unfunded, unregistered retirement benefit schemes operated for the benefit of certain former employees.

The Principal Employer for both the UUPS and ESPS is United Utilities PLC (UU PLC), with United Utilities Water Limited (UUW) being a Participating Employer. The defined benefit obligations in the two schemes are split, in accordance with IAS19 ‘Employee Benefits‘, by employer, between UU PLC and UUW.

Both defined benefit schemes are closed to new employees, and since 1 April 2018 the majority of active members in the defined benefit section of the UUPS have been part of a hybrid section comprising both defined benefit and defined contribution elements in order to reduce the overall costs and risk to the group resulting from increases in future service costs, while balancing the interests of employees by maintaining an element of defined benefit pension provision.

Information about the pension arrangements for UUG executive directors is contained in the UUG 2025 directors’ remuneration report.

Defined benefit schemes

As similar financial and demographic assumptions are used in accounting for both of the group’s defined benefit pension schemes, and given they have similar risk profiles, the information below and further detail provided in note A4 is presented on an aggregated basis unless otherwise stated.

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

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Current service cost	2.5	2.8	0.3	0.2
Past service cost	-	(4.6)	-	(0.4)
Administrative expenses	4.0	4.0	1.7	1.6
Pension expense charged to operating profit	6.5	2.2	2.0	1.4
Net pension interest income credited to investment income (see note 5)	(12.9)	(28.6)	(3.5)	(8.1)

Notes to the financial statements

17. Retirement benefits (continued)

Net pension income credited to the income statement before tax	(6.4)	(26.4)	(1.5)	(6.7)

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £6.5 million (2024: £6.8 million) for the group and £2.0 million (2024: £1.8 million) for the company comprising current service costs and administrative expenses.

Total post-employment benefits expense charged to operating profit of £43.2 million (2024: £34.6 million) for the group and £2.0 million (2024: £1.4 million) for the company comprise the defined benefit costs described above of £6.5 million (2024: £2.2 million) for the group and £2.0 million (2024: £1.4 million) for the company and defined contribution costs of £36.7 million (2024: £32.4 million) for the group and £nil (2024: £nil) for the company (see note 3).

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

	Group		Company	
	2025	2024	2025	2024
	£m	£m	£m	£m
At the start of the year	268.0	600.8	72.7	158.7
Income recognised in the income statement	6.4	26.4	1.5	6.7
Contributions	9.3	9.3	1.3	0.9
Remeasurement losses gross of tax	18.6	(368.5)	0.3	(93.6)
At the end of the year	302.3	268.0	75.8	72.7

Included in the group contributions paid of £9.3 million (2024: £9.3 million) and company contributions paid of £1.4 million (2024: £0.9 million), which are included as cash outflows in arriving at net cash generated from operations in the consolidated statement of cash flows, are payments in relation to historic unfunded, unregistered retirement benefit schemes of £0.7 million (2024: £0.7 million) for the group and £nil (2024: £nil) for the company, and administrative expenses of £1.1 million (2024: £1.1 million) for the group and £1.0 million (2024: £0.4 million) for the company. Contributions in relation to current service cost fell to £2.5 million (2024: £2.8 million) for the group and increased to £0.3 million (2024: £0.2 million) for the company.

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

		Group		Company
	2025	2024	2025	2024
	£m	£m	£m	£m
The return on plan assets, excluding amounts included in interest	(240.9)	(402.7)	(67.2)	(68.4)
Actuarial gains arising from changes in financial assumptions	259.3	52.7	71.6	13.0
Actuarial gains arising from changes in demographic assumptions	6.1	49.2	1.9	13.9
Actuarial losses arising from experience	(5.9)	(67.7)	(6.0)	(52.1)
Remeasurement gains/(losses) on defined benefit pension schemes	18.6	(368.5)	0.3	(93.6)

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

17. Retirement benefits (continued)

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

Defined contribution schemes

During the year, the group made £36.7 million (2024: £32.4 million) of contributions and the company made £nil (2024: £nil) of contributions to defined contribution schemes which are included in employee benefits expense in the consolidated income statement (see note 3), and as cash outflows in arriving at net cash generated from operating activities in the consolidated statement of cash flows.

18. Provisions

Group	Severance £m	Other £m	Total £m
At 1 April 2023	0.4	12.7	13.1
Charged to the income statement	1.5	2.8	4.3
Utilised in the year	(1.4)	(2.5)	(3.9)
At 31 March 2024	0.5	13.0	13.5
Charged to the income statement	0.3	12.2	12.5
Utilised in the year	(0.7)	(6.3)	(7.0)
At 31 March 2025	0.1	18.9	19.0

The group had no provisions classed as non-current at 31 March 2025 or 31 March 2024.The severance provision as at 31 March 2025 and 31 March 2024 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 2025 or 31 March 2024.

19. Trade and other payables

		Group		**Company**
	2025 £m	2024 £m	2025 £m	2024 £m
Non-current				
Deferred grants and contributions	1,045.9	937.7	-	-
Other creditors	17.9	20.2	-	-
	1,063.8	957.9	-	-

		Group		**Company**
	2025 £m	2024 £m	2025 £m	2024 £m
Current				
Trade payables	29.9	23.4	0.1	0.1
Amounts owed to ultimate parent undertaking	32.3	30.5	31.0	28.2
Amounts owed to subsidiary undertakings	-	-	97.9	90.0
Other tax and social security	8.8	7.5	-	-
Deferred grants and contributions	19.7	17.8	-	-
Accruals and other creditors	449.1	311.6	4.7	5.2
Deferred income	65.4	49.0	-	-
	605.2	439.8	133.7	123.5

Notes to the financial statements

19. Trade and other payables (continued)

The average credit period taken for trade purchases for the group is 11 days (2024: 11 days) and for the company is nil days (2024: nil days).

The carrying amounts of trade and other payables approximate their fair value at 31 March 2025 and 31 March 2024.

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

Accruals and other creditors includes capital accruals of £163.2 million (2024: £94.9 million) and interest accruals of £122.7 million (2024: £82.1 million). The remainder of the balance mainly consists of accruals for other operating costs.

Deferred grants and contributions

	2025 £m	2024 £m
Group		
At the start of the year	955.5	889.9
Amounts capitalised during the year	8.3	25.9
Transfers of assets from customers	121.4	61.3
Transfer of government grants related to assets	-	(4.7)
Credited to income statement – revenue	(19.8)	(17.4)
Debited to allowance for bad and doubtful receivables	0.2	0.5
At the end of the year	1,065.6	955.5

20. Leases

Group

In order to carry out its activities, the group enters into leases of assets from time to time, typically in relation to items such as land, buildings, vehicles, and equipment. Due to the nature of the group's operations, many of the group's leases have extremely long terms, with leases ranging from one year to 999 years. The group does not typically enter into lease contracts with a duration of less than 12 months, and no material costs were incurred during the year for short-term leases.

During the year, the group has entered into leases of computer equipment for which the underlying assets are of low value, and therefore qualify for the recognition exemption available under IFRS 16 'Leases', which the group has elected to apply. The expense related to these low-value assets incurred in the year totals £2.0 million (2024: £0.6 million).

As at 31 March 2025, the group's statement of financial position included right-of-use assets with a net book value of £81.1 million (2024: £57.6 million) and lease liabilities with a total value of £83.2 million (2024: £59.2 million). These balances are analysed further below.

Notes to the financial statements

20. Leases (continued)

Right-of-use assets

The carrying amount of right-of-use assets at the year ended 31 March 2025 is presented in the following asset classes.

	2025 £m	2024 £m
Land and buildings	59.9	52.0
Operational assets	21.2	5.4
Fixtures, fittings, tools, and equipment	-	0.2
Total carrying amount of right-of-use assets	81.1	57.6

Additions to right-of-use assets were £25.4 million (2024: £2.6 million). Disposals were £0.5 million (2024: £1.0 million).

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

	2025 £m	2024 £m
Land and buildings	1.3	1.2
Operational assets	0.4	0.6
Total depreciation of right-of-use assets	1.7	1.8

Company

The company had right-of-use assets at the year ended 31 March 2025 with a carrying amount of £1.6 million (2024: £1.8 million) within the land and buildings asset class.

Lease liabilities

As set out in note 16, lease liabilities at the year ended 31 March 2025 of £83.2 million (2024: £59.2 million) is split between £78.0 million (2024: £56.2 million) presented as non-current liabilities and £5.2 million (2024: £3.0 million) presented as current liabilities.

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

	2025 £m	2024 £m
Less than 1 year	2.9	3.0
1 to 5 years	10.6	8.6
5 to 10 years	24.8	7.9
10 to 25 years	33.4	26.0
25 to 50 years	55.3	43.2
50 to 100 years	103.7	85.0
100 to 500 years	123.8	108.6
Longer than 500 years	3.5	3.5
Total undiscounted cash payments	358.0	285.8
Effect of discounting	(274.8)	(226.6)
Present value of cash payments	83.2	59.2

Interest recognised in relation to lease liabilities for the year ended 31 March 2025, and included within the group's finance expense, was £1.9 million (2024: £1.4 million).

Notes to the financial statements

20. Leases (continued)

The total cash outflow for leases for the year ended 31 March 2025 was £3.3 million (2024: £2.9 million); of this, £1.9 million was payment of interest (2024: £1.4 million) and £1.4 million payment of principal (2024: £1.5 million). Payment of interest forms part of cash flows from operating activities and payment of principal is included within repayment of borrowings, which forms part of cash flows from financing activities in the group's statement of cash flows.

Company

The company had lease liabilities at the year ended 31 March 2025 of £2.0 million (2024: £2.2 million) with a maturity profile of 5 to 10 years.

21. Other reserves

	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2024	8.7	(27.3)	(18.6)
Other comprehensive income			
Change in fair value recognised in other comprehensive income	3.6	8.7	12.3
Amounts reclassified from other comprehensive income to profit or loss	-	(1.3)	(1.3)
Tax on hedge effectiveness taken directly to equity	(0.9)	(2.2)	(3.1)
Tax on reclassification to consolidated income Statement	-	0.3	0.3
At 31 March 2025	11.4	(21.8)	(10.4)

	Cost of hedging reserve £m	Cash flow hegding reserve £m	Total £m
At 1 April 2023	5.1	18.6	23.7
Other comprehensive income			
Change in fair value recognised in other comprehensive income	4.8	(63.0)	(58.2)
Amounts reclassified from other comprehensive income to profit or loss	-	1.8	1.8
Tax on hedge effectiveness taken directly to equity	(1.2)	15.8	14.6
Tax on reclassification to consolidated income Statement	-	(0.5)	(0.5)
At 31 March 2024	8.7	(27.3)	(18.6)

The group recognises the cost of hedging reserve as a component of equity. This reserve reflects accumulated fair value movements on cross-currency swaps resulting from changes in the foreign currency basis spread, which represents a liquidity charge inherent in foreign exchange contracts for exchanging currencies and is excluded from the designation of cross-currency swaps as hedging instruments.

The group designates a number of swaps hedging non-financial risks in cash flow hedge relationships in order to give a more representative view of operating costs. Fair value movements relating to the effective part of these swaps are recognised in other comprehensive income and accumulated in the cash flow hedging reserve.

Company

The company had no other reserves at 31 March 2025 or 31 March 2024.

Notes to the financial statements

22. Share capital

	2025 number	2025 £	2024 number	2024 £
Group and Company				
Issued, called up and fully paid				
Ordinary shares of 100.0 pence each	881,787,478	881,787,478	881,787,478	881,787,478
Deferred A shares of 100.0 pence each	1	1	1	1
	881,787,479	881,787,479	881,787,479	881,787,479

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

23. Contingent liabilities

In November 2021, Ofwat and the Environment Agency launched separate industry-wide investigations into how companies manage their wastewater assets.

In July 2024, Ofwat announced that it is opening an enforcement case under which it will investigate UUW following detailed analysis of the company's environmental performance and data about the frequency of spills from storm overflows. At the same time, Ofwat opened similar enforcement cases investigating three other companies in the sector. Having already opened enforcement cases against the other seven companies, all 11 water and wastewater companies in England and Wales are now formally within the scope of Ofwat's enforcement activities. If a company is found to have breached its legal obligations this could result in a financial penalty of up to ten per cent of relevant wastewater turnover (which in UUW's case would be around £100 million), and/or a requirement to rectify any obligations deemed to be required as a consequence of those findings. Ofwat has proposed penalties for three companies to date, ranging from five per cent to nine per cent of relevant wastewater turnover, of which two companies have agreed an enforcement package worth five per cent and six per cent of its relevant wastewater turnover, and another, in addition to an enforcement order to take particular steps to facilitate compliance with its legal obligations, has had a penalty imposed amounting to nine per cent of relevant wastewater turnover. UUW has received and responded to notices under s203 of the Water Industry Act 1991 requesting information relating to the performance and operation of its wastewater assets, and continues to fully co-operate with Ofwat through the investigation process. Ofwat stated that while it has concerns with the sector that it must investigate, the opening of enforcement cases does not automatically imply that companies have breached their legal obligations or that a financial penalty will necessarily follow. Although enforcement action undertaken against certain other companies has progressed, and in some cases concluded. To date Ofwat has not given a firm indication of the expected timeframe for its ongoing investigation, or any subsequent action, in respect of UUW.

Similarly, the Environment Agency has made a number of data requests and undertaken site visits as part of its ongoing industry-wide investigation, with which the group continues to fully comply. This investigation is focused on environmental permit compliance at wastewater treatment works and wastewater networks, with the Environment Agency having a number of enforcement options open to it if it concludes that companies have breached their permit conditions and/or illegally polluted the environment. These include the potential for criminal prosecution and unlimited fines. As with the Ofwat investigation, this remains ongoing. It is currently unclear when this matter will be resolved.

Collective proceedings in the Competition Appeal Tribunal ('CAT') were issued on 8 December 2023 against United Utilities Water Limited ('UUW') and United Utilities Group PLC on behalf of approximately 5.6 million domestic customers following an application by the Proposed Class Representative ('PCR'), Professor Carolyn Roberts. The PCR alleges that customers have collectively paid an overcharge for sewerage services during the claim period as a result of UUW allegedly abusing a dominant position by providing misleading information to regulatory bodies. The estimated total aggregate amount the PCR is claiming against UUW (including interest) for household customers is at least £141 million. On 7 March 2025, the CAT unanimously concluded that claims could not proceed on the basis that the claims brought forward are excluded by section 18(8) of the Water Industry Act 1991. Subsequently, the PCR has been granted permission by the Court of Appeal to challenge the CAT's certification decision, which could result in an appeal towards the end of 2025 or in 2026.

Notes to the financial statements

23. Contingent liabilities (continued)

UUW believes the claim is without merit and will robustly defend it, should the certification decision be overturned on appeal. Separate letters before action were issued on 20 December 2024 in relation to similar claims in respect of non-household customers, however it is not clear how these will proceed following the CAT's decision not to certify the claims brought in respect of domestic customers and any subsequent appeal decision.

24. Financial and other commitments

The group has credit support guarantees as well as general performance commitments and potential liabilities under contract that may give rise to financial outflow. The group has determined that the possibility of any outflow arising in respect of these potential liabilities is remote and, as such, there are no financial liabilities to be disclosed in this regard.

At 31 March 2025, there were commitments for future capital expenditure and infrastructure renewals expenditure contracted, but not provided for, of £125.3 million (2024: £342.7 million). See further detail below.

	2025 £m	2024 £m
Property, plant and equipment	112.0	327.0
Intangible assets	0.7	1.1
Infrastructure renewals expenditure	12.6	14.6
Total commitments contracted but not provided for	125.3	342.7

25. Events after the reporting period

On 3 April 2025, United Utilities Water Limited acquired 100 per cent of the share capital of Trafford Property Limited, a special purpose vehicle holding land adjacent to the group's Davyhulme Wastewater Treatment Works site, for £20.0 million. This transaction is accounted for as an asset acquisition rather than a business combination, as the transaction falls outside the scope of IFRS 3 'Business Combinations'. The cost of the acquisition is allocated entirely to the company's land asset and approximates the land's fair value at the date of acquisition. As the acquisition occurred after the reporting period, no adjustments have been made to the financial statements as at 31 March 2025.

26. Ultimate parent undertaking

The company's immediate and ultimate parent undertaking and controlling party is United Utilities Group PLC, a company incorporated and registered in England and Wales.

The smallest group in which the results of the company are consolidated is that headed by United Utilities PLC.

The largest group in which the results of the company are consolidated is that headed by United Utilities Group PLC. The consolidated accounts of this group are available to the public and may be obtained from: The Company Secretary, United Utilities Group PLC, Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP.

Notes to the financial statements

A1. Cash generated from operations

	Group	
	2025 £m	2024 £m
Profit before tax	473.9	282.5
Adjustments for :		
Investment income and finance expense (see notes 5, 6 and A5)	146.2	193.2
Share of losses of joint ventures (see note 11)	10.8	4.1
Operating profit	**630.9**	479.8
Adjustments for:		
Depreciation of property, plant and equipment (see notes 9 and 20)	435.7	406.1
Amortisation of intangible assets (see note 10)	29.2	32.7
Loss on disposal of property, plant and equipment (see note 4)	4.0	6.7
Amortisation of deferred grants and contributions (see note 18)	(19.8)	(17.4)
Pension contributions paid less pension expense charged to operating profit	(3.0)	(7.1)
Changes in working capital:		
Increase in inventories	(3.1)	(7.2)
Increase in trade and other receivables	(54.1)	(26.8)
Increase/(Decrease) in trade and other payables	52.7	(2.7)
Increase in provisions (see note 18)	5.5	0.4
Cash generated from operations	1,078.0	864.5

Reconciliation of fixed asset purchases to fixed asset additions

Owned property, plant and equipment[(1)]

	2025 £m	2024 £m
Purchase of property, plant and equipment in statement of cash flows	**988.5**	749.5
Non-cash additions:		
Transfers of assets from customers (see note 19) [(2)]	121.4	61.3
IAS 23 capitalised borrowing costs (see note 6)	67.5	79.7
Receipt of government grants related to assets	(0.9)	(1.9)
Net book value transfers to intangible assets	(0.1)	-
Timing differences on cash paid[(3)]	67.5	3.9
Property, plant and equipment additions	**1,243.9**	892.5

(1) This reconciliation relates to property, plant and equipment owned by the group and therefore excludes right-of-use assets recognised in accordance with IFRS 16 'Leases', for which cash flows relating to the associated lease liabilities are included within repayment of borrowings and interest paid in the statement of cash flows.

(2)The group has received property, plant and equipment of £121.4 million (2024: £61.3 million) in exchange for the provision of future goods and services (see notes 19 and A6).

(1) Timing differences arise and reverse when additions are recognised in the statement of financial position in a different period to when cash payments for capital expenditure are made. Capital accruals recognised in relation to these timing differences are included in 'Accruals and other creditors' within trade and other payables (note 19).

Notes to the financial statements

A1. Cash generated from operations (continued)

Reconciliation of intangible asset purchases to intangible asset additions

	2025	2024
	£m	£m
Purchase of intangibles assets in statement of cash flows	**9.5**	14.6
IAS 23 capitalised borrowing costs (see note 6)	1.0	1.3
Net book value transfers from property, plant and equipment	0.1	-
Intangible asset additions	**10.6**	15.9

The company had no property, plant and equipment or intangible asset additions during the years ended 31 March 2025 and 31 March 2024.

A2. Net Debt

Net debt comprises borrowings, net of cash and short-term deposits and derivatives. As such, movements in net debt during the year are impacted by changes in liabilities from financing activities as detailed in the tables below. The tables below should be read in conjunction with the consolidated statement of cash flows.

In the below tables, where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.

The fair value of the derivatives reported in financing liabilities that are not hedging specific debt instruments are removed in calculating the group's net debt position. These derivatives correspond to the group's fixed interest rate swaps and inflation swaps, neither of which are designated within an IFRS 9 hedging relationship and both of which are classified as 'held for trading' under the accounting standard. The fair value movements on those derivatives that are not excluded from the revised definition of net debt (being derivatives in a fair value hedge relationship) are expected to be materially equal and opposite in value to the fair value movement included in borrowings, resulting in materially all fair value movements being excluded.

Fair value movements include the indexation expense relating to the group's inflation swap portfolio of £130.8 million (2024: £111.3 million). The remaining fair value and foreign exchange movements in the year on the group's bond and bank borrowings are materially hedged by the fair value swap portfolio.

Cash and cash equivalents in the table below are as per the consolidated statement of cash flows.

Notes to the financial statements

A2. Net Debt (continued)

	Borrowings				Derivatives					
	Bonds	Bank and other term borrowings	Lease liabilities	Amounts owed to ultimate parent undertaking	In a fair value hedge	At fair value through profit or loss	**Total liabilities from financing activities**	Cash and cash equivalents	Adjustments in calculating net debt	**Net debt**
	£m	£m	£m	£m	£m	£m	**£m**	£m	£m	**£m**
At 1 April 2024	**(7,926.6)**	**(1,995.5)**	**(59.2)**	**(105.6)**	**(158.0)**	**295.1**	**(9,949.8)**	**1,379.3**	**(297.5)**	**(8,868.0)**
Non-cash movements										
Inflation uplift on index-linked debt	(108.3)	(33.9)	-	-	-	-	**(142.2)**	-	-	**(142.2)**
Fair value movements	50.2	3.5	-	-	(29.7)	(22.7)	**1.3**	-	(7.5)	**(6.2)**
Foreign exchange	12.6	0.6	-	-	-	-	**13.2**	-	-	**13.2**
Other	(4.2)	-	(27.2)	-	-	-	**(31.4)**	-	-	**(31.4)**
Cash flows used in financing activities:										
Receipts in respect of borrowings and derivatives	(1,318.5)	(7.6)	-	(33.7)	(13.2)	-	**(1,373.0)**	1,373.0	-	**-**
Payments in respect of borrowings and derivatives	344.0	282.0	1.3	-	4.1	-	**631.4**	(631.4)	-	**-**
Dividends paid	-	-	-	-	-	-	**-**	(344.1)	-	**(344.1)**
Changes arising from financing activities	**(1,024.2)**	**244.6**	**(25.9)**	**(33.7)**	**(38.8)**	**(22.7)**	**(900.7)**	**397.5**	**(7.5)**	**(510.7)**
Cash flows used in investing activities	-	-	-	-	-	-	-	(987.3)	-	(987.3)
Cash flows generated from operating activities	-	-	1.9	-	-	-	1.9	879.5	-	881.4
At 31 March 2025	**(8,950.8)**	**(1,750.9)**	**(83.2)**	**(139.3)**	**(196.8)**	**272.4**	**(10,848.6)**	**1,669.0**	**(305.0)**	**(9,484.6)**

A2. Net Debt (continued)

	Borrowings				Derivatives					
	Bonds	Bank and other term borrowings	Lease liabilities	Amounts owed to ultimate parent undertaking	In a fair value hedge	At fair value through profit or loss	**Total liabilities from financing activities**	Cash and cash equivalents	Adjustments in calculating net debt	**Net debt**
	£m	£m	£m	£m	£m	£m	**£m**	£m	£m	**£m**
At 1 April 2023	**(6,378.7)**	**(1,985.8)**	**(58.3)**	**(92.9)**	**(151.0)**	**349.8**	**(8,316.9)**	**327.9**	**(304.2)**	**(8,293.2)**
Non-cash movements										
Inflation uplift on index-linked debt	(178.2)	(47.7)	-	-	-	-	**(225.9)**	-	-	**(225.9)**
Fair value movements	(11.2)	3.3	-	-	1.5	(54.7)	**(61.1)**	-	6.7	**(54.4)**
Foreign exchange	26.6	8.6	-	-	-	-	**35.2**	-	-	**35.2**
Other	(4.5)	-	(3.8)	-	-	-	**(8.3)**	-	-	**(8.3)**
Cash flows used in financing activities:										
Receipts in respect of borrowings and derivatives	(1,492.0)	(103.8)	-	(12.7)	(14.2)	-	**(1,622.7)**	1,622.7	-	**-**
Payments in respect of borrowings and derivatives	111.4	129.9	1.5	-	5.7	-	**248.5**	(248.5)	-	**-**
Dividends paid	-	-	-	-	-	-	**-**	(320.0)	-	**(320.0)**
Changes arising from financing activities	**(1,547.9)**	**(9.7)**	**(2.3)**	**(12.7)**	**(7.0)**	**(54.7)**	**(1,634.3)**	**1,054.2**	**6.7**	**(573.4)**
Cash flows used in investing activities	-	-	-	-	-	-	-	(731.4)	-	(731.4)
Cash flows generated from operating activities	-	-	1.4	-	-	-	1.4	728.6	-	730.0
Effects of exchange rate changes										
At 31 March 2024	**(7,926.6)**	**(1,995.5)**	**(59.2)**	**(105.6)**	**(158.0)**	**295.1**	**(9,949.8)**	**1,379.3**	**(297.5)**	**(8,868.0)**

Notes to the financial statements

A3. Financial risk management

Risk management

The UUG board is responsible for treasury strategy and governance, which is reviewed on an annual basis.

The treasury committee, a subcommittee of the UUG board, has responsibility for setting and monitoring the group’s adherence to treasury policies, along with oversight in relation to the activities of the treasury function.

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. As well as managing our exposure to these risks, these policies help the group maintain compliance with relevant financial covenants, which are in place primarily in relation to borrowings from the European Investment Bank (‘EIB’) and include interest cover and gearing metrics. These policies are reviewed by the treasury committee for approval on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. An operational compliance report is provided monthly to the treasury committee, which details the status of the group’s compliance with the treasury policies and highlights the level of risk against the appropriate risk limits in place.

The group’s treasury function does not act as a profit centre and does not undertake any speculative trading activity.

Liquidity risk

The group looks to manage its liquidity risk by maintaining liquidity within a UUG board approved duration range. Liquidity is actively monitored by the group’s treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2025, the group had £2,822.7 million (2024: £2,199.3 million) of available liquidity, which comprised £1,672.7 million (2024: £1,399.3 million) of cash and short-term deposits and £1,150.0 million (2024: £800.0 million) of undrawn committed borrowing facilities.

The group had available committed borrowing facilities as follows:

		Group
	2025 £m	2024 £m
Expiring within one year	200.0	50.0
Expiring after one year but in less than two years	225.0	200.0
Expiring after more than two years	725.0	550.0
Total borrowing facilities	1,150	800.0
Facilities drawn	-	-
Undrawn borrowing facilities	1,150	800.0

These facilities are arranged on a bilateral rather than a syndicated basis, which spreads the maturities more evenly over a longer time period, thereby reducing the refinancing risk by providing several renewal points rather than a large single refinancing point.

Notes to the financial statements

A3. Financial risk management (continued)

Maturity analysis

Concentrations of risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to group and company's financial liabilities on an undiscounted basis. Derivative cash flows have been shown net where there is a contractual agreement to settle on a net basis; otherwise the cash flows are shown gross. This table does not include the impact of lease liabilities for which the maturity profile has been disclosed in note 20.

Group	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2025								
Bonds	16,603.5	-	415.7	270.8	702.9	691.6	535.7	13,986.8
Bank and other term borrowings	2,121.6	-	372.0	172.7	172.0	172.5	350.8	881.6
Amounts owed to ultimate parent undertaking	139.3	-	139.3	-	-	-	-	-
Adjustment to carrying value[2]	(8,020.2)	(8,020.2)	-	-	-	-	-	-
Borrowings	10,844.2	(8,020.2)	927.5	443.5	874.9	864.1	886.5	14,868.4
Derivatives:								
Payable	4,283.3	-	363.0	239.2	339.1	424.5	391.2	2,526.3
Receivable	(4,426.0)	-	(363.1)	(253.3)	(369.1)	(523.4)	(306.3)	(2,610.8)
Adjustment to carrying value[2]	93.3	93.3	-	-	-	-	-	-
Derivatives – net assets	**(49.4)**	**93.3**	**(0.1)**	**(14.1)**	**(30.0)**	**(98.9)**	**84.9**	**(84.5)**

Group	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2024								
Bonds	15,285.6	-	571.3	383.6	233.6	665.4	651.3	12,780.4
Bank and other term borrowings	1,779.6	-	363.2	299.7	143.0	146.1	146.1	681.5
Amounts owed to ultimate parent undertaking	105.6	-	105.6	-	-	-	-	-
Adjustment to carrying value[2]	(7,123.1)	(7,123.1)	-	-	-	-	-	-
Borrowings	10,047.7	(7,123.1)	1,040.1	683.3	376.6	811.5	797.4	13,461.9
Derivatives:								
Payable	3,521.4	-	189.7	272.1	153.1	260.6	346.2	2,299.7
Receivable	(3,093.9)	-	(192.4)	(290.3)	(178.1)	(305.6)	(455.0)	(1,672.5)
Adjustment to carrying value[2]	(529.7)	(529.7)	-	-	-	-	-	-
Derivatives – net assets	**(102.2)**	**(529.7)**	**(2.7)**	**(18.2)**	**(25.0)**	**(45.0)**	**(108.8)**	**627.2**

A3. Financial risk management (continued)

Notes:

[1] Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year-end and are therefore susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be three per cent and CPI will be two per cent over the life of each instrument.

[2] The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £83.2 million (2024: £59.2 million) of lease liabilities.

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash and holding of derivative instruments). While the opening of the non-household retail market to competition from 1 April 2017 has impacted on the profile of the group's concentration of credit risk, as discussed further below, the group does not believe it is exposed to any material concentrations that could have an impact on its ability to continue as a going concern or its longer-term viability.

The group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables from household customers are limited due to the customer base being comprised of a large number of unrelated households. However, collection can be challenging as the Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises, including domestic dwellings.

Following the non-household retail market opening to competition, credit risk in this area is now concentrated in a small number of retailers to whom the group provides wholesale water and wastewater services. Retailers are licensed and monitored by Ofwat and as part of the regulations they must demonstrate that they have adequate resources available to supply services. The credit terms for the group's retail customers are set out in market codes.

As at 31 March 2025, Water Plus was the group's single largest debtor, with amounts outstanding in relation to wholesale services of £27.5 million (2024: £27.1 million). During the year, sales to Water Plus in relation to wholesale services were £338.8 million (2024: £334.4 million). Details of transactions with Water Plus can be found in note A5.

Under the group's revenue recognition policy, revenue is only recognised when collection of the resulting receivable is reasonably assured. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 13).

The group manages its credit risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra-day gross settlement of cash flows. In addition, potential derivative exposure limits are established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit.

Credit limits are refreshed annually and reviewed in the event of any credit rating action. Additionally, a control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2025 and 31 March 2024, the maximum exposure to credit risk for the group is represented by the carrying amount of each financial asset in the statement of financial position:

Notes to the financial statements

A3. Financial risk management (continued)

	2025	Group 2024
	£m	£m
Cash and short-term deposits (see note 15)	1,672.6	1,399.3
Trade and other receivables (see note 13)	355.0	300.5
Loans receivable (see note 14)	2,108.9	1,983.3
Derivative financial instruments	340.7	382.8
	4,477.2	4,065.9

Included within trade and other receivables for the group and company was £73.6 million (2024: £73.7 million) of amounts owed by joint ventures in respect of borrowings, further details of which can be found in note A5.

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2025 the group held £37.1 million (2024: £37.8 million) as collateral in relation to derivative financial instruments (included within short-term bank borrowings).

Market risk

The group's exposure to market risk primarily results from its financing arrangements and the economic return which it is allowed on the regulatory capital value ('RCV').

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

Inflation risk

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV.

For the 2020–2025 regulatory period, from 1 April 2020 the group's RCV is 50 per cent linked to RPI inflation and 50 per cent linked to CPIH inflation, with any new additions being added to the CPIH portion of the RCV.

The group's inflation hedging policy aims to have around half of the group's net debt in index-linked form (where it is economic to do so), by issuing index-linked debt and/or swapping a portion of nominal debt. This is currently weighted towards RPI-linked form, with circa 75 per cent of the hedge linked to RPI and circa 25 per cent linked to CPI and/or CPIH. These weightings are consistent with the prior financial year.

The group believes this is an appropriate inflation hedging policy taking into account a balanced assessment of the following factors: economic hedge of United Utilities Water Limited's (UUW) RCV and revenues; cash flow timing mismatch between allowed cost of debt and the group's incurred cost of debt; the inflation risk premium that is generally incorporated into nominal debt costs; income statement volatility; hedging costs; debt maturity profile mismatch risk; and index-linked hedging positioning relative to the water sector.

Inflation risk is reported monthly to the treasury committee in the operational compliance report.

The carrying value of index-linked debt held by the group, including the carrying value of the nominal debt swapped to CPI, was £4,478.3 million at 31 March 2025 (2024: £4,564.4 million).

Notes to the financial statements

A3. Financial risk management (continued)

Sensitivity analysis

The following table details the sensitivity of profit before tax to changes in the RPI and CPI on the group's index-linked borrowings. The sensitivity analysis has been based on the amount of index-linked debt held at the reporting date and, as such, is not indicative of the years then ended. In addition, it excludes the hedging aspect of the group's regulatory assets and post-retirement obligations.

Group	2025 £m	2024 £m
Increase/(decrease) in profit before tax and equity		
1 per cent increase in RPI/CPI	(41.5)	(42.0)
1 per cent decrease in RPI/CPI	41.5	42.0

The sensitivity analysis assumes a 1 per cent change in RPI and CPI having a corresponding one per cent impact on this position over a 12-month period. It should be noted, however, that there is a time lag by which current RPI and CPI changes impact on the income statement, and the analysis does not incorporate this factor. The portfolio of index-linked debt is calculated on either a three or eight-month lag basis. Therefore, at the reporting date the index-linked interest and principal adjustments impacting the income statement are fixed and based on the annual RPI or CPI change either three or eight months earlier.

Interest rate risk

The group's policy is to structure debt in a way that best matches its underlying assets and cash flows. The group currently earns an economic return on its RCV, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV.

From 1 April 2020 for the regulatory period to 2025, Ofwat has continued to set a fixed real cost of debt in relation to embedded debt (80 per cent of net debt), but has introduced a debt indexation mechanism in relation to new debt (20 per cent of net debt), where the allowed rate on new debt will vary in line with specific debt indices. The debt indexation mechanism will be settled as an end of regulatory period adjustment.

Where conventional long-term debt is raised in a fixed-rate form, to manage exposure to long-term interest rates, the debt is generally swapped at inception to create a floating rate liability for the term of the liability through the use of interest rate swaps. These instruments are typically designated within a fair value accounting hedge.

To manage the exposure to medium-term interest rates, the group fixes underlying interest rates on nominal debt out to 10 years in advance on a reducing balance basis. As such, at the start of each regulatory period, a proportion of the projected nominal net debt representing new debt for that regulatory period, will remain floating until it is fixed via the above 10-year reducing balance basis, which should approximate Ofwat's new debt indexation mechanism.

This interest rate hedging policy dovetails with our inflation hedging policy should we need to swap a portion of nominal debt to real rate form to maintain our desired mix of nominal and index-linked debt.

The group seeks to manage its risk by maintaining its interest rate exposure within a UUG board-approved range. Interest rate risk is reported to the treasury committee through the operational compliance report.

A3. Financial risk management (continued)

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	
	2025	2024
	£m	£m
Increase/(decrease) in profit before tax and equity		
1 per cent increase in interest rate	146.3	86.3
1 per cent decrease in interest rate	(216.5)	(149.7)

The sensitivity analysis assumes that both fair value hedges and borrowings designated at fair value through profit or loss are effectively hedged and it excludes the impact on post-retirement obligations. The exposure largely relates to the fair value movements on the group's fixed interest rate swaps which manage the exposure to medium-term interest rates. Those swaps are not included in hedge relationships.

Hedge accounting

Details regarding the interest rate swaps designated as hedging instruments to manage interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	-	-	700.0	2,167.3
Average contracted fixed interest rate %	-	-	2.3	2.7

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average for the fixed interest elements of the swaps disclosed. The SONIA/LIBOR credit adjustment spread has been assumed to form part of the fixed rate element of the payable leg, which is to be netted off against the fixed rate receivable leg for the purposes of the rates shown here.

Risk exposure	**Interest rate risk on borrowings**
	£m
Nominal amount of hedging instruments	2,075.0
Carrying amount of hedging instruments	(167.4)
Accumulated fair value (gains)/losses on hedged items	(164.7)
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2025[1]:	
Hedged items	(33.7)
Hedged instrument	34.4
Hedge ineffectiveness recognised in the income statement	0.7

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.

A3. 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 UUG board-approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report. The group and company have no material net exposure to movements in currency rates.

Hedge accounting

Details regarding the interest rate swaps designated as hedging instruments to manage currency risk and interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	99.9	-	257.3	879.7
Average contracted fixed interest rate %	1.9	-	1.4	2.4

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average net receivable for the fixed interest rate elements of the swap disclosed. The SONIA/LIBOR credit adjustment spread has been assumed to form part of the fixed rate payable, which is to be netted off against the fixed rate receivable for the purposes of the rates shown here.

Further detail on the fair value hedging relationships is provided below:

Risk exposure	**Foreign currency and interest rate risk on borrowings**
	£m
Nominal amount of hedging instruments	1,943.0
Carrying amount of hedging instruments	(54.8)
Accumulated fair value (gains)/losses on hedged items	(41.2)
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2025[1]:	
Hedged items	(26.4)
Hedged instruments	13.3
Hedge ineffectiveness recognised in the income statement	(13.1)

Note:

[1] The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and changes in credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Repricing analysis

The following tables categorise the group's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group's exposure to floating interest rate risk.

Our largest concentration of floating interest rate risk is with index-linked instruments. This has been classified as repricing in one year or less due to the refixing of the interest charge with changes in RPI and CPI.

Notes to the financial statements

A3. Financial risk management (continued)

Group	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2025							
Borrowings in fair value hedge relationships							
Fixed rate instruments	3,797.2	105.5	-	426.5	152.6	256.9	2,855.7
Effect of swaps	-	3,691.7	-	(426.5)	(152.6)	(256.9)	(2,855.7)
	3,797.2	3,797.2	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	330.2	-	-	-	-	-	330.2
Effect of swaps	-	330.2	-	-	-	-	(330.2)
	330.2	330.2	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	1,823.4	38.4	1.3	1.7	1.5	1.6	1,778.9
Floating rate instruments	848.8	848.8	-	-	-	-	-
Index-linked instruments	3,989.0	3,989.0	-	-	-	-	-
	6,661.2	4,876.2	1.3	1.7	1.5	1.6	1,778.9
Effect of fixed interest rate swaps	-	(2,328.9)	200.0	389.8	250.6	653.5	835.0
Total external borrowings	10,788.6	6,674.7	201.3	391.5	252.1	655.1	2,613.9
Amounts owed to subsidiary undertakings	17.9	17.9	-	-	-	-	-
Amounts owed to ultimate parent undertaking	139.3	139.3	-	-	-	-	-
Total borrowings	**10,945.8**	**6,831.9**	**201.3**	**391.5**	**252.1**	**655.1**	**2,613.9**
Cash and short-term deposits	(1,672.6)	(1,672.6)	-	-	-	-	-
Net borrowings	9,273.2	5,159.3	201.3	391.5	252.1	655.1	2,613.9

Notes to the financial statements

A3. Financial risk management (continued)

Group	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2024							
Fixed rate instruments	3,414.6	328.4	105.2	-	426.5	154.5	2,400.0
Effect of swaps	-	3,086.2	(105.2)	-	(426.5)	(154.5)	(2,400.0)
	3,414.6	3,414.6	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	338.9	-	-	-	-	338.9	-
Effect of swaps	-	338.9	-	-	-	(338.9)	-
	338.9	338.9	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	1,261.4	38.9	2.0	1.5	1.3	1.5	1,216.2
Floating rate instruments	907.0	907.0	-	-	-	-	-
Index-linked instruments	4,079.5	4,079.5	-	-	-	-	-
	6,247.9	5,025.4	2.0	1.5	1.3	1.5	1,216.2
Effect of fixed interest rate swaps	-	(2,328.9)	200.0	389.8	250.6	653.5	835.0
Total external borrowings	10,001.4	6,450.0	202.0	391.3	251.9	655.0	2,051.2
Amounts owed to ultimate parent undertaking	105.6	105.6	-	-	-	-	-
Total borrowings	**10,107.0**	**6,555.6**	**202.0**	**391.3**	**251.9**	**655.0**	**2,051.2**
Cash and short-term deposits	(1,399.3)	(1,399.3)	-	-	-	-	-
Net borrowings	8,707.7	5,156.3	202.0	391.3	251.9	655.0	2,051.2

Electricity price risk

The group is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flows. The group's policy, therefore, is to manage this risk by fixing a proportion of electricity commodity prices in a cost-effective manner. The group has fixed the price on a proportion of its anticipated net electricity usage out on a rolling four-year basis, partially through entering into electricity swap contracts. The company has no exposure to electricity price risk.

Hedge accounting

Electricity swaps have been designated in cash flow hedge relationships. This means that only the impact of any hedging ineffectiveness is recognised through fair value in the income statement, with movements in the effective portion of the hedge being recognised in other comprehensive income.

A3. Financial risk management (continued)

Details of electricity swaps that have been designated in cash flow hedging relationships are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional amount MWh	394,200	262,800	153,600	-
Average contracted fixed interest rate %	132.2	116.2	72.9	-

Risk exposure	Electricity price risk
Nominal amount of hedging instruments	96.8
Carrying amount of hedging instruments	(27.4)
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2025[(1)]:	(8.7)
Hedge ineffectiveness recognised in the income statement	-
Cash flow hedge reserve excluding effects of tax	(47.7)
Amount reclassified from the cash flow hedge reserve to the income statement	(1.3)

Note:
(1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Capital risk management

The group's objective when managing capital is to maintain efficient access to debt capital markets throughout the economic cycle. The UUG 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 2025, RCV gearing was within the range at 60 per cent (2024: 59 per cent).

Assuming no significant changes to existing rating agencies' methodologies or sector risk assessments, the group aims to maintain UUW long-term issuer credit ratings for UUW of at least Baa1 with Moody's Investors Service ('Moody's'), and BBB+ with S&P Global Ratings ('S&P') and an issuer default rating of at least BBB+ with Fitch Ratings ('Fitch') (a senior unsecured debt rating for UUW of at least A-). Debt issued by UUW's financing subsidiary, United Utilities Water Finance PLC, is guaranteed by UUW and is therefore rated in line with UUW. The group's gearing and credit rating targets are subject to periodic review.

To maintain its targeted credit ratings, the group needs to manage its capital structure with reference to the ratings methodology and measures used by Moody's, S&P and Fitch. The ratings methodology is normally based on a number of key ratios (such as RCV gearing, adjusted interest cover, post maintenance interest cover (PMICR), Funds from Operations (FFO) to debt, and debt to EBITDA) and threshold levels as updated and published from time to time by Moody's, S&P and Fitch. The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit ratings agencies to determine a corporate's credit rating, within the thresholds approved by the UUG 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.

Notes to the financial statements

A3. 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 **2025**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss	-	43.3	-	43.3
Derivative financial assets – held for trading[1]	-	295.7	-	295.7
Derivative financial assets – cash flow hedge	-	1.7	-	1.7
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	-	(245.9)	-	(245.9)
Derivative financial liabilities – held for trading[1]	-	(17.6)	-	(17.6)
Derivative financial assets – cash flow hedge	-	(29.1)	-	(29.1)
Financial liabilities designated as fair value through profit or loss	-	(330.2)	-	(330.2)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(3,447.9)	(368.9)	-	(3,816.8)
Other financial liabilities at amortised cost	(2,171.1)	(3,662.6)	-	(5,833.7)
	(5,619.0)	**(4,313.6)**	**-**	**(9,932.6)**

Group **2024**	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	-	74.7	-	74.7
Derivative financial assets – held for trading[1]	-	298.9	-	298.9
Derivative financial assets – cash flow hedge	-	9.2	-	9.2
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	-	(232.2)	-	(232.2)
Derivative financial liabilities – held for trading[1]	-	(4.5)	-	(4.5)
Derivative financial assets – cash flow hedge	-	(43.9)	-	(43.9)
Financial liabilities designated as fair value through profit or loss	-	(338.9)	-	(338.9)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(3,158.5)	(300.5)	-	(3,459.0)
Other financial liabilities at amortised cost	(2,573.4)	(3,212.1)	-	(5,785.5)
	(5,731.9)	**(3,749.3)**	**-**	**(9,481.2)**

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 £105.0 million (2024: £110.9 million).

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable).

A3. Financial risk management (continued)

The group has calculated fair values using quoted prices where an active market exists, which has resulted in £5,619.0 million (2024: £5,731.9 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 £112.9 million increase (2024: £1,254.5 million increase) in level 1 fair value measurements primarily reflects the debt issuances in the year.

During the year, changes in the fair value of financial liabilities designated at fair value through profit or loss resulted in a £6.3 million loss (2024: £22.0 million loss). Included within this was a £1.9 million gain (2024: £0.6 million gain) attributable to changes in own credit risk, recognised in other comprehensive income. The cumulative amount due to changes in credit spread was £37.8 million profit (2024: £35.8 million profit). The carrying amount is £104.1 million (2024: £112.8 million) higher than the amount contracted to settle on maturity.

A4. Retirement benefits

Defined benefit schemes

Under the group's defined benefit pension schemes – the United Utilities Pension Scheme ('UUPS') and the United Utilities PLC group of the Electricity Supply Pension Scheme ('ESPS') – members are entitled to annual pensions on retirement. Benefits are payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these members.

The assets of these schemes are held in trust funds independent of the group's finances. The trustees are composed of representatives of both the employer and employees, who are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regards to the assets plus the day-to-day administration of the benefits.

As at 31 March, the total fair value of the schemes' assets, and the present value of the defined benefit obligations, and therefore the value of the net retirement benefit surplus included in the consolidated statement of financial position, was as follows:

	Group		Company	
	2025	2024	2025	2024
	£m	£m	£m	£m
Total fair value of schemes' assets	2,308.6	2,552.4	655.9	728.9
Present value of defined benefit obligations	(2,006.3)	(2,284.4)	(580.0)	(656.2)
Net retirement benefit surplus	302.3	268.0	75.9	72.7

Estimated future benefits payable

The defined benefit obligation includes benefits for current employees, former employees and current pensioners as analysed in the table below:

Notes to the financial statements

A4. Retirement benefits (continued)

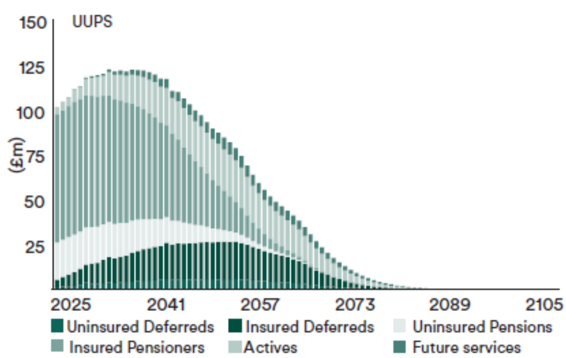
		Group		Company
	2025	2024	2025	2024
	£m	£m	£m	£m
Total value of current employees benefits	238.5	272.1	20.2	23.1
Deferred members benefits	309.5	441.4	137.1	195.5
Pensioner members benefits	1,458.3	1,570.9	422.7	437.6
Total defined benefit obligation	2,006.3	2,284.4	580.0	656.2

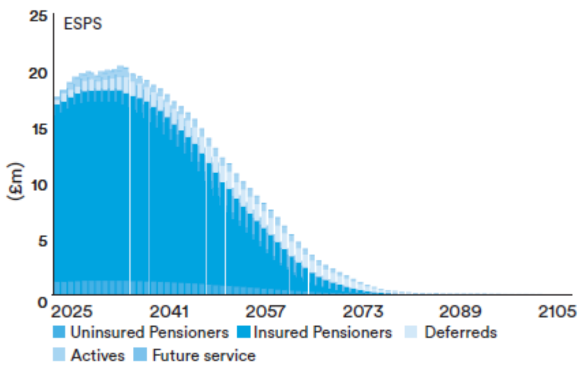
Movements in the present value of the defined benefit obligations are as follows:

	Group		Company	
	2025	2024	2025	2024
	£m	£m	£m	£m
At the start of the year	(2,284.4)	(2,330.5)	(656.2)	(636.4)
Interest cost on schemes' obligations	(106.1)	(107.1)	(30.5)	(30.9)
Actuarial gains arising from changes in financial assumptions	259.3	52.7	71.6	13.0
Actuarial gains arising from changes in demographic assumptions	6.1	49.2	1.9	13.9
Actuarial losses arising from experience	(5.9)	(67.7)	(6.0)	(52.1)
Past service cost	-	4.6	-	0.4
Member contributions	(2.2)	(2.4)	(0.1)	(0.1)
Benefits paid	129.4	119.6	39.6	36.2
Current service cost	(2.5)	(2.8)	(0.3)	(0.2)
At the end of the year	(2,006.3)	(2,284.4)	(580.0)	(656.2)

The duration of the combined schemes is around 13 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, on a scheme rather than employer basis, is as follows:





Notes to the financial statements

A4. Retirement benefits (continued)

Estimated future benefits payable

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. The defined benefit schemes are subject to funding valuations carried out by independent qualified actuaries, in conjunction with the schemes' trustees, on a triennial basis. These valuations inform the level of future contributions to be made by the group in order to ensure that the schemes are appropriately funded and therefore that benefits can be paid. The latest finalised funding valuation was carried out during the year as at 31 March 2024, and determined that the schemes were fully funded on a low-dependency basis without any funding deficit that requires additional contributions from the company over and above those related to current service and expenses.

The schemes' funding plans are reviewed regularly, including between funding valuations. Following the triennial valuation, the group expects to make further contributions of £5.5 million in the year ending 31 March 2026, £4.5 million in respect of current service contributions and £1.0 million in respect of expenses.

The group and trustees have agreed long-term strategies for reducing investment risk in each scheme. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets, such as corporate bonds and gilts, supplemented by swap and gilt long-term hedges of interest and inflation rates, which perform in line with the liabilities to hedge against changes in interest and inflation rates. Both the UUPS and ESPS schemes are fully hedged for inflation exposure through external market swaps and gilts. Further details of the derivatives used in reducing investment risk are disclosed in the 'Schemes' assets' section of this appendix.

While longevity risk has reduced as a result of the partial buy-in transaction in the prior year, the group and trustees remain actively engaged in exploring further de-risking options that may be implemented in the future. Based on the results of the latest triennial valuation as at 31 March 2024, for ESPS the buy-in is estimated to cover circa 85 per cent of liabilities, and for UUPS circa 70 per cent of liabilities, on a technical provisions basis, with the split on an IAS 19 basis expected to be broadly consistent.

The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19 'Employee Benefits', with liabilities on a funding basis being subject to assumptions at the valuation date that are not updated between revaluations. Funding deficits vary significantly from company to company, but neither the deficits, the assumptions on which they are based, the associated sensitivities, nor the risk exposures are disclosed by many companies and, therefore, meaningful cross-company comparisons are not possible. Conversely, scheme liabilities are valued on a consistent basis between companies under IAS 19 and are subject to assumptions and sensitivities that are required to be disclosed. Consequently, the relative economic positions of companies are comparable only on an IAS 19 basis, subject to normalisation of assumptions used between companies.

A retirement benefit surplus was recognised as an asset in the consolidated statement of financial position at both 31 March 2025 and 31 March 2024 as, under both the UUPS and ESPS scheme rules, the group has an unconditional right to a refund of the surplus assuming the gradual settlement of plan liabilities over time until all members have left the plans.

Also included within the present value of the defined benefit obligation of the UUPS scheme are liabilities of £7.2 million (2024: £7.8 million) in respect of unregistered pension promises made to senior executives, which are paid directly from the group as opposed to through one of the group's registered pension schemes. Liabilities in respect of these promises are not considered to be material in the context of the group's overall defined benefit obligations or the financial statements taken as a whole.

A4. Retirement benefits (continued)

Virgin Media High Court decision

In July 2024, the Court of Appeal upheld the High Court's decision in Virgin Media v NTL Pension Trustees. This case found that changes made between April 1997 and April 2016 to pension benefits from a contracted-out scheme could be void where trustees do not have written Section 37 ('s37') confirmation from the scheme actuary. Whilst the ruling initially found that retrospective confirmation would not be permissible, in June 2025 the Government confirmed it will introduce legislation to give affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic benefit changes met the necessary standards. In conjunction with its legal advisors, the group has performed a review of past significant changes made to its pension arrangements, based on which there are no current indications that the ruling in respect of the case would give rise to any financial impacts or that written actuarial confirmations would need to be retrospectively obtained.

Impact of scheme risk management on IAS 19 disclosures

Under the prescribed IAS 19 basis, pension scheme liabilities are calculated based on current accrued benefits. Expected cash flows are projected forward allowing for RPI and CPI and the current member mortality assumptions. These projected cash flows are then discounted using a high-quality corporate bond rate, which comprises an underlying interest rate and a credit spread.

As well as through the purchase of bulk annuity policies, the group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and future inflation. Both UUPS and ESPS fully hedge RPI inflation exposure along with underlying interest rates through external market swaps and gilts (including gilt repurchase instruments), the value of which is included in the schemes' assets (net of associated derivative liabilities).

Consequently, the reported statement of financial position under IAS 19 for the uninsured portion of the schemes' liabilities remains volatile due to changes in credit spread and changes in mortality, neither of which have been hedged at the current time. Changes in credit spreads have not been hedged primarily due to difficulties in doing so over long durations. Changes in mortality have not been hedged due to this exposure being subject to lower volatility in the short term, though the group and scheme trustees are committed to exploring options to de-risk changes in mortality, or pension longevity, in future periods for the uninsured liabilities, as outlined above.

Pension benefits under the defined benefit element of the UUPS hybrid section, which represents a relatively small proportion of total defined benefit obligations, are linked to CPI rather than RPI.

In the year ended 31 March 2025, the discount rate increased by 0.9 per cent (2024: 0.1 per cent increase), which includes a 0.8 per cent increase in gilt yields over the year and a 0.1 per cent increase in credit spreads. The IAS 19 remeasurement gain of £18.6 million (2024: £368.5 million loss) reported in note 17 has largely resulted from actuarial gains arising from changes in financial assumptions, predominantly due to the increase in the discount rate. The significant remeasurement loss in the prior year was predominantly as a result of the purchase of bulk annuity policies as part of a buy-in transaction undertaken in July 2023; a premium of circa £220 million was paid in excess of the present value of the UUG Group liabilities covered, which was reflective of the reduction in the schemes' risk profile. The remaining portion of the loss arose as the schemes are more than 100 per cent hedged on an IAS 19 basis, which resulted in a greater reduction of the schemes' assets than the defined benefit obligations as a result of yield rises.

The schemes' investment strategies have been designed such that the assets are fully hedged against the schemes' technical provisions funding positions, and are therefore more than 100 per cent hedged on an IAS 19 basis. As a result, increases in net yields are expected to reduce the schemes' assets by a greater amount than the IAS 19 liabilities.

A4. Retirement benefits (continued)

The increase in credit spreads during the year is partially offset by an RPI inflation reduction of 0.05 per cent (2024: 0.15 per cent reduction). In the shorter term, recent high inflation has resulted in greater than expected pension increases, but longer-term expectations for inflation have fallen in the current year.

Reporting and assumptions

The results of the latest funding valuation at 31 March 2024 have been used to inform the group's best estimate assumptions to use in calculating the defined benefit pension obligation reported on an IAS 19 basis at 31 March 2025. The results of the funding valuation have been adjusted to take account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs, were measured using the projected unit credit method.

Under IAS 19, the fair value of the buy-in assets at the date of the transaction was considered to be equal to the IAS 19 value of the insured liabilities, and subsequently the fair value of the insurance assets is pegged to the present value of the liabilities being insured.

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 2024 for both UUPS and ESPS. As part of each actuarial valuation and, more frequently, as required by the trustees, member data is reassessed for completeness and accuracy and to ensure it reflects any relevant changes to benefits entitled by each member.

Financial assumptions

The main financial and demographic assumptions used by the actuary to calculate the defined benefit surplus of UUPS and ESPS are outlined below:

	2025	2024
Group and Company	% p.a.	% p.a.
Discount rate	5.70	4.80
Pension increases	3.20	3.25
Pensionable salary growth (pre-2018 service):		
ESPS	3.20	3.25
UUPS	3.20	3.25
Pensionable salary growth (post-2018 service):		
ESPS	3.20	3.25
UUPS	2.75	2.80
Price inflation - RPI	3.20	3.25
Price inflation - CPI(1)	2.75	2.80

(1) The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.35 per cent pre-2030 and 3.05 per cent post-2030 (31 March 2023: 2.50 per cent pre-2030 and 3.30 per cent post-2030).

The discount rate is consistent with a high-quality corporate bond rate, with 5.10 per cent being equivalent to gilts plus 60 basis points (31 March 2024: 4.30 per cent being equivalent to gilts plus 50 basis points). The corporate bond population used in deriving this rate comprises those rated at least AA by one or more credit rating agencies.

A4. Retirement benefits (continued)

In accordance with the scheme rules, pensionable salary growth is linked to RPI for UUPS for service pre-2018 and CPI for service post-2018, for ESPS the growth is linked to RPI.

Assumed pension increases are aligned to the RPI price inflation assumption as the vast majority of benefits across the schemes have a direct RPI linkage.

In accordance with plans put forward by the UK Statistics Authority (UKSA) and backed by the Chancellor of the Exchequer, the Retail Prices Index (RPI) and the Consumer Prices Index including owner occupier's housing costs (CPIH) are expected to align from 2030. This compares with the current situation in which, absent these reforms, CPIH increases are broadly expected to average around 1 per cent below RPI in the long term (about the same as CPI). The alignment of RPI and CPIH could therefore have a significant impact on many pension schemes.

Demographic assumptions

In line with previous reporting periods, mortality assumptions continue to be based on the latest available Continuous Mortality Investigation's (CMI) mortality tables. As at 31 March 2025, these assumptions are based on the CMI2023 base tables with a 1.25 per cent per annum rate of improvement, and factoring in a w-parameter weighting of 20 per cent to take account of the continued repercussions of the COVID-19 pandemic in the medium term, including pressures on the NHS, delayed diagnoses of chronic conditions, disrupted treatment within the health care system and more deaths at home, as opposed to in hospitals and care homes. A scaling factor of 109 per cent (2024: 109 per cent) and 111 per cent (2024: 115 per cent) for male pensioners and non-pensioners respectively, and 109 per cent (2024: 110 per cent) and 105 per cent (2024: 111 per cent) for female pensioners and non-pensioners respectively, is applied, reflecting the profile of the membership. Compared against the base tables used for previous year-end mortality assumptions (CMI S4PA), the Core CMI2023 model sees a small increase in life expectancies. It should be noted, however, that post buy-in, any changes in the life expectancy assumptions for insured members will be offset by a corresponding change in the value of the buy-in bulk annuity policies on an IAS 19 basis. At 31 March 2025, future improvements in mortality are based on the extended CMI 2023 (2024: CMI 2022) projection model, with a long-term annual rate of improvement of 1.25 per cent (2024: 1.25 per cent).

The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

Group and Company	2025 years	2024 years
Retired member - male	25.3	25.5
Non-retired member - male	26.4	26.2
Retired member - female	27.7	27.6
Non-retired member - female	29.2	28.6

Financial and demographic assumptions – further analysis

The assumptions used in measuring the group's defined benefit surplus reflect management's best estimates as at the reporting date. These estimates inherently involve judgement, and the measurement of the defined benefit surplus is sensitive to changes in these key assumptions.

Given the offsetting nature of the buy-in assets, the IAS 19 surplus will be predominantly driven by the uninsured liabilities and residual invested assets going forward. Sensitivity calculations allow for the specified movement in the relevant key assumption, while all other assumptions are held constant. This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted, however it demonstrates how reasonably possible changes could impact on the measurement of the defined benefit surplus. The schemes' hedging strategies are designed primarily to reduce the volatility on a technical provisions basis.

A4. Retirement benefits (continued)

• Asset volatility – If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. Under IAS 19 the value of the buy-in assets is equal to the IAS 19 value of the insured liabilities. The bulk annuity policies represent a significant proportion of total scheme assets, with the valuation of these assets pegged to the valuation of insured liabilities. As such, movements in asset values are offset by corresponding movements in the value of insured liabilities.

• Discount rate – An increase/decrease in the discount rate of 0.25 per cent would have resulted in a £56.2/£59.0 million (2024: £72.3/£76.2 million) decrease/increase in the schemes' liabilities at 31 March 2025, although as long as credit spreads remain stable this will be largely offset by an increase/decrease in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on high-quality corporate bond yields of a similar duration to the schemes' liabilities. High-quality corporate bonds are considered to be those that have a credit rating of AA or above with at least one rating agency. An alternative approach could be taken whereby only those bonds rated AA or higher by at least two rating agencies are used. While this alternative approach may provide additional comfort around the quality of these corporate bonds, management believes that the wider population of corporate bonds under a 'single agency' approach gives a more representative indication of high-quality corporate bonds that are aligned to the schemes' liabilities, and therefore provides a more robust estimate.

• Price inflation – An increase/decrease in the RPI inflation assumption of 0.25 per cent would have resulted in a £52.8/£50.4 million (2024: £67.1/63.9 million) increase/decrease in the schemes' liabilities at 31 March 2025, 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 2025, meaning that this sensitivity is likely to be insignificant as a result on a combined basis. The sensitivity to price inflation allows for the impact of changes to pensionable salary growth and pension increases, which are both assumed to be linked to price inflation. While inflation may be volatile in the near term, the value of the schemes' liabilities is based on inflation assumptions that reflect the full profile of the liabilities, in particular the long-term nature.

• Consistent with market practice, and reflecting the possibility that inflation may rise or fall more than expected in the future, in arriving at the group's best estimate for RPI, an inflation risk premium of 0.2 per cent (2024: 0.2 per cent) has been deducted from the breakeven inflation rate for the year ended 31 March 2025. The impact of this is a decrease in the defined benefit obligation of around £17.0 million and therefore an increase in the net defined benefit surplus compared with no inflation risk premium being deducted. There is no allowance for any further change in the inflation risk premium post-2030 as a result of RPI reform. A reduction in expected RPI will result in a reduction to the value of pension scheme liabilities; however, as our pension schemes are hedged for RPI inflation movements, this will result in a comparable reduction to the value of pension scheme assets.

• The assumption for CPI is set by deducting a 'wedge' from the RPI inflation assumption to reflect structural differences. For pre-2030 inflation, this wedge has been estimated at 0.9 per cent per annum, reducing to 0.2 per cent per annum post-2030 given that RPI and CPI are expected to converge. The impact of this reduction in the post-2030 wedge as a result of RPI reform is a circa £3.0 million increase to the uninsured defined benefit obligation and therefore a decrease in the net defined benefit surplus compared with the wedge remaining at 0.9 per cent per annum after 2030.

• Mortality long-term improvement rate – An increase in the mortality long-term improvement rate from 1.25 per cent to 1.50 per cent would have resulted in a £12.7 million increase in the schemes' liabilities at 31 March 2025 (2024: £15.7 million increase in the schemes' liabilities).

• Life expectancy – An increase in life expectancy of one year would have resulted in a £77.3 million (2024: £85.8 million) increase in the schemes' liabilities at 31 March 2025. The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions.

Notes to the financial statements

A4. Retirement benefits (continued)

Further reporting analysis

At 31 March, the fair values of the schemes' assets recognised in the statement of financial position were as follows:

	Group				Company			
	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %
At 31 March 2025								
Gilts	537.2	(202.0)	335.2	14.5	127.4	(38.4)	89.0	13.6
Bonds	313.1	0.6	313.7	13.6	83.7	0.1	83.8	12.8
Bulk annuity policies	1,405.8	-	1,405.8	60.9	433.2	-	433.2	66.0
Other	279.1	(25.2)	253.9	11.0	54.7	(4.8)	49.9	7.6
Total fair value of schemes' assets	**2,535.2**	**(226.6)**	**2,308.6**	**100.0**	**699.0**	**(43.1)**	**655.9**	**100.0**
At 31 March 2024								
Gilts	623.4	(200.9)	422.5	16.6	147.9	(38.2)	109.7	15.1
Bonds	285.8	0.5	286.3	11.2	79.9	0.1	80.0	11.0
Bulk annuity policies	1,564.8	-	1,564.8	61.3	485.0	-	485.0	66.5
Other	314.0	(35.2)	278.8	10.9	60.9	(6.7)	54.2	7.4
Total fair value of schemes' assets	**2,788.0**	**(235.6)**	**2,552.4**	**100.0**	**773.7**	**(44.8)**	**728.9**	**100.0**

Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £1.555.0 million that are categorised as 'level 3' assets within the IFRS 13 'Fair value measurement' hierarchy, meaning that the value of the assets is not observable at 31 March 2025. Estimates of the fair value of these assets have been performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total level 3 asset balance, updated for any subsequent cash movements between the statement date and the year-end reporting date.

Of the remaining balance of scheme assets, there are assets with a fair value estimated to be £739.3 million, which are categorised as 'level 2' assets, meaning that valuations include observable inputs other than quoted prices in active markets, and £14.1 million of 'level 1' assets, meaning that there is a quoted price in an active market for identical assets or liabilities at the measurement date

The UUPS has entered into a variety of derivative transactions to change the return characteristics of the assets held to reduce undesirable market and liability risks. As such, the above breakdown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

The portfolio contains a proportion of assets set aside for collateral purposes linked to the derivative contracts held. The collateral portfolio, comprising cash and eligible securities readily convertible to cash, provides sufficient liquidity to manage exposure relating to the derivative transactions and is expected to achieve a return in excess of SONIA (Sterling Overnight Index Average). During the year ended 31 March 2025 no liquidity support or facilities were required by the company as a result of collateral calls.

The derivative values in the table above represent the net market value of derivatives held within each of these asset categories as follows:

Notes to the financial statements

A4. Retirement benefits (continued)

	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
Gilts				
Repurchase agreements	(202.0)	(200.9)	(38.4)	(38.2)
	(202.0)	(200.9)	(38.4)	(38.2)
Bond – hedging non-sterling exposure back to sterling				
Currency forwards	0.6	0.5	0.1	0.1
	0.6	0.5	0.1	0.1
Other – managing liability risks targeting a high level of interest rate and inflation hedging				
Interest rate swaps	(25.7)	(35.6)	(4.9)	(6.8)
RPI inflation swaps	0.5	0.4	0.1	0.1
	(25.2)	(35.2)	(4.8)	(6.7)
Total fair value of derivatives	(226.6)	(235.6)	(4.8)	(44.8)

The derivatives shown in the tables only cover those expressly held for the purpose of reducing certain undesirable asset and liability risks as part of the liability driven investment strategies. The schemes invest in a number of other pooled funds that make use of derivatives. No allowance is made in the figures above for any derivatives held within these other pooled funds, as they are not held expressly for the purpose of managing risk. The total fair value of pooled funds held within the schemes' assets was £162.4 million (2024: £147.0 million).

The intention is that the schemes' assets provide a full economic hedge of interest rates and RPI inflation of the schemes' liabilities on a scheme funding basis. As the scheme funding basis is more prudent than the IAS 19 measurement basis for the defined benefit obligation, the schemes are more than 100 per cent hedged on an accounting basis.

Movements in the fair value of the schemes' assets were as follows:

	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
At the start of the year	2,552.4	2,931.3	728.9	795.1
Interest income on schemes' assets	119.0	135.7	34.0	39.0
The loss on plan assets, excluding amounts included in interest	(240.9)	(402.7)	(67.2)	(68.4)
Member contributions	2.2	2.4	0.1	0.1
Benefits paid	(129.4)	(119.6)	(39.6)	(36.2)
Administrative expenses	(4.0)	(4.0)	(1.7)	(1.6)
Company contributions	9.3	9.3	1.4	0.9
At the end of the year	2,308.6	2,552.4	655.9	728.9

Notes to the financial statements

A4. Retirement benefits (continued)

The group's actual return on the schemes' assets was a loss of £121.9 million (2024: £267.0 million loss). In line with IAS 19, the fair values of the buy-in assets have been set equal to the IAS 19 present values of the insured liabilities. The schemes' investment strategies have been designed such that the assets are fully hedged against the schemes' technical provisions funding positions and are therefore more than 100 per cent hedged on an IAS 19 basis. As a result, increases in net yields are expected to reduce the schemes' assets by a greater amount than the IAS 19 liabilities.

The trustees of both the ESPS and UUPS schemes publish a statement of investment principles, available via the United Utilities corporate website. The statements set out the ESG principles, in particular climate risk, behind the choice of investments. UUPS published its latest TCFD report in October 2024, which is available on the corporate website. For ESPS, while the group does not meet the size threshold that requires full TCFD reporting, the trustee has provided information for the wider scheme's report. The wider scheme's most recent TCFD report was published in October 2024 and is available from the ESPS website.

A5. Related party transactions

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:

	2025 £m	2024 £m
Sales of services	338.8	334.4
Charitable contributions advanced to related parties	0.2	0.2
Purchase of goods and services	1.5	-
Interest income and fees recognised on loans to joint ventures	5.9	5.6
Amounts owed by related parties	101.0	100.8

These amounts exclude transactions and balances with the group's ultimate parent undertaking, further details of which are provided below.

Sales of services to related parties during the year mainly represent non-household wholesale charges to Water Plus that were billed during the period. These transactions were on market credit terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

Charitable contributions advanced to related parties during the year relate to amounts paid to Rivington Heritage Trust, a charitable company limited by guarantee for which United Utilities Water Limited is one of three guarantors.

At 31 March 2025, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £101.0 million (2024: £100.8 million), comprising £27.4 million (2024: £27.1 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £73.5 million (2024: £73.7 million) relating to loans.

A5. Related party transactions (continued)

Included within these loans receivable were the following amounts owed by Water Plus:

- £71.4 million (2024: £72.3 million) outstanding on a £95.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2026, bearing a floating rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £75.0 million outstanding, net of a £ million allowance for expected credit losses (2024: £75.5 million net of a £3.2 million allowance for expected credit losses); and
- £2.2 million (2024: £1.4 million) receivable being the £11.7 million (2024: £11.3 million) fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £nil (2024: £0.4 million) allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to historic periods as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 31 March 2025 and 31 March 2024 of £12.5 million, comprising a £11.7 million (2024: £11.3 million) receivable representing the present value of the £12.5 million payable at maturity discounted using an appropriate market rate of interest at the inception of the loan, and £0.8 million (2024: £1.2 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

During the year, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £48.9 million, of which £26.0 million related to guarantees to United Utilities Water Limited.

The following transactions were carried out with the group's ultimate parent undertaking, United Utilities Group PLC:

	Interest receivable	
	2025	2024
	£m	£m
Ultimate parent undertaking	119.6	112.9

	Intercompany group tax relief payable	
	2025	2024
	£m	£m
Ultimate parent undertaking	29.8	28.2

	Amounts owed by related parties		**Amounts owed to related parties**	
	2025	2024	2025	2024
	£m	£m	£m	£m
Ultimate parent undertaking	2,108.9	1,983.3	141.9	105.6

Details of transactions with key management are disclosed in note 3.

Notes to the financial statements

A6. Accounting policies

Of the accounting policies outlined below, those deemed to be the most significant for the group are those that align with the critical accounting judgements and key sources of estimation uncertainty set out on pages 78 to 81.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries), and incorporate the results of its share of joint ventures using the equity method of accounting. The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the date control is obtained or until the date that control ceases, as appropriate.

Amounts attributable to non-controlling interests are presented separately in equity and total comprehensive income where material.

Subsidiaries

Subsidiaries are entities controlled by the group. Control is achieved where the group is exposed to, or has the rights to, variable returns from its involvement in an entity and has the ability to affect those returns through its power over the entity. In the parent company accounts, investments are held at cost less provision for impairment.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures

Joint ventures are entities in which the group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The group's share of joint venture results is incorporated using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised at cost and adjusted thereafter to recognise the group's share of the profit or loss of the joint venture.

Revenue recognition

Revenue from the sale of water, wastewater and other services represents the fair value of the consideration receivable in the ordinary course of business for the goods and services provided, exclusive of value added tax. Where relevant, this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end.

There are two main areas of the group's activities considered to result in revenue being recognised:

• the provision of core water and wastewater services, accounting for more than 97 per cent of the group's revenue; and
• capital income streams relating to diversions work and activities, typically performed opposite property developers, that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

The provision of core water and wastewater services, which are deemed to be distinct performance obligations of the contract with customers, follow the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Revenue is generally recognised at the time of delivery, with consideration given as to whether collection of the full amount under the contract is considered probable. Should the group consider that the criteria for revenue

Notes to the financial statements

A6. Accounting policies (continued)

recognition have not been met for a transaction, revenue recognition would be delayed until such time as collectability is reasonably assured.

Any gross debt that is not expected to be recovered through future cash collection is provided against through either an allowance for expected credit losses (non-collection, where revenue had been previously recognised due to recovery being considered probable at the point services were rendered) or credit note provision (incorrectly billed, and therefore reducing the amount of revenue that should have been recognised). The group recognises a credit note provision typically in relation to non-household customers who can claim allowances against amounts previously billed, in accordance with non-household market codes. Future allowances for which a credit note provision is recognised are estimated based on historic information derived from market operating systems. Credit note provisions held in relation to household customers relate to bill adjustments made after the reporting date.

Payments received in advance of revenue recognition are recorded as deferred income. This includes revenue in respect of connection activities which is itself a distinct performance obligation. The revenue recognised in respect of these activities is released to the income statement over a period of 60 years, which is deemed to be the time over which the performance obligation for providing the connection is satisfied.

Operating profit

Operating profit is stated after charging operational expenses but before investment income and finance expense and before the share of profits or losses of joint ventures.

Borrowing costs and finance income

Except as noted below, all borrowing costs and finance income are recognised in the income statement on an accruals basis. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset in accordance with IAS 23 'Borrowing Costs'.

Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Assessing the outcome of uncertain tax positions requires judgements to be made regarding the application of tax law and the result of negotiations with, and enquiries from, tax authorities. A current tax provision is only recognised when the group has a present obligation resulting from a past event and it is probable that the group will be required to settle that obligation to a taxing authority.

The amount of current tax provisions or assets are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Current tax

Current tax is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date, and also includes any adjustment to tax payable in respect of previous years.

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Notes to the financial statements

A6. Accounting policies (continued)

Current tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the tax is charged or credited within equity.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is charged or credited within equity.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment comprises water and wastewater infrastructure assets and overground assets.

The useful economic lives of these assets are primarily as follows:

- Water and wastewater infrastructure assets:
    - Impounding reservoirs 200 years;
    - Mains and raw water aqueducts 30 to 300 years;
    - Sewers and sludge pipelines 60 to 300 years;
    - Sea outfalls 75 years;
- Buildings 10 to 60 years;
- Operational assets 5 to 80 years; and
- Fixtures, fittings, tools and equipment 3 to 40 years.

A6. Accounting policies (continued)

Employee and other related costs incurred in implementing the capital schemes of the group are capitalised. This includes an allocation of estimated time and resources incurred by the group's support functions in supporting capital programmes.

The group is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's view, that the carrying value of such assets may not be recoverable. An impairment review requires management to make uncertain estimates concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Costs associated with a major inspection or overhaul of an asset or group of assets are capitalised within property, plant and equipment and depreciated over the period of time expected to elapse between major inspections or overhauls.

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater pipes and systems. Expenditure on the infrastructure assets, including borrowing costs where applicable, relating to increases in capacity or enhancements to the resilience of functionality of the network, is treated as an addition. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred. Infrastructure assets are depreciated by writing off their cost (or deemed cost for infrastructure assets held on transition to IFRS), less the estimated residual value, on a straight-line basis over their useful economic lives.

Other assets

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items, including relevant borrowing costs, where applicable, for qualifying assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Freehold land and assets in the course of construction are not depreciated. Other assets are depreciated by writing off their cost, less their estimated residual value, on a straight line basis over their estimated useful economic lives, based on management's judgement and experience.

Depreciation methods, residual values and useful economic lives are reassessed annually and, if necessary, changes are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other operating costs.

Transfer of assets from customers and developers

Where the group receives from a customer or developer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the group must then use either to connect the customer to the network or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at their fair value and included within property, plant and equipment, with a liability of the same amount credited to deferred grants and contributions. The assets are depreciated over their useful economic lives and the deferred contributions released to revenue over the 60 years, which is the estimated period over which an average connection through which the group provides water and wastewater

A6. Accounting policies (continued)

services is expected to be operational. Where the receipt of property, plant and equipment is solely to connect the customer to the network, the deferred contribution is released immediately to revenue.

Assets transferred from customers or developers are accounted for at fair value. If no market exists for the assets then incremental cash flows are used to arrive at fair value.

Government grants

Government grants (including those receivable from government agencies and local authorities) are recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. Where government grants relate to the acquisition or construction of assets, the group has elected to account for the grant by deducting the value of the grant from the asset's carrying amount. Other grants are typically recognised in other income in the period in which the conditions attached to them are fulfilled.

Intangible assets

Intangible assets are measured initially at cost and are amortised on a straight line basis over their estimated useful economic lives. The carrying amount is reduced by any provision for impairment where necessary.

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria set out in IAS 38 'Intangible Assets'.

Intangible assets, which relate primarily to computer software, are generally amortised over a period of three to ten years.

The group expenses costs incurred in the implementation and ongoing operation of computing systems built and delivered on a 'software as a service' (SaaS) basis and hosted in an external cloud environment. These do not generally give rise to an identifiable intangible asset that the group controls. In limited circumstances, costs incurred in association with the implementation and customisation of a SaaS system may enhance the group's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the group controls, the costs are capitalised in accordance with IAS 38 and are subsequently amortised over a period of generally three to sixteen years.

Impairment of assets

Where appropriate, assets are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use represents the net present value of expected future cash flows, discounted on a pre-tax basis, using a rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

The recoverable amount of investments in subsidiary companies is assessed using level 2 fair value hierarchy techniques, with reference to the regulatory capital value (RCV) of the regulated water and wastewater business where appropriate. This is used as a proxy in estimating the subsidiary's market value, with the RCV being a regulatory measure determined by Ofwat, based on the company's historic market value plus the value of accumulated capital investment assumed at each price review. The RCV used in this assessment is adjusted for actual spend.

A6. Accounting policies (continued)

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses in respect of assets are recognised in the income statement within operating costs.

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.

Financial instruments

Financial assets and financial liabilities are recognised and derecognised in the group's statement of financial position on the trade date when the group becomes/ceases to be a party to the contractual provisions of the instrument.

Cash and cash equivalents

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.

From time to time the group places cash on deposits that have a maturity greater than three months but less than 12 months, typically for the purpose of reducing the cost of carrying cash that is not required for the purpose of meeting short-term commitments. These deposits do not meet the group's definition of cash and cash equivalents, and so are not included in the group's cash and cash equivalents balance in the statement of financial position. In the consolidated statement of cash flows, the placement and receipt of these funds are reported as investing activities.

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 and other receivables

Trade and other receivables are initially measured at fair value on initial recognition. Trade receivables are held within a business model to collect contractual cash flows, which comprise solely payments of principal and interest on the principal amount outstanding. After initial recognition, trade receivables are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. At each reporting date, the group evaluates the estimated recoverability of trade receivables and records allowances for expected credit losses.

The group estimates the expected credit loss on trade receivables applying the simplified approach as permitted under IFRS 9. For trade receivables that are assessed as not impaired individually, the expected credit loss is estimated based on the group's historical experience of cash collection, which is considered to be a good predictor of future collection, as well as the incorporation of other forward-looking information.

Notes to the financial statements

A6. Accounting policies (continued)

Amounts owed by related parties are assessed for credit risk based on the facts and circumstances of the balances receivable. The group assesses the lifetime expected credit losses of loans receivable from its joint venture, Water Plus, based on Water Plus's financial projections and a probability-weighted assessment of scenarios that could impact these. Credit risk is considered separately for trade receivables due from Water Plus and is considered immaterial as amounts outstanding are paid within 30 days.

Other receivables are assessed for credit risk and, where this is material, an allowance for expected credit losses is determined based on historic credit losses adjusted for expected changes in future collection, where applicable.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Borrowings

The group's default treatment is that bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently measured at amortised cost applying the effective interest method. The difference between the net cash proceeds received at inception and the principal cash flows due at maturity is accrued over the term of the borrowing.

The default treatment of measuring at amortised cost, while associated hedging derivatives are recognised at fair value, presents an accounting measurement mismatch that has the potential to introduce considerable volatility to both the income statement and the statement of financial position. Therefore, where feasible, the group takes advantage of the provisions under IFRS 9 'Financial Instruments' to make fair value adjustments to its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

Where feasible, the group designates its financial instruments within fair value hedge relationships. To apply fair value hedge accounting, it must be demonstrated that there is an economic relationship between the borrowing instrument and the hedging derivative and that the designated hedge ratio is consistent with the group's risk management strategy.

Borrowings designated within a fair value hedge relationship

Where designated, bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently adjusted for any change in fair value attributable to the risk being hedged at each reporting date, with the change being charged or credited to finance expense in the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, or where the hedge relationship no longer qualifies for hedge accounting.

Notes to the financial statements

A6. Accounting policies (continued)

Borrowings designated at fair value through profit or loss

Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received, and are subsequently measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement.

Under the provisions of IFRS 9 'Financial Instruments', changes in the group's own credit risk are recognised in other comprehensive income.

Derivative financial instruments

The group's default treatment is that derivative financial instruments are measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement. The group enters into financial derivatives contracts to manage its financial exposure to changes in market rates (see note A3)

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.

A6. Accounting policies (continued)

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Employee benefits

Retirement benefit obligations

The group operates two defined benefit pension schemes, which are independent of the group's finances, for its employees. Actuarial valuations to determine the funding of the schemes, along with future contribution rates, are carried out by the pension scheme actuary as directed by the trustees at intervals of not more than three years. In any intervening years, the trustees review the continuing appropriateness of the funding and contribution rates.

From a financial reporting perspective and in accordance with IAS 19 'Employee Benefits', defined benefit assets are measured at fair value while liabilities are measured at present value, using the projected unit credit method. The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', on the basis that the group has an unconditional right to a refund of any surplus that may exist following the full settlement of plan liabilities in a single event.

The pension cost under IAS 19 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary, which are used to estimate the present value of defined benefit obligations. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note A4.

The cost of providing pension benefits to employees relating to the current year's service (including curtailment gains and losses) is included within employee benefits expense, while the interest on the schemes' assets and liabilities is included within investment income and finance expense respectively. Remeasurement gains/losses on scheme assets and liabilities are presented in other comprehensive income.

In addition, the group operates a defined contribution pension section within the United Utilities Pension Scheme. Payments are charged as employee costs as they fall due. The group has no further payment obligations once the contributions have been paid.

The Principal Employer for both the UUPS and ESPS is United Utilities PLC (UU PLC), with United Utilities Water Limited (UUW) being a Participating Employer. The defined benefit obligations in the two schemes are split, in accordance with IAS19, by employer, between UU PLC and UUW.

For accounting purposes, the schemes' assets and liabilities are split by employer based on information taken from the results of the funding valuations for the schemes as at 31 March 2021 and checked against the results of the funding valuation as at 31 March 2024. A full review of the schemes' employer split for assets and liabilities is carried out every ten years, with the next such review expected to be completed by 31 March 2034.

For each member, an estimate is made of the proportion of pensionable service spent working for non-regulated (allocated to UU PLC) and regulated businesses (allocated to UUW) respectively, based on the member's employee records. This split is then used to divide the DBO between employers: for UUPS, 81% is allocated to UUW and 19% to UU PLC; for ESPS, 7% to UUW and 93% to UU PLC. It is assumed that the relative liabilities for each employer would be similar on an IAS19 basis as on a funding basis. Historic analysis, based on previous triennial valuations and rolled forward for changes in members' status, has shown that the split remains reasonably stable. The splits detailed above are consistently applied and reviewed annually on a roll-forward basis to check the reasonableness of continuing to apply these allocations.

A6. Accounting policies (continued)

Share-based compensation arrangements

The group operates equity-settled, share-based compensation plans, issued to certain employees. The equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a pro-rated basis over the vesting period, based on estimates of the number of options that are expected to vest and according to relevant measures of performance determining the number of shares awarded. The initial fair value of each award scheme is updated for each reporting period to account for lapsed shares and updated estimates of the performance measures. The group has the option to settle some of these equity-settled share-based payments in cash. At each reporting date, the group revises its estimate of the number of options that are expected to become exercisable, with the impact of any revision being recognised in the income statement and a corresponding adjustment to equity over the remaining vesting period.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

Foreign currency translation

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rates applicable on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange applicable on that date. Gains and losses arising on retranslation are included in net profit or loss for the period.

Exchange differences arising on investments in equity instruments classified as fair value through other comprehensive income are included in the gains or losses arising from changes in fair value which are recognised directly in equity. To hedge its exposure to certain foreign exchange risks, the group enters into contracts for derivative instruments (see note A3).

Leases

At inception of a contract the group assesses whether a contract is, or contains, a lease. Where a lease is present, a right-of-use asset and lease liability is recognised at the commencement date. The lease liability is measured at the present value of future lease payments due over the term of the lease, with the right-of use asset recognised as property, plant and equipment at cost. This is generally equivalent to the initial measurement of the lease liability.

Lease payments are discounted using the group’s incremental rate of borrowing if the interest rate implicit in the lease cannot be readily determined. For materially all of the group’s leases, the group’s incremental rate of borrowing is used. This rate is calculated using a number of inputs, being observable risk-free gilt rates, specific data based on bonds already in circulation for the relevant group company, as well as data from the wider utility sector. Further adjustments for payment profile and the term of the lease are made.

After the commencement date, the lease liability is increased for the accretion of interest (being the unwinding of the discounting applied to future lease payments) and reduced by lease payments made. In addition to this the carrying amount is updated to reflect any remeasurement or lease modifications. Remeasurements are typically required as a result of rent reviews or changes to the lease term. In these cases a corresponding adjustment to the right-of-use asset is made.

Notes to the financial statements

A6. Accounting policies (continued)

Depreciation of right-of-use assets is charged on a straight line basis over the term of the lease.

Where leases have a term of less than 12 months from the commencement date and do not have a purchase option, the group applies the short-term lease recognition exemption available under IFRS 16. The group applies the low value recognition exemption permitted by the standard to leases of assets with a value of less than £2,500. Payments for short-term and low value leases are instead charged to operating costs on a straight-line basis over the period of the lease.

Statement of cash flows

Grants and contributions received

Where government grants are received as a contribution against qualifying fixed assets, and where transactions with customers – typically property developers – result in the expansion of the group's water and wastewater network and therefore its fixed asset base, the relevant cash inflows are classified within investing activities in the period.

Interest payments and receipts

IFRS allows interest payments and interest receipts to be classified within operating activities or financing activities/investing activities. The group classifies interest payments and interest receipts within operating activities, with management viewing these in conjunction with other operating cash flows in assessing the ability of the group to maintain its operating capability.

Cash flows from derivatives

The cash flows from derivatives as a result of the group's hedging activities are presented together with the cash flows relating to the underlying hedged item to provide a more faithful representation of the substance of the transaction.

Taxes paid

Taxes paid by the group are presented as cash flows from operating activities. The group deem it impracticable to identify the tax cash flows with respect to individual transactions, which may themselves be presented in investing activities or financing activities, and instead present total tax cash flows as operating activities.

Changes in working capital

The movement in trade and other payables excludes movements in capital accruals, interest accruals and deferred grants and contributions. These movements are instead incorporated as adjustments in other areas of the statement of cash flows.

A7. Subsidiaries and other group undertakings

Details of the group's subsidiary undertakings and joint ventures are set out below. Unless otherwise specified, the registered address for each entity is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP, United Kingdom. For further details of the group's interest in joint ventures, see note 11.

Notes to the financial statements

A7. Subsidiaries and other group undertakings (continued)

	Class of share capital held	Proportion of share capital owned/voting rights %	Nature of business
Subsidiary undertakings			
Great Britain			
Halkyn District Mines Drainage Company Limited*	Ordinary	99.9	Dormant
Lingley Mere Management Company Limited*	Ordinary	90.0	Property management
North West Water Limited*	Ordinary	100.0	Dormant
United Utilities (Overseas Holdings) Limited*	Ordinary	100.0	Dormant
United Utilities Energy Limited	Ordinary	100.0	Energy generation
United Utilities Healthcare Trustee Limited	Ordinary	100.0	Corporate trustee
United Utilities International Limited	Ordinary	100.0	Non-trading
United Utilities North West Limited	Ordinary	100.0	Holding company
United Utilities Pensions Trustees Limited	Ordinary	100.0	Corporate trustee
United Utilities Property Services Limited	Ordinary	100.0	Property management
United Utilities Total Solutions Limited	Ordinary	100.0	Non-trading
United Utilities Utility Solutions (Industrial) Limited	Ordinary	100.0	Holding company
United Utilities Water Finance PLC*	Ordinary	100.0	Financing company
United Utilities Water Limited*	Ordinary	100.0	Water and wastewater services
UU (ESPS) Pensions Trustee Limited	Ordinary	100.0	Corporate trustee
UU Group Limited	Ordinary	100.0	Dormant
UU Secretariat Limited	Ordinary	100.0	Dormant
YCL Transport Limited	Ordinary	100.0	Non-trading
United Utilities Bioresources Limited	Ordinary	100.0	Wastewater services
Lingley Mere Business Park Development Company Limited*	Ordinary	50.0	Development company
Selectusonline Limited	Ordinary	16.7	Dormant
Water Plus Group Limited(1)	Ordinary	50.0	Holding company
Water Plus Limited(1)	Ordinary	50.0	Water and wastewater retail services
Water Plus Select Limited(1)	Ordinary	50.0	Water and wastewater retail services

*Shares are held by subsidiary undertakings rather than directly by United Utilities PLC.

(1) Water Plus Limited and Water Plus Select Limited are wholly owned subsidiaries of Water Plus Group Limited. Registered address: Two Smithfield, Leonard Coates Way, Stoke-on-Trent, United Kingdom, ST1 4FD

The subsidiary undertakings listed below are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this company has guaranteed the subsidiary company under Section 479C of the Act:

Name of undertaking	Registered company number
United Utilities Utility Solutions (Industrial) Limited	4204293
United Utilities Bioresources Limited	10419293
United Utilities Energy Limited	08641719