Our robust balance sheet supports long-term resilience

Due to the regulatory framework within which we operate, the economic value of our activities is best measured through performance against our determination for AMP7, but our balance sheet strength does provide financial resilience, which is particularly important in times of economic turbulence.

Financial statements

KPMG LLP's Independent Auditor's Report
to the members of United Utilities Group PLC

1. Our opinion is unmodified
In our opinion:

- the financial statements of United Utilities Group PLC give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023, 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 as applied in accordance with the provisions of the Companies Act 2006; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What our opinion covers
We have audited the group and parent company financial statements of United Utilities Group PLC ('the company') for the year ended 31 March 2023 (FY23) included in the Annual Report, which comprise:

Group (United Utilities Group PLC and its subsidiaries)	Parent Company (United Utilities Group PLC)
Consolidated income statement	Company statement of financial position
Consolidated statement of comprehensive income	Company statement of changes in equity
Consolidated statement of financial position	Company statement of cash flows
Consolidated statement of changes in equity	Notes 1 to 24 to the parent company financial statements, including the accounting policies in note A7 and on pages 239 to 241.
Consolidated statement of cash flows	
Notes 1 to 24 to the group financial statements, including the accounting policies in note A7 and on pages 239 to 241.	

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 and matters included in this report are consistent with those discussed and included in our reporting to the Audit Committee ('AC').

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.

2. Overview of our audit

Factors driving our view of risks

Following our FY22 audit, and considering developments affecting the United Utilities Group since then, our assessment of risks and our view of how these impact the audit of the financial statements have been updated for the current year where needed.

The group is presently operating in a high inflationary environment, where customers (and household customers in particular) are experiencing a cost of living squeeze. Whilst the average increase in water bills has not been as high as other utility bills, the ability of customers to pay for services provided by the company carries a greater risk. The group offers a number of schemes and operates many initiatives to encourage customers to pay its bills, and recent cash collection rates have been strong. This would suggest that the cost of living impact has yet to impact the group, but remains a factor as inflation remains high. The Provisions for Household Customer Debt remains a Key Audit Matter (KAM) and in our challenge of management over the appropriateness of the recoverability of the year end balance, we assessed the impact of a deterioration of cash collection rates as one of the sensitivities we performed.

The group's capital programme has also been impacted by inflation, as general contracting costs have increased beyond that expected at the start of the current 5-year regulatory period. This could increase the incentive to treat operating costs as capital items. Whilst our overall risk assessment for the capitalisation of costs KAM did not change, our selection of projects to test considered those that could be more susceptible to judgement.

There was no change to our risk assessment or approach in relation to the valuation of retirement benefit obligations and recoverability of the parent company's investments.

Key Audit Matters	Vs FY22	Item
Provisions for household customer debt	◀ ▶	4.1
Capitalisation of costs relating to the capital programme	◀ ▶	4.2
Valuation of retirement benefit obligations	◀ ▶	4.3
Recoverability of parent company's investment in United Utilities PLC	◀ ▶	4.4

Audit committee interaction

During the year, the AC met four times. KPMG are invited to attend all AC meetings and are provided with an opportunity to meet with the AC in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the AC in section 4, including matters that required particular judgement for each.

The matters included in the Audit Committee report on pages 158 to 159 of the Annual Report and Accounts are materially consistent with our observations of those meetings.

KPMG LLP's Independent Auditor's Report
to the members of United Utilities Group PLC

2. Overview of our audit

Our independence

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.

We have not performed any non-audit services during FY23 or subsequently which are prohibited by the FRC Ethical Standard.

We were first appointed as auditor by the shareholders for the year ended 31 March 2012. The period of total uninterrupted engagement is for the 12 financial years ended 31 March 2023.

The group engagement partner is required to rotate every 5 years. As these are the third set of the group's financial statements signed by Ian Griffiths, he will be required to rotate off after the FY25 audit.

Total audit fee	£0.807m
Audit-related fees (including interim review)	£0.085m
Other services	£0.149m
Non-audit fee as a % of total audit and audit-related fee %	16.1%
Date first appointed	22 July 2011
Uninterrupted audit tenure	12 years
Next financial period which requires a tender	2032
Tenure of group engagement partner	3 years

Materiality
(Item 6 below)

The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

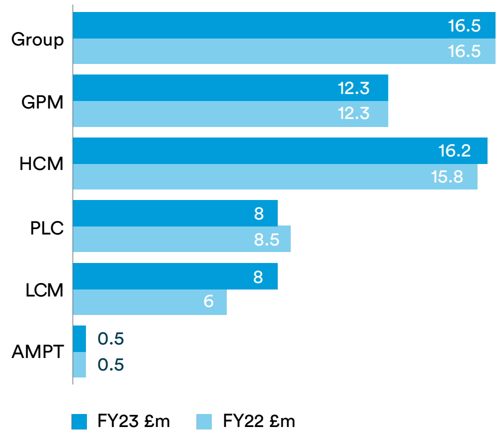
We have determined overall materiality for the group financial statements as a whole at £16.5m (FY22: £16.5m) and for the parent company financial statements as a whole at £8.0m (FY22: £8.5m).

A key judgement in determining materiality was the most relevant metric to select as the benchmark, by considering which metrics have the greatest bearing on shareholder decisions.

Last year we determined our materiality to be £16.5m based on a primary benchmark of normalised profit before tax, of which it represented 5.6%. United Utilities is facing rising finance costs, as a result of the current high-inflationary environment, which is causing profit before tax to decline. Using the same benchmark this year would cause a significant reduction in our materiality. In our view, there has been no change to the underlying operations of the business, nor a change in investor perception around overall performance, therefore we have determined materiality with reference to a range of metrics. We have determined materiality for FY23 to be £16.5m in line with the prior year. This represents 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit (FY22: 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit).

Materiality for the parent company financial statements was determined with reference to a benchmark of parent company total assets of which it represents 0.1% (FY22: 0.1%).

Materiality levels used in our audit



Group	Group Materiality
GPM	Group Performance Materiality
HCM	Highest Component Materiality
PLC	Parent Company Materiality
LCM	Lowest Component Materiality
AMPT	Audit Misstatement Posting Threshold

2. Overview of our audit

Group scope
(Item 7 below)

We have performed risk assessment and planning procedures to determine which of the group's components are likely to include risks of material misstatement to the group financial statements and the type of procedures to be performed at these components The work on all components (2022: all components) including the audit of the parent company, was performed by the group team.

Of the group's 23 (2022: 25) reporting components, we subjected 4 (2022: 5) to full scope audits for group purposes and 0 (2022: 0) to specified risk-focused audit procedures.

The components within the scope of our work accounted for the percentages illustrated opposite. For the FY23 audit, components within scope of our work accounted for 99% of profit before tax, 100% of total assets and 100% of revenue (FY22: 100% of profit before tax, 100% of total assets and 99% of revenue).

In addition, we have performed group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit Committee, to be an appropriate basis for our audit opinion.

Coverage of group financial statements

Full scope audits

Remaining components

The impact of climate change on our audit

We have considered the potential impacts of climate change on the financial statements as part of planning our audit.

The group has set out its climate targets in line with limiting global warming to 1.5°C by 2030, and to be climate net zero by 2050. The majority of the group's carbon emissions are from the burning of fossil fuels, fuels used for transport and the grid electricity purchased. The group continues to develop its assessment of climate change. Climate change initiatives impact the group in a variety of ways including opportunities and risks relating to renewable energy sources and extreme weather events. Further information is provided on pages 84 to 95. While the group has set out its targets, it is continually developing its assessment of the impact of climate change on capital expenditure, the cost base, and impacts on cash flows. The group considered the impact of climate change and the group's targets in the preparation of the financial statements, including an evaluation of critical accounting estimates and judgements. The group concluded that this did not have a material effect on the consolidated financial statements, as described on page 241.

As part of our audit, we have made enquiries of directors and operational managers to understand the extent of the potential impact of climate change risks on the group's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment, and the valuation of certain unquoted pension assets.

We held discussions with our own climate change professionals to challenge our risk assessment. Taking into account the expected remaining useful lives of property, plant and equipment, and the nature of unquoted pension assets, we assessed that there is not a significant impact on our audit for this financial year. There was no significant impact of climate on our key audit matters.

We have read the group's disclosure of climate-related information in the front half of the annual report as set out on pages 84 to 95 and considered consistency with the financial statements and our audit knowledge.

3. Going concern, viability and principal risks and uncertainties

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').

Going concern

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. 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 parent company will continue in operation.

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;
- We have nothing material to add or draw attention to in relation to the directors' statement in the basis of preparation section of the accounting policies note to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the group and parent company's use of that basis for the going concern period, and we found the going concern disclosure in this note to be acceptable; and
- The related statement under the Listing Rules set out on page 150 is materially consistent with the financial statements and our audit knowledge.

Disclosures of emerging and principal risks and longer-term viability

Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the long-term viability statement on page 150 to 151 that they have carried out a robust assessment of the emerging and principal risks facing the group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the long-term viability statement set out on page 150 to 151 under the Listing Rules.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the group's and parent company's longer-term viability.

Our reporting

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

4. Key Audit Matters

What we mean

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 include below the Key Audit Matters in decreasing order of audit significance together with our key audit procedures to address those matters and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

4.1 Provisions for household customer debt (group)

Financial statement elements	FY23	FY22	Our assessment of risk vs FY22	Our results
Provisions for customer debts	**£81.5m**	£78.3m	◄► We have not identified any significant changes to our assessment of the level of risk relating to provisions against household customer debt compared to FY22	**FY23: Acceptable** FY22: Acceptable

Description of the Key Audit Matter

At each balance sheet date assumptions involving a high degree of estimation uncertainty are required to assess the recoverability of trade receivables. Key assumptions include current and forecast cash collection rates. Please see the accounting policies on page 240 for more detail on the key assumptions.

As part of our risk assessment, we determined that the recoverability of trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

We continue to perform procedures over revenue recognition. However, due to the consistency of the balance in recent years and low estimation uncertainty, 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.

Our response to the risk

We performed the tests below rather than seeking to rely on the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

- **Methodology choice:** assessed the appropriateness of the customer debt provisioning policy based on historical cash collections, credits, re-bills and write-off information, and estimates of future economic scenarios and their impact on credit losses;
- **Recalculation:** performed a recalculation of the provision, and verifying cash collections in the billing system;
- **Sensitivity analysis:** considered the sensitivity of future performance compared to historic cash collection rates; and
- **Assessing transparency:** assessed the adequacy of the group's disclosures of its customer debt provisioning policy, including the estimation uncertainty of the doubtful debts provision.

Communications with United Utilities Group PLC's Audit Committee

Our discussions with and reporting to the Audit Committee included:

- The change in the audit team's risk assessment in relation to revenue recognition.
- Our approach to the audit of provisions for household customer debt.
- Our conclusions on the appropriateness of key assumptions used.
- The adequacy of the disclosures, particularly as it relates to the sensitivity of the key assumptions.

Areas of particular auditor judgement

We identified the following as the area of particular auditor judgement:

- The appropriateness of the valuation of provisions for customer debt in particular, the selection of key assumptions used in the valuation (the period of historical cash collections, the risk associated with the impact of the increasing cost of living experienced by customers and the risk associated with collections from void properties).

Our results

Based on the risk identified and the procedures that we performed, we found the provisions for household customer debt and the related disclosures to be acceptable (FY22: acceptable).

Further information in the Annual Report and Accounts: See the Audit committee report on page 158 for details on how the Audit Committee considered provisions against household customer debt as an area of significant attention, page 240 for the accounting policy on provisions against household customer debt, and pages 253 to 254 for the financial disclosures.

4.2 Capitalisation of costs relating to the capital programme (group)

Financial statement elements	FY23	FY22	Our assessment of risk vs FY22	Our results
Property, plant and equipment additions	**£867.7m**	£728.5m	◀ ▶ We have not identified any significant changes to our assessment of the level of risk relating to the capitalisation of costs relating to the capital programme compared to FY22	**FY23: Acceptable** FY22: Acceptable

Description of the Key Audit Matter

The group has a substantial capital programme which has been agreed with the Water Services Regulation Authority (Ofwat) and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.

The determination of in-year project costs as capital or operating expenditure is inherently judgemental, particularly for certain projects where projects contain both capital and operating expenditure elements. 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 a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response to the risk

We performed the detailed tests below rather than seeking to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.

Our procedures to address the risk included:

- **Accounting analysis:** assessed the group's capitalisation policy for compliance with relevant accounting standards;
- **Tests of detail:** critically assessed the capital nature of a sample of projects against the capitalisation policy focusing on new projects approved, project overspend, forecast cost to complete; and
- **Assessing transparency:** assessed the adequacy of the group's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital.

Communications with United Utilities Group PLC's Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of capitalisation of costs relating to the capital programme.
- The results of our procedures.
- The adequacy of the disclosures.

Areas of particular auditor judgement

We identified the following as the area of particular auditor judgement:

- The appropriateness of the capitalisation rates applied to capital projects, where projects have an element of both capital and operating expenditure elements.

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 (FY22: acceptable).

Further information in the Annual Report and Accounts: See the Audit committee report on page 158 for details on how the Audit Committee considered the capitalisation of costs relating to the capital programme as an area of significant attention, page 241 for the accounting policy on the capitalisation of costs relating to the capital programme, and pages 250 to 251 for the financial disclosures.

4.3 Valuation of retirement benefit obligations (group)

Financial statement elements	FY23	FY22	Our assessment of risk vs FY22	Our results
Retirement benefit obligation	**£2,330.5m**	£3,018.9m	◀ ▶ We have not identified any significant changes to our assessment of the level of risk relating to the valuation of retirement benefit obligations compared to FY22	**FY23: Acceptable** FY22: Acceptable

Description of the Key Audit Matter

The valuation of the retirement benefit obligations depends on a number of estimates, including the discount rates used to calculate the current value of the future payments to pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments, and the life expectancy of pension scheme members.

There is a considerable amount of estimation uncertainty involved in setting the above assumptions and a small change in the assumptions and estimates may have a significant impact on the retirement benefit obligations.

The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Our response to the risk

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 actuarial expertise:** used our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the retirement benefit obligations; and performed a comparison of key assumptions against our own benchmark ranges derived from externally available data and against those used by other companies reporting on the same period;
- **Methodology assessment:** used our own actuarial specialists to assess the appropriateness and consistency of the methodology applied by management in setting the key assumptions;
- **Assessing external actuary's credentials:** assessed competence and independence of the external actuary engaged by the group; and
- **Assessing transparency:** considered the adequacy of the group's disclosure in respect of retirement benefits, in particular the gross defined benefit obligation and the assumptions used and sensitivities disclosed, which are set out in notes 18 and A5 to the financial statements.

Communications with United Utilities Group PLC's Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of the valuation of retirement benefit obligations, including the involvement of our actuarial specialists.
- Our conclusions on the appropriateness of key assumptions used.
- The adequacy of the disclosures, particularly as it relates to the sensitivity of the key assumptions.

Areas of particular auditor judgement

We identified the following as the area of particular auditor judgement:

- The appropriateness of the valuation of retirement benefit obligations and in particular, the selection of key assumptions used in the valuation (the discount rate, the inflation rate and the mortality rate).

Our results

Based on the risk identified and procedures performed, we found the valuation of the retirement benefit obligations to be acceptable (FY22: acceptable).

Further information in the Annual Report and Accounts: See the Audit committee report on page 158 for details on how the Audit Committee considered the valuation of retirement benefit obligations as an area of significant attention, page 239 for the accounting policy on the valuation of retirement benefit obligations, and pages 255 to 256 and 273 to 278 for the financial disclosures.

4.4 Recoverability of parent company's investment in United Utilities PLC (parent company)

Financial statement elements	FY23	FY22	Our assessment of risk vs FY22	Our results
Investment in United Utilities PLC	£6,326.8m	£6,326.8m	◀ ▶ We have not identified any significant changes to our assessment of the level of risk relating to the recoverability of the parent company's investment in United Utilities PLC compared to FY22	FY23: Acceptable FY22: Acceptable

Description of the Key Audit Matter

The carrying amount of the parent company's investment in United Utilities PLC represents 98% (FY22: 99%) 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 to the risk

We performed the tests below rather than seeking to rely on any of the company's controls because testing for recoverability through detailed testing is inherently the most effective means of obtaining audit evidence.

Our procedures to address the risk included:

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

Communications with United Utilities Group PLC's Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of the recoverability of the parent company's investment in United Utilities PLC.
- Our conclusions on the appropriateness of key assumptions used.
- The adequacy of the disclosures.

Areas of particular auditor judgement

We identified the following as the area of particular auditor judgement:

- The valuation of the regulatory capital value.

Our results

Based on the risk identified and procedures performed, we concluded that the recognition of no impairment was appropriate (FY22: no impairment).

Further information in the Annual Report and Accounts: See the Audit committee report on page 159 for details on how the Audit Committee considered the recoverability of the parent company's investment in United Utilities PLC as an area of significant attention, page 282 for the accounting policy on the recoverability of the parent company's investment in United Utilities PLC, and page 252 for the financial disclosures.

5. Our ability to detect irregularities, and our response

Fraud – identifying and responding to risks of material misstatement due to fraud

Fraud risk assessment	To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included: – Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the group's high level policies and procedures to prevent and detect fraud, including the internal audit function, and the group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud. – Reading Board and Audit Committee minutes; and – Considering remuneration incentive schemes and performance targets for directors including Long Term Plan awards.

Fraud – identifying and responding to risks of material misstatement due to fraud

Fraud risks	As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we performed 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 such as provisions for household customer debt and capitalisation of costs relating to the capital programme.
Link to KAMS	We also identified fraud risks related to inappropriate provision for household customer debt and inappropriate capitalisation of costs relating to the capital programme, which are set out in section 4 of this report.
Procedures to address fraud risks	We also performed procedures including: – Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals relating to revenue, capitalised costs and treasury posted to unexpected or unrelated accounts; and – Assessing significant accounting estimates for bias.

Laws and regulations – identifying and responding to risks of material misstatement relating to compliance with laws and regulations

Laws and regulations risk assessment	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.
Risk communications	We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.
Direct laws context and link to audit	The potential effect of these laws and regulations on the financial statements varies considerably. 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.
Most significant indirect law/ regulation areas	The group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Ofwat, Environment Agency, Drinking Water Inspectorate, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and 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.

Context

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. Our determination of materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

£16.5m

(FY22: £16.5m)

Materiality for the group financial statements as a whole

What we mean

A quantitative reference for the purpose of planning and performing our audit.

Basis for determining materiality and judgements applied

Materiality for the group financial statements as a whole was set at £16.5m (FY22: £16.5m). This was determined with reference to a range of benchmarks of revenue (0.9%), total assets (0.1%) and operating profit (3.7%).

Last year we determined our materiality to be £16.5m based on a primary benchmark of normalised profit before tax, of which it represented 5.6%. United Utilities is facing rising finance costs, as a result of the current high-inflationary environment, which is causing profit before tax to decline. Using the same benchmark this year would cause a significant reduction in our materiality. In our view, there has been no change to the underlying operations of the business, nor a change in investor perception around overall performance, therefore we have determined materiality with reference to a range of metrics. We have determined materiality for FY23 to be £16.5m in line with the prior year. This represents 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit (FY22: 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit).

When using a benchmark of either revenue, total assets, or profit before tax to determine overall materiality, KPMG's approach for listed entities considers a guideline range of 0.5-1%, 0.5-1% and 3-5% respectively.

Materiality for the parent company financial statements as a whole was set at £8.0m (FY22: £8.5m), determined with reference to a benchmark of parent company total assets, of which it represents 0.1% (FY22: 0.1%).

£12.3m

(FY22: £12.3m)

Performance materiality

What we mean

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.

Basis for determining performance materiality and judgements applied

We have considered performance materiality at a level of 75% (FY22: 75%) of materiality for United Utilities Group PLC group financial statements as a whole to be appropriate.

The parent company performance materiality was set at £6.0m (FY22: £6.3m), which equates to 75% (FY22: 75%) of materiality for the parent company financial statements as a whole.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

£0.5m

(FY22: £0.5m)

Audit misstatement posting threshold

What we mean

This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud.

This is also the amount above which all misstatements identified are communicated to United Utilities Group PLC's Audit Committee.

Basis for determining the audit misstatement posting threshold and judgements applied

We set our audit misstatement posting threshold at 3.0% (FY22: 3.0%) of our materiality for the group financial statements. We also report to the Audit Committee any other identified misstatements that warrant reporting on qualitative grounds.

The overall materiality for the group financial statements of £16.5m (FY22: £16.5m) compares as follows to the main financial statement caption amounts:

	Total group revenue		Group profit before tax		Total group assets	
	FY23	**FY22**	**FY23**	**FY22**	**FY23**	**FY22**
Financial statement caption	**£1,824.4m**	£1,862.7m	**£256.3m**	£439.9m	**£14,527.2m**	£14,437.0m
Group materiality as % of caption	**0.90%**	0.89%	**6.4%**	3.75%	**0.11%**	0.11%

7. The scope of our audit

Group scope

What we mean

How the group audit team determined the procedures to be performed across the group.

The group has 23 (FY22: 25) reporting components. In order to determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance and those remaining components on which we required procedures to be performed to provide us with the evidence we required in order to conclude on the group financial statements as a whole.

We determined individually financially significant components as those contributing at least 5% (FY22: 5%) of total assets or 1% (FY22: 1%) of total revenue or 3% (FY22: 3%) of total liabilities. We selected total assets, total revenue, and total liabilities because these are the most representative of the relative size of the components. We identified 4 (FY22: 5) components as individually financially significant components and performed full scope audits on these components.

The components within the scope of our work accounted for the following percentages of the group's results, with the prior year comparatives indicated in brackets:

Scope	Number of components	Range of materiality applied
Full scope audit	4 (5)	£8.0m – £16.2m (£6.0m – £15.8m)

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these. The work on 4 of the 4 components (FY22: 5 of the 5 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.

The components within the scope of our work accounted for the percentages illustrated in section 2 – Group Scope.

KPMG LLP's Independent Auditor's Report
to the members of United Utilities Group PLC

8. 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.

All other information

Our responsibility	Our reporting
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

Our responsibility and reporting

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.

Directors' remuneration report

Our responsibility	Our reporting
We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.	In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance disclosures

Our responsibility	Our reporting
We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and: • the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; • the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and • the section of the annual report that describes the review of the effectiveness of the group's risk management and internal control systems.	Based on those procedures, we have concluded that each of these disclosures is materially consistent with the financial statements and our audit knowledge.
We are also required to review the part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.	We have nothing to report in this respect.

Other matters on which we are required to report by exception

Our responsibility	Our reporting
Under the Companies Act 2006, we are required to report to you if, in our opinion: • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.	We have nothing to report in these respects.

9. Respective responsibilities
Directors' responsibilities

As explained more fully in their statement set out on page 215, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

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

Ian Griffiths
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square, Manchester, M2 3AE
24 May 2023

Consolidated income statement for the year ended 31 March

	Note	2023 £m	2022 £m
Revenue	2	**1,824.4**	1,862.7
Staff costs	3	**(192.2)**	(184.3)
Other operating costs	4	**(556.4)**	(461.7)
Allowance for expected credit losses – trade and other receivables	4	**(22.7)**	(23.4)
Other income	4	**4.8**	4.4
Depreciation and amortisation expense	4	**(423.6)**	(418.2)
Infrastructure renewals expenditure		**(193.5)**	(169.5)
Total operating expenses		**(1,383.6)**	(1,252.7)
Operating profit		**440.8**	610.0
Investment income	5	**47.0**	19.4
Finance expense	6	**(262.7)**	(187.8)
Allowance for expected credit losses – loans to joint ventures	A6	**–**	0.1
Investment income and finance expense		**(215.7)**	(168.3)
Profit on disposal of subsidiary	7	**31.2**	–
Share of losses of joint venture	13	**–**	(1.8)
Profit before tax		**256.3**	439.9
Current tax credit	8	**25.2**	65.8
Deferred tax charge	8	**(76.6)**	(562.5)
Tax	8	**(51.4)**	(496.7)
Profit/(loss) after tax		**204.9**	(56.8)
Earnings per share			
Basic	9	**30.0p**	(8.3)p
Diluted	9	**30.0p**	(8.3)p
Dividend per ordinary share	10	**45.51p**	43.50p

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 March

	2023 £m	2022 £m
Profit/(loss) after tax	**204.9**	(56.8)
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges – effective portion of fair value movements	**(50.6)**	107.6
Tax on items that may be reclassified to profit or loss	**12.7**	(27.0)
Reclassification of items taken directly to equity	**(36.6)**	(0.9)
Tax reclassified to income statement	**7.0**	0.2
Other comprehensive income that may be reclassified to profit or loss	**(67.5)**	79.9
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement (losses)/gains on defined benefit pension schemes	**(445.3)**	313.6
Change in credit assumptions for debt reported at fair value through profit or loss	**4.8**	(4.1)
Cost of hedging – cross-currency basis spread adjustment	**6.3**	–
Tax on items taken directly to equity	**151.5**	(109.4)
Other comprehensive income that will not be reclassified to profit or loss	**(282.7)**	200.1
Total comprehensive income	**(145.3)**	223.2

Consolidated and company statements of financial position at 31 March

		Group		Company	
	Note	2023 £m	2022 £m	2023 £m	2022 £m
ASSETS					
Non-current assets					
Property, plant and equipment	11	**12,570.7**	12,147.5	**–**	–
Intangible assets	12	**142.3**	160.8	**–**	–
Interests in joint ventures and other investments	13	**16.5**	16.6	**6,326.8**	6,326.8
Inventories	14	**1.2**	0.4	**–**	–
Trade and other receivables	15	**75.7**	81.7	**75.0**	75.0
Retirement benefit surplus	18	**600.8**	1,016.8	**–**	–
Derivative financial instruments	A4	**428.6**	399.4	**–**	–
		13,835.8	13,823.2	**6,401.8**	6,401.8
Current assets					
Inventories	14	**13.1**	17.8	**–**	–
Trade and other receivables	15	**190.5**	222.7	**30.1**	20.2
Current tax asset		**98.9**	74.4	**–**	–
Cash and short-term deposits	16	**340.4**	240.9	**–**	–
Derivative financial instruments	A4	**48.5**	58.0	**–**	–
		691.4	613.8	**30.1**	20.2
Total assets		**14,527.2**	14,437.0	**6,431.9**	6,422.0
LIABILITIES					
Non-current liabilities					
Trade and other payables	20	**(892.4)**	(835.2)	**–**	–
Borrowings	17	**(8,259.0)**	(7,671.0)	**(1,864.8)**	(1,799.9)
Deferred tax liabilities	8	**(2,048.1)**	(2,148.1)	**–**	–
Derivative financial instruments	A4	**(243.1)**	(136.7)	**–**	–
		(11,442.6)	(10,791.0)	**(1,864.8)**	(1,799.9)
Current liabilities					
Trade and other payables	20	**(376.7)**	(365.8)	**(5.6)**	(13.1)
Borrowings	17	**(176.4)**	(308.8)	**–**	–
Provisions	19	**(13.1)**	(13.5)	**–**	–
Derivative financial instruments	A4	**(9.7)**	(0.5)	**–**	–
		(575.9)	(688.6)	**(5.6)**	(13.1)
Total liabilities		**(12,018.5)**	(11,479.6)	**(1,870.4)**	(1,813.0)
Total net assets		**2,508.7**	2,957.4	**4,561.5**	4,609.0
EQUITY					
Share capital	22	**499.8**	499.8	**499.8**	499.8
Share premium account		**2.9**	2.9	**2.9**	2.9
Other reserves	21	**353.4**	416.2	**1,033.3**	1,033.3
Retained earnings		**1,652.6**	2,038.5	**3,025.5**	3,073.0
Shareholders' equity		**2,508.7**	2,957.4	**4,561.5**	4,609.0

These financial statements for the group and United Utilities Group PLC (company number: 6559020) were approved by the board of directors on 24 May 2023 and signed on its behalf by:

Louise Beardmore
Chief Executive Officer

Phil Aspin
Chief Financial Officer

Consolidated statement of changes in equity for the year ended 31 March

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
At 1 April 2022	**499.8**	**2.9**	**416.2**	**2,038.5**	**2,957.4**
Profit after tax	**–**	**–**	**–**	**204.9**	**204.9**
Other comprehensive income					
Remeasurement losses on defined benefit pension schemes (see note 18)	**–**	**–**	**–**	**(445.3)**	**(445.3)**
Change in credit assumption for debt reported at fair value through profit or loss	**–**	**–**	**–**	**4.8**	**4.8**
Cash flow hedges – effective portion of fair value movements	**–**	**–**	**(50.6)**	**–**	**(50.6)**
Cost of hedging – cross-currency basis spread adjustment	**–**	**–**	**6.3**	**–**	**6.3**
Tax on items recorded within other comprehensive income (see note 8)	**–**	**–**	**11.1**	**153.1**	**164.2**
Reclassification of items taken directly to equity	**–**	**–**	**(36.6)**	**–**	**(36.6)**
Tax reclassified to income statement (see note 8)	**–**	**–**	**7.0**	**–**	**7.0**
Total comprehensive income	**–**	**–**	**(62.8)**	**(82.5)**	**(145.3)**
Dividends (see note 10)	**–**	**–**	**–**	**(301.2)**	**(301.2)**
Equity-settled share-based payments (see note 3)	**–**	**–**	**–**	**4.6**	**4.6**
Purchase of shares to satisfy exercise of share options	**–**	**–**	**–**	**(6.8)**	**(6.8)**
At 31 March 2023	**499.8**	**2.9**	**353.4**	**1,652.6**	**2,508.7**

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
At 1 April 2021	499.8	2.9	336.3	2,192.0	3,031.0
Profit after tax	–	–	–	(56.8)	(56.8)
Other comprehensive income					
Remeasurement gains on defined benefit pension schemes (see note 18)	–	–	–	313.6	313.6
Change in credit assumption for debt reported at fair value through profit or loss	–	–	–	(4.1)	(4.1)
Cash flow hedges effectiveness	–	–	107.6	–	107.6
Cost of hedging – cross-currency basis spread adjustment					
Tax on items taken directly to equity	–	–	(27.0)	(109.4)	(136.4)
Reclassification of items taken directly to equity	–	–	(0.9)	–	(0.9)
Tax reclassified to income statement (see note 8)	–	–	0.2	–	0.2
Total comprehensive income	–	–	79.9	143.3	223.2
Dividends (see note 10)	–	–	–	(295.5)	(295.5)
Equity-settled share-based payments (see note 3)	–	–	–	4.8	4.8
Purchase of shares to satisfy exercise of share options	–	–	–	(6.1)	(6.1)
At 31 March 2022	499.8	2.9	416.2	2,038.5	2,957.4

* Other reserves comprise the group's cumulative exchange reserve, capital redemption reserve, merger reserve, cost of hedging reserve and cash flow hedging reserve. Further detail of movements in these reserves is included in note 21.

Company statement of changes in equity for the year ended 31 March

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2022	**499.8**	**2.9**	**1,033.3**	**3,073.0**	**4,609.0**
Profit after tax	**–**	**–**	**–**	**255.9**	**255.9**
Total comprehensive income	**–**	**–**	**–**	**255.9**	**255.9**
Dividends (see note 10)	**–**	**–**	**–**	**(301.2)**	**(301.2)**
Equity-settled share-based payments (see note 3)	**–**	**–**	**–**	**4.6**	**4.6**
Purchase of shares to satisfy exercise of share options	**–**	**–**	**–**	**(6.8)**	**(6.8)**
At 31 March 2023	**499.8**	**2.9**	**1,033.3**	**3,025.5**	**4,561.5**

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021	499.8	2.9	1,033.3	3,091.3	4,627.3
Profit after tax	–	–	–	278.5	278.5
Total comprehensive income	–	–	–	278.5	278.5
Dividends (see note 10)	–	–	–	(295.5)	(295.5)
Equity-settled share-based payments (see note 3)	–	–	–	4.8	4.8
Purchase of shares to satisfy exercise of share options	–	–	–	(6.1)	(6.1)
At 31 March 2022	499.8	2.9	1,033.3	3,073.0	4,609.0

At 31 March 2023, 31 March 2022 and 31 March 2021, the company's entire retained earnings balance was distributable to shareholders.

The company's other reserves comprise a capital redemption reserve that arose as a result of a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009.

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The result of the company for the financial year was a profit after tax of £255.9 million (2022: £278.5 million).

Consolidated and company statements of cash flows for the year ended 31 March

		Group		Company	
	Note	2023 £m	2022 £m	2023 £m	2022 £m
Operating activities					
Cash generated from operations	A1	**883.1**	1,061.6	**306.5**	301.2
Interest paid		**(118.2)**	(121.9)	**(63.0)**	(19.7)
Interest received and similar income		**15.8**	3.6	**–**	–
Tax paid		**(10.8)**	(8.9)	**–**	–
Tax received		**17.6**	–	**8.6**	–
Net cash generated from operating activities		**787.5**	934.4	**252.1**	281.5
Investing activities					
Purchase of property, plant and equipment	A1	**(675.9)**	(609.0)	**–**	–
Purchase of intangible assets	A1	**(18.1)**	(19.5)	**–**	–
Grants and contributions received	20	**5.1**	1.8	**–**	–
Extension of loans to joint ventures	A6	**5.0**	(13.0)	**–**	–
Proceeds from disposal of subsidiary	7	**90.5**	–	**–**	–
Net cash used in investing activities		**(593.4)**	(639.7)	**–**	–
Financing activities					
Proceeds from borrowings net of issuance costs		**501.1**	173.7	**55.9**	20.1
Repayment of borrowings		**(278.1)**	(681.8)	**–**	–
Dividends paid to equity holders of the company	10	**(301.2)**	(295.5)	**(301.2)**	(295.5)
Purchase of shares to satisfy exercise of share options		**(6.8)**	(6.1)	**(6.8)**	(6.1)
Net cash used in financing activities		**(85.0)**	(809.7)	**(252.1)**	(281.5)
Effects of exchange rate changes		**(1.3)**	1.5	**–**	–
Net (decrease)/increase in cash and cash equivalents		**107.8**	(513.5)	**–**	–
Cash and cash equivalents at beginning of the year		**220.1**	733.6	**–**	–
Cash and cash equivalents at end of the year	16	**327.9**	220.1	**–**	–

Guide to detailed financial statements disclosures

In the interest of providing clear and relevant information to the users of our financial statements, we have included summary information within the notes to the financial statements, with additional detailed information included in appendices where required. These notes and appendices can be grouped as follows:

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. Further detail can be found in note A7.

Basis of preparation

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

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

The financial statements 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 £500 million arising in the assessment period; elevated levels of bad debt of £15 million per annum; outcome delivery incentive penalties equivalent to 1.0 per cent of RoRE per annum; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

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

Adoption of new and revised standards

There were no new standards, interpretations and amendments, effective for the year ended 31 March 2023, 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.

Future accounting developments

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 March 2023 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies set out in note A7, the group is required to make certain estimates, judgements and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the carrying amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates, judgements and assumptions could have a material effect on the financial statements.

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

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

The following paragraphs detail the critical accounting judgements and key sources of estimation uncertainty. 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 to be significant areas of estimation uncertainty in preparing the financial statements.

Retirement benefits

Accounting estimate* – The group operates two defined benefit pension schemes, which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. Profit before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality, and increases to pensions in payment and deferred pensions. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note A5.

Accounting estimate* – Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £216.3 million (2022: £271.1 million) that are categorised as 'level 3' assets within the IFRS 13 'Fair value measurement' hierarchy, meaning that the value of the assets is not observable at 31 March 2023. 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.

Revenue recognition and allowance for doubtful receivables

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

- The customer has not paid their bills for a period of at least two years; and
- The customer has paid their bills in the preceding two years, but has previously had bills de-recognised and has more than their current year debt outstanding.

This two-criteria approach resulted in a £29.5 million (2022: £26.6 million) reduction in revenue compared with what would have been recognised had no adjustment been made for amounts where collectability is not probable. Had management made an alternative judgement that, where customers have paid in the preceding two years and have more than their current year debt outstanding, the recoverability of the entirety of their debt was deemed to be probable (i.e. the second criteria were disapplied) and the required adjustment to revenue would have been £18.6 million (2022: £12.4 million) lower.

Accounting estimate** – In accordance with IFRS 15 'Revenue from contracts with customers', revenue is only recognised where it is deemed probable of recovery. Any gross debt that is not expected to be recovered through future cash collection must be provided against through either an allowance for expected credit losses (non-collection) or credit note provision (incorrectly billed).

For any period, the credit note provision in respect of non-household customers is built up across two types of loss, which can be incurred against non-household revenue: allowances pending payment and future allowances that we could expect to receive in relation to periods from April 2017 to March 2023. The allowances relate to data changes following the final bill issued for a period (received approximately 16 months after the initial estimate for the period).

At 31 March 2023, the credit note provision in respect of non-household revenue was £24.0 million, compared with £23.8 million at 31 March 2022.

To forecast future allowances, historic information has been used. Determining the ageing analysis of allowances raised since the opening of the non-household market is not straightforward, and work is ongoing between wholesalers and retailers to improve the quality of market data. It is therefore reasonable to expect that the value of allowances relating to final bills for a period (referred to as 'RF' within the market mechanisms and received around 16 months after the initial estimate) to reduce over time, as data for more recent periods since the opening of the water retail market should not be subject to the same legacy issues as earlier periods. Had it been assumed that future average daily allowances continue at the current daily average, the credit note provision recorded at 31 March 2023 would have been £2.0 million higher than that recorded.

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 actual collection history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. At 31 March 2023, an allowance for expected credit losses relating to household customer debt of £81.5 million (2022: £78.3 million) was supported by a six-year cash collection projection. Based on a five-year or seven-year cash collection projection the allowance for doubtful receivables would have increased by £2.2 million (2022: £1.1 million) or reduced by £0.2 million (2022: £0.5 million), respectively.

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

We have also considered the higher level of uncertainty around how economic conditions may impact the recoverability of household receivables for a significant proportion of the group's customer base. A range of scenarios have been used to inform a probability-based assessment of the allowance for expected credit losses. These take account of cash collection rates in the current year, as well as in recent years, incorporating the current levels of economic uncertainty in order to provide a range of views as to how recoverability of household receivables may be impacted by different conditions.

This supports a charge equivalent to around 1.8 per cent of household revenue recorded during the period, which is broadly consistent with the position at 31 March 2022.

Had future cash collection been assessed based on the average cash collection rates for the current year only, the allowance for expected credit losses charged to the income statement would have been 1.8 per cent of household revenue resulting in an increase in the charge of £0.1 million, with similar results based on using average cash collection from the last two or the last four years. At 31 March 2023, a charge of 1.8 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 2023 was £141.0 million (2022: £145.8 million). Had actual consumption been 5 per cent higher or lower than the estimate of units supplied, this would have resulted in revenue recognised for unbilled amounts being £4.7million (2022: £5.0 million) higher or lower respectively. For customers who do not have a meter, the receivable billed and revenue recognised is dependent on the rateable value of the property as assessed by an independent rating officer.

Property, plant and equipment

Accounting judgement** – The group recognises property, plant and equipment (PP&E) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period as incurred. Determining enhancement from maintenance expenditure requires an accounting judgement, particularly when projects have both elements within them. Enhancement spend was 52 per cent of total spend in relation to infrastructure assets during the year. A change of +/- 1 per cent would have resulted in £4.0 million (2022: £3.9 million) less/more expenditure being charged to the income statement during the period. In addition, management capitalises time and resources incurred by the group's support functions on capital programmes, which requires accounting judgements to be made in relation to the appropriate capitalisation rates. Support costs allocated to PP&E represent 40 per cent of total support costs. A change in allocation of +/- 5 per cent would have resulted in £2.5 million (2022: £2.3 million) less/more expenditure being charged to the income statement during the period.

Accounting estimate** – The estimated useful economic lives of PP&E and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PP&E and intangibles investment to the group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £423.6 million (2022: £418.2 million). A 10 per cent increase in average asset lives would have resulted in a £41.4 million (2022: £38.2 million) reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £39.0 million (2022: £41.6 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 the impact of financial risks on profit before tax and equity, driven in part by derivative financial instruments, are included in note A4.

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

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

Climate change

The group is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements.

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

The impact of climate change has been considered in the preparation of these financial statements and the measurement bases of the assets and liabilities across a number of areas, predominantly in respect of the valuation of the property, plant and equipment held by the group.

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

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

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

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

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

Notes to the financial statements

1 Segmental reporting

The board of directors of United Utilities Group PLC (the board) is provided with information on a single-segment basis for the purposes of assessing performance and allocating resources. The group's performance is measured against 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.

	2023 £m	2022 £m
Wholesale water charges	758.1	776.5
Wholesale wastewater charges	914.7	946.3
Household retail charges	83.0	68.9
Other	68.6	71.0
	1,824.4	1,862.7

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removal and treatment of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, although following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Wholesale water and wastewater charges relate to services provided to household customers and non-household retailers. Household retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. These wholesale charges and the applicable retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers. No margin is applied to wholesale water and wastewater services provided to non-household retailers.

Other revenues comprise a number of smaller non-core income streams, including those relating to energy generation and export, property sales, and those associated with activities, typically performed opposite property developers, which impact the group's capital network assets, including 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

	2023 £m	2022 £m
Fees to non-executive directors	0.8	0.8
Salaries	1.6	1.2
Benefits	0.4	0.3
Bonus	0.6	0.7
Share-based payment charge	1.8	1.8
	5.2	4.8

Further information about the remuneration of individual directors and details of their pension arrangements are provided in the Directors' remuneration report on pages 170 to 203.

Remuneration of key management personnel

	2023 £m	2022 £m
Salaries and short-term employee benefits	6.4	6.2
Share-based payment charge	3.4	2.6
	9.8	8.8

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

3 Directors and employees continued

Staff costs (including directors)

Group	2023 £m	2022 £m
Wages and salaries(1)	317.4	302.9
Employee-related taxes and levies	30.7	28.2
Severance	(0.2)	0.4
Post-employment benefits:		
Defined benefit pension expense (see note 18)	8.5	9.6
Defined contribution pension expense (see note 18)	29.2	26.1
	385.6	367.2
Charged to other areas including regulatory capital schemes	(193.4)	(182.9)
Staff costs	192.2	184.3

Note:
(1) Wages and salaries excluding non-permanent staff was £274.7 million (2022: £260.3 million).

Included within staff costs were £(0.2) million (2022: £0.4 million) of restructuring costs.

The total expense included within staff costs in respect of equity-settled share-based payments was £4.6 million (2022: £4.8 million). The company operates several share option schemes, details of which are given on pages 182 to 192 in the Directors' remuneration report.

Average number of staff employed by the group during the year (full-time equivalent including directors):

	2023 number	2022 number
Average number of staff employed by the group during the year	5,975	5,728

Company

The company has no staff.

4 Operating profit

The following items have been charged/(credited) to the income statement in arriving at the group's operating profit:

	2023 £m	2022 £m
Other operating costs		
Materials	132.7	90.8
Power	130.8	99.6
Hired and contracted services	103.7	95.4
Property rates	87.1	90.5
Regulatory fees	36.7	28.4
Insurance	19.7	16.9
Accrued innovation costs	6.1	5.9
Loss on disposal of property, plant and equipment	4.2	3.9
Cost of properties disposed	1.4	3.0
Other expenses	34.0	27.3
	556.4	461.7
Allowance for expected credit losses – trade and other receivables		
Allowance for expected credit losses – trade and other receivables (see note 15)	22.7	23.4
	22.7	23.4
Other income		
Other income	(4.8)	(4.4)
	(4.8)	(4.4)
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (see note 11)	385.5	377.0
Amortisation of other intangible assets (see note 12)	38.1	41.2
	423.6	418.2

Included within operating costs for the year are £8.4 million relating to operational incidents over the dry summer period in 2022, and £11.1 million relating to the group's response to periods of extreme cold weather over the winter of 2022/23, including a rapid freeze-thaw in December 2022 leading to burst pipes. The costs associated with this response include the cost of emergency network repairs, customer compensation where short-term supply interruptions were experienced, and the provision of bottled water.

Research and development expenditure for the year ended 31 March 2023, was £1.2 million (2022: £1.2 million). In addition, £6.1 million (2022: £5.9 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:

	2023 £'000	2022 £'000
Audit services		
Statutory audit – group and company	215	169
Statutory audit – subsidiaries	642	506
	857	675
Non-audit services		
Regulatory audit services provided by the statutory auditor	75	64
Other non-audit services	159	116
Total audit and non-audit services	1,091	855

5 Investment income

	2023 £m	2022 £m
Interest receivable on short-term bank deposits held at amortised cost	11.5	1.3
Interest receivable on loans to joint ventures held at amortised cost (see note A6)	4.7	2.8
Net pension interest income (see note 18)	28.7	14.3
Other interest receivable	2.1	1.0
	47.0	19.4

6 Finance expense

	2023 £m	2022 £m
Interest payable		
Interest payable on borrowings held at amortised cost[1]	497.7	330.7
	497.7	330.7
Fair value (gains)/losses on debt and derivative instruments		
Fair value hedge relationships:		
Borrowings[2]	(213.1)	(199.4)
Designated swaps[2][3]	224.7	194.0
	11.6	(5.4)
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss[4]	(4.2)	(7.9)
Associated swaps	0.4	9.7
	(3.8)	1.8
Fixed interest rate swaps[5]	(146.0)	(139.7)
Net receipts on derivatives and debt under fair value option	(32.8)	(31.5)
Inflation swaps[5]	(62.2)	29.7
Other	(1.8)	2.2
	(242.8)	(139.3)
Net fair value gains on debt and derivative instruments[6]	(235.0)	(142.9)
	262.7	187.8

Notes:

(1) Includes a £463.5 million (2022: £227.9 million) non-cash inflation uplift expense repayable on maturity in relation to the group's index-linked debt and £1.5 million (2022: £1.6 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.

(2) Includes foreign exchange losses of £20.6 million (2022: £4.3 million losses). These gains/losses are largely offset by fair value losses/gains on derivatives.

(3) Under the provisions of IFRS 9 'Financial Instruments', a £6.3 million gain (2022: nil) 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 £4.8 million gain (2022: £4.1 million loss) due to changes in the group's own credit risk is recognised in other comprehensive income rather than within profit or loss.

(5) These swap contracts are not designated within an IFRS 9 hedge relationship and are classed as 'held for trading' under the accounting standard. These derivatives form economic hedges and, as such, management intends to hold these through to maturity.

(6) Includes £31.8 million income (2022: £33.2 million) due to net interest on derivatives and debt under fair value option and £56.2 million expense (2022: £28.3 million expense) due to non-cash inflation uplift on index-linked derivatives. Fair value movements excluding this net income are deducted to reach underlying finance expense, which forms part of the group's alternative performance measures (APMs) as set out on pages 118 to 119.

Interest payable is stated net of £127.5 million (2022: £52.7 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 7.9 per cent (2022: 4.2 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

Underlying finance expense, which forms part of the group's APMs set out on pages 118 to 119, is calculated by adjusting net finance expense and investment income of £215.7million (2022: £168.3 million) reported in the income statement to exclude the £235.0 million of fair value gains in the above table, but include £31.8 million income due to net interest on derivatives and debt under fair value option, and £56.2 million expense due to non-cash inflation uplift on index-linked derivatives.

Notes to the financial statements

7 Profit on disposal of subsidiary

On 29 September 2022, the group sold the entire issued share capital of its wholly owned subsidiary United Utilities Renewable Energy Limited (UURE) to SEEIT Holdco Limited.

Profit on disposal is shown below and included within the group's consolidated income statement:

	2023 £m
Total consideration received	98.5
Total net assets disposed	(63.8)
Fees and transaction costs	(3.5)
Profit on disposal of subsidiary	31.2

Management does not consider UURE to meet the definition of a discontinued operation as set out in IFRS 5 'Non-current assets held for sale and discontinued operations' as it was not considered a separate major line of business for the group, UURE accounted for around £3.5 million of external revenue included in the group's consolidated financial statements for the period from 1 April 2022 to 29 September 2022 when the disposal occurred (year ended 31 March 2022: £3.5 million), with the majority of UURE's revenue relating to a long-term power purchase agreement with UUW that continues in place following the disposal. As such, no separate disclosures relating to discontinued operations have been included in the group's income statement or the notes to the financial statements.

The total consideration received in relation to the disposal of UURE is reconciled to the net cash income on disposal of the subsidiary per the consolidated statement of cash flows as follows:

	2023 £m
Total consideration received	98.5
Cash and cash equivalents held by UURE disposed of	(4.5)
Fees and transaction costs	(3.5)
Net cash income on disposal of subsidiary	90.5

8 Tax

	2023 £m	2022 £m
Current tax		
UK corporation tax	–	6.7
Adjustments in respect of prior years	(25.2)	(72.5)
Total current tax (credit) for the year	(25.2)	(65.8)
Deferred tax		
Current year	44.1	92.9
Adjustments in respect of prior years	32.5	66.9
	76.6	159.8
Change in tax rate	–	402.7
Total deferred tax charge for the year	76.6	562.5
Total tax charge for the year	51.4	496.7

The deferred tax charge of £402.7 million in the prior year reflects the increase in the rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023.

The current tax 'adjustments in respect of prior years' of £25.2 million is mainly due to the utilisation of losses, which 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:

	2023 £m	2023 %	2022 £m	2022 %
Profit before tax	256.3		439.9	
Tax at the UK corporation tax rate	48.7	19.0	83.6	19.0
Deferred tax rate adjustment	10.6	4.1	22.3	5.1
Adjustments in respect of prior years	7.3	2.8	(5.6)	(1.3)
Change in tax rate	–	–	402.7	91.5
Net income not taxable	(15.2)	(5.9)	(6.3)	(1.4)
Total tax charge and effective tax rate for the year	51.4	20.0	496.7	112.9

8 Tax continued

The deferred tax rate adjustment reflects the fact that the current year deferred tax charge is at the future tax rate of 25 per cent, rather than the 19 per cent current year rate.

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

	2023 £m	2022 £m
Profit before tax	256.3	439.9
Profit before tax multiplied by the standard rate of UK corporation tax of 19%	48.7	83.6
Relief for capital allowances in place of depreciation	(107.5)	(108.0)
Disallowance of depreciation charged in the accounts	69.8	68.8
Adjustments to tax charge in respect of prior years	(25.2)	(72.5)
Financial transactions timing differences	(48.9)	(26.9)
Pension timing differences	(6.0)	(3.9)
Relief for capitalised interest	(24.2)	(10.0)
Other timing differences	2.6	2.0
Joint ventures net losses	–	0.3
Profit on disposal of subsidiary	(5.9)	–
Income not taxable	(12.0)	(9.1)
Depreciation charged on non-qualifying assets	2.6	2.5
Current year tax losses carry forward	80.8	7.4
Current tax (credit) for the year	(25.2)	(65.8)

The group's current tax charge is typically lower than the UK headline rate of 19 per cent, primarily due to a range of adjustments which are simply timing differences between recognition of the income or expense in the accounts and in the related tax computations submitted to HMRC. These include deductions in relation to capital spend, pension timing differences, unrealised profits or losses in relation to financing and related treasury derivatives and capitalised interest.

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

The adjustments to tax charge in respect of prior years of £25.2 million mainly relates to the utilisation of tax losses, which were previously being carried forward. The £72.5 million in the prior year mainly relates to optimising the available research and development UK tax allowances on our innovation-related expenditure, for multiple prior years.

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

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

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

The income not taxable is mainly due to the additional 30 per cent element of the temporary capital allowances super-deductions introduced in 2021.

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

Tax on items recorded within other comprehensive income	2023 £m	2022 £m
Deferred tax		
On remeasurement (losses)/gains on defined benefit pension schemes	(152.8)	111.1
On net fair value (losses)/gains on credit assumptions for debt reported at fair value through profit and loss and cost of hedging	(19.1)	26.1
Share-based payments	0.7	(1.0)
Total tax charge on items recorded within other comprehensive income	(171.2)	136.2

The tax adjustments taken to other comprehensive income primarily relate to remeasurement movements on the group's defined benefit pension schemes. Management considers that the most likely method of realisation would be through a refund, which would be taxed at the rate applicable to refunds from a trust (currently 35 per cent).

8 Tax continued

Current tax asset/(liability)

Group	Total £m
At 1 April 2021	6.9
Charged to the income statement	(6.7)
Adjustments in respect of prior years	72.5
Transfer to amounts owed by related parties	(6.1)
Payments/(receipts)	7.8
At 31 March 2022	**74.4**
Charged to the income statement	**–**
Adjustments in respect of prior years	**25.2**
Transfer from amounts owed by related parties	**6.1**
Payments/(receipts)	**(6.8)**
At 31 March 2023	**98.9**

The amount owed by Water Plus relating to the surrender of consortium relief tax losses was nil (March 2022: £6.1 million).

Deferred tax liabilities

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

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2021	1,226.6	241.2	(18.3)	1,449.5
Charged to the income statement	149.3	3.5	6.9	159.7
Change in tax rate	414.7	–	(12.0)	402.7
Charged to other comprehensive income	–	111.1	25.1	136.2
At 31 March 2022	**1,790.6**	**355.8**	**1.7**	**2,148.1**
Charged to the income statement	**78.7**	**7.3**	**(9.4)**	**76.6**
Credited to other comprehensive income	**–**	**(152.8)**	**(18.4)**	**(171.2)**
Disposal of deferred tax liability	**(5.4)**	**–**	**–**	**(5.4)**
At 31 March 2023	**1,863.9**	**210.3**	**(26.1)**	**2,048.1**

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

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

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

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

The other short-term temporary differences of £26.1 million includes £108.9 million relating to tax losses which have been carried forward, where permitted under HMRC rules, to be utilised in future periods. Also included are other short-term timing differences in relation to the year-on-year movement in financial transactions which are sensitive to fair value movement on treasury derivatives and can therefore fluctuate significantly from year to year. However, these fair value movements have no impact on future corporation tax payments as they only impact the year-on-year deferred tax movement.

Company

The company had no deferred tax assets or liabilities at 31 March 2023 or 31 March 2022.

9 Earnings per share

	2023 £m	2022 £m
Profit/(loss) after tax attributable to equity holders of the company – continuing operations	**204.9**	(56.8)

	2023 pence	2022 pence
Earnings per share		
Basic	**30.0**	(8.3)
Diluted	**30.0**	(8.3)

Basic earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 681.9 million being the weighted average number of shares in issue during the year (2022: 681.9 million). Diluted earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 684.1 million, being the weighted average number of shares in issue during the year, including dilutive shares (2022: 683.8 million).

The difference between the weighted average number of shares used in the basic and the diluted earnings per share calculations represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings Per Share'. Potential dilutive ordinary shares comprise outstanding share options awarded to directors and certain employees (see note 3).

The weighted average number of shares can be reconciled to the weighted average number of shares, including dilutive shares, as follows:

	2023 million	2022 million
Average number of ordinary shares – basic	**681.9**	681.9
Effect of potential dilutive ordinary share options	**2.2**	1.9
Average number of ordinary shares – diluted	**684.1**	683.8

10 Dividends

	2023 £m	2022 £m
Amounts recognised as distributions to equity holders of the company in the year comprise:		
Ordinary shares		
Final dividend for the year ended 31 March 2022 at 29.00 pence per share (2021: 28.83 pence)	**197.8**	196.6
Interim dividend for the year ended 31 March 2023 at 15.17 pence per share (2022: 14.50 pence)	**103.4**	98.9
	301.2	295.5
Proposed final dividend for the year ended 31 March 2023 at 30.34 pence per share (2022: 29.00 pence)	**206.9**	197.8

The proposed final dividends for the years ended 31 March 2023 and 31 March 2022, were subject to approval by equity holders of United Utilities Group PLC as at the reporting dates and, hence, have not been included as liabilities in the consolidated financial statements at 31 March 2023 and 31 March 2022.

11 Property, plant and equipment
Property, plant and equipment comprises owned and leased assets.

	2023 £m	2022 £m
Property, plant and equipment – owned	12,513.8	12,087.7
Right-of-use assets – leased	56.9	59.8
Net book value	**12,570.7**	**12,147.5**

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 2021	363.7	5,897.8	8,074.7	515.9	1,488.5	16,340.6
Additions	2.5	84.8	181.2	7.6	452.4	728.5
Transfers	6.4	48.8	241.9	4.7	(300.9)	0.9
Disposals	(0.3)	(0.1)	(136.1)	(14.5)	(0.1)	(151.1)
At 31 March 2022	372.3	6,031.3	8,361.7	513.7	1,639.9	16,918.9
Additions	1.1	88.7	243.5	2.9	530.7	866.9
Transfers	1.3	129.1	99.0	7.1	(222.6)	13.9
Disposals	(7.2)	(10.7)	(199.7)	(19.1)	–	(236.7)
At 31 March 2023	**367.5**	**6,238.4**	**8,504.5**	**504.6**	**1,948.0**	**17,563.0**
Accumulated depreciation						
At 1 April 2021	128.9	477.1	3,593.6	401.3	–	4,600.9
Charge for the year	8.4	45.0	294.7	26.5	–	374.6
Transfers	–	0.2	(0.1)	–	–	0.1
Disposals	(0.2)	–	(130.1)	(14.1)	–	(144.4)
At 31 March 2022	137.1	522.3	3,758.1	413.7	–	4,831.2
Charge for the year	8.5	47.9	305.5	21.6	–	383.5
Transfers	–	0.4	2.9	–	–	3.3
Disposals	(6.8)	(10.6)	(132.8)	(18.6)	–	(168.8)
At 31 March 2023	**138.8**	**560.0**	**3,933.7**	**416.7**	**–**	**5,049.2**
Net book value at 31 March 2022	235.2	5,509.0	4,603.6	100.0	1,639.9	12,087.7
Net book value at 31 March 2023	**228.7**	**5,678.4**	**4,570.8**	**87.9**	**1,948.0**	**12,513.8**

At 31 March 2023, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £322.6 million (2022: £280.8 million). In addition to these commitments, the group has long-term expenditure plans, which include investments to achieve improvements in performance required by regulators and to provide for future growth.

Following a review of inventories carried out during the year, the group has opted to reclassify spare parts previously recognised within inventories to property, plant and equipment in order to better reflect the expected consumption pattern of these items. This has resulted in £14.6 million being transferred to property, plant and equipment (cost) and £3.3 million being transferred to accumulated depreciation, giving a net transfer of £11.3 million. Depreciation of these spare parts is expected to commence at the point where they are ready to be installed, with the annual depreciation charge of the assets transferred expected to be around £0.6 million.

11 Property, plant and equipment continued
Right-of-use assets – leased

Group	Land and buildings £m	Operational assets £m	Fixtures, fittings tools and equipment £m	Total £m
Cost				
At 1 April 2021	55.1	7.8	0.2	63.1
Additions	2.1	0.7	–	2.8
Disposals	(0.3)	(1.4)	–	(1.7)
At 31 March 2022	56.9	7.1	0.2	64.2
Additions	0.3	0.7	–	1.0
Disposals	(1.4)	(1.1)	–	(2.5)
At 31 March 2023	**55.8**	**6.7**	**0.2**	**62.7**
Accumulated depreciation				
At 1 April 2021	2.1	1.7	–	3.8
Charge for the year	1.5	0.9	–	2.4
Disposals	(0.4)	(1.4)	–	(1.8)
At 31 March 2022	3.2	1.2	–	4.4
Charge for the year	1.4	0.6	–	2.0
Disposals	–	(0.6)	–	(0.6)
At 31 March 2023	**4.6**	**1.2**	**–**	**5.8**
Net book value at 31 March 2022	53.7	5.9	0.2	59.8
Net book value at 31 March 2023	**51.2**	**5.5**	**0.2**	**56.9**

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

Company
The company had no property, plant and equipment or contractual commitments for the acquisition of property, plant and equipment at 31 March 2023 or 31 March 2022.

12 Intangible assets

Group	Total £m
Cost	
At 1 April 2021	425.1
Additions	20.1
Transfers	0.9
Disposals	(13.2)
At 31 March 2022	**432.9**
Additions	**19.0**
Transfers	**0.6**
Disposals	**–**
At 31 March 2023	**452.5**
Accumulated amortisation	
At 1 April 2021	244.0
Charge for the year	41.2
Transfers	–
Disposals	(13.1)
At 31 March 2022	**272.1**
Charge for the year	**38.1**
Transfers	**–**
Disposals	**–**
At 31 March 2023	**310.2**
Net book value at 31 March 2022	160.8
Net book value at 31 March 2023	**142.3**

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

At 31 March 2023, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £2.8 million (2022: £1.8 million).

Company

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

13 Joint ventures and other investments

	2023 £m	2022 £m
Joint ventures at the start of the period	**16.5**	–
Additions	**–**	18.3
Share of losses of joint ventures	**–**	(1.8)
Joint ventures at the end of the period	**16.5**	16.5
Other investments	**–**	0.1
Interests in joint ventures and other investments	**16.5**	16.6

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. The group also has a 50 per cent interest in Lingley Mere Business Park Development Company Limited, which is jointly owned and controlled by the group and Muse Developments Limited under a joint venture agreement.

The group's total share of Water Plus losses for the year was nil (2022: £1.8 million share of losses), all of which is recognised in the income statement. The group incurred a share of the losses of Lingley Mere Business Park Development Company Limited for the year of £0.4 million (2022: nil), which have not been recognised as at 31 March 2023. This is unrecognised as the brought forward carrying amount of the group's interest in the joint venture is nil.

Additions in the prior year relate to an equity investment in Water Plus following the conversion of the existing fully drawn facility to equity share capital as executed on 23 April 2021.

The group recognised a disposal in the year of £0.1 million (2022: nil) in its other investments.

Details of transactions between the group and its joint ventures and other investments are disclosed in note A6.

Company

At 31 March 2023, the company's investments related solely to its investments in United Utilities PLC, which was recorded at a cost of £6,326.8 million (2022: £6,326.8 million).

14 Inventories

Group	2023 £m	2022 £m
Properties held for resale	**4.2**	1.6
Other inventories	**10.1**	16.6
	14.3	18.2

Included within other inventories are £1.2 million (2022: £0.4 million) of assets that are held for sale in the ordinary course of business, but where sales are not expected to occur within 12 months of the reporting date. These items are therefore classified within non-current assets in the statement of financial position.

Company

The company had no inventories at 31 March 2023 or 31 March 2022.

15 Trade and other receivables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade receivables	**47.8**	61.7	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**105.1**	95.2
Amounts owed by related parties (see note A6)	**102.2**	116.4	**–**	–
Other debtors and prepayments	**43.1**	37.7	**–**	–
Accrued income	**73.1**	88.6	**–**	–
	266.2	304.4	**105.1**	95.2

At 31 March 2023, the group had £75.7 million (2022: £81.7 million) of trade and other receivables classified as non-current, all of which was owed by related parties.

The carrying amounts of trade and other receivables approximate to their fair value at 31 March 2023 and 31 March 2022.

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

Group	2023 £m	2022 £m
At the start of the year	**84.6**	80.4
Amounts charged to operating expenses (see note 4)	**22.7**	23.4
Trade receivables written off	**(21.0)**	(19.2)
Amounts charged to deferred income	**(0.6)**	–
At the end of the year	**85.7**	84.6

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

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

At 31 March 2023 and 31 March 2022, the group had no trade receivables that were past due and not individually impaired.

Notes to the financial statements

15 Trade and other receivables continued

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

At 31 March 2023	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Gross trade receivables	51.6	31.8	50.1	133.5
Allowance for expected credit losses	(20.2)	(16.7)	(48.8)	(85.7)
Net trade receivables	31.4	15.1	1.3	47.8

At 31 March 2022	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Gross trade receivables	68.7	26.1	51.5	146.3
Allowance for expected credit losses	(20.3)	(13.1)	(51.2)	(84.6)
Net trade receivables	48.4	13.0	0.3	61.7

At 31 March 2023, the group had £0.3 million (2022: £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 2023 and 31 March 2022, the group had no accrued income that was past due. In instances where the collection of consideration is not considered probable at the point services are delivered, no accrued income balance is recognised, as the criteria to recognise revenue in accordance with IFRS 15 has not been met.

Company

At 31 March 2023 and 31 March 2022, the company had no trade receivables that were past due. Of the £105.1 million (2022: £95.2 million) owed by subsidiaries, £75.0 million (2022: £75.0 million) was classified as non-current at the reporting date.

The carrying amount of trade and other receivables approximates to their fair value at 31 March 2023 and 31 March 2022.

16 Cash and cash equivalents

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Cash at bank and in hand	2.6	9.9	–	–
Short-term bank deposits	337.8	231.0	–	–
Cash and short-term deposits	340.4	240.9	–	–
Book overdrafts (included in borrowings – see note 17)	(12.5)	(20.8)	–	–
Cash and cash equivalents in the statement of cash flows	327.9	220.1	–	–

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

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

17 Borrowings

Group	2023 £m	2022 £m
Non-current liabilities		
Bonds	6,378.8	6,168.4
Bank and other term borrowings	1,825.0	1,445.0
Lease obligations	55.2	57.6
	8,259.0	7,671.0
Current liabilities		
Bank and other term borrowings	160.8	284.7
Book overdrafts (see note 16)	12.5	20.8
Lease obligations	3.1	3.3
	176.4	308.8
	8,435.4	7,979.8

Company	2023 £m	2022 £m
Non-current liabilities		
Amounts owed to subsidiary undertakings	1,864.8	1,799.9
	1,864.8	1,799.9

Amounts owed to subsidiary undertakings relate to an intercompany loan from United Utilities PLC to the company, which bears interest calculated with reference to the Bank of England base rate plus a credit margin, and is repayable with twelve months' notice upon written request by a director of either party, with the repayment date not falling less than 366 days after the date of the request.

For further details of the principal economic terms and conditions of outstanding borrowings and the maturity profile of lease liabilities recognised at the balance sheet date, see note A3.

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

18 Retirement benefits

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

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

Information about the pension arrangements for executive directors is contained in the directors' remuneration report.

Defined benefit schemes

As similar financial and demographic assumptions are used in accounting for both of the group's defined benefit pension schemes, and given they have similar risk profiles, the information below and further detail provided in note A5 is presented on an aggregated basis unless otherwise stated.

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

Group	2023 £m	2022 £m
Current service cost	6.0	7.5
Administrative expenses	2.5	2.1
Pension expense charged to operating profit	8.5	9.6
Net pension interest income credited to investment income (see note 5)	(28.7)	(14.3)
Net pension income credited to the income statement before tax	(20.2)	(4.7)

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £8.5 million (2022: £9.6 million) comprising current service costs and administrative expenses. Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £37.7 million (2022: £35.7 million) comprise the defined benefit costs described above of £8.5 million (2022: £9.6 million) and defined contribution costs of £29.2 million (2022: £26.1 million) (see note 3).

18 Retirement benefits continued

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

Group	2023 £m	2022 £m
At the start of the year	1,016.8	689.0
Income recognised in the income statement	20.2	4.7
Contributions	9.1	9.5
Remeasurement (losses)/gains gross of tax	(445.3)	313.6
At the end of the year	600.8	1,016.8

Included in the contributions paid of £9.1 million (2022: £9.5 million), which are included as cash outflows in arriving at net cash generated from operations in the consolidated statement of cash flows, enhancements to benefits provided on redundancy of nil (2022: £0.5 million), payments in relation to historic unfunded, unregistered retirement benefit schemes of £0.6 million (2022: £2.5 million), and administration expenses of £2.5 million (2022: £2.1 million). Contributions in relation to current service cost remained broadly stable at £6.0 million (2022: £6.1 million).

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

Group	2023 £m	2022 £m
The return on plan assets, excluding amounts included in interest	(1,087.8)	102.2
Actuarial gains arising from changes in financial assumptions	950.0	164.0
Actuarial (losses)/gains arising from changes in demographic assumptions	(60.7)	52.4
Actuarial (losses) arising from experience	(246.8)	(5.0)
Remeasurement (losses)/gains on defined benefit pension schemes	(445.3)	313.6

Deferred tax on the movement in the defined benefit surplus during the year has been recognised at a rate of 35 per cent, being the rate applicable to refunds from a trust, reflecting the most likely method by which the defined benefit surplus would be realised (see note 8).

For more information in relation to the group's defined benefit pension schemes, including changes in financial and demographic assumptions, see note A5.

Defined contribution schemes

During the year, the group made £29.2 million (2022: £26.1 million) of contributions to defined contribution schemes which are included in employee benefits expense in the consolidated income statement (see note 3), and as cash outflows in arriving at net cash generated from operating activities in the consolidated statement of cash flows.

Company

The company did not participate in any of the group's pension schemes during the years ended 31 March 2023 and 31 March 2022.

19 Provisions

Group	Severance £m	Other £m	Total £m
At 1 April 2021	1.6	9.5	11.1
Charged to the income statement	0.3	4.7	5.0
Utilised in the year	(0.7)	(1.9)	(2.6)
At 31 March 2022	1.2	12.3	13.5
Charged to the income statement	(0.3)	0.8	0.5
Utilised in the year	(0.5)	(0.4)	(0.9)
At 31 March 2023	0.4	12.7	13.1

The group had no provisions classed as non-current at 31 March 2023 or 31 March 2022.

The severance provision as at 31 March 2023 and 31 March 2022 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 claims.

Company

The company had no provisions at 31 March 2023 or 31 March 2022.

20 Trade and other payables

Non-current	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Deferred grants and contributions	873.3	818.2	–	–
Other creditors	19.1	17.0	–	–
	892.4	835.2	–	–

Current	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Trade payables	26.4	28.3	–	–
Amounts owed to subsidiary undertakings	–	–	2.0	9.5
Other tax and social security	6.9	6.6	–	–
Deferred grants and contributions	16.6	16.0	–	–
Accruals and other creditors	272.8	266.8	3.6	3.6
Deferred income	54.0	48.1	–	–
	376.7	365.8	5.6	13.1

The average credit period taken for trade purchases is 11 days (2022: 13 days).

The carrying amounts of trade and other payables approximates to their fair value at 31 March 2023 and 31 March 2022.

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

Deferred grants and contributions

Group	2023 £m	2022 £m
At the start of the year	834.2	795.8
Amounts capitalised during the year	5.4	1.8
Transfers of assets from customers	66.2	52.4
Credited to the income statement – revenue	(16.2)	(15.4)
Credited to the income statement – other operating expenses	(0.3)	(0.4)
Credited to allowance for bad and doubtful receivables	0.6	–
At the end of the year	889.9	834.2

21 Other reserves

Group	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2021	1,033.3	(703.6)	0.4	6.2	336.3
Changes in fair value recognised in other comprehensive income	–	–	–	107.6	107.6
Amounts reclassified from other comprehensive income to profit or loss	–	–	–	(0.9)	(0.9)
Tax on hedge effectiveness taken directly to equity	–	–	–	(27.0)	(27.0)
Tax on reclassification to consolidated income statement	–	–	–	0.2	0.2
At 31 March 2022	1,033.3	(703.6)	0.4	86.1	416.2
At 1 April 2022	1,033.3	(703.6)	0.4	86.1	416.2
Changes in fair value recognised in other comprehensive income	–	–	6.3	(50.6)	(44.3)
Amounts reclassified from other comprehensive income to profit or loss	–	–	–	(36.6)	(36.6)
Tax on hedge effectiveness taken directly to equity	–	–	(1.6)	12.7	11.1
Tax on reclassification to consolidated income statement	–	–	–	7.0	7.0
At 31 March 2023	1,033.3	(703.6)	5.1	18.6	353.4

Notes to the financial statements

21 Other reserves continued

The capital redemption reserve arose as a result of a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009. The merger reserve arose in the same year on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition.

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

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

Company

The company's other reserves at 31 March 2023, 31 March 2022 and 1 April 2021, were comprised entirely of a £1,033.3 million capital redemption reserve that arose as a result of a return of capital to shareholders following the acquisition of United Utilities PLC by the company in the year ended 31 March 2009.

22 Share capital

Group and company	2023 million	2023 £m	2022 million	2022 £m
Issued, called up and fully paid				
Ordinary shares of 5.0 pence each	681.9	34.1	681.9	34.1
Deferred shares of 170.0 pence each	274.0	465.7	274.0	465.7
	955.9	499.8	955.9	499.8

Details of the voting rights of each category of shares can be found within the directors' report on pages 210 to 211.

The 170.0 pence deferred shares were created to facilitate a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009 (see company statement of changes in equity on page 236), and represent the amount of a special dividend paid on B shares at that time. The deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding up.

23 Contingent liabilities

At 31 March 2023, there were commitments for future capital expenditure and infrastructure renewals expenditure contracted, but not provided for, of £339.0 million (2022: £293.3 million).

Since 2016, the group has received indications from a number of property search companies (PSCs) that they intend to claim compensation for amounts paid in respect of CON29DW water and drainage search reports, which they allege should have been provided to them either free of charge or for a nominal fee in accordance with the Environmental Information Regulations. In April 2020, a group of over 100 PSCs, comprising companies within the groups that had previously issued notice of intended claims, served proceedings on all of the water and sewerage undertakers in England and Wales, including United Utilities Water Limited, for an unspecified amount of compensation. This is an industry-wide issue and, while the litigation has progressed during the year, it remains in its early stages. The litigation's likely direction and the quantum of any compensation being claimed is uncertain at this stage; however, based on the information currently available, the likelihood of the claim's success is considered to be low, and any potential outflow is not expected to be material.

The group has credit support guarantees as well as general performance commitments and potential liabilities under contract that may give rise to financial outflow. The group has determined that the possibility of any outflow arising in respect of these potential liabilities is remote and, as such, there are no contingent liabilities to be disclosed in this regard (2022: none).

The company has not entered into performance guarantees as at 31 March 2023 and 31 March 2022.

24 Events after the reporting period

With the exception of the new borrowings and entering into of a new undrawn committed borrowing facility, as described in note A3, there were no significant events after the reporting period requiring disclosure or any adjustments to the financial position, financial performance, or cash flows reported as at 31 March 2023.

Notes to the financial statements – appendices

A1 Consolidated statement of cash flows – further analysis

Cash generated from operations

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Profit before tax	256.3	439.9	245.4	274.5
Adjustment for investment income and finance expense (see notes 5, 6 and A6)	215.7	168.3	55.9	21.0
Adjustment for share of losses of joint ventures (see note 13)	–	1.8	–	–
Profit on disposal of subsidiary	(31.2)	–	–	–
Operating profit	440.8	610.0	301.3	295.5
Adjustments for:				
Depreciation of property, plant and equipment (see note 11)	385.5	377.0	–	–
Amortisation of intangible assets (see note 12)	38.1	41.2	–	–
Loss on disposal of property, plant and equipment (see note 4)	4.2	3.9	–	–
Amortisation of deferred grants and contributions (see note 20)	(16.2)	(15.8)	–	–
Equity-settled share-based payments charge (see note 3)	5.1	4.8	–	–
Changes in working capital:				
Decrease in inventories (see note 14)	3.9	0.1	–	–
Decrease in trade and other receivables	27.2	13.2	5.0	5.5
Increase/(decrease) in trade and other payables	(5.5)	24.7	0.2	0.2
Increase/(decrease) in provisions (see note 21)	(0.4)	2.4	–	–
Pension contributions paid less pension expense charged to operating profit	0.4	0.1	–	–
Cash generated from operations	883.1	1,061.6	306.5	301.2

The group has received property, plant and equipment of £66.2 million (2022: £52.4 million) in exchange for the provision of future goods and services (see notes 20 and A7).

Reconciliation of fixed asset purchases to fixed asset additions

Owned property, plant and equipment[1]	2023 £m	2022 £m
Purchase of property, plant and equipment in statement of cash flows	675.9	609.0
Non-cash additions:		
Transfers of assets from customers (see note 20)	66.2	52.4
IAS 23 capitalised borrowing costs (see note 6)	126.0	52.1
Transfer of spare parts from inventories (see note 11)	(11.3)	–
Net book value transfers to intangible assets	0.6	–
Timing differences on cash paid[2]	9.5	15.0
Property, plant and equipment additions	866.9	728.5

Notes:

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

(2) Timing differences arise and reverse when additions are recognised in the statement of financial position in a different period to when cash payments for capital expenditure are made. Capital accruals recognised in relation to these timing differences are included in 'Accruals and other creditors' within trade and other payables (see note 20).

Intangible assets	2023 £m	2022 £m
Purchase of intangible assets in statement of cash flows	18.1	19.5
IAS 23 capitalised borrowing costs – non-cash additions (see note 6)	1.5	0.6
Net book value transfers from property, plant and equipment	(0.6)	–
Intangible asset additions	19.0	20.1

A2 Net debt

Net debt comprises borrowings, net of cash and short-term deposits and derivatives hedging the financial risk associated with the group's borrowings[1]. As such, movements in net debt during the year are impacted by changes in liabilities from financing activities as detailed in the tables below. The tables below should be read in conjunction with the consolidated statement of cash flows.

	Borrowings			Derivatives					
	Bonds £m	Bank and other term borrowings £m	Lease liabilities £m	in a fair value hedge £m	at fair value through profit or loss £m	Total liabilities from financing activities £m	Cash and cash equivalents £m	Adjust-ments in calculating net debt[3] £m	Net debt £m
At 31 March 2022	(6,168.4)	(1,729.9)	(60.9)	68.9	140.3	(7,750.0)	220.1	(40.1)	(7,570.0)
Non-cash movements:									
Inflation uplift on index-linked debt	(325.4)	(138.0)	–	–	–	(463.4)	–	–	(463.4)
Fair value movements	239.2	3.3	–	(220.1)	209.5	231.9	–	(264.2)	(32.3)
Foreign exchange	(22.3)	1.7	–	–	–	(20.6)	–	–	(20.6)
Other	1.1	0.3	(2.2)	–	–	(0.8)	–	–	(0.8)
Cash flows used in financing activities:									
Receipts in respect of borrowing and derivatives[2]	(103.1)	(398.0)	–	–	–	(501.1)	501.1	–	–
Payments in respect of borrowings and derivatives[2]	–	274.7	3.3	0.1	–	278.1	(278.1)	–	–
Dividends paid	–	–	–	–	–	–	(301.2)	–	(301.2)
Exercise of share options – purchase of shares	–	–	–	–	–	–	(6.8)	–	(6.8)
Changes arising from financing activities	(210.5)	(256.0)	1.1	(220.0)	209.5	(475.9)	(85.0)	(264.2)	(825.1)
Cash flows used in investing activities	–	–	–	–	–	–	(593.4)	–	(593.4)
Cash flows generated from operating activities	–	–	1.5	–	–	1.5	787.5	–	789.0
Effects of exchange rate changes	–	–	–	–	–	–	(1.3)	–	(1.3)
At 31 March 2023	(6,378.9)	(1,985.9)	(58.3)	(151.1)	349.8	(8,224.4)	327.9	(304.3)	(8,200.8)

Notes:

[1] Derivatives held for the purpose of hedging commodity prices are excluded from net debt. At 31 March 2023 the group had net derivative assets of £25.5 million (2022: £111.0 million) to hedge electricity prices. See note A4 for further details.

[2] 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.

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

Fair value movements includes the indexation expense relating to the group's inflation swap portfolio of £85.3 million (2022: £29.9 million). The remaining fair value and foreign exchange movements in the year on the group's bond and bank borrowings are materially hedged by the fair value swap portfolio.

A2 Net debt continued

	Borrowings			Derivatives					
	Bonds £m	Bank and other term borrowings £m	Lease liabilities £m	in a fair value hedge £m	at fair value through profit or loss £m	Total liabilities from financing activities £m	Cash and cash equivalents £m	Adjust-ments in calculating net debt[2] £m	Net debt £m
At 31 March 2021	(6,418.4)	(1,962.9)	(60.0)	263.0	40.5	(8,137.8)	733.6	98.4	(7,305.8)
Non-cash movements:									
Inflation uplift on index-linked debt	(150.4)	(78.2)	–	–	–	(228.6)	–	–	(228.6)
Fair value movements	203.3	5.1	–	(194.1)	99.8	114.1	–	(138.5)	(24.4)
Foreign exchange	(5.6)	1.3	–	–	–	(4.3)	–	–	(4.3)
Other	1.4	–	(4.6)	–	–	(3.2)	–	–	(3.2)
Cash flows used in financing activities:									
Receipts in respect of borrowing and derivatives[1]	(173.7)	–	–	–	–	(173.7)	173.7	–	–
Payments in respect of borrowings and derivatives[1]	375.0	304.8	2.1	–	–	681.9	(681.9)	–	–
Dividends paid	–	–	–	–	–	–	(295.5)	–	(295.5)
Exercise of share options – purchase of shares	–	–	–	–	–	–	(6.1)	–	(6.1)
Other	–	–	–	–	–	–	1.6	–	1.6
Changes arising from financing activities	250.0	233.0	(2.5)	(194.1)	99.8	386.2	(808.2)	(138.5)	(560.5)
Cash flows used in investing activities	–	–	–	–	–	–	(639.7)	–	(639.7)
Cash flows generated from operating activities	–	–	1.6	–	–	1.6	934.4	–	936.0
At 31 March 2022	(6,168.4)	(1,729.9)	(60.9)	68.9	140.3	(7,750.0)	220.1	(40.1)	(7,570.0)

Notes:

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

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

A3 Borrowings

Terms and debt repayment schedule

The principal economic terms and conditions of outstanding borrowings, along with fair value and carrying value, were as follows:

	Currency	Year of final repayment	Fair value 2023 £m	Carrying value 2023 £m	Fair value 2022 £m	Carrying value 2022 £m
Borrowings in fair value hedge relationships			2,310.1	2,332.3	2,511.5	2,494.0
2.0% 450m bond	GBP	2025	427.8	427.8	450.1	441.2
2.867% 320m bond	HKD	2026	31.5	32.6	30.8	31.3
2.92% 739m bond	HKD	2026	72.6	75.4	71.0	72.4
1.129% 52m bond	EUR	2027	42.1	41.5	43.4	43.9
2.37% 830m bond	HKD	2027	80.2	82.2	77.0	80.4
5.625% 300m bond	GBP	2027	315.5	308.2	356.4	346.9
1.43% 100m bond	GBP	2028	84.6	85.8	95.4	94.1
5.02% JPY 10bn dual currency loan	JPY/USD	2029	74.3	79.0	80.9	83.9
0.875% 300m bond	GBP	2029	234.7	246.5	269.0	274.6
2.058% 30m bond	EUR	2030	23.4	23.2	26.4	25.7
0.175% 11bn bond	JPY	2030	63.5	64.6	64.5	67.6
2.625% 425m bond	GBP	2031	365.7	358.4	428.5	407.8
1.641% 30m bond	EUR	2031	23.6	22.0	25.6	24.5
2.9% 600m bond	HKD	2031	57.4	55.4	58.4	55.1
1.474% 35m bond	USD	2031	22.5	22.5	22.4	22.8
1.707% 28m bond	EUR	2032	20.3	21.2	23.8	24.0
1.653% 26m bond	EUR	2032	18.6	19.3	21.0	21.9
1.70% 30m bond	EUR	2033	21.4	22.7	25.3	25.7
2.0% 100m bond	GBP	2033	78.1	78.6	94.8	91.7
5.0% 200m bond	GBP	2035	199.8	213.4	246.8	258.5
1.45% 8.5bn bond	JPY	2037	52.5	52.0	–	–
Borrowings designated at fair value through profit or loss			361.0	361.0	369.9	369.9
6.875% 400m bond	USD	2028	361.0	361.0	369.9	369.9
Borrowings measured at amortised cost			5,400.0	5,742.1	6,283.7	5,115.9
Short-term bank borrowings – fixed	GBP	2023	45.8	45.8	49.2	49.2
0.47%+RPI 100m IL loan	GBP	2023	-	-	132.3	129.1
0.49%+RPI 100m IL loan	GBP	2025	138.9	140.8	134.3	124.2
0.013%+RPI 25m IL bond	GBP	2025	34.6	35.1	33.2	31.0
0.1275%+RPI 100m IL loan	GBP	2026	135.3	138.9	133.3	122.5
0.01%+RPI 20m IL bond	GBP	2028	26.3	28.5	26.6	25.3
1.23%+RPI 50m EIB (amortising) IL loan	GBP	2029	33.6	33.7	37.6	34.7
0.288%+CPI 100m IL loan	GBP	2029	108.0	118.4	117.0	107.6
1.29%+RPI 50m EIB (amortising) IL loan	GBP	2029	36.4	36.3	40.2	36.9
1.12%+RPI 50m EIB (amortising) IL loan	GBP	2029	35.9	36.0	39.7	36.6
1.10%+RPI 50m EIB (amortising) IL loan	GBP	2029	35.9	36.0	39.7	36.6
0.75%+RPI 50m EIB (amortising) IL loan	GBP	2029	37.4	37.9	41.2	38.2
0.76%+RPI 50m EIB (amortising) IL loan	GBP	2030	37.2	37.8	41.1	38.1
1.15%+RPI 50m EIB (amortising) IL loan	GBP	2030	37.4	37.6	41.5	37.9
1.11%+RPI 50m EIB (amortising) IL loan	GBP	2030	37.5	37.8	41.6	38.0
0.780%+SONIA 100m loan	GBP	2030	97.2	99.8	–	–
0.178%+RPI 35m IL bond	GBP	2030	46.1	49.2	49.7	43.3
0.970%+SONIA 135m loan	GBP	2030	132.1	134.7	–	–
0.245%+CPI 20m IL bond	GBP	2031	21.8	25.0	24.5	22.7
0.01%+RPI 38m bond	GBP	2031	50.5	53.5	50.8	47.6
3.375%+RPI 50m IL bond	GBP	2032	120.8	97.1	142.2	86.4
0.9856%+SONIA 100m EIB (amortising) loan	GBP	2032	55.3	56.3	61.6	62.5
0.940%SONIA 150m loan	GBP	2032	147.0	149.7	–	–
0.9676%SONIA 150m EIB (amortising) loan	GBP	2032	87.3	89.1	96.8	98.4
0.8496%+SONIA 100m EIB (amortising) loan	GBP	2033	60.2	62.5	67.1	68.8
0.7876%+SONIA 150m EIB (amortising) loan	GBP	2033	97.2	98.4	104.9	107.8

A3 Borrowings continued

	Currency	Year of final repayment	Fair value 2023 £m	Carrying value 2023 £m	Fair value 2022 £m	Carrying value 2022 £m
Borrowings measured at amortised cost (continued)						
2.0% 250m bond	GBP	2033	195.3	245.6	236.9	245.6
0.01%+RPI 100m EIB (amortising) IL loan	GBP	2033	89.7	95.4	97.6	91.8
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	67.1	71.5	73.2	68.8
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	69.7	74.3	76.0	71.3
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	69.7	74.3	75.9	71.3
1.9799%+RPI 100m IL bond	GBP	2035	202.7	181.0	242.4	161.1
1.1496%+SONIA 100m EIB (amortising) loan	GBP	2035	77.4	78.1	83.5	84.4
1.1166%0+SONIA 75m EIB (amortising) loan	GBP	2035	61.0	60.9	66.6	65.6
0.01%+RPI 26.5m IL bond	GBP	2036	31.3	39.1	36.3	35.1
0.379%+CPI 20m IL bond	GBP	2036	20.8	25.0	25.4	22.7
0.01%+RPI 29m IL bond	GBP	2036	33.7	41.1	39.5	36.6
0.093%+CPI 60m IL bond	GBP	2037	59.9	74.4	73.2	67.6
1.66%+RPI 35m IL bond	GBP	2037	62.5	60.7	70.6	53.5
1.75% 325m bond(1)	GBP	2038	215.4	300.4	215.0	248.2
2.40%+RPI 70m IL bond	GBP	2039	127.3	118.5	152.2	104.4
1.7829%+RPI 100m IL bond	GBP	2040	192.8	179.1	255.2	159.4
0.01%+CPI 125m IL bond	GBP	2040	106.9	163.5	143.9	151.3
1.3258%+RPI 50m IL bond	GBP	2041	87.8	89.4	120.1	79.6
1.5802%+RPI 100m IL bond	GBP	2042	184.9	178.6	248.9	158.9
1.875% 300m bond	GBP	2042	187.3	295.6	257.1	295.5
1.5366%+RPI 20m IL bond	GBP	2043	36.8	35.6	51.1	31.7
1.397%+RPI 50m IL bond	GBP	2046	87.9	89.3	126.0	79.5
0.359%+CPI 32m IL bond	GBP	2048	26.9	39.2	40.7	35.6
1.7937%+RPI 50m IL bond	GBP	2049	94.1	88.9	143.8	79.1
Commission for New Towns (amortising) loan – fixed	GBP	2053	37.3	24.7	46.3	25.5
1.847%+RPI 100m IL bond	GBP	2056	187.9	183.1	252.7	161.5
1.815%+RPI 100m IL bond	GBP	2056	185.3	182.4	250.8	160.8
1.662%+RPI 100m IL bond	GBP	2056	181.3	182.0	244.6	160.5
1.5865%+RPI 50m IL bond	GBP	2056	88.8	90.9	120.1	80.2
1.591%+RPI 25m IL bond	GBP	2056	44.0	45.4	60.7	40.0
1.556%+RPI 50m IL bond	GBP	2056	88.5	90.5	122.2	79.8
1.435%+RPI 50m IL bond	GBP	2056	86.5	90.2	119.1	79.5
1.3805%+RPI 35m IL bond	GBP	2056	60.0	63.1	81.7	55.7
1.585%+RPI 100m IL bond	GBP	2057	171.0	175.2	241.2	154.5
0.387%+CPI 33m IL bond	GBP	2057	25.4	40.1	42.6	36.4
1.702%+RPI 50m IL bond	GBP	2057	88.6	88.3	122.8	77.9
Book overdrafts (see note 16)	GBP	2023	12.5	12.5	20.8	20.8
Lease obligations	GBP	various	58.3	58.3	60.9	60.9
			8,071.1	8,435.4	9,165.1	7,979.8

Note:

(1) During the year, the group issued £75 million fixed rate notes as a fungible increase to £250 million fixed rate notes issued in prior years. These notes were issued under the same terms with the year of final repayment being 2031 and the coupon rate of 1.75 per cent.

IL	Index-linked debt – this debt is adjusted for movements in the Consumer or Retail Prices Indices with reference to a base CPI or RPI established at trade date.
CPI	The UK general index of consumer prices (for all items) as published by the Office for National Statistics (May 2015 = 100).
RPI	The UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987 = 100).
EIB	Borrowings that are held with the European Investment Bank.

Borrowings in the above table are unsecured. Funding raised in foreign currencies is swapped to sterling to match funding costs to income and assets.

After the reporting period, the group raised new borrowings of £300 million fixed rate notes, due October 2038, and a £100 million loan facility, due April 2032.

A3 Borrowings continued

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

	2023 £m	2022 £m
Less than 1 year	3.2	3.3
1 to 5 years	9.0	10.4
5 to 10 years	7.8	8.1
10 to 25 years	25.0	25.5
25 to 50 years	41.3	42.0
50 to 100 years	81.5	81.5
100 to 500 years	105.3	106.9
Longer than 500 years	3.2	3.2
Total undiscounted cash payments	276.3	280.9
Effect of discounting	(218.0)	(220.0)
Present value of cash payments	58.3	60.9

During the year ended 31 March 2023, £1.5 million (2022: £1.6 million) of interest expense on lease liabilities was recognised, representing the unwinding of the discounting applied to future lease payments (see note 6).

The total cash outflow for leases for the year ended 31 March 2023 was £3.3 million (2022: £3.7 million); of this, £1.5 million was payment of interest (2022: £1.6 million) and £1.8 million payment of principal (2022: £2.1 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.

A4 Financial risk management

Risk management

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

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

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

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

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

Liquidity risk

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

At 31 March 2023, the group had £1,190.4 million (2022: £1,040.9 million) of available liquidity, which comprised £340.4 million (2022: £240.9 million) of cash and short-term deposits and £850.0 million (2022: £800.0 million) of undrawn committed borrowing facilities.

The group had available committed borrowing facilities as follows:

Group	2023 £m	2022 £m
Expiring within one year	150.0	100.0
Expiring after one year but in less than two years	50.0	150.0
Expiring after more than two years	650.0	550.0
Total borrowing facilities	850.0	800.0
Facilities drawn	–	–
Total borrowing facilities	850.0	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.

Company

The company did not have any committed facilities available at 31 March 2023 or 31 March 2022.

Maturity analysis

Concentrations of risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the group's financial liabilities on an undiscounted basis. Derivative cash flows have been shown net where there is a contractual agreement to settle on a net basis; otherwise the cash flows are shown gross. This table does not include the impact of lease liabilities for which the maturity profile has been disclosed in note 18.

Group At 31 March 2023	Total[(1)] £m	Adjust-ment[(2)] £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	12,650.3		166.7	617.9	306.7	155.8	591.3	10,811.9
Bank and other term borrowings	1,923.1		208.0	298.1	297.7	144.8	144.3	830.2
Adjustment to carrying value[(2)]	(6,196.4)	(6,196.4)						
Borrowings	8,377.0	(6,196.4)	374.7	916.0	604.4	300.6	735.6	11,642.1
Derivatives:								
Payable	2,404.4		111.2	112.9	205.0	92.1	198.3	1,684.9
Receivable	(2,120.5)		(182.4)	(170.0)	(249.2)	(126.3)	(249.5)	(1,143.1)
Adjustment to carrying value[(2)]	(508.2)	(508.2)						
Derivatives – net assets[(3)]	(224.3)	(508.2)	(71.2)	(57.1)	(44.2)	(34.2)	(51.2)	541.8

A4 Financial risk management continued

Group At 31 March 2022	Total[1] £m	Adjustment[2] £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	11,289.3		137.6	138.6	589.7	267.2	130.0	10,026.2
Bank and other term borrowings	2,041.2		332.3	133.4	268.9	269.5	131.4	905.7
Adjustment to carrying value[2]	(5,411.6)	(5,411.6)						
Borrowings	7,918.9	(5,411.6)	469.9	272.0	858.6	536.7	261.4	10,931.9
Derivatives:								
Payable*	1,209.5		42.5	59.5	58.9	146.3	41.1	861.2
Receivable*	(1,756.0)		(123.0)	(141.7)	(122.2)	(193.5)	(86.5)	(1,089.1)
Adjustment to carrying value*[2]	226.3	226.3						
Derivatives – net assets[3]	(320.2)	226.3	(80.5)	(82.2)	(63.3)	(47.2)	(45.4)	(227.9)

* Re-presented (see footnote 3).

Notes:

(1) Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year end and are therefore susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be 3 per cent and CPI will be 2 per cent over the life of each instrument.

(2) The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £58.3 million (2022: £60.9 million) of lease liabilities.

(3) The derivative balance includes swaps with a carrying value of £4.3 million (2022: £32.5 million) subject to optional break clauses that could be exercised within one year of the reporting date, and £39.6 million (2022: £107.6 million) subject to optional break clauses that could be exercised in later periods. At the reporting date, it was considered highly unlikely that these break clauses would be exercised and so cash flows that could arise from the exercise of these optional break clauses are not included in this table.

Company

The company has total borrowings of nil (2022: nil), which are payable within one year, and £1,864.8 million (2022: £1,799.9 million), which are payable within one to two years.

Credit risk

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

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

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

In reaction to the impact of the COVID-19 pandemic, changes were made to the payment terms set out within the market codes. These changes provided the option for extended credit terms for retailers. However, this has now ended and all outstanding payments have been made. As at 31 March 2023, Water Plus was the group's single largest debtor, with amounts outstanding in relation to wholesale services of £26.7 million (2022: £28.6 million). During the year, sales to Water Plus in relation to wholesale services were £335.1 million (2022: £363.1 million). Details of transactions with Water Plus can be found in note A6.

Under the group's revenue recognition policy, revenue is only recognised when collection of the resulting receivable is reasonably assured. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 15).

The group manages its credit risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra-day gross settlement of cash flows. In addition, potential derivative exposure limits are established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit.

Credit limits are refreshed annually and reviewed in the event of any credit rating action. Additionally, a control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

A4 Financial risk management continued

At 31 March 2023 and 31 March 2022, the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Cash and short-term deposits (see note 16)	340.4	240.9	–	–
Trade and other receivables (see note 15)	266.2	304.4	105.1	95.2
Investments (see note 13)*	–	0.1	–	–
Derivative financial instruments	477.1	457.4	–	–
	1,083.8	1,002.8	105.1	95.2

* Group investments relate to preference share holdings, which are financial instruments under IFRS 7 and should be included. Company investments relate to ordinary shares held in subsidiaries, which are not financial instruments under IFRS 7 and should not be included.

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2023, the group held £45.8 million (2022: £49.2 million) as collateral in relation to derivative financial instruments.

Market risk

The group's exposure to market risk primarily results from its financing arrangements and the economic return which it is allowed on the regulatory capital value (RCV).

The group uses a variety of financial instruments, including derivatives, to manage the exposure to these risks.

Inflation risk

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV.

For the 2020–2025 regulatory period, from 1 April 2020 the group's RCV is 50 per cent linked to RPI inflation and 50 per cent linked to CPIH inflation, with any new additions being added to the CPIH portion of the RCV.

The group's inflation hedging policy aims to have around half of the group's net debt in index-linked form (where it is economic to do so), by issuing index-linked debt and/or swapping a portion of nominal debt. This is currently weighted towards RPI-linked form, with circa 75 per cent of the hedge linked to RPI and circa 25 per cent linked to CPI and/or CPIH. These weightings are consistent with the prior financial year.

The group believes this is an appropriate inflation hedging policy, taking into account a balanced assessment of the following factors: economic hedge of United Utilities Water Limited's (UUW) RCV and revenues; cash flow timing mismatch between allowed cost of debt and the group's incurred cost of debt; the inflation risk premium that is generally incorporated into nominal debt costs; income statement volatility; hedging costs; debt maturity profile mismatch risk; and index-linked hedging positioning relative to the water sector.

As a result of the evaluation of the above factors, the group continues to identify opportunities to maintain around 50 per cent of the group's net debt being hedged for inflation, which can be evidenced by the increase in the CPI/CPIH-linked hedge proportion over the past few years. Inflation risk is reported monthly to the treasury committee in the operational compliance report.

The carrying value of index-linked debt held by the group, including the carrying value of the nominal debt swapped to CPI, was £4,407.1 million at 31 March 2023 (2022: £4,220.4 million).

Sensitivity analysis

The following table details the sensitivity of profit before tax to changes in the RPI and CPI on the group's index-linked borrowings. The sensitivity analysis has been based on the amount of index-linked debt held at the reporting date and, as such, is not indicative of the years then ended. In addition, it excludes the impact of inflation on revenues and other income statement costs as well as the hedging aspect of the group's regulatory assets and post-retirement obligations.

Group Impact on profit before taxation and equity	2023 £m	2022 £m
1% increase in RPI/CPI	(40.1)	(37.0)
1% decrease in RPI/CPI	40.1	37.0

The sensitivity analysis assumes a 1 per cent change in RPI and CPI having a corresponding 1 per cent impact on this position over a 12-month period. It should be noted, however, that there is a time lag by which current RPI and CPI changes impact on the income statement, and the analysis does not incorporate this factor. The portfolio of index-linked debt is calculated on either a three- or eight-month lag basis. Therefore, at the reporting date, the index-linked interest and principal adjustments impacting the income statement are fixed and based on the annual RPI or CPI change either three or eight months earlier.

Company

The company had no material exposure to inflation risk at 31 March 2023 or 31 March 2022.

Interest rate risk

The group's policy is to structure debt in a way that best matches its underlying assets and cash flows. The group currently earns an economic return on its RCV, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV (see inflation risk section for changes being introduced by Ofwat to inflation indexation from 2020).

A4 Financial risk management continued

From 1 April 2020, for the regulatory period to 2025, Ofwat has continued to set a fixed real cost of debt in relation to embedded debt (80 per cent of net debt), but has introduced a debt indexation mechanism in relation to new debt (20 per cent of net debt), where the allowed rate on new debt will vary in line with specific debt indices. The debt indexation mechanism will be settled as an end of regulatory period adjustment.

Therefore, sterling index-linked debt is left unswapped at inception, in accordance with our inflation hedging policy goal to maintain around half of the group's net debt in index-linked form. Conventional nominal debt is hedged as set out below.

Where conventional long-term debt is raised in a fixed-rate form, to manage exposure to long-term interest rates, the debt is generally swapped at inception to create a floating rate liability for the term of the liability through the use of interest rate swaps. These instruments are typically designated within a fair value accounting hedge.

To manage the exposure to medium-term interest rates, the group fixes underlying interest rates on nominal debt out to 10 years in advance on a reducing balance basis. As such, at the start of each regulatory period, a proportion of the projected nominal net debt representing new debt for that regulatory period, will remain floating until it is fixed via the above 10-year reducing balance basis, which should approximate Ofwat's new debt indexation mechanism.

This interest rate hedging policy dovetails with our inflation hedging policy should we need to swap a portion of nominal debt to real rate form to maintain our desired mix of nominal and index-linked debt.

The group seeks to manage its risk by maintaining its interest rate exposure within a board-approved range. Interest rate risk is reported to the treasury committee through the operational compliance report.

Sensitivity analysis

The following table details the sensitivity of the group's profit before tax and equity to changes in interest rates. The sensitivity analysis has been based on the amount of net debt and the interest rate hedge positions in place at the reporting date and, as such, is not indicative of the years then ended.

	Group		Company	
Increase/(decrease) in profit before tax and equity	**2023 £m**	**2022 £m**	**2023 £m**	**2022 £m**
1% increase in interest rate	**91.0**	89.5	**(18.6)**	(18.0)
1% decrease in interest rate	**(120.1)**	(94.3)	**18.6**	18.0

The sensitivity analysis assumes that both fair value hedges and borrowings designated at fair value through profit or loss are effectively hedged and it excludes the impact on post-retirement obligations. The exposure largely relates to fair value movements on the group's fixed interest rate swaps, which manage the exposure to medium-term interest rates. Those swaps are not included in hedge relationships.

Hedge accounting

Details regarding the interest rate swaps designated as hedging instruments to manage interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	–	450.0	300.0	1,125.0
Average contracted fixed interest rate %	–	1.0	4.7	1.5

This table represents the derivatives that are held in fair value hedging relationships, with the weighted average net fixed rate receivable across both legs to the swap disclosed. The SONIA/LIBOR credit adjustment spread has been assumed to form part of the fixed rate element of the payable leg, which is to be netted off against the fixed rate receivable leg for the purposes of the rates shown here. Further detail on the fair value hedging relationships is provided below:

				Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2023[1]			
Risk exposure	**Nominal amount of the hedging instruments £m**	**Carrying amount of the hedging instruments £m**	**Accumulated fair value (gains)/losses on hedged items £m**	**Hedged items £m**	**Hedging instruments £m**	**Hedge ineffective-ness recognised in the income statement £m**	**Nominal amount of hedging instruments directly impacted by IBOR reform £m**
Interest rate risk on borrowings	1,875.0	(164.2)	(156.2)	(197.1)	198.6	1.5	1,300.0

Note:
[1] The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Currency risk

Currency exposure principally arises in respect of funding raised in foreign currencies. To manage exposure to currency rates, foreign currency debt is hedged into sterling through the use of cross-currency swaps and these are often designated within a fair value accounting hedge. The group seeks to manage its risk by maintaining currency exposure within board-approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report. The group and company have no material net exposure to movements in currency rates.

A4 Financial risk management continued

Hedge accounting

Details regarding the cross-currency interest rate swaps designated as hedging instruments to manage currency and interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	–	–	216.2	377.7
Average contracted fixed interest rate %	–	–	1.4	1.0

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:

				Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2023[1]			
Risk exposure	**Nominal amount of the hedging instruments £m**	**Carrying amount of the hedging instruments £m**	**Accumulated fair value (gains)/losses on hedged items £m**	**Hedged items £m**	**Hedging instruments £m**	**Hedge ineffective-ness recognised in the income statement £m**	**Nominal amount of hedging instruments directly impacted by IBOR reform £m**
Foreign currency and interest rate risk on borrowings	593.9	3.3	15.7	(16.0)	16.0	–	442.8

Note:
[1] The change in fair value of the hedging instruments used to measure hedge ineffectiveness excludes interest accruals and credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Interest rate benchmark reform

Globally, financial regulators are requiring that market participants cease using certain financial market benchmark reference rates (i.e. interbank offered rates, IBORs), and transition to the use of alternative nearly risk-free rates (RFRs).

The only benchmark reference rate that the group was exposed to was GBP LIBOR, which ceased on 31 December 2021. In the run up to 31 December 2021, the group fully transitioned all of its financial instruments away from GBP LIBOR.

Floating rate loans payable were re-documented to replace references to GBP LIBOR with appropriate sterling risk free rates or, where the maturity date was sufficiently short, repaid early to avoid re-documentation. Derivatives were transitioned away from GBP LIBOR by the group and all of its counterparties adhering to the ISDA 2020 IBOR fall-backs protocol, which has automatically replaced references in derivatives to GBP LIBOR with risk-free rates, and systems were upgraded to enable accurate recording and valuation of transitioned financial instruments. Inter-company loans and loans receivable with the group's principal joint venture have also been restructured to reference the Bank of England Base Rate.

The group is not exposed to any other benchmark reference rate and so its activities in relation to interest rate benchmark reform are now complete.

In August 2020, the IASB issued Interest Rate Benchmark Reform Phase II, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase II Amendments), and the group has applied all relevant amendments when accounting for the impact of the IBOR transition in the year.

Applying the ISDA fall-back provisions in transitioning the group's derivative portfolio has maintained economic equivalence across the financial instruments held in fair value hedges and, as a result, immaterial hedge ineffectiveness was recorded in the group's income statement in the year.

The amount of financial instruments that transitioned to alternative benchmarks is set out below. Non-derivative financial instruments are presented at their carrying value, with the derivatives at their nominal value, in order to give the fairest representation of the magnitude of instruments that transitioned to RFRs. In addition to the below, the group held £800 million of undrawn committed facilities as at 31 December 2021 that transitioned away from referencing LIBOR to reference sterling risk-free rates.

Type of financial instrument	**Amounts transitioned to RFR £m**
Non-derivative financial liabilities (pay GBP LIBOR)	501.6
Derivative instruments (pay GBP LIBOR)	2,343.9
Derivative instruments (receive GBP LIBOR)	(2,822.1)
Net position	23.4

A4 Financial risk management continued

Repricing analysis

The following tables categorise the group's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group's exposure to floating interest rate risk.

Our largest concentration of floating interest rate risk is with index-linked instruments. This has been classified as repricing in one year or less due to the refixing of the interest charge with changes in RPI and CPI.

Group At 31 March 2023	Total £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Borrowings in fair value hedge relationships							
Fixed rate instruments	2,332.3	–	427.8	108.0	–	431.9	1,364.6
Effect of swaps	–	–	–	–	–	–	–
	2,332.3	–	427.8	108.0	–	431.9	1,364.6
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	361.0	–	–	–	–	–	361.0
Effect of swaps	–	361.0	–	–	–	–	(361.0)
	361.0	361.0	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	970.4	46.8	1.2	1.5	2.7	1.7	916.5
Floating rate instruments	842.0	842.0	–	–	–	–	–
Index-linked instruments	3,929.7	3,929.7	–	–	–	–	–
	5,742.1	4,818.5	1.2	1.5	2.7	1.7	916.5
Effect of fixed hedge for the term of the regulatory period	–	(2,027.8)	200.0	200.0	389.8	99.5	1,138.5
Total borrowings	8,435.4	3,151.7	629.0	309.5	392.5	533.1	3,419.6
Cash and short-term deposits	(340.4)	(340.4)	–	–	–	–	–
Net borrowings	8,095.0	2,811.3	629.0	309.5	392.5	533.1	3,419.6

Group At 31 March 2022	Total £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Borrowings in fair value hedge relationships							
Fixed rate instruments	2,494.0	–	–	441.2	103.7	–	1,949.1
Effect of swaps	–	2,494.0	–	(441.2)	(103.7)	–	(1,949.1)
	2,494.0	2,494.0	–	–	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	369.9	–	–	–	–	–	369.9
Effect of swaps	–	369.9	–	–	–	–	(369.9)
	369.9	369.9	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	924.9	50.1	1.1	1.9	3.2	1.4	867.2
Floating rate instruments	508.3	508.3	–	–	–	–	–
Index-linked instruments	3,682.7	3,682.7	–	–	–	–	–
	5,115.9	4,241.1	1.1	1.9	3.2	1.4	867.2
Effect of fixed hedge for the term of the regulatory period	–	(2,267.8)	575.0	350.0	200.0	–	1,142.8
Total borrowings	7,979.8	4,837.2	576.1	351.9	203.2	1.4	2,010.0
Cash and short-term deposits	(240.9)	(240.9)	–	–	–	–	–
Net borrowings	7,738.9	4,596.3	576.1	351.9	203.2	1.4	2,010.0

A4 Financial risk management continued

Company	2023 Total £m	2023 1 year or less £m	2022 Total £m	2022 1 year or less £m
Borrowings measured at amortised cost				
Floating rate instruments	1,864.8	1,864.8	1,799.9	1,799.9
Total borrowings	1,864.8	1,864.8	1,799.9	1,799.9

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.

Hedge accounting

Details of electricity swaps designated as hedging instruments to manage electricity price risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional amount MWh	373,320	394,080	65,760	–
Average contracted fixed price £/MWh	83.19	80.80	359.50	–

Electricity swaps have been designated in cash flow hedge relationships. This means that only the impact of any hedging ineffectiveness is recognised through fair value in the income statement, with movements in the effective portion of the hedge being recognised in other comprehensive income.

Risk exposure	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument £m	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2023[1] £m	Hedge ineffectiveness recognised in the income statement £m	Cash flow hedge reserve excluding effects of tax £m	Amount reclassified from the cash flow hedge reserve to the income statement £m
Electricity price risk	105.0	25.5	87.3	–	17.5	(36.6)

Note:
[1] The change in fair value of the hedging instruments used to measure hedge ineffectiveness excludes credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Capital risk management

The group's objective when managing capital is to maintain efficient access to debt capital markets throughout the economic cycle. The board therefore believes that it is appropriate to maintain RCV gearing, measured as group consolidated net debt (including certain derivatives) to regulatory capital value (RCV) of UUW, within a target range of 55 per cent to 65 per cent. As at 31 March 2023, RCV gearing was within the range at 58 per cent (2022: 59 per cent).

Assuming no significant changes to existing rating agencies' methodologies or sector risk assessments, the group aims to maintain long-term issuer credit ratings for UUW of at least A3 with Moody's Investors Service (Moody's) and BBB+ with S&P Global Ratings (S&P) and a senior unsecured debt rating for UUW of at least A- with Fitch Ratings (Fitch). Debt issued by UUW's financing subsidiary, United Utilities Water Finance PLC, is guaranteed by UUW and is therefore rated in line with UUW.

To maintain its targeted credit ratings, the group needs to manage its capital structure with reference to the ratings methodology and measures used by Moody's, S&P and Fitch. The ratings methodology is normally based on a number of key ratios (such as RCV gearing, adjusted interest cover, post maintenance interest cover (PMICR), Funds from Operations (FFO) to debt, and debt to EBITDA) and threshold levels as updated and published from time to time by Moody's, S&P and Fitch. The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit ratings agencies to determine a corporate's credit rating, within the thresholds approved by the board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies.

A4 Financial risk management continued

Fair values

The table below sets out the valuation basis of financial instruments held at fair value and financial instruments where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

Group 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	–	65.4	–	65.4
Derivative financial assets – held for trading[1]	–	352.0	–	352.0
Derivative financial assets – cash flow hedge	–	59.7	–	59.7
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	–	(215.3)	–	(215.3)
Derivative financial liabilities –held for trading[1]	–	(3.4)	–	(3.4)
Derivative financial assets – cash flow hedge	–	(34.1)	–	(34.1)
Financial liabilities designated as fair value through profit or loss	–	(361.0)	–	(361.0)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(1,936.1)	(374.0)	–	(2,310.1)
Other financial liabilities	(2,541.3)	(2,858.7)	–	(5,400.0)
	(4,477.4)	(3,369.2)	–	(7,846.6)

Group 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	–	156.3	–	156.3
Derivative financial assets – held for trading[1]	–	190.1	–	190.1
Derivative financial assets – cash flow hedge	–	111.0	–	111.0
Investments	–	0.1	–	0.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	–	(87.4)	–	(87.4)
Derivative financial liabilities –held for trading[1]	–	(49.8)	–	(49.8)
Derivative financial liabilities – cash flow hedge	–	–	–	–
Financial liabilities designated as fair value through profit or loss	–	(369.9)	–	(369.9)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(2,206.6)	(304.9)	–	(2,511.5)
Other financial liabilities at amortised cost	(2,383.8)	(3,899.9)	–	(6,283.7)
	(4,590.4)	(4,254.4)	–	(8,844.8)

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 £133.9 million (2022: £130.1 million).

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable).

The group has calculated fair values using quoted prices where an active market exists, which has resulted in £4,477.4 million (2022: £4,590.4 million) of 'level 1' fair value measurements. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data in line with prior years. The £113.0 million decrease (2022: £497.2 million decrease) in level 1 fair value measurements primarily reflects the rise in interest rates during the year.

During the year, changes in the fair value of financial liabilities designated at fair value through profit or loss resulted in a £20.6 million loss (2022: £0.4 million loss). Included within this was a £4.7 million gain (2022: £4.2 million gain) attributable to changes in own credit risk, recognised in other comprehensive income. The cumulative amount due to changes in credit spread was £35.2 million profit (2022: £39.9 million profit). The carrying amount is £134.9 million (2022: £143.8 million) higher than the amount contracted to settle on maturity.

Company

The company does not hold any financial instruments that are measured subsequent to initial recognition at fair value or where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

A5 Retirement benefits

Defined benefit schemes

Under the group's defined benefit pension schemes – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS) – 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	2023 £m	2022 £m
Total fair value of schemes' assets	2,931.3	4,035.7
Present value of defined benefit obligations	(2,330.5)	(3,018.9)
Net retirement benefit surplus	600.8	1,016.8

Estimated future benefits payable

The defined benefit obligation includes benefits for current employees, former employees and current pensioners as analysed in the table below:

Group	2023 £m	2022 £m
Total value of current employees' benefits	362.7	504.7
Deferred members' benefits	436.4	602.1
Pensioner members' benefits	1,531.4	1,912.1
Total defined benefit obligation	2,330.5	3,018.9

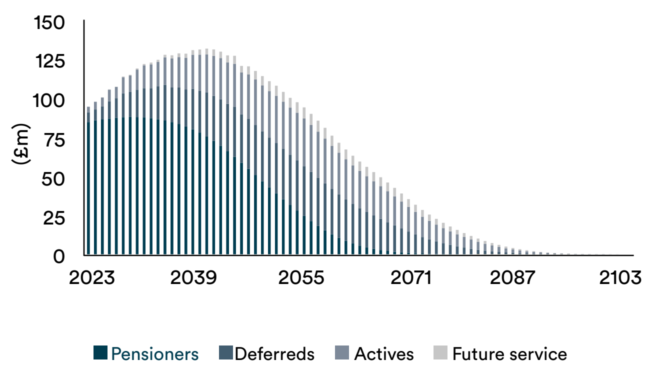
Movements in the present value of the defined benefit obligations are as follows:

Group	2023 £m	2022 £m
At the start of the year	(3,018.9)	(3,295.7)
Interest cost on schemes' obligations	(82.7)	(66.5)
Actuarial gains arising from changes in financial assumptions	950.0	164.0
Actuarial (losses)/gains arising from changes in demographic assumptions	(60.7)	52.4
Actuarial (losses) arising from experience	(246.8)	(5.0)
Member contributions	(2.3)	(2.3)
Benefits paid	136.9	141.7
Current service cost	(6.0)	(7.5)
At the end of the year	(2,330.5)	(3,018.9)

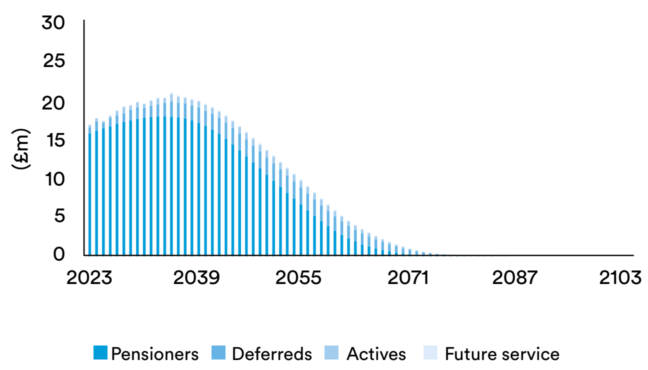
The duration of the combined schemes is around 14 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

The estimated profile of cash flows out of the schemes as retirement benefits are paid is as follows:

UUPS



ESPS



A5 Retirement benefits continued

Funding of future benefits payable

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. The defined benefit schemes are subject to funding valuations carried out by independent qualified actuaries, in conjunction with the schemes' trustees, on a triennial basis. These valuations inform the level of future contributions to be made by the group in order to ensure that the schemes are appropriately funded and therefore that benefits can be paid. The latest finalised funding valuation was carried out as at 31 March 2021, and determined that the schemes were fully funded on a low-dependency basis without any funding deficit that requires additional contributions from the company over and above those related to current service and expenses.

The schemes' funding plans are reviewed regularly, including between funding valuations. The group expects to make further contributions of £8.9 million in the year ending 31 March 2024, £7.8 million in respect of current service contributions and £1.1 million in respect of expenses. Annual contributions are expected to be broadly similar to this until at least the point at which the next triennial valuation (due as at 31 March 2024), is finalised, which is expected to be towards the end of the year ending 31 March 2025. At this point a detailed re-evaluation of the level of annual contributions, and the basis on which these are made, will take place.

The group and trustees have agreed long-term strategies for reducing investment risk in each scheme. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets, such as corporate bonds and gilts, supplemented by swap and gilt long-term hedges of interest and inflation rates, which perform in line with the liabilities so as to hedge against changes in interest and inflation rates. Both the UUPS and ESPS schemes are fully hedged for inflation exposure through external market swaps and gilts. Further details of the derivatives used in reducing investment risk are disclosed in the 'Schemes' assets' section of this appendix.

In addition to the strategies implemented to date, the group and trustees are actively engaged in exploring further de-risking options that may be implemented in the future, including in relation to longevity risk.

The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19 'Employee Benefits', with liabilities on a funding basis being subject to assumptions at the valuation date that are not updated between revaluations. Funding deficits vary significantly from company to company, but neither the deficits, the assumptions on which they are based, the associated sensitivities, nor the risk exposures are disclosed by many companies and, therefore, meaningful cross-company comparisons are not possible. Conversely, scheme liabilities are valued on a consistent basis between companies under IAS 19 and are subject to assumptions and sensitivities that are required to be disclosed. Consequently, the relative economic positions of companies are comparable only on an IAS 19 basis, subject to normalisation of assumptions used between companies.

A retirement benefit surplus was recognised as an asset in the consolidated statement of financial position at both 31 March 2022 and 31 March 2021 as, under both the UUPS and ESPS scheme rules, the group has an unconditional right to a refund of the surplus assuming the gradual settlement of plan liabilities over time until all members have left the plans.

Impact of scheme risk management on IAS 19 disclosures

Under the prescribed IAS 19 basis, pension scheme liabilities are calculated based on current accrued benefits. Expected cash flows are projected forward allowing for RPI and CPI and the current member mortality assumptions. These projected cash flows are then discounted using a high-quality corporate bond rate, which comprises an underlying interest rate and a credit spread.

The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and future inflation. Both UUPS and ESPS fully hedge RPI inflation exposure along with underlying interest rates through external market swaps and gilts (including gilt repurchase instruments), the value of which is included in the schemes' assets (net of associated derivative liabilities).

Consequently, the reported statement of financial position under IAS 19 remains volatile due to changes in credit spread and changes in mortality, neither of which have been hedged at the current time.

Changes in credit spreads have not been hedged primarily due to difficulties in doing so over long durations. In contrast, the schemes' specific funding bases are unlikely to suffer from significant volatility due to credit spread, because a prudent, fixed credit spread assumption is applied.

Changes in mortality have not been hedged due to this exposure being subject to lower volatility in the short term, though the group and scheme trustees are committed to exploring options to de-risk changes in mortality, or pension longevity, in future periods, as outlined above.

Pension benefits under the defined benefit element of the UUPS hybrid section, which represents a relatively small proportion of total defined benefit obligations, are linked to CPI rather than RPI.

In the year ended 31 March 2023, the discount rate increased by 1.9 per cent (2022: 0.75 per cent increase), which includes a 2.05 per cent increase in gilt yields over the year and a 0.15 per cent reduction in credit spreads. The IAS 19 remeasurement loss of £445.3 million (2022: £313.6 million gain) reported in note 19 has largely resulted from the schemes being more than 100 per cent hedged on an IAS 19 basis, which has resulted in a greater reduction of the schemes' assets than the defined benefit obligations as a result of yield rises.

The fall in value of the schemes' assets is largely a result of the changes in financial conditions seen over the period. 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.

A5 Retirement benefits continued

The increase in credit spreads during the year is partially offset by an RPI inflation assumption reduction of 0.35 per cent (2022: 0.40 per cent increase). The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement loss recognised on an IAS 19 accounting basis as the discount rate used for valuing obligations utilises a fixed credit spread assumption.

While longer term expectations for inflation have started to fall, in the shorter term high inflation has resulted in greater than expected pension increases.

Reporting and assumptions

The results of the latest funding valuation at 31 March 2021 have been used to inform the group's best estimate assumptions to use in calculating the defined benefit pension position reported on an IAS 19 basis at 31 March 2023. The results of the funding valuation have been adjusted to take account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs, were measured using the projected unit credit method.

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuations as at 31 March 2021 for both UUPS and ESPS. 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:

Group	2023 % p.a.	2022 % p.a.
Discount rate	4.70	2.80
Pension increases	3.40	3.75
Pensionable salary growth (pre-2018 service):		
ESPS	3.40	3.75
UUPS	3.40	3.75
Pensionable salary growth (post-2018 service):		
ESPS	3.40	3.75
UUPS	2.85	3.20
Price inflation – RPI	3.40	3.75
Price inflation – CPI[1]	2.85	3.20

Note:
[1] The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.50 per cent pre-2030 and 3.30 per cent post-2030 (31 March 2022: 2.85 per cent pre-2030 and 3.65 per cent post-2030).

The discount rate is consistent with a high-quality corporate bond rate, with 4.70 per cent being equivalent to gilts plus 0.95 basis points (31 March 2022: 2.80 per cent being equivalent to gilts plus 1.10 basis points). The corporate bond population used in deriving this rate comprises corporate bonds rated at least AA by one or more credit rating agencies.

In accordance with the scheme rules, pensionable salary growth is linked to RPI for UUPS for service pre-2018 and CPI for service post-2018, for ESPS the growth is linked to RPI.

Assumed pension increases are aligned to the RPI price inflation assumption as the vast majority of benefits across the schemes have a direct RPI linkage.

In September 2019, the Chancellor of the Exchequer highlighted the UK Statistic Authority's proposals to change RPI to align with CPIH (Consumer Prices Index, including housing costs). Plans to reform RPI and bring it in line with CPIH from 2030 were confirmed on 25 November 2020, though this is subject to judicial review. Broadly CPIH increases are expected to average around 1 per cent per annum below RPI in the long term (about the same as CPI), so this change could have a significant impact on many pension schemes.

Demographic assumptions

The Continuous Mortality Investigation's (CMI) 2022 tables are not expected to be released until June 2023 and therefore not available in time for the 31 March 2023 year-end accounting figures. There remains considerable uncertainty around the long-term impact and the choice of appropriate adjustment remains subjective and is limited to the available parameters within the CMI model. As such, in arriving at mortality assumptions for 31 March 2023, the group has retained the same assumptions as used for 31 March 2022. The base tables used for the mortality in retirement assumption are the CMI S3PA (2022: S3PA) year of birth tables, with a scaling factor of 109 per cent (2022: 109 per cent) and 115 per cent (2022: 115 per cent) for male pensioners and non-pensioners respectively and 110 per cent (2022: 110 per cent) and 111 per cent (2022: 111 per cent) for female pensioners and non-pensioners respectively, reflecting the profile of the membership. At 31 March 2023, future improvements in mortality are based on the extended CMI 2021 (2022: CMI 2021) projection model, with a long-term annual rate of improvement of 1.25 per cent (2022: 1.25 per cent).

Although the long-term impacts of the COVID-19 pandemic are not yet fully known, mortality over 2022 and the early part of 2023 has remained above pre-pandemic levels. This suggests that the general level of mortality in the population will be higher than had previously been projected pre-pandemic. Accordingly, the group has retained its COVID-19 adjustment of a 2021 parameter of 10 per cent within the CMI 2021 projections.

Notes to the financial statements – appendices

A5 Retirement benefits continued

The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

Group	2023 years	2022 years
Retired member – male	**25.9**	25.9
Non-retired member – male	**26.6**	26.5
Retired member – female	**28.0**	27.9
Non-retired member – female	**29.1**	29.0

Financial and demographic assumptions – further analysis

The assumptions used in measuring the group's defined benefit surplus reflect management's best estimates as at the reporting date. These estimates inherently involve judgement, and the measurement of the defined benefit surplus is sensitive to changes in these key assumptions. These sensitivities, together with further information on the judgements involved and level of estimation uncertainty, are presented below. Sensitivity calculations allow for the specified movement in the relevant key assumption, while all other assumptions are held constant. This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted, however it demonstrates how reasonably possible changes could impact on the measurement of the defined benefit surplus. The schemes' hedging strategies are designed primarily to reduce the volatility on a technical provisions basis.

- Asset volatility – If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long term, create volatility in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.
- Discount rate – An increase/decrease in the discount rate of 0.25 per cent would have resulted in a £78.2/£82.7 million (2022: £119.7/£127.7 million) decrease/increase in the schemes' liabilities at 31 March 2023, although as long as credit spreads remain stable this will be largely offset by an increase/decrease in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on high-quality corporate bond yields of a similar duration to the schemes' liabilities. High quality corporate bonds are considered to be those that have a credit rating of AA or above with at least one rating agency. An alternative approach could be taken whereby only those bonds rated AA or higher by at least two rating agencies are used. While this alternative approach may provide additional comfort around the quality of these corporate bonds, management believes that the wider population of corporate bonds under a 'single agency' approach gives a more representative indication of high quality corporate bonds that are aligned to the schemes' liabilities, and therefore provides a more robust estimate.
- Price inflation – An increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £73.3/69.5 million (2022: £111.5/105.2 million) increase/decrease in the schemes' liabilities at 31 March 2023, 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 2023, meaning that this sensitivity is likely to be insignificant as a result. The sensitivity to price inflation allows for the impact of changes to pensionable salary growth and pension increases, which are both assumed to be linked to price inflation. While inflation may be volatile in the near term, as has been the case during the year ended 31 March 2023, the value of the schemes' liabilities is based on inflation assumptions that reflect the full profile of the liabilities, in particular the long-term nature.
  - Consistent with market practice, and reflecting the possibility that inflation may rise or fall more than expected in the future, in arriving at the company's best estimate for RPI, an inflation risk premium of 0.2 per cent (2022: 0.2 per cent) has been deducted from the breakeven inflation rate for the year ended 31 March 2023. The impact of this is a decrease in the defined benefit obligation of around £61.0 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 0.1 per cent per annum post-2030 given that RPI and CPI are expected to converge. The impact of this reduction in the post-2030 wedge as a result of RPI reform is a circa £7.0 million increase to the defined benefit obligation and therefore a decrease in the net defined benefit surplus compared with the wedge remaining at 0.9 per cent per annum after 2030.
- 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 £16.5 million increase in the schemes' liabilities at 31 March 2023 (2022: £29.1 million increase in the schemes' liabilities).
- Life expectancy – An increase/decrease in life expectancy of one year would have resulted in a £83.9 million (2022: £135.0 million) increase/decrease in the schemes' liabilities at 31 March 2023. 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.

United Utilities Group PLC Integrated Annual Report and Financial Statements for the year ended 31 March 2023

A5 Retirement benefits continued

Schemes' assets

At 31 March, the fair values of the schemes' assets recognised in the statement of financial position were as follows:

Group	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %
At 31 March 2023				
Non-equity growth assets	**278.2**	**–**	**278.2**	**9.5**
Gilts	**1,822.3**	**(886.9)**	**935.4**	**31.9**
Bonds	**1,211.2**	**(2.5)**	**1,208.7**	**41.2**
Other	**422.8**	**86.2**	**509.0**	**17.4**
Total fair value of schemes' assets	**3,734.5**	**(803.2)**	**2,931.3**	**100.0**
At 31 March 2022				
Non-equity growth assets	606.6	–	606.6	15.0
Gilts	2,839.1	(1,657.6)	1,181.5	29.3
Bonds	1,708.0	(3.7)	1,704.3	42.2
Other	423.0	120.3	543.3	13.5
Total fair value of schemes' assets	5,576.7	(1,541.0)	4,035.7	100.0

Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £216.3 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 2023. Estimates of the fair value of these assets have been performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total level 3 asset balance, updated for any subsequent cash movements between the statement date and the year-end reporting date.

The UUPS has entered into a variety of derivative transactions to change the return characteristics of the assets held to reduce undesirable market and liability risks. As such, the above breakdown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

The portfolio contains a proportion of assets set aside for collateral purposes linked to the derivative contracts entered into. The collateral portfolio, comprising cash and eligible securities readily convertible to cash, provides sufficient liquidity to manage exposure relating to the derivative transactions and is expected to achieve a return in excess of SONIA (Sterling Overnight Index Average). During the year ended 31 March 2023 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:

	2023 £m	2022 £m
Gilts		
Repurchase agreements	**(886.9)**	(1,657.6)
	(886.9)	(1,657.6)
Bonds – hedging non-sterling exposure back to sterling		
Currency forwards	**13.8**	(1.4)
Interest rate swaps	**(16.3)**	(2.3)
	(2.5)	(3.7)
Other – managing liability risks targeting a high level of interest rate and inflation hedging		
Asset swaps		(32.5)
Interest rate swaps	**(17.2)**	18.0
RPI inflation swaps	**(13.2)**	134.2
Total return swaps	**116.6**	0.6
	86.2	120.3
Total fair value of derivatives	**(803.2)**	(1,541.0)

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 £371.2 million (2022: £681.5 million).

Financials

A5 Retirement benefits continued

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	2023 £m	2022 £m
At the start of the year	4,035.7	3,984.7
Interest income on schemes' assets	111.4	80.8
The return on plan assets, excluding amounts included in interest	(1,087.8)	102.2
Member contributions	2.3	2.3
Benefits paid	(136.9)	(141.7)
Administrative expenses	(2.5)	(2.1)
Company contributions	9.1	9.5
At the end of the year	**2,931.3**	4,035.7

The group's actual return on the schemes' assets was a loss of £976.4 million (2022: £183.0 million gain), largely as a result of the schemes' investment strategies hedging increases in the technical provisions due to change in financial conditions.

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.

A6 Related party transactions

Group

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The related party transactions with the group's joint ventures and other related parties during the period, and amounts outstanding at the period end date, were as follows:

	2023 £m	2022 £m
Sales of services	335.1	363.1
Charitable contributions advanced to related parties	0.2	0.1
Purchases of goods and services	(1.3)	–
Costs recharged at nil margin under transitional service agreements	–	–
Interest income and fees recognised on loans to related parties	4.7	2.8
Amounts owed by related parties	102.2	116.4
Amounts owed to related parties	–	–

Sales of services to related parties mainly represent non-household wholesale charges to Water Plus that were billed and accrued during the period. These transactions were on market credit terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

Charitable contributions advanced to related parties during the year relate to amounts paid to Rivington Heritage Trust, a charitable company limited by guarantee for which United Utilities Water Limited is one of three guarantors.

At 31 March 2023, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £102.2 million (March 2022: £116.4 million), comprising £26.7 million (March 2022: £28.5 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £75.5 million (March 2022: £80.4 million) relating to loans.

Included within these loans receivable were the following amounts owed by Water Plus:

- £74.4 million (2022: £79.4 million) outstanding on a £95.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2026, bearing a floating rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £75.5 million outstanding, net of a £1.1 million allowance for expected credit losses (2022: £80.5 million net of a £1.1 million allowance for expected credit losses); and
- £1.4 million (2022: £1.0 million) receivable being the £11.0 million (2022: £10.6 million) fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.1 million (2022: £0.1 million) allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to historic periods as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 31 March 2023 and 31 March 2022 of £12.5 million, comprising a £11.0 million (2022: £10.6 million) receivable representing the present value of the £12.5 million payable at maturity discounted using an appropriate market rate of interest at the inception of the loan, and £1.5 million (2022: £1.9 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

A6 Related party transactions continued

A further £0.1 million (2022: £1.4 million) of non-current receivables was owed by other related parties at 31 March 2023.

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.

At 31 March 2023, amounts owed to related parties were nil (March 2022: nil).

Company

The parent company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £301.2 million (2022: £295.5 million) and total net interest payable during the year was £55.8 million (2022: £21.0 million). Amounts outstanding at 31 March 2023 and 31 March 2022 between the parent company and subsidiary undertakings are disclosed in notes 15, 17 and 21.

At 31 March 2023 and 31 March 2022, no related party receivables and payables were secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings as at 31 March 2023 and 31 March 2022.

A7 Accounting policies

Of the accounting policies outlined below, those deemed to be the most significant for the group are those that align with the critical accounting judgements and key sources of estimation uncertainty set out on pages 239 to 241.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries), and incorporate the results of its share of joint ventures using the equity method of accounting. The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the date control is obtained or until the date that control ceases, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used under the relevant local GAAP into line with those used by the group. Amounts attributable to non-controlling interests are presented separately in equity and total comprehensive income where material.

Subsidiaries

Subsidiaries are entities controlled by the group. Control is achieved where the group is exposed to, or has the rights to, variable returns from its involvement in an entity and has the ability to affect those returns through its power over the entity. In the parent company accounts, investments are held at cost less provision for impairment.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures

Joint ventures are entities in which the group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The group's share of joint venture results and assets and liabilities is incorporated using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised at cost and adjusted thereafter to recognise the group's share of the profit or loss.

Revenue recognition

Revenue from the sale of water, wastewater and other services represents the fair value of the consideration receivable in the ordinary course of business for the goods and services provided, exclusive of value added tax and foreign sales tax. Where relevant, this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end.

There are two main areas of the group's activities considered to result in revenue being recognised:

- the provision of core water and wastewater services, accounting for more than 96 per cent of the group's revenue; and
- capital income streams relating to diversions work, and activities, typically performed opposite property developers, that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

The core water and wastewater services, which are deemed to be distinct performance obligations under the contracts with customers, follow the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Revenue is generally recognised at the time of delivery, with consideration given as to whether collection of the full amount under the contract is considered probable. Should the group consider that the criteria for revenue recognition has not been met for a transaction, revenue recognition would be delayed until such time as collectability is reasonably assured.

Payments received in advance of revenue recognition are recorded as deferred income. This includes the revenue in respect of connection activities, itself a distinct performance obligation. The revenue in respect of these activities is released to the income statement over a period of 60 years, which is deemed to be the time over which the performance obligation for providing the connection is satisfied.

Operating profit

Operating profit is stated after charging operational expenses but before investment income and finance expense.

Borrowing costs and finance income

Except as noted below, all borrowing costs and finance income are recognised in the income statement on an accruals basis. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Assessing the outcome of uncertain tax positions requires judgements to be made regarding the application of tax law and the result of negotiations with, and enquiries from, tax authorities. A current tax provision is only recognised when the group has a present obligation as a result of a past event and it is probable that the group will be required to settle that obligation to a taxing authority.

Current tax

Current tax is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date, and also includes any adjustment to tax payable in respect of previous years.

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the tax is dealt with in equity.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is dealt with in equity.

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.

Employee and other related costs incurred in implementing the capital schemes of the group are capitalised.

The group is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's view, that the carrying value of such assets may not be recoverable. An impairment review requires management to make uncertain estimates concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Costs associated with a major inspection or overhaul of an asset or group of assets are capitalised within property, plant and equipment and depreciated over the period of time expected to elapse between major inspections or overhauls.

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater pipes and systems. Expenditure on the infrastructure assets, including borrowing costs where applicable, relating to increases in capacity or enhancements of the network, is treated as additions. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred. Infrastructure assets are depreciated by writing off their cost (or deemed cost for infrastructure assets held on transition to IFRS), less the estimated residual value, evenly over their useful economic lives.

Other assets

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items, including relevant borrowing costs, where applicable, for qualifying assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Freehold land and assets in the course of construction are not depreciated. Other assets are depreciated by writing off their cost, less their estimated residual value, evenly over their estimated useful economic lives, based on management's judgement and experience.

Depreciation methods, residual values and useful economic lives are reassessed annually and, if necessary, changes are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other operating costs.

Transfer of assets from customers and developers

Where the group receives from a customer or developer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the group must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at their fair value and included within property, plant and equipment, with a credit of the same amount to deferred grants and contributions. The assets are depreciated over their useful economic lives and the deferred contributions released to revenue over the 60 years, which is the estimated period over which an average connection through which the group provides water and wastewater services is expected to be in place (or where the receipt of property, plant and equipment is solely to connect the customer to the network, the deferred contribution is released immediately to revenue). This accounting treatment has been applied to transfers of assets from customers received on or after 1 July 2009.

Assets transferred from customers or developers are accounted for at fair value. If no market exists for the assets then incremental cash flows are used to arrive at fair value.

Intangible assets

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful economic lives. The carrying amount is reduced by any provision for impairment where necessary. On a business combination, as well as recording separable intangible assets already recognised in the statement of financial position of the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the acquisition statement of financial position at fair value.

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria of IAS 38 'Intangible Assets'.

Intangible assets, which relate primarily to computer software, are generally amortised over a period of three to 10 years.

The group expenses costs incurred in the implementation and ongoing operation of computing systems built and delivered on a 'software as a service' (SaaS) basis and hosted in an external cloud environment. These do not generally give rise to an identifiable intangible asset that the group controls. In limited circumstances, costs incurred in association with the implementation and customisation of a SaaS system may enhance the group's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the group controls, the costs are capitalised in accordance with IAS 38 and are subsequently amortised over a period of generally three to 10 years.

Impairment of assets

Where appropriate, assets are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows, discounted on a pre-tax basis, using a rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses in respect of non-current assets are recognised in the income statement within operating costs.

Where an impairment loss subsequently reverses, the reversal is recognised in the income statement and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Capitalisation of costs associated with regulatory price review programmes

As a regulated business the group's principal subsidiary, United Utilities Water Limited, is required to submit business plans to its regulator, Ofwat, on a cyclical basis. The costs to develop these business plans, which can be significant, largely relate to the development of material capital programmes to be delivered over the next five-year price control period. As such, the majority of these costs are considered to be directly attributable to bringing capital solutions into working condition, giving rise to future economic benefit in the form of reduced project costs as the capital programme is delivered, and supporting the enhancement of the company's infrastructure network as a whole. Such costs are therefore capitalised within property, plant and equipment where appropriate, and depreciated over a period of five years as the economic benefit is realised through the delivery of the capital programme.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Financial instruments

Financial assets and financial liabilities are recognised and derecognised in the group's statement of financial position on the trade date when the group becomes/ceases to be a party to the contractual provisions of the instrument.

Cash and short-term deposits

Cash and short-term deposits include cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash, have a maturity of three months or less from the date of acquisition and which are subject to an insignificant risk of change in value. In the consolidated statement of cash flows and related notes, cash and cash equivalents include cash and short-term deposits, net of book overdrafts.

Financial investments

Investments (other than interests in subsidiaries, joint ventures and fixed deposits) are initially measured at fair value, including transaction costs. Investments classified as financial assets measured at fair value through profit or loss (FVPL) in accordance with IFRS 9 'Financial Instruments' are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised in the net profit or loss for the period. The business model employed in respect of financial assets is that of a hold-to-collect model.

Trade and other receivables

Trade and other receivables are initially measured at fair value on initial recognition. Trade and other 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 and other 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 and other receivables and records allowances for expected credit losses. An allowance is recognised where there is objective evidence the group will be unable to collect all of the amount due. The receivable is recognised at the recoverable amount and the difference between the amortised cost and the recoverable amount is recorded as an expense within the profit and loss account.

The group estimates the expected credit loss on trade and other receivables applying the simplified approach as permitted under IFRS 9. For trade and other receivables that are assessed as not impaired individually, the expected credit loss is estimated based on the group's historical experience of cash collection and the incorporation of forward-looking information.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Borrowings

The group's default treatment is that bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently measured at amortised cost applying the effective interest method. The difference between the net cash proceeds received at inception and the principal cash flows due at maturity is accrued over the term of the borrowing.

The default treatment of measuring at amortised cost, while associated hedging derivatives are recognised at fair value, presents an accounting measurement mismatch that has the potential to introduce considerable volatility to both the income statement and the statement of financial position. Therefore, where feasible, the group takes advantage of the provisions under IFRS 9 'Financial Instruments' to make fair value adjustments to its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

Where feasible, the group designates its financial instruments within fair value hedge relationships. To apply fair value hedge accounting, it must be demonstrated that there is an economic relationship between the borrowing instrument and the hedging derivative and that the designated hedge ratio is consistent with the group's risk management strategy.

Borrowings designated within a fair value hedge relationship

Where designated, bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently adjusted for any change in fair value attributable to the risk being hedged at each reporting date, with the change being charged or credited to finance expense in the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, or where the hedge relationship no longer qualifies for hedge accounting.

Borrowings designated at fair value through profit or loss

Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received, and are subsequently measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement.

Under the provisions of IFRS 9 'Financial Instruments', changes in the group's own credit risk are recognised in other comprehensive income.

Derivative financial instruments

The group's default treatment is that derivative financial instruments are measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement. The group enters into financial derivatives contracts to manage its financial exposure to changes in market rates (see note A4).

Derivative financial instruments designated within a cash flow hedge relationship

Gains or losses resulting from the effective portion of the hedging instrument are recognised in other comprehensive income and in the cash flow hedge reserve with any remaining gains or losses recognised immediately in the income statement. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and cumulative change in fair value of the hedged item. At the maturity date, amounts paid/ received are recognised against operating expenses in the income statement.

Upon discontinuation of a cash flow hedge, the amount accumulated in other comprehensive income remains in the cash flow hedge reserve if the hedged future cash flows are still expected to occur. Otherwise the amount is immediately reclassified to the income statement.

Derivatives and borrowings – valuation

Where an active market exists, designated borrowings and derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value valuation model. The model uses applicable interest rate curve data at each reporting date to determine any floating cash flows. Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

The valuation of debt designated in a fair value hedge relationship is calculated based on the risk being hedged as prescribed by IFRS 9 'Financial Instruments'. The group's policy is to hedge its exposure to changes in the applicable underlying interest rate and it is this portion of the cash flows that is included in the valuation model (excluding any applicable company credit risk spread).

The valuation of debt designated at fair value through the profit or loss incorporates an assumed credit risk spread in the applicable discount factor. Credit spreads are determined based on indicative pricing data.

Inventories

Inventories are stated at the lower of cost and net realisable value. For properties held for resale, cost includes the cost of acquiring and developing the sites, including borrowing costs where applicable.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Employee benefits

Retirement benefit obligations

The group operates two defined benefit pension schemes, which are independent of the group's finances, for its employees. Actuarial valuations to determine the funding of the schemes, along with future contribution rates, are carried out by the pension scheme actuary as directed by the trustees at intervals of not more than three years. In any intervening years, the trustees review the continuing appropriateness of the funding and contribution rates.

From a financial reporting perspective and in accordance with IAS 19 'Employee Benefits', defined benefit assets are measured at fair value while liabilities are measured at present value, using the projected unit credit method. The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', on the basis that the group has an unconditional right to a refund of any surplus that may exist following the full settlement of plan liabilities in a single event.

The pension cost under IAS 19 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary, which are used to estimate the present value of defined benefit obligations. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note A5.

The cost of providing pension benefits to employees relating to the current year's service (including curtailment gains and losses) is included within employee benefits expense, while the interest on the schemes' assets and liabilities is included within investment income and finance expense respectively. Remeasurement gains/losses on scheme assets and liabilities are presented in other comprehensive income.

In addition, the group operates a defined contribution pension section within the United Utilities Pension Scheme. Payments are charged as employee costs as they fall due. The group has no further payment obligations once the contributions have been paid.

Share-based compensation arrangements
The group operates equity-settled, share-based compensation plans, issued to certain employees. The equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on estimates of the number of options that are expected to vest. Fair value is based on simulation models, according to the relevant measures of performance. The group has the option to settle some of these equity-settled share-based payments in cash. At each reporting date, the group revises its estimate of the number of options that are expected to become exercisable with the impact of any revision being recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

Foreign currency translation

Transactions and balances
Transactions in foreign currencies are recorded at the exchange rates applicable on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange applicable on that date. Gains and losses arising on retranslation are included in net profit or loss for the period.

Exchange differences arising on investments in equity instruments classified as fair value through other comprehensive income are included in the gains or losses arising from changes in fair value which are recognised directly in equity. To hedge its exposure to certain foreign exchange risks, the group enters into contracts for derivative instruments (see note A4).

Group companies
On consolidation, the statements of financial position of overseas subsidiaries and joint ventures (none of which has the currency of a hyperinflationary economy) are translated into sterling at exchange rates applicable at each reporting date. The income statements are translated into sterling using the average rate unless exchange rates fluctuate significantly, in which case the exchange rate at the date the transaction occurred is used. Exchange differences resulting from the translation of such statements of financial position at rates prevailing at the beginning and end of the period, together with the differences between income statements translated at average rates and rates ruling at the period end, are dealt with as movements on the group's cumulative exchange reserve, a separate component of equity. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated useful economic lives of the related assets.

Leases

At inception of a contract the group assesses whether a contract is, or contains, a lease. Where a lease is present, a right-of-use asset and lease liability is recognised at the commencement date. The lease liability is measured at the present value of future lease payments due over the term of the lease, with the right-of use asset recognised as property, plant and equipment at cost. This is generally equivalent to the initial measurement of the lease liability.

The group has elected to apply a practical expedient permitted by IFRS 16 whereby for the fixtures, fittings, tools and equipment asset class of leases the lease and non-lease components of the contracts are not separated, and instead are both accounted for as if they were a single lease component. Where non-lease components exist they are embedded within the lease payments, and the group deems that separation of such contracts into their constituent parts for this asset class would generally not be practicable nor have a material effect on the financial statements. IFRS 16 requires that where this practical expedient is applied, it is applied to the entire class of similar assets. The group has not applied this expedient to the remaining lease asset classes. Non-lease components include service charges, maintenance charges, and monitoring charges. For lease asset classes where the expedient has not been applied, non-lease components are excluded from the projection of future lease payments and are recorded separately within operating costs on a straight-line basis.

Lease payments are discounted using the group's incremental rate of borrowing if the interest rate implicit in the lease cannot be readily determined. For materially all of the group's leases, the group's incremental rate of borrowing is used. This rate is calculated using a number of inputs, being observable risk-free gilt rates, specific data based on bonds already in circulation for the relevant group company, as well as data from the wider utility sector. Further adjustments for payment profile and the term of the lease are made.

After the commencement date, the lease liability is increased for the accretion of interest (being the unwinding of the discounting applied to future lease payments) and reduced by lease payments made. In addition to this the carrying amount is updated to reflect any remeasurement or lease modifications. Remeasurements are typically required as a result of rent reviews or changes to the lease term. In these cases a corresponding adjustment to the right-of-use asset is made.

Depreciation of right-of-use assets is charged on a straight-line basis over the term of the lease.

Where leases have a term of less than 12 months from the commencement date and do not have a purchase option, the group applies the short-term lease recognition exemption available under IFRS 16. The group applies the low value recognition exemption permitted by the standard to leases of assets with a value of less than £2,500. Payments for short-term and low value leases are instead charged to operating costs on a straight-line basis over the period of the lease.

Statement of cash flows

Grants and contributions received
Grants and contributions received arise from transactions with customers, typically property developers that result in the expansion of the group's water and wastewater network and therefore its fixed asset base. Given that these grants and contributions are used to fund expenditure that results in the enhancement of the group's network assets, the cash inflows are classified within investing activities in the period.

Interest payments and receipts
IIFRS allows interest payments and interest receipts to be classified within operating activities or financing activities/ investing activities. The group classifies interest payments and interest receipts within operating activities, with management viewing these in conjunction with other operating cash flows in assessing the ability of the group to maintain its operating capability.

Support costs
Costs of time and resources incurred by the group's support functions that is capitalised in the period (see page 237) is included in purchase of property, plant and equipment within investing activities. These cash flows represent expenditures that have been made for resources intended to generate future income and cash flows, and the group deem these to therefore meet the definition of an investing activity.

Cash flows on derivatives
The cash flows on derivatives as a result of the group's hedging activities are presented together with the cash flows relating to the underlying hedged item to provide a more faithful representation of the substance of the transaction.

Taxes paid
Taxes paid by the group are presented as cash flows from operating activities. The group deem it impracticable to identify the tax cash flows with respect to individual transactions, which may themselves be presented in investing activities or financing activities, and instead present total tax cash flows as operating activities.

Dividend receipts
Dividends received from joint ventures have been presented in investing activities, with these cash receipts deemed to represent a return on investments previously made by the group.

Notes to the financial statements – appendices

A8 Subsidiaries and other group undertakings

Details of the group's subsidiary undertakings, joint ventures and associates are set out below. Unless otherwise specified, the registered address for each entity is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP, United Kingdom. For further details of joint ventures and associates, see note 13.

	Class of share capital held	Proportion of share capital owned/voting rights %*	Nature of business
Subsidiary undertakings			
Great Britain			
Halkyn District Mines Drainage Company Limited	Ordinary	99.9	Dormant
Lingley Mere Management Company Limited	Ordinary	90.9	Property management
North West Water International Limited	Ordinary	100.0	Dormant
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	Consulting services and project management
United Utilities North West Limited	Ordinary	100.0	Holding company
United Utilities Pensions Trustees Limited	Ordinary	100.0	Corporate trustee
United Utilities PLC	Ordinary	100.0	Holding company
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) Pension Trustee Limited	Ordinary	100.0	Corporate trustee
UU Group Limited	Ordinary	100.0	Dormant
UU Secretariat Limited	Ordinary	100.0	Dormant
YCL Transport Limited	Ordinary	100.0	Non-trading
United Utilities Bioresources Limited	Ordinary	100.0	Wastewater services
Joint ventures			
All joint ventures are accounted for using the equity method and are strategic to the group's activities to varying degrees.			
Great Britain			
Lingley Mere Business Park Development Company Limited	Ordinary	50.0	Development company
Selectusonline Limited	Ordinary	16.7	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 Group PLC

Note:
(1) Water Plus Limited and Water Plus Select Limited are wholly owned subsidiaries of Water Plus Group Limited. Registered address: South Court Riverside Park, Campbell Road, Stoke-on-Trent, United Kingdom, ST4 4DA.

Five-year summary – unaudited

The financial summary (unaudited) set out below has been derived from the audited consolidated financial statements of United Utilities Group PLC for the five years ended 31 March 2023. The calculation of RCV gearing and net debt have been re-presented for the years ended 31 March 2019 to 31 March 2022 so that they are presented on a consistent basis to the measures presented for the year ended 31 March 2023. Further detail of the changes to how these measures are presented can be found on page 115.

Year ended 31 March Continuing operations	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Revenue	**1,824.4**	1,862.7	1,808.0	1,859.3	1,818.5
Reported operating profit	**440.8**	610.0	602.1	630.3	634.9
Underlying operating profit	**440.8**	610.0	602.1	732.1	677.6
Reported profit before tax	**256.3**	439.9	551.0	303.2	436.2
Underlying profit before tax	**(34.3)**	301.9	460.0	534.8	500.9
Reported profit after tax	**204.9**	(56.8)	453.4	106.8	363.4
Underlying profit after tax	**(8.7)**	367.0	383.0	486.3	449.5
Reported earnings per share (basic)	**30.0p**	(8.3)p	66.5p	15.7p	53.3p
Underlying earnings per share	**(1.3)p**	53.8p	56.2p	71.3p	65.9p
Dividend per ordinary share	**45.51p**	43.50p	43.24p	42.60p	41.28p
Non-current assets	**13,835.8**	13,823.2	13,166.2	13,215.7	12,466.4
Current assets	**691.4**	613.8	1,012.9	828.4	721.4
Total assets	**14,527.2**	14,437.0	14,179.1	14,044.1	13,187.8
Non-current liabilities	**(11,442.6)**	(10,791.0)	(10,152.6)	(9,877.3)	(9,025.0)
Current liabilities	**(575.9)**	(688.6)	(995.5)	(1,204.7)	(1,052.0)
Total liabilities	**(12,018.5)**	(11,479.6)	(11,148.1)	(11,082.0)	(10,077.0)
Total net assets and shareholders' equity	**2,508.7**	2,957.4	3,031.0	2,962.1	3,110.8
Net cash generated from operating activities	**787.5**	934.4	859.4	810.3	832.3
Net cash used in investing activities	**(593.4)**	(639.7)	(549.3)	(593.9)	(627.7)
Net cash (used in)/generated from financing activities	**(85.0)**	(809.7)	(89.7)	(27.8)	(377.4)
Effects of exchange rates	**(1.3)**	1.5	–	–	–
Net (decrease)/increase in cash and cash equivalents	**107.8**	(513.5)	220.4	188.6	(172.8)
Net debt	**8,200.8**	7,570.0	7,305.8	7,227.5	6,990.4
RCV gearing(1) (%)	**58%**	59%	63%	61%	60%

Note:
(1) Regulatory Capital Value (RCV) gearing is calculated as group net debt (see Note A2) adjusted for loan receivables from joint ventures, divided by the RCV (as adjusted for actual spend and timing difference) of United Utilities Water Limited, including the expected value of AMP7 ex-post adjustment mechanisms. Prior year figures have been re-presented for comparative purposes.

Shareholder information

Key dates

- **22 June 2023**
  Ex-dividend date for the 2022/23 final dividend
- **23 June 2023**
  Record date for 2022/23 final dividend
- **11 July 2023**
  DRIP election date for 2022/23 final dividend
- **21 July 2023**
  Annual general meeting
- **1 August 2023**
  Payment of 2022/23 final dividend to shareholders
- **16 November 2023**
  Announcement of half-year results for the six months ending 30 September 2023
- **21 December 2023**
  Ex-dividend date for 2023/24 interim dividend
- **22 December 2023**
  Record date for 2023/24 interim dividend
- **11 January 2024**
  DRIP election date for 2023/24 interim dividend
- **1 February 2024**
  Payment of 2023/24 interim dividend to shareholders
- **May 2024**
  Announce the final results for the 2023/24 financial year
- **June 2024**
  Publish the integrated annual report and financial statements for the 2023/24 financial year

Make life easier and have your dividends paid straight into your bank account

- The dividend goes directly into your bank account and is available immediately;
- No need to pay dividend cheques into your bank account;
- No risk of losing cheques in the post;
- No risk of having to replace spoiled or out-of-date cheques; and
- It's cost-effective for your company.

To take advantage of this, please contact Equiniti via **shareview.co.uk** or complete the dividend mandate form you receive with your next dividend cheque.

If you choose to have your dividend paid directly into your bank account, you'll receive one tax voucher each year. This will be issued with the interim dividend normally paid in February and will contain details of all the dividends paid in that tax year. If you'd like to receive a tax voucher with each dividend payment, please contact Equiniti.

Electronic communications

We're encouraging our shareholders to receive their shareholder information by email and via our website. Not only is this a quicker way for you to receive information, it helps us to be more sustainable by reducing paper and printing materials and lowering postage costs.

Registering for electronic shareholder communications is very straightforward, and is done online via **shareview.co.uk** which is a website provided by our registrar, Equiniti.

Log on to **shareview.co.uk** and you can:

- set up electronic shareholder communication;
- view your shareholdings;
- update your details if you change you address; and
- get your dividends paid directly into your bank account.

Please do not use any electronic address provided in this integrated annual report or in any related document to communicate with the company for any purposes other than those expressly stated.

Online annual report

Our integrated annual report is available online. View or download the full integrated annual report and financial statements from: **unitedutilities.annualreport2023.com**

Keeping you in the picture

You can find information about United Utilities quickly and easily on our website: **unitedutilities.com/corporate**.
Here, the integrated annual and financial statements, responsible business performance, company announcements, the half-year and final results and presentations are published.

Registrar

The group's registrar, Equiniti, can be contacted on:

+44 (0)371 384 2041 (please use the code when calling from outside the UK) or for deaf and speech impaired customers, we welcome calls via Relay UK. Please see **www.relayuk.bt.com** for more information. Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

The address is:
Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex BN99 6DA.

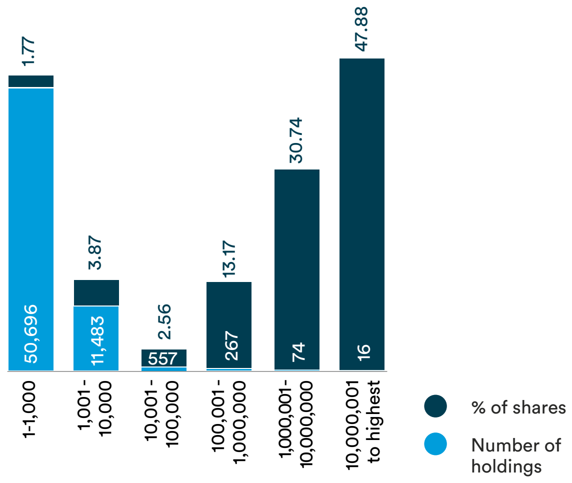
Overseas shareholders may contact them on:
+44 (0)121 415 7048

Equiniti offers a share dealing service by telephone:
0345 603 7037 and online: **shareview.co.uk/dealing**

Equiniti also offers a stocks and shares ISA for United Utilities shares: call **0345 300 0430** or go to: **shareview.co.uk/dealing**

Key shareholder facts

Balance analysis as at 31 March 2023



Geographic location of major shareholdings %

Dividend history – pence per share

	2019	2020	2021	2022	2023
Interim	13.76	14.20	14.41	14.50	**15.17**
Final	27.52	28.40	28.83	29.00	**30.34**
Total ordinary	41.28	42.60	43.24	43.50	**45.51**

Warning to shareholders

Please be very wary of any unsolicited contact about your investments or offers of free company reports. It may be from an overseas 'broker' who could sell you worthless or high-risk shares. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. Further information and a list of unauthorised firms that have targeted UK investors is available from the Financial Conduct Authority at:
fca.org.uk/consumers/unauthorised-firms-individuals

Important information

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

Terms used in this report:
Unless expressly stated otherwise, the 'group', 'United Utilities', 'UU' or 'the company' means United Utilities Group PLC and its subsidiary undertakings; the 'regulated business', 'regulated activities' or 'UUW' means the licensed water and wastewater activities undertaken by United Utilities Water Limited (formerly United Utilities Water PLC) in the North West of England.

RECYCLED
Paper made from recycled material
FSC® C100528

This document is printed on Revive 100% Recycled Silk, which is made from 100% FSC® Recycled pulp and post-consumer waste paper. This reduces waste sent to landfill, greenhouse gas emissions, as well as the amount of water and energy consumed.

United Utilities Group PLC
Haweswater House
Lingley Mere Business Park
Lingley Green Avenue
Great Sankey
Warrington
WA5 3LP

Telephone +44 (0)1925 237000

Stock Code: UU.
Registered in England and Wales
Registered number 6559020

United Utilities

Water for the North West