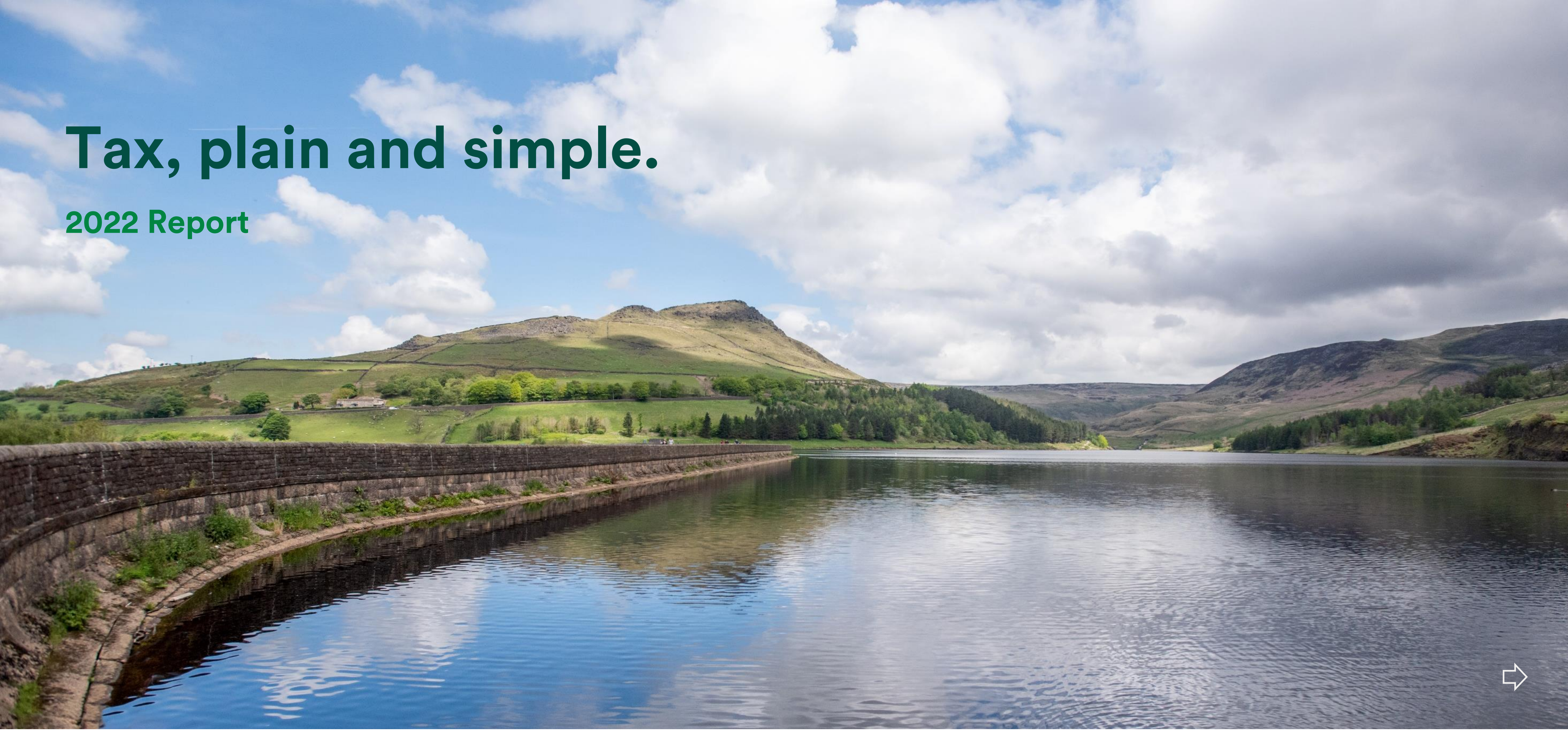


Tax, plain and simple.

2022 Report

United Utilities

Water for the North West

Introduction

Whilst we now appear to be over the worst of the pandemic, individuals and businesses alike continue to face very challenging and uncertain times. As such, it is more important than ever that large businesses, such as ours, adopt a responsible approach to tax. The taxes we pay help fund vital public services nationally as well as contributing to and supporting the north west communities we serve.

Our total contribution to public finances for 2022 was around £230 million and, whilst this meant we were around 35th in terms of UK taxes borne within the Hundred Group of companies, this was slightly lower than the prior year amount of around £260 million – the main reason being a reduction in our corporation tax paid due to benefits accruing from the temporary capital allowances 'super deductions' introduced by the Government in 2021 specifically to encourage capital investment, post the pandemic.

The continued challenges faced by individuals, communities and businesses have highlighted the ongoing need to strengthen public trust in the tax system and we believe that large businesses, like United Utilities, should always be open and transparent about their tax affairs. In addition to the tax disclosure within our main statutory Annual Report, we continue to also publish this separate annual tax report.

In producing this tax report, we want to reach a broad range of stakeholders. Accordingly, the main body of the report presents a summary but there is also more detailed information included via the **#MORE** links to the relevant appendix or other hyperlinks to information elsewhere in the report or online.

In addition, at the end of the report we have included a **GLOSSARY** of key tax terms used.

Our report addresses the following three key themes:

1. **How much tax do we pay?**
2. **How do we ensure we pay the right amount of tax at the right time?**
3. **How do we ensure our tax affairs are transparent?**

As recognition of our commitment to tax transparency, we were delighted to be awarded the Fair Tax Mark independent certification in June this year for a fourth time, having been only the second FTSE 100 company to receive the accreditation back in 2019.

Fair Tax

We will continue to publish this report annually around the same time as our main statutory Annual Report and we would welcome any feedback on this edition.

Phil Aspin
Chief Financial Officer

Contents

1. How much tax do we pay?

Business rates

£92m

Business rates are chargeable on all non-domestic property unless subject to a relief. To deliver our services, we have 56,000 hectares of land, 165 reservoirs, 88 water treatment works, 566 wastewater treatment works and many support buildings.

Corporation tax

£9m

The corporation tax paid for 2022 and 2023 will be lower due to benefits accruing from the temporary capital allowances 'super deductions' rules, introduced in 2021.

Employment taxes

Company

£27m

Employees

£59m

We have around 5,000 employees and we support thousands of jobs via our supply chain, making us one of the biggest employers in the North West.

Environmental taxes/other duties

£12m

Our energy strategy is to use less and generate more renewable energy. We are subject to a number of taxes on our carbon footprint and the energy we use including carbon emissions tax, climate change levy and fuel duty. As part of providing water and wastewater services, we produce waste such as sludge, excavated materials and general office waste. We are committed to managing this in a sustainable way, with around 2% of our waste going to landfill which is subject to the landfill tax.

Regulatory service fees

£31m

We hold licences with the Environment Agency that permit us to abstract water from the natural environment – we treat this and supply drinking water to seven million people in the North West every day. We also hold permits with the Environment Agency to enable us to discharge treated water back into the environment in a controlled manner.

> **“£171 million of the total represents a cost borne by the group with the balance of £59 million being taxes borne by employees and collected by the group on their behalf.”**

TOTAL

£230m

2. How do we ensure we pay the right amount of tax at the right time?

We have a formal set of **tax policies and objectives** that are approved by the board of directors on an annual basis, covering three main pillars:

1. We do not engage in aggressive or abusive tax avoidance; we do look to structure commercial activities efficiently both within the letter and spirit of the law. #MORE1

We have a specialist tax team that monitors delivery against the tax policies and objectives, working with colleagues to ensure we have a sustainable approach to tax risk management. #MORE3

2. We maintain a robust governance and risk management framework to ensure our tax policies are applied throughout the group. #MORE2

We are subject to detailed regulation in terms of price and performance. More than 97% of group revenue comes from this regulated business. #MORE5

3. We are committed to open, transparent and professional relationships with all relevant tax authorities based on mutual trust and collaborative working. #MORE4

We monitor and claim relevant tax incentives and reliefs. #MORE6

> **"Our tax policies have been fully complied with for many years, including the 2022 period."**

3. How do we ensure our tax affairs are transparent?

We engage proactively and collaborate openly

Transparency starts well before the publication of reports. We engage actively to help shape the policy and regulatory framework within which we operate, covering customer, economic (including tax) and environmental factors. These require balancing and consideration over a short, medium and long-term horizon.

At a sector level, we take a lead in engaging on tax matters and our Head of Tax has chaired the direct tax group of Water UK, the industry-wide body, for many years.

We consult regularly and share information in real time

HMRC (tax) and VOA (business rates) oversee our tax affairs.

We are committed to an open, transparent and professional relationship with HMRC and VOA based on mutual trust and collaborative working.

We disclose what we believe is required and our stakeholders wish to see

We recognise many stakeholders turn first to our Annual Report for the information they need to decide whether to invest in, lend to, partner with, or work for our company.

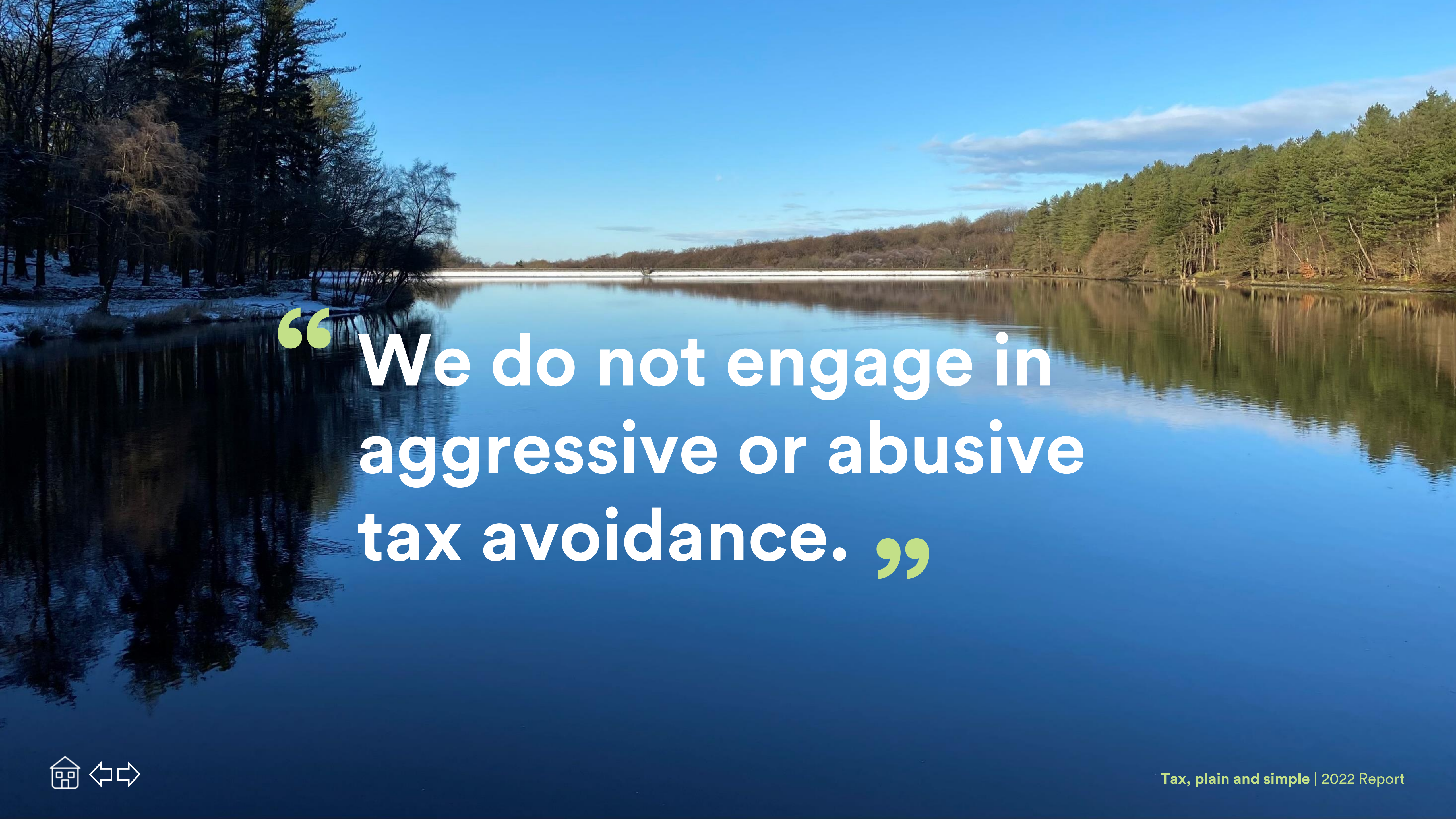
Our Annual Report contains disclosures in line with the CBI statement of recommended principles and includes enhanced disclosure of our tax charge and factors affecting it. Our website discloses our **tax policy**.

We reflect on what we've heard and adapt our disclosures

Tax transparency is constantly evolving.

This report is one example of where we have monitored trends in transparency and acted on best practice to disclose more than required and to do so in a meaningful way.

For example, some stakeholders wish to understand how tax interacts with the detailed regulatory environment within which we operate. So, we have disclosed additional details in **#MORE5**.


“We do not engage in aggressive or abusive tax avoidance.”

We know the question of tax, and paying our 'fair share' is important to stakeholders and society more generally. It is a subject that goes beyond just the tax team, with a tax strategy approved by the board that is promoted across the business to ensure that all of our people act consistently with our agreed values and objectives.

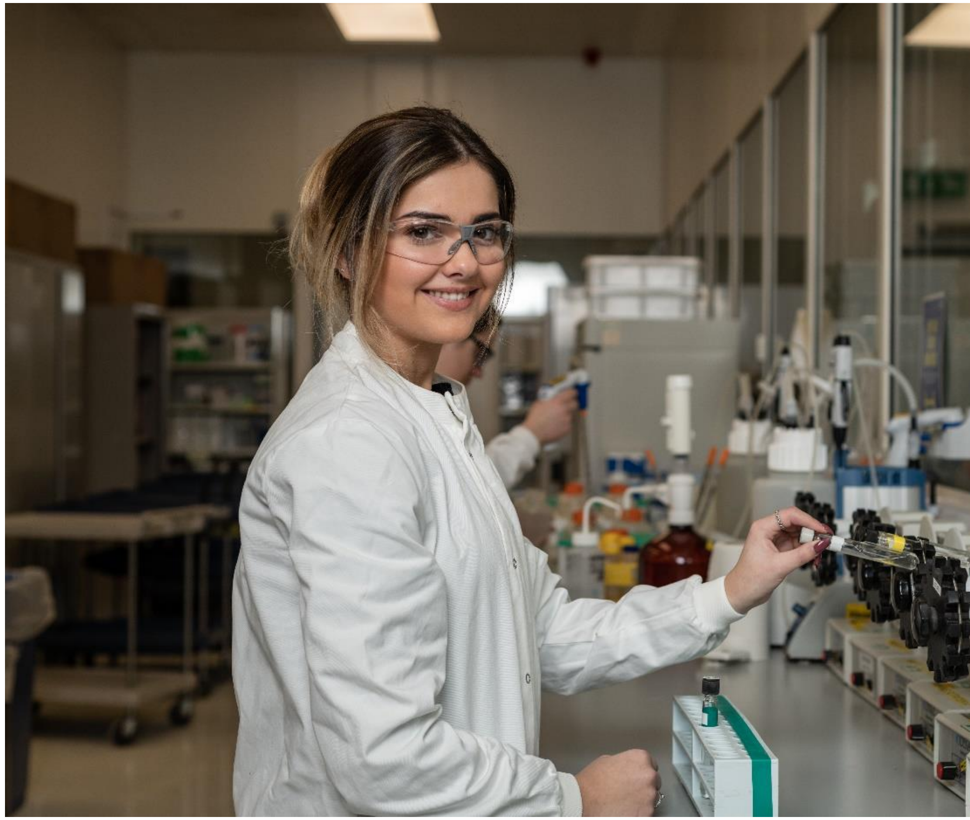
We only engage in reasonable tax planning. In other words, we ensure that commercial activities and transactions are structured tax efficiently in compliance with what we consider to be both the letter and the spirit of the law. Our directors have a duty to promote the success of the company and that includes not paying more tax than a company is obliged to do.

What does that actually mean?

An example would be when we're planning a major capital investment programme: in considering the various commercial options, we are mindful of the different rates of tax allowances that may be available for each option.

We do, therefore, claim reliefs, such as allowances in relation to our capital spend, and manage our tax as a cost of business, like any other. However, we believe we operate a sustainable and responsible approach to tax planning that balances the interests of all our stakeholders.

Taking corporation tax alone, we've paid over £300 million in respect of the previous eight years, making us consistently one of the highest payers of corporation tax in the UK water sector.



“We maintain a robust risk and governance framework and we work within it.”

Our strategy sets out our approach to tax and to deliver it we have a framework to ensure that its values are embedded in everything that we do.

Risk framework

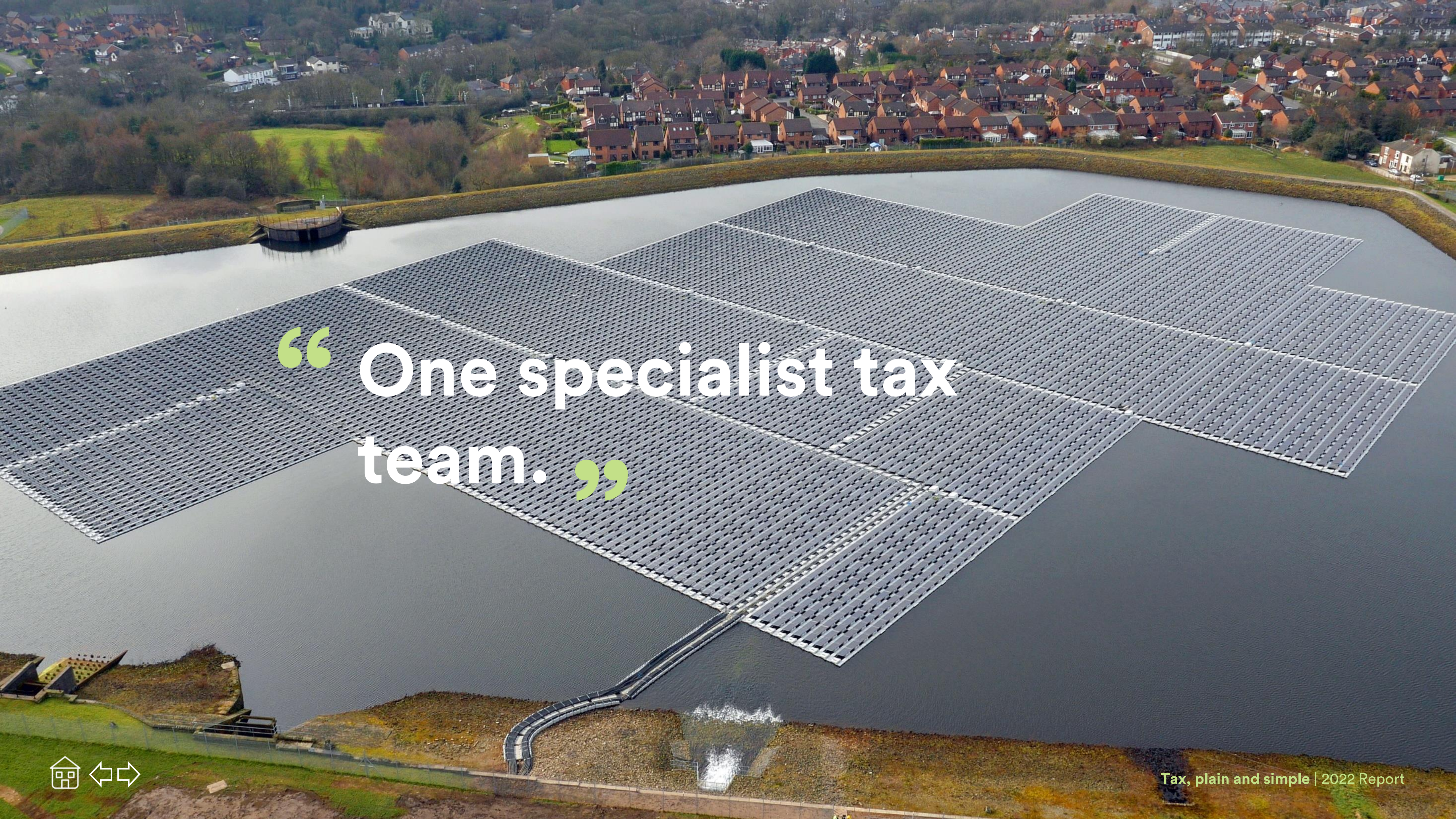
Consistent with the group's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the financial or reputational impact on the group and its objectives, should the event occur. As a consequence of the sector's five-year regulatory cycle, in any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement.

The group is committed to engaging with relevant authorities to manage any such risk. We proactively lobby, both at a company and an industry level where appropriate, to minimise the impact of any proposed changes in tax law or HMRC practice which could materially impact on the group.

For example, for HM Treasury's recent policy review of business rates, we responded at each stage of the consultation process, both as a company and through sector-wide tax groups, to put our views across.

Governance framework

Our governance process is the basis by which we ensure our tax returns are right and can be traced right through the group's accounting systems and processes. We are required to certify on an annual basis that we've taken reasonable steps to ensure that our tax accounting arrangements are fit for purpose and this is managed via the involvement of our specialist tax team.



“One specialist tax team.”

With an overarching strategy agreed by the board and a strong risk framework established to support that, both require monitoring by people well equipped to understand the tax risks and how to manage them.

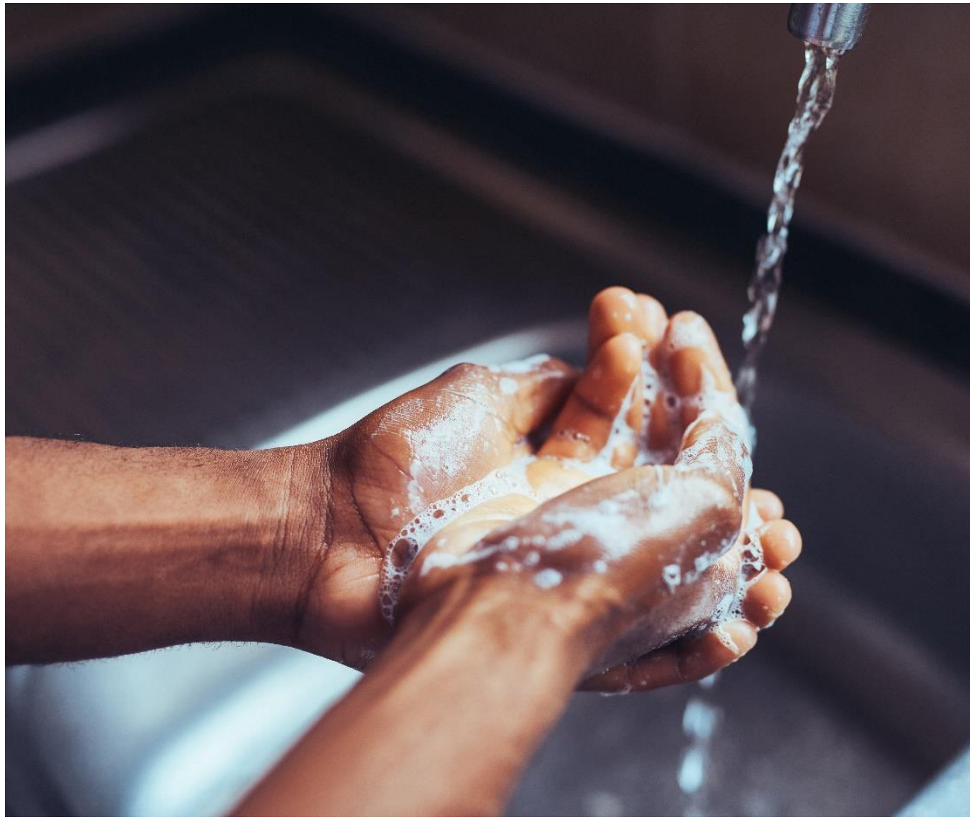
Ultimately, our CFO is responsible for tax governance with oversight from the board. He is our Senior Accounting Officer and, as such, is required to certify on an annual basis that each relevant company in the group has taken reasonable steps to ensure that its tax accounting arrangements are fit for purpose for all major tax-related risk areas.

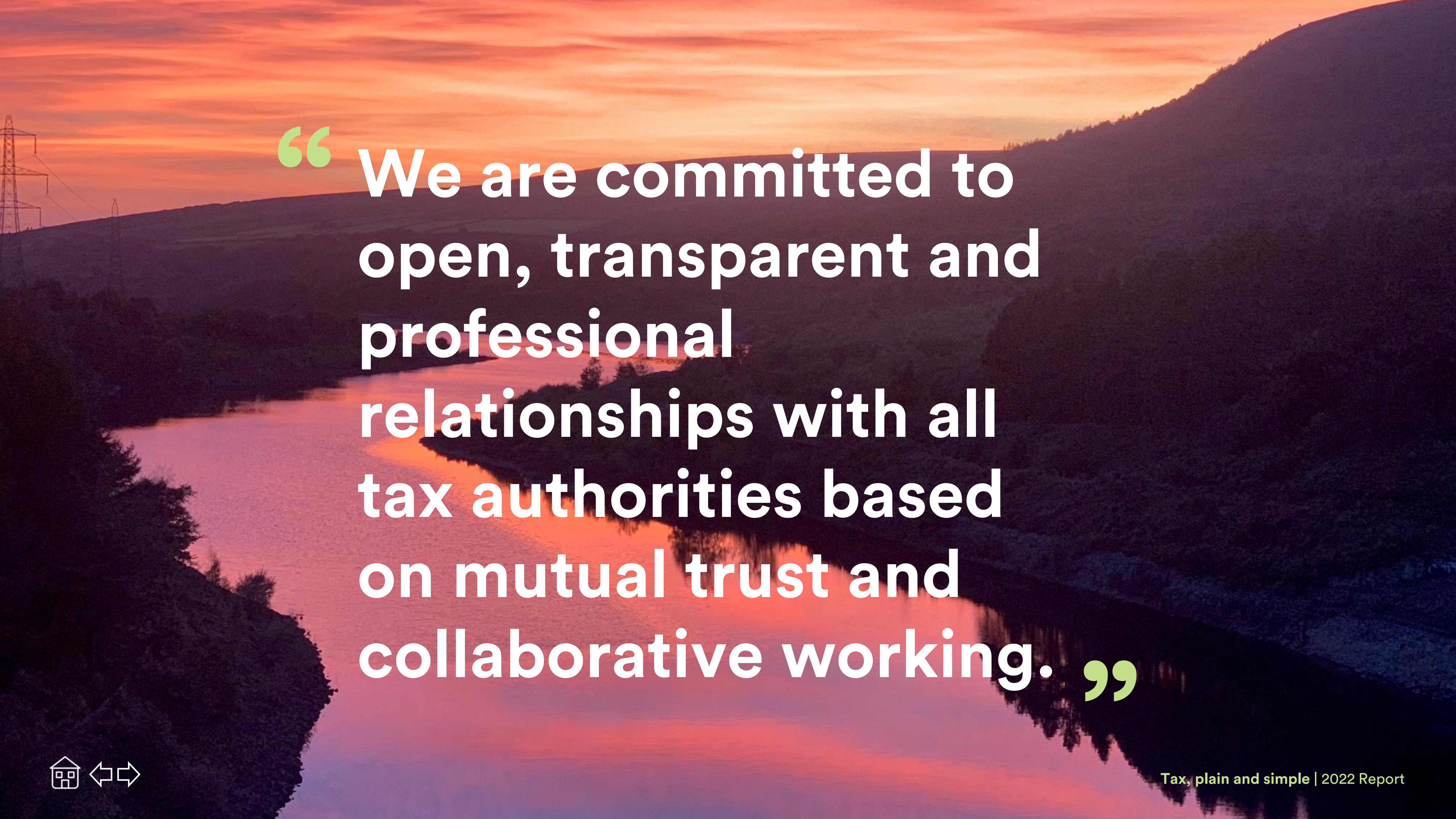
The CFO is supported by a specialist team of tax professionals with more than 50 years of tax experience within the water sector. Led by the Head of Tax, the team includes people with specific responsibilities for different taxes, such as corporation tax, employment taxes and VAT.

The Head of Tax has day-to-day responsibility for managing the group's tax affairs and engages regularly with colleagues to ensure tax risk is proactively managed. For example, he speaks regularly with the legal team to ensure that tax is always considered for the many transactions and projects they are involved with.

The team engages with both external advisers and HMRC to obtain additional advice and certainty with the aim of ensuring that any residual risk is typically low. The Head of Tax has chaired Water UK's direct tax group for many years, keeping track of key sector-wide tax issues and leading the industry's collective response.

All significant tax issues are reported to the board regularly. They have agreed the strategy and take a keen interest in ensuring it is faithfully applied.





“We are committed to open, transparent and professional relationships with all tax authorities based on mutual trust and collaborative working.”

Our tax team has the job of delivering the tax strategy and developing strong, professional relationships with the key authorities who monitor our compliance with relevant rules and regulations.

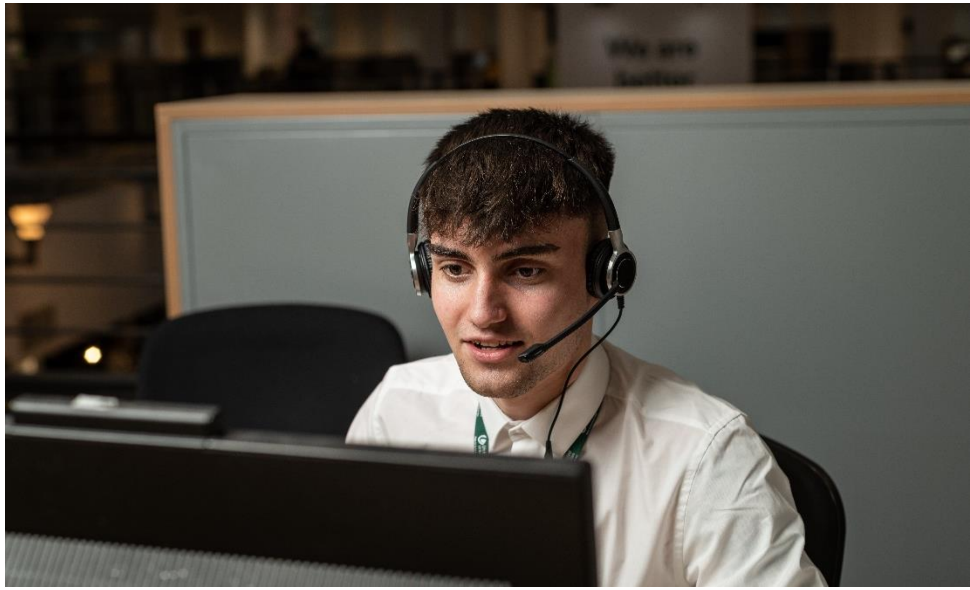
HMRC

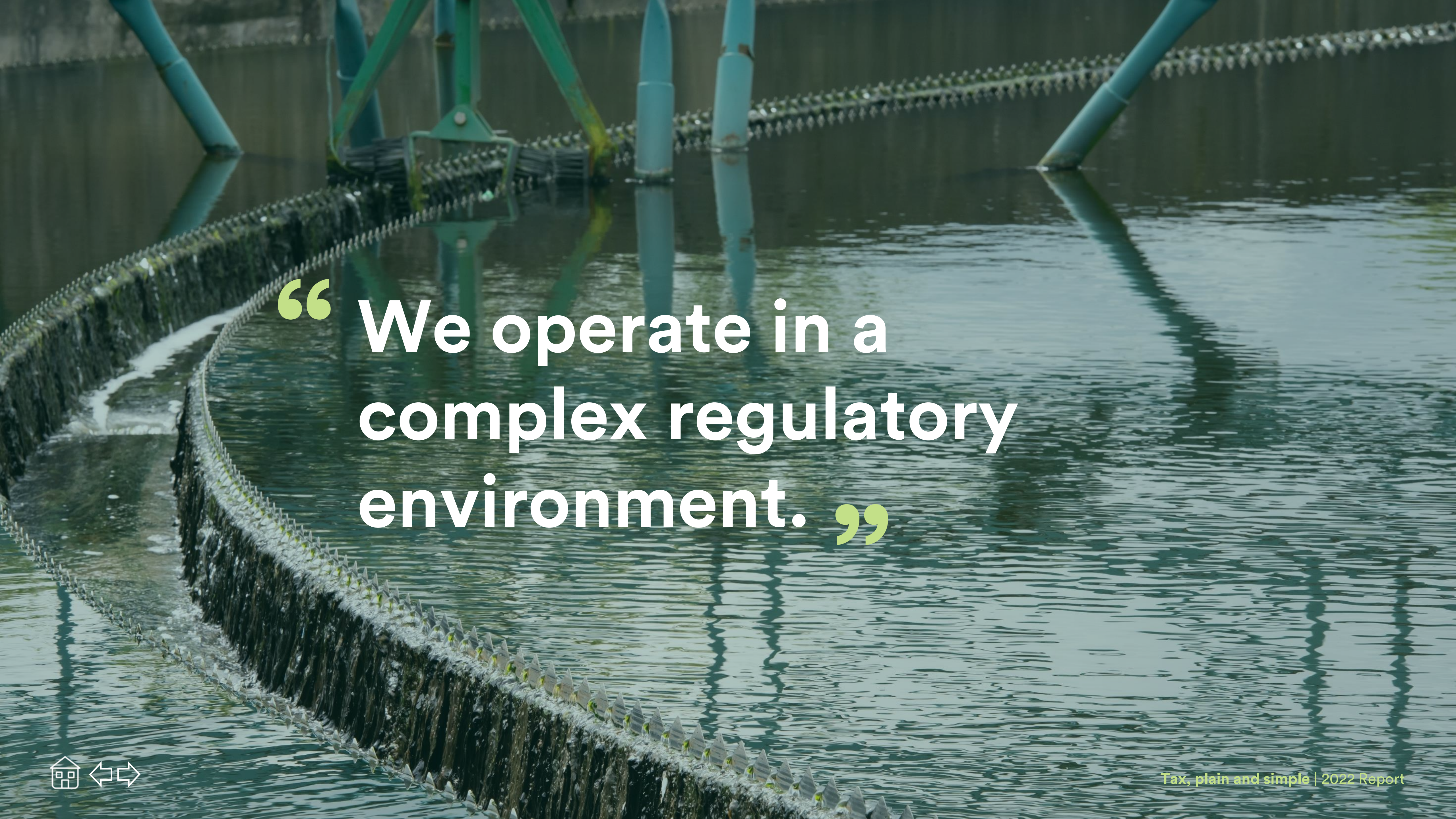
We are committed to having an open and professional relationship with HMRC which includes operating on full disclosure. For the various tax compliance processes, we meet regularly with HMRC to agree key risk areas and share how our risk framework identifies and manages these risks. We do in-year testing to flag any issues in real time and share the results with them. We also operate a system of real-time disclosure with HMRC to discuss significant proposed transactions so that any concerns can be discussed in advance of returns being formally submitted.

Valuation Office Agency (VOA)

Given our largest single tax outflow is business rates, where we paid around £92 million for 2022, we hold regular meetings with the VOA team in charge of the UK water sector, typically every six months.

We provide respective business updates and discuss the latest business rates issues relevant to us.





“We operate in a complex regulatory environment.”

Ofwat's primary duties include protecting consumers' interests, by promoting effective competition wherever appropriate, and making sure that the company properly carries out its statutory functions and can finance carrying out these functions – in particular through securing reasonable returns on capital.

How is it determined whether our strategy and tax forecasting is fair?

By submitting a robust, balanced plan to Ofwat prior to the start of each five-year regulatory period, our aim is to agree a regulatory contract that allows for the best overall outcomes for customers, shareholders and the environment.

Ofwat scrutinises and challenges these business plans, and sets the five-year price, service and incentive package. This becomes the regulatory contract that company performance is measured against. It ensures all interactions between the regulatory entities and the group are undertaken at arm's length.

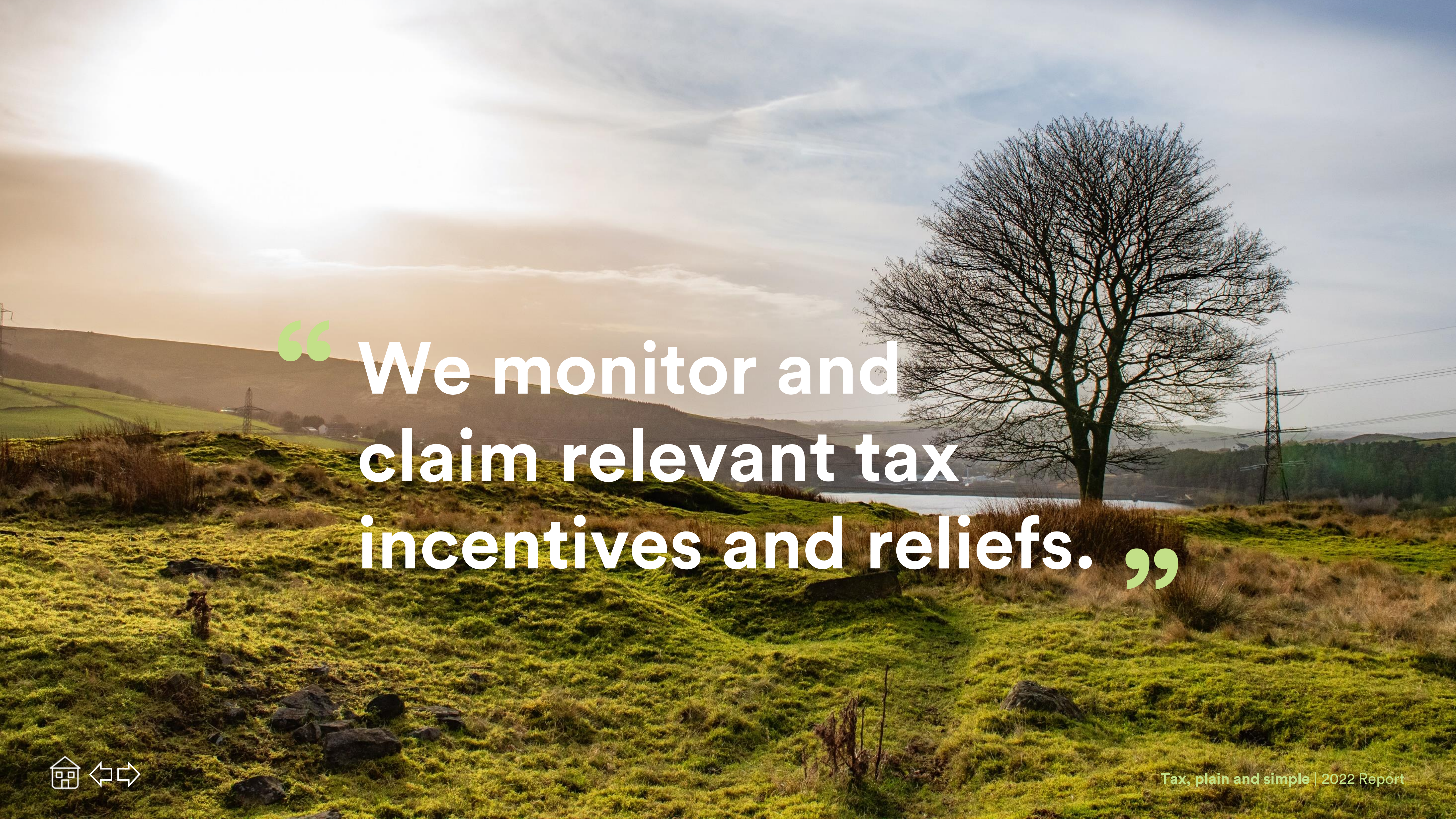
What does that mean for tax?

As part of that plan, we provide detailed tax calculations which are independently reviewed by Ofwat. As Ofwat sees all the different regulated water companies' tax calculations, not only are the details closely scrutinised against our wider financial plan and best assumptions, they are benchmarked across the whole industry.

Detailed work is undertaken on an annual basis and reviewed by the regulator to assess how we are performing against the contract. Given the regulatory contract is set five years in advance, we use our best estimates but sometimes changes outside of our control can occur.

For example, in the recent 2021 Chancellor's Budget, the UK's headline corporation tax rate was increased from 19% to 25% cent from 2024 onwards as well as the introduction of temporary enhanced capital allowances rates.

Recognising that these matters are outside of management's control, the impact of changes to tax rates and capital allowances, in so far as they impact the agreed base plan position, are now passed back to customers under the terms of the current five-year regulatory contract which began in 2020–21.



“We monitor and claim relevant tax incentives and reliefs.”

Tax is a cost of doing business and just like any other, it needs to be planned for, budgeted and managed efficiently so that we pay our fair share.

Our group's overall effective tax rate on underlying profits will typically broadly match the UK headline rate, currently at 19%. However, the actual effective cash tax rate may fluctuate from the headline UK rate year by year due to the way statutory tax relief works for items such as capital investment, R&D and financing:

> An important element of the group's tax liability position is tax allowances on our capital spend. We spent around £750 million on capital items in 2022, so any changes to the allowances can significantly affect our tax bill. From 1 April 2021, for a two-year period, special first-year tax allowances, 'super deductions', have been introduced to encourage investment and these apply to a significant element of our infrastructure spend.

> We are a sector leader in terms of innovation and continue to invest in order to make our processes and operations more efficient. We claim available enhanced tax reliefs on this expenditure where applicable.

The above tax deductions are achieved as a result of statutory reliefs, or utilising tax incentives which have been explicitly put in place by successive governments precisely to encourage such investment in infrastructure and innovation. The impact of our existing capital allowances claims is set out in our **detailed tax disclosures**.

We are a UK group and our funding comes from non-related parties. We have not been negatively impacted by the recent changes to the tax deductibility of interest rules which were generally targeted at groups that had a disproportionate amount of debt in the UK as compared with their overall group position. Our interest costs remain deductible in the UK. Managing our financial position is complex and the movement on unrealised profits and losses on our debt and derivatives portfolio can be significant. The tax treatment of some of this follows the accounts and for others is based on specific tax rules. As such, the impact can be volatile but all profits and losses remain subject to tax in the UK.

The group is committed to paying its fair share of tax and this includes a commitment not to use tax havens for tax avoidance purposes.

We are now a UK business, with all historic legacy overseas operations having been sold or being dissolved. Our one remaining historic overseas subsidiary, United Utilities Tallinn BV, has been put into liquidation in advance of the 31 March 2022 financial year end.

Our only remaining nominal overseas investment is a 1% interest in an Indian trading company, Mahindra Water Utilities Limited. Due to our nominal holding, this company is not a subsidiary, joint venture or associate of the group. Our only source of income from this shareholding is dividend income. For 2021/22, we received £7,000 and this income will have been subject to Indian tax at above the UK rate. The registered address of this entity is also the place of incorporation and profits are declared where the economic substance arises.

Glossary

Accounting depreciation

An accounting method of allocating the cost of a tangible asset over its useful life, It is used to account for declines in value.

Arm's length

Refers to the pricing of a transaction between two parties and indicates that it is equivalent to that which would occur between independent parties.

Business rates

Set by the government and collected by local authorities, these are the means by which those who occupy non-domestic property contribute towards the cost of local services.

Capital allowances

The tax equivalent of accounting depreciation, allowing a company to obtain tax relief on tangible capital expenditure at rates and over periods of time set within the tax legislation.

CBI: Confederation of British Industry

The premier lobbying organization for UK businesses on national and international issues.

CFO: Chief Financial Officer

Our Chief Financial Officer is the board member responsible for managing the financial risks of the group.

Corporation tax

Tax levied on the profits of a company.

Effective tax rate

The tax charged as a percentage of the accounting profits.

Employment taxes

Everyone who earns income or works in the UK is typically liable to pay UK income tax and social security. This term covers all forms of employer's and employees' liabilities.

Environment Agency

A public body set up to protect and improve the environment.

Environmental taxes/other duties

These are designed to internalize environmental costs and provide economic incentives for people and businesses to promote ecologically sustainable activities.

Headline tax rate

The prevailing rate for UK companies (currently 19%).

HMRC: Her Majesty's Revenue and Customs

A non-ministerial department of the UK Government responsible for the collection of taxes.

Ofwat

The Water Services Regulation Authority, or Ofwat, is the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales.

R&D: Research and development

Applying innovation to develop a new service/product or to improve an existing service/product.

Related entities

Any business, partnership, limited liability company or other entity in which the company, a parent or a subsidiary holds a substantial ownership interest, directly or indirectly.

SAO: Senior Accounting Officer

Responsible for personally certifying that their companies' systems are fit for the purpose of reporting taxes.

Stakeholder

Anyone who is affected by our business in one way or another.

Statutory tax relief

This is tax relief that is required, permitted or enacted by statute and which reduces the amount of tax owed by a taxpayer.

Tax liability

The total amount of tax owed by a company to HMRC.

VAT: Value Added Tax

A consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale.

VOA: Valuation Office Agency

An agency of Her Majesty's Revenue and Customs. It values properties for the purpose of council tax and business rates in England and Wales.

Water UK

The sector organisation that engages with companies and regulators to ensure customers receive high quality tap water at a reasonable price and that our environment is protected and improved.

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