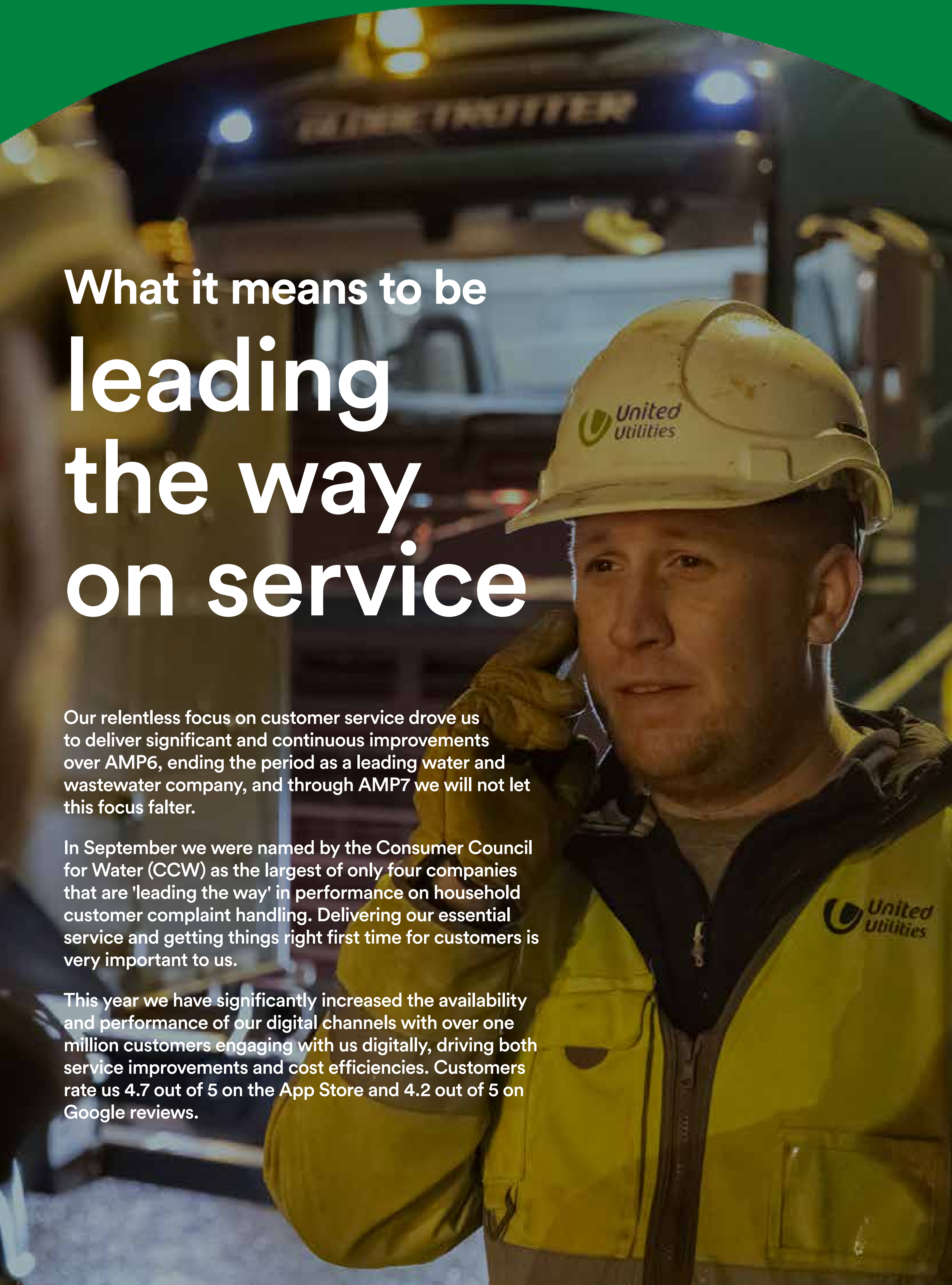


What it means to be leading the way on service

Our relentless focus on customer service drove us to deliver significant and continuous improvements over AMP6, ending the period as a leading water and wastewater company, and through AMP7 we will not let this focus falter.

In September we were named by the Consumer Council for Water (CCW) as the largest of only four companies that are 'leading the way' in performance on household customer complaint handling. Delivering our essential service and getting things right first time for customers is very important to us.

This year we have significantly increased the availability and performance of our digital channels with over one million customers engaging with us digitally, driving both service improvements and cost efficiencies. Customers rate us 4.7 out of 5 on the App Store and 4.2 out of 5 on Google reviews.

Strategic Report

Our purpose, vision, strategy and values

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

Our purpose

Why we exist

To provide great water and more for the North West

We are a purpose-led organisation and this drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner, looking after the interests of the stakeholders with whom we interact.

Our vision

What we want to achieve

To be the best UK water and wastewater company

This is what motivates us to improve our services and deliver more. To achieve this vision, our strategy has three themes – the best service to customers, at the lowest sustainable cost, in a responsible manner.

How we deliver our purpose and vision

The best service to customers

We put customers at the heart of everything we do. As well as delivering a reliable service of great-tasting water and removing wastewater, we proactively keep customers informed about any work we are doing in their area and communicate with them in ways that meet their individual needs; for example, we now use 'push texts' to send updates and alerts to customers within a specified location.

The best service to customers means being available when they need to contact us, always interacting in a friendly and helpful manner, and offering tailored support and assistance for customers when they need it. As well as these day-to-day interactions, it means consulting on what matters to them. This shapes what we do; for example, we redesigned our bills based on customer research and feedback.

At the lowest sustainable cost

To run a resilient business, it is important to ensure cost reductions are sustainable so that we can keep them down without compromising on resilience or the quality of service we deliver.

When we develop our plans and assess different options for consideration, we look to minimise the whole-life cost. This fits with the total expenditure (totex) model, because the most cost-effective option can vary between traditional operating expenditure (opex) or capital expenditure (capex) solutions.

Our Systems Thinking approach helps us look holistically at all options, and operating our entire network as a system rather than discrete assets opens up new avenues that would otherwise not have been available.

In a responsible manner

We will only deliver our purpose and create and maintain value for our stakeholders if we act in a responsible manner.

This means protecting and enhancing the natural environment, using natural solutions where possible, and reducing our carbon footprint and waste. It means promoting a safe, healthy and engaging workplace for our employees, supporting their physical and mental health. It drives us to support local communities on issues that matter to them, and to work with local schools and training facilities to promote skills for the future.

Above all it means we are open, honest and transparent in our dealings and in reporting our performance.

Our core values

Fundamental values that drive decision-making

Customer focused

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

Innovative

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

Trustworthy

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

Our strategic themes run through everything we do

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

Read more about **our KPIs** on page 51

Read more about **our risk management** on pages 100 to 109

Read more about **our remuneration report** on pages 160 to 189

How we operate

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

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

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

Wholesale
For non-domestic customers in the North West, such as businesses, we provide a wholesale service to water retailers. Our wholesale activities include interactions with new appointments and variations, known as NAVs.

CLEANING AND RETURNING WASTEWATER

567
wastewater treatment works

7,000
kilometres of rivers

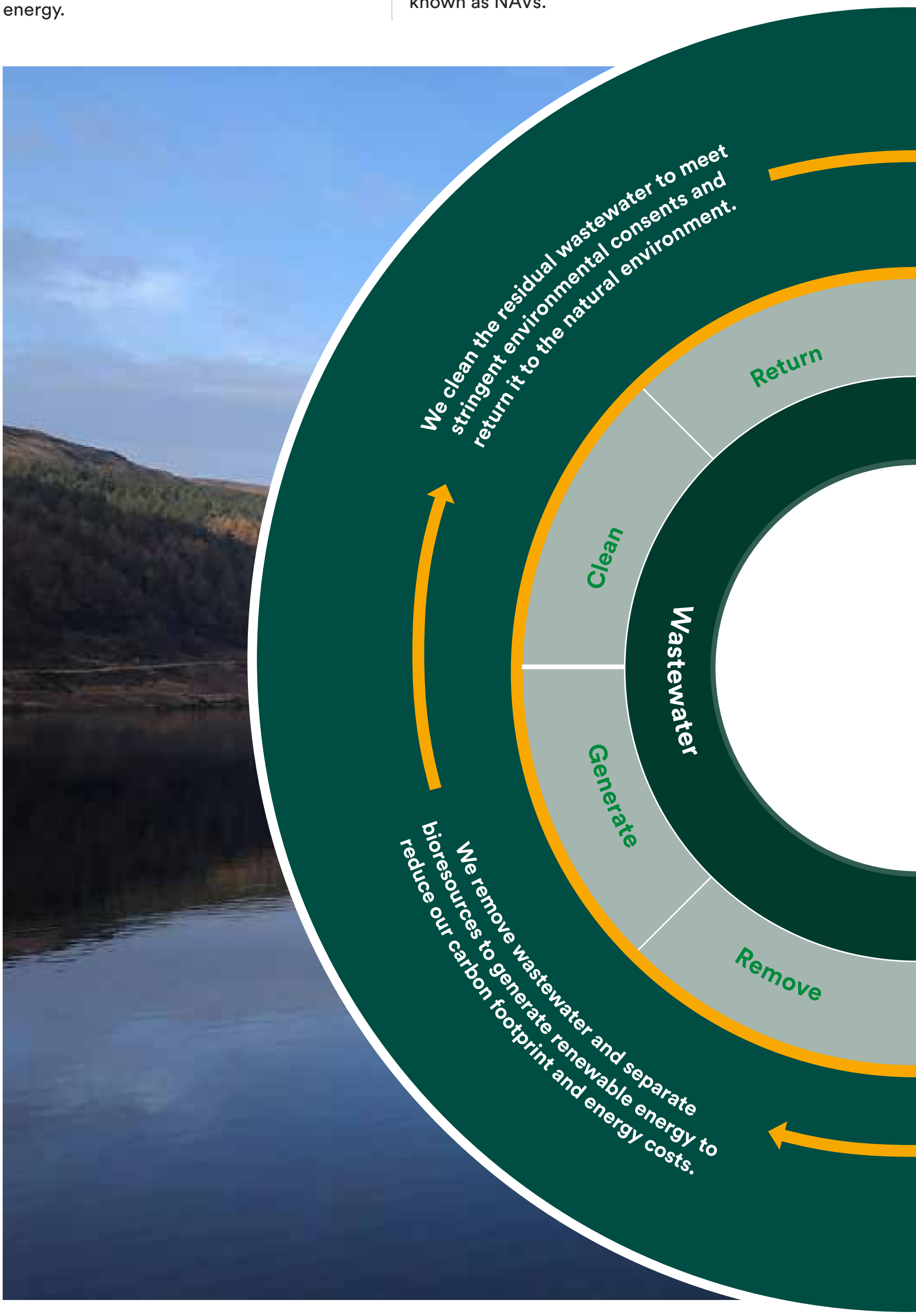
1,300
kilometres of coastline

REMOVING WASTEWATER AND GENERATING ENERGY

78,000
kilometres of wastewater pipes

198,000
tonnes of sewage sludge every year

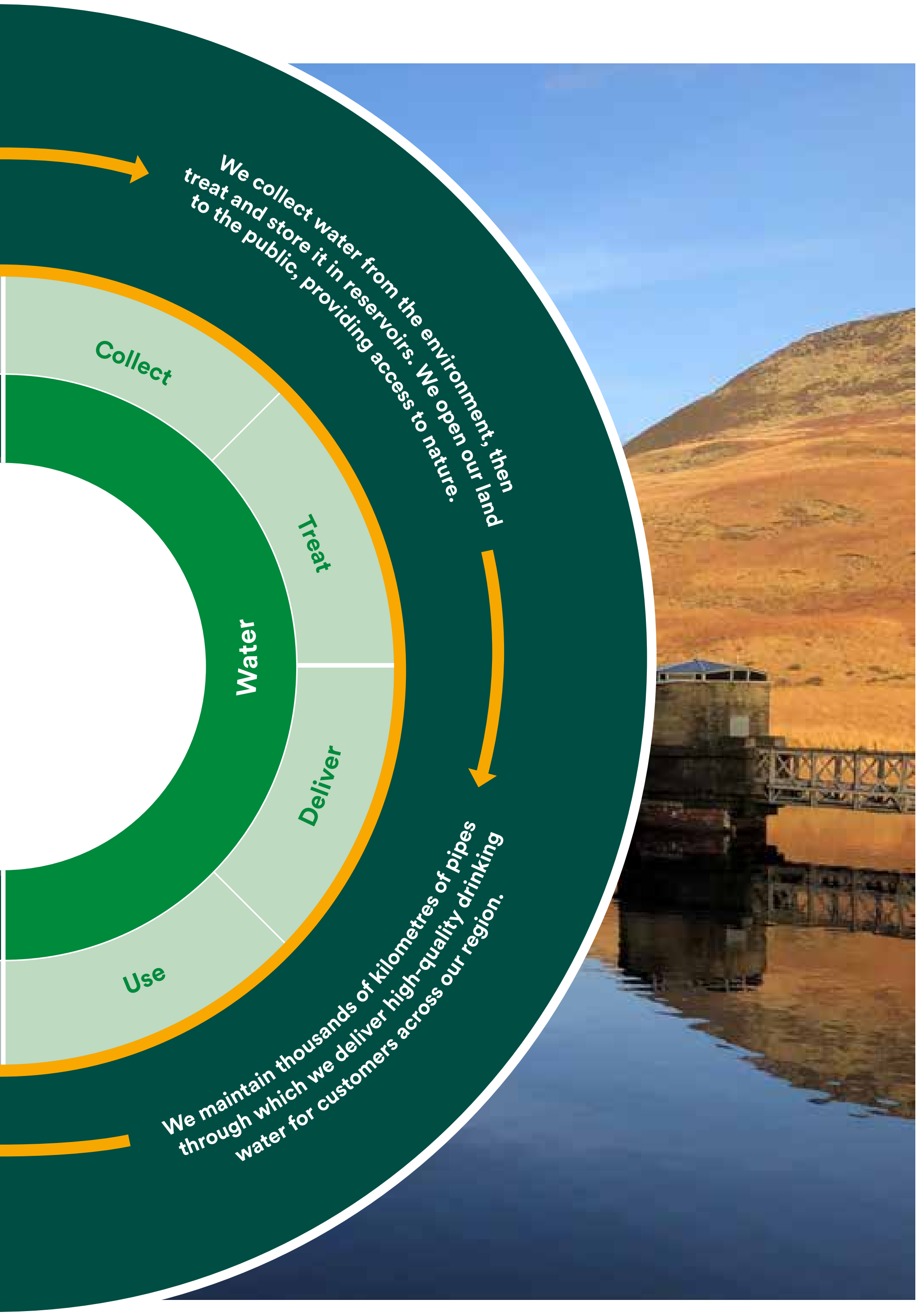
35
renewable energy facilities



Our Systems Thinking approach

Traditionally across the water industry, each asset or treatment works was operated, managed and assessed in isolation. Systems Thinking looks at the entire network, using enormous amounts of data from the telemetry backbone we have installed, to consider not just the individual asset but all its linkages, enabling us to find the best overall long-term solution. Our field engineers are linked by an Integrated Control Centre (ICC) at our head office, from which we plan, monitor and control our operations. From our ICC we process vast amounts of real-time data from across our network, factoring in other source data such as weather forecasts, and use artificial intelligence and machine learning to process this data and spot issues so we can resolve them before they impact customers.

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



COLLECTING AND TREATING WATER

56,000
hectares of land

165
reservoirs

88
water treatment works

DELIVERING WATER TO CUSTOMERS

42,000
kilometres of water pipes

1.8bn
litres of clean water every day

7.3m
customers served 24 hours a day

Serving our region

BEING PURPOSE-LED

Bringing value to the North West

Understanding our wider contribution helps us to make better decisions.

Through our activities, we make an important contribution to the environment, society and economy of the North West. At the start of each five-year investment cycle, we undertake a study to assess the economic contribution arising from our proposed spend.

We asked Hatch Regeneris, an independent economics consultancy, to estimate our contribution to the regional economy between 2020 and 2025, concluding this will be around £10.5 billion over the five years. Its report calculated we will support an average of 22,700 jobs through direct, indirect and induced employment effects, which is the people we employ directly, through our supply chain or arising from employee expenditure.

To put this into context, this equates to one per cent of all jobs and one in every £80 of gross value add (GVA) in the North West (pre-COVID-19 numbers). Our estimated GVA contribution each year of £2.1 billion compares with £2.8 billion GVA for the whole north west civil engineering sector.

As the economic effects of the pandemic begin to be felt, our investment programme offers a reliable economic contribution and source of employment to the region.

In February, we submitted proposals to support Defra's green recovery initiative, including plans to accelerate our current investment programme. By bringing expenditure forward, we will support an additional 1,500 to 2,000 jobs in the earlier years, when we can expect to see the worst economic effects of the pandemic.

Such analysis gives greater insight into the value we bring to the North West and enables us to make more informed, rounded, balanced decisions, shaped by stakeholder research and engagement. In AMP7, we've agreed a target to generate £4 million of natural capital value through catchment schemes – alongside water quality benefits, this work will protect and enhance biodiversity. Our investment in young people not in education, employment and training has already yielded over £9 million of social value through avoided welfare costs.

Looking ahead, we recently assessed the social and economic value that will arise from our commitment to reduce flooding occurrences by 2025. We've estimated that £200 million of social value will be generated based on the avoided impact of internal flooding, which includes the wellbeing benefits for customers. While further analysis is required, thinking this way offers additional insight into how we value future investments plans.

Generating value for:

Our contribution to the regional economy between 2020 and 2025 is estimated to be around £10.5 billion.

We serve the North West

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

SOCIAL FACTORS

We are leading the sector on affordability and vulnerability.

41%
of the most deprived areas in the country

47%
of households have less than £100 savings to cope with unexpected bills

18%
of households are affected by water poverty, 20 per cent higher than the national average

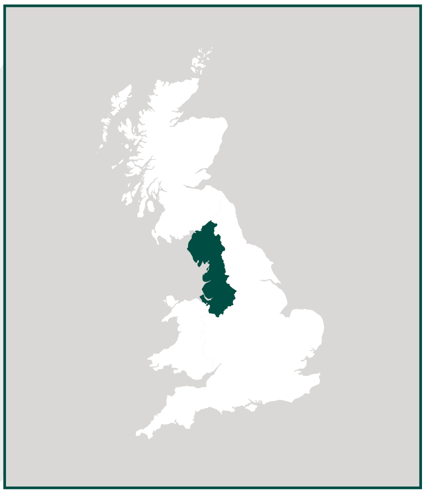
ECONOMIC FACTORS

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

7.3m
population expected to grow significantly in the next 25 years

22,700[1]
jobs actively supported by our work, with over 5,000 direct employees

Tourism
relied on by Lake District, Liverpool and coastal area



ENVIRONMENTAL FACTORS

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

30%
of land is National Park or Area of Outstanding Natural Beauty or Sites of Special Scientific Interest

29
designated bathing waters

830mm
higher than average UK rainfall each year

(1) based on our 2020–25 business plan

Engaging with our stakeholders

We actively engage with stakeholders to understand what matters most to them through strong and constructive relationships.

To create longer-term value for all it is essential that we identify and engage with our stakeholders to understand what matters most to them.

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

Understanding what matters to stakeholders will only be achieved by building strong, constructive relationships and engaging regularly. This is important to building and maintaining trust. These relationships are subject to robust governance to ensure the insights generated are taken into account in decision-making at executive and board level. The board's corporate responsibility committee meets four times a year, with stakeholder engagement as one of its standing agenda items, and the chair of the independent customer challenge group (YourVoice) regularly attends board meetings to provide its perspective.

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

As shown below, there are nine key stakeholder groups that influence our planning and activities, and six of these groups benefit from the value we create.

BEING PURPOSE-LED

Partnership approach to tackle flooding

Reducing the risk of flooding is especially challenging in the North West.

Analysis of Met Office data shows that average annual water run-off in the North West is 28 per cent higher than the average for England and Wales, meaning more water runs into our sewers and increasing flood risk.

Covering natural areas with new developments such as house building makes it harder to manage surface water run-off. With climate change increasing the frequency and intensity of storms, tackling flooding is becoming of greater concern for regional stakeholders. No single organisation can tackle this problem alone; only by working in partnership will the benefits from reducing flooding risk to wider society be realised.

One example of partnership working is in Thornton, near Blackpool, which is in the low-lying, flat and saturated River Wyre catchment. The area has experienced flooding from multiple sources and water quality issues from misconnections. Because the sewer network is combined, bringing together surface water and sewage from homes and businesses, there is limited capacity for extra water, which then has to be pumped to nearby Fleetwood wastewater treatment works.

The traditional solution to install concrete storage tanks to reduce the effects of storm flows wasn't cost beneficial or environmentally sustainable.

In 2019, we engaged with other risk management authorities, catchment partners such as the Rivers Trust, and the community group of the Wyre Flood Forum, to develop a plan to tackle the joint issues in the catchment. We challenged ourselves to examine how to store and purify flood waters through natural flood management and how we could realise multiple benefits through targeted extra investment.

The scope of the agreed solution included:

- 3.3 hectares of wetlands, 1,000m^3 of flood storage and restoring the river to its natural state;
- 1,300m^3 of storage and wetlands habitat constructed in collaboration with McDermott Homes; and
- an investment of £220k to the Wyre Rivers Trust.

This catchment scheme was possible because of strong and effective partnerships. Support came from the EU LIFE-funded Natural Course project. Working with the developer to use land for flood risk management was vitally important, as was access to alternative funding streams to help realise wider benefits. Looking ahead, we will monitor the wetlands to understand the catchment and assess ecological improvement, with input from local communities.

The success of this collaboration can be applied to other partnerships across the North West.

Generating value for:

This catchment scheme was possible because of strong and effective partnerships.

Engaging with our stakeholders

Our approach to engagement extends across all of our stakeholders, from those who influence what we do and benefit from the value we create, to those who just influence what we do.

Read more about how we manage our material issues on page 27

Communities

Why we engage
Our work puts us at the heart of local communities, places where customers and employees live and work. We seek to support communities to be stronger based on mutual trust, respect and understanding the impact and contribution our work has on everyday life. We play a constructive role in tackling issues through engagement and investment, and by identifying what matters most to communities we can develop collaborative solutions.

How we engage
Much of our engagement is face-to-face, although over the past year we have adapted to using more digital means of engagement, such as our online consultation as part of the Haweswater Aqueduct Resilience Programme, alongside traditional methods, such as attending parish council meetings.

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

Top three material issues
- Land management and access
- Community investment
- Trust, transparency and legitimacy

Customers

Why we engage
To provide a great service in a way that customers value, we need to listen and engage with them to understand both short-term issues, and longer-term expectations of us as their water company. We are always interested to know what domestic and wholesale customers think about us so we can make our services better and address the issues that matter. As customer expectations change, we need to evolve our own services to ensure we meet those expectations.

How we engage
We interact with customers every day through our operational call centres, water retailers and increasingly via social media channels. We also get direct feedback through schemes such as the WOW awards.

Enhancements to our service such as Priority Services have been developed through engagement with customers and groups representing vulnerable customers, such as Age Concern and Autism Together.

Our current business plan was shaped by unprecedented levels of customer engagement. YourVoice, the independent customer challenge group, provided critical support and challenge, as well as contributing to shape our plans to 2025.

Top three material issues
- Customer service and operational performance
- Affordability and vulnerability
- Leakage and water efficiency

Employees

Why we engage
It is essential we build productive relationships with our employees based on trust. Our employees are the face of the company and we simply could not deliver our services without them, including the 13,000 who form part of our supply chain in the North West. Employees know our business better than anyone, with a diverse range of views and experience, making them well placed to identify opportunities for improvement.

How we engage
Line managers play a vital role in supporting employees, with regular one-to-one meetings providing two-way engagement.

Every year our employee opinion survey provides an opportunity for employees to have a say about our company and to be open and honest with their views and opinions. The anonymous and confidential survey is managed by an independent consulting firm. Results are provided to all teams with greater than ten members for them to take action accordingly.

Our Employee Voice panel consists of 24 members from across the company, providing a means by which employee perspectives are heard by the board. We have several employee-led networks, including gender equality, multicultural and LGBT+ groups.

Top three material issues
- Health, safety and wellbeing
- Diverse and skilled workforce
- Employee relations

Environment

Why we engage

We rely on the environment and play a key role in protecting and enhancing it across the region. Given the environment has no voice of its own, we engage with interested groups such as environmental regulators, non-governmental organisations, campaigners and local communities to find the best ways to tackle environmental issues, like climate change and land management.

How we engage

We have formal discussions with both national and regional representatives of environmental regulators to identify priority issues and solutions.

We conduct facilitated workshops with environmental stakeholders to understand their priorities and have undertaken a large number of customer research projects.

We work with other companies, including within the water sector, landowners and local and national environmental groups to explore where we have common interests and opportunities to collaborate and deliver more together through pilots and partnerships.

Top three material issues

- Resilience
- Environmental impacts
- Climate change

Investors

Why we engage

It is important that investors have confidence in the company and how it is managed, given their investment in our business. We provide regular updates to debt and equity investors so they can be assured that the company is being managed responsibly. Increasingly, this includes environmental, social and governance updates alongside financial and performance data as investors take a broader view of value and risk.

How we engage

Our AGM provides a chance for any shareholder to engage with our board of directors and hold them to account.

Through our investor relations programme, we actively engage with shareholders and analysts who write reports on our company and industry. Regular engagement activities are supplemented by ad hoc events such as capital markets days.

Our treasury team has regular dialogue with the group's relationship banks and the EIB and credit rating agencies. Updates are provided to credit investors through a programme of meetings and mailings.

We supply information to several investor-led ratings and indices on ESG matters, such as the Dow Jones Sustainability Index.

Top three material issues

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

Suppliers

Why we engage

Good relationships with suppliers help ensure that we get projects delivered on time, to good quality, at efficient costs and can identify and realise innovative approaches and solutions. Awareness of issues throughout the supply chain means we can address them together and become more resilient. We rely on suppliers to deliver our services and create value for all.

How we engage

Existing suppliers have regular discussions with our commercial team as part of our supplier relationship management (SRM) process. This helps to identify issues and opportunities to make our relationship flow smoothly.

When re-tendering goods or services, we engage with the market directly and through supplier databases such as Achilles, to get a broad view of best practice and market opportunities.

Through our United Supply Chain (USC) approach we engage suppliers on sustainable and ethical issues and performance. Suppliers can join USC by committing to our responsible sourcing principles.

Through memberships of organisations such as the Supply Chain Sustainability School and the Chartered Institute of Procurement and Supply we keep abreast of best practice.

Top three material issues

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

Engaging with our stakeholders

We maintain close relationships with three stakeholder groups that influence what we do and how we do it.

Warrington South MP Andy Carter meeting our apprentices during National Apprenticeship Week.

Media

Why we engage
It is through both traditional media and social media that many of our stakeholders receive their information about us and our activities. The media is influenced by the issues that matter most to those stakeholders as well as influencing them through what it reports. Given the nature of our services, it is important that coverage is fair, balanced and accurate. This requires effective two-way dialogue between the company and the media.

How we engage
Our media team are available 24/7 to respond to media enquiries and proactively engage media outlets providing digital content suitable for direct media broadcast.

Regular press releases on company activities help to maintain relationships with national, regional and local media outlets.

We have a dedicated social media team who manage and respond to posts on our social media channels while driving proactive messages and articles. We monitor social media sentiment and issues related to the company so we can respond accordingly.

Top three material issues
- Political and regulatory environment
- Leakage and water efficiency
- Social media

Politicians

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

Local government, elected representatives and devolved administrations provide insight into shared social, environmental, economic and governance issues.

How we engage
We engage with regional and national politicians across the different political parties.

Open dialogue with regional MPs is maintained on specific issues and we regularly attend meetings at constituency offices. We have provided each MP in our region with a fact sheet with contact details and information about our activities in their constituency.

We take part in joint working groups with devolved administrations and local authorities on topics such as natural capital.

As part of our capital programme, we often attend local parish council meetings to make the case for our planning applications.

Top three material issues
- Political and regulatory environment
- Leakage and water efficiency
- Trust, transparency and legitimacy

Regulators

Why we engage
Through proactive, constructive engagement with economic, quality and environmental regulators, we agree commitments over specified time periods and finalise the expectations they have of our business planning and performance.

We actively engage to shape the policy and regulatory framework within which we operate, covering customer, economic, environmental, social and governance matters.

How we engage
We hold regular meetings with all of our regulators to discuss priorities and objectives which can change over time.

When they seek views through specific consultations we provide considered responses where we think there is value and we have something to contribute.

We work together with regulators to find new solutions through projects such as Natural Course, which aims to build capacity to protect and improve the water environment of the North West.

Top three material issues
- Political and regulatory environment
- Resilience
- Trust, transparency and legitimacy

Managing our material issues

Our approach to materiality

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

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

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

Our assessment of the level of interest to stakeholders is based on a balance of views obtained from communities, customers, employees, investors, regulators, and subject matter experts from the company on an ongoing basis, as well as the extensive insights gathered for the regulatory price review process. We will be undertaking a thorough review of our material issues and matrix in the next 12 months.

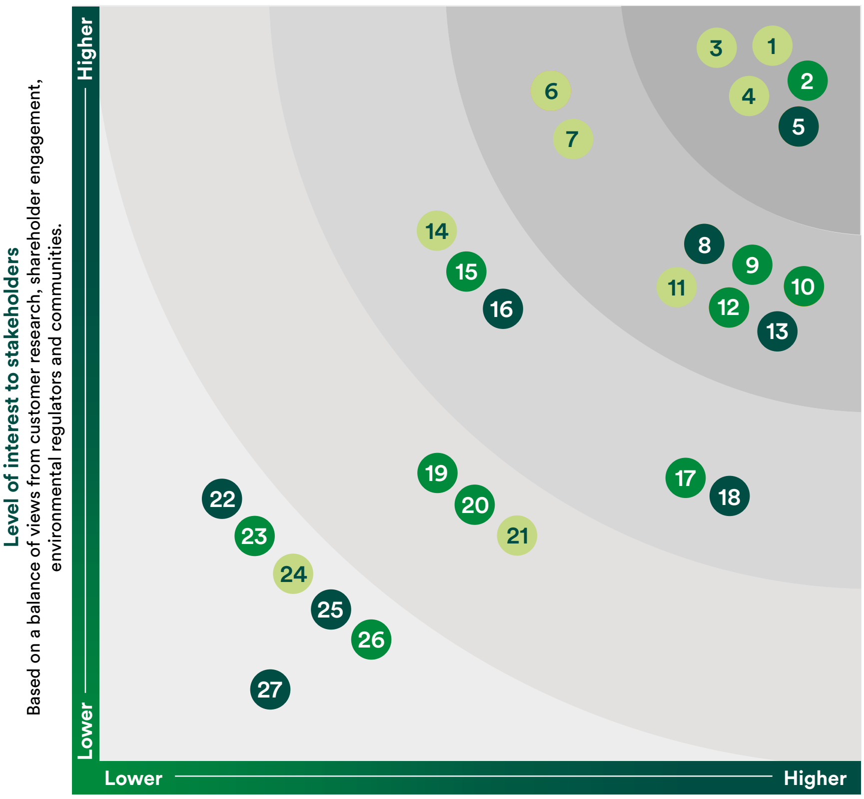
We have cross-referenced and aligned these issues with our principal risks and uncertainties, and our approach was reviewed by responsible business consultancy Corporate Citizenship, which commented that "alignment with United Utilities' way of creating value gives life and credibility to the materiality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

Material issues matrix

We consolidated feedback from our various stakeholder groups, as detailed above, which resulted in 26 material issues. Due to the impact and ongoing nature of the COVID-19 pandemic we have included this as a new material issue. These issues are impacted by factors that may be external, internal or both; for example, the material issue of a diverse and skilled workforce has an external dimension of skills and diversity within the region, whereas the training and culture within the company are internal factors. The 27 issues are plotted on the matrix below, from lower to higher in terms of level of interest to stakeholders and how much it can affect our ability to create value.

OUR PRIORITISATION OF ISSUES

Striking the right balance between different interests and views is not easy. Discussions at board and management level form part of this alongside the use of tools such as our whole-life cost model when considering investment decisions. We are exploring how multi-capital approaches might help in our decision-making, and expect a plan of how this can add the most value to be completed this year.



Effect on our ability to create value

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

External factors

- 5 Political and regulatory environment
- 8 Climate change
- 13 Cyber security
- 16 North west regional economy
- 18 Natural resources
- 22 Social media
- 25 Land management and access
- 27 Human rights

Internal factors

- 2 Resilience
- 9 Financial risk management
- 10 Corporate governance and business conduct
- 12 Innovation
- 15 Data security
- 17 Energy use
- 19 Responsible supply chain
- 20 Health, safety and wellbeing
- 23 Employee relations
- 26 Community investment

Both external and internal factors

- 1 Trust, transparency and legitimacy
- 3 Customer service and operational performance
- 4 Leakage and water efficiency
- 6 Affordability and vulnerability
- 7 COVID-19
- 11 Sewer flooding
- 14 Environmental impacts
- 21 Competitive markets
- 24 Diverse and skilled workforce

S172(1) Statement

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

The board of directors of United Utilities Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (among other matters) to factors (a) to (f) S172(1) Companies Act 2006, in the decisions taken during the year ended 31 March 2021.

Our key decisions during the year to 31 March 2021 were:

OUR APPROACH

Introduction

Throughout this annual report, we provide examples of how we have thought about the likely consequences of long-term decisions and how we:

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

Green recovery

In July 2020, Defra commenced an initiative through which water companies (among others) could propose to accelerate investment to deliver 'green' initiatives that would both benefit the environment and support the economic recovery from the COVID-19 pandemic. The requirements for such proposals were further clarified by Ofwat, Defra, the Consumer Council for Water, the Environment Agency and the Drinking Water Inspectorate in November 2020 and January 2021.

The board's view

The board believed that the draft investment proposed would help to contribute to the Government's green recovery plans and bring forward benefits for customers and the environment, but it would not present a significant risk to our financial resilience nor compromise our ability to deliver the remainder of our AMP7 plan. The board believed that our proposals were: of high quality; represented strong outcomes for customers and the environment; offered good value for money; could be implemented alongside existing regulatory and statutory commitments; and would be most likely to promote the long-term success of the company for the benefit of its members as a whole. If our regulators confirm they are supportive, the board will further review its position.

Scope 3 emissions

We had already committed to achieving science-based targets to reduce our emissions in line with the UK's commitment in the 2008 Climate Change Act (see pages 86 to 97). As part of our carbon strategy the board has made a series of pledges to deliver these targets and to setting further targets across our full value chain, including transitioning to using 100 per cent renewable energy by 2021 and a 100 per cent green fleet by 2028.

The board's view

During the year, we have made a further commitment by setting science-based targets for scope 3 emissions. First, we will reduce our absolute emissions by 25 per cent from the 2020 baseline by 2030, thereby aligning the group to a trajectory needed to limit global warming to 'well below' 2°C. Secondly, we have set the target that 66 per cent of our construction services suppliers should set their own science-based target by 2025, thereby helping to escalate a carbon focus in the construction services sector. The board believed that committing to our pledges and delivering against the targets set would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

AMP 7 dividend policy

Our AMP 7 dividend policy for the 2020–25 regulatory period was agreed by the board and announced on 29 January 2020. When we announced our full-year results in the early stages of the pandemic in May 2020, we undertook to review the AMP7 dividend policy in light of the uncertainty associated with the impact of the pandemic that existed at that time. In November 2020, the board reaffirmed the AMP7 dividend policy, targeting a growth rate of CPIH inflation each year through to 2025.

The board's view

Over the summer and autumn of 2020, we had a chance to gain a clearer understanding of the impact of the pandemic on the business, which continued to be robust and supported by a strong balance sheet, along with a stabilised inflation outlook supported by central bank policy and government actions. The board believed that reaffirmation of the AMP7 dividend policy would provide greater certainty for our investors and would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

OUR STRATEGIC THEMES

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

Non-financial information statement

The table below constitutes the company's non-financial information statement, produced to comply with sections 414CA(1) and 414CB(1) of the Companies Act 2006. Our purpose-driven approach, as described on pages 16 to 17, sets out how we act as a responsible business and is applicable to the areas of disclosure required by s414CB(1). The performance tables we publish for each stakeholder that we create value for, so that we can demonstrate we are fulfilling our purpose (see pages 52 to 73), include data in relation to the areas of disclosure required by s414CB(1).

Read more about our purpose on our website:
unitedutilities.com/corporate/about-us/what-we-do/our-vision

Reporting requirement	Information necessary to understand our business and its impact; policies and due diligence activities; and outcomes	Policies, guidance and standards which govern our approach (some of which are only published internally)
Environmental matters	Reflecting the needs of the environment: • Natural resources – see page 34 • Natural environment – see pages 25 and 36 • Reducing our carbon footprint – see pages 86 to 99	• Waste and resource use policy • Environmental policy – see the responsibility pages on our website • Water Resources Management Plan – see page 48 • Emissions target – see pages 86 to 99
Employees	Reflecting the needs of our employees: • Competitive base salaries and benefits – see page 173 • Health and safety – see page 61 • Mental wellbeing – see pages 59 to 60 • Gender pay report 2020 – see page 139 • Engagement – see pages 5, 24, 59, 61 and 194 • Board diversity – see pages 132 to 133	• Health and safety policy • Equality, diversity and inclusion policy • Flexible working arrangements • Agency worker policy • Mental wellbeing policy • Human rights policy – see page 41 • Board diversity policy – see pages 132 to 133
Respect for human rights	Reflecting the needs of our stakeholders: • Suppliers – see page 25 • Diversity within our workforce – see pages 42, 59 to 62, 132 to 133, 137 to 140	• Employee data protection policy • Slavery and human trafficking statement • Human rights policy – see page 41
Social matters	Reflecting the needs of our stakeholders: • Customers – see page 24 • Communities – see page 24 • Environment – see pages 25 and 86 • Suppliers – see page 25 • Regulators – see page 26	• YourVoice – see page 22 • Charitable matched funding guidance • Volunteering policy • United Supply Chain – see pages 41 and 73 • Commercial procurement policy
Anti-corruption and anti-bribery	Reflecting the needs of employees and suppliers: • Employees – see pages 59 and 155 • Suppliers – see page 71	• Anti-bribery policy • Fraud investigation and reporting processes • Whistleblowing policy • Internal financial control processes • Commercial procurement policy

Our business model

OUR KEY RESOURCES

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

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

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

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

Read more about our key resources on pages 34 and 35

To provide great water and more for the North West

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

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

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

Read more about our strategy and core values on pages 16 to 17

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

Read more about our approach to planning on pages 48 to 49

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

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

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

1 year — 5 years — 25+ years

OUR EXTERNAL DRIVERS AND RELATIONSHIPS

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

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

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

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

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

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

Read more about external drivers and relationships on pages 36 to 37

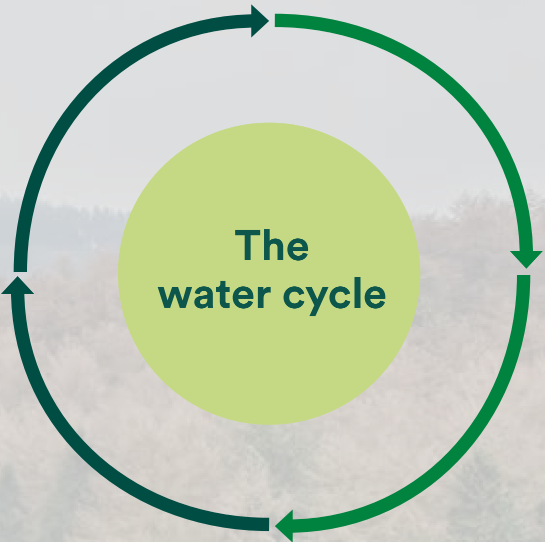
WHAT WE DO

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

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

Our customers

We deliver a reliable service to over seven million people, with over three million household customers and over 200,000 businesses. We supply clean, great-tasting water and remove wastewater 24 hours a day.



Read more about our water cycle on pages 18 to 19

HOW WE DO IT

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

Read more about our approach on page 46

Our prioritisation of issues

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

Our commitment to ESG matters

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

Our risk management

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

Systems Thinking

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

The value we generate

Communities

We build partnerships to help create better places and support communities to be stronger. We work with schools and young people to develop skills and help people get back to work. Our land is open to the public and we encourage people to use it responsibly.

How we measure this

- KPI – Community investment
- Other metrics, including partnership leverage, provision of education and visitor satisfaction

Customers

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

How we measure this

- KPI – C-MeX
- Other metrics, including D-MeX, managing complaints, vulnerability support and customer awareness

Employees

We focus on attracting, developing and retaining a diverse workforce, and ensuring we look after their health, safety and wellbeing. We run graduate and apprenticeship programmes, and wider training schemes, to develop skilled employees. We pay the Living Wage and have a secure pension provision.

How we measure this

- KPI – Employee engagement
- Other metrics, including diversity and inclusion, learning and development, and accident frequency rate

Environment

We protect and enhance reservoirs, catchments, rivers and bathing waters that provide a home for wildlife, areas for recreation, and a major pull for tourism. We aim to reduce our impact and generate renewable energy to protect the environment for years to come.

How we measure this

- KPI – EA performance assessment
- Other metrics, including leakage reduction, clean air, carbon footprint and natural capital value added

Investors

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

How we measure this

- KPI – RoRE
- Other metrics, including performance across investor indices, gearing and Fair Tax Mark

Suppliers

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

How we measure this

- KPI – percentage of invoices paid within 60 days
- Other metrics, including average time taken to pay invoices and suppliers signed up to our United Supply Chain

Read more about **how we deliver value for our stakeholders** on pages 52 to 72

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

To provide great water...

and more...

for the North West

Our business model

Our key resources

NATURAL RESOURCES

Link to risks 1 2 7

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

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

How we manage this key resource

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

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

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

Our activities produce various wastes, including sludges, which we manage in a sustainable way with more than 97 per cent going to beneficial uses such as recycling and application to land as a fertiliser. We use recycled products where practical, and are working to reduce our use of plastics and raw materials to minimise our environmental impact.

PEOPLE

Link to risks 5 7

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

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

How we manage this key resource

We support thousands of jobs in the North West, including graduate and apprenticeship programmes, helping to secure a legacy for the future in our region. We are an accredited Living Wage Foundation employer, providing our employees with competitive salaries and benefits, an attractive pension offering, and the opportunity to join the employee healthcare scheme and our share incentive plan.

We provide comprehensive training and development opportunities, including digital skills to help with our Systems Thinking approach and enable remote working where practical, which has been more important than ever this year with restrictions as a result of the COVID-19 pandemic.

We promote diversity and equal opportunity to drive a comprehensive and balanced skill set, and we recruit and promote employees on the basis of merit. We are committed to being an inclusive workplace, supporting employees to reach their full potential whilst feeling valued and included. Employee networks, representing certain groups of employees that may face specific challenges, are overseen by an executive sponsor and support employees through their career progression.

Read more about diversity and inclusion on pages 60 to 62 and 138 to 140

We are committed to protecting the health, safety and wellbeing of our people, and have been awarded the workplace wellbeing charter.

We measure employee engagement through an annual survey, and regularly achieve results higher than the UK norm.

We monitor and measure employee performance through annual reviews, and employees at all levels of the company participate in the bonus scheme, so they benefit from company success. The bonus performance measures are the same for all employees as those for the executive directors, and can be found on page 168.

ASSETS

Link to risks 1 2 5

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

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

How we manage this key resource

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

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

We saw in AMP6 the benefit of accelerating our investment to deliver improvements sooner, and we are taking the same approach in AMP7, bringing forward £500 million of our capital expenditure into the first three years of the five-year period.

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

FINANCING

Link to risks 6

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

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

How we manage this key resource

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

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

Read more about our sustainable finance framework on page 70

We aim to avoid a concentration of refinancing in any one year, and fund long term where possible. Our debt portfolio has a very long average life, and we monitor liquidity forecasts with a policy of having resources available to cover the next 15–24 months of projected cash flows to ensure forward funding needs are met. We have clear and transparent hedging policies covering credit, liquidity, interest rate, inflation and currency risk, and these are aligned with the regulatory model.

OUR PRINCIPAL RISKS

1. Water service
2. Wastewater service
3. Retail and commercial
4. Supply chain and programme delivery
5. Resource
6. Finance
7. Health, safety and environmental
8. Security
9. Conduct and compliance
10. Political and regulatory

RISK EXPOSURE

An indication of the current exposure of each principal risk relative to the prior year.

- Decreased
- Stable
- Increased

Our business model

Our external drivers and relationships

STAKEHOLDERS

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

Read more on pages 24 to 26

HOW WE RESPOND TO CHALLENGES

External factors present challenges to how we operate our business. It is important that we are able to identify these challenges and develop plans to respond to them.

Read more on pages 38 to 42

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

NATURAL ENVIRONMENT

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

Link to challenges
- Protecting and enhancing the natural environment
- Adapting to a changing climate

ECONOMIC ENVIRONMENT

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

Link to challenges
- Protecting corporate and financial resilience
- Helping customers with affordability and vulnerability

STAKEHOLDERS

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

Link to challenges
- Securing long-term operational resilience

REGULATORY ENVIRONMENT

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

Link to challenges
- Securing long-term operational resilience
- Maintaining trust and confidence

TECHNOLOGY AND INNOVATION

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

Link to challenges
- Delivering a reliable service in a changing world

POLITICAL ENVIRONMENT

Political decisions have the potential to significantly impact on our operations. As a responsible business, we ensure that we abide by the directions set by government, and stay flexible to adapt to developments. We engage closely with politicians and other policymakers to understand developments which will affect our business, and to communicate the value that United Utilities delivers in the North West, and the UK as a whole.

Link to challenges
- Maintaining trust and confidence

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

10

large licensed water and wastewater companies

2nd

largest waste and wastewater company in England and Wales

£51bn

allowance across the industry to deliver further improvements over the 2020–25 period

Our industry and market

Customers in England and Wales are served by 10 large licensed water and wastewater companies and smaller companies providing water-only services.

Our regulated entity, United Utilities Water Limited, is the second largest, based on the size of our Regulatory Capital Value (RCV), which represents the value of accumulated investment in the company's asset base. We serve over seven million people, with over three million household customers making up around two-thirds of our revenue, and over 200,000 businesses. In the non-domestic marketplace, we provide wholesale services to water retailers. As a monopoly provider of essential services, we are regulated by various bodies as set out below.

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

To ensure our plan is robust and balanced, we consult with customers and other stakeholders (including quality and environmental regulators) and factor in long-term planning and resilience needs.

This was the first year of AMP7, covering the 2020–25 period, and our focus has been on delivering and trying to outperform our final determination through:

- delivering higher customer satisfaction than the other companies in our industry;
- beating the outcome delivery incentive (ODI) targets for operational performance;
- delivering our AMP7 scope within our final determination total expenditure (totex) allowance; and
- raising debt finance at a cost below the industry allowed cost of debt.

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

Our regulators assess our comparative operating performance against the other water and wastewater companies in England and Wales, with the Drinking Water Inspectorate (DWI) assessing performance in water, the Environment Agency (EA) assessing performance in wastewater, and Ofwat assessing customer satisfaction. The latter two are included in our operational key performance indicators (KPIs).

Our vision is to be the best UK water and wastewater company, so we regularly benchmark our performance against these peers. As well as assessment against our water peers, we benchmark our customer service performance against other leading service providers in our region.

Our regulators

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

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

The regulatory framework can change significantly in the long term and we have seen substantial tightening of laws and regulations since privatisation.

While much is outside our direct control, maintaining good relationships enables us to engage positively with regulators to influence future policy, aiming to achieve the best outcome for all our stakeholders.

Read more about our stakeholder engagement on pages 22 to 26

Our business model

How we respond to challenges

Managing short, medium and long-term challenges facing our business.

Overview

Addressing the challenges we face is key to delivering a resilient service. How we respond to these can be seen in the material issues and risks identified below.

Delivering a reliable service in a changing world

Link to material issue
- Resilience
- Innovation
- Customer service and operational performance

Link to risks
1 2 3

Read more on page 39

Securing long-term operational resilience

Link to material issue
- Political and regulatory environment
- Resilience
- Customer service and operational performance

Link to risks
4 5

Read more on page 39

Protecting and enhancing the natural environment

Link to material issue
- Natural resources
- Environmental impacts
- Land management and access

Link to risks
7 10

Read more on page 40

Helping customers with affordability and vulnerability

Link to material issue
- North west regional economy
- COVID-19
- Affordability and vulnerability

Link to risks
3

Read more on page 40

Adapting to a changing climate

Link to material issue
- Climate change
- Resilience
- Leakage and water efficiency

Link to risks
1 2

Read more on page 41

Maintaining trust and confidence

Link to material issue
- Cyber security
- Corporate governance and business conduct
- Trust, transparency and legitmacy

Link to risks
8 9

Read more on page 41

Protecting corporate and financial resilience

Link to material issue
- Financial risk management
- Corporate governance and business conduct
- Diverse and skilled workforce

Link to risks
5 6 9

Read more on page 42

Responding to the COVID-19 pandemic

Link to material issue
- North west regional economy
- Health, safety and wellbeing
- Affordability and vulnerability

Link to risks
5 7 10

Read more on page 44 to 45

OUR PRINCIPAL RISKS

1. Water service
2. Wastewater service
3. Retail and commercial
4. Supply chain and programme delivery
5. Resource
6. Finance
7. Health, safety and environmental
8. Security
9. Conduct and compliance
10. Political and regulatory

Read more about our material issues on pages 26 to 27
Read more about our approach to risk management on page 100
Read more about our emerging risks on page 109

CHALLENGE: DELIVERING A RELIABLE SERVICE IN A CHANGING WORLD

In an increasingly digitised and instant economy, customers expect more from services now than ever before. This includes the water sector, with high expectations for the reliability of services, the water we supply and the assets we operate.

Many of our assets are ageing compared to other utilities. To meet the expectations of customers and regulators, it is critical that we combine modern technology into our networks and management of customer service. Quick response to issues raised by stakeholders, often through digital means such as social media, is part of this growing expectation.

Ensuring a reliable service in the face of a growing population, changing climate and increasing expectations of service requires integrated long-term thinking and targeting investment to ensure both short and longer-term reliability.

How we respond

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

Over one million customers now engage with us digitally, whether this is through our website, our mobile app or on social media. Customers rate us 4.7 our of 5 on the App Store and 4.2 our of 5 on Google reviews.

We monitor the performance and health of our assets, with the help of sensors across the network, and this allows us to be proactive. For example, by monitoring pressure in the water network we can spot issues and fix them before we get a burst, saving costs and sparing customers the impact.

Link to strategic themes

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

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

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

Our future plans

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

CHALLENGE: SECURING LONG-TERM OPERATIONAL RESILIENCE

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

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

How we respond

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

Where possible, we design our assets to work in tandem with the natural environment, which provides more sustainable and efficient solutions, such as our innovative Catchment Systems Thinking approach.

Link to strategic themes

Through innovative approaches we are improving the reliability and resilience of our assets, helping to reduce unplanned service interruptions, and enabling us to be more proactive.

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

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

Our future plans

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

Our business model

How we respond to challenges

CHALLENGE: PROTECTING AND ENHANCING THE NATURAL ENVIRONMENT

The UK Government's current goal is to be the first generation to leave the environment in a better state than we found it. Water management is a key part of this and our industry has a leading role to play. However, the cost of solutions has an impact on customer bills and so we need to balance this goal with the need to maintain affordability and avoid bill shocks.

Environmental regulators set stringent consents for our activities to ensure the environment is protected. We take these obligations seriously and work hard to maintain compliance. This requires striking a balance with environmental impacts, such as the use of natural resources and emissions of greenhouse gases.

Our region is fortunate to have some of England's finest countryside and wildlife, much of it legally protected being designated as National Parks and Sites of Special Scientific Interest. There is growing realisation, brought further to the fore by the COVID-19 pandemic, of the physical and mental health benefits that access to green space has for people and communities.

How we respond

The EA assesses water companies' performance across a basket of measures, and we are one of the best-performing companies over the last five years.

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

A phased, long-term approach to address all of the concerns and interests of our many stakeholders, including environmental regulators, ensures that the necessary work can be delivered without placing too much pressure on customer bills by spreading some of the spend over several years. We work with partners to improve the quality of rivers and bathing waters in our region, providing access to the recreational benefits of the natural environment and boosting the local tourism industry.

Our catchment land is open to the public with millions of visits a year. National lockdowns have increased the popularity of many of our sites and made managing visitor numbers at certain sites difficult. We have worked with local interest groups and local MPs to manage these issues when they arise.

Link to strategic themes

Customer engagement tells us that they value the natural environment in our region and want us to protect and enhance it, while maintaining affordable bills.

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

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

Our future plans

We are expanding our Catchment Systems Thinking approach, using more natural solutions to create more value for the environment, and we are reviewing our approach to land management to enable multiple benefits from a targeted approach.

CHALLENGE: HELPING CUSTOMERS WITH AFFORDABILITY AND VULNERABILITY

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

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

How we respond

We have a leading approach to affordability and vulnerability, with the sector's widest range of assistance schemes. We are helping over 200,000 customers through our affordability schemes, and through our assistance schemes 71,000 customers became water debt free this year.

Customer support has been at the forefront of our activities throughout COVID-19, such as increasing the number of customers eligible for our social tariff, 'Back on Track', and providing the option to request a three-month payment holiday without affecting credit scores.

We led the sector in establishing our Priority Services scheme, with dedicated teams providing additional support to customers with physical, mental health, or financial difficulties during an incident. This scheme is now accredited by the British Standards Institute (BSI), and over 128,000 customers are now registered for this support, with more joining every day.

Link to strategic themes

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

Initiatives such as our affordability schemes help us manage our household bad debt expense.

Through the charity FareShare we have provided support that has enabled 600,000 meals for struggling families in the North West.

Our future plans

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

CHALLENGE: ADAPTING TO A CHANGING CLIMATE

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

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

The main risks from climate change are the impact of prolonged severe dry periods, which constrain water resources, and intense periods of heavy rainfall, which increase the risk of flooding and pollution incidents. We need to ensure we have access to resilient water resources, reduce leakage, and encourage less water use in the future to protect this critical resource. We need to ensure our infrastructure can cope with increased surface water to reduce the risk of flooding.

How we respond

Our response to climate change risk involves mitigation (minimising our greenhouse gas emissions) and adaptation (ensuring our services are resilient to a changing climate). Where practical, we generate renewable energy on our sites through solar panels, wind turbines, and the use of bioresources at wastewater treatment works, helping to reduce our emissions. We have reduced our carbon footprint considerably since 2005/06 and have set ambitious science-based targets as part of our continued efforts to reduce emissions. We have committed to six pledges to help us achieve significant further reductions in emissions.

Read more about **our approach to climate change** on pages 86 to 99.

We have detailed plans that set out how we will adapt to meet the challenges of climate change, and we are targeting a 15 per cent reduction in leakage over AMP7.

We work with third parties to encourage sustainable drainage solutions to help cope with surface water in periods of heavy rain and are finalising a Drainage and Wastewater Management Plan with key authorities across the region.

Link to strategic themes

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

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

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

Our future plans

We have a detailed 25-year Water Resources Management Plan, a Drought Plan, and we plan to publish our third adaptation report in 2021 setting out how we aim to adapt to meet the challenges of climate change.

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

CHALLENGE: MAINTAINING TRUST AND CONFIDENCE

Strong relationships are based on trust. Being open, honest and transparent is key to building and maintaining trust and legitimacy. As well as reporting openly this means setting out commitments and delivering on them. Our stakeholders want to know that we are treating employees fairly, protecting customer data, and paying our fair amount of tax.

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

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

How we respond

We have open and transparent reporting around all of our equity and debt financing arrangements, do not use offshore financing vehicles, and we have secured the Fair Tax Mark independent certification for the past two years.

We have updated our human rights policy which can be found on our website, with links to other related policies, including our modern slavery policy and whistleblowing policy.

Cybercrime has been on the increase and, as the holder of customer information, it is a threat we take very seriously through our policies and dedicated data protection team.

We work with suppliers and contractors whose principles, conduct and standards align with our own. Our key suppliers have committed to United Supply Chain. We are a signatory to the Prompt Payment Code, and fully comply with rules on reporting payments to suppliers.

Link to strategic themes

We engage on a continual basis with customers to understand their expectations in relation to service and behaviour, through activities like our quarterly brand tracker.

We maintain stable credit ratings with key agencies which helps us to retain efficient access to the debt capital markets.

We set qualitative and quantitative performance targets across all of our stakeholders to evidence how we are delivering on our purpose.

Our future plans

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

Our business model

How we respond to challenges

CHALLENGE: PROTECTING CORPORATE AND FINANCIAL RESILIENCE

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

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

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

How we respond

We support employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background.

We build skills resilience internally through training and development, including digital skills.

We have graduate and apprentice schemes, and ambassadors that work with schools and education institutes to encourage the younger generation to pursue STEM careers.

We maintain good relationships with employees, and employee representatives, to ensure an engaged and motivated workforce, and we continually strive to build diversity across all types of role and all levels within our business. We have a Gender Equality Network that helps by providing role models, mentoring and opportunities. Women are represented at all levels of our company, and 38 per cent of our combined board and executive team is female.

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

We have a strong balance sheet, a secure pension position, and take a prudent approach to financial risk management, which delivers long-term predictability and resilience to financial shocks.

Our clearly articulated policies, covering a variety of market risks, help us reduce our exposure to the economic and regulatory environment, providing more predictable returns.

Link to strategic themes

As we did in AMP6, we are accelerating our capital programme into the early years of AMP7 to deliver service improvements for customers earlier.

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

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

Our future plans

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

UU Group board[1]		Executive team[2]		Senior managers[3]		Wider employees[4]	
7	3	4	4	29	10	3,724	1,915

(1) Group board as at 31 March 2021

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

(3) As at 31 March 2021, there were eight male and three female employees appointed as statutory directors of subsidiary group companies but who do not fulfil the Companies Act 2006 definition of 'senior managers'

(4) Wider employees as at 31 March 2021

BEING PURPOSE-LED

FareShare donations support communities in need

In shaping our response to COVID-19, understanding the impact on our stakeholders has influenced the measures we adopted.

North west communities, already home to some of the country's most social and economically deprived areas, have suffered as a result of the economic stress and job losses caused by the pandemic. As a consequence, more people have turned to food banks to ensure there is food on their tables. Through our work helping vulnerable customers across the region and tackling affordability issues, we have a better understanding of the challenges faced by some of our communities and we wanted to help in some way.

Through a combination of director salary sacrifice, matched by the company, and employee donations, we have donated £240,000 to food distribution charity FareShare. The charity helps redistribute surplus food, which would otherwise go to waste, to 250 charities and community groups which provide meals to people in need – including children's breakfast clubs, domestic violence refuges, homeless shelters and drug and alcohol rehab units. Lockdown has been particularly challenging and FareShare has been especially busy dealing with increased demand. At the peak of the COVID-19 crisis, FareShare Greater Manchester was distributing enough food for around 200,000 meals each week. Two thirds of people accessing FareShare food are children and families.

Our donation helps FareShare meet this increased demand and will provide families with 600,000 meals. Our funds have given FareShare much needed financial support and the money has been used to purchase a brand new long-wheel Mercedes Sprinter delivery van. This will deliver over six tonnes of food per week to frontline charities, schools and foodbanks across Greater Manchester.

More details on **our response to COVID-19** can be found on pages 44 to 45

Generating value for:

At the peak of the COVID-19 crisis, FareShare Greater Manchester was distributing enough food for around 200,000 meals each week.

Our business model

How we respond to challenges

How our responsible approach has helped us make a difference during the COVID-19 pandemic

How we responded

We serve some of England's most socioeconomically deprived communities, many of which have been severely impacted by COVID-19. We have prioritised supporting customers, the wider communities and our colleagues during this difficult time. Recognising the importance of water for public health and sanitation, especially with the emphasis placed on washing hands, we have maintained water supplies and wastewater services throughout the pandemic, keeping our employees safe while they carried out their duties.

Our communication with stakeholders during this time has been more important than ever, whether that has been encouraging customers to get in touch if they have been impacted financially by the pandemic or issuing guidance reinforcing government guidelines to protect employees, suppliers and customers. Our consultation for the Haweswater Aqueduct Resilience Programme (HARP) was stopped in its tracks by COVID-19. We changed approach, developed a virtual consultation, and as a result we have seen better engagement than our traditional approach.

Board oversight

COVID-19 has changed ways of working for everyone and our board has been no exception. We have continued to hold scheduled board meetings in a virtual format to ensure that the board's oversight has remained effective. We were able to hold a number of events during the year, including a board strategy day, conducting external board evaluation and providing our major shareholders with the opportunity to virtually meet with the Chairman.

Outlook

Lessons we have learnt from the pandemic will shape how we deliver for stakeholders in the future. We now have an even better understanding of our customers and how we can support them. We have been challenged to think more creatively about how we engage with our stakeholders. The pandemic has accelerated our digital strategy and changed our ways of working in such a way that we do not see a return to how we worked before.

Although there remains a degree of uncertainty as to how the UK and the economy will continue to recover after the pandemic, it has taught us that our sustainable and responsible approach to business means we can tackle future challenges as they emerge.

Our response at a glance

600,000

meals funded via local foodbanks

7,300

pupils supported via Home Learning Hub during school closures

67

apprentices and graduates recruited

Staff Outreach Scheme

supporting colleagues' struggling families

United Utilities response timeline

Mar 2020
Moved 60% of our workforce to working from home

31 March 2020

Apr 2020
Temporarily accelerated payment terms from 14 to 7 days

May 2020
Launched Staff Outreach Scheme providing financial support to employees

May 2020
Launched our Home Learning Hub

June 2020
Innovated to ensure apprentices sat final exams

June 2020
Extended the scope of our social tariff, securing an additional £15m of support

Communities

How we responded

We have continued to support young people in our region throughout the pandemic. Recruitment of apprentices and graduates has continued uninterrupted and we are supporting the Kickstart Scheme, offering training and meaningful work placements, with the support of our supply chain partners, to an initial 250 young people.

This year, as part of our ongoing charitable donations, we supported the FareShare charity in delivering 600,000 meals to struggling families via local foodbanks and replaced one of the charity's delivery vans, helping to ensure meals get to families in need over the next eight years.

During school closures our education team created a Home Learning Hub, providing teachers and children with home schooling material.

Customers

How we responded

Recognising affordability has been even more important during the pandemic, we took swift action and were the first company to secure support and regulatory approval for an extension to our social tariff, with an additional £15 million available to help customers keep out of debt.

We are committed to providing over £71 million of financial support over AMP7, and we have accelerated payments this year to provide much needed assistance to struggling households.

We have increased the extensive financial assistance we already provide, for instance by widening eligibility for our 'Back on Track' social tariff.

Employees

How we responded

We facilitated home working for over 3,000 of our employees with the remainder of our workforce continuing to work at COVID-secure facilities.

A huge focus has been on the wellbeing needs of our colleagues, in particular mental health support. We have delivered initiatives to help build resilience across our workforce, including e-learning and bitesize webinars.

We have not furloughed any employees, but, recognising that our employees and their families have not been immune to the hardships as a result of changing circumstances, we created a Staff Outreach Scheme to provide one-off grants through a confidential application process.

Environment

How we responded

As we emerge from the pandemic, we are determined to play our part in supporting a green recovery in the North West. We have accelerated investment plans, spending more over the early years of AMP7 than our original business plan. This will support recovery to build a greener, more sustainable future, all while helping the region to recover from the economic impact of the COVID-19 pandemic.

Our new investment plans include delivering environmental improvements in rivers, protecting habitats, combating invasive species, enhancing water quality, drainage and reducing pollution. This investment will generate lasting benefits for the environment, for customers and for communities.

Investors

How we responded

Throughout the pandemic we have maintained regular contact through calls and video calls with both existing and new investors. This year we offered our major shareholders the opportunity to meet, albeit virtually, with the Chairman as part of our active investor relations programme.

We hosted our first virtual capital markets day in March, allowing us to share updates with our investor community on developments within our business. This year focused on key areas of value creation – innovation and Systems Thinking, customer service, totex and financing.

Suppliers

How we responded

We have continued to work closely and actively engage with our supply chain during the pandemic. Looking out for the health, safety and wellbeing of our suppliers has been as important to us as that of our employees.

We continued with the majority of our construction programme throughout the national lockdowns, supporting our supply chain partners.

We acted swiftly at the beginning of the pandemic to accelerate payments from 14 days down to seven days to help with cash flow and offered a range of payment options.

Key: Suppliers | Communities | Customers | Employees

July 2020
Virtual consultation with local communities on HARP

Nov 2020
Pledged support to the Kickstart Scheme

Nov 2020
Charitable donations made to FareShare

Jan 2021
Welcomed our largest ever apprentice intake

Jan 2021
Widened eligibility for 'Back on Track' social tariff

31 March 2021

Our business model

How we plan for the future

MATERIALITY AND RISK ASSESSMENT

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

Read more about **our material issues** on page 27 and **our risk management** on pages 100 to 109

MONITORING PERFORMANCE

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

Read more about **how we measure our performance** on pages 50 to 51

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

Our approach to planning

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

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

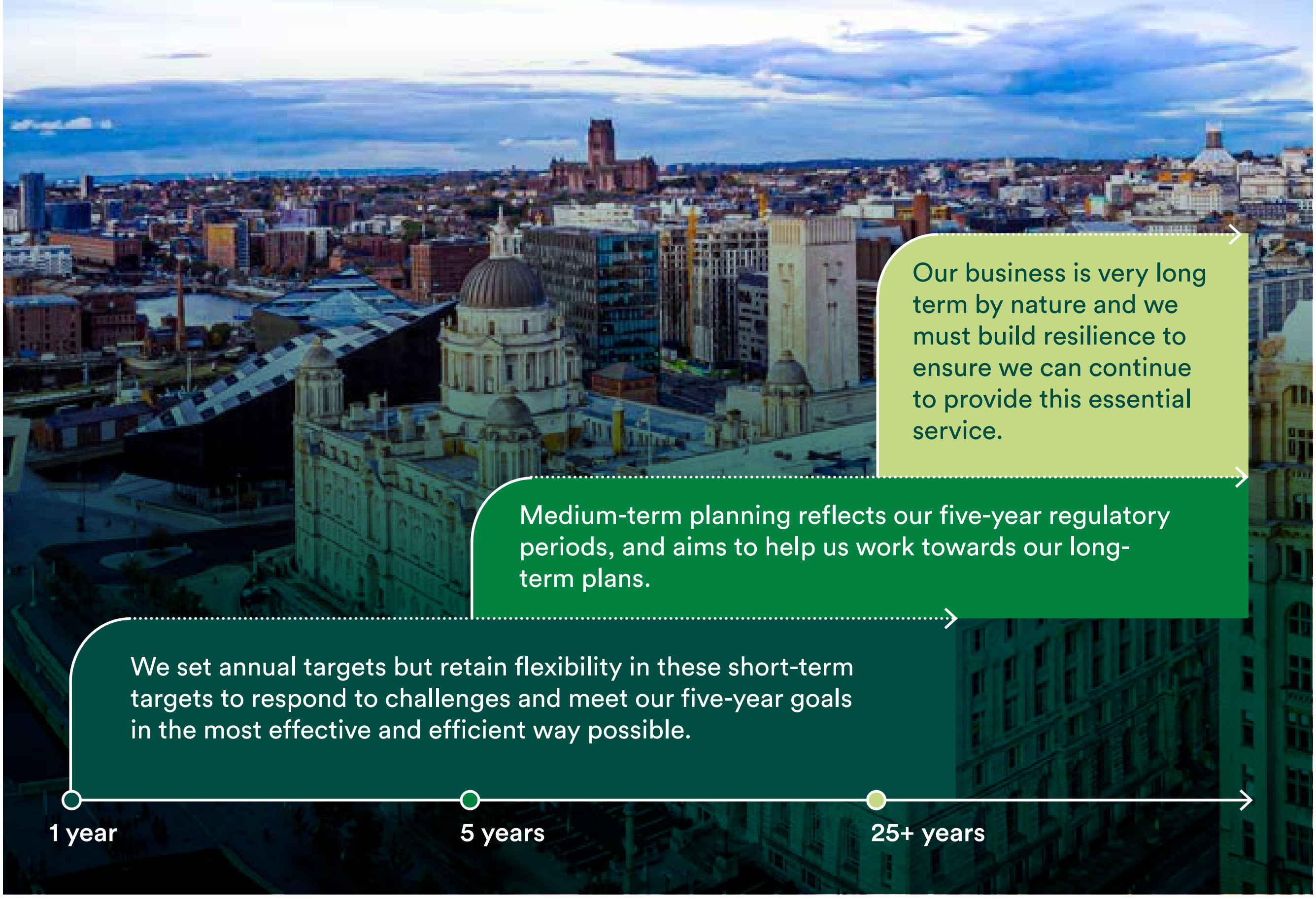
We undertake planning for long, medium and short-term horizons.

Long-term (25+ years) planning helps us identify what we need to do to address challenges and opportunities that may arise, so we can ensure that we are able to provide our essential service to customers far into the future.

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

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

Our planning horizons



2022
We will extend our integrated water supply network into West Cumbria

2023
We will publish our Water Resources Management Plan and Drainage and Wastewater Management Plan

2025
We aim to have 210,000 customers registered for our Priority Services scheme

2025
We aim to improve water quality in 1,315 kilometres of rivers across the North West

2025+
We will work to enable future national water trading

2030
We will make bills affordable for all customers in line with the industry's Public Interest Commitment

2030
We will work with others to achieve 'Blue Flag' beaches along our coastlines

2030
We commit to reducing our scope 1 and 2 greenhouse gas (GHG) emissions by 42 per cent in line with our ambitious science-based target

2035
We will deliver our service using natural capital in a sustainable, efficient and resilient way

2045
We will install additional water meters to achieve coverage of around 75 per cent of households

2050
We will have reduced water demand to 110 litres per person per day

2050
We aim to have reduced leakage by 50 per cent

2050
We aim to achieve our long-term science-based target for net zero GHG emissions aligned to the Paris Agreement's ambition to limit global warming to 1.5°C

Our business model

How we plan for the future

25+ years

Long-term planning

Our approach to long-term planning ensures we are responding to long-term challenges and opportunities.

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

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

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

- Climate change;
- Population growth;
- A more open, competitive market;
- Water trading;
- More stringent environmental regulations;
- Developments in technology; and
- Combining affordable bills with a modern, responsive service.

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

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

This includes our 25-year Water Resources Management Plan (WRMP) covering the 2020–45 period, which was developed and published in 2019 following consultation with stakeholders, and our Drought Plan, which was published in 2018 with an amendment appendix in 2018/19. These long-term plans set out the investment needed to ensure we have sufficient water to continue supplying our customers, taking into account the potential impact of climate change, and the actions we will take to manage the risk of a drought. In 2023 we will publish an update to our WRMP and, for the first time, publish a Drainage and Wastewater Management Plan (DWMP).

We create long-term value for stakeholders by:

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

5–10 years

Medium-term

Our medium-term planning aligns with delivery of our plans as set out in Ofwat's final determination.

The majority of the group's activities sit within our regulated water and wastewater business, therefore our medium-term planning predominantly sets out how we will deliver against the final determination (FD) we receive from Ofwat for each five-year period. The business plans we submit focus mainly on the subsequent five-year AMP period whilst providing a high-level view of the following AMP. This provides medium-term planning visibility of between five and ten years at any one point in time.

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

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

Following scrutiny and challenge from Ofwat, we receive the FD, which sets the price (in terms of total expenditure and customer bills), level of service, and incentive package that we must deliver over the five-year period, and an allowed return we can earn (expressed as a percentage of Regulatory Capital Value).

planning

When we receive the FD, we refine our company business plan for any changes, such as in allowed expenditure or performance level targets, and we must decide whether to accept the FD.

Our business plan submission for 2020–25 was awarded fast-track status by Ofwat and we were given one of the lowest cost challenges in the sector, reflecting the efficient totex proposals we put forward.

We made a flying start to our 2020–25 plans by investing an additional £130 million in 2019/20, helping us deliver a strong start to this new period. The acceleration of our capital programme during the 2015–20 period helped us deliver improvements early and we are adopting the same strategy in this regulatory period with around £500 million of total expenditure brought forward over years one to three of the five-year period. Our total expenditure for this period will be extended by £300 million, with this expenditure extending our environmental programme.

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

Short-term planning

In the short term we set annual, measurable targets but we retain flexibility to enable us to respond to challenges that may arise.

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

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

To avoid short-term decision-making and ensure management is focused on the long-term performance of the company, as well as these annual targets, executive directors are remunerated through long-term incentive plans that assess three-year performance, measured during the current period through Return on Regulated Equity and a customer basket of measures.

See details of **the 2020/21 annual bonus and vested long-term incentive plans for our executive directors** on pages 168 to 170

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

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

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

Read more about **our response to the challenges of COVID-19** on pages 44 to 45

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

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

How we measure our performance

To measure progress on delivering our purpose and creating value for all our stakeholders, we monitor and measure our performance against each stakeholder group.

Read about how we generated value for communities on pages 52 to 54

Read about how we generated value for suppliers on pages 71 to 73

Read about how we generated value for customers on pages 55 to 58

Read about how we generated value for investors on pages 67 to 70

Read about how we generated value for employees on pages 59 to 62

Read about how we generated value for the environment on pages 63 to 66

OUR KEY PERFORMANCE INDICATORS

Overview
During the 2015–20 period, we reported against a range of operational KPIs that were aligned to our strategic themes to demonstrate how we realise our purpose and deliver on our vision.

Our purpose drives us to create long-term value for all our stakeholders, so between 2020 and 2025 we are measuring our performance by reference to the value we create for each of our stakeholder groups.

Operational KPIs
Our operational KPIs include one main metric for each stakeholder group, based on the top material issues identified through stakeholder engagement. A description of these operational KPIs, our targets for each, and our performance against these targets can be seen on pages 52 to 72.

Our executive bonuses and long-term incentives are closely aligned to financial and operational KPIs, as highlighted in the remuneration report on pages 168 to 170.

Financial KPIs
Our financial KPIs assess both profitability and sustainability of our business from a financial perspective. They are largely the same as the 2015–20 period, with the addition of having low dependency defined benefit pension schemes with nil deficit. This recognises the increasing importance of this strong and secure position for our people, representing a significant driver of relative value.

A description of these financial KPIs and our performance against our targets can be seen on pages 74 to 75.

OUR OTHER PERFORMANCE INDICATORS

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

As discussed on pages 22 to 26, we engage with a variety of stakeholders and this gives us a view of what matters most to them. We report on a selection of other metrics on pages 52 to 72 of this report, based on the measures shown to be of highest interest to our stakeholders.

For example, for customers our KPI is Ofwat's measure, C-MeX, but on page 57 we report on Ofwat's D-MeX measure, the level of customer complaints, vulnerability support, customers lifted out of water poverty, and the impact of water efficiency measures.

On environmental performance, our KPI is the overall assessment by the Environment Agency and on page 65 we report on more specific environmental performance indicators, such as leakage reduction, climate change, proportion of waste going to beneficial use rather than landfill, and measures of natural capital.

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

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

OUR ANNUAL PERFORMANCE REPORT (APR)

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

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

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

Our APRs for previous years are available on our external website, and the APR for 2020/21 will be published in July 2021.

FIND MORE INFORMATION ABOUT OUR EXTERNAL ACCREDITATIONS

In addition to our KPIs and regulatory targets, we monitor our performance against an assortment of ESG metrics that are of interest to our many stakeholders.

We report against these within this report on page 84 and on our website at **unitedutilities.com/corporate/responsibility/our-approach/cr-performance**

Our performance in 2020/21

Operational performance

Our performance at a glance

Communities

Supporting communities to be stronger – our work puts us at the heart of local communities in the North West.

How we deliver value to communities

Short term

- We look after beautiful landscapes and beaches and open our land to the public, which supports the regional tourism industry and offers communities health and wellbeing benefits through access to relaxation and recreation.
- Working in partnership with others means we can accomplish more in tackling mutual issues, such as partnering to develop employability skills for those who need it most.
- Engaging with communities near our operations and projects builds understanding and trust between all involved.

Long term

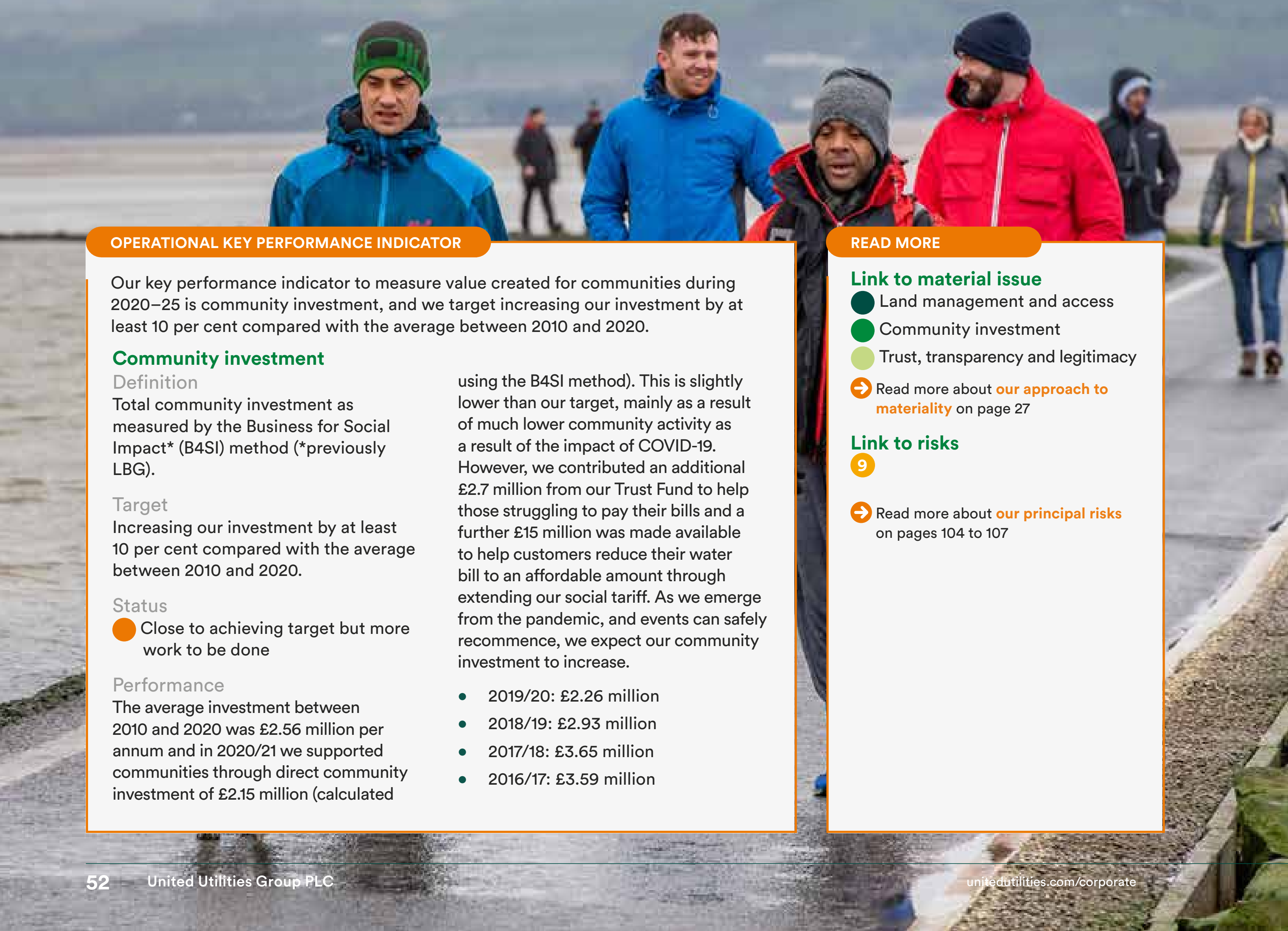
- Early career and outreach schemes break down barriers to employment and increase social mobility, reducing welfare costs.
- Managing land responsibly means we leave the north west environment in a better condition for future generations.
- We work with teachers and children to raise awareness about water and the natural environment, giving the next generation an understanding of the true value water brings and how we can all play our part in protecting the services nature provides.

Link to strategic themes

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

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

Providing access to our land enables communities to enjoy the physical and mental wellbeing benefits that green spaces can bring, helping reduce the burden on health services.



OPERATIONAL KEY PERFORMANCE INDICATOR

Our key performance indicator to measure value created for communities during 2020–25 is community investment, and we target increasing our investment by at least 10 per cent compared with the average between 2010 and 2020.

Community investment

Definition

Total community investment as measured by the Business for Social Impact* (B4SI) method (*previously LBG).

Target

Increasing our investment by at least 10 per cent compared with the average between 2010 and 2020.

Status

Close to achieving target but more work to be done

Performance

The average investment between 2010 and 2020 was £2.56 million per annum and in 2020/21 we supported communities through direct community investment of £2.15 million (calculated using the B4SI method). This is slightly lower than our target, mainly as a result of much lower community activity as a result of the impact of COVID-19. However, we contributed an additional £2.7 million from our Trust Fund to help those struggling to pay their bills and a further £15 million was made available to help customers reduce their water bill to an affordable amount through extending our social tariff. As we emerge from the pandemic, and events can safely recommence, we expect our community investment to increase.

- 2019/20: £2.26 million
- 2018/19: £2.93 million
- 2017/18: £3.65 million
- 2016/17: £3.59 million

READ MORE

Link to material issue

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

Read more about our approach to materiality on page 27

Link to risks

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Read more about our principal risks on pages 104 to 107

Overview

Our work puts us at the heart of local communities in the North West, where customers and employees live and work. We understand the impact our work can have on everyday lives across our region, and we seek to play an active role in tackling the issues that matter most to these communities through active engagement and investment, developing strong relationships and building partnerships where we work together to generate solutions. We also look after beautiful landscapes and open our land to the public, which supports the regional tourism industry and offers physical and mental health and wellbeing benefits for communities through access to relaxation and recreation.

Helping young people

We are committed to supporting the Government's Kickstart Scheme by providing 250 placements to young people, working with our supply chain. Our new employees will have a dedicated placement manager as well as a Kickstart skills coach, and will also receive job-related and employability skills training to enhance their CVs in order to help secure employment in the future. We work with local schools and training facilities to promote skills for the future, including youth programmes that support young people not in education, employment and training (NEETs) to help improve social mobility in our region and break down barriers in bringing people from all backgrounds into employment. It is estimated this programme has generated over £9 million of social value through avoided welfare costs and new employment. During the school closures brought about by the pandemic lockdowns, our education team created a Home Learning Hub that supported teachers and children across the region, and even extending overseas, with materials for home schooling. Recruitment of apprentices and graduates has continued uninterrupted, with the help of some online challenges, skills sessions and live streamed assessments while face-to-face interaction was limited. We have continued to create our early careers pipeline, welcoming 67 apprentices and graduates in 2020/21.

Social mobility

In October we hosted the sector's first Social Mobility Summit, an online event at which more than 100 organisations joined us for the launch of our Opportunity Action Plan – another first for the sector – which aims to identify and share best practice and leading-edge thinking from businesses that are successful in promoting social mobility, including case studies from our own employees reflecting the progress we have already made.

Charitable support

Our ongoing charitable support, including a voluntary salary reduction by board members at the height of the COVID-19 pandemic, has helped provide support to local communities. One of our donations to the FareShare charity has supported them in delivering 600,000 meals to struggling families across the North West via local foodbanks, and will replace one of the charity's delivery vans, helping to ensure 6.4 million meals get to families in need over the next eight years.

Community engagement

We build trust with local communities through effective engagement, whether that is around large capital projects or day-to-day management of our landholdings. Our consultation for the Haweswater Aqueduct Resilience Programme (HARP) was stopped in its tracks by COVID-19, halfway through the traditional face-to-face exhibitions. We changed approach, developed a virtual consultation, with accessible content advertised through letters and social media, and, as a result, we have seen better engagement. We received over 100 per cent more feedback compared with the traditional approach, with over 8,000 hits to the specific HARP section of the website. Sixty-nine per cent of all feedback has been supportive of the plans. Given the success of this approach, we will continue with virtual consultations for other aspects of this project.

Access to our land for recreational use

As a result of COVID-19 restrictions, there has been a marked increase in the number of people visiting our catchment land to enjoy the countryside and benefit from open spaces. While the majority of visitors have respected the countryside, sadly a small minority have not. Our teams have worked hard to address this anti-social behaviour through a variety of methods, including targeted social media campaigns on issues such as moorland fire risk, improved site signage and the creation of local stakeholder groups. We are currently testing several ideas to better connect visitors to the land and to encourage them to behave responsibly.

250
young people to be supported through the Kickstart Scheme

£9m
social value generated through our youth programme

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Community investment	**10% increase (£2.82m)**	£2.15m	Orange	Green
Partnership leverage	**1:4**	1:7	Green	Green
Percentage of participants who remain employed six months after completing an early careers or outreach scheme with United Utilities	**50–60%**	83%	Green	Green
Number of children benefiting from education materials	**20,000**	19,120	Green	Green
Visitor experience/ satisfaction measure at recreation sites	**Dependent on 2021 baseline**	**Baseline in 2021**	Grey	Grey

Status key:

Annual performance	Against 2025 target
Green: Met expectation/target	Green: Confident of meeting target
Orange: Close to meeting expectation/target	Orange: Some work to do
Pink: Behind expectation/target	Pink: Target unobtainable
Grey: Baseline year	Grey: Baseline year

Our performance in 2020/21

Operational performance

BEING PURPOSE-LED

Kickstarting careers in the North West

We've committed to supporting the Government's Kickstart Scheme, taking on an initial 250 young unemployed people over the year and integrating those with potential into our apprentice schemes – expanding our early careers approach.

Kickstart funds six-month placements with firms for 16–24 year olds who are claiming Universal Credit and are at risk of long-term unemployment. The Government provides a grant of £1,500 per recruit to support skills development.

The recruits will be found placements in customer service, operational support, office administration, grounds maintenance and labs support, and our supply chain partners will also provide placements to support us to achieve our aim. All will be recruited on a six-month fixed-term contract and will have a dedicated placement manager and a Kickstart skills coach. They will receive job-related and employability skills training supported by our learning and development team.

Customer services and people director, Louise Beardmore, explained: "Kickstart is a brilliant initiative that aims to help companies give work opportunities to young people who have borne the brunt of the economic slowdown during COVID-19.

"We know the North West has some of the highest levels of deprivation in the UK and this year life has got even tougher. We're absolutely certain there are some fantastic young people out there who just need a break. For many of the people who apply this will lead to full-time roles, and others will leave us with some great new skills to take to other employers."

We already run several schemes to support young people into work. We recruit around 30 apprentices every year from across the North West, and our graduate scheme recruits people from targeted communities based on their diversity and inclusion data. We also have a Youth Programme for young people between 18 and 24 years who are not in education, employment or training. Around 90 per cent of youth programme participants have a disability or long-term health condition and are from an area of low social mobility and high deprivation.

We have taken part in the Department for Work and Pensions' 'mentoring circles' initiative which provides mentoring, support and coaching to young unemployed people who are Black, Asian or from ethnic minorities, have a disability or long-term health condition.

Generating value for:

Kickstart is a brilliant initiative that aims to help companies give work opportunities to young people who have borne the brunt of the economic slowdown during COVID-19.

Our performance at a glance

Customers

Caring for customers through trusted relationships – we put customers at the heart of everything we do.

How we deliver value to customers

Short term

- We focus on delivering a great service so customers can simply get on with their lives and not have to worry about their water and wastewater services.
- When they do need to contact us, we are helpful, friendly and supportive, talking and listening to customers so we can understand and meet their expectations.
- We maintain bills that are good value for money, providing help and support to those who struggle to pay.

Long term

- Our water and wastewater services make a major contribution to the long-term health and wellbeing of customers in the North West.
- Through long-term financing and the regulatory framework, we are delivering multi-million pound infrastructure projects to improve services and resilience for the long term. We ensure the cost of this is shared fairly and affordably between those that benefit now and in the future.
- Providing additional help to vulnerable customers builds long-term trust relationships.

Link to strategic themes

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

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

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

OPERATIONAL KEY PERFORMANCE INDICATOR

Our ranking in Ofwat's customer measure of experience, C-MeX, is our key performance indicator for customers as it is influenced by a broad range of service components and so best satisfies the spectrum of what matters to customers.

C-MeX

Definition
Ofwat's customer measure of experience, comprising two surveys: the customer service survey; and the customer experience survey.

Target
To be in positive reward territory.

Status
Achieved/confident of achieving target

Performance
At the end of the year we are ranked fifth out of 17 companies, the highest listed company, achieving a reward of £2.1 million in the first year of AMP7. While our written customer complaints performance for the year has fallen below our targets, in part reflecting the higher level of complaints during the dry spring in 2020 and our focus on collecting cash from those customers who are able to pay, but choose not to, we still expect our relative performance to be upper quartile compared with the other water and wastewater companies.

C-MeX has replaced SIM as Ofwat's measure of customer satisfaction for AMP7. As 2020/21 is the first year of the measurement period, prior year comparators are not provided this year.

READ MORE

Link to material issue

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

Read more about our approach to materiality on page 27

Link to risks

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Read more about our principal risks on pages 104 to 107

Our performance in 2020/21

Operational performance

Overview

We put customers at the heart of everything we do. This relentless focus drove us to deliver significant and continuous improvements over AMP6, ending the period as a leading water and wastewater company. Despite the challenging environment we have continued to operate in during the pandemic, customer satisfaction has remained high. Reliable access to clean water has been more important than ever before, and we have continued to provide a robust service for customers throughout the year. Serving the most economically deprived areas in the country, we are always mindful of the need to help customers who struggle to pay their bills. We reduced typical household bills by 5 per cent this year in real terms, have committed to providing £71 million in financial support to customers over AMP7, and have an extensive range of schemes offering financial assistance and tailored support for customers struggling with affordability and vulnerability. We are delighted to have received a positive recommendation for continued certification to BS 18477:2010, which is the accreditation for our Priority Services scheme and one of our customer ODI measures looking at the quality of services provided to vulnerable customers.

Customer service

We have significantly increased the availability and performance of our digital channels with over 1 million customers engaging with us digitally, driving both service improvements and cost efficiencies. Customers rate us 4.7 out of 5 on the App Store and 4.2 out of 5 on Google reviews.

We have been proactive and used targeted communications with customers to offer support to those impacted financially by the pandemic and struggling to pay. We have achieved all of our reputational performance commitments, most notably continued certification to BSI standard for our Priority Services scheme that supports over 133,000 customers, and we were recognised as providing the best customer support initiative at the Utilities and Telecoms Awards for the support provided to customers during the pandemic. We are one of only 14 brands in the UK with the Institute of Customer Service Accreditation with distinction.

For developers, customer experience is measured in AMP7 by D-MeX, of which there are two elements: quantitative (service level agreement performance); and qualitative (customer satisfaction survey). For 2020/21, we are ranked first in the sector for our quantitative performance, with final qualitative results expected later in the year. We estimate our overall industry position to be fourth. This strong performance reflects the transformation programme we are delivering in this area that continues to deliver tangible and much improved results, benefiting all developers who are building in the North West.

£15m

extension to our social tariff to support customers affected by COVID-19

200,000

customers benefiting from our support schemes

Operational performance for customers

Our AMP7 business plan includes 46 customer commitments, delivering the outcomes that are important to customers and measured through customer ODIs.

Our performance has been strong across the broad range of our activities with us having met or exceeded over 80 per cent of our performance commitments for the year. We have delivered particularly strong performance in the areas of hydraulic flood risk resilience and pollution, where we have delivered another year of sector-leading performance with no serious pollution incidents for the second consecutive year. We were also able to deliver leakage at its lowest ever level and have more than halved supply interruptions to customers – outperforming our targets on both these key service delivery measures.

We entered AMP7 knowing that our biggest challenge would be against our internal flooding ODI and this is the measure that has yielded the largest penalty this year. As part of the £300 million extension to our AMP7 totex plans, we will be investing around £100 million in Dynamic Network Management (DNM) – a ground-breaking application of Systems Thinking using state of the art sensors and predictive machine intelligence to move to a more proactive management of our wastewater network. This new digital capability is expected to improve service to customers and improve performance against our internal flooding ODI.

We work hard to encourage customers to save water through water efficiency programmes, helping them to preserve this precious resource and save money on their bills. More customers have spent more time at home during the pandemic and used more water for sanitation, increasing per capita consumption (PCC) measures for 2020/21. Recognising that the long term impact of COVID-19 remains uncertain and that there may also be a variety of drivers of changes in behaviour, Ofwat has proposed to assess company performance for this customer ODI at the end of the AMP when fuller facts and evidence of absolute and relative company performance are available.

We have our own in-house app development capability and this is paying dividends in creating digital capability for our field and customer-facing teams with agility, flexibility and at low cost. Our new voids app which helps us to easily identify unbilled but occupied properties has contributed to a 93,000 reduction in the number of void properties in the year, helping us earn maximum customer ODI reward on voids this year and underpins a further £24 million reward over the AMP.

Haweswater Aqueduct Resilience Programme (HARP)

In November 2020, we successfully completed the replacement of the Hallbank section of the Haweswater Aqueduct, part of a critical asset that delivers around a third of our total water production to 2.5 million people in Cumbria, Lancashire and Greater Manchester. Work to replace the majority of the aqueduct is expected to be undertaken using a direct procurement for customers (DPC) approach and we have been preparing for a DPC tender in 2021/22. If the tender process proceeds as planned, contract award is anticipated in 2023, with construction to begin later in the AMP.

Cash collection

Despite the impact of COVID-19, our overall cash collection has performed well throughout the year. We are encouraged by the continued growth in our direct debit volumes, now at 72 per cent and one of the highest across the industry. Overall, the proportion of customers on a payment plan has continued to increase to 82 per cent despite the challenging economic environment and providing a high level of collection certainty for a significant proportion of the household customer base.

We are recognised as a leader in credit management and collections across all industries, not just water. In the year we have won three external awards for our credit services, most recently winning the Utilities and Telecoms Team of the Year at the 2020 Credit Awards. Our industry-leading approach to collections and innovative affordability offerings have ensured we were well placed to respond to the challenges brought about by the pandemic.

In the current year, we have enhanced our credit reference sharing process to include another agency with a greater high street focus. This has further extended our footprint and will facilitate improvements in our collections activity, and is just one example of our comprehensive approach to collections activity, supporting our ability to collect cash from customers who have the ability to pay, but attempt to avoid doing so.

Affordability

When the country first went into lockdown we saw an increase in demand for affordability support. The initiatives we delivered over AMP6 enabled us to respond efficiently and effectively, with our Payment Break scheme giving over 8,000 customers the breathing space they required.

The nature of the pandemic and the significant impact it is having on customers' lives has meant we have had to consider the appropriateness of continuing our normal billing and collection activities and the most suitable means of engagement. While as an industry we took steps to pause collection activity, our COVID-19 response encouraged customers to contact us if they had been impacted financially by the pandemic and found themselves struggling to pay. We carried out targeted activities aligned to specific customer segments and changes in customer behaviour to engage with customers, actively promoting our range of affordability support, ensuring customers knew they could talk to us about their bill, and highlighting alternative ways to pay. Over the course of the year we sent over 5 million proactive customer communications; a 30 per cent increase on the previous year.

We have an extensive range of schemes available to help customers and around 200,000 are currently benefiting from that help. Recognising affordability has been even more important during the pandemic, we took swift proactive action and were the first water company to secure support and regulatory approval for an extension to the scale and scope of our social tariff, allowing us to support a broader range of customers whose income has been affected by COVID-19. This augments our support schemes this year with an additional £15 million to help customers keep out of debt and was intended to support an additional 45,000 customers who have been furloughed, are claiming through the self-employed income support scheme (SEISS) or are now unemployed, by reducing their water bill to an affordable amount. Through efficient use of the additional £15 million funding secured we were able to support 73,000 customers – 62 per cent more than originally estimated – preventing customers from falling into debt. This additional support meant that in the year we supported 160 per cent more customers via our Back on Track scheme than the previous year. We promoted the new scheme directly to customers, via partner organisations and the Hardship Hub, to increase overall awareness. The £71 million financial support we have committed to providing over AMP7 is the largest of any water company, and we have accelerated payments this year to provide much needed assistance to households struggling as a result of the economic impact of the pandemic.

We continually innovate to further enhance our affordability processes, and we are piloting a first-of-its-kind real-time income verification tool to streamline eligibility for reduced-rate social tariffs. We're proud to be the first water company in the UK to roll out an Open Banking solution for social tariff applications, modernising our income verification. In March 2021 we were the first water company to begin data sharing with the DWP, leveraging the new provisions under the Digital Economy Act, to assist people living in water poverty. We're excited to be able to use these new provisions to continue to proactively provide lower bill support to customers.

OTHER PERFORMANCE INDICATORS

			Status	
Measure	**2025 target**	**2020/21 performance**	**Annual performance**	**Against 2025 target**
KPI:				
C-MeX	**Above industry median**	Above industry median	🟢	🟢
Additional service measures:				
D-MeX	**Above industry median**	Above industry median	🟢	🟢
Market Performance Standards	**Upper quartile**	Second quartile	🟠	🟢
Operational Performance Standards	**Upper quartile**	Upper quartile	🟢	🟢
Managing complaints:				
Number of household written complaints compared to WASCs	**Upper quartile**	Upper quartile*	🟢	🟢
Speed of resolution	**5 days**	3.5 days	🟢	🟢
Vulnerability:				
Number of households registered for Priority Services	**In excess of 220,000 (7%)**	128,831 (4.1)%	🟢	🟢
BS18477 'Inclusive service provision' certification for Priority Services	**Maintain certification**	Maintained	🟢	🟢
Affordability:				
Number of customers lifted out of water poverty	**66,500**	71,057	🟢	🟢
Helping customers look after water in their home	**10% increase**	13.75%	🟢	🟢

Status key:

Annual performance	**Against 2025 target**
🟢 Met expectation/target	🟢 Confident of meeting target
🟠 Close to meeting expectation/target	🟠 Some work to do
🔴 Behind expectation/target	🔴 Target unobtainable
⚪ Baseline year	⚪ Baseline year

* Latest comparative data available 2019/20

Our performance in 2020/21

Operational performance

BEING PURPOSE-LED

Support for those customers in need

During the last year, many customers have been affected by COVID-19 due to being furloughed or made redundant, and have contacted us for support with their bills.

We've been able to help many customers get back on their feet with flexible payment arrangements or payment breaks. Our Payment Break scheme was used by over 8,000 customers during the early stages of the pandemic. We also donated £3.5 million into our Trust Fund to support financially vulnerable customers.

We had regulatory approval to extend our social tariff to help even more customers impacted by COVID-19, and, as such, we are currently providing financial assistance to more than 200,000 customers – a significant increase on the previous year. Through our Payment Matching scheme, another 15,000 customers became water debt free in 2020/21.

Our Lowest Bill Guarantee scheme was rolled out in September after a successful pilot to ensure customers who choose to have a meter fitted will not pay more than their current charge method. Customers have saved over £4.6 million as a result.

Since creating the North West Utilities Together group at the start of 2020 with Electricity North West, Cadent and Northern Gas Networks, we have been regularly meeting to discuss ways to help those customers in vulnerable circumstances.

As part of this, we have once again joined with Electricity North West in the promotion of our Priority Services registers on paper medicine bags in over 200 pharmacies across our region, and have worked with Electricity North West and Cadent to jointly fund a £50,000 refurbishment of a mobile advice centre for Age Concern Central Lancashire.

The charity launched this new community outreach service in March 2021, one year on from the first national lockdown, in a bid to reach those in need. The mobile advice centre, which is specially designed to be dementia friendly, will offer support and help promote our services to customers in and around the Lancashire area. The three utility companies involved in the collaboration will be giving residents free advice on water and energy efficiency, as well as tips on how to stay safe and warm in their homes.

Suzanne Carr, CEO of Age Concern Central Lancashire, praised the project: "...we are delighted to have formed partnerships with the North West's big three utility companies which in turn means our customers will have access to a full suite of services, and most importantly, will be able to access one-to-one support on a range of important matters from independent living through to seeking help during an energy crisis."

Generating value for:

We have worked with Electricity North West and Cadent to jointly fund a £50,000 refurbishment of a mobile advice centre for Age Concern Central Lancashire.

Our performance at a glance

Employees

Creating a great place to work for all our employees – our employees are the face of the company and we could not deliver our services without them.

How we deliver value to employees

Short term

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

Long term

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

Link to strategic themes

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

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

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

OPERATIONAL KEY PERFORMANCE INDICATOR

Our annual employee opinion survey provides a mechanism for formal feedback on a number of topics, including employee engagement which is our key performance indicator for employees.

Employee engagement

Definition

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

Target

Upper quartile against UK utilities norm.

Status

Achieved/confident of achieving target

Performance

This year we achieved 89 per cent engagement, which is 5 per cent above the UK high performance norm and is the highest engagement score we have achieved while comparatively tracking engagement over the last six years.

- 2020: 84 per cent
- 2019: 81 per cent
- 2018: 79 per cent
- 2017: 75 per cent

READ MORE

Link to material issue

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

Read more about our approach to materiality on page 27

Link to risks

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Read more about our principal risks on pages 104 to 107

Our performance in 2020/21
Operational performance

Staff Outreach Scheme

established to support employees

390

COVID-secure risk assessments undertaken

96%

of our current female workforce recommend United Utilities as an employer

Overview
Our people are critical to the success of our business and it is important we give them the opportunity to develop their skills and knowledge and support them with the most effective technology. We have continued to invest in skills training throughout the pandemic and have accelerated our digital strategy to support new ways of working. The health and wellbeing of our employees is paramount and keeping them safe remains our primary concern. During the initial lockdown in 2020, we moved 60 per cent of our workforce to home working and the remainder continued working at our COVID-secure facilities. Around 80 per cent of our employees were designated as key workers, delivering our essential services to customers. We have largely continued with business as usual, operating within COVID-19 guidelines and in line with the government roadmap out of lockdown, while defining and shaping the way we will work post-COVID-19 based on the changes in the last year.

Protecting colleagues through the COVID-19 pandemic
During the pandemic, we have facilitated home working for over 3,000 of our employees and are providing support for employees' health, safety and wellbeing while temporarily working at home in extraordinary circumstances. As well as facilitating home working for more than half of our employees, we have introduced a range of measures to ensure those who are still working on sites and in the field are able to do so in a COVID-secure way. We conducted over 390 COVID-secure risk assessments across all our operational sites and carried out a number of control measures to ensure they met the Government's requirements for COVID-secure workplaces. This included temperature checking stations, extra sanitation provisions, safe desks and one-way procedures in offices to ensure social distancing can be maintained. Additional personal protective clothing has been provided and we have adapted new ways of working for our front line field employees. We adapted the way we carry out our mandatory health surveillance checks to virtual assessments and more recently COVID-secure face-to-face assessments.

With the involvement of over 200 trained mental health supporters and wellbeing champions across the business, we have supported the wellbeing needs of our colleagues, delivering initiatives to help build resilience across our workforce. This includes delivery of several bitesize webinars on topics such as mental health, stress control, and managing change to around 2,000 people over 20 webinars. We have been encouraged by the take up of the zero suicide alliance e-learning module which now includes a specific module on COVID-19 and isolation, and have produced new resource packs and initiatives to help our workers through winter. Crucially, we engage regularly with managers, providing awareness of the support services available and how to make best use of them and the widely introduced Wellness Action Plans, to enable managers to have wellbeing conversations with their teams.

We have not furloughed any employees, but we are aware that our employees and their families are not immune from the hardships caused by the economic impacts of COVID-19. Therefore, we have established a staff outreach scheme (SOS) that provides financial support to employees whose families are struggling financially as a direct result of the pandemic.

Committed to equality, diversity and inclusion
We want fantastic people to enable us to deliver a great public service now and into the future, so we are determined to make sure we are reaching and recruiting from every part of our community. We are supporting employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background. Our employee diversity networks, including LGBT+, gender equality, ability and multicultural groups, have a growing membership of 730 people, and play a pivotal role in providing insight, raising awareness and giving support to colleagues. We are committed to creating a diverse and inclusive workforce and so we are delighted to be one of the top 1 per cent of 15,000 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership.

We are working hard to improve how we attract women into the industry, and developing women within our existing workforce. We are seeing good progress with increasing numbers of female graduates and apprentices in our talent pipeline, and 96 per cent of our current female workforce recommend United Utilities as an employer. Following our 2021 AGM, the measurable targets of 33 per cent female representation on the board and one director of non-white ethnicity will be met. We achieved inclusion in the Bloomberg Gender Equality Index, recognising our commitment to gender equality and transparency.

Training and development

Our technical training academy established in February 2014 has provided skills development and certification to over 2,800 people to date, including programmes for those individuals not in education, employment or training (NEETs). Many people have received multiple training opportunities such that in total, around 11,000 technical training sessions have been delivered over that period. We are the only water company currently governed by Ofsted (Office for Standards in Education), with a "good" overall rating.

Ensuring everyone goes home safe and well

Over the last couple of years our health, safety and wellbeing agenda has centred on behaviours and the part they play in accidents and the culture across our organisation. Having spent a number of years focusing on site standards, asset condition, training and personal protective equipment, it was clear from our root cause analysis that behaviours play a key part in many of the accidents we have had. We delivered our 'home safe and well' behavioural safety programme to everyone in the company and we are embedding a culture of looking after ourselves and each other, to ensure we all go home safe and well.

We are seeing improvements in a number of important performance measures, including the number of accidents, the severity of accidents and an increase in hazard and near miss reporting. Our employee accident frequency rate for 2020/21 was 0.094 accidents per 100,000 hours worked, representing a 15 per cent improvement on performance from the prior year. Our contractor accident frequency remained broadly consistent despite an increased workload at the start of AMP7, with 0.087 accidents per 100,000 hours worked, compared to 0.083 last year. Our aim by 2030 is that no one will be harmed while working on our behalf, and we will actively promote, support and improve their wellbeing.

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Employee engagement	**Upper quartile against UK utilities norm**	Upper quartile against UK utilities norm	●	●
Employee opinion survey diversity and inclusion questions score	**UK high performance norm**	UK high performance norm	●	●
Employee opinion survey learning and development category score	**UK utilities high performance norm**	UK utilities high performance norm	●	●
Living Wage accreditation	**Secure and retain**	Secured accreditation	●	●
Pension Quality Mark +	**Retain accreditation**	Retained	●	●
Health and safety:				
AFR employees (per 100,000 hours)	**0.064**	0.094	●	●
AFR contractors (per 100,000 hours)	**Year-on-year improvement in score**	0.087	●	●
Wellbeing Charter accreditation	**Retain accreditation**	Retained	●	●

Status key:

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

Our performance in 2020/21
Operational performance

BEING PURPOSE-LED

Employee networks helping us to drive diversity and inclusion

Our aim is to have a workforce that is representative and understanding of our communities and the customers we serve in the North West.

We are committed to driving equality and providing diverse working environments for all our employees. We want our people to feel valued for individual differences, such as social background, disability, gender and sexual orientation.

Our employee networks play a pivotal role in helping us to achieve our aim, providing insight and feedback on our people policies, helping to challenge the status quo, raising awareness, and giving support to colleagues right across the organisation.

With so many colleagues working remotely over the year, our networks worked tirelessly, and creatively. To mark National Inclusion Week, with its theme for 2020 of 'Each One, Reach One', the groups organised training sessions, webinars, interviews and support, and emphasised that it has never been more important to think about the opportunities we all have to connect and inspire each other to make inclusion an everyday reality.

We have four active employee network groups with a growing membership of 730 people. Each network has a lead and an executive sponsor who supports each network to drive change across the business.

Our Gender Equality Network is open to men and women across the company, and works to support, mentor, develop, inspire and promote all employees.

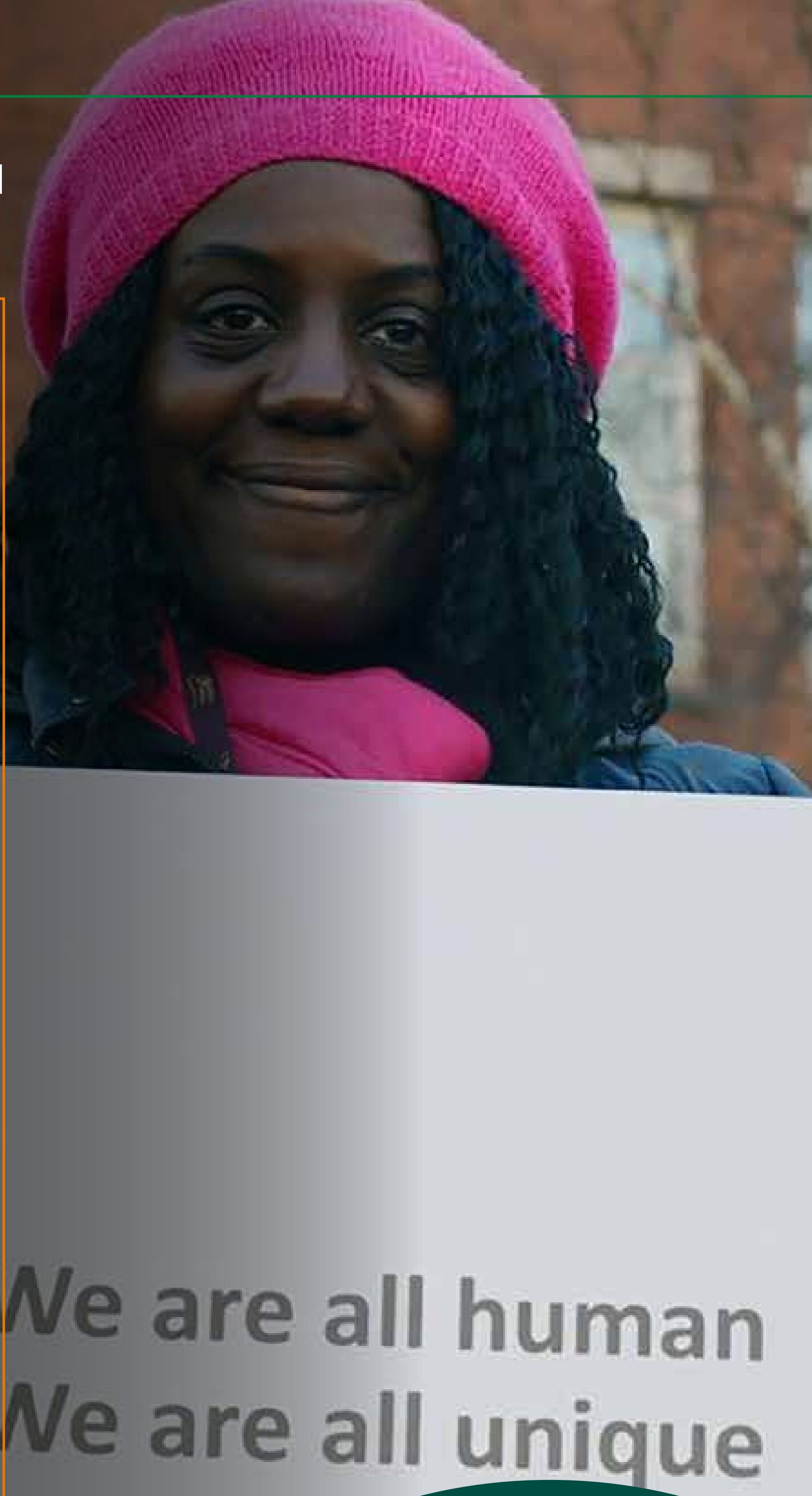
The Identity LGBT+ Network provides a social and support network for LGBT+ employees and those who are LGBT+ friendly, helping to create a safe, inclusive and diverse working environment that encourages respect and equality for all.

Our Ability Network works to bring people with disabilities and long-term conditions together. Its aim is to raise the profile of different disabilities so we can recognise and better support our employees and customers living with those conditions.

The Multicultural Network is about celebrating distinct cultural differences stemming from personal traits such as race, ethnic origin and religion. The group aims to provide a voice to all employees with a multicultural background, and to help ensure everyone feels valued and their talents fully utilised.

More details on what we have done to improve diversity and inclusion can be found on pages 138 to 140

Generating value for:



Our employee networks play a pivotal role in helping us to achieve our aim... helping to challenge the status quo.

Our performance at a glance

Environment

Protecting and enhancing the environment – we rely on the natural environment and play a key role in improving the water, land and air of the North West.

How we deliver value to the environment

Short term

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

Long term

- By promoting campaigns to educate the public and younger generations on water usage, it helps protect this valuable resource and reduce usage now and for years to come.
- We innovate and invest in new technologies to solve environmental challenges for future generations.
- We manage our land in a way that safeguards habitats for indigenous wildlife, as well as protecting wildlife that makes its home in rivers and other water bodies.
- We plan far ahead to ensure our activities and investment enhance the long-term resilience of the environment.

Link to strategic themes

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

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

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

OPERATIONAL KEY PERFORMANCE INDICATOR

The Environment Agency's Environmental Performance Assessment (EPA) of water and wastewater companies in England and Wales comprises a broad range of performance measures on what matters with regard to environmental performance.

EPA

Definition
Environment Agency assessment across six key sector environmental performance measures.

Target
Upper quartile performance within the water industry each year.

Status
Achieved/confident of achieving target

Performance
In the assessment for 2020, we expect to be awarded the maximum 4 star rating, meaning we would be classed by the Environment Agency as an "industry leading company".

- 2019: Joint third
- 2018: Joint second
- 2017: Joint first
- 2016: Joint first

READ MORE

Link to material issue

- Resilience
- Environmental impacts
- Climate change

Read more about our approach to materiality on page 27

Link to risks

1 3 5

Read more about our principal risks on pages 104 to 107

Our performance in 2020/21

Operational performance

15th

consecutive year meeting our leakage target

Zero

serious pollution incidents for the second year running

4 star

rating expected in the EA's Environmental Performance Assessment for 2020

Overview

We are fortunate to have many areas of natural beauty within our region, and these are important in offering health, fitness and wellbeing benefits to local communities and drivers for tourism in the area, as well as being essential for us to deliver our services to customers. It is of great importance we continue to protect and enhance the environment across the North West, and manage our land responsibly to improve the environment in our region for future generations. We delivered a number of environmental improvements over AMP6, including improving 338.5 kilometres of rivers, significantly reducing our carbon footprint, increasing our renewable energy production and ensuring zero emissions energy usage. We have agreed an environmental improvement programme to be delivered in AMP7 that will continue to improve the river, bathing and shellfish water quality for the benefit of customers and visitors to the North West as well as society as a whole. Our investment in AMP7 is expected to result in an improvement in water quality in 1,315 kilometres of rivers in the North West. Having completed the first year of the period, we remain on track for the improvements we have committed to.

Leakage reduction

We have beaten our leakage target for the 15th consecutive year and we are now at the lowest ever level of leakage reported in the North West. Our leakage performance improvement has been achieved through a combination of techniques. Alongside satellite technology to geo-locate potential leaks in our network and sniffer dogs to accurately locate the leak, we have deployed 66,000 acoustic loggers since 2019 with a further 29,000 being installed over the next year. We have recruited around 20 per cent additional leakage detection resources, further supported this year by our first intake of apprentices on a bespoke two-year technical training scheme, mitigating the risk of a national shortage in leakage technicians. Over AMP7, we plan to reduce total leakage by at least 15 per cent, with a delivery plan that continues to make best use of available technologies and is flexible to ensure that we can embrace the heightened level of innovation in this area.

Pollution performance

In 2020, we had no serious pollution incidents for the second year running, and have reduced total pollution incidents by almost a third. Here, we are seeing the benefits of delivering the action developed as part of our Pollution Incident Reduction Plan which covers a range of interventions, and for the first time we had no wastewater treatment works classed by the Environment Agency as “failing works”, which is something that has only ever been achieved across the sector once before.

Greenhouse gas emissions and climate change

Carbon reduction ('mitigation') and climate resilience ('adaptation') have influenced both our strategic and operational decisions for over two decades. We have achieved substantial progress over recent years and we have ambitious plans and commitments to go much further.

Carbon reduction – We are signatories to the UN Race to Zero campaign and we are contributing to the UK water industry’s commitment to achieve carbon net zero by 2030. In May 2020 we announced six carbon pledges including the use of science-based targets to reduce our carbon footprint. We have successfully reduced our operational emissions by over 70 per cent in recent years, primarily by investing in our own renewable energy generation capabilities and purchasing green energy from the national grid. We continue to deliver on our commitments to peatland restoration and woodland creation, recently establishing two tree nurseries in the North West. We are also committed to delivering our green fleet strategy and have introduced more low-carbon vehicles and charging.

Our portfolio of renewable energy assets is operating satisfactorily and our investment has delivered the returns that we targeted. Having maximised the opportunities to date and established long-term contracts to secure a proportion of our renewable energy out to 2045, we are now looking at how we can recycle our investment in order to achieve further strong returns and take the next steps in our plans to achieve net zero by 2030.

Climate resilience – In AMP6 we invested an additional £250 million targeted to increase resilience against climate change, and we continue to invest across our business to protect and enhance the climate resilience of our assets, processes and customer services. We are working to further mature our already advanced level of climate risk understanding. We will soon be publishing an overview of our climate risks and plans in our new adaptation report. This will be released in draft for open consultation and engagement before we finalise our submission over the months ahead. Our latest annual statement in support of the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) can be seen on pages 86 to 99, and provides an update on our performance this year.

Natural capital and biodiversity

We continue to develop our approach to natural capital and improve our understanding to influence investment decisions, allowing us to assess the full value of our activity. We have a natural capital ODI in AMP7, which encourages assessment of the added natural capital value we deliver by pursuing nature-based and catchment solutions. Understanding this value will help us drive partnership working and our Catchment Systems Thinking (CaST) approach, which seeks to understand the broader needs of a catchment and deliver outcomes across multiple stakeholders. As part of this approach we have worked with stakeholders to develop a north west natural capital baseline to understand the natural assets the North West has, the benefits they provide and the value of them. Once completed, we will engage with other partners across the North West to drive a consistent approach in order to drive greater natural capital value. To facilitate this we are seeking to establish a north west governance group for natural capital.

Biodiversity is a key pillar of natural capital and plays an important part in our CaST approach. As the largest private land owner in the UK, and an organisation delivering significant development in the North West, we have committed to no net loss of biodiversity and delivered significant investment in improving the condition of habitats on our land. We are actively reviewing our approach to how we can best manage and enhance biodiversity.

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
EA EPA	**Upper quartile**	Upper quartile[1]	●	●
Leakage reduction	**15%**[2]	On track	●	●
% waste to beneficial use	**98%**	97.3%	●	●
Enhancing natural capital for customers	**£4 million**	Delivery scheduled from 2022	●	●
Number of trees planted	**500,000**	216,601	●	●
Better air quality: nitrogen oxides (NOx) emissions per GWh of renewable electricity generated	**1.42 NOx/GWh**	1.3 NOx/GWh	●	●
Climate change mitigation: meeting our science-based reduction target	**14%**	1% increase	●	●
Climate change adaptation: multiple measures	**See TCFD section, pages 86 to 99**			

Status key:

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

(1) For the year 2020, we expect to be awarded the maximum 4 star rating.

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

BEING PURPOSE-LED

Young couple breathe new life into farmland

Much of our land is managed on our behalf by tenant farmers, who do a great job of handling it in a way that supports our water quality and environmental goals.

Through our Sustainable Catchment Management Programme (SCaMP) and Catchment Systems Thinking (CaST) approach we have a long history of protecting and enhancing the water environment, with wildlife and biodiversity enhancement as key drivers.

During the year, Bradleys Farm, a 103-acre smallholding on the edge of Rivington Village, became vacant and our land management team decided to package the farm as an exciting opportunity, suitable for young farmers interested in a 'starter farm'.

The farm sits within the West Pennine Moors Site of Special Scientific Interest and is included in the Government's Higher Level Stewardship Scheme to promote environmentally beneficial management.

Following enquiries from all over the country and lots of interesting ideas as to how the farm could be run, the farm has been let to Arron Parker and his partner Gemma Coar. The Lancashire-born couple, both from farming backgrounds, have big plans to bring the community into their venture.

They're planning to organise walks and provide educational visits for the public on farming, conservation, ecology and water quality as the farm is a gateway site for the main Rivington reservoirs and associated recreational walks.

"An added aim of our management of the farm is to maintain and improve areas for visitors to enjoy", said Gemma. "As tenants, we have these goals at the forefront of our farming enterprise and land management proposals."

Arron and Gemma can't wait to get started: "We both worked closely alongside my parents at their family farm for many years", said Gemma, "but have always dreamed of managing our own family farm. This is our dream come true. We're able to manage our own farm, close to family and friends, in the beautiful area of Rivington. Our children can grow up in a wonderful place of open space and countryside and we have our lives ahead to plan, enjoy and grow."

Generating value for:

The Lancashire-born couple, both from farming backgrounds, have big plans to bring the community into their venture.

Our performance at a glance

Investors

Delivering a sustainable return to investors – through prudent financial risk management and a strong track record of performance across all components of ESG.

How we deliver value to investors

Short term

- Since many of our shareholders are pension funds, charities and employees, the income we provide through dividends benefits millions of people every year.
- We are committed to high ethical standards of business conduct, strong corporate governance and acting with integrity so investors can have confidence in the way we do business.
- We maintain a high level of quality and transparency, building trust and confidence in what we report.
- Our innovation culture drives continuous improvements, enabling us to be at the frontier of our industry and ahead of peers.

Long term

- Our shareholders have placed their money into our business as a long-term investment and we provide an appropriate return through a combination of short-term dividend income and long-term growth.
- We plan far into the future and invest in our infrastructure to ensure the sustainability of the business and the services we provide.
- We manage risk prudently so investors can have confidence in our stability and resilience in the round.
- We link investors' return to our environmental and social projects through our sustainable finance framework.

Link to strategic themes

By delivering better performance for customers we are able to achieve greater regulatory incentives, aligning improved service with shareholder return.

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

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

READ MORE

Link to material issue

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

Read more about our approach to materiality on page 27

Link to risks

6 10

Read more about our principal risks on pages 104 to 107

OPERATIONAL KEY PERFORMANCE INDICATOR

Return on Regulated Equity (RoRE) expresses the return the company has managed to earn above and beyond expectations set by the regulator through financial and operational performance.

Return on Regulated Equity

Definition

Key measure encompassing regulatory out/under performance across financial and operational efficiency, customer satisfaction, and regulatory performance targets.

Target

Our targets will be updated throughout the period in line with guidance on the individual components of RoRE.

Status

Achieved/confident of achieving target

Performance

2020/21 reported RoRE was 4.3 per cent on a real, RPI/CPIH blended basis, mainly comprising the base return of 3.9 per cent (including our 11 basis point fast-track reward that we receive in each of the five years of the AMP), financing outperformance of 1.2 per cent and customer ODI outperformance of 0.3 per cent as a result of our year one net reward of £21 million.

Our totex performance of -0.3 per cent represents the year one impact of the £300 million additional totex which provides benefits that are not all reflected in RoRE. Retail performance of -0.3 per cent reflects a small overspend this year in adapting to the effects of COVID-19 and tax performance of -0.5 per cent reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020 (which will be recovered through the tax sharing mechanism), and the tax impact of our strong financing outperformance.

Our underlying RoRE is higher at 4.8 per cent and is adjusted for the tax impact that will be recovered through the tax sharing mechanism and the additional totex that drives better outcomes against future customer ODIs.

This is a new measure for the 2020-25 period hence no prior year comparators. These will be provided from 2021/22 onwards.

Our performance in 2020/21

Operational performance

£21m

net customer ODI reward for 2020/21

£300m

extension to our AMP7 totex plan

Leading

water utility in Sustainalytics ESG Risk Rating assessment

Overview

Our investment strategy and digital transformation, underpinned by our pioneering Systems Thinking approach, is delivering significant performance improvement and efficiency. This has been our best year of operational performance for customers and the environment, manifesting itself in a net reward against our customer ODIs for the year of £21 million. Since accepting our AMP7 final determination, we have increased our totex plan by a further £300 million, all of which we expect to be remunerated through regulatory mechanisms, and we continue to accelerate our overall AMP7 investment programme to deliver benefits sooner and boost the regional economy as we emerge from the worst effects of COVID-19. We have delivered another robust year of financial performance and we are raising finance effectively, locking in rates favourable to the price review assumptions and leveraging our strong ESG credentials.

Total expenditure (totex)

Our AMP7 business plan was assessed by Ofwat as being among the most efficient in the sector. Thanks to the strong performance we delivered in AMP6, we started AMP7 at the target totex run rate and we are confident that we can deliver our AMP7 scope within our final determination totex allowance. Our investment strategy delivers long-term sustainable performance improvements and efficiency and our AMP7 totex plans will be extended by around £300 million, which we expect to be fully remunerated through regulatory mechanisms, with this investment extending our environmental programme, accelerating our digital transformation and exploiting spend to save opportunities.

In this first year of AMP7, we have invested £617 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure (IRE)), representing the continued acceleration of our AMP7 investment programme and early expenditure against the £300 million extension to our original totex plans. This represents a good start to the delivery of our AMP7 programme, benefiting from the early start and transition investment we made in 2019/20 and our ability to continue working, where it was safe to do so, during the COVID-19 pandemic. As a consequence, we have been able to deliver this expenditure effectively, maintaining our high performance scores against our Time, Cost and Quality index (TCQi) at over 95 per cent.

While we continue to seek efficiencies in the delivery of totex, as we have demonstrated through the £300 million extension to our totex plans, we will invest where we are confident we can deliver improved customer or environmental outcomes and better customer ODI performance.

Customer outcome delivery incentives (ODIs)

Our digital transformation and investment strategy are delivering improved performance and we have made a strong start to AMP7, achieving a £21 million net customer ODI reward for 2020/21. This is ten times the net reward we achieved in the first year of AMP6 and is particularly pleasing in light of the tougher targets we have set.

The earlier 'Customers' section provides more detail on the customer ODIs where we are performing well and others where the targets for AMP7 are challenging. We see opportunities across a number of ODI targets, and our Systems Thinking approach, including new digital capability driven by Dynamic Network Management (DNM), increased use of data and analytics within our retail function, coupled with early investment, have and will continue to help us drive performance improvements.

Unlike AMP6, ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore any net reward earned this year will be reflected in an increase to revenues earned in 2022/23 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism. Overall, we are targeting a cumulative net ODI reward over the 2020–25 period of around £150 million, a significant improvement on the £44 million achieved in the previous regulatory period.

Financing

On financing performance, we have consistently issued debt at efficient rates that compare favourably with the industry average, thanks to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise. This delivered significant financing outperformance during AMP6 and the rates we have already locked in for AMP7 compare favourably with the price review assumptions.

In November 2020, we published our new sustainable finance framework, allowing us to raise finance based on our strong ESG credentials and replacing the green funding that we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit. In January 2021, we issued our debut sustainable bond, generating a huge amount of interest for the company and our ESG credentials and delivering a coupon of 0.875 per cent. This is not only our lowest ever coupon at this maturity, locking in financing outperformance, but also the lowest ever coupon for any UK corporate at this maturity.

ESG performance

We perform well across a broad range of ESG indices and for 2021 we attained World Class status on the Dow Jones Sustainability Index for the 14th consecutive year. In April 2021, we were ranked 6th out of 613 global utilities in the Sustainalytics' ESG Risk Rating assessment, positioning us as the leading water utility in the index. We achieved a score of A- from the CDP which evaluates how companies assess climate change-related financial risks and opportunities, including their approach to transparency and disclosure. We were assessed by the Environment Agency (EA) as the best performing company on pollution for the second year in a row with no serious pollution incidents and we expect to be awarded industry-leading 4 star rating in the EA's Environmental Performance Assessment for 2020. From an employee perspective, we achieved a significant improvement in the Workforce Disclosure Initiative, scoring well above the overall average and receiving special recognition in the 'COVID-19 transparency' category at its Workforce Transparency Awards.

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
RoRE	**Assessed annually**	4.3%	Green	Green
UK Corporate Governance Code	**Maintain compliance**	Compliant	Green	Green
Maintain performance across a range of trusted investor indices	**Upper quartile**	Upper quartile	Green	Green
Credit rating UUW (Moody's, S&P, Fitch)	**A3, BBB+, A-**	A3, BBB+, A- (stable outlook)	Green	Green
Gearing	**55–65%**	62%	Green	Green
Maintain sustainable finance framework	**Available/ continued issuance**	Available	Green	Green
Fair Tax mark	**Retain annual accreditation**	Retained	Green	Green
Sustainable dividend	**Grow by CPIH**	In line with commitment	Green	Green
Risk maturity	**Year on year improvement**	Met expectation	Green	Green
Anti-bribery: % of identified employees completing required training	**100%**	94%	Amber	Green
Investor engagement: % met or offered to meet by value (active targetable institutional shareholder base)	**75%**	81%	Green	Green

Status key:

Annual performance	Against 2025 target
(Green) Met expectation/target	(Green) Confident of meeting target
(Amber) Close to meeting expectation/target	(Amber) Some work to do
(Red) Behind expectation/target	(Red) Target unobtainable
(Grey) Baseline year	(Grey) Baseline year

Our performance in 2020/21
Operational performance

BEING PURPOSE-LED

Our sustainable finance framework

Linking investment to our ESG goals.

Historically, the European Investment Bank funded much of our environmental programme, but following Brexit this funding is no longer available. We were keen to offer a wider range of investors a similar ability to more directly link their investment in us to our environmental and sustainability goals.

In November we formally launched our sustainable finance framework. Dovetailing well with our long-standing and comprehensive ESG strategy, the framework allows us to more clearly demonstrate how investment in our business makes a positive impact on the North West's environment and society in which we live and operate.

Our 'use of proceeds' based framework follows market principles set out by the International Capital Market Association and the Loan Market Association, covering issuance in both bond and loan format. Second-party opinion was provided by Sustainalytics and was assessed to be 'credible and impactful'.

Our framework sets out eight eligible categories of environmental and social spend that can be funded, covering a wide range of areas from core activities such as 'sustainable water and wastewater management' to other more targeted areas such as 'clean transportation' and 'access to essential services'.

Following two days of engagement with institutional investors, our first sustainable bond was issued in January 2021, becoming, at the time, the lowest ever 8yr+ GBP corporate nominal coupon. The £300 million bond was oversubscribed by more than three times and attracted notable new investors to the company.

This additional debt finance option has provided value to both us and investors, and we look forward to giving additional insight into the projects funded through sustainable finance in our allocation and impact reports to be released in 2021.

You can find out more about our sustainable finance framework on our website: unitedutilities.com/corporate/investors/credit-investors/sustainable-finance

Generating value for:

The framework allows us to more clearly demonstrate how investment in our business makes a positive impact on the North West's environment and society.

Our performance at a glance

Suppliers

Innovating in partnership with suppliers – we rely on suppliers to deliver our services and to help identify ways to make them better.

How we deliver value to suppliers

Short term

- We spend significant amounts of money with our suppliers each year to help deliver maintenance and enhancement projects across our asset base, and this helps support thousands of jobs in our region.
- Paying suppliers on time gives them confidence in us and allows companies to maintain cash flow and become more resilient.
- While our operations and suppliers are mainly UK and European, they work closely with us to address human rights, in particular, modern slavery.

Long term

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

Link to strategic themes

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

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

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

OPERATIONAL KEY PERFORMANCE INDICATOR

We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, which involves our commitment to paying invoices within 60 days.

Invoices paid within 60 days

Definition

Percentage of invoices paid within 60 working days of issue.

Target

At least 95 per cent, in line with requirements of the Prompt Payment Code.

Status

Achieved/confident of achieving target

Performance

For 2020/21, 99.55 per cent of invoices were paid within 60 days. The average number of days taken to pay our suppliers was 13 days, which is reflective of our efforts to accelerate payment to suppliers by seven days during COVID-19.

- 2019/20: 97.35 per cent
- 2018/19: 98.57 per cent
- 2017/18: 95.44 per cent
- 2016/17: 97.40 per cent

READ MORE

Link to material issue

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

Read more about our approach to materiality on page 27

Link to risks

4

Read more about our principal risks on pages 104 to 107

Our performance in 2020/21

Operational performance

Overview

Our activities support around 17,700 jobs in the supply chain, and the acceleration of around £500 million of capital expenditure into the first three years of AMP7 will play a part in helping to generate jobs and income for the north west economy at a critical time as the country emerges from the worst effects of the COVID-19 pandemic. Suppliers play an important role in maintaining supply for key parts of our business, and contractors, as well as direct employees, act as the face of our business for many customers and communities. The pandemic has shown the importance of our relationship with our supply chain partners. We have continued to work closely with our supply chain and issued guidance reinforcing government guidelines to protect employees, suppliers and customers while maintaining delivery of critical services.

'Better together' through United Supply Chain

In November 2020 we successfully launched our new approach to responsible supply chain management for AMP7 called United Supply Chain (USC). USC recognises suppliers as an extension of the United Utilities family and suppliers are asked to become signatory to our responsible sourcing principles as a minimum. Those suppliers who are integral to our operations we encourage to become leaders and to work jointly with us to deliver improvements across environmental, social and governance areas and improve value to customers. At the end of March 2021 we had signed 38 per cent of our targeted suppliers to our responsible sourcing principles and continue to pursue the remaining suppliers to reach our target of 100 per cent. Via our partnership with the Supply Chain Sustainability School we have been able to offer both our commercial colleagues and supply chain partners free resources to learn more about the responsible sourcing principles.

Innovation in action

Our Innovation Lab programme is designed to "look for ideas where others aren't looking" – in other sectors, other countries and with suppliers that are often small, start-up businesses, just starting on their idea development or business growth journey. It does all this whilst being fully compliant with procurement legislation – allowing for rapid idea testing and idea adoption / contract award – an obstacle that most regulated companies struggle with. The open, collaborative nature means that feedback is given more frequently and ideas get tailored for United Utilities adoption faster than traditional product testing. We have worked with 23 suppliers in this way, and our highest profile success is with FIDO (tackling leakage detection in our Lab 2 programme). FIDO is becoming known as a disruptor in the global water sector, and we have first mover advantage on new developments.

We are part-way through our third Innovation Lab programme; we have published four high level problems and encouraged innovative solutions from around the world. Over 120 supplier applications have been reviewed by our experts and we have selected eight suppliers with high potential ideas; with our help, they could offer a performance step change across a range of areas from helping us to reduce our carbon footprint and be more self-sufficient on energy, to predicting asset failures before they occur. All ideas support our Systems Thinking ambitions, most are digitally-centric, and half are new entrants to the UK water sector.

17,700

jobs supported by our activities

120

supplier applications reviewed as part of our third Innovation Lab programme

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Invoices paid within 60 days	**At least 95%**	99.55%	🟢	🟢
Average time taken to pay invoices	**<28 days**	13	🟢	🟢
% suppliers in high risk categories, as identified by sustainability risk assessments, covered by enhanced due diligence audits	**5%**	Delivery scheduled from 2021	🟢	🟢
% of partner and strategic suppliers that have sustainability risk assessment in place	**75%**	35%	🟢	🟢
Supplier Relationship Management score	**90%**	69%	🟠	🟢
% of targeted suppliers signed up to United Supply Chain	**100%**	38%	🟢	🟢
CIPS ethical mark	**Retain annual accreditation**	Retained	🟢	🟢
Savings delivered through innovation and efficiency	**£40 million**	£3.9million	🟢	🟢

Status key:

Annual performance	Against 2025 target
🟢 Met expectation/target	🟢 Confident of meeting target
🟠 Close to meeting expectation/target	🟠 Some work to do
🟣 Behind expectation/target	🟣 Target unobtainable
⚪ Baseline year	⚪ Baseline year

BEING PURPOSE-LED

Working better together

Having an integrated culture throughout our supply chain is fundamental to the successful delivery of our strategic aims.

This means extending our values beyond our own business and into the supply chain, recognising it as an extension of our operations and commitments, delivering critical services to our region and providing great water and more for the North West.

United Supply Chain (USC) is a fundamental step change in the way we are looking to engage and work with our suppliers through AMP7, and into AMP8 – replacing the previous Sustainable Supply Chain Charter used through AMP6. USC is centred on using our responsible sourcing principles to create a high-quality supply chain and provide suppliers with a way of enhancing their performance in the North West and beyond. We believe that operating and procuring in a responsible manner will mitigate risk, build resilience, improve compliance and ultimately deliver better value for customers.

In November 2020, as part of our launch of USC, we held our first digital supplier event, with senior leaders from across the business sharing their role in helping us to achieve our company's vision of being the best UK water and wastewater company.

A variety of supplier engagement activities followed, and we are now in the process of signing up 100 per cent of all targeted suppliers to our responsible sourcing principles. We will then be surveying suppliers to capture our progress and successes, and to identify new ways that we can work better together.

Since 2016, we have had a strong relationship with the Supply Chain Sustainability School, and the launch of USC has seen them partner us on our journey to embed best practice across our business and broader supply chain. This collaboration allows our suppliers direct access to the latest thinking and training in responsible sourcing. Recent insightful workshops have covered carbon and modern slavery – with the latter leading to us enhancing key internal documents to align to best practice.

'Pride in the workplace' training by The Proud Trust provided education on diversity and inclusion, another key theme of our USC roll-out. Ensuring that learning gained from this training is replicated internally and throughout our supply chain will be key to helping us embed USC.

We will be showcasing more examples of collaborative working on our USC supplier web pages, as we work to create, adopt and develop better practice across our delivery chain.

Generating value for:

USC is centred on using our responsible sourcing principles to create a high-quality supply chain and provide suppliers with a way of enhancing their performance in the North West and beyond.

Our performance in 2020/21

Financial performance

Our performance at a glance

We have delivered against our financial key performance indicators this year, reflecting a year of robust financial performance.

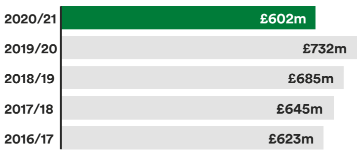
Robust financial performance backed by a strong balance sheet

- Underlying profit after tax[1] of £383 million down 21 per cent, in line with expectation.
- Customer debtor position and household cash collection remain strong.
- Strong balance sheet; A3 stable credit rating with Moody's.
- Pension schemes fully funded on a low-dependency basis.
- AMP7 dividend policy of growth in line with CPIH inflation.

Financial key performance indicators

Underlying operating profit[1]

£602m



Definition

The underlying operating profit measure excludes from the reported operating profit any significant non-recurring items. The group determines adjusted items in the calculation of its underlying operating profit measure by reference to a framework that considers significance by reference to profit before tax, in addition to other qualitative factors such as whether the item is deemed to be within the normal course of business, its assessed frequency of recurrence, and its volatility, which is either outside of the control of management and/ or not representative of the current year performance. A reconciliation is shown on pages 82 to 83.

Link to remuneration, bonus/LTP

Bonus – direct, LTP – indirect

Status

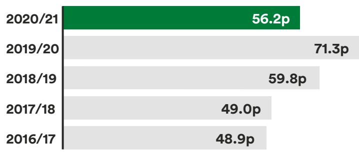
Close to achieving expectation/ target but more work to be done

Performance

Underlying operating profit of £602 million was down £130 million, largely reflecting lower revenue in the first year of the new price control and higher infrastructure renewals expenditure (IRE), as a result of ongoing work to optimise performance.

Underlying earnings per share[1]

56.2p



Definition

This measure deducts underlying net finance expense, underlying share of joint venture losses and underlying taxation from underlying operating profit to calculate underlying profit after tax and divides this by the average number of shares in issue during the year. Underlying net finance expense makes adjustments to the reported net finance expense, including stripping out fair value movements. Underlying taxation strips out deferred tax (including any tax credits or debits arising from changes in the tax rate from reported taxation) or any exceptional tax. Reconciliations to the underlying measures above are shown on pages 82 to 83.

Link to remuneration, bonus/LTP

LTP – indirect

Status

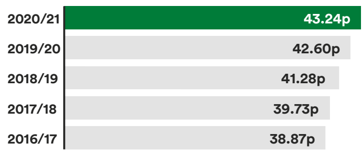
Met expectation/target

Performance

Underlying earnings per share was down 15.5 pence at 56.2 pence due to the decrease in underlying operating profit partly offset by a lower underlying net finance expense due to lower RPI inflation on our index-linked debt.

Dividend per share

43.24p



Definition

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

Link to remuneration, bonus/LTP

LTP – indirect

Status

Met expectation/target

Performance

The board has proposed an increase in the dividend of 1.5 per cent taking the total dividend for the year to 43.24 pence per share, in line with our AMP7 policy of targeting growth in line with CPIH inflation.

(1) Underlying measures are defined in the tables on pages 82 to 83 and reflect a change in approach to alternative performance measures (APMs) with prior year numbers re-presented for comparability
(2) March 2021 gearing based on new definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments, with prior year numbers re-presented for comparability

Notes:
Note 1: For both our operational and financial KPIs, where we have declared external targets we assess our performance against the most recent public targets. Where there are no externally declared targets we assess our performance against our internal budget; however, our internal budget is not disclosed.
Note 2: In some instances the remuneration committee has used metrics with similar names but calculation methodologies which they consider more appropriate for executive remuneration, as set out in the remuneration report on pages 160 to 189.

Gearing: net debt to RCV[2]

62%

2020/21	62%
2019/20	61%
2018/19	61%
2017/18	61%
2016/17	61%

Definition
Group net debt divided by United Utilities Water Limited's (UUW) shadow (adjusted for actual spend) regulatory capital value (RCV).

Target
Maintain gearing with a range of 55 per cent to 65 per cent.

Status
Met expectation/target

Performance
Our gearing at 62 per cent is marginally higher this year but remains within our target range of 55 per cent to 65 per cent, supporting a solid investment grade credit rating.

Total shareholder return

+7%

2020/21	+7%
2019/20	+17%
2018/19	+20%
2017/18	-25%
2016/17	+19%

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

Link to remuneration, bonus/LTP
LTP – direct

Status
Met expectation/target

Performance
Our total shareholder return was 7 per cent over the year to 31 March 2021.

Low dependency pension scheme

£nil

deficit repair contributions

This is a new measure for the 2020–25 period hence no prior years' comparators. From 2021/22 onwards comparators will be provided.

Definition
Fully-funded defined benefit pension schemes on a low -dependency basis.

Status
Met expectation/target

Performance
Our pension scheme has minimal reliance on the company in order to meet all of its liabilities – in other words, we have achieved low dependency as defined in The Pensions Regulator's defined benefit funding consultation published in March 2020. We have no further deficit repair contributions to make, a position we do not expect to change given our approach to hedging market risk.

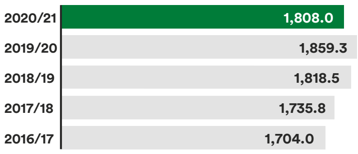
KPI STATUS KEY

Met expectation/target | Close to meeting expectation/target | Behind expectation/target | Baseline year

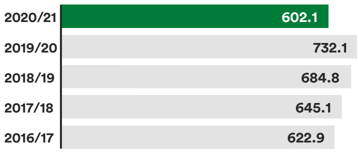
Our performance in 2020/21

Financial performance

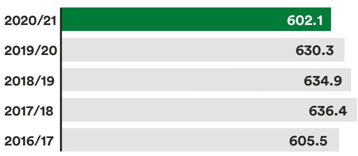
Revenue



Underlying operating profit[(1)]



Reported operating profit



RCV gearing[(2)]

62%

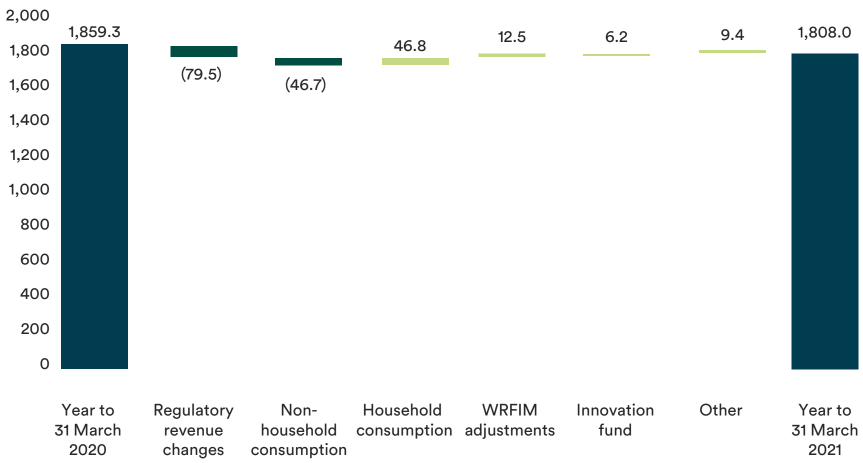
Total dividend per ordinary share (pence)

43.24

(1) We have changed our approach to alternative performance measures (APMs) during the year, with prior year numbers restated for comparability. A guide to APMs and a reconciliation between underlying profit and reported profit is shown on pages 82 to 83.

(2) Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited shadow RCV (out-turn prices).

Revenue

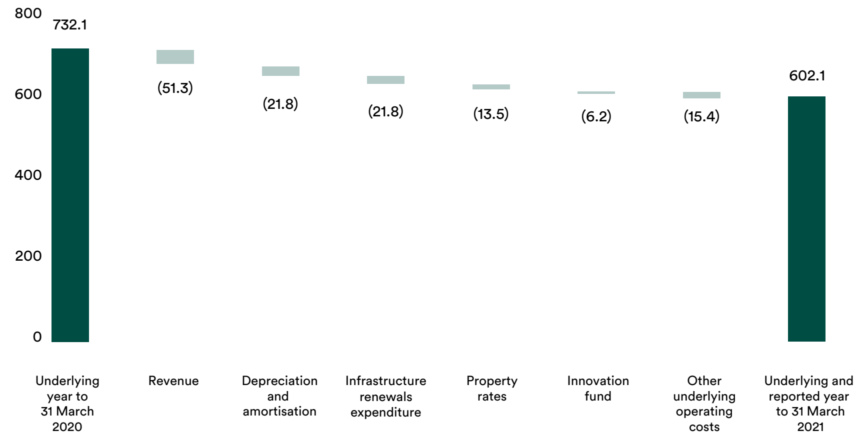


Revenue was down £51 million, at £1,808 million, largely reflecting the £80 million reduction from the new pricing regime in this, the first year of AMP7, incorporating a 5.5 per cent real reduction in typical household bills and a 1.5 per cent CPIH-linked increase.

The impact of the COVID-19 pandemic and related lockdown periods has seen non-household revenue decrease by £47 million, with an increase in household revenue of £47 million as a result of more time spent at home and the hot, dry weather in spring 2020.

Revenue in 2020/21 includes £6 million in relation to the Innovation in Water Challenge Scheme. This is a new scheme introduced by Ofwat in AMP7, and therefore did not apply last year, and is intended to fund industry-wide innovation projects. In 2020/21, we have provided for £6 million of offsetting costs with the balance of revenue and costs as the scheme matures in future years dependent upon how successful companies are in bidding for funds.

Operating profit



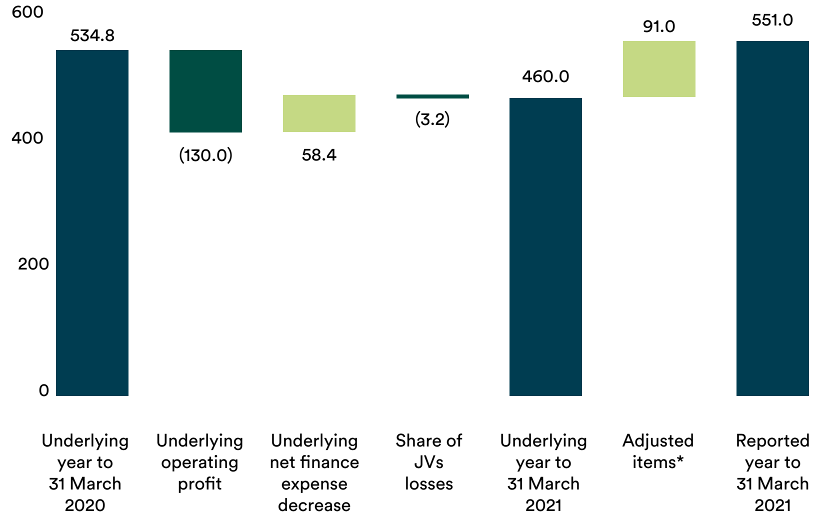
* Adjusted items are set out on pages 82 and 83

Underlying operating profit[1] at £602 million was £130 million lower than last year. This principally reflects the £51 million reduction in revenue, and also a £22 million increase in IRE as a result of ongoing work to optimise the performance of our network. Depreciation is £22 million higher, principally reflecting the higher capex programme in AMP6 with a high number of assets commissioned towards the end of the AMP. In the near term we would expect depreciation to flatten out, reflecting the lower AMP7 capex programme. Property rates are £14 million higher this year, largely reflecting a rates refund received last year. We have accrued £6 million of costs in 2020/21 in relation to the Innovation in Water Challenge Scheme mentioned above, along with £13 million of extra COVID-19 related costs (including a £5 million increase in the underlying bad debt charge), which have been absorbed within our cost base and which have not been treated as adjusted items when calculating our underlying operating profit.

Reported operating profit was £28 million lower than last year, reflecting the decrease in underlying operating profit partially offset by a decrease in adjusted items. As a result of the changes we have made to alternative performance measures, we will no longer, as a matter of course, adjust for restructuring costs to derive underlying operating profit and therefore we do not have any adjusted items in the year to 31 March 2021, with prior year numbers re-presented for comparative purposes. Adjusted items totalling £102 million were made in the full year to 31 March 2020, comprising £83 million of accelerated depreciation of bioresources assets that had been taken out of use and £19 million in relation to provisions for the anticipated impact of COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills. These adjusted items can also be found on pages 82 to 83 and more detail can be found in our announcement of results for the year to 31 March 2020.

Household bad debt is 2.2 per cent of regulated revenue, representing a marginal increase of £5 million on the underlying bad debt cost in the prior year, reflecting the ongoing uncertainty associated with the third lockdown and taking into account expected cash collection into the future, as government support unwinds in the coming months.

Profit before tax



* Adjusted items are set out on pages 82 and 83

Underlying profit before tax[1] was £460 million, £75 million lower than last year. This reflects the £130 million reduction in underlying operating profit, and an increase in the share of underlying losses of joint ventures of £3 million, partly offset by a £58 million decrease in underlying net finance expense.

Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 82 to 83. Reported profit before tax increased by £248 million to £551 million, reflecting the £28 million reduction in reported operating profit and the £3m increase in the share of underlying losses of joint ventures, more than offset by a £210 million reduction in reported net finance expense (including fair value movements), a £37 million profit on the disposal of our Tallinn joint venture and the impact in the prior year of our £32 million share of Water Plus losses arising as a result of COVID-19.

Net finance expense

The underlying net finance expense of £133 million was £58 million lower than last year, on a consistent basis. Interest of £83 million on non-index linked debt was £13 million lower than last year due to lower rates locked in on debt and associated swaps. The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £54 million, compared with a net charge of £100 million last year.

Reported net finance expense of £79 million was £210 million lower than last year, principally reflecting a £151 million increase in the fair value gains on debt and derivative instruments, from a £76 million loss in the prior year to a £74 million gain in the current year, and lower inflation applied to our index-linked debt.

Joint ventures

On 31 March 2021, the group completed the disposal of its stake in the Tallinn Water joint venture for consideration of EUR 100.3 million (£85.3 million) and a total recognised profit on disposal of £37 million. Given its material and atypical nature, this profit on disposal has been excluded from underlying results.

For the year to 31 March 2021, we recognised £14 million losses in the income statement relating to our joint venture Water Plus, comprising £9 million of our share of Water Plus's underlying losses for the year and £5 million of previously unrecognised share of losses. At 31 March 2021 there was a clear expectation that the £32.5 million revolving credit facility extended to Water Plus would be converted into additional equity share capital, and as a result share of losses are recognised against this capital, this includes recognition of any previously unrecognised losses. The transaction to convert the £32.5 million revolving credit facility was subsequently executed on 23 April 2021.

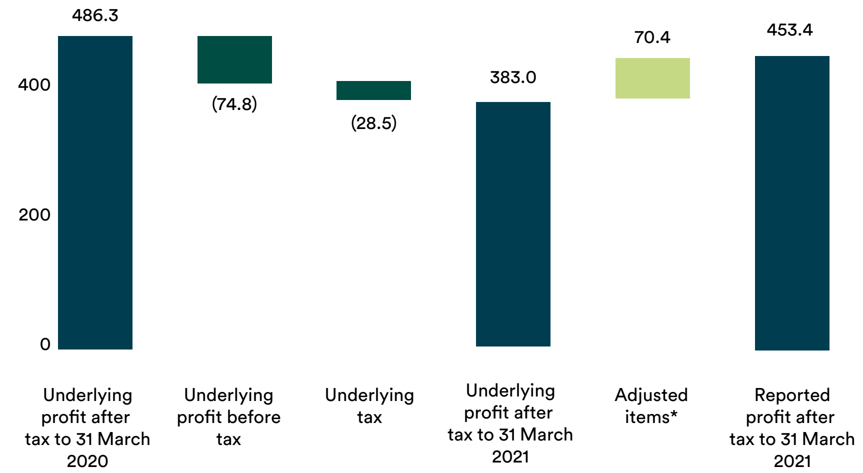
For the year to 31 March 2020, we recognised £51 million losses in the income statement relating to our joint venture Water Plus, comprising £14 million of our share of Water Plus' underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19, as well as a £5 million allowance for expected credit losses. As a result, our long-term interest in Water Plus was written down to £nil. A further £5 million of our share of Water Plus' underlying losses were not recognised in the income statement.

Our £9 million underlying share of losses of joint ventures in the year to 31 March 2021 comprises a £5 million share of profits from Tallinna Vesi AV, more than offset by a £14 million share of losses from Water Plus.

Our performance in 2020/21

Financial performance

Profit after tax and earnings per share



* Adjusted items are set out on pages 82 and 83

Underlying profit after tax[1] of £383 million was £103 million lower than last year, and underlying earnings per share decreased from 71.3 pence to 56.2 pence, principally reflecting the £75 million reduction in underlying profit before tax and a £28 million higher underlying tax charge largely due to the pension deficit repair payment we made last year.

Reported profit after tax increased by £347 million to £453 million, and reported basic earnings per share increased from 15.7 pence to 66.5 pence, principally reflecting the £248 million increase in the reported profit before tax and a £99 million decrease in the reported tax charge primarily as a result of a £136 million deferred tax adjustment for the change in tax rate reflecting the Government's reversal of the planned reduction in the rate of corporation tax recognised in the prior year.

Tax

The group continues to be fully committed to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs and we were delighted to have retained the Fair Tax Mark independent certification for a second year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its 5,000 strong workforce. The total payments for 2020/21 were around £258 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges, as well as corporation tax.

In 2020/21, we paid corporation tax of £75 million, which represents an effective cash tax rate on underlying profits of 16 per cent, which is 3 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment and also, in the prior year, pension payments – these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby enables a medium-term cash tax rate forecast. We expect the average cash tax rate on underlying profits to remain below the headline rate of tax for the medium term.

As well as the payments we also received a repayment of corporation tax of £27 million following agreement of routine prior years' UK tax matters.

The current tax charge was £80 million in 2020/21, compared with £51 million in the previous year. There were current tax credits of £1 million in 2020/21 and £12 million in 2019/20, following agreement of prior years' UK tax matters.

For 2020/21, the group recognised a deferred tax charge of £18 million, compared with £158 million for 2019/20. Of the deferred tax charge for 2019/20, £136 million related to the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020. Excluding the above change in tax rate related deferred tax adjustment in the prior year and the current year non-taxable profit on the disposal of the joint venture investment in AS Tallinna Vesi, the total effective tax rate was around 19 per cent for both the current year and the prior year. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to be in line with the headline rate of corporation tax for the medium term.

In 2020/21, there are £31 million of tax adjustments taken to equity, primarily relating to remeasurement movements on the group's defined benefit pension schemes. As in the prior year the rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 35 per cent, being the rate applicable to refunds from a trust.

An increase in the headline rate of corporation tax to 25 per cent from 1 April 2023 was announced in the Chancellor's Budget on 3 March 2021. This change has been enacted in May 2021, and will result in a future deferred tax charge currently estimated at around £380 million.

Dividend per share

The board has proposed a final dividend of 28.83 pence per ordinary share in respect of the year ended 31 March 2021. Taken together with the interim dividend of 14.41 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2020/21 of 43.24 pence. This is an increase of 1.5 per cent compared with the dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of CPIH inflation each year through to 2025. The inflationary increase of 1.5 per cent is based on the CPIH element included within the allowed regulated revenue increase for the 2020/21 financial year (i.e. the movement in CPIH between November 2018 and November 2019).

The final dividend is expected to be paid on 2 August 2021 to shareholders on the register at the close of business on 25 June 2021. The ex-dividend date is 24 June 2021.

Cash flow

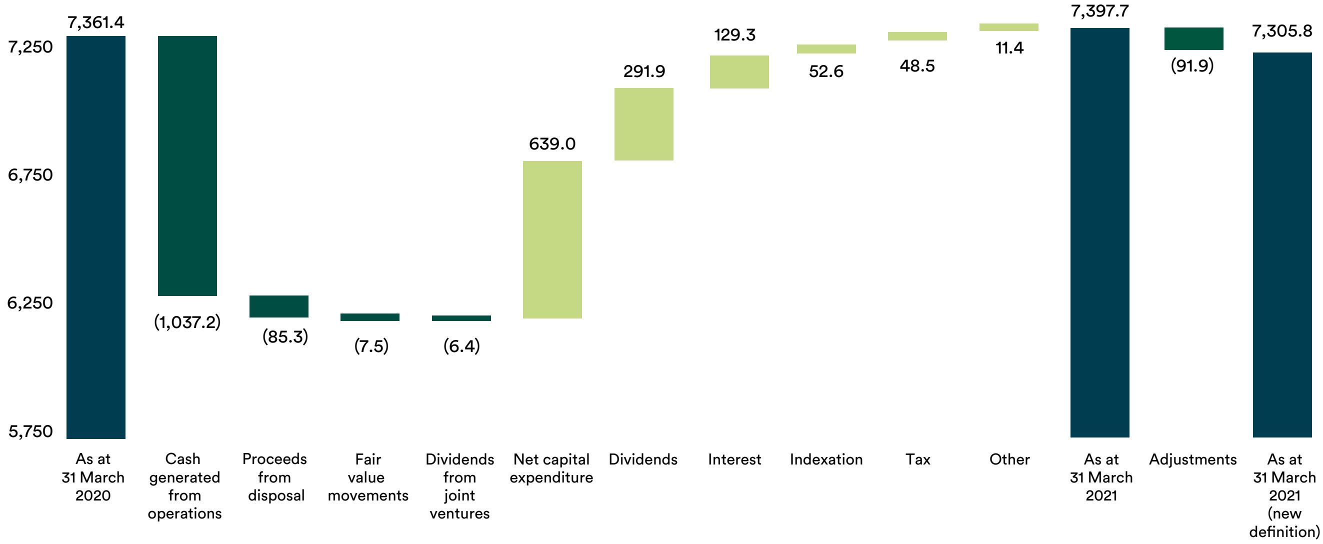
Net cash generated from continuing operating activities for the year to 31 March 2021 was £859 million, broadly consistent with £810 million last year. The group's net capital expenditure was £639 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost. Cash flow capex differs from regulatory capex, since the latter is based on capital work done in the period, rather than actual cash spent.

Pensions

As at 31 March 2021, the group had an IAS 19 net pension surplus of £689 million, compared with a net pension surplus of £754 million at 31 March 2020. This £65 million decrease is predominantly due to the unwinding of a spike in credit spreads at 31 March 2020 due to COVID-19 that resulted in a temporary decrease in the valuation of liabilities. The scheme-specific funding basis does not suffer volatility due to credit spread movements to the same extent as it uses a prudent, fixed credit spread assumption and is hedged for inflation and interest rates. Any inflation and credit spread movements are therefore not expected to have a material impact on the pension liabilities calculated on a scheme-specific funding basis.

Financing

Summary of net debt movement



The group's gross borrowings at 31 March 2021 had a carrying value of £8,452 million. The fair value of these borrowings was £9,855 million. This £1,403 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has increased from £471 million at 31 March 2020 due primarily to a decrease in credit spreads.

Cash and short-term deposits at 31 March 2021 amounted to £744 million.

Net debt at 31 March 2021 was £7,306 million, compared with £7,361 million at 31 March 2020. This comprises gross borrowings of £8,452 million and derivative liabilities of £115 million net of cash of £744 million and derivative assets of £425 million. This is then adjusted to exclude derivatives with a net liability of £92 million under our revised definition of net debt to exclude the impact of derivatives that are not hedging-specific debt instruments and therefore gives a fairer reflection of the amount we are contractually obliged to repay. This approach is more consistent with that taken by the credit rating agencies and better reflects the regulatory economics.

Underlying movements in net debt are largely a result of net operating cash inflows offset by our net capital expenditure, dividends, cash interest, indexation interest and tax, and in 2020/21 also reflects the impact of the £85 million sales proceeds from the disposal of our Tallinn JV.

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 62 per cent at 31 March 2021. This is marginally higher than the 61 per cent as at 31 March 2020 but remains within our target range of 55 to 65 per cent.

Cost of debt

As at 31 March 2021, the group had approximately £3.0 billion of RPI-linked debt at an average real rate of 1.3 per cent, and £1.1 billion of CPI or CPIH-linked debt at an average real rate of -0.2 per cent.

A lower RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 2.5 per cent being lower than the rate of 3.4 per cent for the year to 31 March 2020. The average underlying interest rate represents the underlying net finance expense adjusted for capitalised borrowing costs and net pension interest income, divided by average notional debt.

The group has fixed the interest rates on its non index-linked debt in line with its 10-year reducing balance basis at a net effective nominal interest rate of 2.2 to 2.5 per cent for the 2020–25 regulatory period.

Credit ratings

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

Debt financing

The group has access to the international debt capital markets through its €7 billion euro medium-term note (EMTN) programme. The EMTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

In total over 2020–25, we expect to raise around £2.4 billion to cover refinancing and incremental debt, supporting our five-year investment programme. In 2020/21 we have raised £900 million, taking advantage of the attractive rates available and extending our liquidity position out to August 2023.

Our performance in 2020/21

Financial performance

In November 2020, we published our new sustainable finance framework, through which we expect to raise financing based on our strong ESG credentials alongside conventional issuance. This replaces the green funding we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit.

In January 2021, we issued our debut sustainable bond raising £300 million, maturing in October 2029 and subsequently swapped to CPI-linkage.

We remain one of the sector leaders in the issuance of CPI-linked debt in response to Ofwat's decision to transition away from RPI inflation linkage. At 31 March 2021, we have increased the CPI-linkage in our debt portfolio to £1,015 million with a further £50 million of CPIH-linkage, and therefore a perfect match for the regulatory regime.

Since March 2020, we have renewed £50 million of revolving credit facilities with a relationship bank for a further five-year term, and extended £100 million of revolving credit facilities for a further three years, and £250 million of revolving credit facilities for a further year.

Interest rate management

Long-term borrowings are structured or hedged to match assets and earnings, which are largely in sterling, indexed to UK price inflation and subject to regulatory price reviews every five years.

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2021, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 26 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 9 per cent of UUW's RCV, with an average real rate of -0.2 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

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

Historically, this has been supplemented by fixing substantially all remaining floating rate exposure across a forthcoming regulatory period around the time of the price control determination. Recognising Ofwat's intention to apply debt indexation for new debt raised during the 2020–25 regulatory period, we have retained the hedge to fix underlying interest costs on nominal debt out to ten years on a reducing balance basis, but have not supplemented this with the additional 'top up' fixing at the start of the new regulatory period.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits and supported by committed but undrawn credit facilities. Our €7 billion EMTN programme provides further support.

At 31 March 2021, we had liquidity out to August 2023, comprising cash and short-terms deposits (enhanced by new finance raised in the period), plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme.

We consider that we operate a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. Our cash is held in the form of short-term money market deposits with prime commercial banks.

We operate a bilateral rather than a syndicated approach to our core relationship banking facilities. This approach spreads maturities more evenly over a longer time period, thereby reducing refinancing risk and providing the benefit of several renewal points rather than a large single refinancing requirement.

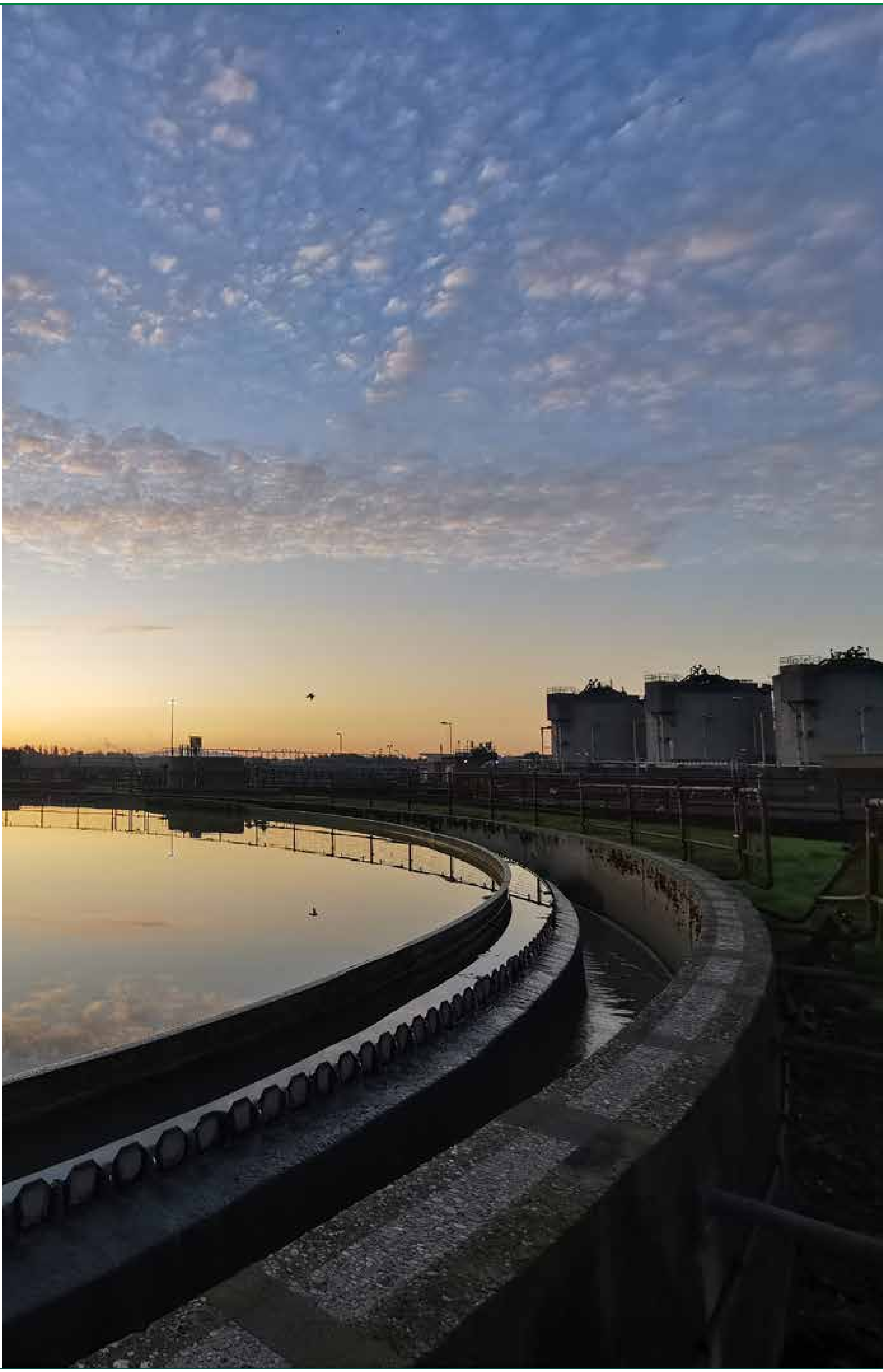
Outlook

We have responded well to the challenges presented by COVID-19 and delivered another year of strong operational performance, building on the improvements we delivered in AMP6. We are leading the way on customer satisfaction and have made a strong start to our AMP7 customer ODIs, delivering net outperformance of £21 million this year. We have extended our AMP7 totex plans by £300 million to underpin the delivery of long-term sustainable performance improvements and efficiency, and we continue with our strategy of accelerating investment to bring forward benefits for customers and the environment and contributing to the economic recovery of our region.

This is a great start to the new regulatory period and provides a strong platform to deliver further good operational performance for the benefit of all stakeholders. This gives us the confidence to target cumulative net outperformance of around £150 million against our customer ODIs for AMP7.

2021/22 full-year guidance

- Revenue is expected to be marginally lower in 2021/22, reflecting the November 2020 CPIH of 0.6 per cent offset by the regulatory revenue reduction of 2.0 per cent.
- Underlying operating costs are expected to be marginally higher year-on-year, reflecting small inflationary increases coming through core costs while IRE is expected to increase, reflecting the additional investment in DNM.
- Underlying finance expense is expected to be higher year-on-year as higher inflation impacts our index-linked debt.
- Capex in 2021/22 is expected to be in the range of £625 million to £675 million, reflecting the ongoing acceleration of our AMP7 programme and around £50 million of additional capex (of the £300 million extension to our AMP7 totex plans).
- Targeting a net customer ODI reward of around £20 million, consistent with targeting a cumulative net AMP7 reward of around £150 million.



Our performance in 2020/21

Financial performance

Guide to Alternative Performance Measures (APMs)

The underlying profit measures in the following table represent APMs as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, in the group's consolidated income statement, which can be found on page 207. As such, they represent non-GAAP measures.

These APMs have been presented in order to provide a more representative view of business performance. The group determines adjusted items in the calculation of its underlying measures against a framework which considers significance by reference to profit before tax, in addition to other qualitative factors, such as whether the item is deemed to be within the normal course of business, its assessed frequency of recurrence and its volatility which is either outside the control of management and/or not representative of current year performance.

We have simplified our approach to APMs and are no longer, as a matter of course, adjusting our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years' tax matters. This brings our approach more in line with peers and therefore makes cross-company comparisons easier. The tables that follow present the prior year APMs both on a re-presented basis using the new definition of APMs and as presented as at 31 March 2020 for comparative purposes.

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

Adjusted item	Rationale
Adjustments not expected to recur	
Bioresources asset write down	A strategic review of the group's bioresources activities was undertaken in the second half of the year ended 31 March 2020, informed by the PR19 process and the group's zero-carbon commitments. This resulted in the likelihood of future economic benefit being derived from certain assets now being considered remote in light of improvements in alternative lower-cost and more environmentally-friendly processes. This resulted in a material asset write down that was not considered to be part of the normal course of business, with similarly material write downs not expected to reoccur in future years.
COVID-19	The group incurred significant costs resulting from the COVID-19 pandemic in the early part of 2020, including incremental expected credit losses on household and non-household customer receivables caused by the economic impact of business closures and expected increases in unemployment. The group's joint venture, Water Plus, was also significantly impacted, resulting in the business recognising an impairment of certain assets and a higher allowance for expected credit losses at 31 March 2020, feeding through to the group's share of losses from joint ventures. This also caused the group to recognise an allowance for expected credit losses in relation to loans extended to Water Plus. Due to the unprecedented nature of the pandemic and the initial economic shock associated with early lockdown measures, these costs were not deemed to be representative of normal business performance when compared against prior periods. In line with best practice, we make no COVID-19 adjustment in the year ended 31 March 2021.
Profit on disposal of joint ventures	This relates to the disposal of the group's 35.3 per cent stake in its Estonian joint venture, AS Tallinna Vesi, which represents a significant, atypical event and as such is not considered to be part of the normal course of business.
Consistently applied presentational adjustments	
Net fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option(2)	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are therefore excluded in arriving at underlying net finance expense as they are determined by macroeconomic factors which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.
Presentational adjustments no longer applied (1)	
Restructuring costs	The group typically incurs a certain level of restructuring costs each year, the quantum of which is dependent on the significance of discrete events in a given year, which can cause volatility in the reported results. Management adjusts internally for these costs to provide a view of underlying performance which it considers to be representative of the normal course of business and more comparable period to period. For the year ended 31 March 2021 and going forward, an adjustment will only be made if part of a more significant strategic restructure.
Net fair value (gains)/losses on debt and derivative instruments(2)	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macroeconomic factors which are outside the control of management and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believes it is useful to adjust for this to provide a more representative view of performance.
Interest on derivatives and debt under fair value option(2)	Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for net fair value gains on debt and derivatives, it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.
Net pension interest income	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. These significant costs have previously been adjusted for to provide a representative cost of borrowings and current year performance when considered in the context of the return on capital the group earns through revenue.
Agreement of prior years' tax matters	The agreement of prior years' tax matters is part of the group's normal processes of ensuring that the right amount of tax is paid. Depending on the agreements made in any given year, this can be significant, volatile and often related to final settlement of numerous prior year periods. Historically, management has adjusted for this as a matter of course to provide a more representative view of the tax charge/credit in relation to current year performance. For the year ended 31 March 2021 and going forward, an adjustment will only be made if significant and relating to numerous prior year periods.

(1) These adjustments are no longer made in the year ended 31 March 2021 and going forward reflect our change in approach to APMs.
(2) For the year ended 31 March 2021, and going forward, this adjustment combines 'net fair value (gains)/losses on debt and derivative instruments' and 'interest on derivatives and debt under fair value option'.

Underlying profit

Operating profit	Year ended 31 March 2021 £m	Re-presented Year ended 31 March 2020 £m	As reported Year ended 31 March 2020 £m
Operating profit per published results	**602.1**	630.3	630.3
Bioresources asset write down	**–**	82.6	82.6
COVID-19 – expected credit loss on non-household receivables	**–**	1.4	1.4
COVID-19 – expected credit loss on household receivables	**–**	16.7	16.7
COVID-19 – operating expenses	**–**	1.1	1.1
Restructuring costs	**–**	–	11.8
Underlying operating profit	**602.1**	732.1	743.9
Net finance expense			
Finance expense	**(103.5)**	(313.0)	(313.0)
Investment income	**25.0**	24.0	24.0
Net finance expense per published results	**(78.5)**	(289.0)	(289.0)
COVID-19 – expected credit losses on loans to JVs	**–**	5.0	5.0
Net fair value (gains)/losses on debt and derivative instruments, excluding interest on swaps and debt under fair value option	**(54.3)**	92.8	–
Net fair value (gains)/losses on debt and derivative instruments	**–**	–	76.3
Interest on swaps and debt under fair value option	**–**	–	16.5
Net pension interest income	**–**	–	(14.0)
Adjustment for capitalised borrowing costs	**–**	–	(40.6)
Underlying net finance expense	**(132.8)**	(191.2)	(245.8)
Share of losses of joint ventures per published results	**(9.3)**	(38.1)	(38.1)
COVID-19 – Water Plus impairment losses and expected credit losses	**–**	32.0	32.0
Underlying share of losses of joint ventures	**(9.3)**	(6.1)	(6.1)
Profit on disposal of joint ventures per published results	**36.7**	–	–
Profit on disposal of AS Tallinna Vesi joint venture	**(36.7)**	–	–
Underlying profit on disposal of joint ventures	**–**	–	–
Profit before tax per published results	**551.0**	303.2	303.2
Adjustments in respect of operating profit	**–**	101.8	113.6
Adjustments in respect of net finance expense	**(54.3)**	97.8	43.2
Adjustments in respect of share of losses of joint ventures	**–**	32.0	32.0
Adjustments in respect of profit on disposal of joint ventures	**(36.7)**	–	–
Underlying profit before tax	**460.0**	534.8	492.0
Profit after tax per published results	**453.4**	106.8	106.8
Adjustments in respect of profit before tax	**(91.0)**	231.6	188.8
Deferred tax adjustment	**18.4**	157.5	157.5
Agreement of prior years' UK tax matters	**–**	–	(12.2)
Tax in respect of adjustments to underlying profit before tax	**2.2**	(9.6)	(11.3)
Underlying profit after tax	**383.0**	486.3	429.6
Earnings per share	**£m**	£m	£m
Profit after tax per published results (a)	**453.4**	106.8	106.8
Underlying profit after tax (b)	**383.0**	489.5	429.6
Weighted average number of shares in issue, in millions (c)	**681.9m**	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	**66.5**	15.7	15.7
Underlying earnings per share, in pence (b/c)	**56.2**	71.3	63.0
Dividend per share, in pence	**43.24p**	42.60p	42.60p

Average effective interest rate

In arriving at net finance expense used in calculating the group's effective interest rate, management adjusts underlying net finance expense to add back net pension income and capitalised borrowing costs in order to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.

	31 March 2021	31 March 2020
Underlying net finance expense	**(132.8)**	(191.2)
Net pension interest income	**(17.5)**	(14.0)
Adjustment for capitalised borrowing costs	**(30.4)**	(40.6)
Net finance expense for effective interest rate (a)	**(180.7)**	(245.8)
Average notional net debt (b)	**(7,315)**	(7,136)
Average effective interest rate (a/b)	**2.5%**	3.4%

Being a responsible business

Our ESG credentials

Through our purpose, vision and strategic themes, responsible business is a core part of who we are as a business and has been for many years.

We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges.

Index/rating	Description	Performance
MEMBER OF Dow Jones Sustainability Indices In collaboration with SAM	The Dow Jones Sustainability Index ranks the sustainability approach of the top 10 per cent of the world's biggest companies based on long-term economic, environmental and social criteria.	For 2020, our overall performance was 79 per cent and we attained World Class status for the 14th consecutive year. We were awarded SAM Bronze Class in the Sustainability Yearbook 2021.
FTSE4Good	The FTSE4Good Index Series measures the performance of companies who demonstrate strong ESG practices against globally recognised responsible business standards.	United Utilities Group PLC has been included in the FTSE4Good Index Series since 27 June 2001. Latest review June 2020.
Corporate Responsibility Prime RATED BY ISS ESG	ISS ESG's Corporate ESG Rating provides investors with comprehensive portfolio company research on social, environmental and governance factors to help identify and mitigate ESG risks and to capitalise on investment opportunities.	In the annual review of November 2020, our status was assessed as Prime.[1]
MSCI ESG RATINGS AA	Provides ESG ratings on an AAA to CCC scale according to exposure to industry-specific ESG risks and ability to manage those risks relative to peers.	As of February 2021, United Utilities Group PLC received an MSCI ESG rating of AA.[2]
SUSTAINALYTICS a Morningstar company RATED	Sustainalytics, a Morningstar company, is a leading independent ESG research, ratings and data firm. Its ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks.	In April 2021, United Utilities received an ESG Risk Rating of 13.0 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors. United Utilities is a Sustainalytics ESG Industry Top Rated Company for 2021.[3]
V.E	Vigeo Eiris (V.E), an affiliate of Moody's, is a global leader in ESG assessments, data, research, benchmarks and analytics. Leveraging their extensive proprietary database, they equip market players with the ESG insight they need to manage risks and better understand and address their social and environmental impact. The Euronext ESG indices serve as a benchmark for investors to incorporate ESG considerations into their investment strategies.	We received an overall Advanced ESG score by V.E of 65 and United Utilities Group PLC has been confirmed as a constituent of the Euronext UK 20 and Europe 120 Indices in year 2020.[4]

(1) issgovernance.com/esg/ratings/badge
(2) msci.com/notice-and-disclaimer
(3) sustainalytics.com/legal-disclaimers
(4) vigeo-eiris.com/privacy-legal-information

Alignment to wider global goals

SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) comprises 17 global goals to be achieved by the year 2030, and were adopted by a summit of the United Nations (UN) in 2015. They are designed to be the blueprint to achieve a better and more sustainable future for all. Our approach to responsible business aligns quite naturally with the goals and we have identified six that are most material to our business and where we contribute the most.

We contribute to the delivery of a wider selection of the SDGs through our investment projects and these are described in our sustainable finance framework.

6 CLEAN WATER AND SANITATION

Clean water and sanitation

Part of our purpose is to provide great water and is the reason we exist, ensuring customers in the North West have safe, resilient and affordable water and wastewater services.

This includes avoiding wasting water, and we promote water efficiency through campaigns, advice, education and free water saving gadgets for customers.

We protect and enhance water-related ecosystems across our region through initiatives such as our Catchment Systems Thinking approach.

Generating value for:

8 DECENT WORK AND ECONOMIC GROWTH

Decent work and economic growth

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

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

Generating value for:

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Industry, innovation and infrastructure

We invest heavily in infrastructure, including plans for over £4 billion between 2020 and 2025 to improve the performance and resilience of our assets and operations to impacts such as those arising from climate change.

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

Generating value for:

11 SUSTAINABLE CITIES AND COMMUNITIES

Sustainable cities and communities

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

Generating value for:

13 CLIMATE ACTION

Climate action

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

Reducing our greenhouse gas emissions, delivering against our six carbon pledges and ensuring that we, and the region we serve, are resilient to the impacts that a changing climate might bring, are key to our long-term planning.

Read more about our approach to climate change on pages 86 to 99

Generating value for:

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Peace, justice and strong institutions

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

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

Generating value for:

Our approach to climate change
Task Force on Climate-related Financial Disclosures

ACHIEVEMENTS

- On track to deliver our climate change mitigation pledges and our public commitments.
- Science-based targets covering all emission scopes set and submitted for validation by the Science Based Target initiative (SBTi).
- Three 'alternative' scenarios, each one aligned to a specific emissions pathway, developed and used to support strategic planning.
- Impact of climate change now specifically considered as part of corporate risk framework.

SUCCESSES

- CDP is a global disclosure system for environmental reporting. Our CDP climate change rating improved from B to A- in 2020, demonstrating leadership-level reporting and disclosure. We are one of only two companies in the UK water sector achieving leadership level.

CDP
DISCLOSURE INSIGHT ACTION

- The Sustainability Reporting Performance report by EcoAct measures how businesses are acting and reporting on climate-related sustainability. We have been ranked in the top 20 FTSE 100 list, improving from 17th to 11th position in 2020, and are the highest ranking water company.

ecoact
an atos company

Overview
Weather is fundamental to how we deliver water and wastewater services so climate change has been, and always will be, of strategic and operational importance. With advances in climate science, our understanding of climate change and how we respond is ever evolving, as is the external policy environment in which we operate.

Incorporating climate into long-term planning
Building on our long-standing approach to climate change mitigation and adaptation, we now integrate consideration of climate-related risks and opportunities directly into our business planning to influence strategy and behaviours throughout the organisation.

This year, we've enhanced our understanding of the sensitivity of our business risks to climate change and applied Systems Thinking to embed physical and transitional risks into both operational planning and long-term strategy development.

We now have a good understanding of the controls required to adapt to a changing climate, and are building our confidence to recognise and manage cascade impacts where multiple weather events in a short time frame can have a cumulative impact.

Scenario analysis
To support strategic planning, we developed three comprehensive scenarios exploring how multiple drivers of change might evolve and interact over time, compared to a baseline scenario. Each one is aligned to a specific emissions pathway, enabling us to test out scenarios where there is: an effective transition to a low carbon world; a climate crisis due to suboptimal climate change mitigation efforts; and a central case where more moderate impacts of climate change are experienced after slow initial progress is followed by a step change in de-carbonisation.

Pledges and commitments
We have made good progress on our six carbon pledges (see page 93), which include science-based emission reduction targets and four specific pledges on how those reductions will be achieved.

Pledge 1 is to reduce our scope 1 and 2 emissions by 42 per cent by 2030. We are on track to achieve this pledge although progress will not be linear year-on-year while we work to reverse the pressures that are driving growth in emissions.

Pledge 2 – Over 94 per cent of the electricity we used in 2020/21 came from renewable technologies. From October 2021, we will meet our pledge for 100 per cent.

Pledge 3 commits us to 100 per cent green fleet by 2028. We have deployed 27 electric vehicles at operational sites, and are trialling a 44-tonne biogas-powered HGV.

Pledge 4 commits us to 1,000 hectares of peatland restoration by 2030. We have proposed five sites for green recovery catchment peatland restoration.

Pledge 5 commits us to 550 hectares of woodland creation by 2030. We have planted 9,783 woodland carbon code compliant trees, established two tree nurseries and identified hundreds of potential sites for new and 'replanted' woodlands.

Pledge 6 commits us to set a science-based target for our scope 3 emissions, which we have done (see page 96).

An important element of our approach is to encourage others to contribute by making public commitments. We joined the global movement of 'Business Ambition for 1.5°C: Our Only Future', with a commitment to setting science-based targets aligned with limiting global temperature rise to 1.5°C above pre-industrial levels. We are signatories to the UN Race to Zero campaign and are proud to be contributing to the UK water industry's commitment to be net zero from 2030.

Transparency and disclosure
We have published carbon and climate change disclosures in our annual report and CDP's Climate Change Programme assessment for over a decade. We report in adherence with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standards (2015) and the 2019 UK Governmental Environmental Reporting guidelines.

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

CORPORATE CITIZENSHIP REVIEW

Corporate Citizenship, a leading sustainability consultancy, reviewed this disclosure and provides an ISAE assurance against the Principles of Effective Disclosure to ensure that it accords with Task Force on Climate-related Financial Disclosures recommendations.

Read more at fsb-tcfd.org/recommendations

TCFD recommendations

This table shows progress this year towards meeting the TCFD recommendations and the areas we will focus on in the future. The table includes cross-references where there is more material within this annual report and financial statements.

Governance

The organisation's governance around climate-related risks and opportunities

Progress this year

- Implemented enhancements required to reach overall 'leadership level' in the 2020 CDP assessment.
- Included special report on climate-related risks in board-level risk review.
- Created long-term strategy team with primary focus on climate change adaptation and mitigation.

Future focus

- Further inclusion of climate-related risks and opportunities into all investment decisions, processes and governance.
- Continue to demonstrate leadership in climate-related disclosure, for example CDP assessment.

Further information

Our **corporate responsibility committee report** on pages 156 to 159 provides a summary of committee discussions on climate change

A summary of the **board and its management committees** can be found on page 120

Risk management

The processes used by the organisation to identify, assess and manage climate-related risks

Progress this year

- Enhanced analysis of risks arising from the climate change we are already experiencing and the extent to which that might affect operations.
- Completed a robust review to identify which corporate risks are vulnerable to climate change and quantified the impact and time sensitivity.

Future focus

- Further formalisation of climate-related physical and transitional risks into risk management systems.
- Embed identification of climate-related risks and opportunities throughout the organisation as business as usual.

Further information

Read more about **the processes for identifying, assessing and managing climate risks** on page 90

Read more about **our risk management framework** on page 100

Strategy

The actual and potential impacts of climate-related risks and opportunities of the organisation's businesses, strategy and financial planning

Progress this year

- Extensive preparations for the publication of our third climate change adaptation progress report later in 2021, after widespread stakeholder consultation. This report will include a review of climate impacts and how we will adapt.
- Updated water resources and flood models to include climate scenario analysis and UKCP18 forecasts.
- Developed company-wide scenarios to explore how multiple factors (including climate change) interact to provide a structured framework to think about future uncertainty.

Future focus

- Whole-life costing for capital projects and appraisals to include variable carbon pricing.
- Implement climate change resilience plans (both physical and transitional) across AMP7, incorporating natural capital solutions.
- Build relationships with key suppliers to reduce our environmental impact by sharing best practice and collaborating on how to reduce greenhouse gas emissions.
- Identify and evaluate climate-related opportunities.

Further information

Read more about **how our climate-related risks, opportunities and commitments are shaping our strategy and financial planning** on page 93

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Progress this year

- Completed comprehensive review of all scope 3 emissions and set ambitious science-based targets (currently being validated by SBTi).
- Achieved A- rating in 2020 CDP assessment of targets and emission-reduction initiatives.
- Updated drought plan triggers to minimise the impact on customers and improve our resilience to periods of prolonged dry weather.

Future focus

- Secure SBTi validation for science-based targets for all three emission scopes.
- Implement data improvements for scope 3 emissions so more are supplier and product-based factors rather than spend based.
- Analysis to understand cascade impacts and our resilience to them where multiple extreme weather events can occur in a single short time frame.

Further information

Read more about **metrics used to assess climate impact to our key risks** on page 92

Read more about **setting our science-based targets** on pages 92 and 96

Read our **energy and GHG emissions report** on pages 97 to 99

Our approach to climate change

Task Force on Climate-related Financial Disclosures

GOVERNANCE

Chief Executive Officer Steve Mogford has ultimate responsibility for the group's preparedness for both adapting to climate change and driving our mitigation strategy. As climate change is a significant causal factor for the group's principal risks (see page 103), the executive team is tasked with managing the risks and mitigating actions, for example by ensuring the company has the necessary financial resources and people with the required skills to achieve its climate-related objectives.

Chief Financial Officer Phil Aspin has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager.

The group audit and risk board (GARB) reviews the effectiveness and performance of the governance processes along with the identification of emerging trends, including climate change. The work of the GARB feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and strategies to manage these risks.

There is further board oversight of climate-related issues through the corporate responsibility committee (see pages 156 to 159). Mitigation and adaptation are priority topics for the committee, which plays an important role in challenging and encouraging consideration of climate-related issues. It initiated the review of the company's carbon strategy and endorsed the mitigation policy, defining our corporate ambition and objectives. This led to the development of our mitigation strategy and the establishment of an executive-level steering group. This group has delegated responsibility to embed climate-related issues throughout business planning, to bring consistent focus to the delivery of our climate-related commitments, such as the six carbon pledges, and to provide updates to the board and corporate responsibility committee.

RISK MANAGEMENT

We have a strong track record of risk management and of climate change disclosure. We continually mature our capacity and capability to manage risk and uncertainty to build and maintain long-term resilience across the corporate, financial and operational structures of the group.

Our company risk management framework follows an enterprise-wide approach and covers all principal risk areas such as water service, supply chain and programme delivery.

Climate-related risks are identified, assessed and managed in the same way as any other risk through our embedded risk management framework which is described on pages 100 to 101. Having been identified, each business risk is assessed in two ways. First, we consider the likelihood of the event occurring based on multiple causal factors; secondly, we examine the full range of potential impacts and their severity should the event occur, from a minimum (best case) to a maximum (worst case) scenario.

We take a variety of approaches to identify and assess risks, including using risk breakdown structures and tools such as PESTLE to formalise horizon scanning, as well as complex modelling of the physical impacts of climate change on our water resources and wastewater management.

Horizon scanning such as tracking legal and regulatory changes, emerging technologies and comparison of our strategies with other companies is particularly useful when considering transitional risks. We have found risk breakdown structures and detailed modelling are better suited to acute or chronic physical risks.

Risks sensitive to climate change

Climate change has been identified as a critical cross-cutting driver, so all our 100 event-based risks in our business risk profile were reviewed for their exposure to climate change. Last year we identified seven risks most sensitive to climate change in that their likelihood or the impact will increase with global warming. We have further analysed these risks and now have a good understanding of the controls required to adapt to a changing climate. This is set out on pages 90 to 91. This exercise highlighted a further risk in the potential for cascade impacts where multiple weather events in a relatively short time span can have a more challenging impact.

Looking ahead, we will explore how innovation can help us learn more about the profile of risk events, their causes and consequences and the capacity and capability of our company to manage them. By understanding this, we have the opportunity to be proactive and better prepared by prioritising issues.

By incorporating longer-term climate change impacts more explicitly in our corporate risk framework, we have raised the profile of climate change adaptation, providing the board enhanced insight to consider our risk appetite and capacity from within existing risk management processes and with the same thresholds for materiality. We have identified where climate risks are not well enough understood or where existing controls might be inadequate to manage the risk in the long term.

STRATEGY

Planning horizons

Our planning horizons are illustrated on pages 46 to 49. Climate-related risks are manifesting themselves in the short to medium term and in common with the rest of the water industry, we are also vulnerable to physical climate risks in the long term (ten to 25 years and beyond) as our assets typically have long, even very long, lifespans. Many of our services are based on legacy infrastructure which was designed decades ago to deliver water and wastewater services for the climate we had rather than the one that is ahead of us.

Already seeing climate change in the North West

Five of the top ten wettest years for the North West since 1880 have occurred since 2000, and all of the ten hottest years have occurred since 2002. A top ten coldest year has not been recorded since 1963. These trends, and their impact on local weather conditions, are impacting our climate sensitive risks already.

For example, changes in precipitation and temperature have contributed to changing patterns of river flow in our water supply catchments. There has been an increase in winter flows in almost all catchments, with significant upward trends in ten of the 14 river basins, and a reduction in flows in most catchments in spring, most notably for the strategic Vyrnwy catchment where there has been a significant downward trend over the last 20 years.

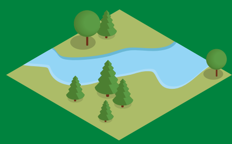
Annual average rainfall has not changed significantly, although the year-to-year variability has increased (with more dry and wet years) and some research shows an increase in the probability of heavier rainfall events. The greatest change in seasonal rainfall trends is an increase in winter rainfall, due to an intensification of heavy rainfall events, which leaves us increasingly susceptible to a range of key risks, including sewer flooding, asset flooding and land quality deterioration.

Annual and monthly temperatures in the North West are already higher than those experienced before 1900, largely due to anthropogenic activity, with the rate of warming accelerating.

Application of temperature-based estimates show an increase in potential evapo-transpiration in our region. This may influence the water balance, particularly in spring and summer, leading to a sensitivity to drought, and potentially water network failure and water sufficiency events.

Climate change in the North West

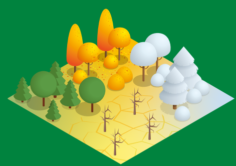
Rainfall
Annual average rainfall has not changed significantly, however year-to-year variability has increased, with more dry and wet years.



River flows
Winter river flows have increased in almost all catchments, with significant upward trends in ten of the 14 river basins, and a reduction in flows during spring in most catchments.

Sea level
By 2100 under the likely warming scenarios (3°C-5°C), sea level at Liverpool is projected to rise between 0.3 and 1.0m.

Evaporation
The amount of water lost to evaporation has increased, putting increasing pressure on water resources during spring and summer and potentially increasing the demand for outdoor water use.



Seasonal variation
Seasonal changes in the North West are projected to be greater than those for England and Wales, with much wetter winters and, under some scenarios, much hotter and drier summers.

Extreme events
Evidence demonstrates that climate change has exacerbated extreme rainfall and storm events, and will continue to do so, as well as increasing the likelihood of heatwaves.

Physical risks

All seven of the risks identified as being sensitive to climate change are physical risks, so we set about quantifying that vulnerability.

Predicting the effects of climate change is complex, with a large amount of uncertainty involved. Focusing on the predominant downsides, we assessed the potential implications for the seven risks in 2050 and 2100 compared to today, using the latest climate research, the Met Office UK Climate Projections 2018 (UKCP18). This has four pathways to 2100 depending on concentrations of greenhouse gases in the atmosphere and we have used what is widely accepted as the most likely pathway, RCP 6.0, which is consistent with peak emissions occurring in 2080. Best and worst case scenarios will be considered in due course.

The outcomes of the risk assessment were the topic of a special report prepared for a board-level risk review which took place in April 2021. They are presented on pages 90 to 91, together with a summary of assumptions, climate sensitivity and existing controls. In each case the downside effect is quite significant relative to the baseline, and four risks in particular stand out as having the most significant increases in likelihood: water sufficiency event; water network failure; recycling of biosolids to agriculture; and risk of inadequate land management.

Transitional risks

We are also vulnerable to risks associated with the transition to a low-carbon economy. Changing policies, regulation and legislation to address mitigation and adaptation requirements can increase operating costs due to, for example, enhanced emissions reporting. Environmental requirements to meet water quality standards can lead to increased fuel or chemical consumption and legislation such as the Industrial Emissions Directive will result in operational and strategic planning interventions.

One likely consequence of changing legislation is potential asset redundancy, where the case to move to lower carbon technologies might result in the consolidation of assets on a fewer number of sites.

Opportunities

We are a relatively energy-intensive business, typically using around 800 GWh of electricity each year. As well as the risks associated with this dependency we see opportunities in the way we manage energy and have developed an approach to use less, generate more and use our assets and resources smarter while maintaining security of supply.

We have already invested in innovation and research to minimise the total amount of energy we consume, for instance in pioneering UV LED water treatment. We have increased renewable generation through bioresources, solar and wind, increasing the amount of self-generated energy from 108 GWh in 2012/13 to 205 GWh in 2020/21.

We aim to develop more successful innovation projects and that by meeting more of our own energy demands we can rely less on imports from the grid and mitigate the risks of future energy price fluctuations and uncertainty, as well as bolstering our own security of supply.

Resilience of our organisation to a changing climate

The main climate-related risks to the resilience of our operational assets are uncertainty of the health of ageing infrastructure and the increasing challenges presented by predictions for climate change and population growth over the long term.

Our Water Resources Management Plan 2019 is an example of how our strategy, to achieve a long-term, best value and sustainable plan for water supplies in the North West, has been developed to ensure that we have an adequate supply to meet demand over the 25 years from 2020 to 2045. This will ensure that our supply system is resilient to drought and other hazards, including climate change (using 'stochastic weather' and scenarios from the latest UK climate projections, UKCP18) and demand (population growth, economic trends and patterns of water use).

Our approach to climate change

Climate sensitive risks overview

Below is the outcome of a special risk assessment on the risks identified as sensitive to climate change.

Likelihood and impact are as predicted at 2050 and 2100 using the accepted most likely emission pathway RCP 6.0.

CONTROL EFFECTIVENESS

The effectiveness of controls at 2025 to mitigate the climate-related risk at 2050.

- Largely insufficient
- Somewhat sufficient
- Mostly sufficient

RISK TYPE

- C Chronic physical risk – changing trends in weather patterns, such as rising temperatures, sea level, rainfall
- A Acute physical risk – chance of severe weather events, such as storms, heat waves and floods.
- * Indicates the most significant event-based risks reported to the board (see pages 108 to 109)

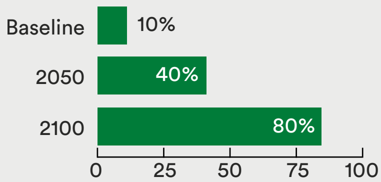
Water sufficiency event

C

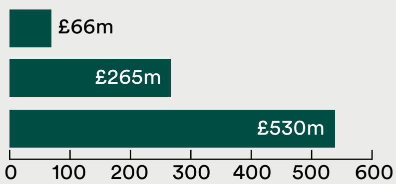
When temperatures rise, higher water usage, evapo-transpiration and lower average summer rainfall from associated dry periods, causes supply pressures.

The most likely impact assumes weather patterns similar to 2018 happening twice in five years at 2050, and four times in five years by 2100.

Likelihood (%)



Impact (NPV £m)



Controls

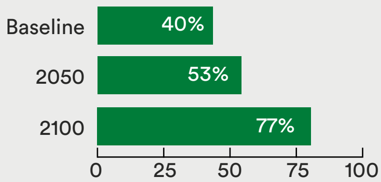
- Development of new sources of water, particularly boreholes.
- Water trading between different regions of the UK.
- Leakage reduction.
- Encourage and inform customers about using less water.
- Installation of more meters on domestic properties.

Failure of wastewater network (sewer flooding)*

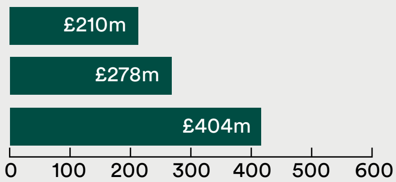
C A

Increased rainfall (storm) events can result in severe sewer flooding. The frequency of such events is forecast to almost double with climate change. For a storm with a return period of one in 50 years or greater, 15 per cent of our region is currently at risk of internal flooding. By 2050 it is expected 20 per cent of our region would be impacted, rising to 29 per cent by 2100. The cost of an internal flooding incident is assumed to stay constant.

Likelihood (%)



Impact (NPV £m)



Controls

- Increase sewer capacity and build storm water holding tanks.
- Implement and encourage sustainable drainage solutions.
- Use technology to monitor and better control flows in the sewer system.
- Install flood protection devices to at-risk properties.

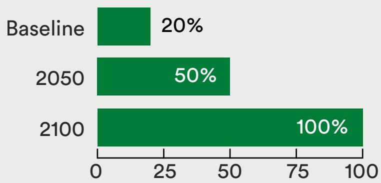
Land management

C A

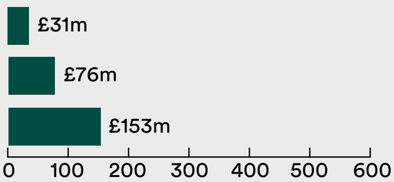
Deterioration in the quality of land due to climate change will increase the frequency and impact of weather events on our owned land. Such events have led to more fire, flood, subsidence and landslip events which in turn have associated impacts on: health, safety and environmental issues; access to operational and capital activities; corporate reputation; missed opportunities; legal liability and additional unplanned spend associated with invasive species.

The annual likelihood of such events is forecast to increase from 20 to 100 per cent by 2100.

Likelihood (%)



Impact (NPV £m)



Controls

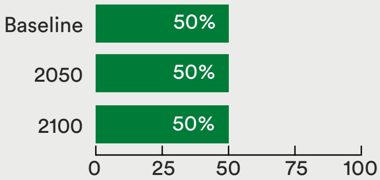
- Proactive land management action to protect quality, including through nature-based solutions.
- Provide net gain in biodiversity from our construction projects.
- Directly restore peatland and woodland.
- Work in partnership with farmers, the Environment Agency and others to improve upland watercourses.

Failure to adequately treat wastewater

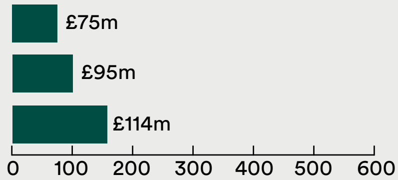
A

Extreme rainfall events cause overflows and variation between high rainfall and drought periods causes further susceptibility. Likelihood of failure to adequately treat wastewater is expected to remain at one in two years but the most likely impact expects six more failing works (above 2020 baseline) and uses the current ODI penalties as the impact magnitude.

Likelihood (%)



Impact (NPV £m)



Controls

- Enhancements linked to no deterioration funded through price review.
- DWMP investigations into increased dilution.
- Infrastructure investment to increase resilience to extreme events.

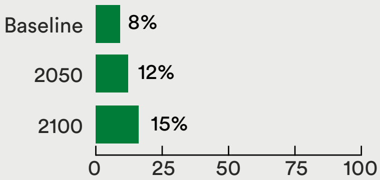
Failure of above-ground water and wastewater assets (flooding)

C

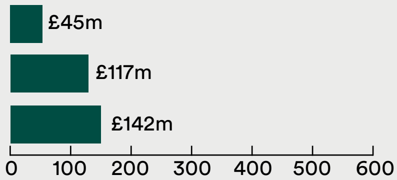
Average winter rainfall is projected to increase by 6 per cent by 2050, and by 12 per cent by 2100, increasing the likelihood of extreme events where sites are flooded from sea, river or surface water sources.

The impact is estimated based on three modelled events (of likelihood 1:1000, 1:100 and 1:30) each having a 10 per cent annual increase in frequency every 20 years.

Likelihood (%)



Impact (NPV £m)



Controls

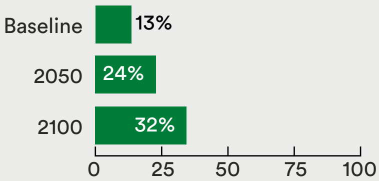
- Install permanent flood defences at most flood-prone sites.
- Improve flood forecasting capabilities.
- Build better network connectivity so that supplies can be maintained from elsewhere if a treatment works is flooded.
- Invest to ensure sites can bounce back quickly once flooding subsides.

Water network failure

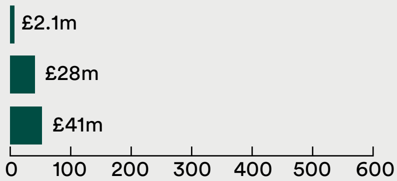
C

Warmer, milder winters will decrease the likelihood of cold snaps/freeze thaws that result in burst pipes. However, these milder winters will result in more precipitation and flood events, causing a risk to assets close to, or crossing, rivers. Increased summer temperatures may result in considerably more heatwaves, which cause a higher peak demand. Such events can result in low pressure and no water for some customers.

Likelihood (%)



Impact (NPV £m)



Controls

- Already increased the size of our fleet of alternative supply vehicles (ASVs), and introduced a new 24/7 logistics capability.
- New Network Maintenance Services contracts with key third-party suppliers include elements to ensure all can respond effectively in an incident when required.
- Leakage reduction.
- Encourage and inform customers about using less water.
- Installation of more meters in domestic properties.

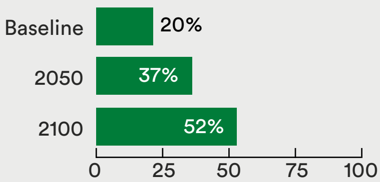
Recycling biosolids to agriculture

C

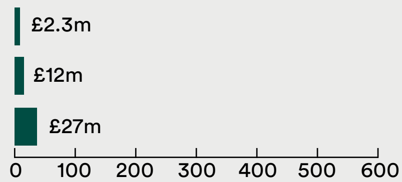
Climate change is expected to increase persistent rainfall. The resultant water logging will limit spreading biosolids to land for a greater part of the year and uncovered sludge stores and stockpiles will be more vulnerable in persistent wet, winter weather.

The impact calculation assumes the sludge that cannot be spread to land will be sent to restoration and the impact is the associated ODI and EA fines.

Likelihood (%)



Impact (NPV £m)



Controls

- Increased sludge storage capability.
- Utilise covered storage.
- Increased distance travelled for disposal of sludge.

Our approach to climate change

Task Force on Climate-related Financial Disclosures

Our WRMP proposals include enhanced demand management activities to offset upward pressures on water suppliers and will enable us to reduce the frequency of needing drought permits to augment supply by 2025.

As well as targeted scenario analysis, we have developed three company-wide alternative scenarios for 2050 incorporating combinations of key factors that are both highly relevant and uncertain. These scenarios, named 'climate chaos', 'green guardianship' and 'public purpose', are plausible narratives, with associated metrics, of a 2050 future for water and wastewater services in the North West.

The scenarios recognise climate change as one of the most critical uncertainties and use RCPs 2.6, 4.5 and 8.5 (GHG concentration pathways adopted by the IPCC) to describe how well climate change has been mitigated in each case.

The scenarios have provided a simple way to understand the interaction of multiple factors so we can enhance resilience, help manage future uncertainty and shape long-term decisions.

Climate change mitigation strategy

Before agreeing our strategy, we developed a matrix to assess and compare our mitigation capabilities with other water companies and brands, to explore principles, priorities and define our objectives. The matrix began with the premise that great carbon management is more than just a number and that our strategy should cover four themes: vision and visibility; ambition and commitment; demonstrating action; and beyond here and now. See figure on page 93.

We already have a strong track record of sustainability reporting and disclosure, having reported our GHG emissions for nearly 20 years. Through this TCFD section, and improvements in our CDP response, we want our carbon reporting to be open and transparent and recognised as among the best in the UK.

Other aspects of our climate mitigation strategy can be summarised as:

- integrating carbon into strategic and day-to-day business planning;
- improving our carbon reporting and climate-related disclosure;
- setting ambitious and comprehensive commitments and greenhouse gas emissions targets to contribute to limiting global temperature rise;
- reducing emissions across water and wastewater processes, sludge process and disposal, fleet management, fuel use, land use, and waste and resources; and
- collaborating to drive innovation and challenge standards to deliver a low-carbon future.

Playing our part

Pages 94 to 95 illustrate and describe how there are climate-related risks and opportunities throughout our organisation. Our approach to managing those risks, and taking advantage of the opportunities, involves all our stakeholders across our value chain.

METRICS AND TARGETS

Metrics to assess climate risks

The metrics which determine the magnitude of our climate risks and opportunities relate mainly to the weather, for instance measures such as temperature and rainfall by season. To manage our climate risks effectively we must track and understand patterns of weather, and weather events, and learn how they can affect us operationally, so we can put into place appropriate controls such as those in the risk table on pages 90 to 91.

We monitor several measures that can affect transitional risks. These include energy pricing (electricity, natural gas, diesel and alternative fuels, such as compressed natural gas and hydrotreated vegetable oil) and carbon pricing through purchasable credits, offsets and certificates (such as REGOs not bundled with electricity). We monitor the marketplace for the availability and pricing of alternative fuelled vehicles, battery storage and for emerging technologies to reduce process and fugitive emissions.

Operational metrics and targets

We have key metrics that assess the effectiveness of the controls for our principal risks and therefore determine our capability to adapt to a changing climate and ensure the resilience of our service. For these operational metrics we have set ambitious targets. For instance, to give us headroom in our water supply demand balance we have set short and long-term targets for leakage and per capita consumption (how much customers use) to reduce the demand for water in all climate scenarios. Recognising the need to maintain service to customers, even in extreme weather events, we have also set targets for supply interruptions, sewer flooding and pollution incidents.

Metric	2020	2025	2045
Per capita consumption	140	135	115
Leakage	---	↓ 15%	↓ 40%
Network interruptions	---	↓ 50%	
Sewer flooding	---	↓ 20%	↓ 70%
Pollution incidents	---	↓ 37%	↓ 64%

Climate commitments and targets

We have made several climate-related public commitments, on our own and with other organisations. Having exceeded the emissions targets we set in 2015, last year we made six pledges to reduce our carbon footprint. Central to these is to set and meet science-based targets for all emission scopes (see figure of greenhouse gas emissions by scope on page 97) and we have joined the global movement of 'Business Ambition for 1.5˚C: Our Only Future' and the UN Race to Zero campaign.

Science-based targets

Science-based emission reduction targets are set in line with what climate science says is enough to limit global temperature rise to well below 2°C or 1.5°C above pre-industrial levels. This requires emissions to halve from 2010 levels by 2030 and to hit net zero by 2050.

The Science Based Target initiative (SBTi) defines and promotes global best practice in science-based target setting. We have applied the 'SBTi Criteria and Recommendations' guidance to our policies and greenhouse gas accounting standards and have applied for our targets to be validated.

Pledge 1 is to meet our science-based target to reduce scope 1 and 2 emissions by 42 per cent by 2030 (from the 2019/20 baseline). This ambition is based on the Paris Agreement's highest level of ambition, to limit global temperature rise to 1.5°C above pre-industrial levels. We have a longer-term science-based target for a 100 per cent reduction from the 2019/20 baseline (net zero without purchased offsets) by 2050.

Pledge 6 committed us to set a science-based target for scope 3 emissions and we describe how this was achieved on page 96 .

Net Zero 2030 Routemap: Unlocking a net zero future

In November 2020 the UK water sector launched the 'Net Zero 2030 Routemap: Unlocking a net zero future', understood to be the world's first sector-wide plan for net zero. We have committed to contributing by stating our ambition that our water emissions (scope 1, 2 and a small selection of scope 3) will be net zero from 2030. This routemap allows companies to offset residual emissions (using agreed offsetting principles) whereas science-based targets require absolute emission reductions. This explains the difference between our science-based target to achieve a 42 per cent reduction by 2030 and being net zero from 2030 in line with the water industry ambitions.

Our approach to climate change mitigation

A collaborative strategy for a low carbon future: embedding carbon commitments across our processes, technology, culture and beyond.

VISION AND VISIBILITY

Demonstrating integrity and leadership in carbon reporting and disclosure.

Carbon management is integrated into decision-making and driving decisions and behaviours.

Enhanced disclosure aligned to TCFD recommendations.

Net Zero 2030 Routemap: Unlocking a net zero future

(UK water industry)

AMBITION AND COMMITMENT

Delivering ambitious commitments to mitigate climate change and lower our carbon footprint.

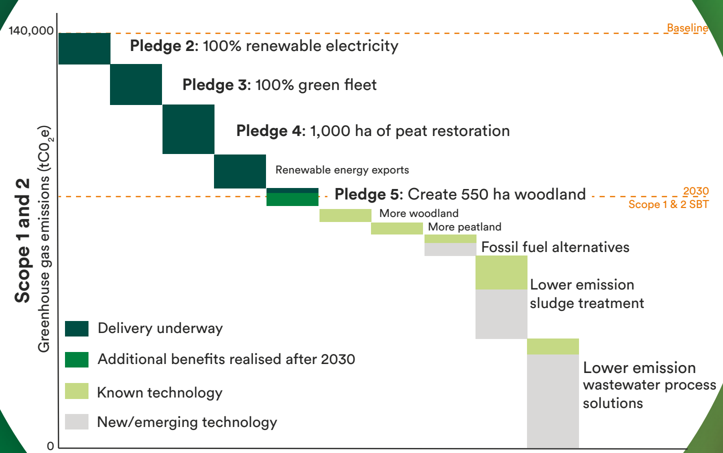
Six pledges to reduce our carbon footprint

Science-based targets (SBTs)

Pledge 1 Meeting SBTs for scope 1 and 2
2 100% renewable electricity by 2021
3 100% green fleet by 2028
4 1,000 ha peatland restoration by 2030
5 550 ha woodland creation by 2030
6 Set SBT for scope 3 in 2021

DEMONSTRATING ACTION

Delivering consistent and prolonged reduction of our greenhouse gas emissions and other environmental impacts.



Delivery approach in our strategy to meet our climate change mitigation commitments

Science-based target to reduce scope 1 and 2 emissions by 42% by 2030

(from the 2019/20 baseline)

BEYOND HERE AND NOW

Innovation across our processes, technology and culture and beyond.

Beyond here: influencing others, collaboration with value chain.

Beyond now: innovative solutions for multi-capital benefits, questioning legacy standards and specifications.

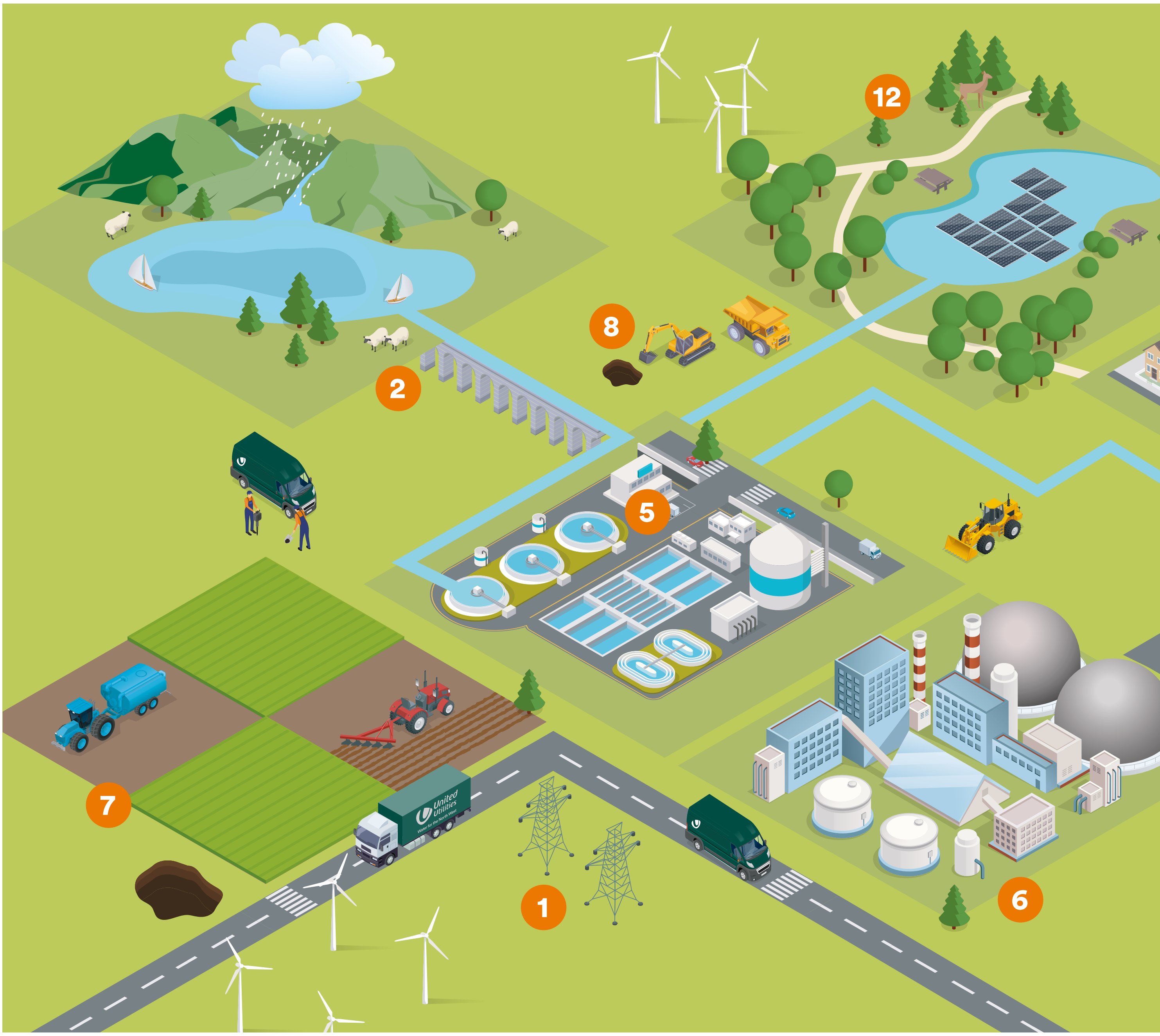
Science-based targets for scope 3

(see page 96)

Our approach to climate change

Playing our part to reduce greenhouse gas emissions across our value chain

This picture illustrates many of the operational sources of greenhouse gas emissions and the ways in which we're tackling them to deliver multiple benefits.



1. **Grid electricity** – Delivering water and wastewater services is energy intensive but by the end of 2021 all of the electricity we use will be from renewable sources. This is helping to greatly reduce our carbon footprint, and we are going much further.

2. **Water network** – Moving water to where it is needed can require energy for pumping, but we can use gravity to help. Victorian aqueducts help us to deliver a billion litres of water a day from the Lake District and Wales.

3. **Wastewater network** – Energy is often needed to pump wastewater out of harm's way. We are working innovatively and in partnership to better manage surface water to help reduce the need for pumping at the same time as reducing the risk of flooding.

4. **Wastewater treatment** – Biological processes used to treat sewage can release greenhouse gases. We are working collaboratively with the UK water industry to improve the measurement and control of these process emissions.

5. **Chemicals** – There is a carbon impact from producing the chemicals used in water and wastewater processes. We want to find innovative ways to minimise the amount and their impact.

6. **Sewage sludge treatment** – We have invested in digestion technologies to generate renewable energy from sewage 'waste'. Combined with other renewables we now generate 25 per cent of our electricity needs. At our Manchester Bioresources Centre we are also able to export biogas to the national grid.

7. **Sludge disposal to land** – Sewage contains valuable nutrients that can provide a renewable fertiliser. Greenhouse gases are released as the biosolids decay but there are also benefits from displacing fertilisers that are not reflected in our accounts.

8 **Construction services** – Around 30 per cent of our scope 3 emissions are related to the construction of new and replacement infrastructure. Our new science-based target seeks to address these.

9 **Maintenance services** – Maintaining our sites, pipes and pumps has a significant footprint. New techniques can reduce the emissions by using less power, less carbon-intensive materials and by enabling proactive intervention.

10 **Transport** – We cover many miles across the North West but we are already switching to low carbon vehicles and by 2028, none of our fleet of cars, vans and tankers will run on fossil fuels.

11 **Business travel, offices and employee footprint** – A relatively small part of our emissions providing the opportunity for employee engagement on climate change.

12 **Solar and wind power** – We have invested to generate more of our own electricity through hydro, wind and solar photovoltaics, including floating panels on Godley and Langthwaite reservoirs.

13 **Woodland creation** – We manage a lot of woodland across the North West and continue to plant more. We will create 550 hectares of additional carbon code verified woodland by 2030.

14 **Nature-based solutions** – We are at the forefront of deploying innovative approaches that work with nature to clean and store water. For example, wetlands can support biodiversity, reduce flood risk and provide recreation opportunities.

15 **Peatland restoration** – We have 20 years of experience working in partnership to restore and protect large areas of peatland in the North West.

16 **Recycling** – Our operations produce lots of waste, from the biosolids recovered from our wastewater treatment facilities to the excavated material displaced when we dig holes. We divert over 97 per cent to beneficial use.

Our approach to climate change

Task Force on Climate-related Financial Disclosures

BEING PURPOSE-LED

Scope 3 emissions: beyond our control but not beyond our influence

Working with others to protect the environment we fundamentally rely on.

When we committed to our carbon pledges last year we recognised that we had a limited understanding of the scale of the emissions in our value chain beyond the small number of scope 3 emissions we had reported for over ten years.

We pledged to quantify the emissions and to set a science-based target to reduce them in line with our ambitious targets for scope 1 and 2 emissions (those we own and have control over).

Together with EcoAct, an Atos company (an international sustainability consultancy), we produced an inventory of the relevant emissions using the GHG Protocol guidance and explored the target options recommended by the Science Based Target Initiative.

We have chosen two targets to obtain maximum coverage of our value chain emissions:

- That 66 per cent of our construction services suppliers (by emissions) will set their own science-based target by 2025; and
- To reduce absolute emissions for the remainder of scope 3 categories by 25 per cent by 2030, from a 2020 baseline.

Our supplier engagement target enables us to focus on the important area of carbon in construction. Our current estimate of scope 3 construction emissions is based on spend and this target will help transition to actual emissions reporting for this activity. This target aligns with our drive for efficiency, innovation and collaboration.

The absolute reduction target for the remainder of our scope 3 emissions will ensure we align to a trajectory needed to limit global warming to 'well below' 2°C.

De-carbonisation efforts across society will support further success with this target, as can be seen with the momentum behind low-carbon vehicles and energy sources. We believe we can go further and show leadership in areas of opportunity and challenge specific to our operations and climate change objectives.

Generating value for:

Playing our part for the planet means we must look 'beyond here and now', plan for the long term and influence beyond our company boundary.

Energy and carbon report

Reporting and assurance

We measure and report the greenhouse gases that result from all United Utilities' activities. We have used the financial control approach so our energy and greenhouse gas emissions reports are aligned with the consolidated financial statements for United Utilities Group PLC. This includes its subsidiaries listed in section A8 on page 260.

Our measurement and reporting is aligned to the GHG Protocol Corporate Accounting and Reporting Standard (2015) and the recommendations of the TCFD. As required, we report under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations and we apply the 2019 UK Government Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting Guidance (SECR). Our reporting is compliant with the international carbon reporting standard (ISO 14064, Part 1) and assured by the Carbon Reduce programme previously known as Certified Emissions Measurement and Reduction Scheme (CEMARS). We hold a Platinum status certificate as we have demonstrated emission reductions over ten years.

How we measure our greenhouse gas emissions

A carbon footprint is calculated by converting all emissions of Kyoto Protocol gases into a carbon dioxide equivalent (tCO_2e). Emissions are categorised as direct, indirect or avoided emissions.

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

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

Avoided emissions are reductions from the purchase, or export, of renewable energy. Gross emissions are the sum of all three scopes. Net emissions are the gross emissions minus reductions from avoided emissions and removals.

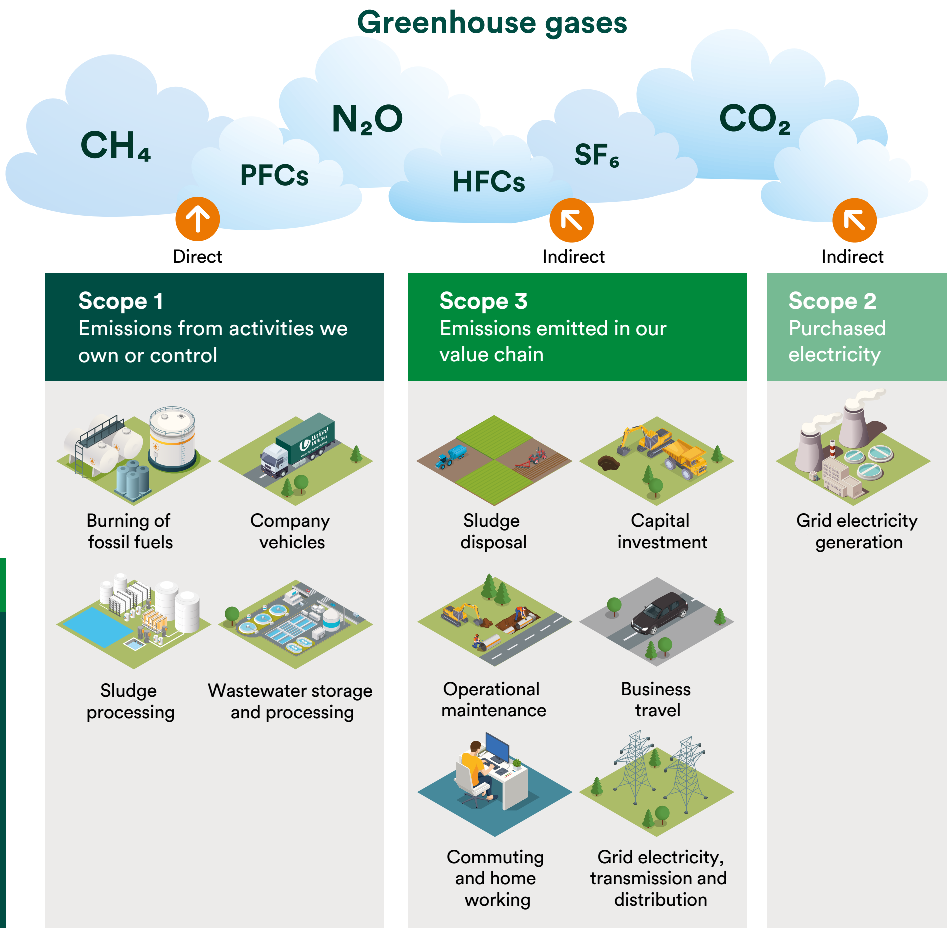
The GHG Protocol recommends using two methods to quantify emissions – the 'location-based' method which uses average grid electricity emissions factors and the 'market-based' method which is specific to the actual electricity purchased. Following the GHG protocol recommendation we report results using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

Greenhouse gas emissions and energy performance in 2020/21

Our investment in renewable energy generation has resulted this year in a further increase to 205.3 GWh, equivalent to a quarter of the electricity we consumed.

Our net scope 1 and 2 greenhouse gas emissions for 2020/21 were 127,173 tCO_2e, 1.5 per cent more than last year. This is due to an increase in fossil fuel use, the volume of wastewater being processed and the subsequent amount of wastewater sludge being produced.

Our scope 3 emissions, covering our new comprehensive inventory, have increased by 4 per cent, due to increased spend in the value chain on goods and services. In the coming years we plan to reduce the reliance on spend-based emissions calculations and will incentivise use of lower emission products, services and suppliers.



Our approach to climate change

Greenhouse gas emissions and energy

The greenhouse gas emissions for the financial year 2020/21 are presented in the table below. Emissions have been estimated using the water industry Carbon Accounting Workbook v15 (CAW v15) which incorporates the UK Government GHG conversion factors for company reporting. 2019/20 data has been restated using CAW v15 to reflect the significant changes from the previous version of the workbook, including improvements to the accounting for biogas and renewable electricity generated and used on site and an increased emission factor for wastewater process emissions (following the recommendation in UK Water Industry Research project report 'Quantifying and reducing direct greenhouse gas emissions from waste and water treatment processes – Phase 1' (20/CL/01/28)).

Scope 1, 2 and 3 emissions have been separated to align with the boundaries of our science-based targets. We now disclose all the scope 3 emissions categories described in the Corporate Value Chain (scope 3) Accounting and Reporting Standard that are deemed relevant to United Utilities. This change in scope 3 emissions reporting boundary has significantly increased our emissions in this area. The increase over the past year is due to variation in supply chain spend on goods and services.

		Current CAW v15 2020/21 tCO_2e	SBT baseline CAW v15 2019/20 tCO_2e	CAW v13 2020 2019/20 tCO_2e	CAW v13 2019 2018/19 tCO_2e
Scope 1 Direct emissions					
Direct emissions from burning of fossil fuels		17,371	15,247	17,129	16,809
Process and fugitive emissions from our treatment plants – including refrigerants		98,569	96,186	84,048	88,136
Transport: company-owned or leased vehicles		16,634	15,739	15,739	14,409
Scope 1 Total		132,575	127,172	116,916	119,354
Scope 2 Energy indirect emissions					
Grid electricity purchased – generation	Market-based (1)	8,507	11,789	11,789	18,503
	Location-based	**149,030**	164,521	164,521	187,171
Scope 2 Total		**8,507**	11,789	11,789	18,503
SCOPE 1 AND 2 GREENHOUSE GAS EMISSIONS (GROSS)	**Market-based**	**141,082**	**138,961**	**128,705**	**137,857**
Avoided emissions from renewable electricity					
Renewable electricity exported		-4,184	-3,979	-3,979	-3,434
Biomethane exported		-9,725	-9,302	-9,302	-8,446
Avoided emissions Total		-13,909	-13,281	-13,281	-11,880
SCOPE 1 AND 2 GREENHOUSE GAS EMISSIONS (NET)	**Market-based**	**127,173**	**125,680**	**115,424**	**125,977**
Scope 3 Other indirect emissions					
Purchased goods and services		271,871	213,442	–	–
Capital goods		95,968	128,286	–	–
Fuel and energy-related emissions	Market-based	42,599	45,262	1,007(2)	1,577(2)
Upstream transportation and distribution (sludge transport)		1,119	3,374	–	–
Waste generated in operations (including sludge disposal to land)		26,333	27,936	27,410(3)	26,186(3)
Business travel (public transport, private vehicles and hotel accommodation)		1,226	3,508	2,123(4)	2,236(4)
Employee commuting and home working		4,108	4,231	–	–
Scope 3 Total	**Market-based**	**443,223**	**426,039**	n/a	n/a
SCOPE 3 GREENHOUSE GAS EMISSIONS (excluding capital goods) Science based target measure	**Market-based**	**347,255**	**297,753**	n/a	n/a

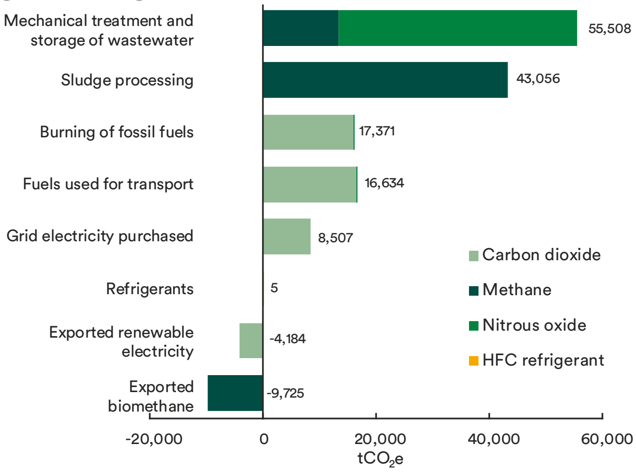
(1) Market-based figures for electricity purchased on a standard tariff have been calculated using specific emissions factors from published generator fuel mix disclosures, shown in energy use table. Location-based figures use average grid emissions and are shown in blue.
(2) Well-to-tank emissions were not included in previous scope 3 inventory. We include well-to -tank emissions for electricity, natural gas and all liquid fuels.
(3) Sludge-to-land and grit and screenings only, other business waste was not included in the previous scope 3 inventory.
(4) Hotel accommodation, other travel services and outsourced transport were not included in the previous scope 3 inventory.

United Utilities' greenhouse gas emissions intensity

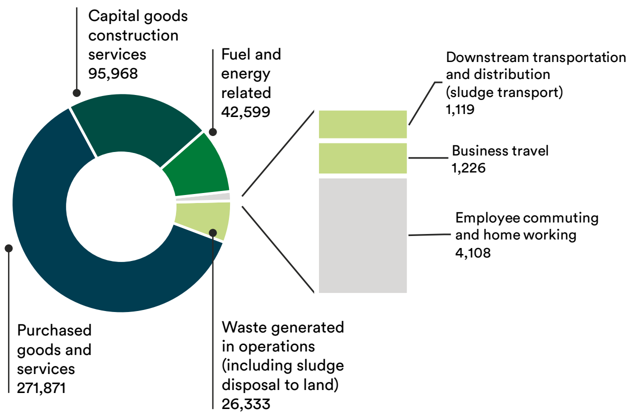
As in previous years we state our emissions as tonnes CO_2e per £million revenue. We include scope 1 and 2 emissions only in this measure. We also report the regulated emissions tonnes CO_2e per megalitre treated (using the location-based method as calculated in the CAW v15), as these are common metrics for our industry. The methodology for this calculation changed from CAW v13 so the figure is not available for 2018/19.

Greenhouse gas emissions intensity measures		**2020/21**	2019/20	2018/19
Scope 1 and 2 greenhouse gas emissions (gross) per £m revenue	tCO_2e	**78.0**	74.7	75.8
Scope 1 and 2 greenhouse gas emissions (net) per £m revenue	tCO_2e	**70.3**	67.6	69.3
Regulated emissions per megalitre of treated water	kg tCO_2e/Ml	**118.51**	131.98	n/a
Regulated emissions per megalitre of sewage treated	kg tCO_2e/Ml	**152.26**	168.51	n/a

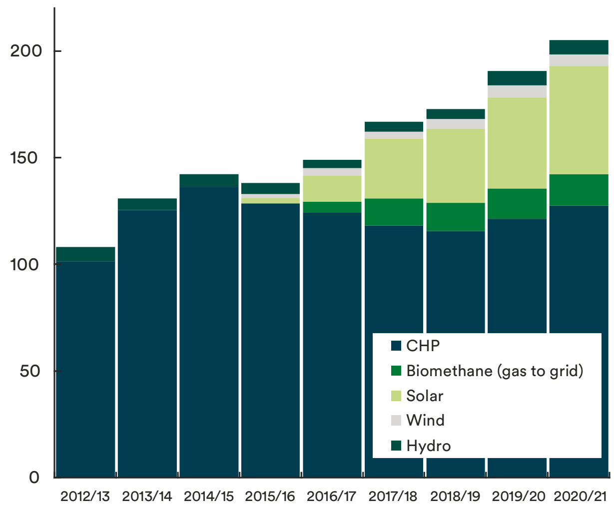
Scope 1 and 2 emissions – breakdown by activity and greenhouse gas



Scope 3 emissions by GHG Protocol category



Renewable energy generated



Energy use, generation and export

	2020/21 GWh	2019/20 GWh	2018/19 GWh
Energy use			
Electricity	**807.3**	802.3	807.9
Natural gas	**40.0**	38.3	33.0
Other fuels(1)	**104.0**	116.3	135.0
Total energy use	**951.3**	956.9	975.8
Electricity purchased			
Renewable Tariff (2)	**591.4**	602.9	601.5
Supplier Standard Tariff (3)	**47.8**	40.8	59.7
Total electricity purchased	**639.2**	643.7	661.2
Renewable energy generated			
CHP	**127.6**	121.5	115.7
Solar	**50.7**	42.6	34.6
Wind	**5.3**	5.7	4.8
Hydro	**6.9**	6.8	4.6
Biomethane(4)	**14.8**	14.2	13.2
Total renewable energy generated	**205.3**	190.8	172.9
Renewable energy exported			
Electricity	**22.4**	18.1	13.0
Biomethane(4)	**14.8**	14.2	13.2
Total renewable energy exported	**37.2**	32.3	26.2

(1) Other fuels includes liquid fuel purchased for processing and transport plus business mileage in private vehicles converted to GWh using 2020 UK Government GHG Conversion Factors for Company Reporting.

(2) Electricity purchased on a renewable tariff had 0 CO_2e/kWh emissions.

(3) Electricity purchased on our standard tariff had 289 CO_2e/kWh emissions in 2019/20 and 178 CO_2e/kWh emissions in 2020/21 .

(4) Biomethane generated and exported to grid is expressed as an electricity equivalent.

Energy use and emissions

Our energy management strategy aims to achieve an appropriate balance between managing energy consumption, use of renewables and self-generation and being smart about how we operate our assets to get best value while maintaining security of supply. We are a relatively energy-intensive business, consuming 951 GWh in 2020/21. We have increased the amount of energy generated from renewable sources, such as hydro, solar photovoltaics, wind, biomethane and sewage sludge powered combined heat and power (CHP) generators. In 2020/21 we generated the equivalent of 205 GWh of renewable electricity, an increase of 14 GWh on 2019/20. We exported 37.2 GWh back to the national electricity and gas grids, 4.9 GWh more than the previous year. Overall we reduced our electricity purchase by 4.5 GWh.

Energy efficiency action taken

Our energy management programme brings together management processes, asset optimisation and data analytics. We have focused on optimisation of existing operations alongside realising opportunities through our capital programme to improve our use of pumps and how we manage wastewater treatment processes.

A focus area for 2020/21 has been our use of pumps. At Watchgate water treatment works, performance analysis of two key pump types led to the tactical refurbishment of the worst performing pumps and changes to the control philosophy – resulting in better efficiency, saving an estimated £40,500 per year, and a longer asset life.

At Heronbridge water treatment works, analysis of pump operation identified an opportunity to operate two pumps at minimum speed rather than a single pump at maximum speed. Running pumps closer to their best efficiency point reduces energy use and costs and should save approximately £45,000 per year.

Principal risks and uncertainties

Our risk management framework

We have a robust risk management framework for the identification, assessment and mitigation of risk.

Our approach to risk and resilience

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for the North West, and be more resilient across our corporate, financial and operational structures. A key objective of our approach is to support the sustainable achievement of the strategic themes that underpin our vision to be the best UK water and wastewater company delivering:

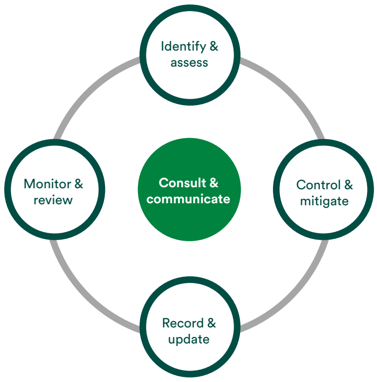
- the best service to customers;
- at the lowest sustainable cost; and
- in a responsible manner.

Our risk management framework provides the foundation for the business to anticipate threats to delivering an effective service in these challenging times, and to respond and recover effectively when risks materialise. Key components of the framework include:

- An embedded group-wide risk management process which is aligned to ISO 31000:2018 Risk management guidelines;
- A board-led approach to risk appetite, based on strategic goals;
- A strong and well-established governance structure giving the board oversight of the nature and extent of risks the group faces, as well as the effectiveness of risk management processes and controls; and
- A portfolio of policies, procedures, guidance and training to enable consistent, group-wide participation by our people.

Continuous improvement is a key feature of the framework which incorporates a maturity assessment model to identify areas to enhance. Based on risk management capabilities relative to five levels of maturity, a recent assessment has supported the development of a road map of improvements. These include an update to risk appetite statements, greater focus and analysis of cross-cutting themes and improved escalation of data from operational risk management systems.

How we identify and assess risk



We have a number of mechanisms in place to identify risk. These include a risk universe, cross-business horizon scanning forums, consultation with third parties and comparison with National Risk Registers.

Each risk is event based and is sponsored by a senior manager who is responsible for the analysis of the corresponding causal factors, consequences and the control effectiveness, taking account of both the internal and external business environment. This process determines the likelihood of the event occurring and the full range of potential impacts from a minimum (best case) to a maximum (worst case). Comparing this position against the desired target state, in combination with the strengths, weaknesses and gaps of the control environment, supports the decisions for further mitigation as appropriate. This ongoing analysis culminates in the biannual business unit risk assessment (BURA) which forms part of the governance and reporting process (as outlined opposite) to ensure consistency of approach and a true reflection of the risk facing the company. It also serves to calibrate the most significant risks from a financial and reputational context and to assess how these relate to our risk appetite.

Governance and reporting process

The board ensures that its oversight of risk remains effective, and in compliance with the UK Corporate Governance Code, through a number of established reporting routes.

Twice yearly the board receives an extensive update on the risk profile as part of the full and half-year reporting cycle. This provides an overview of the nature and extent of risk exposure in the context of the group's principal risks (as detailed on pages 104 to 107), and emphasises the most significant event-based risks (summarised on pages 108 and 109) in both their current state relative to the risk appetite, and target state of acceptable exposure. The board is also advised of new and emerging risks (see page 109). In addition to the biannual risk reporting, specific risk topics are reported to the board to support decision-making. The board is therefore able to:

- make decisions on the level of risk it is prepared to manage relative to risk appetite and tolerance in order to deliver on the group's strategy;
- engage with the business to ensure appropriate controls and mitigation are in place, and test the appropriateness of plans;
- report externally on the long-term viability of the company in an informed manner; and
- monitor and review the effectiveness of risk management procedures and internal control systems.