

United Utilities Group PLC

Integrated Annual Report and
Financial Statements for the year
ended 31 March 2023



Welcome to our Integrated Annual Report 2023

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The principal activities of the group, generating more than 99 per cent of group revenue, sit within the regulated entity United Utilities Water Limited, which provides water and wastewater services for the North West of England.

£14bn⁽¹⁾

Regulatory Capital Value (RCV) making our regulated business, United Utilities Water Limited, the second largest water and wastewater company in England and Wales.

7.4m

people served across the North West, with over 3 million households and 200,000 businesses.

1.8bn

litres of clean water delivered, and 3.1 billion litres of wastewater treated, on average, every day.

100%

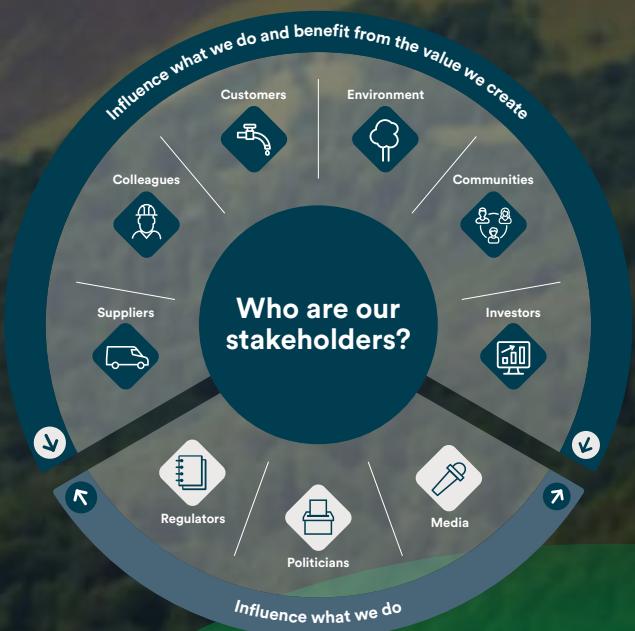
renewable electricity throughout our operations. Around 24 per cent of our electricity needs are generated directly by ourselves and on-site with our partners, and we purchase only certified green electricity for the remainder.

⁽¹⁾ RCV is a measure of the company's historic market value plus the value of accumulated capital investment assumed at each price review. Our RCV has been adjusted for actual spend, timing differences and includes the full expected value of AMP7 ex-post adjustment mechanisms.

Our purpose is to provide great water for a stronger, greener and healthier North West

This drives us to deliver our services in an environmentally sustainable, economically beneficial, and socially responsible manner and create sustainable long-term value for all. Active engagement and strong constructive relationships help us understand and respond to the things that matter most to our stakeholders:

 Read more on pages 56 to 57



Strategic priorities

Our strategy to enable delivery of our purpose has six priorities:

-  Improve our rivers
-  Create a greener future
-  Provide a safe and great place to work
-  Deliver great service for all our customers
-  Spend customers' money wisely
-  Contribute to our communities

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



Keep in touch with us

-  twitter.com/unitedutilities
-  youtube.com/user/unitedutilities
-  linkedin.com/company/united-utilities/posts



Visit our corporate website at unitedutilities.com/corporate

See our report online

Use the link below or scan the QR code to view our online report and download the full integrated annual report and financial statements.



Visit our online report at unitedutilities.annualreport2023.com

Our annual performance report

We report our performance in a regulatory format that helps customers and other stakeholders understand it and compare it with other companies in the sector.



Our annual performance report will be available from 15 July at unitedutilities.com/corporate/about-us/performance/annual-performance-report

Reporting methodology

Our purpose and strategy are intrinsically linked to ESG

We have taken the opportunity to refresh our purpose and strategy as we look ahead and mobilise for the next investment period between 2025 and 2030.

We engaged with stakeholders and colleagues to define six strategic priorities and expand our purpose, to ensure our ambitions are clearly defined and targeted at the company we want and need to be.

In doing so, it has become even clearer how strongly environmental, social and governance (ESG) matters are integrated into the way we approach our business and the way we monitor our performance – everything aligns under the stronger, greener and healthier ambitions within our purpose.

The below infographic demonstrates the alignment between our purpose – to provide great water for a stronger, greener and healthier North West – and our six strategic priorities with ESG.

It shows the link between our purpose and the UN Sustainable Development Goals (SDGs) that we contribute towards.

Our metrics and targets, including our operational key performance indicators (KPIs), are linked to ESG and aligned to the stronger-greener-healthier elements of our purpose, with clear links to our strategic priorities.

Providing great water for a **stronger, greener and healthier** North West



Benchmarking our ESG performance

For over 20 years we have measured ourselves against national and international benchmarks of responsible business practice, often breaking new ground in the way the water sector approaches challenges such as catchment management and helping customers struggling to pay their bills through affordability schemes.

We align ourselves to recognised management standards and accreditations to give confidence in the way we are operating. We continue to evolve existing programmes, develop new initiatives, and respond to the changing world in which we operate. For example, we have been undertaking a project to integrate six-capitals thinking into business processes and planning to better inform our decision-making and enable us to create and protect value for all stakeholders.

 Read more about the **six capitals** on page 34

We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges. Our strong consistent performance against these external benchmarks demonstrates our commitment to operating in a responsible manner, and we monitor our performance against a suite of trusted indices as one of our operational key performance indicators (KPIs).

 Read more about our **performance against these ratings and indices** on pages 104 to 109

Many of the ESG indices in which we participate draw their data from this report. We collate, monitor and report publicly on a wide range of performance measures across ESG categories, with consideration to what stakeholders tell us matters most, as well as our contribution to wider value and global goals such as the UN SDGs and climate change mitigation goals.

In addition to the wealth of ESG disclosures and performance data throughout this report, the following indicates where further information on certain frameworks can be found:

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

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

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

Sustainability Accounting Standards Board (SASB)

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

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

Updating our report to further integrate ESG disclosures

The frameworks and standards for ESG reporting are developing rapidly in response to growing expectations and increasing interest from investors and other stakeholders. For example, the draft standards from the International Sustainability Standards Board (ISSB) ask that all material sustainability-related risks and opportunities be disclosed in line with the four-pillar approach used by the Task Force on Climate-related Financial Disclosures (TCFD), i.e. providing information on strategy, governance, risks and opportunities, and metrics and targets.

As part of our drive to continuously improve our reporting to meet investor and other stakeholder needs, we have evolved our report this year to incorporate these four pillars centrally to our business model. As a result, our sustainability disclosures (including the required components of TCFD reporting) are integrated much more fully across our report. Each pillar of our business model provides general company information as well as more specific climate and nature-related information, and other key issues of material interest to readers.

This mirrors the integrated thinking approach we take to running the business, with sustainability considerations integral to everything we do. While this provides the most accurate reflection of our business, we recognise that some readers have targeted areas of interest and may not wish to read the report in full to find the relevant information.

To ensure it is as easy as possible for all readers to find what they are looking for, we use colour coding and iconography to enable quick and easy identification of climate, nature and other elements throughout this report, and pages 04 and 05 signpost to the pages on which non-financial information and the requirements of TCFD and TNFD can be found.

We have also adapted the way we present our operational performance for the year and our key performance indicators. These are now structured across the ESG headings, in alignment with the ‘stronger’, ‘greener’ and ‘healthier’ ambitions of our refreshed purpose. We continue to monitor and disclose how our activities and performance impact our stakeholders, retaining a comprehensive spread of metrics in relation to each stakeholder group.

Open, honest and transparent reporting is at the core of our responsible business approach. As the reporting landscape develops further, we will continue to adapt our disclosures to take account of international best practice in the presentation of ESG performance and data.

Integrated reporting and our sustainability report

We are keen to help meet the information needs of all our stakeholders, and have published a separate sustainability report this year to present our ESG disclosures in a format that some readers may find more familiar and easier to use. For the avoidance of doubt, readers of this integrated annual report do not need to read the sustainability report as well as sustainability-related disclosures are already included throughout this report. The additional sustainability report is a presentational alternative for stakeholders who are not interested in the financial aspects of our performance.

 Read our sustainability report at unitedutilities.com/corporate/responsibility/our-approach/esg-performance

Our non-financial disclosures

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 page 38, sets out how we act as a responsible business and is applicable to the areas of disclosure required by s414CB(1). A brief description of our business model is set out on pages 18 to 19. We demonstrate that we are fulfilling our purpose in our performance section on pages 84 to 117.

 Read more about our purpose on our website at
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: <ul style="list-style-type: none">Natural resources – see pages 35 and 87Natural environment – see pages 20 and 24Energy and carbon report – see pages 93TCFD and TNFD reporting – see page 05	<ul style="list-style-type: none">Waste and resource use policyEnvironmental policy – see the responsibility pages on our websiteWater Resources Management Plan – see page 41Climate change mitigation policy
Colleagues 	Reflecting the needs of our colleagues: <ul style="list-style-type: none">Health and safety – see pages 35, 49, 53, 64, 66, 73, and 100 to 102Mental wellbeing – see pages 35, 49, 53, and 73Competitive base salaries and benefits – see page 186Gender pay report 2022 – see page 55Engagement – see pages 35, 56, and 100 to 102Board diversity – see page 143	<ul style="list-style-type: none">Health and safety policyMental wellbeing policyEquity, diversity and inclusion policyFlexible working arrangementsAgency worker policyHuman rights policy – see pages 73, 76, and 108Board diversity policy – see page 143
Respect for human rights 	Reflecting the needs of our stakeholders: <ul style="list-style-type: none">Suppliers – see page 108Diversity within our workforce – see pages 35, 49, 54 to 55, 65, 73, 76, 82, and 100 to 102	<ul style="list-style-type: none">Colleague data protection policySlavery and human trafficking statementHuman rights policy – see pages 73, 76, and 108
Social matters 	Reflecting the needs of our stakeholders: <ul style="list-style-type: none">Customers – see pages 37, 57, 66, and 76 to 77Communities – see pages 37, 56, 66, and 77Environment – see pages 56, 66, and 76Suppliers – see pages 53, 56, 66, 73, 76, and 108Regulators – see pages 57 and 64	<ul style="list-style-type: none">YourVoice – see page 138Charitable matched funding guidanceVolunteering policyUnited Supply Chain – see pages 53, 108, and 213Commercial procurement policy
Anti-corruption and anti-bribery 	Reflecting the needs of colleagues and suppliers: <ul style="list-style-type: none">Colleagues – see pages 38, 64, 137, and 167Suppliers – see pages 56, 108, 167, and 107 to 108	<ul style="list-style-type: none">Anti-bribery policyFraud investigation and reporting processesWhistleblowing policyInternal financial control processesCommercial procurement policy

Key frameworks to look out for throughout our report



The Task Force on Climate-related Financial Disclosures has set out a framework of recommended disclosures relating to the financial implications of climate change and what this means for governance, strategy, risk and metrics.



The Task Force on Nature-related Financial Disclosures is developing a framework for risk management and disclosure for organisations to report, and act on, evolving nature-related risks and related governance, strategy, risk and metrics.

Our TCFD, TNFD and other sustainability disclosures

Sustainability concerns, including climate and nature, are fundamental to our business and integrated in everything we do.

Our activities are so reliant on the natural environment that assessing and managing the risks, opportunities, dependencies and impacts we have in relation to climate change and nature is integral to our entire business model, therefore disclosures in relation to these issues are integrated throughout our report to reflect the way we think about these issues. Other material matters are integrated in the same way, including cyber security, financial risk management, affordability and vulnerability, health, safety and wellbeing, responsible business in our supply chain, and equity, diversity and inclusion.

As mentioned on page 03, we have adapted our business model to follow the four-pillar structure that links the Task Force on Climate-related Financial Disclosures (TCFD), Task Force on Nature-related Financial Disclosures (TNFD) and International Sustainability Standards Board (ISSB) recommendations. To assist readers with finding the disclosures of interest to them, this page shows where disclosures can be found throughout the report, and these are colour-coded and icon-indicated throughout for easy identification, as demonstrated in the table below.

	 Where to find our TCFD disclosures	 Where to find our TNFD disclosures	 Where to find our Other disclosures			
	Pages	Topic	Pages	Topic	Pages	Topic
Governance	50–59	Company-wide governance	53	Board oversight and management role in managing and assessing nature-related dependencies, impacts, risks and opportunities	53–55	Governance around other risk and opportunities of material interest
	130–138	Further detail on board and management committees, including structure responsibilities and meeting frequency				
	58	Section 172(1) Statement				
Strategy	52	Board oversight of climate-related risks and opportunities				
	52	Management role in assessing and climate-related risks and opportunities				
	38	Strategic priorities				
	39–41	Planning horizons : what we mean by short term, medium term and long term				
	28–31	Our approach to materiality assessment				
Risk and opportunities	42–44	Climate risks and opportunities identified over short, medium and long term	49	How nature influences our approach, strategy and planning, and the resilience of our strategy to different scenarios, with adaptive planning	49	Other risk and opportunities of material interest that influence our approach
	43–44	Impact of climate-related risks on our strategy and planning				
	44	Use of climate-related scenarios				
	45–47	Net zero transition plan				
	71	Our risks most sensitive to climate change				
Metrics and targets	241	Climate-related financial planning				
	60–69	Our approach to identifying , assessing and managing risks and opportunities including our principal risks, common themes, most significant event-based risks, and new and emerging risks and opportunities				
	70	How we identify and assess climate-related risks	72	How we identify, assess and manage nature-related risks, and how this is integrated into our risk management processes	73	How we identify, assess and manage other risks other risk and opportunities of material interest
	71	Management of climate-related risks				
	71	Integration of climate-related risks into our risk management processes				
	71	Our risks most sensitive to climate change				
Metrics and targets	76–83	Metrics and targets for assessing general company performance, and assurance of those metrics				
	83	Short, medium and long-term targets				
	84–111	Operational performance for 2022/23				
	81	Metrics and targets used to assess climate-related risks and opportunities	82	Metrics and targets used to assess and manage nature-related dependencies, impacts, risks and opportunities	82	Metrics and targets in relation to other risks and opportunities of material interest to stakeholders
	93–95	Energy and carbon report with scope 1, 2 and 3 greenhouse gas (GHG) emissions				
	81	Targets used to manage climate-related risks				

Chair's review



Sir David Higgins
Chair

As we thank Steve Mogford for over 12 years of service to the company, we are excited to welcome Louise Beardmore as Chief Executive Officer. Having overseen the price review process since her appointment as CEO designate in May 2022, Louise is ensuring the company is mobilised and ready for the 2025–30 period.

We have taken the opportunity to refresh the group's purpose, strategic priorities, and core values to ensure these clearly reflect the key areas of focus in the current landscape, and our ongoing commitment to environmental, social and governance (ESG) matters.

The water industry is facing a number of challenges and there is a need to restore public trust, but we are committed to continuing to drive improvements for customers, the environment, and all our stakeholders.

The events of the last few years have tested the water industry, just as they have challenged the economy more widely. The COVID-19 pandemic and conflict in Ukraine led to both operational challenges and rapidly rising inflation, with increased prices presenting significant cost of living pressures for customers.

At the same time as we have been adapting and responding to these challenges, we have also seen a surge of concern regarding the sector's historic and ongoing use of storm overflows. A requirement to reduce the number of activations has now been passed into legislation, alongside a number of other very stretching environmental targets as part of the Environment Act. Meeting these new requirements to reduce activations and improve river health will require a substantial programme of work and sustained investment over a number of regulatory periods. In the case of storm overflows, the regional investment requirements are even more substantial than in some other areas of the country, reflecting that the North West has a high number of overflows, a higher than typical amount of rainfall, a greater amount of surface water runoff entering our sewers and a higher prevalence of sewers that combine surface water and sewage. Together, these factors mean that of £56 billion of investment projected by Defra to achieve storm overflow targets, around £20 billion is attributed to the North West.

United Utilities is responding well to these challenges. To help customers facing financial challenges we have committed more affordability support than any other water company in the 2020–25 period. Beyond the baseline expenditure for the current regulatory period, we are investing an additional £765 million to deliver customer and environmental improvements, including around £250 million of reinvestment to support our Better Rivers programme and other environmental enhancements. We are already achieving significant reductions in activations of storm overflows, helping to improve river quality across the region, and we recently got provisional approval to accelerate environmental investment, starting work two years early on over £900 million of AMP8 schemes mostly in relation to reducing activations from overflows. We are committed to delivering this work efficiently, effectively and with urgency.

We have been pleased to see that the additional investment made has also delivered improvements in the water service, reflected in a strong performance on key metrics – including tackling leakage – and the company's exit from the Drinking Water Inspectorate's transformation programme is demonstration of the sustained improvement in the performance and resilience of drinking water supplies to customers in the region. The board is also pleased with the further progress made this year on procurement for the Haweswater Aqueduct Resilience Programme. We expect that this will provide an enduring and resilient solution to replace a critical part of our potable water network.

⁽¹⁾ The dividend increase is based on the CPIH element included within allowed regulatory revenue for the 2022/23 financial year (i.e. the movement in CPIH between November 2020 and November 2021).

Our first female CEO, and other board changes

On 31 March 2023, the company said goodbye and wished Steve Mogford a long and happy retirement after just over 12 years as Chief Executive Officer. During that time, Steve has transformed not only the performance of the business, but the relationships and perceptions of the group with many of its key stakeholders. As previously announced, Louise Beardmore, who was appointed as CEO designate with effect from 1 May 2022, succeeds Steve. Steve and Louise have worked together since May 2022, to ensure an orderly handover of the Chief Executive's responsibilities. Since her appointment as CEO designate, Louise has overseen preparations for the price review process for the 2025–30 regulatory period. During this important time when the tone is being set for the next five-year regulatory cycle, Louise has been actively developing relationships and representing the group to its regulators and other key stakeholders and those with influence at a parliamentary level.

The nomination committee has been busy during the year identifying a candidate to fill a vacancy for a non-executive director brought about by Stephen Carter stepping down from the board after the 2022 AGM, following his appointment to the board of Vodafone. The search culminated with the appointment of Michael Lewis. We are delighted that Michael has accepted the role as an independent non-executive director with effect from 1 May 2023. He brings to the board a wealth of experience of working in a regulatory environment, having worked in the electricity industry for most of his career. He has spent a considerable amount of time focusing on sustainability issues, particularly during his time as CEO of E.ON UK. He was appointed as a member of the ESG committee (formerly the corporate responsibility committee) on his appointment. Prior to Michael's appointment, the refocusing of the committee's activities was undertaken to better reflect current stakeholder expectations, and it was renamed as the ESG committee.

Strategic refresh

With the water industry evolving to meet new challenges and priorities, we gained feedback from stakeholders and colleagues on what we need to do and how we need to do it, and took the opportunity to refresh our purpose, strategic priorities and core values to better reflect the business we now need to be. The group's purpose, to provide great water for a stronger, greener and healthier North West, and its six strategic priorities, reflect the key areas of focus that are needed in the coming years, as well as demonstrating the clear alignment of our ambitions with ESG concerns, as can be seen on page 02. Our core values have been redefined to reflect the responsible and high performance culture we want to drive, both at board level and right through the organisation, with every one of our colleagues focused on doing the right thing, making it happen, and being better.

Dividend and annual general meeting

The board has proposed a final dividend of 30.34 pence per share, to be paid on 1 August 2023, taking the total dividend for the 2022/23 financial year to 45.51 pence per share. This is an increase of 4.6 per cent,⁽¹⁾ in line with our AMP7 policy of targeting an annual growth rate of CPIH inflation through to 2025.

I look forward to meeting shareholders at the annual general meeting (AGM) which is being held on 21 July 2023. Historically, the meeting has taken place at a location in Manchester. For the previous two years we provided a virtual link for shareholders to watch and, at our 2022 hybrid meeting, participate fully. There was very limited uptake for virtual attendance, therefore for 2023 we will revert to the more traditional approach for conducting the business at the meeting. As many companies are now doing, we will be using our own facilities for the event, which will be held for the first time at the group's main offices in Warrington.

Outlook

With two years remaining in AMP7, we remain focused on continuing to deliver a great service for customers and driving environmental improvements, while simultaneously preparing for AMP8.

The business plan we will submit in October will include the most significant environmental improvement plan of any period so far. This will bring both challenges and opportunities for the company and the North West, and we will need to embrace new ways of working and collaborate with others to drive the big improvements that we and our many stakeholders want to see over 2025–30 and beyond. This plan will represent a step towards our longer-term plans, and our long-term delivery strategy is embedded within our plans for AMP8 with a number of adaptive planning pathways considered to ensure we are prepared for the challenges that may lie ahead. This includes our carbon pledges and net zero transition plan, which you will find on pages 45 to 47 of this report.

We are clear on what we need to deliver and confident in our approach and our plans to meet our ambitions.

Thank you

On behalf of the board, I want to extend our heartfelt thanks to everyone in the company for the hard work, dedication and enthusiasm you have shown over the year. With the continued support of our colleagues and all our stakeholders, we are confident in our plans to build a stronger, greener and healthier North West.

Sir David Higgins
Chair
24 May 2023

→ Read more about our **purpose and strategic priorities** on page 38

→ Read more about our **Better Rivers: Better North West** programme on page 90

→ Read more about our **net zero transition plan** on pages 45 to 47

The strategic report on pages 08 to 119 was approved at a meeting of the board on 24 May 2023 and signed on its behalf by Sir David Higgins, Chair.

45.51p

per share total dividend
in respect of the 2022/23 year

+4.6%

increase, in line with the annual increase
in CPIH inflation to November 2021

21 July

annual general meeting (AGM)
to be held at our headquarters



Providing great water for a stronger, greener and healthier North West

Our business model set out in this strategic report reflects how we deliver our purpose, how we are governed, how we manage risks and opportunities, our short, medium and long-term targets, and the metrics we use to assess the value we contribute to society, the environment, and all of our stakeholders.

Strategic report

Highlights

Pages 10 to 17

Our operational key performance indicators

Pages 10 to 11

Our financial key performance indicators

Pages 12 to 13

Chief Executive Officer's review

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What we do and how we do it

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How we provide great water for a stronger, greener and healthier North West

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Our business model diagram

Pages 20 to 21

Our environment and the resources we rely upon
– Our external environment
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Our approach to generating value
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Our performance in 2022/23

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Our environmental performance

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Our governance performance

Pages 104 to 111

Our financial performance

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Highlights for 2022/23 – Our operational key performance indicators

Delivering our purpose is about more than just providing customers with water and removing wastewater. Our operational key performance indicators (KPIs) provide an overview of how we are creating a stronger, greener and healthier North West.

→ Read more about our [operational performance](#) on pages 84 to 111

Providing great water

We measure the provision of our core services through a host of measures, including how we are doing against our regulatory performance commitments, where we have met or exceeded 83 per cent of these targets this year – our best ever performance. C-MeX is a regulator-compiled assessment that measures overall customer satisfaction with our services, and we use this as our KPI for customer service.

...for a stronger, greener and healthier North West

Our industry-leading environmental performance with zero serious pollution incidents, Better Rivers programme driving a 39 per cent reduction in storm overflow activations, and the progress we are making in reducing our carbon footprint, are all helping to protect the natural environment in the North West. We provide an industry-leading package of affordability support, and have continuously improved our colleague accident frequency rate every year for the last five years. We invest in communities, spend money wisely and efficiently, and our strong governance and responsible business approach contribute to consistently strong performance against a suite of investor ESG indices.

Better Rivers commitments

KPI performance

100%

of commitments for the year achieved



Met expectation/target

Our progress this year

We have achieved all our commitments for 2022/23, making good progress towards our targets for 2025, and we have driven a 39 per cent reduction in reported storm overflow activations since 2020.

Link to remuneration

Bonus

Colleague engagement

KPI performance

82%



Met expectation/target

Our progress this year

We have great engagement from colleagues across the business, scoring 82 per cent in our latest survey. Although this is slightly lower than the 87 per cent we scored last year, it is higher than both the UK norm and Utilities norm.

Link to remuneration

n/a

Capital programme delivery incentive (CPDi)

KPI performance

92.9%



Met expectation/target

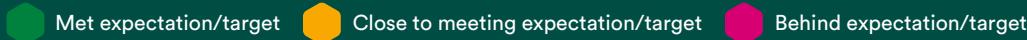
Our progress this year

We exceeded our target of at least 85 per cent, delivering strong performance against the new CPDi measure, which places greater emphasis on efficiency compared with our previous time:cost:quality index (TCQi) metric.

Link to remuneration

Bonus

KPI status key



Carbon pledges

KPI performance

33

green vehicles

585ha

peatland restored

37ha

woodland created

23%

supplier engagement



Our progress this year

We have plans for 200 electric vehicles in the next 18 months. We are more than halfway to our 2030 peatland target, and are making good progress on woodland creation despite slower planting this year due to weather and tree disease. We are working with our construction partners to reduce scope 3 emissions, with 23 per cent having set science-based targets.

Link to remuneration

LTP

C-MeX

KPI performance

4th WaSC

5th of all 17 companies



Our progress this year

We were once again the top ranked listed company for customer satisfaction, ranked fourth among the 11 water and sewerage companies (WaSCs) and fifth overall out of all 17 companies including those that provide water-only services. We expect to earn a £3 million reward this year.

Link to remuneration

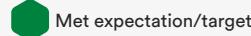
Bonus

EA performance

KPI performance

4* industry leading

in the EA's latest Environmental Performance Assessment (EPA)



Our progress this year

The most recent assessment from the Environment Agency (EA) is for 2021, when we were awarded the maximum four stars for the second year running and classed by the EA as an industry-leading company. The EA will publish its Environmental Performance Assessment for 2022 in July 2023.

Link to remuneration

LTP

Customers lifted out of water poverty

KPI performance

84,002

Our progress this year

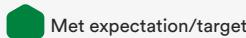
We have already surpassed our target of helping 66,500 customers out of water poverty by 2025, achieving this for more than 80,000 customers – providing critical affordability support in the face of an increasing cost of living.

Link to remuneration

LTP

Community investment

KPI performance

£2.88m

Our progress this year

We achieved our £2.82 million annual target for community investment, contributing £2.88m. This was through increased investment in environmental and community partnerships, delivery of education in schools, and the contribution of time volunteered by our colleagues across the business.

Link to remuneration

n/a

Investor indices

KPI performance

Upper quartile

across a suite of trusted indices



Our progress this year

Our approach to responsible business has ensured consistent upper quartile performance across a range of ESG ratings and indices. We are a member of the Dow Jones Sustainability World Index, improved our latest CDP score to A-, and in the Sustainalytics assessment we continue to be classified as low risk and a top ten performer in the Utilities industry group.

Link to remuneration

n/a

Highlights for 2022/23 – Our financial key performance indicators

Strong financial performance facilitates delivery of our purpose. Our financial key performance indicators (KPIs) include income statement, balance sheet, regulatory and investor return metrics to provide a snapshot of our performance for the year.

→ Read more about our **financial performance** on pages 112 to 119

Providing great water

A robust and resilient financial position, and ability to raise efficient financing, is essential to ensure our ability to fund the long-term infrastructure projects that are needed so we can continue providing great water now and in the future.

...for a stronger, greener and healthier North West

We are investing to accelerate improvements for customers and the environment in the North West, and our work supports thousands of jobs, both directly and through our supply chain. Maintaining a responsible level of gearing helps us fund this investment efficiently and effectively. Return on regulated equity (RoRE) measures how we have delivered against regulatory allowances and targets for operational and financing performance, and the dividends we pay provide a reliable income for many pension funds and charities among our shareholder base.

(1) Underlying operating profit and underlying earnings per share are alternative performance measures that exclude adjusted items from their reported equivalents. Underlying operating profit excludes any significant non-recurring items. Underlying EPS deducts underlying net finance expense, underlying share of joint venture losses, and underlying taxation from underlying operating profit to calculate underlying profit after tax, and divides this by the average number of shares in issue during the year. Underlying net finance expense makes adjustments including stripping out fair value movements. Underlying taxation strips out deferred tax (including any tax credits or debits arising from changes in the tax rate) and any exceptional tax. A description of adjusted items, the framework by which these are assessed, and reconciliations between reported and underlying measures, can be found on pages 118 and 119.

Underlying operating profit

See note 1

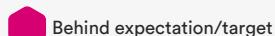
Our target

Not externally disclosed

KPI performance

£441 million

Reported operating profit: £441 million



Behind expectation/target

Our progress this year

Operating profit has fallen £169 million compared with last year, primarily driven by lower consumption reducing revenue, and the impact of inflation on our core costs, particularly power and chemicals.



Link to remuneration

Underlying operating profit is one of the measures for the annual bonus. It is indirectly linked to the Long Term Plan (LTP) as financial performance impacts relative total shareholder return

Underlying earnings per share (EPS)

See note 1

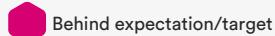
Our target

Not externally disclosed

KPI performance

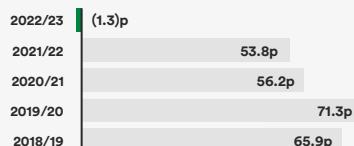
-1.3 pence

Reported EPS: 30.1 pence



Our progress this year

Underlying loss per share is primarily driven by the movement in operating profit and a higher underlying finance expense. Reported EPS is higher due to fair value gains, profit on disposal of a subsidiary, and a reduction in deferred tax due to a one-off charge in the prior year to restate at the new future headline rate.



Link to remuneration

Underlying EPS is indirectly linked to the LTP as financial performance impacts relative TSR

KPI status key

 Met expectation/target  Close to meeting expectation/target  Behind expectation/target

Gearing

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

Our target

55–65%

KPI performance

58%

 Met expectation/target

Our progress this year

Gearing has fallen slightly compared with 59 per cent last year due to the increase on our RCV, driven mostly by inflation, being proportionally higher than the increase in our net debt.

2022/23	58%
2021/22	59%
2020/21	63%
2019/20	61%
2018/19	60%

Link to remuneration

n/a

Return on regulated equity (RoRE)

Base allowed return plus or minus any out or underperformance.

Our target

Not externally disclosed

KPI performance

11.0%

 Met expectation/target

Our progress this year

We delivered our best ever RoRE performance with financing outperformance (net of tax) of 4.7 per cent, tax outperformance of 2.5 per cent, and customer ODI outperformance of 0.5 per cent, partially offset by the totex impact of -0.8 per cent.

2022/23	11.0%
2021/22	7.8%
2020/21	4.5%
2019/20	5.8%
2018/19	7.9%

Link to remuneration

RoRE is a performance measure in the LTP, and is indirectly linked to the bonus as it is influenced by two bonusable measures: C-MeX and ODIs

Dividend per share (EPS)

Total dividends declared divided by the average number of shares in issue during the year.

Our target

Annual growth in line with CPIH inflation to 2025

KPI performance

45.51 pence

 Met expectation/target

Our progress this year

Board has proposed a final dividend of 30.34 pence which takes the total dividend to 45.51 pence per share for 2022/23. This is an increase of 4.6 per cent, in line with our policy of targeting an annual growth rate of CPIH inflation through to 2025.

2022/23	45.51p
2021/22	43.50p
2020/21	43.24p
2019/20	42.60p
2018/19	41.28p

Link to remuneration

Delivery of our dividend policy is an underpin that applies to the Long Term Plan outcomes

Total shareholder return (TSR)

Based on the movement in share price plus dividends over each financial year.

Our target

We assess our performance each year against listed peers in the utility sector and against the FTSE 100

KPI performance

-1.5%

 Close to meeting expectation/target

Our progress this year

TSR was a slight negative in the year to 31 March 2023, which was behind the FTSE 100 return of 5.4 per cent and some other utility peers, but ahead of our listed water company peers.

2022/23	(1.5)%
2021/22	27%
2020/21	7%
2019/20	17%
2018/19	20%

Link to remuneration

Relative TSR is a measure applying to LTP awards vesting this year but is assessed over a three-year period

Chief Executive Officer's review



Louise Beardmore
Chief Executive Officer

We have delivered our best ever performance for customers, having met or exceeded more of our performance commitments this year than ever before. We were once again the top performing listed company for customer satisfaction as assessed by Ofwat's C-MeX measure. We have provided affordability support to more than 330,000 households so far in this regulatory period to support customers who are understandably struggling with cost of living pressures.

We are acutely aware that this is a critical time for the water sector, with many challenges facing us, especially around river health. We have delivered significant environmental improvements in recent years in areas such as improving beaches, reducing pollution and reducing leakage, but we should all have acted sooner to recognise and address the impact of storm overflows.

In the North West, we have delivered a 39 per cent reduction in reported activations from storm overflows compared to the 2020 baseline, but there is a lot more to do and we have ambitious plans to go further and faster to drive a real step change. This won't happen overnight; it will take sustained effort and investment over time, but we are committed to acting as fast as we can. With the support of our regulators we are accelerating investment, making a start on improvements at one third of the overflows we are targeting in AMP8. As a result we will be investing a further £200 million in the next two years.

In October we will be putting forward our business plan with the biggest environmental improvement programme we will have ever proposed. Along with all my colleagues, we are looking forward to the opportunity to build a stronger, greener and healthier North West.

Strengthening our industry-leading affordability support for customers

We are passionate about protecting customers in vulnerable circumstances through our comprehensive suite of support schemes and an industry-leading £280 million⁽¹⁾ package of affordability support. The cost of living crisis has made things even more challenging for deprived communities in our region. With a growing number of customers asking for help with their water bill, we have been working hard to increase awareness of available support, the option of flexible payment plans, and to provide water efficiency advice.

We are determined to play a role in making the North West stronger. This is the fourth year we have taken a leading role across our region, bringing together all stakeholders and communities to focus on affordability and vulnerability issues.

Delivering improvements in performance for customers and the environment

Our operational performance has been strong this year – we have met or exceeded 83 per cent of our performance commitments, earning a net customer ODI reward of approximately £25 million. This reflects strong delivery for customers and the environment in the North West.

Our investment in improving water quality – principally to avoid discolouration – has supported a 26 per cent improvement in water quality contacts this year. This is contributing towards our ODI performance, alongside other water measures such as water service resilience and supporting the removal of lead pipes from customers' properties.

Reducing leakage is of huge importance for our stakeholders and for us as an organisation. This year we have delivered our best performance to date against our performance commitment, resulting in an ODI reward. While we are making great progress, we recognise we continue to have a high absolute level of leakage. We are challenging ourselves to go further in reducing leakage – from our network and in customer properties – as it is critical to helping us better manage and conserve water resources. Alongside this we have delivered our largest ever reduction in Per Capita Consumption (PCC), supported by help and advice to encourage customers to use less water and amplify the link between heating water and energy bills.

Our basket of measures for avoiding flooding is also delivering a net ODI reward, and we continue to make great progress in reducing flooding incidents. We have nearly halved the number of internal sewer flooding incidents since the start of AMP7. This year's performance includes a 39 per cent reduction in repeat internal flooding incidents.⁽²⁾ This has been supported by our investment in Dynamic Network Management (DNM).

In the winter, we experienced a rapid and severe freeze-thaw event that resulted in burst pipes across the region. Our teams and partners worked exceptionally hard to minimise the disruption and we deployed significant resources to sustain services. However, some customers experienced short-term interruptions to their water supply, leading to an ODI penalty against this performance commitment and additional costs.

The great service we have delivered for customers has been reflected in further improvement in our performance against Ofwat's measure of customer satisfaction, C-MeX. We were the top listed company, ranked fourth of the water and wastewater companies and fifth out of 17 companies overall. As a result of this performance we expect to achieve a record £3 million reward. Customer service is hugely important to us, and we are proud to be the first company ever to receive 100,000 commendations from customers through the WOW! Awards scheme, where customers provide independent, proactive feedback on the service we provide.

We look after important urban and rural landscapes and we continue to stretch ourselves to improve environmental performance, to create a greener North West. Our environmental performance this year has remained strong. We have also delivered all of our Water Industry National Environment Programme (WINEP) schemes by their planned delivery date since the beginning of AMP7, including 137 schemes in this year alone.

We have also achieved the top, 4 star rating in the Environmental Performance Assessment from the Environment Agency (EA) in five of the last seven years. This includes being assessed as an 'industry-leading' company in the most recent assessment for 2021. This was a significant achievement given that the criteria used to assess company performance becomes more challenging each year. We have consistently improved our performance when it comes to minimising pollution, having reduced the number of pollution incidents by over 50 per cent in the last decade and achieving zero serious pollution incidents in three of the last four years.

Driving a step change in river health

Communities are concerned about the country's rivers and particularly the impact of storm overflows. We have listened, understand the strength of feeling and we agree that we need to go further and faster to reduce the number of storm overflow activations.

Overflows have been a core feature of the sewer network in the UK and around the world for more than a century. We recognise that the time has come to change this and a step change is needed. Achieving this will take significant time and sustained, new investment. The North West has more rainfall and more combined sewers than elsewhere in the country, as well as a very large network. We are committed to delivering the changes needed as quickly and effectively as possible.

Last year, we announced our 'Better Rivers: Better North West' programme, supported by additional reinvestment of outperformance, to take action to improve river health across our region. We have made good progress so far and have delivered a 39 per cent reduction in reported activations compared to the 2020 baseline. This will get progressively tougher as we focus on more challenging overflows. Key to delivering this is our improvement in monitoring and operation of storm overflows. We currently monitor 97 per cent of overflows and will achieve full coverage before the end of this calendar year.

We have also won regulatory support to make an early start on our AMP8 investment. This means we expect to spend £200 million over the final two years of AMP7, making an early start on improving a third of the overflows targeted for improvement between now and 2030.

Creating a greener future

We continue to work towards our 2050 net zero ambition, underpinned by ambitious science-based targets. We are making good progress against our six carbon pledges, and have reduced our scope 1 and 2 greenhouse gas (GHG) emissions by a further 1.5 per cent this year. Our peatland restoration and woodland creation programmes help to protect water and other natural resources, support nature, and enable recreational access, as well as acting as natural carbon 'sinks' to help mitigate climate change.

We own and manage 56,000 hectares of land, which provides scope for the development of renewable and other clean technologies. Having previously delivered a portfolio of renewable assets across the North West, we are now moving to the next stage of the journey to net zero.

As an initial step, we are working on plans to develop 150 megawatts of new installed capacity by 2030. This programme could comprise a combination of solar, wind and batteries, helping to deliver emissions reductions and further improve both operating and financial resilience.

 Read more about our **performance and affordability support for customers** on pages 96 to 103

 Read more about our **environmental performance** on pages 84 to 95

 Read more about our **carbon pledges** on page 92

39%

reduction in reported activations of storm overflows since 2020 baseline

83%

performance commitments met or exceeded for the year

£25m

customer outcome delivery incentive (ODI) reward

Chief Executive Officer's review



Read more about our **financial performance** on pages 112 to 119



Read more about how we are driving **female leadership** on page 102

Financial performance

The group reported an underlying loss after tax of £9 million for the year, moving from underlying earnings per share of 53.8 pence last year to an underlying loss per share of (1.3) pence. The principal drivers of this movement were lower consumption leading to under-recovery of revenue,⁽³⁾ inflationary increases in our core cost base, particularly energy and chemicals, operational incidents due to extreme weather, and a higher underlying net finance expense.

Reported profit after tax was £205 million, with reported basic earnings per share increased from (8.3) pence last year to 30.0 pence. The difference mainly reflects fair value gains on debt and derivative instruments, profit on disposal of our subsidiary United Utilities Renewable Energy Limited, and a reduction in deferred tax charge largely due to a one-off charge in the prior year to restate the brought forward deferred tax liability at the new 25 per cent future headline rate.

The rising cost of living increases the strain on customer bills and therefore cash collection. However, we have 81 per cent of household customers on direct debit and payment plans and, with the help of proactive engagement, innovative solutions and tailored assistance, we have achieved our best ever performance for cash collection. This has contributed to bad debt remaining at an all-time low of 1.8 per cent of household revenue.

We have delivered another year of good performance and, despite the income statement reflecting an underlying loss after tax, strong performance against our regulatory contract has delivered positive returns.

Return on regulated equity (RoRE) for 2022/23 was 11.0 per cent on a real, RPI/CPIH blended basis. This comprises the base return of 4.0 per cent (including our 11 basis point fast track reward), financing outperformance of 4.7 per cent, tax outperformance of 2.5 per cent, and customer ODI outperformance of 0.5 per cent, partially offset by the total expenditure (totex) impact on RoRE of minus 0.8 per cent as a result of our additional investment to improve operational and environmental performance.

Our customer ODI performance has been strong across the board and the 0.5 per cent RoRE outperformance for ODIs reflects a net reward of approximately £25 million this year – our highest annual reward to date.

Our balance sheet remains robust, our liquidity extends out to August 2025, and our gearing of 58 per cent remains comfortably within our target range of 55 to 65 per cent, supporting a solid A3 credit rating with Moody's.

⁽³⁾ £41 million under-recovery against regulatory allowed revenue will be recovered in 2024/25 under the revenue control.

Supported by a talented, diverse and engaged workforce

Our colleagues are at the heart of our current and future success, and we are committed to providing a safe and great place to work. Colleague engagement has been strong this year, and at 82 per cent we scored higher than UK norm and Utilities norm benchmarks. We have recruited record levels of graduates and apprentices onto our award-winning programmes this year, and are proud that one of our own colleagues has been awarded the UK's apprentice of the year. We have also launched our new green apprenticeship scheme to recruit 100 apprentices by 2025, who will actively contribute to our environmental delivery.

The safety of our colleagues has been, and always will be, a top priority for us, and we are pleased to have delivered sustained year-on-year improvements in colleague accident frequency rates for the last five years. In recognition of our commitment to health and safety, we have been awarded the Royal Society for the Prevention of Accidents (RoSPA) gold standard medal for the 11th consecutive year.

We are ranked in the top 100 companies in the Financial Times Inclusive Leaders Index 2023, having improved on our position from last year, and are the only UK utility company in the top 100. We are recognised as one of the top 15 FTSE companies when it comes to women in leadership, having exceeded the 40 per cent target for Women on Board and Women Leaders set by the FTSE 100 Women Leaders Review.

Building an ambitious future plan

Enhanced environmental standards, population growth and climate change are driving significant new investment needs. Our plan for the next regulatory period will be submitted in October with a substantial programme of work targeting a wide range of customer service and environmental benefits.

Reducing the use of storm overflows is a key component of our plan, which proposes improvements to over 400 sites by the end of AMP8. We expect this would represent a reduction of over 70,000 activations per annum, around a 60 per cent reduction against the 2020 baseline. Our plan also includes investment to reduce phosphorous and address nutrient imbalance, delivery targets set by the Environment Act 2021, further improving river health in the North West.

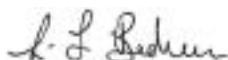
Our proposed programme of work is substantially larger than we have ever delivered before, and we are already working hard to prepare and mobilise to deliver this ambitious plan. We have appointed five new area stakeholder managers, one for each county in our region, who are working on early engagement with communities and planning approval. We have also brought in additional experience and knowledge to assist colleagues in our engineering, capital delivery and commercial teams. Our supply chain will be critical, and we have appointed an AMP8 mobilisation and organisational readiness partner to ensure that we have the skills and capabilities to successfully deliver AMP8.

Our engagement with customers shows their support for investment in environmental improvements, but the recent rises in cost of living are clearly putting pressure on household budgets and a plan of this size will inevitably drive an increase in customer bills. We are challenging ourselves to embed the highest levels of efficiency into the plan and identify the best value solutions. We also recognise the need to support customers with affordability challenges and we are planning to strengthen our industry-leading affordability support package as we head into AMP8.

We are confident that our strong and resilient corporate and financial structure, together with a highly competent and engaged team, means that we are well positioned to continue to deliver for all our stakeholders in AMP8 and beyond.

Thanks to our stakeholders for their continued support

The commitment and passion of each and every colleague within United Utilities to deliver fantastic services for customers, for the environment, and for each other is clear, and for that we say a huge thank you. Looking to the opportunities that are ahead of us in the next regulatory period and beyond, we could not have a better team to deliver on these opportunities. We also extend our thanks to customers and other stakeholders for their continued support.



Louise Beardmore

Chief Executive Officer

24 May 2023



Integrated Report and TCFD disclosure

This annual report is an Integrated Report and has been prepared and presented in accordance with the International <IR> Framework published by the International Integrated Reporting Council in January 2021. The board, which is responsible for the integrity of this report, has considered the preparation and presentation of this report and concluded that it has been prepared and presented in accordance with the Framework. This report contains all climate-related financial disclosures required to be consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and in line with the Listing Rules requirements (Listing Rule 9.8.6R(8)). Further supplementary detail, such as our 2021 adaptation progress report, WRMP and supporting technical documents, are available on our website.

Materiality

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

We engage with – and recognise that this report will be read by – a wide variety of other stakeholders including customers, suppliers, colleagues, analysts, regulators, community bodies, politicians, non-governmental organisations, and devolved authorities. Where we believe that a topic is material to a large number of them, which is assessed in part through a matrix approach to stakeholder materiality as set out on pages 28 and 29, we either include it in this report or refer the reader to other reports and information (such as our regulatory reports, customer communications, or company web pages).

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

Our materiality assessment identifies the issues that matter most to our stakeholders and could impact our ability to create value, and this feeds into our assessment of risks and opportunities. It is through our risk management processes that we monitor and assess the specific risks that we face, their likelihood and impact, and ensure we have adequate controls and procedures in place to mitigate risks and act on opportunities.

How we provide great water for a stronger, greener and healthier North West

1. Collect and treat

Providing great water:

We collect raw water from open reservoirs, lakes, rivers and boreholes. We then treat it in one of our 86 water treatment works to ensure it is safe and clean for customers to drink.

For a stronger, greener and healthier North West:

We own and manage 56,000 hectares of land. We are optimising the use of this land to protect water quality, create natural carbon sinks by restoring peatland and planting woodland, and explore potential clean

energy development. We manage our land and water resources in a sustainable way, protecting and enhancing local habitats, and open our land to the public to enjoy nature and its health and wellbeing benefits.

Reservoirs are the biggest source of water in the North West, and we have more than any other UK water company. They are quick to fill when it rains, but are more vulnerable to periods of dry weather than ground water sources. They provide great tasting water, but have high maintenance needs and the raw water requires more treatment than some other water sources.

Relevant material issues

- Water resources and leakage
- Drinking water quality
- Climate change
- Land management, access and recreation

Relevant principal risks

- Water service
- Supply chain and programme delivery
- Resource

Retail



Providing great water:

United Utilities Water Ltd provides metering, billing and customer services for household customers in the North West. Business customers choose a water retailer, and our joint venture, Water Plus, operates in the competitive non-household retail market.

For a stronger, greener and healthier North West:

Our region has the most areas of extreme deprivation in the country. We have an extensive range of affordability and vulnerability schemes, and are helping more than 330,000 customers with £280 million⁽¹⁾ of support in AMP7.

⁽¹⁾ 50 per cent company funded

Relevant material issues

- Customer service and operational performance
- Affordability and vulnerability

Relevant principal risks

- Retail and commercial
- Security
- Resource

4. Return

Providing great water:

Once the water is clean enough to meet stringent environmental consents, we return it through rivers and streams so that the water cycle can begin again.

For a stronger, greener and healthier North West:

We have a long coastline and 25 designated coastal bathing waters across the North West. We are meeting 24 of 25 standards for these bathing waters and we are industry leading in minimising pollution, with zero serious pollution incidents in three of the last four years.

We are going above and beyond our regulatory commitments to improve river health, with the commitments in our Better Rivers: Better North West programme and additional investment in the 2020–25 period to deliver improvements faster. We are recruiting a team of river rangers to help us look after the local rivers and streams in our communities, and exploring other new ways of working such as how we can work with farmers to reduce the impact of runoff, and the use of nature-based solutions and partnerships with groups such as The Rivers Trust, to ensure we are pursuing the best ways to improve the natural environment and river and bathing water quality across the region.

Relevant material issues

- Political and regulatory environment
- Natural capital and biodiversity

Relevant principal risks

- Health, safety and environmental
- Conduct and compliance

Our strategic priorities

 Improve our rivers

 Create a greener future

 Provide a safe and great place to work

 Deliver great service for all our customers

 Spend customers' money wisely

 Contribute to our communities

2. Store and deliver

Providing great water:

The treated water goes to one of our covered storage reservoirs, ready to be delivered to customers' taps when they need it. We deliver an average of 1.8 billion litres of water every day to 7.4 million people and businesses, using 43,000 kilometres of water pipes.

For a stronger, greener and healthier North West:

Our integrated supply network enables us to move water around the region as needed. Along with production planning and optimisation



of storage levels ahead of anticipated demand increases, and a fleet of alternative supply vehicles, this helps us to deliver a more resilient water supply. We use sensors and artificial intelligence, and have dedicated teams to detect and fix leaks across our pipes as well as helping customers identify leaks on their property, which can save them money on their bills as well as reducing water losses. Our Haweswater Aqueduct uses gravity to transfer water from Cumbria to Manchester, helping to reduce our carbon footprint from energy-intensive pumping.

Relevant material issues

- Water resources and leakage
- Customer service and operational performance
- Drinking water quality

Relevant principal risks

- Water service
- Supply chain and programme delivery



Generate

Providing great water:

We minimise waste from our operations, including by turning sludge byproduct into compost for farmers and capturing gas to generate renewable energy from bioresources.

For a stronger, greener and healthier North West:

Self-generation helps us to reduce our carbon footprint and save energy costs, and the remaining electricity needs that we purchase are 100 per cent renewable.

We are closely following the developments in the interpretation of Farming Rules for Water, and the impact this could have on our provision of compost for farmers throughout the year.

Relevant material issues

- Energy management
- Environmental impacts

Relevant principal risks

- Health, safety and environmental
- Supply chain and programme delivery
- Resource

3. Remove and clean

Providing great water:

We operate 79,000 kilometres of wastewater pipes to transport wastewater from sewers to one of our 584 wastewater treatment works, where it requires separation and treatment before it is returned to the natural environment.

Combined sewers take a mix of wastewater and rainwater to be cleaned. In excessive rainfall, when sewer capacity is overloaded, storm overflows are activated, using a separate pipe to allow this heavily diluted mix to flow directly into rivers or the sea to help prevent flooding of streets, homes and businesses. Read more on page 22.

For a stronger, greener and healthier North West:

Urban rainfall in our region is 40 per cent higher than the average for the rest of England and Wales, and 54 per cent of our sewers take combined waste and rainwater, compared to an average of 33 per cent. This means more water runs into our sewers than other parts of the country, creating a much bigger challenge for reducing the use of storm overflows in the North West. We are already investing substantial amounts in AMP7, supporting our target of at least a one-third sustainable reduction in the number of overflow activations, improving 184 kilometres of rivers. Our ambitious plans for AMP8 target even more significant improvements.

Relevant material issues

- Recycling biosolids to land
- Customer service and operational performance
- Storm overflows
- Climate change

Relevant principal risks

- Wastewater service
- Political and regulatory

- Health, safety and environmental

- Supply chain and programme delivery

Our business model

How our approach generates value for a broad range of stakeholders

Our environment and the resources we rely upon



Our external environment

What we do and how we do it is influenced by a number of factors external to our business, all of which must be considered and managed. We monitor developments and trends in our external environment and adapt our plans as needed to respond.

Political environment

This includes regional and national politicians as well as policymakers. We must understand the key policy issues affecting our industry.

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.

Economic environment

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

Regulatory environment

Regulators set minimum standards for customer service, drinking water and environmental performance, and market reform can drive change in the long term.

Technology and innovation

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

Stakeholders

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



Key resources

We are reliant on each of the six capitals to deliver our purpose, and we strive to have a positive impact on those capitals through our activities in order to support our ongoing relationship with them for mutual benefit in the long term.

Natural capital

We rely on natural resources to supply water and take back wastewater after treatment, as well as to generate renewable energy.

Manufactured capital

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

Intellectual capital

Innovation helps us continually improve, and understanding performance trends in our network helps us spot potential issues early and fix them proactively.

Human capital

We rely on skilled and engaged colleagues and suppliers to deliver our services, and skills must be maintained through training and development.

Social capital

The constructive relationships we have built with regulators, suppliers, and other stakeholders are fundamental to our ability to deliver our purpose.

Financial capital

Efficient financing allows us to preserve intergenerational equity for customers while funding necessary long-term capital investment projects.

Our approach to generating value



Strategy

Our six strategic priorities help us deliver our purpose and drive sustainable long-term improvements for customers, the environment and society, at an efficient cost. We use adaptive planning across short, medium and long-term horizons to ensure flexibility and resilience.

Key differentiators

- Our rigorous planning over multiple horizons
- Our multi-stakeholder approach to value creation



Governance

We are committed to responsible business, factoring ESG matters and stakeholder priorities into decision-making at all levels of the business, and executive remuneration is linked to performance against customer, environmental and financial targets.

Key differentiators

- Our integrated thinking
- Our diverse and inclusive culture
- Our holistic remuneration approach



Risks and opportunities

We have a robust framework for identifying, assessing and managing risks and opportunities, with regular monitoring as well as longer-term plans to enhance our resilience to climate change. Our pioneering Systems Thinking approach and culture of innovation help us to maximise opportunities to work better, safer, and more efficiently.

Key differentiators

- Our pioneering Systems Thinking approach
- Our culture of innovation



Metrics and targets

We monitor and measure our performance against a range of operational metrics for each of the stakeholders we create value for, as well as financial metrics covering the income statement, balance sheet, and investor returns.

Key differentiators

- Our multi-stakeholder value creation approach
- Our strong credit ratings and low dependency pension schemes with no pension deficit

Building a stronger, greener and healthier North West

We deliver our water and wastewater services responsibly and sustainably, which supports long-term value creation for all our stakeholders.





Our external environment

Storm overflows

Storm overflows, which includes combined sewer overflows (CSOs) and storm tank discharges, have been an important part of the sewerage network for over 150 years, acting as the catch-all last defence for managing surface water in our communities. This needs to change.

In normal conditions sewage, mixed with rainwater in wet weather, transits through our wastewater treatment works, and only treated water is returned to the natural environment. If the flow is too much for the works to deal with, it is usually stored in tanks until the incoming flows have returned to normal levels. Then the tanks are emptied and the water is treated.

Our sewers are typically no more than 15 per cent full in dry conditions but, when rainfall is very heavy and the tanks fill to capacity, overflows act as a pressure relief valve allowing rainwater, mixed with sewage, to rise inside the sewer and eventually enter a separate pipe which flows into a river or the sea. Sewers operate this way to help prevent the flooding of streets, homes and businesses.

The North West has:

- A significantly higher proportion of combined sewers, receiving a mix of rainwater and sewage, than any other water company;
- 28 per cent higher annual rainfall than the average for England and Wales, so considerably more rainwater entering our sewers; and
- 25 per cent more overflows than the industry average.

When overflows are activated they can sometimes temporarily affect river and bathing water quality. With more extreme rainfall events and significant population growth expected over the next 25 years, more foul and rainwater will be entering our sewers, and the need for overflows would increase if left unaddressed.

We understand and share concerns around this and we are committed to driving a step-change. This will not happen overnight. It is a long-term plan that will need a fundamental re-plumb of the region's sewer system, moving us away from the use of combined storm pipes and creating new ways of dealing with excess wastewater at times of heavy rainfall.

We have made a fast start to a very ambitious plan that is already delivering improvement, and we are keen to go further faster, as discussed on page 15.

54%

combined sewers in the North West compared to 33% industry average, with some urban centres even higher, for example Liverpool has 84%



Storm overflow report 2022

We released a report in 2022 discussing the issue of storm overflows and our plans to reduce their use.



Visit our online report at unitedutilities.com/globalassets/documents/pdf/united-utilities-storm-overflow.pdf



Better Rivers report 2023

We released a report in 2023 detailing progress against the commitments in our Better Rivers: Better North West plan.



Visit our online report at unitedutilities.com/globalassets/documents/corporate-documents/united-utilities-better-rivers-report-2023.pdf



Video from our CEO

Louise Beardmore talks about the issue with storm overflows and how we plan to tackle it.



Watch the video at unitedutilities.com/corporate/responsibility/environment/reducing-pollution/storm-overflows

Political environment

Political decisions have the potential to impact on our operations. We engage with politicians and other policymakers to understand developments, influence where possible, and stay flexible to adapt as needed.

Key trends

Reducing the use of storm overflows

Recognising the need to act on storm overflows, the Government set out a discharge reduction plan in the Environment Act 2021. We are already investing significant amounts in AMP7 to improve the quality of rivers and seas in the North West, including £230 million leading to improvements to 184 kilometres of watercourses and supporting a sustainable one-third reduction in activations of overflows. Transparency is key and we have committed to achieve 100 per cent monitoring of storm overflows before the end of 2023, with 97 per cent already monitored.

We have ambitious plans for reducing activations of storm overflows in AMP8 as part an environmental improvement programme that is significantly larger than any we have ever delivered, and we have provisional approval from regulators to accelerate around £200 million of investment into the next two years, the majority of which relates to this.

Phosphorus reduction and nutrient neutrality

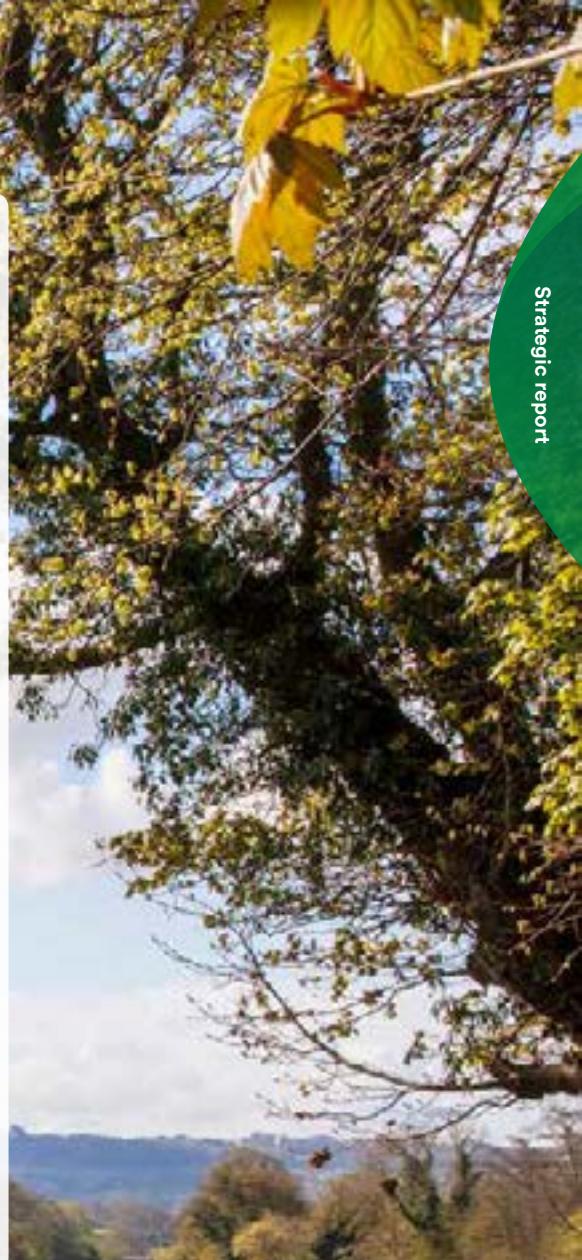
As well as addressing the use of overflows, the Environment Act also sets obligations to reduce phosphorus and address nutrient imbalance, which are reflected in our AMP8 investment plans.

National social tariff

Additional cost of living pressures on households across the country is putting the focus on government and companies to do more to help those struggling to pay. We are a strong supporter of the Consumer Council for Water's drive to launch a national social tariff so water customers across the country are not reliant on the current postcode lottery.

Devolved regional plans

We have a part to play in the plans of devolved regions and mayors for growth and green energy development in the North West, including our diversions activity to support HS2.



Link to principal risks

- Wastewater service
- Health, safety and environmental
- Political and regulatory

➔ Read more on pages 64 to 65

Link to material issues

- Trust, transparency and legitimacy
- Political and regulatory environment
- Storm overflows

➔ Read more on pages 28 to 29



Our external environment

Natural environment



28%

more rainfall in the North West than average across England and Wales

34%

of our region is National Park, Area of Outstanding Natural Beauty or a Site of Special Scientific Interest

Link to principal risks

- Water service
- Wastewater service
- Health, safety and environmental

→ Read more on pages 64 to 65

Link to material issues

- Climate change
- Water resources and leakage
- Natural capital and biodiversity

→ Read more on pages 28 to 29

The natural environment is constantly changing. We must adapt and prepare for these challenges, minimising our impact to help mitigate climate change and support a healthy water cycle.

Key trends

Climate change

We are already seeing prolonged dry periods and hotter summers, wetter winters and more extreme rainfall events, and the challenges created by freezing temperatures followed by rapid thawing. This increases the level of risk for water sufficiency, flooding and pipe damage. The dry weather and high temperatures last summer put much of the country's water supplies under stress, and in December we experienced a severe freeze-thaw event that put services under pressure. With these trends set to continue, we must plan well into the future and continually adapt to strengthen our operational resilience. We have detailed long-term plans for managing water resources, drainage and wastewater management, and are updating our drought plan. We have an adaptation report setting out how we will adapt to meet the challenges of climate change and are developing our plans to transition to a low-carbon economy.

Population growth

We will need to extend our services and ensure we have sufficient resources to meet the increased demand of an anticipated one-million increase in population by 2050.

Natural capital and biodiversity

Much of the landscape in the North West is legally protected for its environmental or cultural significance. The functioning of these natural environments is important to support communities and the regional economy, but they face pressure from climate change and population growth. We have a role to play in restoring healthy and resilient ecosystems, and need to work collaboratively with like-minded organisations to deliver nature-based solutions that offer many benefits including carbon sequestration, cleaner water, and improved biodiversity.

£280m

**support provided to
vulnerable customers
over 2020–25
(50% company funded)**

Economic and financial market conditions affect our business in various ways. Our costs are impacted by trends in inflation and interest rates, and the economic environment can impact customers' ability to pay their bills.

Key trends

Inflation and interest rate increases

Inflation has been rising sharply, reaching highs not seen for over 40 years. While the peak is believed by many to have passed, rates are still very high, and this has driven government decisions to raise interest rates as well. The impacts of these market trends on our business are complex, with significant cost increases partly offset by increased allowances under the regulatory mechanism. Our activities are energy and chemical-intensive, so we are particularly impacted by the sharp rises we have seen in these costs, and 55 per cent of our debt is in index-linked form and therefore impacted by inflation. We have increased wages with consideration to inflation, and our AMP7 dividend policy is growth in line with CPIH inflation to 2025. It is worth noting, however, that our regulatory capital value rises with inflation, we have £3 billion of fixed-rate debt that increases in benefit as interest rates rise and, unlike many, our low dependency pension schemes are protected from market rate movements.

Cost of living crisis

Inflationary cost increases have a big impact on customers, and the country is experiencing a cost of living crisis with many households really struggling. It is typically the most deprived communities that are hit the hardest, and we have more in the North West than any other region, which makes the industry-leading affordability support we provide to customers even more critical.

Economic environment



Link to principal risks

- Retail and commercial
- Supply chain and programme delivery
- Finance

➔ Read more on pages 64 to 65

Link to material issues

- Affordability and vulnerability
- Financial risk management
- North West regional economy

➔ Read more on pages 28 to 29



Our external environment

Technology and innovation



New technologies and innovative ideas present opportunities for us to adapt the way we work to make things better, faster, safer and cheaper, but technology can also create risks such as the threat of cyber attacks.

Key trends

Artificial intelligence bolstering our Systems Thinking approach

The use of AI and machine learning has potential to improve infrastructure performance and management. Our Systems Thinking approach involves remote monitoring and control, taking a 'whole system' view of our network and assets, and proactive and preventative optimisation to spot and resolve issues before they impact customers. At the higher maturity levels we use AI to optimise the way we operate.

Cyber security

Protecting infrastructure assets, customer information and commercial data from malicious activity is now a reality of the modern world. The global political situation in recent years with rising tensions between Russia and the West has added to the evolving threats. It is critical that we maintain a stringent approach to cyber security that evolves with new technological advances.

Customer expectations

In an increasingly digital world, customers expect more from services than ever before. Technology has changed the way customers can get in touch with companies to access their bills, update their information and receive updates on services and support. As customer expectations change, we need to evolve our own services to ensure we meet those expectations.

Sensors

across our network provide real-time data, helping us detect and proactively fix leaks and blockages

Link to principal risks

- Security
- Retail and commercial
- Conduct and compliance

➡ Read more on pages 64 to 65

Link to material issues

- Customer service and operational performance
- Cyber security
- Data security

➡ Read more on pages 28 to 29

5-year

regulatory cycles,
known as AMPs

>£50bn

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

Sustainable business means continually planning and preparing for future service improvements and potential market reforms, as well as meeting current regulatory commitments.

Key trends

Current performance and preparations for AMP8

We are subject to regulation of price and performance by various bodies, as set out in the diagram, that protect the interests of customers and the environment and perform comparative assessments of companies' performance. We must balance incentives and requirements that can sometimes act in tension, such as the desire for rapid environmental improvements and the upward pressure this can place on customers' bills. We maintain constructive dialogue to agree commitments for improvement.

The water industry national environment programme (WINEP) sets out the actions needed to meet environmental obligations, the DWI can put in place programmes of work to improve drinking water quality, and companies must prepare and maintain long-term plans for managing water resources (WRMP) and drainage and wastewater (DWMP). Ofwat sets each company's final determination (FD) detailing revenue, required service levels, and the incentive package for five-year asset management plans (AMPs). Performance against the FD is reported in an annual performance report (APR). 2022/23 was the third year in AMP7, and in October we will submit our plan for the 2025–30 period (AMP8).

Future market reform

There is a constant need to engage and monitor developments across all stages of the regulatory cycle, feeding into consultations on potential future market reforms for our industry.



* Partnership made up of Ofwat, the Environment Agency and DWI.

Link to principal risks

- Conduct and compliance
- Political and regulatory

→ Read more on pages 64 to 65

Link to material issues

- Trust, transparency and legitimacy
- Political and regulatory environment
- Competitive markets

→ Read more on pages 28 to 29



Our external environment

Stakeholders

As set out on page 01, there are many stakeholders who take an interest in the water industry, its role in society, and the North West region. Our decision-making considers the need to balance the often conflicting priorities of these stakeholders.

It is important that we understand what matters to our stakeholders and develop constructive relationships built on mutual trust. The nature of our work means we are at the heart of communities across the North West region. We interact with a large variety of stakeholders, from communities and environmental interest bodies to suppliers and regulators.

Stakeholder views and priorities are factored into our decision-making

We engage with stakeholders to understand their views and priorities.

Read more about how we engage with stakeholders on pages 56 to 57.

These views are factored into strategic decision-making at board level, as set out in our S172(1) Statement on pages 58 to 59. They also feed into our materiality assessment, which gives rise to the material issues matrix on page 29, and this in turn feeds into our assessment of risks and opportunities, as set out on pages 60 to 75.

Stakeholder materiality assessment

We consider stakeholder priorities alongside our own assessment of what has the biggest impact on the company and its ability to create value. We then present the output in a material issues matrix, which can be found on the next page.

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

In defining the strategic relevance of an issue to the company, we have adopted the integrated reporting <IR> 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 and/or colleagues) and/or created externally (for customers, the environment, communities, investors, and suppliers). Value may be financial or non-financial. We view this approach as consistent with the emerging concept of double materiality.

2022/23 assessment of material issues

Last year we carried out a thorough review of our material issues and matrix design. Striking the right balance between different interests and views is not easy but our assessment process consolidated feedback based on a balance of views obtained from all our stakeholders.

This year we have completed a light touch review of our material issues, approved by senior management. Storm overflows has increased in significance while COVID-19 has decreased in significance as the country recovers from the pandemic. These moves are reflected in this year's matrix.

Based on current best practice of reviewing material issues every two years, we will undertake a full materiality assessment in the coming year.

The assessment process identified 28 material issues. More information about the most material issues can be found on the following pages. We describe the issue, provide our response to managing the issue, explain how the issue links to our strategic priorities and how it is included in our plans for the future.

→ Read more about [how SDGs link to our material issues](#) on pages 78 to 79

→ Read more about [how six capitals link to our material issues](#) on pages 34 to 37

Our materiality assessment process

1 Define →

We reviewed current best practice in materiality reporting. The assessment criteria for stakeholder interest and our ability to create value was confirmed. Building on our existing matrix we brought in more stakeholder views and evolved the matrix design. We committed to provide more detailed commentary on the most material issues.

2 Engage →

Views were obtained from across all our stakeholder groups. Insight from consultations and data was made available through the engagement processes described on pages 56 to 57. Key internal subject matter experts and stakeholder relationship managers provided further insight on issues.

3 Assess →

Comments and data were drawn together to form an initial view of the issues. The rationale for issue selection and its significance was presented to senior management for discussion. This included potential new issues, removal of issues and movement of existing issues.

4 Align →

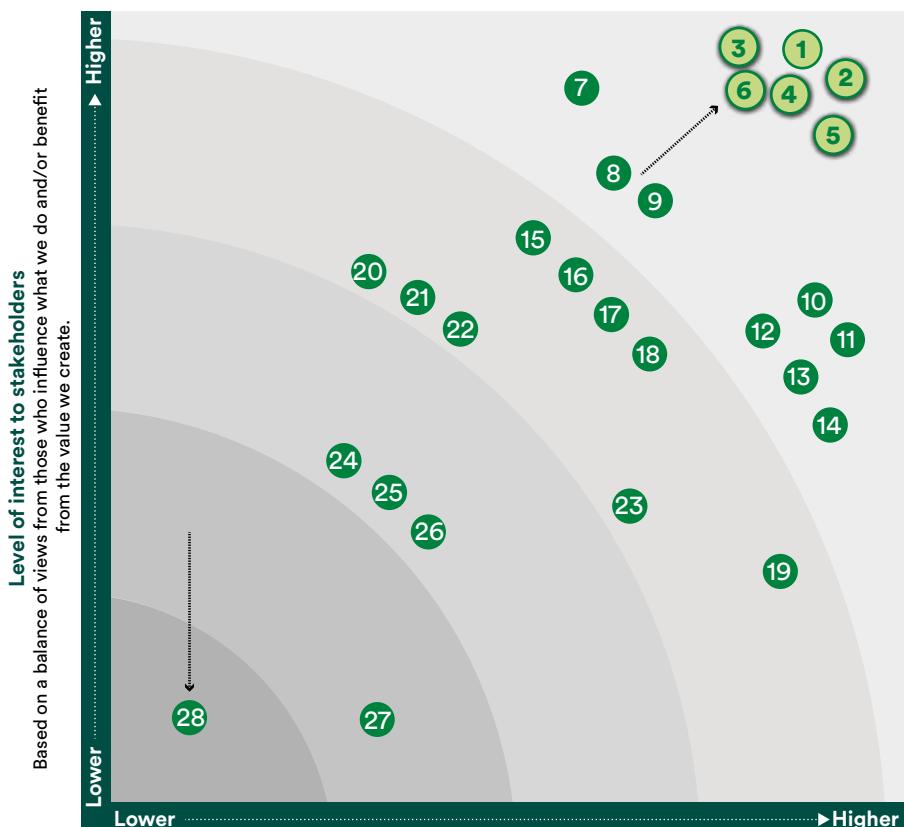
We cross-referenced and aligned identified issues with our principal risks and uncertainties, as set out on pages 64 to 65. Matrix visuals were then created to easily communicate the prioritisation of issues. For the first time an indication of how issues have moved since the previous review has been included.

Materiality matrix

Issues are plotted on the matrix from lower to higher in terms of level of interest to stakeholders and how much it can affect our ability to create value. The most material issues are highlighted in light green.

Independent review

Our 2021/22 approach was reviewed by responsible business consultancy Corporate Citizenship, which commented that "United Utilities has set out the orderly, balanced and comprehensive process by which it has arrived at its refreshed materiality assessment. The detailed coverage of the six most material issues fosters public understanding. It sets out the links to strategic priorities, risks and future actions. It shows how United Utilities recognises the most important issues and acts upon them."



Key:

↗ Movement based on significance

Material Issue

- 1 Trust, transparency and legitimacy
- 2 Resilience
- 3 Customer service and operational performance
- 4 Climate change
- 5 Political and regulatory environment
- 6 Storm overflows
- 7 Affordability and vulnerability
- 8 Drinking water quality
- 9 Water resources and leakage
- 10 Financial risk management
- 11 Corporate governance and business conduct
- 12 Natural capital and biodiversity
- 13 Innovation
- 14 Cyber security

Material Issue

- 15 Health, safety and wellbeing
- 16 North West regional economy
- 17 Land management, access and recreation
- 18 Sewage sludge to land
- 19 Energy management
- 20 Environmental impacts
- 21 Data security
- 22 Diverse and skilled workforce
- 23 Responsible supply chain
- 24 Colleague engagement
- 25 Supporting communities
- 26 Competitive markets
- 27 Human rights
- 28 COVID-19



Our external environment

Material issues, key trends, and risks and opportunities

Key ESG trends identified in our external environment feed into our materiality assessment. They are assessed on stakeholder interest and their impact on our ability to create value. Our materiality assessment identifies broad issues, and then it is through our risk management that we identify, monitor and assess the specific risks and opportunities that we face, their likelihood and impact, and ensure we have adequate controls and processes in place to mitigate risks and act on opportunities.

The following examples demonstrate how key trends, material issues, and risks and opportunities are all interconnected.

Climate change

Key trends: Climate change will affect the natural environment, with adaptation needed to cope with more frequent periods of extreme weather – and mitigation needed to help minimise the long-term impact on our business and on the world as a whole.

Material issues: Our business is so intrinsically linked to the natural environment that climate change has wide-reaching impacts on several of our material issues, including resilience, sewer flooding and storm overflows, water resources and leakage, and energy management, as well as being a material issue in its own right.

Risks and opportunities: Climate change permeates several of our principal risks, including the top two – water and wastewater service. It is a common causal theme, and three of our top event-based risks are related to climate change – sewer flooding, water sufficiency, and carbon commitments. National water trading presents an opportunity to help with the national strategy for managing drought risk, given the higher rainfall we receive in the North West, and this may create opportunities to increase our water resilience.

Storm overflows

Key trends: Communities are concerned about the impact of storm overflow activations on river health across the country, and we agree that it is time to deliver a step change. Reducing activations of overflows will form a large part of our investment plans for AMP8, and we have already begun accelerating expenditure to make a fast start on this.

Material issues: It is not surprising, given the huge interest this topic has received recently, that sewer flooding and storm overflows is one of our material issues. It feeds into environmental impacts as well, and sentiment shows that it is an area in which the industry needs to renew public trust – the number one material issue.

Risks and opportunities: The requirement to reduce the frequency of storm overflow activations came out of the Environment Act so this was an element of political and regulatory risk. The use of storm overflows plays into wastewater service risk and health safety and environmental risk, as well as the sewer flooding event-based risk. Delivering the required reductions will take significant investment, and therefore this is also connected with supply chain and programme delivery risk, and finance risk. Clearly this new driver of investment creates an opportunity for us to deliver further improvements to river quality in the North West.

Affordability

Key trends: The economic climate and the cost of living crisis it has created has implications on customer affordability. Discussions around a potential national social tariff could help customers across the country access a fair share of affordability support that is not dependent on the willingness and ability of others in their specific region to contribute towards that support.

Material issues: Affordability and vulnerability is one of the top six material issues, and the North West regional economy has clear implications on affordability for customers in our region. The political and regulatory environment will determine appetite for a national social tariff, which could have a positive impact on affordability for vulnerable customers across the whole country.

Risks and opportunities: Customer affordability is part of retail and commercial risk, and the national social tariff decision presents either a risk or an opportunity with respect to affordability support for customers in the North West.



Regulatory developments

Key trends: Preparations for AMP8 and the potential for future market reform are key trends in the regulatory environment.

Material issues: The political and regulatory environment is one of the material issues identified, and the preparations for AMP8 and commitments that will be set within our final determination in 2024 will have implications for customer service and operational performance in coming years. Competitive markets was an outcome of previous market reform for the non-household retail market, and is a potential subject of future reforms.

Risks and opportunities: Political and regulatory risk is one of our top ten principal risks, and legislative and regulatory change is identified as a common causal theme of event-based risks such as the price review 2024 outcome (for AMP8). The Environment Agency's interpretation of Farming Rules for Water is a driver of the event-based risk around recycling of biosolids to agriculture.

Technology and innovation

Key trends: The emergence of artificial intelligence, Systems Thinking capabilities, and the threats to cyber security are key trends in the technological environment.

Material issues: Innovation is identified as one of the material issues, and our ability to capitalise on new technologies and innovations has potential benefits for customer service and operational performance, and health, safety and wellbeing. However, with greater use of technology comes greater security risk, in terms of both cyber and data security issues.

Risks and opportunities: Technology presents cyber security risks, identified within principal risks and as an event-based risk, as well as resource risk, as we are reliant on skilled staff and must train them in emerging technologies. Innovation is a key source of opportunity, through further development of our Systems Thinking approach, and identification of new and better ways of working. The ability to bid for innovation funding through our regulatory framework also presents an opportunity.



Our external environment

Responding to the most material issues

Understanding and responding to the most material issues affecting our business is key to delivering our purpose. Addressing these issues in our short, medium and long-term planning ensures we are responding to the things that matter most to our business and our stakeholders.

1 Trust, transparency and legitimacy

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 colleagues fairly, protecting customer data, and paying our fair amount of tax as part of 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 the ongoing industry-wide investigations by Ofwat and the Environment Agency into possible unpermitted sewage discharges. Consequently, trust has been eroded and questions raised about the ownership structure of the sector, dividends and links between performance and reward. Ofwat has called for further transparency and disclosure and demonstration of companies' contribution to public value.

Our response

Being open about our purpose and transparent about how we are delivering for all of our stakeholders is key. We aim to maintain high ethical standards of business conduct and corporate governance. We apply best practice against our corporate and regulatory reporting, linking performance to remuneration.

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 since 2019.

We maintain a comprehensive set of policies, linked to and including, human rights, modern slavery and whistleblowing.

Cybercrime is a threat we take very seriously through our policies and dedicated data protection team protecting customer information.

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

2 Resilience

Resilience is a broad and interconnected topic. A resilient company will embed resilience throughout its operations, financing and corporate systems of governance and control.

Providing essential services to customers requires long-term planning to manage future challenges, such as population growth and climate change, to ensure they are provided effectively to meet increasing expectations.

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 colleagues.

Companies need to have the right people and skills for the modern digital world. Increasingly, stakeholders are interested in the ability of an organisation's governance and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in all aspects of their business.

Our response

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 and prepare for future challenges. We build these needs into our business plans for each five-year regulatory period to anticipate the future funding we need to allocate in order to act at the right time.

We have a strong balance sheet, a secure pension position, and take a prudent approach to financial risk management, which delivers long-term resilience to financial shocks. As a public listed company, we consistently adhere to the highest levels of governance, accountability and assurance. We have a robust risk management framework for the identification, assessment and mitigation of risk.

We maintain good relationships with colleagues, and their representatives, and we continually strive to build diversity across our business. We build skills resilience internally through training and development, including digital skills, and award-winning graduate and apprentice schemes.

3 Customer service and operational performance

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

Increased appreciation of the environment from stakeholders brings greater focus on the operational performance of companies that rely and impact on the environment.

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

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.

Our response

Delivering our purpose is reliant on good operational and customer performance. Our pollution incident reduction plan and reinvestment of regulatory outperformance has improved our environmental performance.

We have improved customer service provision through both traditional and digital channels, measuring ourselves against key external benchmarks. We have an enhanced social media presence to respond quickly to stakeholders with over one million customers engaging with us digitally. This is alongside making new services available to customers, such as 'Get Water Fit', which is helping customers learn more about their water usage.

Our culture of innovation and Systems Thinking drives us to adapt our assets and the way we operate to use modern technology and the best new ways of working.

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.



4 Climate change

Greenhouse gas emissions and how they are affecting the earth's climate is important to many stakeholders. There is a growing expectation on companies, across all sectors, to take action to reduce their greenhouse gas emissions and to adapt to the impacts of climate change.

Weather is fundamental to the delivery of water and wastewater services, and so climate change will always be of strategic and operational importance to the water sector and its stakeholders. Already, we are seeing the effects of climate change on the North West's weather, with increasing summer temperatures, wetter winters and more extreme rainfall events. With these trends set to continue, unless we take action there will be increasing impact on the services we provide to the communities we serve.

Companies must plan well into the future to understand what changes are likely to occur, and continually adapt to meet the risks and opportunities this presents.

Our response

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, for example, through 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 and have linked the long-term incentive outcomes for our executives to these.

We have detailed plans, such as the 25-year Water Resources Management Plan and Drainage and Wastewater Management Plan, that set out how we will adapt our services to meet the challenges of climate change with key authorities across the region.

We have reported against the recommendations of the Task Force on Climate-related Financial Disclosures for the past four years to provide transparency of our approach.

5 Political and regulatory 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. The Environment Act, which became law in 2021, includes commitments to improve water management, and the water sector has a leading role to play to implement its requirements. This will drive significant increases in investment, putting unwelcome upward pressure on customers' bills.

Environmental and quality regulators set stringent consents for water company activities to ensure the environment and water quality are protected. In meeting these obligations, companies need to work hard to maintain compliance. This requires striking a balance with other environmental impacts, such as the use of natural resources and emissions of greenhouse gases. Read more about our regulators on page 27.

Our response

We welcome the Environment Act and the inclusion of aspects relating to storm overflows. Many of our Better Rivers pledges will be delivered by 2025, including investment in wastewater systems, enhanced data monitoring and sharing, greater innovation and more use of nature-based solutions.

The Environment Agency assesses water companies' performance across a basket of measures, and we are one of the best-performing companies over the last six years. Our regulatory framework shapes our interaction with the environment, and we work with our environmental regulators to agree long-term plans.

Alongside this, we need to deliver other core regulatory obligations – such as those set out by Ofwat – and compliance with ever increasing drinking water quality standards. Our Water Quality First programme has improved our performance and reputation with the DWI.

A phased, long-term approach to address the concerns and interests of stakeholders, including environmental regulators, ensures that the necessary work can be delivered, while providing support for those who would otherwise find bills unaffordable, spreading some of the spend over several years.

6 Storm overflows

Storm overflows have been part of the sewerage network for decades. When rainfall exceeds the capacity of our sewers, treatment works and storm tanks, overflows are activated allowing rainwater, mixed with sewage, to enter a separate pipe that flows into a river or the sea. This acts as a pressure relief valve, helping to prevent the flooding of streets, homes and businesses.

There has been increased public, political and regulatory interest in the usage of storm overflows across the country over the past year. Many people have told us they do not like the idea of untreated sewage going into our rivers and seas, no matter how diluted, and we understand and share these concerns.

We are developing plans to deliver a significant reduction in the number of activations of overflows in the North West.

Our response

Last year, we announced our Better Rivers: Better North West plan to take action to improve river health across our region. We have made good progress so far and have delivered a 39 per cent reduction in reported activations since 2020.

We have draft approval from regulators to accelerate around £900 million of investment, with £200 million of this expected to be delivered in the next two years, most of which relates to reducing overflow activations. This means we go further and faster.

The Environment Agency requires all water companies to fit monitors to their storm overflows to capture information on how they are performing. 97 per cent of the North West's storm overflows are now monitored and we will achieve 100 per cent by the end of 2023. We now have a greater understanding of our region's vast 79,000 kilometre wastewater system than at any point in history, providing a rich source of data to assess and inform activity to improve the system.

We are committed to being open about our performance and plans, to keep stakeholders engaged and collaborate on solutions. In 2022, we held our first Environmental AGM and published our Better Rivers report to give an insight into how we are progressing on our commitments.



The six capitals

To deliver our purpose we are reliant on a broad range of resources. We use the internationally regarded concept of the six capitals to define our key resources, and to help us manage our impacts and dependencies.

Our relationship with the six capitals is not one-way. Much as their availability and quality have an impact on our business, our activities also have an impact on the capitals, and this can be positive or negative. As a regulated water and wastewater company that continuously relies on, and interacts with, nature and society to deliver our purpose, it is especially helpful to consider and manage our key resources through the six capitals framework to ensure we maximise the positive impact we can have.

The following three pages explore the ways that we depend and impact on each of the capitals, and how we manage them to ensure long-term resilience and value creation.

To better understand and manage these important interactions, we are creating a six capitals account. This approach is based on the premise that traditional financial accounting doesn't show the full picture. We rely on things that are not on our balance sheet, like our people and the environment, and we have an impact on things that have no associated income statement or cash flow value. Six capitals accounting aims to close that gap by accounting for these non-financial elements, which would be viewed alongside our financial information, to give a fuller picture of our impacts and dependencies.

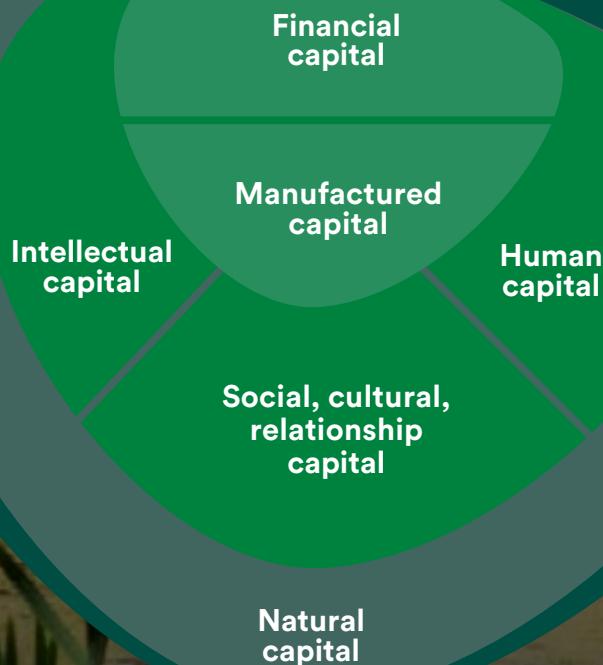
We are in the process of integrating six capitals thinking into all our business processes and planning, including taking a multi-capital value approach to the formation of our business plan for the 2025–30 period.

This expands on the natural capital accounting method we have previously used, and will provide a fuller picture of the two-way value transfer between the business and each of the capitals, and the consequences of different strategic options, to better inform our decision-making and help us create and protect value for all of our stakeholders.

Performance can also be monitored and assessed by reference to the positive and negative impacts on these six capitals, and this is already well aligned to the way we monitor our performance by reference to value creation for our six stakeholder groups as well as financial performance – with strong alignment between these stakeholders and the capitals. The six capitals accounting will help us identify any other areas that are worth adding to

the way we manage and assess our performance.

The six capitals



Natural capital

This includes the renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. This includes air, water, land, minerals and forests as well as biodiversity and ecosystem health. For example, we rely on water sources, such as reservoirs, rivers and boreholes, to supply water to customers and face risks from severe dry weather, when we must manage resilience of water supply.

How we manage this key resource

Much of the water we abstract originates on land before running off into water. We are stewards of large areas of this land, much of which is managed by tenant farmers or in partnership. We ensure it is well managed to improve water quality and help protect habitats.

We plan and invest for the long term to ensure we have resilient water resources. In the short term, we can bring more supplies online to meet demand, and our integrated supply zone allows us to move water efficiently around the region. We also encourage customers to use water more efficiently with tips, free water-saving devices, and metering initiatives.

Water can also cause issues, when rainfall exceeds the capacity of sewers resulting in heavily diluted wastewater being released directly to the environment to minimise the risk of sewer flooding in streets or people's homes. We need to reduce the use of storm overflows, so we must find alternative ways to cope with excess surface water while avoiding flooding. Traditional interventions, such as storage tanks and enlarging sewers, are costly, carbon intensive and subject to space constraints. We are innovating with sustainable drainage and other nature-based solutions that use the urban and rural environment as part of the solution.

We manage the waste from our activities, including sludge, in a sustainable way, with the vast majority going to beneficial use such as recycling or fertiliser for land.

We depend on natural capital to:

- store and clean water that we take to treatment and then to supply customers;
- attenuate water and flows in support of flood management;
- receive wastewater and biosolids safely back into the environment;
- provide a location for our assets and offices, both engineered and nature-based interventions; and
- provide operational and construction resources, such as chemicals, cement, metals and energy.

We impact on natural capital by:

- looking after the condition of the land we own and influence, including habitat health and biodiversity;
- managing our abstractions, final effluent quality, overflows, pollution incidents, and our catchment programmes;
- releasing and storing greenhouse gas (GHG) emissions that contribute to climate change; and
- emitting air pollutants that impact the health of people and nature.

Links to principal risks

- Water service
- Wastewater service
- Health, safety and environmental

 Read more about **our principal risks** on pages 64 to 65.

Human capital

Our colleagues' competencies, capabilities and experiences, and their motivations to innovate. Our people are essential in delivering services for customers, and a skilled, engaged and motivated team of colleagues, suppliers and contractors is fundamental to great performance and colleague retention, which helps ensure efficient training and better 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 colleagues with competitive salaries and benefits, an attractive pension offering, and the opportunity to join healthcare schemes and a 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.

We promote equity, diversity and inclusion, recruiting from across the communities we serve and supporting our colleagues with equal opportunities. Networks, representing groups of colleagues that may face specific challenges, are overseen by an executive sponsor and support colleagues through their career progression.

 Read more about **equity, diversity and inclusion** on pages 54 and 55

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

We measure colleague engagement through an annual survey, and regularly achieve results higher than UK norms.

We monitor and measure performance through annual reviews. Colleagues at all levels of the company participate in the bonus scheme, with the same bonus performance measures as the executive directors, so everyone benefits from the success of the company.

We depend on human capital to:

- deliver services for customers through the skills, knowledge and experience of our workforce;
- run a responsible business and deliver our services in an efficient and productive way; and
- provide diversity of thought and a range of perspectives.

We impact on human capital by:

- prioritising health, safety and wellbeing and working conditions;
- developing, training and recruiting the workforce, including graduate and apprentice programmes; and
- managing equity, diversity and inclusion with fair opportunities and remuneration.

Links to principal risks

- Resource
- Health, safety and environmental



Key resources

Manufactured capital

Manufactured physical objects available to an organisation for use in the production of goods and/or the provision of services, including buildings, equipment and infrastructure. For example, our network assets and treatment works are essential to delivering our services for customers and protecting public health.

How we manage this key resource

Since privatisation, the significant investment made in our assets has provided substantial benefits to customers, including reduced supply interruptions, reduced sewer flooding incidents, and improved water quality. We expect to continue with a substantial investment programme for the foreseeable future as current environmental legislation is expected to drive significant investment needs.

Long-term planning helps 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.

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

We depend on manufactured capital to:

- deliver safe and reliable services; and
- keep our assets secure.

We impact on manufactured capital by:

- maintaining, protecting and improving assets and infrastructure;
- developing new assets and infrastructure where required;
- managing the effectiveness of our capital delivery programmes; and
- following best practice approaches to be efficient and effective, such as ISO 55001 - Asset Management.

Links to risks

- Water service
- Wastewater service
- Resource
- Security

Financial capital

The pool of funds that is available to an organisation for use in the production of goods or the provision of services, or obtained through financing, such as debt, equity or grants, or generated through operations or investments. As a result of the long-term nature of our assets, and the need to ensure affordability by spreading the cost fairly between the generations of customers that benefit, it is necessary to raise financing to fund investment in building, maintaining and improving our assets, networks and services.

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 key credit ratios to help us maintain strong and stable investment-grade credit ratings, which gives us efficient access to debt capital markets across the economic cycle.

We provide regular updates to debt and equity investors and meet with many top investors to establish two-way dialogue about matters of interest to them.

We maintain relationships with a range of banks and retain 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 medium-term note 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. Our sustainable finance framework allows us to raise debt based on our strong ESG credentials.

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.

We depend on financial capital to:

- finance our activities and smooth out cash flows; and
- pay our operating, financing and capital delivery expenses.

We impact on financial capital by:

- being efficient in our operations;
- working with long-term investors and demonstrating good governance for fair and sustainable returns; and
- being a responsible business that acts fairly on tax.

Links to principal risks

- Supply chain and programme delivery
- Finance

Social capital

The institutions and relationships within and between communities, groups of stakeholders and other networks and the ability to share information to enhance individual and collective wellbeing. It is really important that we maintain positive relationships with stakeholders across our region, such as suppliers, regulators and community bodies.

How we manage this key resource

We have contracted for around 80 per cent of our base capital programme for the 2020–25 regulatory period, with arrangements in place for sharing of cost overruns to incentivise efficient delivery against the target price.

Our supplier relationship management process ensures regular discussions between our commercial team and existing suppliers to help identify issues and opportunities for a smooth and productive relationship, and we engage suppliers on sustainable and ethical issues through our United Supply Chain (USC) approach.

We actively engage with all our stakeholders, including our regulators with whom we discuss short-term and longer-term priorities and objectives and respond to consultations so we are influencing where we are able to.

Our stakeholder engagement extends to various environmental interest groups and community bodies, whom we keep informed, collaborate with and, in some instances, form partnerships with.

This engagement helps us develop a matrix of the issues that are most material to stakeholders and to our ability to create value, and our assessment of these issues is a key part of our planning approach.

 Read more about [engaging with our stakeholders](#) on pages 56 to 57

We depend on social capital to:

- maintain and grow trust with all of our stakeholders (e.g. customers, communities, suppliers, investors) to encourage them to act in a way that helps deliver improvements;
- understand the needs of customers and stakeholders to shape how we best deliver for them; and
- collaborate with customers and stakeholders on shared challenges such as leakage, flooding and water efficiency.

We impact on social capital by:

- managing the quality and resilience of our water, wastewater and customer services now and for the future;
- supporting customers who struggle to pay their bill and those in vulnerable circumstances;
- creating spaces for access and recreation; and
- communicating and collaborating with all stakeholders.

Links to principal risks

- Supply chain and programme delivery

Intellectual capital

Organisational, knowledge-based intangible aspects such as intellectual property, and systems, procedures and protocols. For example, the knowledge and systems we have across our business are critical to effectively running our treatment works and maintaining our assets to ensure a long-term resilient service. Our understanding of the region and the people who live here, aligned to our systems and assets, provides a key aspect of this knowledge.

How we manage this key resource

We use a variety of methods to drive innovation and find novel ideas and solutions such as idea scouting, using ideas from other water companies across the world and from other industries. We invite companies to bring innovative solutions to us through our Innovation Lab programme, and we encourage innovation at all levels inside the business, including our CEO Challenge programme where our graduates work in groups to find novel ways to tackle challenges that we face.

These initiatives are a source of fantastic new ideas and often lead to the development of products and software that give us a competitive advantage against our peers in the water industry. Occasionally, new ideas are worth protecting with copyrights, trademarks and patents, and we manage this intellectual property portfolio for short and long-term benefit.

Our Systems Thinking approach involves remote monitoring and control, taking a ‘whole system’ view of our network and assets, and proactive and preventative optimisation to spot and resolve issues before they impact customers. This requires a network of systems and processes, and at the higher maturity levels we use artificial intelligence to optimise the way we operate. With sensors in our network sending real-time data to our Integrated Control Centre, we develop an understanding of the signature and can predict patterns that enable us to spot anomalies that signal issues we can then proactively fix.

We depend on intellectual capital to:

- provide the know-how to run our business effectively and efficiently;
- deliver continuous improvement and innovation to be more efficient and effective, e.g. real-time monitoring and analytics;
- give competitive advantage by developing strengths in our processes and systems; and
- protect us from cyber attacks.

We impact on intellectual capital by:

- investing in research, development and innovation;
- monitoring and managing our processes and systems;
- managing our digital capability; and
- collaborating with the supply chain and other partners.

Links to principal risks

- Resource



In this section you will find:

Our purpose and strategic priorities

Short, medium and long-term planning horizons

Our strategy for managing climate-related risks and opportunities and net zero transition plan

Our strategy for managing nature-related and other risks and opportunities

Our purpose

Why we are here

Providing great water for a stronger, greener and healthier North West

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

As shown on pages 18 to 19, each step in our water cycle and every aspect of our activities is aligned with delivering our purpose, and this is what drives us to create value for all of our stakeholders.

Our strategic priorities

How we deliver our purpose



Improve our rivers

We are a sector leader in minimising pollution, and continue to protect bathing waters across the North West. River health in the UK has received a lot of public interest. The industrial legacy and high rainfall in our region means we have a bigger task than many to deliver the significant reduction in storm overflow activations required by the Environment Act 2021. This will form a significant component of our 2025–30 business plan, and we are accelerating investment with good progress already made.

→ Read our **Better Rivers case study** on page 90



Provide a safe and great place to work

We invest in our colleagues' training and development, and maintain high levels of health, safety and wellbeing. We want to attract, develop and engage great talent across the organisation, we support and encourage a diverse and inclusive culture, and we want colleagues to be empowered to contribute to making things better. To facilitate this, we are launching new 'Call it out' and 'Tell me' initiatives, which enable everyone to raise topics directly with the CEO and receive a response within 48 hours.

→ Read about our **performance for colleagues** on pages 96 to 102



Spend customers' money wisely

We continuously challenge ourselves to improve cost efficiency in a sustainable way, so we can keep customer bills as low as possible in the long term without compromising on service or resilience. We look to minimise whole-life cost and deliver the best value solutions, using Systems Thinking and innovation to find better ways of working, leveraging partnerships and driving value in our supply chain, capitalising on digital and automation opportunities, and removing areas of duplication or waste.

→ Read about our **financial performance** on pages 112 to 119



Create a greener future

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

→ Read about our **net zero transition plan** on pages 45 to 47



Deliver great service for all our customers

Delivering great service means continually improving our ways of working, for example, improving water quality, minimising interruptions, leakage and sewer flooding, and supporting customers with affordability and vulnerability. Engagement helps us understand what matters most to customers and we act on their feedback. This can be seen in the way we redesigned our bills based on customer research, and the early investment we are making to improve customer and environmental performance faster.

→ Read about our **performance for customers** on pages 96 to 103



Contribute to our communities

We work closely with communities across the North West and we want to ensure we are visible and trusted. We actively engage and make use of partnerships to drive value for communities, such as our participation in the Love Windermere initiative. With much to deliver in the years ahead, we have appointed regional stakeholder managers for each of the North West's five counties to help manage these relationships and ensure we can deliver our planned improvements with minimal disruption.

→ Read about our **performance for communities** on pages 104 to 111

Our planning horizons

We plan for long, medium and short-term horizons to deliver our purpose in a sustainable 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, both in terms of the level of interest to stakeholders and the effect they may have on our ability to create value;
- our assessment of risks and opportunities;
- our environmental, social and governance (ESG) commitments, including our net zero transition plan; and
- how our plans will fit with our Systems Thinking approach.

 Read more about [our materiality matrix](#) on page 29, [our risk management](#) on page 60, and [our net zero transition plan](#) on page 45

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

Long-term planning looks out 25 years and more. This helps us identify what we need to do to manage risks and opportunities that may arise, building resilience to ensure we can provide our essential services to customers far into the future.

Medium-term planning covers how we will deliver the commitments of our final determination for the current regulatory period (AMP7), as well as our non-regulatory activities, and our plans for the next five-year period (AMP8), so this currently extends out to 2030.

Short-term planning, for the next financial year, enables us to monitor and measure progress against our longer-term 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.

Metrics and targets

We set targets across each of these planning horizons, with our shorter-term targets helping us to ensure we are on track to deliver our longer-term ones. The metrics we track include key risk indicators, enabling us to adapt our plans to meet changing conditions, and performance metrics to continuously assess how we are doing against our targets. We use a wide variety of performance metrics, both operational and financial. These help us to measure the value we are creating for all of our stakeholders, and we have selected three operational key performance indicators (KPIs) for E, S and G, as well as monitoring various other performance metrics of interest to these stakeholders.

 Read more about [our metrics and targets](#) on pages 76 to 83

Short term

We set annual targets for operational and financial performance, but retain flexibility in these plans to respond to challenges and ensure we are meeting our five-year goals in the most effective and efficient way possible.

Medium term

Our AMP7 determination sets targets for the 2020–25 period, and we are building our plan for 2025–30. Our long-term delivery strategy is embedded into our medium-term targets to help us work towards our long-term plans.

Long term

Our business is very long term by nature and we use adaptive planning, looking far into the future, to ensure we are resilient to risks that may arise and can continue to provide this essential service for the long term.



Our planning horizons continued

Our adaptive planning approach ensures we are able to respond to risks and opportunities that may arise in the short term or far into the future.



1 year

Short-term planning

We set annual, measurable targets, but 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 we can continually monitor and assess our progress.

Before the start of each financial year, which runs from 1 April to 31 March, we develop a business plan that is reviewed and approved by the board. This sets our annual targets to deliver further improvements in service delivery and efficiency, and help towards our longer-term goals.



up to 2030

Medium-term planning

Aligned to the commitments in our AMP7 determination and our plans for AMP8.

The majority of the group's activities sit in our regulated water and wastewater business, so our medium-term planning mostly sets out how we will deliver against the commitments in our final determination from Ofwat for each five-year period, and our plans for the next one.

To ensure we deliver for all stakeholders, including customer preferences and environmental requirements, we align our plans to these priorities in line with key published methodologies.



up to 2080

Long-term planning

We plan far into the future to ensure we can respond to risks and opportunities that may arise.

To maintain a reliable, high-quality service for customers long into the future, we need to anticipate and plan for things that may impact on our activities. This includes monitoring the age and health of our assets, keeping track of innovations and advancements in technology, and looking at current and predictive data from various sources to track key risk indicators (e.g. economic forecasts, expectations for population growth, climate and weather predictions, legal and regulatory consultations and changes).

Performance against these annual targets determines the bonus percentage that is awarded to executive directors and colleagues right through the organisation.

To avoid encouraging short-term decision-making and ensure management is focused on the long-term performance of the company, executive directors are also remunerated through a long-term incentive plan (LTP). This assesses three-year performance and includes return on regulated equity (RoRE), a basket of customer measures, and our carbon pledges.

→ Read more about the annual bonus and LTP in our remuneration report on pages 170 to 203

Executive directors hold regular business review meetings with senior managers across the business to track progress against our annual targets.

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 to prioritise expenditure and focus

our time on dealing with unexpected challenges that arise.

The severe freeze-thaw we experienced this year demonstrates how we adapt our short-term plans to focus efforts on immediate challenges. Read more on page 48 about the actions we took to maintain services during this time, the impact on our activities, and how we are still managing the aftermath of this extreme weather event.

The challenges presented by COVID-19 in 2020 were another example that showed why this flexibility was crucial and how effectively we managed this significant and sudden change.

Our medium-term plans are designed to help us work towards our long-term delivery strategy, build and maintain resilience, and fulfil our purpose.

We engage in extensive research to ensure our plans are robust and balanced, targeting the best overall outcomes for all our stakeholders.

Following scrutiny and challenge from Ofwat, we receive the final determination, which sets the price (in terms of total expenditure recovered through customer bills), service level, and incentive package that we must deliver over the five-year period. This includes an expected return to meet financing costs.

Adaptive planning is important in meeting our medium-term targets in the most effective and efficient way. During the current 2020–25 period we have adapted our total expenditure (totex) in two ways.

First, we accelerated our capital programme, with around £500 million of totex brought forward over the first three years, delivering improvements early and making a strong start to our plans.

Second, we extended our totex by £765 million to deliver customer and environmental improvements, accelerating delivery of the Environment Act 2021 and improving performance against customer outcome delivery incentives (ODIs).

Our strategy helps us create value for our stakeholders by delivering or outperforming the final determination. We publish an annual performance report (APR) in July of each year, which reports our performance in a format that is comparable across the sector. This includes Return on Regulated Equity (RoRE), which comprises the base allowed return and any out/underperformance.

→ Our APR will be available at unitedutilities.com/corporate/about-us/performance/annual-performance-report

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

We review this information as part of our long-term planning and risk management processes, through which we assess and manage opportunities and risks such as 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.

Our website has a dedicated section where we examine key long-term challenges and how we will focus our resources and talents to meet them.

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

You can find our long-term plans, such as:

- Water Resources Management Plan – setting out the investment needed to ensure we have sufficient water to continue supplying customers, taking into account the potential impacts of climate change, covering a 25-year period and considering consumption and climate forecasts out to 2080;
- Drought plan – setting out the actions we will take to manage drought risk, updated every five years; and
- Adaptation report – setting out the current and future predicted impacts of climate change on the business and our proposals for adapting to a changing climate.

Our long-term delivery strategy out to 2050 is embedded into our plans for AMP8, and we are developing a Drainage and Wastewater Management Plan – examining the risks around flooding, pollution, storm overflows, and wastewater treatment over a 25-year period – that will be published in 2024.

We use whole-life cost modelling and maintain a robust financing structure to ensure we can invest efficiently to meet our long-term plans. Our training and development, graduate and apprenticeship programmes, and work with schools to encourage STEM careers, all helps to ensure we retain the skills we need in the North West to continue delivering these plans.



Strategy



Climate strategy: How climate-related risks and opportunities impact the organisation's businesses, strategy and financial planning.

Summary

- Twin track approach of adaptation and mitigation to address climate change and manage both physical and transitional risks in a sustainable and resilient way.
- Further developed our strengths in long-term and adaptive planning to manage uncertainties and ensure a low regrets approach.
- Built relationships with key suppliers to reduce environmental impact by sharing best practice and collaborating on how to reduce GHGs and improve resilience.
- Assessed the carbon impact of our DWMP, WRMP and PR24 plan to minimise impact while enhancing environmental and social value and resilience.

Most material climate-related risks – risk score⁽¹⁾ of 9+ in our 2021 adaptation report

We already experience the impacts of climate change with increasingly frequent or more extreme cold snaps and heatwaves and changes to rainfall.

TCFD risk type	Climate trend	Leading to	Horizon			Resulting in...
			ST	MT	LT	
Physical – acute	Cold snaps	Reduced effectiveness of biological processes in wastewater treatment	●	●	●	Pollution events
		Leaks and thus increased volumes of calls	●	●	●	Pressure on our emergency response
		Increasing frequency and duration of loss of power within a treatment process	●	●	●	Service disruption
	Extreme events	Causing work environments to become intolerable	●	●	●	Risk to health, safety and wellbeing
		Resulting in increased reservoir misuse	●	●	●	Risk to health, safety and wellbeing
	Physical – chronic	Increased rainfall	●	●	●	Sewer flooding, pollution incidents, customer impact
		Flooded assets	●	●	●	Service disruption and asset damage
		Restrictions on ability to recycle biosolids to land	●	●	●	Adverse effect on supply and demand of biosolids to agriculture
		More storm overflow activations	●	●	●	Pollution and perception of pollution of rivers and bathing waters
		Runoff polluting water sources	●	●	●	Water quality deterioration
		Increased soil movement causing pipe systems to move leading to fractures	●	●	●	Service disruption and asset damage
		More runoff from agricultural land	●	●	●	Raised nutrient loads in water sources
		Increased use of rising mains	●	●	●	Supply interruptions and energy use
		Decreasing raw water quality	●	●	●	Impact to treatment and costs
		Floods, accidents and landslips	●	●	●	Disruption to transport and supply lines
Transitional	Hotter, drier summers	More severe and frequent moorland/forestry fires	●	●	●	Water demand and quality stresses, risk to catchment health
		Promotion of cyanobacteria and actinomycetes growth	●	●	●	Taste and odour compound formation
		More NW tourism and access of UU land	●	●	●	Increased risk of damage to land and catchments
	Lower average summer rainfall	Reducing water resources	●	●	●	Supply interruptions
		Shock load from first flush when it rains	●	●	●	Pollution
		Blockages in the sewage system	●	●	●	Sewer flooding and pollution
		Political pressure regarding water use priorities	●	●	●	Supply interruptions and impact to reputation
	Rising sea levels	Coastal flooding	●	●	●	Asset failures
		Decarbonisation of the UK electricity grid	●	●	●	More intermittent power generation
	Moving to a net zero economy	The need to adopt new technologies driven by a change in legislation and standard practice	●	●	●	Change in operational processes and capabilities
		Legislation, taxation, and decarbonisation targets	●	●	●	Higher energy costs and greater regulatory duties
		Changes in social expectations	●	●	●	Demand for further progress
		Water use change including increased abstraction by other catchment users	●	●	●	Pressure on water resources

(1) Risk score is the product of score (between 1 and 5) for likelihood and consequence.

Key: ● Low <8 ● Medium 8 to 12 ● High 12+

Climate-related risks and opportunities impacts

Climate risks and opportunities are assessed using the same planning horizons, materiality and risk assessment as other matters. As our assets typically have long, even very long, lifespans, our planning horizons look longer into the future, in some cases as far as 2080.

Our services being intrinsically linked to the natural environment, it is not surprising that many of our most material climate risks are physical risks. The weather directly and indirectly constrains our ability to deliver our services which is why climate change will exacerbate the impact of existing challenges such as sewer flooding, asset flooding and asset deterioration.

The North West region has 28 per cent more rainfall than the average for England and Wales. This, together with our significantly higher proportion of combined sewers, puts more pressure on our sewerage and treatment infrastructure, and in

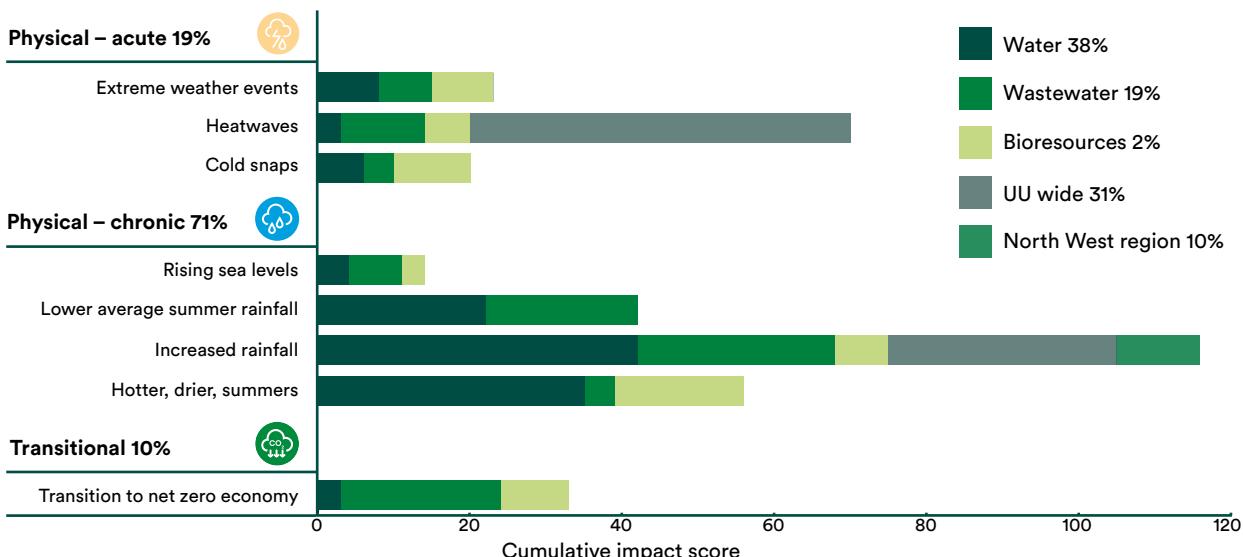
turn creates greater risk from sewer flooding and/or activations of storm overflows.

We have quantified the impacts of the physical climate risks (see 2021 Adaptation progress report) using the highly respected and relevant Met Office UK Climate Projections 2018 (UKCP18). For our assessment we chose the Met Office climate projections for the representative concentration pathway, RCP 6.0, which has an emissions peak occurring in 2080 and an expected 3.0–3.5°C increase in global mean temperatures from pre-industrial levels. We chose this as it is widely recognised to be the most likely pathway that supports effective planning.

To assess the magnitude of the transitional risks we have adopted a more qualitative approach though for risk assessment and mitigation planning we have used the carbon values (£ per tCO₂e) for use in policy appraisal, provided by the UK Government (BEIS).

Climate-related risks by business area and region and TCFD risk category – from 2021 adaptation report

The chart below shows the cumulative impact/consequence scores of the assessment of climate-related risks in the 2021 adaptation progress report. These risks are also those that have been considered in the preparation of the financial statements, see page 241. Percentages are of the total cumulative score for the business area and region or TCFD risk category.



Addressing the impact of climate change in our planning

Predicting the effects of climate change is multifaceted and complex. There is considerable uncertainty about how our processes, people and infrastructure will respond to the challenges of both climate and demographic changes. We address the challenge of uncertainty by using adaptive planning to shape our plans for the long term (25+ years) while remembering our short-term needs and financial and regulatory constraints. An adaptive approach allows us to prepare for the future without knowing the exact scale and impact that climate change poses on our services. This means we can be agile as climate science and technology advance, as legislation develops and our customer and stakeholder expectations evolve.

Our public Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) address this multidimensional challenge by using detailed and extensive models to test how resilient our services would be against a wide range of possible future demands from population growth and movement, economic trends and patterns of water use. Understanding these potential impacts allows us to adapt our plans to improve performance and resilience across key topic areas such as water supply, leakage, sewer flooding and pollution.

Our ability to pre-empt compound physical impacts to our system, and have various recovery tactics, is increasingly vital in effective climate change adaptation. We are addressing how to plan for when multiple different extreme weather events occur in a short time frame. An example of such a cascade effect is the dry and hot summer of 2022 being followed by a winter with freeze-thaw challenges.

To address compound issues, we stress test our WRMP by building weather scenarios that combine together pairs of worst examples of weather that have happened in the past, for instance, a dry winter like 1984 being followed by a 1995/96 style summer. We then model how our current assets and systems would cope.

As well as combining impacts in our modelling, we are also attempting to deliver compound benefits in our controls by designing interventions that have multiple benefits. For instance, sustainable drainage systems (SuDS) to slow down or divert rainwater runoff both reduce the risk of sewer flooding and optimise wastewater treatment capacity and also provide an opportunity to deliver wider social value in the community and local environment.



Strategy



Climate strategy continued

Using scenario analysis to test resilience

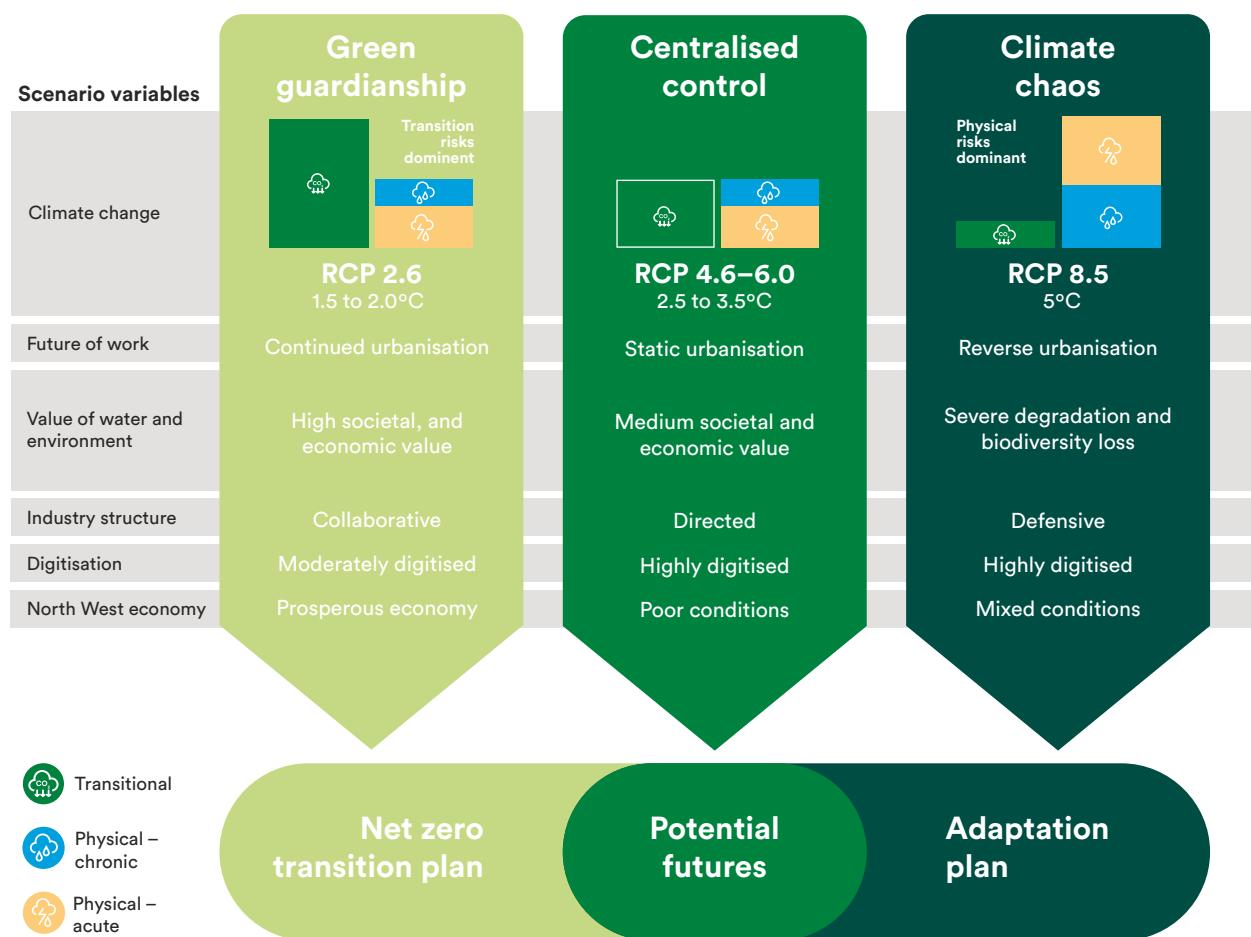
In developing our long-term strategic plans, and seeking customer feedback on those plans, we have used potential scenarios of the future encompassing wide ranges of environmental, regulatory, technological and societal possibilities. To simplify the interaction of multiple factors while retaining an expansive scale of uncertainty about the future, the three company-wide alternative scenarios for 2050 have different values or descriptions for the most relevant factors such as the water industry structure, the North West economy, water value to customers and climate change. These scenarios are named 'green guardianship', 'centralised control' and 'climate chaos'.

The scenarios recognise climate change as one of the most critical factors and use RCPs 2.6, 4.5 and 8.5 (GHG concentration pathways adopted by the Intergovernmental Panel for Climate Change) to describe how well climate change has been

mitigated by society in each case. This in turn gives the relative climate risks in each scenario. In the extreme climate scenario of 'climate chaos' the physical risks are substantial and provide a worst case from which to base our adaptation planning. At the other extreme, 'green guardianship', the challenges of providing water and wastewater services in the North West are determined primarily by transitional risks. For instance, the risk from an electricity supply from a UK grid that is based on low-carbon but intermittent power generation and therefore is more vulnerable to power outages.

These imagined future scenarios have brought challenges and ambitions into sharp focus and encouraged reconsideration of the relative priorities in our business plans. For example, our latest plans now include even greater focus on further reducing water use and preventing storm overflow activations and flooding.

Climate and societal scenarios



Future focus

- Publish more details behind our net zero transition plan.
- Continue to improve our assessment of climate-related risks and opportunities.

- Embed low-carbon and climate-adjustable approaches in our long-term delivery strategies and PR24 business plans.

Read our adaptation progress report on our website at unitedutilities.com/corporate/responsibility/environment/climate-change/

Read our net zero transition plan on pages 45 to 47



Our net zero transition plan

Our net zero transition plan

Our transition plan to contribute to, and prepare for, a rapid global transition towards a low-emission economy is based on our established climate change mitigation strategy. This has four pillars: vision and visibility; ambition and commitment; demonstrating action; and beyond here and now. Between them, these pillars define our principles, priorities and approach.

Vision and visibility

Demonstrating integrity and leadership in carbon reporting and disclosure.

Vision and visibility are the foundations of our climate change mitigation strategy and thus our net zero transition plan. We have a strong track record of sustainability reporting, having disclosed our GHG emissions for nearly 20 years. We are committed to reporting in the most open and transparent way possible, aiming to be recognised as among the best in the UK. We have responded to the CDP climate change questionnaire since 2010 and use this as our benchmark of leadership. We were proud that our 2022 response was rated as A-, putting us in the leadership category.

We publish our GHG emissions and underlying energy use in our annual report as required under the Companies Act 2006 and follow the 2019 UK Government Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance. Our reporting is supported by robust governance and accountability mechanisms. Since 2007, our greenhouse gas inventory has undergone independent, third-party verification by Achilles Group, confirming our reporting is compliant with the international carbon reporting standard (ISO 14064) and certified as compliant with the CarbonReduce programme.

We are dedicated to understanding how every aspect of our operations contributes to our emissions. Our vision is to ensure we consider the climate in all our operational and strategic decision-making and to influence strategy and behaviours by including in remuneration schemes and carbon pricing in our six capital value framework.



Ambition and commitment

Playing our part to mitigate climate change and lower our greenhouse gas emissions to help make the North West a better place to live now and in the future.

An important element of our approach is to demonstrate our ambition and encourage others to contribute by making public commitments. In 2020 we made six carbon pledges as part of our commitment to tackling climate change and we are making good progress. See page 92 for more details.

Central to our pledges was to set science-based targets for all emission scopes. United Utilities is proud to be the first UK water company to have targets approved by the Science Based Targets initiative (SBTi), a collaboration that defines and promotes global best practice in science-based target setting. SBTi assessed and verified our four science-based targets in July 2021 and commended our ambitious 1.5°C aligned scope 1 and 2 target.

Our four targets are:

SBT1 – 42 per cent reduction of scope 1 and 2 emissions by 2030 from a 2020 base year;

SBT2 – increase annual sourcing of renewable electricity to 100 per cent;

SBT3 – 66 per cent of suppliers by emissions within scope 3 capital goods will have science-based targets by 2025; and

SBT4 – 25 per cent reduction of scope 3 emissions (other categories) by 2030 from a 2020 base year.

These near-term targets are intended to deliver an emissions reduction pathway consistent with the 1.5° ambition of the Paris Agreement. The SBTi Net Zero Standard was launched late 2021 and we will validate our long-term net zero ambition to this standard when we revise and revalidate our near-term targets in advance of 2025.

Demonstrating action

Reducing our environmental impacts through delivery of transformation strategies and culture change.

Our action plan to achieve the long-term ambition of 'net zero by 2050' (in line with the UK Government) is set out on the next page with the hierarchy below. We are already working on, and delivering on, actions in all themes to:

- **reduce** through the efficient use of resources;
- **replace** processes and resources with more sustainable alternatives;
- **remove** GHGs from the atmosphere;
- **collaborate** to tackle emissions in the supply chain; and
- **innovate** to address current technological or market gaps.

Our priority in the medium term will be to reduce our emissions through these actions before we purchase any credits to offset the residual emissions to net zero.



TCFD

Net zero transition plan

GHG emissions scopes

Our net zero transition plan addresses all three emissions scopes.

Scope 1 – emissions from activities we own or control

Wastewater and sludge processes cause approximately 70 per cent of our scope 1 emissions as the gases released, nitrous oxide (N_2O) and methane (CH_4), have much greater global warming potentials than carbon dioxide (CO_2). Our process emissions are currently estimated as a direct function of the population whose wastewater we treat. This means that, even if we achieve a 100 per cent green fleet and eradicate all fossil fuel use, along with the global water industry we still have the gigantic challenge of process emissions to tackle.

Scope 2 – emissions from electricity and heat purchased

Our scope 2 emissions have reduced since we began to measure them in 2005/06 from 360 kt CO_2e to 261 kt CO_2e (location-based) and 0 kt CO_2e (market-based). This is a combination of the ongoing decarbonisation of the UK grid, maintaining our energy requirements in the face of substantial growth and policy to buy REGO backed renewable electricity supplies.

We have ambitions to substantially increase our self generation and energy resilience by using our land for development of renewables and other clean technologies.

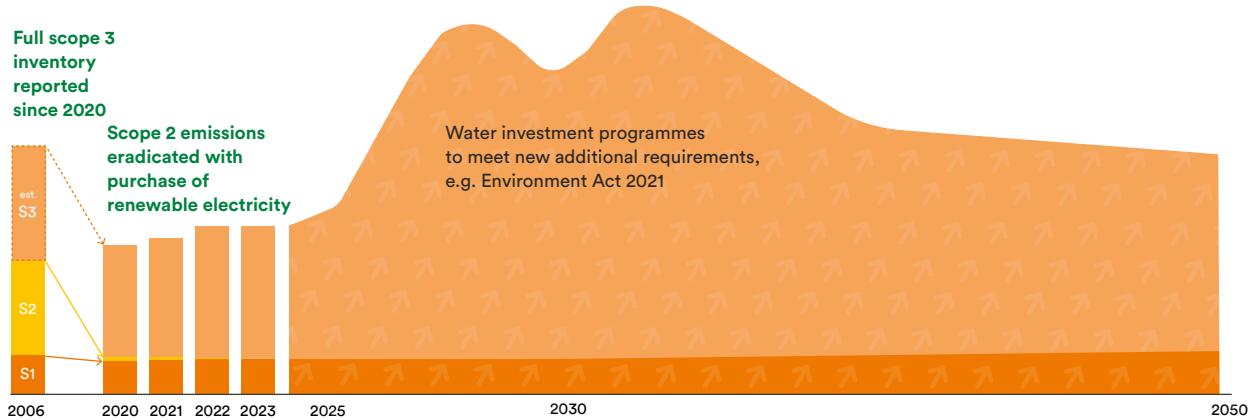
Scope 3 – emissions from our value chain

Scope 3 emissions are proportional to our business activities. This means if our infrastructure development activity increases, for instance as a result of a prescribed environmental programme as is expected for AMPs 8 and 9, then our emissions will also substantially increase. This increase could be mitigated by the use of nature-based solutions and low-carbon material replacements, but it is by no means certain these technologies and processes will be market ready in time.

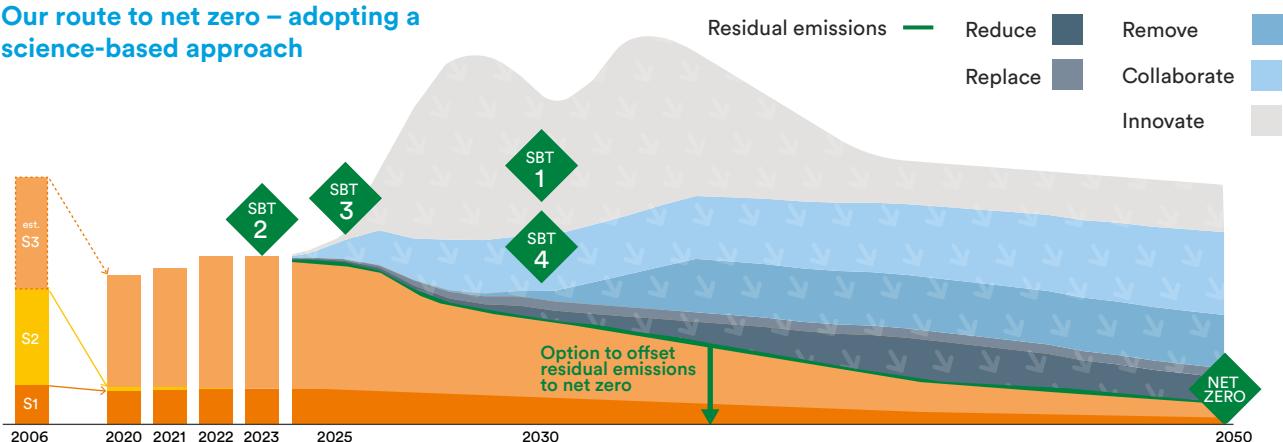
Action plan	Short term including recent progress	Medium term	Long term
Reduce through the efficient use of resources	<ul style="list-style-type: none"> Colleague campaign 'Use Less, Save More' Achieved ambitious targets for percentage of waste to beneficial reuse 	<ul style="list-style-type: none"> Optimise wastewater processes for GHG Careful delivery of environment improvement programmes 	<ul style="list-style-type: none"> Continual search for efficiency opportunities
Replace processes and resources with more sustainable alternatives	<ul style="list-style-type: none"> Renewable electricity sourcing Substantial renewable energy generation capacity and capability 60%+ sludge processing by low GHG advanced digestion 	<ul style="list-style-type: none"> Grow further renewables capabilities and capacity Bioresources planning and investment to increase sludge processing capacity Electric vehicles rollout and trials for HGVs 	<ul style="list-style-type: none"> Replace fossil fuels with alternatives e.g. hydrogen Nutrient recovery initiatives Continual stretch for sustainability informed by latest innovations
Remove GHGs from the atmosphere	<ul style="list-style-type: none"> Woodland creation – planning and first planting schemes Peatland restoration – schemes started 	<ul style="list-style-type: none"> 550ha woodland creation 1000ha peatland restoration 	<ul style="list-style-type: none"> Growing benefits from created woodlands Carbon capture, use and storage
Collaborate to tackle emissions in the supply chain	<ul style="list-style-type: none"> Comprehensive scope 3 reporting Encourage SBTs for capital delivery partners 	<ul style="list-style-type: none"> Inform national approach to water environmental improvements Enriched sustainability criteria for suppliers Quantify emissions using product/activity data 	<ul style="list-style-type: none"> Collaborate to decarbonise our infrastructure programmes and wider supply chain
Innovate to address current technological or market gaps	<ul style="list-style-type: none"> Carbon categories in United Utilities Innovation Labs CEO challenge improvement projects on carbon 	<ul style="list-style-type: none"> Low-carbon capital delivery options e.g. nature-based solutions and low-carbon concrete Process emissions monitoring Nutrient recovery research 	<ul style="list-style-type: none"> Transformation in water and wastewater processing e.g. nature-based solutions Opportunities for circular economy Eradicate use of remaining fossil fuels

Actions in green text directly link to our six carbon pledges

Our emissions challenge – large growth pressures from environmental obligations



Our route to net zero – adopting a science-based approach



Our plan to net zero is a science-based approach focused on reducing emissions as the first priority whilst growing our programmes that store carbon, such as peatland restoration and woodland creation, and working with our supply chain to share and develop sustainable development practice. We may purchase credits in the medium to long term to offset residual emissions and achieve net zero.

We will go beyond emissions reductions and include sustainable use of natural resources and increased application of the waste hierarchy and the principles of a circular economy in our processes and physical infrastructure.

We will also enable, encourage and reward action to protect and enhance the natural environment and promote the value of ecosystem services across our business and supply chain.

Beyond here and now

Innovating across our processes, technology and culture

We are not only concerned with things we can do now to reduce our reportable emissions. Our strategy pillar of 'beyond here and now' allows us to reflect on the challenge to influence emissions regardless of whether those emissions are part of our inventory. To deliver our net zero transition plan we will be innovative, challenge standards and drive climate change mitigation by understanding and joining in relevant research to develop new technologies and practices. For instance, we are investigating what operational interventions we can make that will reduce process emissions.

We have recently launched our fifth Innovation Lab, a 12-week programme that provides successful applicants with the

opportunity to test their solutions to our business challenges in a live environment. The 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.

We will continue to explore opportunities to innovate across processes, technology, standards and culture and we will lead by example and deliver outcomes in partnership whilst we inform and influence future developments affecting the environment.



Read more about **innovation at United Utilities**, including how we are using innovative solutions to tackle the sustainability challenges we face, at unitedutilities.com/corporate/about-us/innovation



Strategy



“

Key lessons learned from previous incidents meant we entered the 2022 freeze-thaw with improved capabilities as a result.”



Climate case study

Resilience in the face of an already changing climate

With the trend of more extreme weather events set to continue, we must plan, adapt and prepare, to strengthen our operational resilience.

In December 2022 we experienced a severe cold snap, when air temperatures fell below freezing and remained at or below freezing for ten days, reaching a low of -12°C on 15 December, before rising rapidly to 14°C by 19 December. This was a more sustained freeze and more rapid thaw than other recent freeze-thaw events in 2009, 2010 or 2018, and tested our preparedness, response and service recovery.

Freeze-thaw incidents present several challenges which can threaten to disrupt the service we provide to customers, such as frozen pipework on our mains and in customer properties, increased leakage following the thaw and subsequent increases in water demand.

We use Met Office data to assess the risks of weather-related events occurring and to act as an early warning system to trigger preparations for such an event. This approach identified, on 5 December, the risk of a weather-related event occurring and led to detailed preparatory work, including:

- encouraging customers to prepare their homes, with our ‘**P**repare, **I**nsulate, **P**rotect, **E**asy’ awareness campaign;
- undertaking winter checks on targeted key assets on our system where we expected the impact to be greatest; and
- establishing a key task team, using our incident management procedure, to provide central co-ordination during events.

The immediate impact of the freeze-thaw was significant. A total of 22,464 customers were off supply for more than 12 hours, with the largest proportion of them in the Lancaster and Morecambe area. We very much regret the short-term service interruption some customers experienced, but because of our proactive management of the situation we were able to mitigate the impact to some extent. For example, ahead of and during the loss of supply we were able to provide clear information to local stakeholders, ensure that there were adequate bottled water supplies in the area and take steps to protect vulnerable customers through our Priority Services offering.

Within 48 hours of the thaw commencing, demand for water rose to 20 per cent above normal December levels and reached a peak of 2,200 megalitres per day, significantly higher than the peak following the 2018 ‘Beast from the East’. This was largely due to water being lost through leakage, both from elevated leakage on our own network and significant bursts on customer pipework and plumbing. Our teams and partners worked around the clock to fix damaged pipes, and we deployed our water tankers to target sensitive non-household customers such as schools, hospitals and prisons.

Management of the incident continued over the Christmas period to ensure that issues were fully resolved until the incident was formally closed on 3 January 2023. Overall, we consider that key lessons learned from previous incidents meant we entered the 2022 freeze-thaw with improved capabilities as a result.



Read more about the financial impacts of the incident on pages 99 and 112



How nature influences our approach

Protecting and enhancing the natural environment is key to the ‘greener’ aspect of our purpose. Maintaining compliance and meeting regulatory requirements helps us to maintain the environment, and we enhance it by driving performance improvements, adopting best asset management practices, and investing in nature-based and other environmental solutions. Our environmental policy is underpinned by a framework of strategies and long-term plans in response to nature-related risks and opportunities. Some of these are statutory requirements, like our Water Resources Management Plan, and are reviewed every five years through the price review process.

How we consider nature-related risks, opportunities, dependencies and impacts within our business strategy and planning

Our long-term planning activity considers the uncertainty associated with complex issues such as climate change, population growth, technology and abstraction reduction needs.

Planning for the long term allows us to deliver further environmental and social value. For example, prioritising sustainable drainage and monitoring impacts before investing in more traditional assets, or carrying out modelling and investigations to ensure solutions are best value. This gives us confidence that our investment plans are highly efficient.

Our Catchment Systems Thinking (CaST) approach enables project decisions to be made in the context of the catchment, or system, in which they are situated. This encourages goals to be set in a collaborative way, maximising the benefits that can be achieved and delivering ecosystem resilience through improvements to water quality, flood risk reduction, access to green space, nature recovery, and carbon sequestration.

An example of how we adapt to nature-related risks

Much of the land that we own is designated as Sites of Special Scientific Interest (SSSI), which indicates the importance of the habitat for biodiversity. 94 per cent of SSSIs on our land now meet favourable or unfavourable recovering condition status, in part because we pioneered the use of nature-based solutions to address raw water quality when we started our SCaMP programme in 2005. We recognise our role as a steward of our land and make decisions based on the benefits and impacts our operations have on the natural environment.

Resilience of our strategy

Adaptive planning allows us to test a range of future scenarios to account for uncertainty and sets out how we might adapt programmes in the future to meet long-term ambitions under different circumstances. Through scenario testing, we have been able to prioritise low regrets activities in the short term, preparing ourselves for future needs without investing unnecessarily or prematurely but taking action where it is clearly necessary and good value.

Innovation is embedded in our approach to solving environmental challenges. By understanding and engaging in relevant research we can integrate new technologies and practices to drive environmental enhancements.

Progress this year

- Launched the public consultation on our draft Water Resources Management Plan

Future focus

- Finalise our business plan for 2025–30 with details on how this will improve the natural environment



Risks and opportunities of material interest that influence our approach

Cyber security

Our cyber security strategy is largely focused on the security requirements within the Cyber Assessment Framework created by the National Cyber Security Centre (NCSC). This outlines 39 security controls that are required to achieve an industry standard of compliance. These are driven from an EU-defined maturity scale of best practice that is reflected across all European operators of essential services. We have had a strong, dedicated programme of work in place for four years aimed at meeting and maintaining compliance, and have met regular expectations at all times.

Our longer-term strategy and investment plan aims to bolster our broader security posture by focusing significant effort on people, process and technology.

We maintain a good relationship with the NCSC through our dedicated contacts and ensure we have up-to-date visibility of developing and long-term threats at all times, which helps shape our approach to security.

Financial risk management

We have robust financial risk management policies, targets and thresholds for liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. The strategies and limits set out within these policies are designed to avoid excessive volatility and risk, align with the regulatory model in which we operate, maintain strong credit ratings and deliver efficient financing. Read more on pages 265 and 272.

Affordability and vulnerability

Our approach is based on delivering industry-leading affordability and vulnerability support to customers with a wide range of affordability schemes and over 290,000 customers signed up to Priority Services. We use a variety of methods to help customers access the best schemes for them, including our door-to-door affordability visits. We pioneer cross-sector collaborative approaches through our affordability summits and the Hardship Hub platform we developed to help debt advisers access all the help that is available across multiple sectors in one place.

Health, safety and wellbeing

Our aim is that no one will be harmed while working for us or on our behalf, and we actively work to support and improve the wellbeing of our colleagues, for example through our Home Safe and Well programme.

Responsible supply chain

Our United Supply Chain (USC) strategy encourages collaborative and responsible ways of working with our supply chain. Through regular engagement and positive collaboration, we will mitigate risk, improve assurance and create value.

Equity, diversity and inclusion

Our equity, diversity and inclusion plan sets out our strategy and targets, focused on inclusive leadership, encouraging openness, improving our policies, raising awareness, and increasing the use of support networks. Read more on pages 54 to 55.



In this section you will find:

Our culture and core values

How the organisation is governed by the board and its principal committees

Governance of key risks and opportunities, including nature and climate-related disclosures, and our commitment to equity, diversity and inclusion

How we engage with stakeholders and consider their views in decision-making, including our Section 172(1) Statement

Our culture and core values

Culture

Our culture drives the interactions we have with our stakeholders, and our commitment to responsible business and sustainability is reflected in the way we measure and report the value we create as a business. Metrics are monitored and targets set for the greener, stronger and healthier ambitions within our purpose, closely aligned to ESG.

→ Read more about [the value we create](#) on pages 76 to 79 and [our performance](#) on pages 84 to 111

When assessing culture, we look at four categories – our core values, our purpose, our strategic priorities, and our people. We monitor a number of key metrics relating to our people, such as engagement, health and wellbeing, diversity, and development.

→ Read more about [our culture and how the board monitors this throughout the year](#) on page 135

Our culture is underpinned by three core values, which cascade down the business from the board to every one of our colleagues, guiding how we expect our people to behave in a way that drives a high performance and innovative culture.

Core values

Our core values demonstrate the way we work, and we want to ensure these are clear and easy for all our colleagues to apply to every situation. We have redefined our core values to reflect the things we believe are most important to help us deliver our purpose of providing great water for a stronger, greener and healthier North West.

Do the right thing

First and foremost, as a responsible business, we want our people to always focus on doing the right thing.

This means always putting safety first, delivering for the benefit of our stakeholders, championing fairness, acting with courage and speaking up if they come across anything that doesn't feel right.

This is vital for building and maintaining trust with the public and our stakeholders, and for delivering our purpose: doing the right thing for the natural environment helps us to create a greener North West; doing the right thing for customers, communities, colleagues and suppliers helps us to build a stronger and healthier North West.

Make it happen

We are focused on supporting each other and working as a team to make things happen, taking accountability and putting progress over perfection. We want to celebrate successes, for individuals and for the company, and learn when we don't get things right first time.

This can already be seen across the business, for example:

- Enabling and fostering new ways of working through our Innovation Lab process.
- Being able to act quickly and capitalise on pockets of efficient financing opportunity.
- Our decisions to accelerate investment where we can deliver improvements for customers and the environment faster.

Be better

Ultimately, everything we do is about improving things and creating a better tomorrow for everyone. We want to be better as a company, and this means encouraging our colleagues to live this value as well.

We want our people to be curious, ambitious, and solution-focused, seeking out new and innovative ways to deliver our services more efficiently and effectively.

We want to ensure we are learning from the best people that are available to us, which is why we embrace equity, diversity and inclusion, collaboration and partnership opportunities, innovation and best practice ideas from other companies, other industries, and the wider world.

Remuneration linked to sustainability performance

Part of being a responsible business and delivering our purpose involves making sure our executive, and colleagues, are remunerated in line with our performance for a number of stakeholders, measuring against sustainability metrics rather than purely financial performance.

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

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

→ Read more about [our bonus and LTP](#) in the remuneration report on pages 170 to 203

We are a purpose-led organisation and our strategy, which is set and governed by the board and its committees, helps us deliver our purpose and create sustainable value for all of our stakeholders.

Governance structure

Our governance structure is set out in the diagram below and more information can be found on page 130, including the roles of each committee in ensuring progress against our six strategic priorities.

The board retains overall responsibility, but delegates certain roles and responsibilities to its principal board committees, allowing them to probe deeply and develop a more detailed understanding. The main responsibilities of board committees can be found in the corporate governance report on pages 126 to 207, and these pages include our reporting against the UK Corporate Governance Code. We operate our business in line with the management standards to which we maintain certification, including quality (ISO 9001), environment (ISO 14001), asset management (ISO 55001), health and safety (ISO 45001), and customer vulnerability services (ISO 22458).

The board committees report back to the board on what was discussed at their meetings, decisions taken, and, where appropriate, make recommendations on matters requiring board approval.

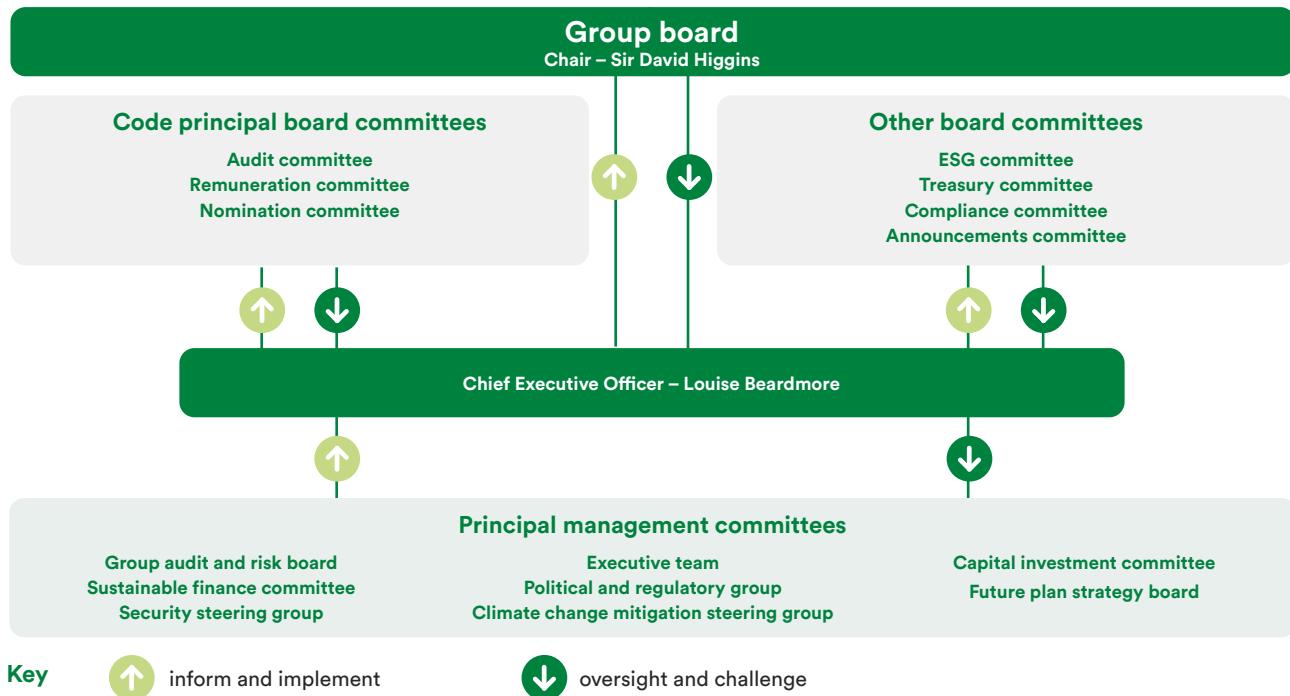
The executive team, comprised of senior managers that report directly into the Chief Executive, is responsible for implementing our strategy and for the day-to-day running of the business and other operational matters. It holds two scheduled meetings each month, one focusing on day-to-day performance and the other focusing on matters of a strategic nature, along with weekly informal ‘scrum’.

Through the principal management committees, senior managers discuss the needs of the business, raise issues, identify and delegate appropriate actions, monitor progress of key performance measures, and ensure any lessons learnt are implemented. The Chief Executive provides a report, covering financial and operational performance, to the board at every scheduled meeting.

There are then further layers of focus at management and business unit level, all of which feeds up through the committees and, ultimately, to the board through this structure. For example, pages 52 and 60 describes how these layers operate in relation to risk management.

 Read more in our [corporate governance report](#) on pages 122 to 207, including individual reports of board committees

Governance structure of the board and its committees and the principal management committees





Governance

Governance and reporting process for risk management

The board ensures its oversight of risk remains effective, and in compliance with the UK Corporate Governance Code, through a number of established reporting routes. The board receives a comprehensive update on our risk profile every six months, including the nature and extent of risk exposure of the most significant event-based risks, relative to the inherent principal risks and new and emerging risks. In addition, specific risk topics are reported to the board to support decision-making, enabling it to:

- decide on an acceptable level of risk, relative to risk appetite and tolerance, to deliver on the group's strategy;
- 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.

Risk-specific governance and steering groups manage individual risks. The operational risk and resilience board provides oversight of asset and operational process, risk and resilience capability, contributes to the business risk assessment process and escalates risks and issues to the group audit and risk board (GARB). The executive-led GARB focuses on: the adequacy, effectiveness and performance of governance processes; risk management and internal control; monitoring compliance and assurance activities; identification of emerging themes and trends; and resilience across the group. Supported by company secretariat and the corporate audit teams, the audit committee reviews the effectiveness of risk management and internal controls before these are agreed by the board.



Governance around climate-related risks and opportunities

Summary

- The board and its committees have oversight and scrutiny of climate change matters, including tracking delivery of our carbon pledges, science-based targets, and review of the climate-related risks.
- Climate-related governance is fully integrated within board and management committee responsibilities, supported by our director-led climate change mitigation steering group and cross business working groups.
- Carbon measures are included within the executive remuneration framework and are key components of the environmental performance metrics.
- Public disclosures are complemented through conversations with investors and participation in climate-related indices and assessments. Leadership ratings in both climate change (A-) and supplier engagement (A) for CDP 2022.

Board oversight of climate-related risks and opportunities

The climate and natural environment are critical to our purpose to provide great water, therefore climate matters are monitored closely by our board and the principle committees as a core part of their duties and agenda. The role of the board of directors is to set, review and guide the strategy of the group ensuring the long-term success of United Utilities for customers, investors and wider stakeholders. Climate-related issues play a significant role in determining what is sustainable and responsible for the environment and customers.

The board provides oversight of climate-related matters in the business through our business model, where we:

- consult and plan for short, medium and long-term horizon;
- deliver the outcomes set out in our regulatory contract;
- create long-term value for a range of stakeholders; and
- review and measure our progress.

Our CEO, Louise Beardmore, has responsibility to manage the group's business and to implement the strategy and policies approved by the board and has accountability to the board for climate matters. Louise, as new CEO, is an active and vocal champion with respect to environmental topics and initiatives and she passionately promotes the need for both pace and scale of action to adapt and mitigate climate change.

This year, climate change matters have been discussed by the audit committee in its review of carbon commitments risk and the introduction of the enhanced audit and assurance framework. The remuneration committee covered climate through endorsing continuing the link between long-term incentive outcomes and the delivery of carbon pledges.

Considerations in respect of the impact of climate change risk on the measurement basis of the assets and liabilities of the group are included within the notes to the financial statements (Accounting Policy note, page 241).

Management role

The CEO has ultimate responsibility for the group's preparedness for adapting to climate change and driving our mitigation strategy and does so through chairing all relevant management committees. Our CFO, Phil Aspin, has executive responsibility for risk management and has made climate change and ESG core to the business. The executive management team, through its groups and committees (see structure on page 130), is tasked with assessing and managing the climate-related risks and opportunities and enacting the mitigating actions, for example by ensuring the company has the necessary financial resources and skilled people are in place to achieve its climate-related objectives.

The high value we place on climate and the environment is seen by the fact that most of our board and management committees contribute to our 'create a greener future' strategic priority. This illustrates that climate-related matters influence both day-to-day and strategic decision-making and behaviours, for instance, how we respond to the high costs of energy by focusing on efficiency and maximising use of our self-generated electricity and introducing climate-related criteria into supplier selection evaluations.

Future focus

- Continued communication and engagement programme with all stakeholder groups.
- Deploy whole-life carbon costing using an internal carbon price aligned to government carbon values.

➔ See how [climate-related matters are considered within our governance structure](#) on page 130

➔ Read more about [our committees including how often they meet and ESG skills](#) on pages 134 and 144



Governance around nature-related dependencies, impacts, risks and opportunities

Board and committee oversight

The board provides oversight of nature-related issues through six-monthly updates on performance. Matters are regularly reviewed at the ESG committee such as our progress against our Better Rivers plans.

Management role

Our interactions with the natural environment are broad and complex. Overall accountability rests with the executive team, who are responsible for day-to-day compliance with the legal and regulatory requirements as set out in our environmental policy. The environmental advisory group is a management group with a remit to ensure the delivery of the environmental policy commitments, including nature-related strategies (e.g. land, catchment, clean air, plastics, waste, water quality, water resources, and natural capital).

Governance over these strategies is through cross-departmental working groups comprised of subject matter experts and decision-makers to drive implementation. Governance around investment in nature-related risks and opportunities is applied as part of our Internal Control Manual.

Progress this year

- Enhanced our approach to nature-related reporting using the beta release of the TNFD framework guidance.

Future focus

- Communication and engagement across the organisation on the increased interest in nature-related disclosures and reporting.



Governance around other risks and opportunities of material interest

Cyber security

The board is responsible for the oversight of cyber security and updates are provided to the board at each of its scheduled meetings, with a presentation given by the chief security officer twice a year. The executive team is updated on performance on a monthly basis.

The security steering group (SSG) meets monthly to consider changes to digital and physical security risks and mitigating actions, and to review any incidents. Members of the committee include the company secretary, who has responsibility for security matters and is in attendance at all board meetings, the chief security officer, and representatives from each business unit. The SSG reports security metrics on a quarterly basis to the group audit and risk board, and six-monthly to the board. As it is one of our top ten principal risks, an update on cyber security is provided every six months to the board. The chief security officer reports to the company secretary and, along with the information security team, works closely with the digital services team.

Our information security policies and compliance are aligned to ISO 27001. As a provider of essential services for UK Critical National Infrastructure, we are governed by The Network and Information Systems Regulations, which came into force in 2018 and focuses on cyber security compliance. We are making good progress with our programme of work to comply with these regulations. We are required to comply with the Security and Emergency Measures Direction (SEMD) to maintain plans to provide a supply of water at all times, and this includes security components. A SEMD report is submitted annually to the Drinking Water Inspectorate (DWI) and this is subject to independent attestation prior to submission.

Financial risk management

The board delegates authorities to the treasury committee, which reviews its policies in relation to key financial risks on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

As well as managing our exposure to these key financial risks, these policies help us maintain compliance with relevant financial covenants in our borrowings, including interest cover and gearing metrics, and help us to maintain our credit ratings.

Day-to-day responsibility for operational compliance with the treasury policies and the targets set therein rests with the group treasurer. An operational compliance report is provided monthly to the treasury committee, detailing our performance against these policies and highlighting the level of risk against the appropriate risk limits in place, with more detailed management information provided quarterly.

Affordability and vulnerability

The customer services management team has responsibility for the delivery of our affordability and vulnerability schemes, including our certification to ISO 22458 for our Priority Services scheme. The schemes are continuously monitored and performance is reported to the executive performance meeting and the board on a monthly basis. Affordability and vulnerability are reviewed by the board twice a year.

Health, safety and wellbeing

Health, safety and wellbeing matters, including policies and our accreditation to ISO 45001, are managed through the health, safety and wellbeing team and reported monthly to the executive performance meeting. Health, safety and wellbeing is reported to the board every month, with a detailed review twice a year.

Responsible supply chain

The commercial performance team has responsibility for the delivery of our United Supply Chain (USC) programme. Supplier sign ups to our Responsible Sourcing Principles are reported on a monthly basis, alongside other commercial measures, through the executive performance meeting and on to the board.

**OTHER**

Governance around other continued

Equity, diversity and inclusion

We need fantastic people to help us deliver great service to all our customers. We want our workforce to reflect the local communities we serve, with all colleagues feeling welcomed, valued and included, regardless of their gender, age, race, disability, sexuality or social background.

Our award-winning ‘We are Better Together’ campaign aims to drive a diverse and inclusive workforce. We are proud of how far we have come and in our latest internal engagement survey 89 per cent of colleagues said that United Utilities supports diversity and inclusion in the workplace – scoring higher than both the UK norm and Utilities norm benchmarks and recognising our drive to be an inclusive workplace of choice.

Our people director sponsors the overall equity, diversity and inclusion plan, which sets out our bold, long-term targets to be achieved by 2030, and tracks its progress with the executive team.

We have been recognised as one of the top 15 FTSE company performers when it comes to women in leadership, having exceeded the 40 per cent target for Women on Boards and Women Leaders set by the FTSE 100 Women Leaders Review, tracking at 44.4 per cent and 43.1 per cent respectively. We have been included once again in the Bloomberg LP Gender-Equality Index, which tracks the performance of public companies committed to transparency in gender-data reporting. We are one of 484 companies across 45 countries and regions committed to more equal and inclusive workplaces.

At the 2022 Water Industry Awards, we were Highly Commended for our approach to recruiting a diverse apprenticeship cohort in the Diversity & Inclusion Initiative of the Year. We were also winner of the Inclusive Culture Initiative Award for our ‘We Are Better Together’ campaign at the 2022 Inclusive Companies Awards, recognising our remarkable efforts and commitment to harness and strengthen a diverse workforce.

We are proud to have been ranked 11th in the Inclusive Companies Top 50 UK Employers list, reinforcing our pledge to take action on diversity and inclusion and recognising our commitment to creating a more equal and inclusive workplace. For the second year running, we are the highest ranking water company in this respected, cross-sector inclusion index.

We have improved our position in the Financial Times Inclusive Leaders Index 2023, which assesses companies’ success in promoting diversity aspects, such as gender, age, ethnicity, disability and sexual orientation, in their workforce. We were placed 89th out of 850 companies across Europe, and are the only UK utilities company in the top 100.

Ethnicity

We continue to collect information to build on our diversity data. The percentage of colleagues who choose not to disclose their ethnic origin continues to decrease, currently at 8.2 per cent. The proportion of our colleagues who identify as from an ethnic background stands at 2.7 per cent.

We’ve committed to supporting the ‘10,000 Black Interns’ programme over the next five years. During the year, we welcomed 23 students onto placements. The programme included ‘lunch and learn’ sessions with our directors, team-building activities with the local Army Reserves, and a CV and interview skills workshop with specialist recruitment providers.

It was a huge success, with 56 per cent of those who were ready for employment being offered a role with us. 54 per cent of interns from the programme are female, and 60 per cent of interns we offered a role to are female.

Following the success of our first ‘Stepping Up’ programme in 2021, specifically designed for colleagues from an ethnic minority background, we ran a second cohort for a group of ten colleagues. Over the past two years we’ve supported 20 people, and 35 per cent of these are female. The programme has provided participants with opportunities to network with senior leaders, sponsors and mentors, and to develop personal and leadership skills to help them fast track their careers with us. Since completing the programme, 50 per cent of participants have already secured a new role and over 40 per cent now manage a team.

Gender

Our workforce profile remains at 65 per cent male and 35 per cent female. We recognise the need to attract diverse and talented individuals with an interest in science, technology, engineering and maths (STEM) and have a focused approach to improving the gender diversity of our workforce.

To inspire young people from a wide range of backgrounds into STEM-related careers, we continue to run our award-winning ‘Engineering Masterclass’ competition with secondary schools from the local area – some of which have a high number of pupils from deprived and disadvantaged backgrounds. This year, over 80 students took part and 63 per cent of them were female. Following the masterclass, 95 per cent of students said they were extremely interested in pursuing a STEM-related career and 100 per cent said they would recommend the session and now have a better understanding of engineering at United Utilities.

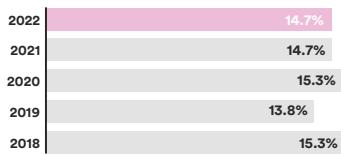
We continue to promote and support strong female role models at all levels of our organisation. Louise Beardmore’s appointment as CEO means the percentage of women serving on our board has increased to 44 per cent, while females now make up 50 per cent of our executive leadership team. We offer targeted support for future female talent through our Female Leadership Pipeline and Aspiring Manager Programme, which have been designed to support colleagues into leadership positions. Sixty-seven per cent of colleagues currently on our Aspiring Manager Programme are female. Overall, 42 per cent of our graduates are female and 30 per cent of our apprentices are female.

In the last 12 months, we have welcomed 32 graduates on our schemes and 61 apprentices have also joined us on operational, service and future-facing digital and environmental schemes. Of our new intake, 41 per cent of graduates are female and 35 per cent of apprentices are female, compared to the UK average of 24 per cent for females in STEM roles.

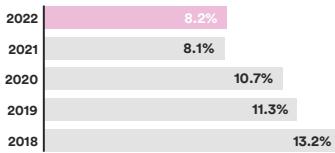
We are pleased that 91 per cent of our current female workforce would recommend us as an employer and 94 per cent say that we support diversity and inclusion in the workplace.

We remain committed to closing the gender pay gap in our organisation. At 14.7 per cent, our median gender pay gap is less than the national average and less than the gap in similar STEM-industry organisations. We are confident that the work we are doing to attract, support and develop women, to build a ‘pipeline’ of female talent, will bring long-term improvements in our gender pay gap.

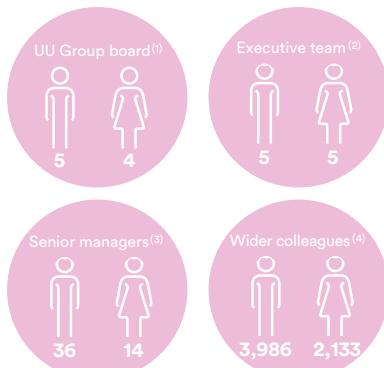
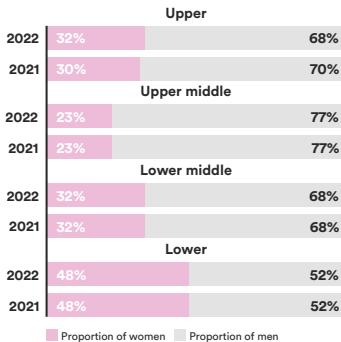
Our median gender pay gap over time



Our mean gender pay gap over time



Percentage of women and men overall and in each quartile of the pay range (figures for 2022 and 2021)



⁽¹⁾ Group board as at 31 March 2023. Includes Steve Mogford.

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

⁽³⁾ As at 31 March 2023, there were six male and three female colleagues appointed as statutory directors of subsidiary group companies but who do not fulfil the Companies Act 2006 definition of 'senior managers'.

⁽⁴⁾ Wider colleagues as at 31 March 2023.

Colleague networks

We are committed to providing a supportive and inclusive working environment for all of our colleagues and we recognise that leaders have a clear role when it comes to championing equity, diversity and inclusion. Our leadership team has taken an active part in sponsoring each of our colleague networks, which support colleagues within under-represented communities and focus on educating, raising awareness and celebrating key events – such as Black History Month, International Women's Day and National Autism Week.

Through our networks we have hosted live Q&A sessions with external speakers, including one in partnership with Northern Power Women, and established monthly cafés around the topics of hearing loss, neurodiversity and menopause. We introduced menopause training that everyone in the company can access, and we continued to roll out our 'Pride in the workplace' training, designed to help break down barriers and improve confidence to talk about LGBT+ in the workplace.

We are a Disability Confident employer and we are one of over 20,000 UK employers to have signed up to the Government scheme.

We held our inaugural 'Better Together Inclusion Awards', to recognise individual colleagues and teams for their hard work and commitments towards making United Utilities a more inclusive workplace, and to celebrate the achievements of those colleagues going the extra mile in our wider communities.

Attracting local diverse talent

We've been raising the profile of our commitment to promoting STEM-related careers. During National Apprenticeship Week, our apprentices and early careers team mentored students from University Technical College Warrington, attended four different schools and colleges and hosted the Engineering Masterclass final, with over 80 students from schools in the local area.

We welcomed 600 aspiring apprentices and parents to our first ever apprenticeship open evening and delivered a series of apprenticeship accelerator sessions for students from under-represented communities across the North West. The sessions aim to help students accelerate their careers – focusing on apprenticeships and improving employability prospects and skills.

Our 'Tap into your Future' virtual work experience programme has offered young people in years 11 to 13 an exclusive insight into our business and our fantastic early careers opportunities. The sessions targeted under-represented communities across the North West and attracted over 500 students. A hundred per cent of attendees rate United Utilities as a diverse and inclusive employer, and 76 per cent said they were extremely interested in applying for an apprenticeship after completing the programme.

In the last 12 months, we have created over

£695k

of social/local economic value
(TOMS Social Value Portal)

44%

of our group board
is female

50%

of our executive team is female



Engaging with our stakeholders

We actively engage with stakeholders to build and maintain trust and ensure we create long-term value for all. Strong, constructive relationships help us understand what matters most to them. The following pages detail how we engage with stakeholders who influence what we do and benefit from the value we create (in dark blue), and those who just influence what we do (in grey), across a range of ESG issues. Our materiality matrix on page 29 details stakeholder priorities and how these affect our ability to create value.

Our stakeholder relationships are subject to robust governance to ensure stakeholder insights are taken into account in decision-making at executive and board level. The board's ESG committee has stakeholder engagement and reputation as one of its standing agenda items, and the chair of the independent customer challenge group (YourVoice) attends board meetings to provide its perspective. Our Section 172(1) Statement on pages 58 to 59 provides examples of some of the ways stakeholder views have influenced key board decisions during the year.



Colleagues

Our colleagues are the face of the company and we could not deliver our services without them, so maintaining productive relationships built on trust is vital to delivering our purpose. Colleagues know our business better than anyone, with a diverse range of views and experience, making them well placed to help us identify new ways of working and opportunities for improvement.

How we engage

- Annual opinion survey enabling confidential feedback
- Regular manager one-to-one meetings providing two-way engagement
- Colleague Voice panel providing a link to the board
- Monthly trade union forums

Top three material issues

- Colleague engagement
- Diverse and skilled workforce
- Health, safety and wellbeing



Communities

Our work puts us at the heart of local communities, places where customers and colleagues live and work. We want to support them to be stronger and increase understanding of the impact and contribution our work has on everyday life. We balance decisions based on often competing stakeholder interests and look to develop collaborative and partnership solutions where feasible.

How we engage

- Face-to-face meetings with local and parish councils to discuss projects
- Online portals for large capital projects to get the views of communities where we are working
- Facilitated workshops with partners to scope out solutions
- Public events across the region to promote sustainable uses

Top three material issues

- Land management, access and recreation
- Supporting communities
- Trust, transparency and legitimacy



Customers

To deliver value for customers, we need to understand their short-term issues, and longer-term expectations of us as their water company. As expectations change, we need to evolve our services to ensure we meet them. We actively seek feedback on what customers think about us so we can make our services better and address the issues that matter.

How we engage

- Contacts through our operational call centre and social media channels
- Visits to customer properties to resolve issues. Direct customer research on our service provision
- Face-to-face engagement with groups representing vulnerable customers, such as MIND

Top three material issues

- Drinking water quality
- Customer service and operational performance
- Affordability and vulnerability



Environment

We depend on the environment and have a key role in protecting and enhancing it across the North West. 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. Working together is often the best way to find the right solution.

How we engage

- Meetings with national and regional environmental regulators, such as the Environment Agency
- Customer research to shape our investment plans
- Events such as our Environmental AGM
- Partnerships where we have common interests

Top three material issues

- Storm overflows
- Climate change
- Water resources and leakage



Investors

It is important that investors have confidence in the organisation and how it is managed. We provide regular updates to debt and equity investors and meet with many top investors to establish two-way dialogue about matters of interest to them. Increasingly, this includes environmental, social and governance (ESG) updates alongside financial and performance data.

How we engage

- Capital market days and investor roadshows
- Annual general meeting open to all shareholders
- Direct dialogue with relationship banks and credit agencies
- Participation in investor-led ESG ratings and indices

Top three material issues

- Customer service and operational performance
- Financial risk management
- Corporate governance and business conduct



Suppliers

We rely on suppliers to deliver our services. Good relationships help ensure projects are delivered on time, to good quality, at efficient costs. Awareness of issues in the supply chain means we can address them together and become more resilient. Supplier engagement can also help us identify and realise innovative approaches and solutions.

How we engage

- Directly through supplier relationship management process and United Supply Chain (USC)
- Setting challenges through our Innovation Lab
- Supplier databases such as Achilles, to assess market opportunities

Top three material issues

- Trust, transparency and legitimacy
- North West regional economy
- Responsible supply chain



Media

The media is influenced by stakeholders' interests, and in turn influences them through what it reports. Many people receive their information about us and our activities from traditional and/or social media, so it is important that coverage is fair, balanced and accurate. This requires effective two-way dialogue between the company and the media, and we provide media training to key senior managers to facilitate this.

How we engage

- 24/7 press office available to respond to media requests and publish content for direct media use
- Dedicated social media team covering multiple channels
- Active media and social monitoring focused on the company and sector

Top three material issues

- Storm overflows
- Customer service and operational performance
- Trust, transparency and legitimacy



Politicians

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 across the North West.

How we engage

- Direct engagement with regional and national politicians across the spectrum, and working groups with devolved administrations and local authorities on common interests
- Direct engagement with parish councils linked to planning applications
- Responding to enquiries through our corporate affairs team

Top three material issues

- Political and regulatory environment
- Customer service and operational performance
- Affordability and vulnerability



Regulators

Through proactive, constructive engagement with economic, quality and environmental regulators, we understand requirements and deliver against commitments over specified time periods, aiming to meet or exceed the expectations they have of our business. We actively engage in events such as workshops and respond to consultations to contribute towards the policy and regulatory framework in which we operate, covering customer, economic, environmental, social and governance matters.

How we engage

- Regular meetings with all regulators on objectives and performance
- Responses to consultations and contributing to policy debates on how regulation could evolve

Top three material issues

- Political and regulatory environment
- Customer service and operational performance
- Resilience



We value the diverse perspectives that a broad range of stakeholders, representing different and often competing interests, can bring to our decision-making.

S172(1) Statement

Our key decisions during the year to 31 March 2023

Introduction

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

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

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

The board of directors of United Utilities Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2023 including:

Our strategic priorities

- | | | | | | |
|--------------------|-------------------------|--|---|-------------------------------|-------------------------------|
| Improve our rivers | Create a greener future | Provide a safe and great place to work | Deliver great service for all our customers | Spend customers' money wisely | Contribute to our communities |
|--------------------|-------------------------|--|---|-------------------------------|-------------------------------|

Cyber security

Link to strategy



The decision

To respond to calls from investors and company commentators on the board's oversight of cyber issues and security. Cyber risk ranked as a top ten risk at United Utilities and this has been the case since 2019. The board receives presentations from the chief security officer, who reports functionally to the company secretary, twice a year, providing the board with insight into mitigation activities employed by the group in response to the evolving threat of cyber and physical security attacks. The board is kept apprised of developments in this area, and, in particular, matters impacting the water and other utility sectors. During the year, the audit committee, as part of its responsibility for financial internal controls, received a presentation on the management and assurance of the IT controls environment and its contribution toward mitigation of cyber crime. The board spends time understanding the increasing threats to the group's cyber/digital security and overseeing management's actions to mitigate the risk of a serious cyber attack (see pages 53 and 69), with board members providing their experience of similar issues faced by other sectors to the board's discussions. Our Systems Thinking approach real-time digital monitoring capabilities have produced significant operational performance improvements, but adversely raised the risk of cyber attack, in a similar way to that of hybrid working.

How we engaged with stakeholders

Preparedness to mitigate cyber attacks is a topic investors are often keen to explore. As a provider of essential services for UK Critical National Infrastructure, the group is governed by The Network and Information Systems Regulations (NIS Regulations), which came into force in 2018 and focus on cyber security compliance; monitoring/enforcement of these regulations is within the remit of the DWI. The group is required to comply with the Security and Emergency Measures Direction (SEMD) which directs water undertakers to maintain plans to provide a supply of water at all times and includes security components. A SEMD report is submitted annually to DWI and is subject to independent attestation prior to the submission. Colleagues are encouraged and trained to be vigilant to phishing and cyber attacks and a variety of modern protective defence tools are employed to protect our systems and data.

The board's view

The group's information security policies and compliance are aligned to ISO 27001. Good progress is being made with the programme of work to comply with the NIS Regulations, although the evolving nature of the sector-specific profile defined by the DWI can be challenging.

The board is strongly averse to accepting cyber risk within the group's business strategy or operational activity. The approach to the protection of information and data held by the group about its assets and operations, customers and colleagues is aligned with the group's strategic priority of delivering great service for all customers and the board believes that this would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

Better Rivers: Better North West

[Link to strategy](#)



The decision

Storm overflows help to minimise the risk of sewer flooding in periods of heavy rainfall by allowing heavily diluted wastewater to be released directly to the environment. The group committed to four pledges in its Better Rivers: Better North West programme to underpin a revival of rivers across the North West region. £230 million has been committed to deliver environmental improvements, supporting at least a one-third sustainable reduction in the number of activations recorded from our storm overflows by 2025 compared to the 2020 baseline, leading to 184 kilometres of improved waterways across the group's region. We have committed to accelerate these plans and get a head start on future requirements through £250 million of reinvestment funded from outperformance, to take action to improve river health across our region and make other environmental improvements.

How we engaged with stakeholders

Collaborative action will deliver the best results for our region, and an important step in the journey was the organisation and participation in the Future Rivers Forum in November 2022, which brought together representatives from environmental NGOs, businesses, local authorities and our regulators to focus on identifying new collaborations and collective actions to improve river health. Customers have told us we must report on the steps we are taking to improve river health. Our storm overflows report was published in December 2022, coinciding with the holding of the first Environmental AGM, which was attended by over 30 North West environmental leaders including representatives from local nature partnerships, wildlife trusts, rivers trusts, combined authorities and other environmental stakeholders. A new partnership was launched with farmers to work with the farming community to incentivise farming practices that reduce the impact to river health, share best practice and develop sustainable farming clusters.

The board's view

Storm overflow activations are a big area of focus for the whole industry as part of improving river health. Following keen interest from the public and government, and publication of the new Environment Act 2021, ambitious targets have been set for a progressive but substantial reduction in activation frequency across the country. The North West receives 28 per cent more average annual water runoff than other regions and the industrial legacy of our region means we have a much higher proportion of combined sewers, with 55 per cent of our network taking both waste and surface water, compared with the industry average of 33 per cent.

We were an early adopter of activation monitoring and have one of the largest installed bases in the sector, with 100 per cent coverage to be achieved by 2023. Our Better Rivers programme is delivering improvements that support our target of at least a 33 per cent reduction in activations by 2025, from a 2020 baseline. We have already made great headway, delivering a 39 per cent reduction so far. We are conscious that performance can be significantly influenced by weather and while we are extremely pleased with the progress delivered so far, we recognise that there is more we could do, both individually and as a sector. The Government has asked us to go faster, and we have responded by identifying additional investment that could be spent in AMP7 but would be fully recovered in AMP8. We are still early in the process of scoping and costing our environmental programme for AMP8, but as a result of these targets and other drivers coming out of the Environment Act, early indications point to an investment that could be significantly higher than the average level over the last two AMP periods. Given the size of this potential investment, we are in discussions with regulators about balancing the pace of investment in light of affordability and deliverability considerations, and the investment needed to meet these new environmental requirements is likely to run over successive AMP periods.

The board, in committing to playing its part in improving river health, believes this would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

Water Industry National Environment Programme (WINEP)

[Link to strategy](#)



The decision

Approval of the 2025–30 WINEP that sets out how United Utilities intends to meet its obligations from environmental legislation and UK Government policy.

How we engaged with stakeholders

We have been working in collaboration with our regulators, Ofwat, the Environment Agency, Natural England and Defra, and our suppliers who are key to helping us deliver our programme.

The board's view

The company has taken all reasonable steps to deliver a high-quality WINEP programme that offers 'best value' as defined by the WINEP Options Development Guidance⁽ⁱⁱ⁾ as well as the Water Industry Strategic Environmental Requirements (WISER) based on a sound and robust evidence base.

In relation to the 'affordable to deliver' requirement for a best value plan, the company has sought to make the plan as affordable as possible. However, the WINEP and WISER requirements are driving a programme of very significant size and scale and with an ambitious timetable for implementation. This means that it is not possible at the time of the WINEP final submission in January 2023 to conclude that the programme would be affordable to customers as a whole. The company will continue to engage with the UK Government and regulators to understand the scope to improve this position. The WINEP programme has been subject to sufficient processes and internal systems of control to ensure the reliability of information and has been assured in line with the published assurance framework. The company has appropriately considered the feedback and recommendations from independent external assurance partners. Notwithstanding the board's support for the submission, it highlighted the considerable risk associated with the programme including the risk relating to: affordability, deliverability, the long-term impact on operating costs, the impact on whole-life carbon, and the impact on operational and delivery performance. The submission of the WINEP is a statutory requirement and having taken all reasonable steps to deliver a high-quality WINEP programme the board believes our proposed programme is one that would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

⁽ⁱⁱ⁾ Water industry national environment programme, Options development guidance, July 2022, version 3.



Risks and opportunities

In this section you will find:

Our approach to identifying, assessing and managing risks and opportunities

Our principal risks, common themes, and most significant event-based risks

Our management of climate, nature and other risks of material interest

New and emerging risks and opportunities

Our risk and resilience framework

We have a robust risk and resilience 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 a stronger, greener and healthier North West and be more resilient across our corporate, financial and operational structures. A key objective of our approach to risk and resilience is to support the sustainable achievement of the strategic priorities that underpin our vision to be the best UK water and wastewater company:

- Provide a safe and great place to work;
- Deliver great service for all our customers;
- Improve our rivers;
- Create a greener future;
- Spend customers' money wisely; and
- Contribute to our communities.

Our risk and resilience 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. This includes the enhancement of non-financial assessment criteria by aligning to the six capitals (see page 34) to ensure a consistent consideration of key stakeholders and areas of value; an improved focus on control; and the continued development of tactical appetite and tolerance statements.

Identifying opportunities

Factors from both the internal and external business environment may give rise to opportunities that will positively affect our performance and future prospects. The identification, analysis and management of upside as well as down side risk will further support the achievement of the strategic priorities, with our Systems Thinking approach and culture of innovation being a fundamental component (see pages 62 to 63).

Governance and reporting process

The risk management and governance and reporting process, as summarised on page 52, can be represented by the following diagram:

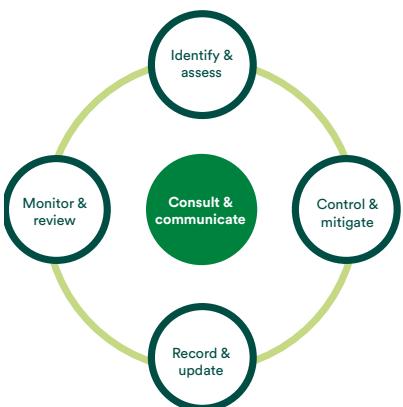


Risk appetite and tolerance

Focused on supporting decision-making, the risk appetite and tolerance framework consists of a package of measures. The General Risk Appetite represents financial limits against which event-based risks are compared at each full and half-year assessment and reporting cycle. In parallel are a series of strategic statements which align directly to the principal risks (see pages 64 to 65). Each statement reflects the strategic intent, strategic priority, relevant stakeholders and governance, but fundamentally emphasises the attitude to risk taking and control relative to four descriptors:

- **Averse:** A strong opposition to accept risk within business strategy or operational activity.
- **Prudent:** A reluctance to accept risk within business strategy or operational activity, but careful acceptance within tight boundaries.
- **Moderate:** Willingness to accept risk with regard to business strategy or operational activity provided this is within reasonable limits.
- **Accepting:** Willingness to accept risk with regard to business strategy or operational activity.

As a regulated company providing essential public services, none of the principal risks have risk accepting as a strategic direction or approach. Underpinning each strategic statement, and currently under development, are a series of more tangible tactical statements with specific levels and limits.



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 ongoing analysis of the corresponding causal factors, consequences and the control effectiveness, taking account of both the internal and external business environment. This process quantifies 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. Risks are assessed both bottom-up, through the biannual business assessment process, and top-down through review of the risk profile at the executive group audit and risk board (GARB), executive performance meeting and the group board. This approach ensures reporting reflects the risks facing the company, serves to calibrate the most significant risks from a financial and reputational context and enables assessment of the risks relative to our appetite.

Risk profile

The business risk profile is based on the value chain of the company, with the ten principal risks representing inherent risk areas (primary and supportive) where value can be gained, preserved or lost relative to the performance, future prospects or reputation of the company. Underpinning the principal risks, the profile consists of approximately 100 event-based risks, each of which is allocated to one of the ten inherent risk areas based on the context of the event, enabling the company to consider interdependency and correlation of common themes (see pages 64 to 65) and control effectiveness.

Principal risk heat map

The heat map provides an indicative view of the current risk exposure (likelihood of occurrence and most likely impact) of each of the principal risks relative to each other.

Seven of the principal risks have remained relatively stable in the last 12 months with the following principal risks demonstrating an increase in exposure:

- **Finance** due to current economic conditions and uncertainty;
- **Conduct and compliance** due to the potential for increased penalties; and
- **Political and regulatory** due to increased public and political interests in the water sector and societal expectations.

→ Read more about our **principal risks** on pages 64 to 65 and **new and emerging risks** on pages 74 to 75



Risk exposure

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

Decreased Stable Increased

Principal risks

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



Risks and opportunities

Fostering a culture of innovation

We embrace technology and seek innovative solutions to create opportunities that help us tackle the challenges we face and continue improving performance.

This is at the heart of our Systems Thinking approach, as set out on page 63.

We use a variety of methods to find novel ideas and solutions from different sources, internally and externally, including idea scouting, learning from other water companies across the world, and from other industries.

Culture

Our core values drive an innovative culture, and we encourage innovation at all levels inside the business, such as our CEO Challenge programme where graduates work in groups to find novel ways to tackle challenges that we face as a business and present these back for consideration and implementation.

Innovation Lab

Our Innovation Lab, currently undergoing its fifth programme, encourages suppliers to bring us innovative ideas and allows them to test solutions in a live environment, helping us find solutions where we may not otherwise have looked.

AMP7 innovation fund

Recognising the service and efficiency improvements that innovation can offer, Ofwat has established an innovation fund through which companies bid for funding for innovative projects.

We have been involved in successful bids to influence over £80 million of projects, leading on seven totalling £28.2 million. This includes the Catchment Systems Thinking Cooperative where we are working with others to revolutionise the way crucial data about the water environment is shared, with a particular focus on river health. We have already delivered one leading project and expect to complete a second in 2023.

Working with others to find mutual benefit solutions

We do not operate in isolation and we recognise that working with others can create significant opportunities to identify and develop better solutions.

This co-operative approach can take many different forms, such as summits that bring people from a variety of different organisations together to discuss and formulate ideas, co-creation of solutions with customers or other interested parties, and forming partnerships to tackle issues of mutual interest together.

Affordability and vulnerability summits, and the Hardship Hub

This year we hosted our first vulnerability summit and fourth affordability summit, bringing together a mix of organisations from across the North West, including debt advice charities, the Department for Work and Pensions (DWP), councils, housing associations and other utility companies, to discuss what more can be done to support people who are struggling. Our first affordability summit led us to develop the Hardship Hub, a platform that helps debt advisers gain and share knowledge on local support schemes, allowing them to help people more quickly and easily.

Future rivers forum

We partnered with The Rivers Trust to host a Future Rivers Forum in November 2022, looking at how we can address the challenges that face rivers in the North West, such as climate change, population growth and pollution. This is a problem that cannot be solved in silos; it needs practical, collaborative action. Industry leaders from a variety of sectors worked together to produce solutions and tangible actions that will progressively reduce negative impacts to river health. This is one of many areas where we are working with others to improve river water quality, including recruiting river rangers through our Better Rivers plan.

Love Windermere

We are a part of the Love Windermere partnership, led by the Environment Agency, which is working to better understand the factors affecting water quality and develop long-term plans to maintain and improve water quality in the lake while balancing the needs of nature, the community and the local economy.

This plan will set out a road map for environmental protection that could be replicated across the UK, and considers the way that farmland is managed around the lake, how rainwater drains from built-up areas, and the way that wastewater systems and private septic tanks are managed.

Diversity and inclusion summit

In April 2022 we hosted our first diversity and inclusion summit, bringing lots of organisations and businesses together to share ideas and best practice to help grow more inclusive workplaces and communities across the North West.

Severn-Thames transfer scheme

Working with others goes beyond our region, and we are collaborating with other water companies on a national water trading scheme as part of the national strategy for managing the risk posed by increasing dry weather, and doing so in a way that minimises the carbon impact.



Systems Thinking

Our Systems Thinking approach is a key area of continuing opportunity. This enables us to better manage our end-to-end water and wastewater systems, optimising our decision-making and moving away from the traditional reactive approach to address problems proactively before they affect customers. This creates long-term value, improving our asset reliability and resilience, reducing unplanned service interruptions, and delivering cost savings.

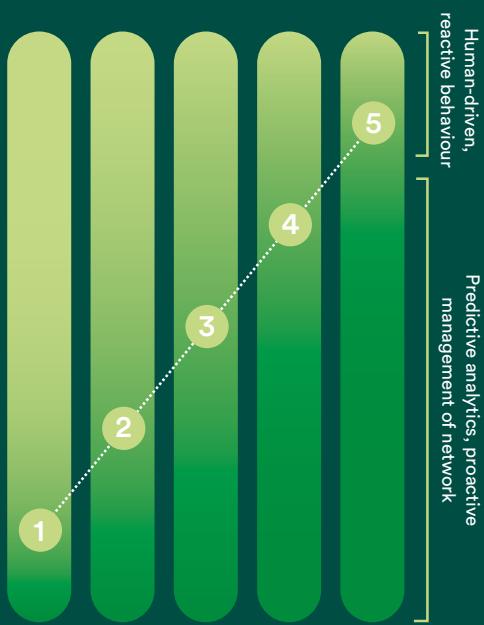
Systems Thinking capability maturity

We assess new opportunities against five capability maturity levels.

At the lower levels there is a high degree of human intervention and reactive behaviour.

At the higher levels there is a high degree of predictive analytics, use of artificial intelligence to process vast amounts of data, joined up decision-making across the system, and higher levels of automation.

It requires time and investment to reach the higher levels, and we are at different levels in different areas of our business as we continue to embed and progress our approach.



1 Maturity level 1

Event-led human-driven analytics

2 Maturity level 2

Centralised view of system performance

3 Maturity level 3

Technology-enabled, standardised analytics and insight

4 Maturity level 4

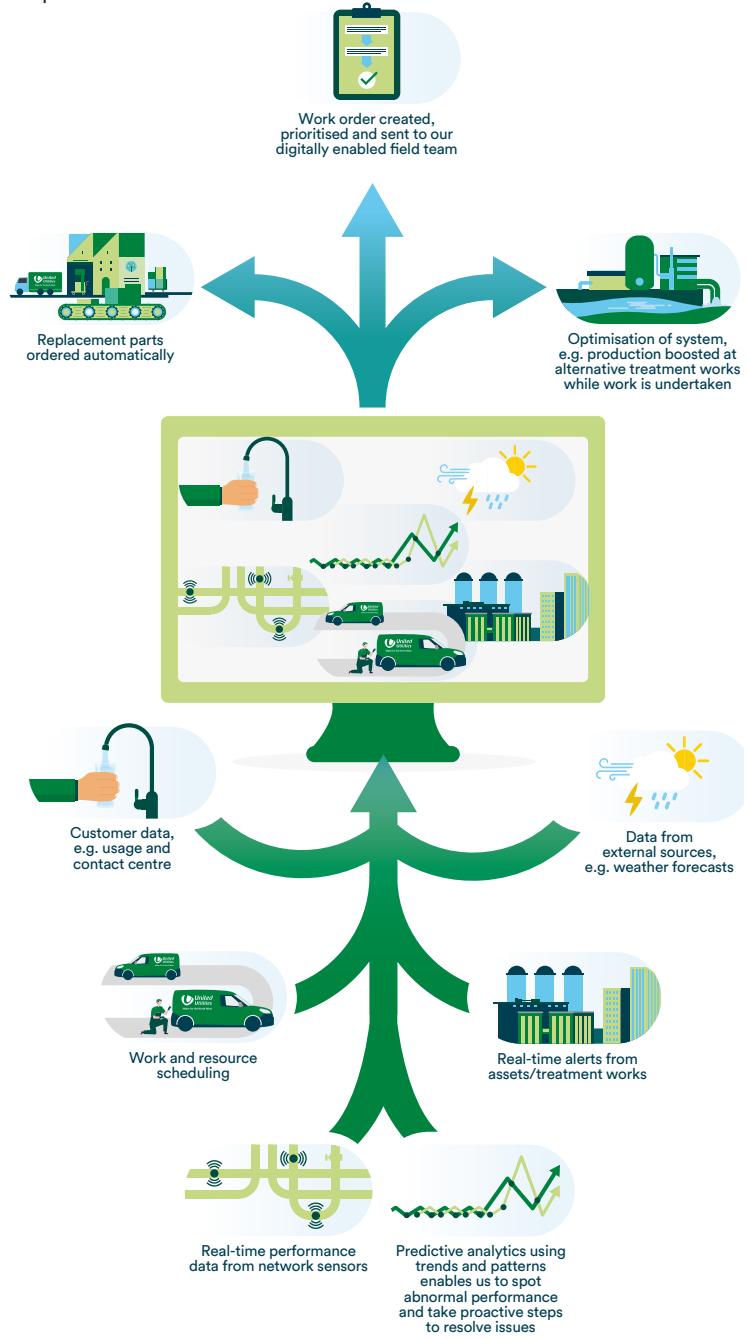
Machine-led system analytics and system management

5 Maturity level 5

Machine intelligence provides full system control

Central system management from our Integrated Control Centre

Systems Thinking involves looking at the entire system and all of its linkages, rather than individual assets or sites in isolation, to find the best all-round solutions. Our digital backbone sends vast amounts of real-time data to our Integrated Control Centre (ICC), from which we plan, monitor and control our operations. We also factor in other source data such as weather forecasts and customer demand, and at the higher capability maturity levels we use artificial intelligence and machine learning to identify trends and anomalies that could signal potential issues.





Risks and opportunities

Our principal risks

Risk exposure

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

Decreased

Stable

Increased

Inherent risk area (principal risk) ⁽ⁱ⁾	Strategic priority	Sponsor(s)	Principal risk description	Causal themes (Drivers/influences)
1 Water service		<ul style="list-style-type: none"> Chief operating officer 	A failure to provide a secure supply of clean, safe drinking water and the potential for a negative impact on public confidence in water supply.	<ul style="list-style-type: none"> Asset health Demographic change Extreme weather/climate change Legal and regulatory change Technology
2 Wastewater service		<ul style="list-style-type: none"> Chief operating officer 	The failure to remove, treat and return water and sludge to the environment.	<ul style="list-style-type: none"> Asset health Demographic change Extreme weather/climate change Legal and regulatory change Technology
3 Retail and commercial		<ul style="list-style-type: none"> Customer services director General counsel and company secretary 	Failing to provide good and fair service to domestic customers and third-party retailers or a failure of, or issue in relation to, non-regulated interests.	<ul style="list-style-type: none"> Asset health Culture Economic conditions Legal and regulatory change Technology
4 Supply chain and programme delivery		<ul style="list-style-type: none"> Capital delivery, engineering and commercial director 	The potential ineffective delivery of capital, operational or functional processes/programmes including change.	<ul style="list-style-type: none"> Economic conditions Legal and regulatory change Technology
5 Resource		<ul style="list-style-type: none"> People director Health, safety and wellbeing and estate services director Chief operating officer 	The potential failure to provide appropriate resources (human, technological or physical) required to support business activity.	<ul style="list-style-type: none"> Asset health Culture Economic conditions Extreme weather/climate change Legal and regulatory change Technology
6 Finance		<ul style="list-style-type: none"> Chief financial officer 	The potential inability to finance the business appropriately.	<ul style="list-style-type: none"> Asset health Demographic change Economic conditions Legal and regulatory change Technology
7 Health, safety and environmental	 	<ul style="list-style-type: none"> Environment, planning and innovation director Health, safety and wellbeing and estate services director 	The potential harm to colleagues, contractors, the public or the environment.	<ul style="list-style-type: none"> Asset health Culture Extreme weather/climate change
8 Security		<ul style="list-style-type: none"> General counsel and company secretary 	The potential for malicious activity (physical or technological) against people, assets or operations.	<ul style="list-style-type: none"> Asset health Culture Economic conditions Technology
9 Conduct and compliance		<ul style="list-style-type: none"> Corporate affairs director General counsel and company secretary 	The failure to adopt or apply ethical standards, or to comply with legal and regulatory obligations and responsibilities.	<ul style="list-style-type: none"> Asset health Culture Demographic change Economic conditions Extreme weather/climate change Legal and regulatory change
10 Political and regulatory		<ul style="list-style-type: none"> Corporate affairs director General counsel and company secretary Strategy, policy and regulation director 	Developments connected with the political, regulatory and legislative environment.	<ul style="list-style-type: none"> Economic conditions Legal and regulatory change

Notes

- ⁽ⁱ⁾ Principal risks: based on the value chain of the company, principal risks represent inherent areas where value can be gained, preserved or lost. Water, wastewater (including bioresources) and retail and commercial areas are the primary inherent risk areas with all other areas being supportive or contributing activities.

Our strategic priorities



Improve our rivers



Create a greener future



Provide a safe and great place to work



Deliver great service for all our customers



Spend customers' money wisely



Contribute to our communities

Consequence themes	Appetite and tolerance ⁽²⁾	Control/mitigation	Top five event-based business risks (*most significant risks – see pages 68 to 69)
• Customers • Environment • Investors	Water Averse	<ul style="list-style-type: none"> Strict quality controls and sampling regime Physical and chemical treatment with automation Cleaning, maintenance and replacement of assets Water resources and production planning Pressure/flow management and leak detection Integrated network and response capability 	<ul style="list-style-type: none"> Failure of Haweswater Aqueduct* Water sufficiency* Dam failure* Failure to treat water Failure of the distribution system (leakage)
• Customers • Environment • Investors	Wastewater Prudent Bioresources Moderate	<ul style="list-style-type: none"> Physical/chemical treatment and sampling/testing systems Customer campaigns Odour management Drainage and wastewater management plans Wastewater network operating model Cleaning, maintenance and replacement of assets Better Rivers programme 	<ul style="list-style-type: none"> Wastewater network failure* Recycling biosolids to agriculture* Failure to treat sludge* Wastewater treatment Mersey Valley Sludge Pipeline
• Customers • Investors	Retail Commercial Moderate	<ul style="list-style-type: none"> Customer-focused initiatives Best practice collection techniques Customer segmentation Priority Services scheme Data management and data sharing Non-regulated operation governance 	<ul style="list-style-type: none"> Cash collection Customer experience Wholesale revenue collection Failure to maintain meters NAV market obligations
• Communities • Customers • Environment • Investors • Suppliers	Supply chain Programme delivery Moderate	<ul style="list-style-type: none"> Category management Supplier relationship management Capital, change and operational programme management Engineering technical specifications Portfolio, programme and project risk management 	<ul style="list-style-type: none"> Security of the supply chain Price volatility Unfunded developer programmes Dispute with supplier Deliver partner failure
• Colleagues • Customers • Investors	Resource Moderate	<ul style="list-style-type: none"> Adoption of effective technology Multiple communication channels Training and personal development Talent, apprentice and graduate schemes Change programmes and innovative strategies Maintenance, replacement or renovation of assets 	<ul style="list-style-type: none"> Failure of digital systems Employee relations Quality of critical data Land management Digital licensing
• Colleagues • Customers • Investors	Finance Prudent	<ul style="list-style-type: none"> Long-term refinancing Liquidity reserves Counterparty credit exposure and settlement limits Hedging strategies Sensitivity analysis Monitoring of the markets 	<ul style="list-style-type: none"> Totex efficiency challenge* Credit ratings* Erosion of pension scheme surplus* Financial outperformance* Unavoidable additional taxes
• Colleagues • Communities • Environment • Investors • Suppliers	Health, safety and wellbeing Averse Environment Averse	<ul style="list-style-type: none"> Strong governance and management systems Certification to ISO 45001 and ISO 14001 Benchmarking, auditing and inspections Targeted engagement and improvement programmes Carbon reduction initiatives Self-generation of green energy 	<ul style="list-style-type: none"> Carbon commitments* Disease pandemic* Occupational health exposure Process safety Minor injuries
• Colleagues • Communities • Customers • Investors • Suppliers	CNI and SEMD Averse Other Prudent	<ul style="list-style-type: none"> Physical and technological security measures Strong governance, inspections and audits Security authority liaison and NIS compliance System and network integration Business continuity and disaster recovery Incident support service 	<ul style="list-style-type: none"> Cyber risk* Terrorism* Criminality Fraud Data protection
• Colleagues • Communities • Customers • Environment • Investors • Suppliers	Legislation Averse Other Prudent	<ul style="list-style-type: none"> Ethical supply chain, diversity and inclusivity policies Data classification and levels of authorisation Stakeholder engagement activities Audits and peer reviews Governance, risk assessment and horizon scanning Brand comparisons and dashboard of culture metrics Regulatory reporting 	<ul style="list-style-type: none"> Water Plus Procurement compliance Bribery risk Non-regulated asset Corporate governance and listing rules compliance
• Colleagues • Customers • Environment • Investors	Cannot be determined due to no genuine choice or control	<ul style="list-style-type: none"> Consultation with government and regulators Consultation and communication with customers Governance, risk assessment and horizon scanning Development of regulatory policy and strategy 	<ul style="list-style-type: none"> Price Review 2024 outcome* Upstream competition (bioresources) DPC delivery of HARP ASHE index Upstream competition (water resource)

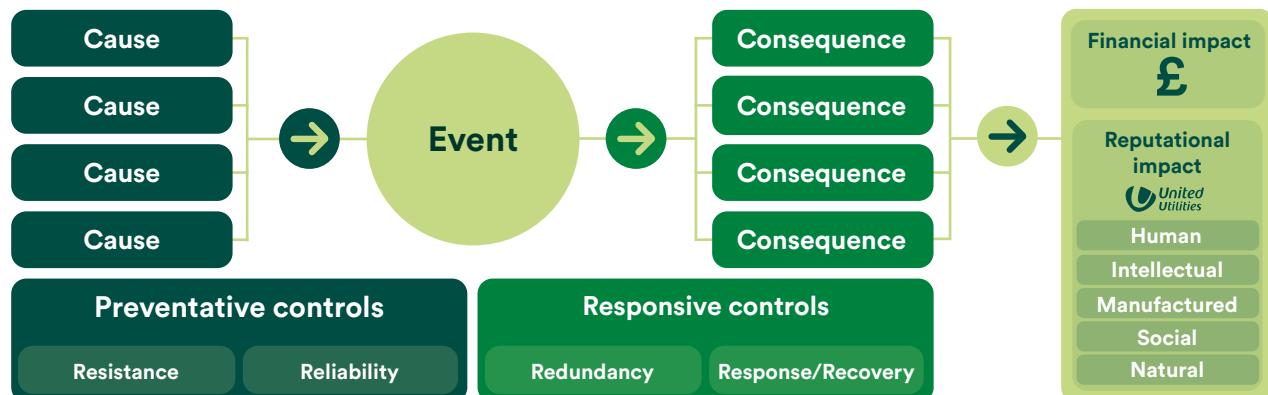
⁽²⁾ Appetite and tolerance: Averse: A strong opposition to accept risk within business strategy or operational activity. Prudent: A reluctance to accept risk within business strategy or operational activity, but careful acceptance within tight boundaries. Moderate: Willingness to accept risk with regard to business strategy or operational activity provided this is within reasonable limits. Accepting: Willingness to accept risk with regard to business strategy or operational activity.



Risks and opportunities

Common themes

As illustrated in the diagram below, each of the event-based risks has multiple causes and consequences, which in turn lead to financial and/or reputational (non financial) impact. Preventative and responsive controls, which incorporate the four components of resilience (resistance; reliability; redundancy; and response/recovery), are applied to reduce the likelihood of the event occurring and limit the impact if the event were to materialise. New and emerging circumstances in respect of causes, consequences and controls make the profile multifaceted and dynamic. Analysis of the profile highlights common themes, notably associated with the causes and consequences. These common themes can then be considered more holistically, which combined with the analysis of the strengths, weaknesses, gaps and interdependency of control across the business, enables a more integrated approach to risk management.



Common causal themes

The event-based risks include multiple causal factors, which individually, or in combination, could drive or influence the risk event to occur. Categorisation illustrates seven common causal themes:

- Asset health:** General use, exposure to natural hazards, pressure and load all contribute to the deterioration of assets. In addition, other factors such as technological obsolescence and operating assets beyond their optimal capacity to cope with increased demand (population growth and/or climate change) also affect asset health. Asset health is a cross-business risk as it can affect operational efficiency and resilience.
- Culture:** Embedded through processes, reward mechanisms, values and behaviours, corporate culture cuts across the majority of risks including: service delivery; recruitment and talent management; colleague engagement; security; and our reputation to multiple stakeholders. In an increasingly challenging business environment, our focus is to continue to embed a culture of delivering benefit to customers and communities, taking accountability and seeking new and innovative ways to deliver our services more efficiently and effectively.
- Demographic changes:** Population growth/shift and evolving age profiles can impact the capacity and capability of water and wastewater treatment and network assets, can affect demand on water resources, and increase uncertainty in relation to pension obligations.
- Economic conditions:** Macro events can have multiple financial implications, including: lower revenue; reduced cash collection; increased operational cost through inflationary pressures; and increased cost of borrowing.
- Extreme weather/climate change:** Our water resources, asset base and operations can generally cope with extreme weather conditions, although they can become overwhelmed in intense situations. Climate change projections highlight increased temperatures, rainfall, wind and more frequent extreme variations in weather patterns. Climate change will affect both our capacity and capability for service delivery, and the environment that we strive to protect and enhance. It is therefore a key focus and we are committed to the principles set by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) – see page 05.

- Legislative and regulatory change:** Changes in, or the interpretation of, legislation and regulation can have implications for our business model, asset base and ways of working.
- Technology:** Increased automation, system integration and artificial intelligence, against the backdrop of Systems Thinking, provides competitive advantage and improves efficiency and user experience for our colleagues, suppliers and customers. However, there is an increased capital requirement to keep pace with technological change, challenges in short-term adaptability of the workforce, and data and security threats as systems converge.

Common consequence themes:

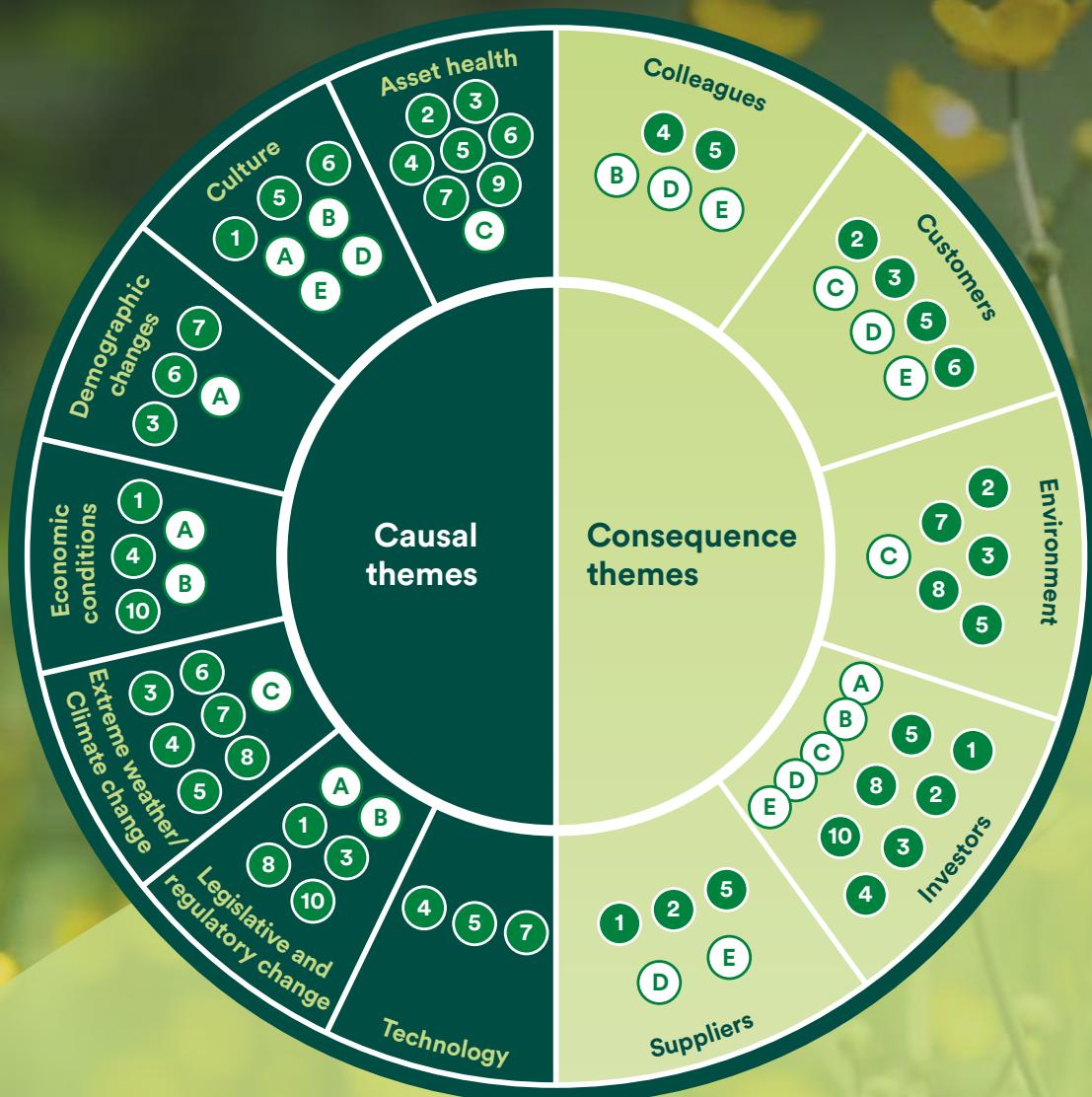
Each consequence is analysed for the financial and reputational (non-financial) implications relative to multiple stakeholders. Categorisation of the consequences illustrates five common impact themes:

- Colleagues:** Our colleagues are fundamental to delivering our service requirements as well as our strategic objectives. Equally, our colleagues can be affected by multiple risks across the business, but primarily in relation to employment and health, safety and wellbeing risks.
- Customers:** Customers are impacted through our service offering, the quality of their experience when dealing with us, and how our operational and capital schemes affect them in the community.
- Environment:** Our assets, operations and capital programmes can have a significant impact on the environment in both rural and urban settings. As a major land owner and operator of a large fleet of vehicles, the way we manage these also has environmental implications.
- Investors:** The vast majority of risks in the profile have financial implications that could affect shareholder investment in the short and long term. Reputational impact associated with ethics, environmental protection and efficiency is also relevant for investors' interest in the company.
- Suppliers:** The safety of working conditions, economic conditions, asset health, and contractual arrangement can all affect the effectiveness, sustainability and resilience of our suppliers and partners who are crucial to meeting our objectives and ensuring effective service.

The company's most significant event-based risks

Mapping of common themes to the most significant group risks

The diagram below illustrates how the common themes (causal and consequence) relate to the company's most significant event-based risks, demonstrating how new and emerging circumstances can not only influence the risk exposure, but also focus attention for control and mitigation.



Most significant event-based risks

- 1 Price Review 2024 outcome
- 2 Failure of the Haweswater Aqueduct
- 3 Wastewater network failure
- 4 Totex efficiency challenge
- 5 Cyber
- 6 Water sufficiency
- 7 Carbon commitments
- 8 Recycling of biosolids to agriculture
- 9 Failure to treat sludge
- 10 Credit ratings

- A Erosion of pension scheme surplus
- B Financial outperformance
- C Dam failure
- D Disease pandemic
- E Terrorism

Key

- Top ten ranking risks relative to likelihood and impact
- High impact, low likelihood risks

Risks and opportunities

The company's most significant event-based risks continued

The most significant event-based risks represent the ten highest-ranked risks by exposure (likelihood of occurrence of the event multiplied by the most likely financial impact) and those risks which have been assessed as having a significantly high impact, but low likelihood. Depending on the circumstances, financial impacts will include loss of revenue, additional or extra cost, fines, regulatory penalties and compensation. Reputational impact relative to our multiple stakeholders and the five non-financial capitals is also assessed, reported and considered as part of the mitigation.

Summarised below are the top ten ranking risks (1–10), and those assessed as having high impact, but low likelihood (A–E):

1. Price Review 2024 outcome



Risk exposure: The capacity and capability to develop a business plan that creates value for customers, communities, and the environment that is sustainable and resilient for the long term relative to the unique characteristics of the region we serve, in light of multiple influencing factors – notably changing demographics, climate change and asset health.

Control/mitigation: We have established cross-cutting work streams and theme owners to identify the products and evidence required for the submission and we will maintain a close dialogue with Ofwat throughout the process.

Assurance: Extensive customer research and several external providers have been commissioned for technical optioneering. Second line assurance is provided through a dedicated price review team and a PR24 programme board. There is a blend of internal audit and external assurance focused on the quality of the submission.

7. Carbon commitments



Risk exposure: The capacity and capability to decarbonise water and wastewater activity to meet commitments and legal obligations across the various time horizons of 2030, 2035 and 2050 in light of expected population growth pressures and uncertainty regarding the required technological advances to decarbonise operational activity.

Control/mitigation: In the near-term we are creating woodland, restoring peatland and have initiatives to address process and energy emissions. We are working with suppliers and industry partners to better understand and optimise decarbonisation opportunities and pathways.

Assurance: First line assurance by carbon team using water industry team for technical support and guidance. Climate change mitigation steering group and corporate risk framework provide second line assurance. Our science-based targets, energy and carbon reporting are subject to external assurance and verification.

A. Erosion of pension scheme surplus

Risk exposure: The potential for the pension scheme funding to increase because of life expectancy rates leading to additional contributions.

Control/mitigation: Constant monitoring combined with hedging against interest rates, inflation and growth asset risk.

Assurance: Policy and oversight is led by the pensions review management group, taking into account advice from accountancy and law firms. Pension governance is subject to periodic internal audits.

2. Failure of the Haweswater Aqueduct



Risk exposure: The Haweswater Aqueduct is a key asset with current low resilience due to deterioration, with failure potentially resulting in water quality issues and/or supply interruptions to a large proportion of the United Utilities customer base.

Control/mitigation: A capital project to replace the tunnel sections of the aqueduct has already commenced with the completion in November 2020 of one section. The remaining sections are due to be replaced as part of Haweswater Aqueduct Resilience Programme (HARP).

Assurance: Technical and geological advice and modelling have been sought throughout the programme development, with second line assurance including engineering technical governance. Independent assurance is provided by internal audits and external assurance over the HARP procurement process.

8. Recycling of biosolids to agriculture



Risk exposure: Represents various impact scenarios including operational failures, increased restrictions or total ban of recycling biosolids to agriculture. The risk considers the Environment Agency's interpretation of the Farming Rules for Water regulations and the increasing threat to recycling a large proportion of biosolid to land.

Control/mitigation: Treatment, sampling and testing regimes ensure that sludge meets acceptable standards for application with formal service level agreements between wastewater and bioresources. We work closely with farmers, land owners and contractors to ensure regulations such as Farming Rules for Water and the standard operating procedures are met.

Assurance: Bioresources production planning team undertakes first line assurance against UK Biosolids Assurance Scheme (BAS) accreditation, and other codes of practice such as the safe sludge matrix which certifies our recycling activities. Second and third line assurance is also undertaken by the assurance and internal audit teams respectively.

B. Financial outperformance

Risk exposure: Failure to achieve financial outperformance due to macroeconomic conditions and efficiency challenges, impacting the cost of debt and delivery of the company business plan.

Control/mitigation: Interest rate and inflation management, ongoing monitoring of markets and regulatory developments, and sensitivity testing as part of our company business planning process relative to assumed periods of low inflation both in isolation and in conjunction with the realisation of severe but plausible risks.

Assurance: First line assurance is undertaken by the finance team as part of the company business planning process, with second line assurance undertaken at monthly executive level meetings. Further oversight is provided by the group board and treasury committee and third line assurance is provided through cyclical internal audit reviews.

3. Wastewater network failure



Risk exposure: Blockages, operational issues or inadequate hydraulic capacity relative to population growth, extreme weather, asset health, and legal/regulatory change, resulting in unpermitted storm overflow activations, sewer flooding and environmental damage.

Control/mitigation: Preventative maintenance and inspection regimes, customer campaigns, sewer rehabilitation programme and Better Rivers programme.

Assurance: Second line assurance provided by wholesale assurance, engineering technical governance and flood review panel. Subject to regular internal audits and external assurance of regulatory reporting.

9. Failure to treat sludge



Risk exposure: Relates to the interdependency between wastewater and bioresources treatment activity in light of changing demographics, asset health and legislative/regulatory changes such as the Industrial Emissions Directive (IED) now applying to biological treatment of sewage sludge.

Control/mitigation: We look to maximise our treatment capacity by adopting a Throughput, Reliability, Availability and Maintainability (T-RAM) approach for our facilities. We also undertake a digester and tank clean programme, regular testing and analysis of sludge, and balance capacity and demand through the bioresources production planning team.

Assurance: Bioresources production planning team undertakes first line assurance against UK Biosolids Assurance Scheme (BAS) accreditation, and other codes of practice such as the safe sludge matrix which certifies our treatment. Second and third line assurance is also undertaken by the assurance and internal audit teams respectively.

C. Dam failure



Risk exposure: Uncontrolled release of a significant volume of water from reservoirs due to flood damage, overtopping, earthquake or erosion leading to catastrophic impacts downstream.

Control/mitigation: Each reservoir is regularly inspected by engineers. Where appropriate, risk reduction interventions are implemented through a prioritised investment programme.

Assurance: Various sources of second line assurance, including supervising engineers, dam safety group, assurance team and regular board reviews. Independent assurance is provided by panel engineers and internal audit.

Key

Top ten ranking risks relative to likelihood and impact



High impact, low likelihood risks



Climate-related risk

4. Totex efficiency challenge

Risk exposure: Totex efficiencies designed for AMP7 are under significant challenge through a combination of factors including supply chain issues, inflationary pressures, and additional investment to deliver performance improvements.

Control/mitigation: Integrated Business Planning (IBP), risk-based investment prioritisation and the company business planning process all contribute to efficient delivery of services and the capital programme. In addition, there are number of executive led initiatives to realise efficiency opportunities.

Assurance: First line assurance is undertaken through monthly price control meetings, with the strategic programme board, monthly executive performance review meetings and quarterly business reviews providing second line governance and assurance. Third line assurance is undertaken through cyclical internal audits.

5. Cyber

Risk exposure: Data and technology assets compromised due to malicious or accidental activity, leading to a major impact to key business processes and operations.

Control/mitigation: Multiple layers of control, including a secure perimeter, segmented internal network zones, access controls, constant monitoring and forensic response capability.

Assurance: Security measures reflect multiple sources of threat intelligence. The security steering group provides second line assurance, with independent assurance provided by cyclical internal audits and various technical audits by external specialists.

6. Water sufficiency

Risk exposure: Water sufficiency is one of the most sensitive risks to climate change, with the increased frequency of hot and dry weather being evidence of changing circumstances. Extended periods of low rainfall and exceptionally hot weather, with accompanying increased customer demand, impacts our water resources which can result in the need to implement water use restrictions.

Control/mitigation: We produce a Water Resources Management Plan (WRMP) every five years, which forecasts future demand and water availability under repeats of historic droughts, adjusted for climate change. A statutory Drought Plan is also developed every five years, setting out the actions we will take in a drought situation.

Assurance: The WRMP and Drought Plan are subject to various second and third line assurance activities prior to publication.

10. Credit ratings

Risk exposure: Credit ratings below internal targets, due to deterioration in financial and/or operational performance and/or external factors (such as inflation), resulting in more expensive funding.

Control/mitigation: Continuous monitoring of markets, and the management of key financial risks within defined policy parameters.

Assurance: Second line assurance provided by financial control and quarterly business reviews, with oversight provided by the treasury committee. The treasury function is subject to regular internal audits.

D. Disease pandemic

Risk exposure: Serious illness in a large proportion of the UK population, with consequences to our workforce, the wider supply chain and macro economy.

Control/mitigation: We have a pandemic contingency plan which is regularly reviewed and was updated to reflect lessons learned from COVID-19. The plan includes multi-channel communication with non-pharmaceutical interventions.

Assurance: The assurance team undertakes second line assurance, with internal audit undertaking various reviews.

E. Terrorism

Risk exposure: A significant asset to be compromised by terrorist activity leading to loss of supply, contamination and/or pollution.

Control/mitigation: A risk-based protection of assets in line with the Security and Emergency Measures Direction (SEMD) and close liaison with the Centre for the Protection of National Infrastructure (CPNI), regional counter terrorist units, local agencies and emergency services.

Assurance: Security measures are reviewed on a regular basis by our internal asset owners in conjunction with the central security team. Second line assurance is provided by the cross business security steering group. In addition, internal audit undertakes cyclical audits with external technical assurance being delivered by specialists.



Risks and opportunities

TCFD

How we identify, assess and manage climate-related risks and opportunities.

Summary

- The company operates a mature risk and resilience framework for the identification, assessment and management of all risks.
- We have both physical and transitional climate risks in our corporate business risk profile, including seven of our most significant event-based risks, see pages 68 to 69.
- Climate change is fully integrated across our overall corporate risk management system with climate change identified as both a material issue (see page 30) and one of our most prominent causal themes of event-based risks.
- Our 2021 climate change adaptation report available on our website includes a comprehensive climate change risk assessment of both physical and transition risks and opportunities. The most material of these are presented on page 42 and it is clear how these risks are key drivers to our strategies and business planning.
- We published our 2022 Drought Plan.

Climate risk identification and assessment

We have a mature risk and resilience framework for the identification, assessment and management of risks that is described on pages 60 to 69. Following recognition of climate change as a material issue, a special review of all event-based risks in our business risk profile was carried out to ascertain which risks in our business risk profile are sensitive to climate change. The risks identified as most sensitive are outlined on the next page, along with our 2023 assessment of their current likelihood and impact. Long-term likelihood and impacts at 2050 and 2100 are also shown and are based on the Met Office climate projections using the most likely global emissions scenario known as RCP 6.0, in which emissions peak around 2080 and average temperatures will have risen to between 3 and 3.5°C by 2100.

Incorporating longer-term climate change impacts explicitly into our corporate risk framework has raised the profile of climate change. This enabled the board to consider our appetite and tolerance, choosing to mitigate and control the risks from within existing risk management processes and with the same thresholds for materiality.

We consider both physical risks that impact our operations, assets or resources, and transitional risks, and those associated with the transition to a low-carbon economy, such as evolving policies, regulation and legislation. We use a variety of approaches to assess risks such as PESTLE, to ensure complete coverage of external influencing factors, and complex and detailed models to use Met Office UK climate projections to understand the impacts on water resources and drainage and wastewater management.

In our quantification of the significance of different risks we also recognise that some risk events may happen multiple times so we compare impacts over a long-term (typically 40-year) horizon. This accentuates where interdependencies of climate change and other demographic changes influence the frequency of events as well as the consequences.

Managing climate-related risks

We have a clear understanding of the risks in the short and medium term but to help us manage uncertainties and ensure a low regrets approach, we are maturing our strengths in long-term and adaptive planning and considering the uncertainty associated with particularly complex issues including climate change, but also population growth, technology and abstraction reduction needs.

In preparing our latest climate change adaptation report, we assessed the organisation's resilience to physical outcomes of climate change, such as hotter, drier summers and more extreme weather events. Over 90 risks were noted that might impact a single business area, for instance wastewater, and we also identified business-wide risks, interdependencies and transitional risks. The most material of these physical and transitional climate risks are also presented in the table on page 42 to show how climate trends lead to business challenges and can result in consequences to customers or the environment. By recognising the causes and consequences, and assessing the likelihood and the severity of impact (both financial and reputational) should the event occur, we are able to prioritise climate-related risks and take proactive and early action to manage these risks and reduce the frequency and severity.

The actions being undertaken to manage these climate risks are described in the third climate change adaptation report. We are applying a Systems Thinking approach to provide great water for a stronger, greener and healthier North West. This means that interventions to address one risk have multiple benefits. For instance, sustainable drainage systems (SuDS) to slow down or divert rainwater runoff both reduce the risk of sewer flooding and optimise wastewater treatment capacity. Green infrastructure solutions such as SuDS provide an opportunity to deliver wider social value in the community and local environment.

Our public Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) are examples of where adaptive planning are used to shape our plans for the long term (25+ years) while staying aligned with our short-term needs. In these plans we describe how we have used complex models to test how resilient our services would be against a range of possible future climate change and demand scenarios (population growth and movement, economic trends and patterns of water use). Understanding these impacts allows us to adapt our plans to improve performance and resilience across key topic areas such as water supply, leakage, sewer flooding and pollution.

Integration of climate-related risks into our risk management framework

We are maturing our understanding of risk and uncertainty to build and maintain long-term resilience across the corporate, financial and operational structures of the group. Planning for the long term allows us to deliver further environmental and social value, for example, through prioritising sustainable drainage and monitoring impacts before investing in more traditional assets; or carrying out modelling and investigations to ensure we spend customers' money wisely as we look to create a stronger, greener and healthier North West.

Future focus

- Produce our PR24 business plan with full integration of carbon reduction and climate resilience priorities.
- Improve our long-term strategic plans for water resources and drainage, integrating advanced climate change analysis to shape our investment and operational approaches in the short, medium and long term.
- Learn more about the profile of risk events, their causes and consequences, and to identify opportunities to improve our capacity and capability.
- Further embed climate change impacts into corporate decision-making tools and processes.



Read our [climate change adaptation report](#) on our website at unitedutilities.com/corporate/responsibility/environment/climate-change/climate-change-adaptation

Our event-based risks most sensitive to climate change⁽²⁾

TCFD risk categories

- Chronic physical risk – changing trends in weather patterns, such as rising temperatures, sea level and rainfall.
- Acute physical risk – chance of severe weather events, such as storms, heat waves and floods.

⁽¹⁾ One of the top ten ranking event-based group risks (see pages 68 to 69).

⁽²⁾ Global emissions scenario RCP 6.0.

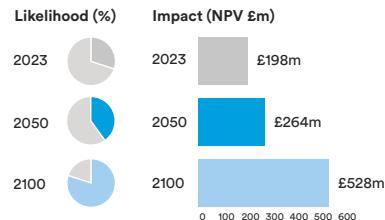


Water sufficiency event⁽¹⁾

Prolonged dry periods can cause supply challenges. Warmer temperatures intensify these pressures because of increased water usage and evapo-transpiration.

Controls

- Reduce leakage.
- Support customers to use less water.
- Install more meters in domestic properties.
- Develop new sources of water, particularly boreholes.
- Long-term water resources management planning.
- Facilitate water trading between the North West and other regions of the UK.

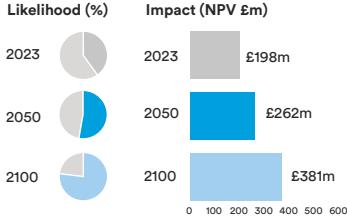


Failure of wastewater network⁽¹⁾

More frequent and intense storms can overload the wastewater network and lead to severe sewer flooding or storm overflow activations. Urbanisation makes this worse due to quick runoff from hard surfaces.

Controls

- Increase combined sewer capacity and build stormwater holding tanks.
- Implement and encourage 'slow the flow' and sustainable drainage solutions.
- Support customers to use sewers responsibly.
- Use technology to monitor and better control flows in the sewer system.
- Install flood protection devices to at-risk properties.



Control effectiveness

Controls are the activities we undertake to reduce the long-term risk or realise the opportunity.

Mostly sufficient

Somewhat sufficient

Largely insufficient to mitigate risk



Land management⁽¹⁾

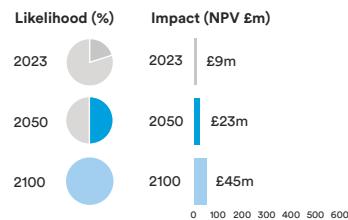
Deterioration in land quality due to climate change has both direct and indirect impacts. Hotter, drier summers lead to fire, flood, subsidence and landslip events which in turn have associated health, safety and environmental impacts.

Controls

- 'Catchment Systems Thinking' and proactive land management, including nature-based solutions.

Deliver net gain in biodiversity from our construction projects.

Directly restore peatland and woodland. Work in partnership with farmers, regulators and others to improve upland watercourses.

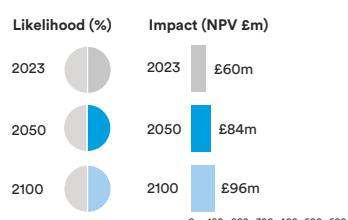


Failure to adequately treat wastewater

Extremely heavy rainfall, which is projected to happen more often, can exceed our wastewater treatment works capacity and result in activations of overflows to prevent flooding of assets, streets and homes.

Controls

- Investment to meet legislated environment and treatment capacity requirements.
- Inclusion of climate change growth parameters in long-term adaptive plans.
- Controls for failure of wastewater network will support this risk.

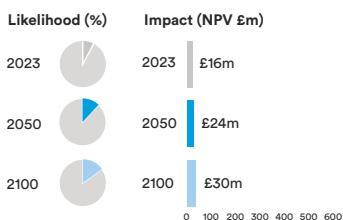


Failure of above-ground water and wastewater assets (flooding)

Operational sites can be flooded from sea, river or surface water sources. Climate change is expected to increase the likelihood of flooding due to average winter rainfall being projected to rise, frequent storm events and rising sea levels.

Controls

- Install permanent flood defences at most flood-prone sites.
- Improve flood forecasting capabilities.
- Build better network connectivity to maintain water supplies during floods.
- Invest for quick after-flood recovery.

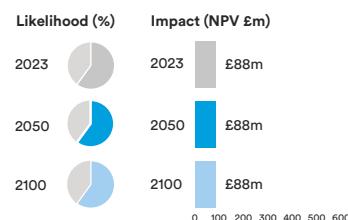


Recycling of biosolids to agriculture⁽¹⁾

Water logging resulting from more persistent rainfall will limit options for recycling biosolids to land for a greater part of the year. Uncovered sludge stores and stockpiles will be more vulnerable in persistent wet, winter weather, increasing the risk of environmental pollution from runoff.

Controls

- Additional storage capacity.
- Contingency planning for alternative methods for sludge disposal, e.g. incineration.



Risks and opportunities



How we identify, assess and manage nature-related risks and opportunities.

Many key risks in our risk management assessments are linked to the natural environment, including many of our principal risks and significant event-based risks.

We recognise that impacts and dependencies on nature are often location-specific and are inextricably linked to the local environment and communities.

The risk breakdown structure that underpins our operational risk assessment framework includes consequences related to biodiversity, flooding, drought, water quality, recreational access, carbon storage, air quality and waste. This includes a process to make decisions that avoid, minimise or mitigate nature-related risks. Prioritisation of risks is determined based on current risk exposure (calculated based on likelihood of occurrence and most likely impact) of each of the principal risks relative to each other. Decisions are made on the level of risk we are prepared to manage relative to risk appetite and tolerance in order to deliver on our strategy.

There is a close link between nature and climate change, with many pressures on the natural environment becoming more acute as the climate changes. Our climate change adaptation report highlights key physical risks related to the natural environment. Two of our carbon pledges – woodland creation and peatland restoration – are intrinsically linked to the natural environment and will deliver nature-related benefits beyond their value as natural carbon sinks.

In 2022, we published a discussion document jointly with The Rivers Trust on barriers to nature-based solutions, entitled PR24: Unlocking nature-based solutions to deliver greater value. This identified some of the key risks associated with the transition to a nature-positive economy, alongside recommendations for collaborative working with the Government and others to address these barriers. We are working with regulators, other water companies and non-governmental organisations to take forward proposals to address these risks.

Links to principal risks

- Water service
- Wastewater service
- Health, safety and environmental

Links to event-based risks

- Price Review 2024 outcome
- Wastewater network failure (sewer flooding)
- Water sufficiency
- Recycling of biosolids to agriculture



Read our [joint discussion document with The Rivers Trust on nature-based solutions at \[unitedutilities.com/globalassets/documents/pdf/pr24---unlocking-nature-based-solutions-to-deliver-greater-value.pdf\]\(https://unitedutilities.com/globalassets/documents/pdf/pr24---unlocking-nature-based-solutions-to-deliver-greater-value.pdf\)](#)



Cyber security

Security is one of our ten principal risks, including cyber security, and cyber is identified as one of our most significant event-based risks. We have a low risk appetite in this area, and to date have not experienced a material breach in our IT security. We undertake number of mitigating actions, including:

- Enhanced physical security measures to counter general criminality and potential terrorism as appropriate.
- We monitor and review alerts and guidance issued by the National Cyber Security Centre and the US Cybersecurity and Infrastructure Security Agency, and implement new security technologies where needed to address growing threats, such as upgrades to our firewalls and multi-factor authentication to access our systems.
- We have a structured security policy framework including detailed guidance to allow all users, administrators and moderators to operate within a clearly communicated, best practice ruleset. Internal audits are regularly carried out to ensure compliance is maintained.
- Colleague training, including mandatory 'Security Seven' training, cyber incident training, and enhanced training for incident first responders. We also improve colleague awareness with regular cyber incident response exercises, phishing tests and associated phishing training, as well as running regular cyber-related events.
- Our Cyber Security Incident Response Plan is incorporated into business continuity and incident management plans and processes, and we have a dedicated business-wide Cyber Security Incident Response Team.
- Strong, independent assurance, including a continuous annual schedule of penetration testing, red team exercises for both physical and cyber and regulatory audits against our operational assets, and independent assurance and guidance against our regulatory security commitments as part of our annual security assessments. We have a comprehensive supply chain security assurance process, and work with suppliers to help them reach the required security level where needed.

Financial risk management

Finance is one of our ten principal risks and credit ratings and financial outperformance are identified as event-based risks. The controls we have in place through our financial risk management policies and processes provide a high degree of mitigation and protection from market volatility, enabling us to raise finance across the economic cycle. Our debt has a long average life and maturities are spread to avoid a high concentration of risk in any one year. We monitor financial ratios regularly as well as considering the impact on these metrics within our business planning processes.

 Read more on pages 265 to 272

Affordability and vulnerability

Retail and commercial is one of our ten principal risks, and this incorporates a number of underpinning event-based risks. These include customer experience, cash collection, billing accuracy, and affordability support, which collectively take account of economic conditions including cost of living pressures, providing value for money, and supporting our most vulnerable customers. In order to achieve high levels of performance, our customer experience and debt strategy includes multiple controls, including:

- Customer consultation (requirements and expectations);
- Customer surveys;
- Affordability schemes;
- Tariff setting policies; and
- Reconciliation processes.

Health, safety and wellbeing

Health, safety and wellbeing is part of one of our ten principal risks: health, safety and environmental. We have an adverse appetite and tolerance in this area.

We have identified six factors critical to our success:

- Active leadership;
- Engaged, empowered colleagues;
- Clear expectations;
- Safe, healthy working environments;
- Simple effective systems; and
- Continuous improvement.

We work relentlessly to ensure our health, safety and wellbeing culture is built upon these six key principles.

Responsible supply chain

Supply chain and programme delivery is one of our ten principal risks, and we have a prudent risk appetite and tolerance in this area. We are committed to working with suppliers that share our values. As part of our United Supply Chain approach, our Responsible Sourcing Principles are structured around ESG issues that are important to us as a business and in our approach to responsible sourcing. We assess sustainability risk on partner and strategic suppliers against our Responsible Sourcing Principles to target our enhanced due diligence audits and to focus on opportunities for improved performance in tackling key issues such as modern slavery and human trafficking.

Equity, diversity and inclusion

Equity, diversity and inclusion is not directly identified as a key risk, but having a diverse and inclusive workforce is important to ensure we have access to a wide range of ideas and views and to maximise colleague engagement, which has an impact on resource risk – one of our top ten principal risks. We are dedicated to continuing to improve in this area.



Risks and opportunities

New and emerging risks and opportunities

We define new risks as those which have not previously been apparent and are expected to have long-term implications for the group and/or sector. We consider emerging risks to be those which are growing, developing, becoming more apparent or prominent. The emerging status of a risk can therefore relate to either newly established or existing risks.

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

Where there are high levels of uncertainty, or the circumstances are too complex to quantify, we classify and retain new and emerging risks as watching briefs. Where there is more understanding, assumptions can be applied to the assessment of causal factors (drivers/influencers), consequences (immediate, knock-on and cascading outcomes), and control effectiveness (strengths, weaknesses or gaps) which will be reflected in the quantification of the likelihood and/or impact.

Recent assessments of new and emerging risks can be categorised into three areas, notably economic conditions, security and legislative/regulatory change.

Economic conditions: continue to be a challenge due to high inflation and scarcity of critical resources.

- **National scarcity of resource:** The AMP8 capital programme is expected to be significantly larger than in AMP7 across the whole water sector, which, compounded by investment programmes in other industries (i.e. nuclear and rail), may result in high levels of competition for resources with implications to delivery.
- **Price volatility:** Although there has been stabilisation over the last 12 months, inflationary pressure over multiple commodities continues to be a factor with energy the most volatile.
- **Security of the supply chain:** In addition to the increase in competition for resource and geo-political tensions, scarcity of some critical goods and services in the supply chain continues to be a challenge.

- **Supplier viability:** The medium and long-term sustainability of suppliers is an emerging risk due to ongoing inflationary pressures combined with increasing scarcity across the supply chain.
- **Credit rating:** While underlying credit quality is not a concern, the impact of high inflation on finance expense results in the potential for credit agency thresholds to be breached when combined with other factors such as additional investment spend to meet environmental and service improvements over and above price review allowances.
- **Cash collection:** Inflationary pressure is having a significant impact on the cost of living, which may affect customers' ability to pay bills.

Geopolitical: in addition to influencing economic conditions, geopolitic tensions continue to have an emerging effect on the security of critical national infrastructure and energy resilience.

- **Cyber:** The rising tensions between Russia and the West have been reflected in the quantification of the cyber risk. As a result, increased security measures have been applied which include security operations teams on extended high alert and the rapid deployment of technical blocking of critical indicators of compromise.
- **Energy resilience:** There is an increasing external threat of planned and unplanned outages, and voltage quality from national grid that could affect technological and operational assets.

Legislative/regulatory change: Increased public and political interest in the water sector and changes to societal expectations is leading to a number of developments.

- **Storm overflow activations:** Overflow activations are subject to the environmental permitting regime, however we understand and share the increased public and political interest in water quality and the focus on the impact of activations. We are therefore committed to addressing the situation and have already reduced overflows over the last two years. We are initially tackling those assets with the highest frequency of activations, and have received draft approval from Ofwat to accelerate funding to deliver further improvements faster. We have also introduced new river rangers to help with these important improvements and we are in the final stages of planning for further significant activation reductions in AMP8. However, the scale and complexity of changing the design, configuration and operation of process and network assets is significant and will pose new and emerging risks in their own right.
- **Pollution risks:** In April 2023, Defra issued a consultation with regards to variable monetised penalties which includes a potential significant increase in the penalty cap.
- **Recycling of biosolids to land:** A total ban on recycling biosolids to agricultural land already exists in some European countries. Adoption of this approach by the UK Government would result in significant change of assets and operations.
- **Plastics and forever chemicals:** There is increased attention on single-use plastic, microplastic (plastics less than 5mm) and perfluoroalkyl and polyfluoroalkyl substances (PFAS) commonly known as ‘forever chemicals’, with their presence in the environment being linked to the water cycle.

Material litigation

The group robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible. Litigation of a material nature is regularly reported to the group board. While our directors remain of the opinion that the likelihood of a material adverse impact on the group's financial position is remote, based on the facts currently known to us and the provisions in our financial statements, the following three cases are worthy of note:

- In relation to the Manchester Ship Canal Company matter reported in previous years, a hearing was held in the Court of Appeal in 2022 and the main additional points raised by MSCC were dismissed, although MSCC were granted leave to appeal to the Supreme Court. The final appeal was heard in early March 2023 and the Court's decision is awaited. This may provide further clarity in relation to the rights and remedies afforded to the parties and others in relation to discharges by water companies into the canal and other watercourses.
- As reported in previous years, in February 2009, United Utilities International Limited (UUIL) was served with notice of a multiparty ‘class action’ in Argentina related to the issuance and payment default of a US\$230 million bond by

Inversora Eléctrica de Buenos Aires S.A. (IEBA), an Argentine project company set up to purchase one of the Argentine electricity distribution networks which was privatised in 1997. UUIL had a 45 per cent shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. The Argentine Court has recently scheduled various hearings to receive the testimony of fact witnesses and experts (starting in May). UUIL will vigorously resist the proceedings given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

- A Letter Before Action was received by UUW in February 2023 in respect of potential collective proceedings before the Competition Appeal Tribunal. We are informed that the Proposed Class Representative (PCR) is intending to bring a claim on behalf of a class comprising consumers of UUW (on an opt-out basis) who have allegedly been overcharged for sewerage services as a result of an alleged abuse of a dominant position. We have been informed that the PCR also intends to bring the claim against United Utilities Group PLC, as the ultimate parent company of UUW. Proceedings have not yet been issued.





Metrics and targets

In this section you will find:

How we create value for our stakeholders in the short and long term.

How we create value more widely, including contributing to the UN SDGs.

How we measure the value that we create, including climate and nature-related metrics.

Some key short, medium and long-term sustainability-related targets.



How we create value for customers

Short term

- We focus on providing continuous, resilient and reliable water and wastewater services for customers, ensuring clean water is available at their taps when they need it, and wastewater is taken away when it goes down their drains.
- When customers need to contact us, we are helpful, friendly and supportive, talking and listening to them so that we can understand and meet their expectations.
- We maintain bills that are good value for money, providing help and support for those who are struggling to pay.



How we create value for colleagues

Short term

- We have a strong focus on health, safety and wellbeing and aim to ensure all colleagues go home safe and well at the end of the day.
- We invest in training and development to enable our colleagues to grow their skills and to keep them motivated.
- Listening to our colleagues helps to create an engaged workforce, increasing job satisfaction, and through colleague communications and conferences we update our people on business developments so they feel part of a team.

Long term

- Investing in the development of current, and future, colleagues 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 healthcare services.
- We provide pension offerings that support colleagues in later life.
- Promoting equity, diversity and inclusion means we have a workforce that truly represents the region.



How we create value for 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 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.

How we create value for our stakeholders



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.



How we create value for 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.

Long term

- Promoting campaigns to educate the public and younger generations on water usage 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 and protects 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 rural and urban environment in our region.



How we create value for communities

Short term

- We look after beautiful rural landscapes and pockets of urban green space, and open much of our land to the public, supporting regional tourism and offering communities health and wellbeing benefits through access to relaxation and recreation.
- Working in partnership with others means we can accomplish more in tackling mutual issues, such as partnering to engage people with nature and river improvements.
- Our operations and projects are often near homes and businesses, and we engage with these communities to build understanding and trust.

Long term

- Our graduate and apprentice programmes ensure we have a diverse and skilled talent pipeline providing opportunities across the region.
- 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.



How we create value for investors

Short term

- Since many of our investors are pension funds, charities and colleagues, 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 doing the right thing so investors can have confidence in the way we do business.
- We maintain a high level of quality and transparency in what we report.
- Our focus on innovation drives continuous improvements, enabling us to be at the frontier of our industry.

Long term

- The majority of shares in our company are typically held for the long term, and we provide an appropriate return to investors 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 sustainability.
- We manage risk prudently so investors can have confidence in our stability and resilience in the round.
- We link investor returns to our environmental and social projects through our sustainable finance framework.



Metrics and targets

How we create value more widely

As well as the direct value we create for our stakeholders and for the North West, our activities create wider value and contribute towards common goals.

The Sustainable Development Goals (SDGs) comprise 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 nine 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

Part of our purpose is to provide great water. This 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.

Links to material issues:

- Customer service and operational performance
- Drinking water quality
- Storm overflows



SUSTAINABLE DEVELOPMENT GOALS



Read our **sustainable finance** framework on our website at unitedutilities.com/globalassets/z_corporate-site/investor-pdfs/sustainable-finance-framework-2020-final.pdf

Working with SMEs and start ups

Our Innovation Lab process creates a unique opportunity for small and medium-sized enterprises (SMEs) and start ups, who we would otherwise not have worked with, to develop and test their products and ideas in a live customer environment.

Contributing to public finances

We paid total taxes of £229 million this year, including business rates, employment taxes, environmental taxes, and other regulatory service fees such as water abstraction charges. These help to fund essential public services across the country.

8 Decent work and economic growth

We are a significant contributor to the North West economy. Our daily operations provide direct, indirect and induced employment for 22,700 people. 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 colleagues.

Links to material issues:

- Affordability and vulnerability
- Health, safety and wellbeing
- Diverse and skilled workforce

1 No poverty

The North West contains more areas of extreme deprivation than any other region in England.

We have a sector-leading package of affordability support, and have helped over 330,000 households so far in the last three years. We are also strong supporters of the Consumer Council for Water's drive to implement a national social tariff.

Links to material issues:

- Affordability and vulnerability
- North West regional economy
- Customer service and operational performance

Dividend income for a diverse investor base

We have a number of pension funds and charities among our shareholders, as well as a high proportion of retail shareholders and many of our colleagues holding shares under our share scheme, meaning the dividends we pay are relied on by millions of people.

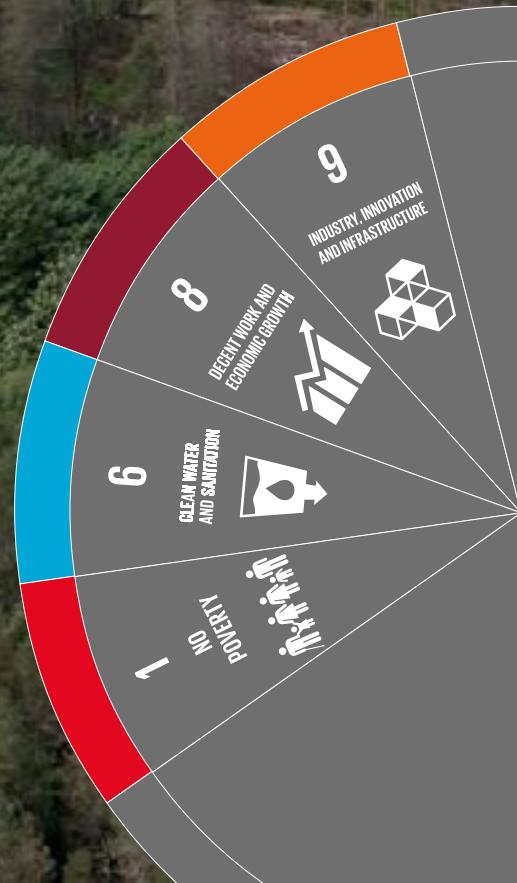
9 Industry, innovation and infrastructure

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.

Links to material issues:

- Resilience
- Innovation
- North West regional economy



Charitable activities

Over the past 12 months our colleagues have raised £52,818 for our company charity, Macmillan Cancer Support.

We support and encourage colleagues by providing up to three days' paid volunteer leave per year, matching individual colleague fundraising efforts to any UK-registered charity up to £200 per person per year, and covering the admin fees of payroll giving, or 'Give As You Earn'.

Bringing people together

We have undertaken a number of initiatives that bring people together across a variety of organisations and different industries to share ideas and best practice and drive improvements that go wider than our region and our customer base, like our summits for affordability and for diversity and inclusion, and the Hardship Hub which enables debt advisers to help more people and find cross-industry help more quickly all in one accessible place.

Mitigating climate change

We are committed to playing our part in securing the global goal to curb climate change to no more than 1.5°C, and we set out on pages 45 to 47 our transition plan to reach net zero by 2050, including our six carbon pledges underpinned by ambitious science-based targets.

11 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).

Links to material issues:

- Customer service and operational performance
- Resilience
- Supporting communities

12 Responsible consumption and production

We are committed to sustainably managing natural resources, including reducing leakage and encouraging and supporting customers to reduce water consumption. We generate renewable energy and high quality fertiliser from bioresources, and 98 per cent of our waste goes to beneficial use.

Links to material issues:

- Resilience
- Climate change
- Water resources and leakage

13 Climate action

Responding to the climate emergency is an imperative for us all and building a greener North West is a key ambition of our purpose and one of our strategic priorities. Delivering against our carbon pledges and science-based targets, while ensuring that our activities and the North West region are resilient to the impacts that a changing climate might bring, is key to our long-term planning.

Links to material issues:

- Climate change
- Resilience
- Responsible supply chain

14 Life below water

We are sector leaders in minimising pollution, look after 29 bathing waters in the North West, and have made good progress, with significant further ambitions, on improving river water quality, which has a knock-on impact on our oceans. This includes reducing storm overflow activations and addressing nutrient imbalance.

Links to material issues:

- Storm overflows
- Natural capital and biodiversity
- Environmental impacts

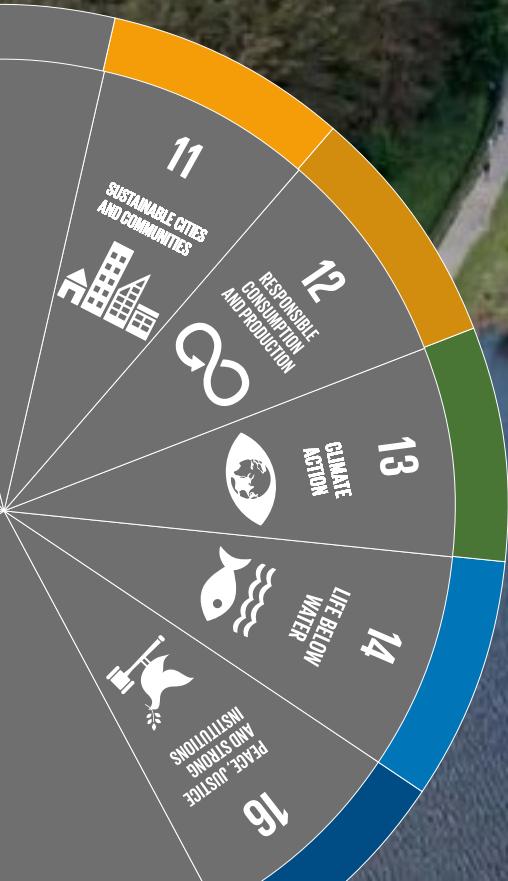
16 Peace, justice and strong institutions

We run our business in a responsible manner, and doing the right thing is one of our core values.

We maintain high standards in corporate governance and ethical standards of business conduct – those systems and processes through which our organisation is managed, controlled and held accountable. We are committed to open, honest and transparent corporate reporting.

Links to material issues:

- Trust, transparency and legitimacy
- Political and regulatory environment
- Corporate governance and business conduct





Metrics and targets

Return on Regulated Equity (RoRE)

Return on regulatory equity (RoRE) relates to our regulated entity, United Utilities Water Limited, and measures the regulatory returns (after tax and interest) that companies have earned by reference to the notional regulated equity (which is calculated as 40 per cent of the regulatory capital value (RCV), while the other 60 per cent of the RCV is notional net debt).

RoRE comprises a base allowed return, which is set by Ofwat, plus or minus any out or under performance earned. It is reported on an annual and cumulative basis throughout each asset management period (AMP).

As well as being a key regulatory measure, RoRE is one of our financial KPIs and executive remuneration is linked to our RoRE performance through its inclusion in the Long Term Plan.

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

- delivering efficiency savings versus our cost allowance (total expenditure (totex) outperformance);
- earning outperformance payments for service delivery against our performance commitments (customer outcome delivery incentive (ODI) rewards); and
- raising finance at a lower cost than the industry allowed cost of debt (financing outperformance).

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

- overspending versus our total cost allowance (totex underperformance);
- incurring underperformance payments for failure to meet our performance commitments (customer ODI penalties); and
- incurring higher finance costs than the industry allowed cost of debt (financing underperformance).

RoRE can also be higher or lower as a result of the outturn tax position versus the allowance.

Our efficient financing has given us a history of financing outperformance. We strive to deliver efficient costs, but our strategy for AMP7 has been to prioritise operating performance and ODI rewards over totex savings, as this drives better long-term value for all our stakeholders.

KPIs and other stakeholder metrics

Our key performance indicators

We measure our performance against a selection of key performance indicators (KPIs), both operational and financial. Bonuses (for executive directors and colleagues right through the business) and long-term incentives for executive directors, are closely aligned to many of our operational and financial KPIs.

Operational KPIs

We have redefined our operational KPIs this year to align with our purpose and strategic priorities, and in doing so this also provides alignment with environmental, social and governance (ESG) matters. More detail on these can be seen on pages 10 to 11.

Financial KPIs

We have selected financial KPIs that assess both profitability and financial sustainability, including income statement, balance sheet, and shareholder performance metrics. We have made one amendment to our financial KPIs this year, exchanging low dependency pension schemes (which we have already fully satisfied) with return on regulated equity (RoRE). More detail on these can be seen on pages 12 to 13.

Our other performance indicators

Our KPIs are by no means the only measures by which we monitor and assess our performance. We report against many other metrics both internally and externally. As discussed on pages 56 and 57, our stakeholder engagement gives us a view of what matters most to them. We report on a selection of material ESG measures on pages 84 to 109 based on the issues shown to be of highest interest to our stakeholders, including climate and nature-related metrics. These measures relate to the group unless stated otherwise in the performance tables where they relate to the regulated entity, United Utilities Water Limited. We regularly report on numerous ESG performance measures on our website at unitedutilities.com/corporate/responsibility/our-approach

Assurance of performance metrics

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. The performance tables on pages 85 to 109 state what level of assurance has been obtained for each metric, and the sections of this report that have received external assurance are marked as such on the relevant pages, including the figures in our energy and carbon report and our remuneration report. These audit opinions can be found on our website at unitedutilities.com/corporate/responsibility/our-approach/esg-performance

Our annual performance report (APR)

Performance against our regulatory contract is monitored and assessed each year, and reported within the annual performance report (APR), as required by our economic regulator Ofwat. We include several regulatory performance measures within this report. Our APR provides more details, as well as further narrative, about our regulatory performance during the year.

There is financial information contained within the APR. This relates only to the regulated company, United Utilities Water Limited, and its appointed activities, and is calculated in accordance with the regulatory accounting framework. This differs from IFRS reporting, and a reconciliation to IFRS reporting is provided in the APR. For the purposes of clarification, our financial KPIs relate to performance at the group level, and are calculated within the definitions given in this report. Our previous year APRs are available on our website, and the APR for 2022/23 will be published in July 2023.

 Our annual performance report (APR) will be available on our website from 15 July at unitedutilities.com/corporate/about-us/performance/annual-performance-report





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

Summary

- United Utilities was the first UK water company to have targets verified by the SBTi, including for scope 3 emissions. We have now achieved SBT 2 as 100 per cent of our annual electricity purchased is from renewable sources.
- We have made progress on SBT 1 reducing absolute scope 1 and 2 emissions by 3.6 per cent (gross) compared to our baseline year 2019/20 and SBT 3 where 23 per cent of our suppliers of capital goods (by emissions) have set their own science-based target.
- UK Government carbon values (BEIS) are used in our risk assessments and our planning for medium and long-term investments, including PR24.

- Sewer collapses;

- Water service supply and resilience; and
- Low water pressure areas.

Note that, as a regulated business, climate-related opportunities are limited to ways we can avoid costs, rather than generate revenue.

Performance metrics: Science-based targets

We have a strong track record of playing our part to mitigate climate change and have reduced scope 1 and 2 emissions by over 70 per cent since 2005/06, largely through our substantial investment in renewable power generation and green energy procurement. Our ambition and commitments are based on international guidance and climate science and we were delighted in July 2021 that our four near-term science-based targets were verified by the Science Based Targets initiative (SBTi). Since October 2021, the remainder of our purchased electricity has been on a renewable tariff backed by Renewable Energy Guarantees of Origin certificates, meaning that in the future 100 per cent of our purchased electricity will be from renewable sources – enabling us to deliver on our carbon pledge and our SBT. The SBTi Net Zero Standard was launched in late 2021 and we have committed to validate our 2050 ambition to this standard when we revise and revalidate our near-term targets in advance of 2025.

As well as our company-specific science-based targets, we share the UK water sector ambition for a subset of operational emissions to be net zero from 2030. Note that this target has a smaller scope than SBTi and allows use of purchased credits, using agreed offsetting principles.

Future focus

- Continue our collaboration with suppliers so that we can increase the proportion of our scope 3 emissions that are estimated using volume of product purchased rather than spend.
 - Attempt to inform national approach to water investment programmes arising from public pressure and the new Environment Act 2021.
 - Work to validate our long-term net zero ambition to the new SBTi Net Zero Standard.
- Read about [progress to deliver our six carbon pledges](#) on page 92
 → Read our [streamlined energy and carbon report including 2022/23 greenhouse gas emissions](#) on pages 93 to 95
 → Read more about our [2022/23 environmental performance](#) on page 89

Performance metrics: climate-related risk management

We manage our climate-related risks by putting in place controls such as those set out on page 71 and in Appendix A.3 of the 2021 climate change adaptation report, published on our corporate website. The effectiveness of these controls is seen in our operational performance metrics. The following metrics are recognised as examples of those key to our resilience to a changing climate and are reported in the annual performance report:

- Leakage;
- Per capita consumption;
- Flooding incidents, risk and resilience;
- Storm overflow activations;
- Risk of severe restrictions in a drought;

SBT 1 – scope 1 and 2 emissions

Reduce scope 1 and 2 absolute emissions by

↓42%



66%
construction services suppliers by emissions have SBTs by 2025

SBT 3 – scope 3 supplier engagement



SBT 2 – scope 2 electricity

100%

renewable electricity



Reduce other scope 3 absolute emissions by

↓25%

SBT 4 – scope 3 emissions



Metrics and targets

TNFD

Nature-related metrics and targets

Managing nature-related risks and opportunities

Nature is fundamental to the sustainability of our business and so we monitor a wide variety of metrics and set targets to help monitor and assess nature-related risks and opportunities.

To measure our performance we demonstrate delivery against contributing targets from a number of statutory requirements, such as the condition of protected sites, biodiversity net gain, environmental performance, and supporting strategies. We were the only water company to set a natural capital outcome delivery incentive in our business plan for 2020–25. This is measured by demonstrating additional value created through ecosystem services for customers and the environment. We achieve this by implementing nature-based solutions where they offer best value compared against a hard-engineered solution.

We are a key contributor to the North West's first natural capital account developed in collaboration with many regional organisations. By considering this baseline value, we can benchmark the impact of future changes to our natural assets and quantify improvements. It is helping to understand how valuable the region's natural capital assets are. This year, we have updated our own natural capital account as part of a five-yearly review cycle.

Many of our targets in the short and medium term are regulatory performance commitments for 2020–25. We also have targets that go further, like our Better Rivers pledges and targets for monitoring and reducing storm overflow activations. We are in the process of preparing our business plan with targets for the 2025–30 period. Our long-term targets align with government expectations, such as achieving 75 per cent favourable condition for SSSI locations by 2042. We are committed to improving surface, groundwater and bathing water quality in the immediate term and beyond.

Progress this year

- Updated our corporate natural capital account so we can track and measure trends in our impact on nature.
- Developed our long-term environmental strategy.

Future focus

- Continue to engage with the Task Force to develop our nature-related disclosures, and work towards the global shared vision of 'living in harmony with nature by 2050'.
- Develop a strategy on how we will achieve the four 2030 biodiversity goals adopted by nations during COP15. By engaging in the TNFD process early we are already working towards achieving Target 15 to disclose on our interactions with nature.

OTHER

Metrics and targets in relation to areas of material interest

Cyber security

We monitor a number of security metrics and have targets against each. Many are aimed at meeting or exceeding national recommendations or comparative performance, such as targets for security patching recommended by the National Cyber Security Centre, and our phishing test platform where we monitor comparative performance on clicks, compromises and reports. We target zero malware outbreaks and use a series of technical and process controls to ensure we achieve this. We aim to have all our major suppliers security assured to our standards, and maintain a dynamic and live assessment of our supply chain. We are measured annually by our regulators against NIS security targets and have remained compliant since this was introduced. As a tier two PCI-DSS merchant, we are measured annually by our payment industry stakeholder against PCI-DSS and have remained compliant to requirements for many years.

Financial risk management

We operate within targets set out in our financial risk management policies, including a range for how many months' liquidity we maintain on a rolling basis, levels of index-linked and fixed rate debt we want to maintain, and energy price hedging. We set individual credit risk targets for counterparties based on their level of risk. We target a 55 to 65 per cent gearing range, which supports our credit rating targets. Performance against all of these targets is monitored on a monthly basis.

Affordability and vulnerability

We monitor various metrics around cash collection, bad debt, and the number of customers on our support schemes. Our C-MeX score for customer satisfaction is impacted in part by the help we provide to customers in vulnerable situations. We have 2025 performance commitments for lifting customers out of water poverty and signing more customers up to Priority Services. Read more on pages 98 to 101.

Health, safety and wellbeing

We monitor various metrics for health, safety and wellbeing, including accidents and near misses. We have targets for accident frequency rates for both colleagues and contractors, and we target maintaining accreditation with the Workplace Wellbeing Charter. Read more on pages 100 to 101.

United Supply Chain

We aim to have 100 per cent of targeted suppliers signed up to United Supply Chain by 2025. Read more on page 108.

Equity, diversity and inclusion

We monitor a number of metrics on the inclusive nature of our workforce, including gender, ethnicity, disability, and LGBT+. We target scoring at least in line with both the UK norm and the Utilities norm on the diversity and inclusion questions in our colleague engagement survey, and we seek to make progress towards improving our diversity statistics, including closing the gender pay gap. Read more on pages 54 to 55.

Future targets

This page sets out some of the climate-related, nature-related and other sustainability targets we have set ourselves over the short, medium and long term.

Short term	Medium term	Long term
 2023 Monitor all storm overflows and make real-time data on their operation available to the general public	 2025 Improve water quality in 1,315 kilometres of rivers across the North West	 2025 100 per cent of targeted suppliers signed up to United Supply Chain
 2028 100 per cent green fleet	 2025+ Work to enable future national water trading	 2025 >220,000 customers registered for our Priority Services scheme
 2030 Reduce scope 1 & 2 greenhouse gas (GHG) emissions by 42 per cent and scope 3 GHG emissions by 25 per cent	 2030 Restore 1,000 hectares of peatland and create 550 hectares of woodland	 2035 Deliver our service using natural capital in a sustainable, efficient and resilient way
 2050 Help reduce water demand to 110 litres per person per day	 2050 Net zero GHG emissions aligned to the Paris Agreement's ambition to limit global warming to 1.5°C	 2045 Install additional water meters to achieve coverage of around 75 per cent of households
 2050 Reduce leakage by 50 per cent	 2050 Reduce to an average of no more than 10 activations per storm overflow	 2070 Eliminate lead pipes

Our environmental performance in 2022/23

How we measure performance

Our key performance indicators for building a greener North West are achievement of our Better Rivers commitments, our carbon pledges relating to renewable energy, green fleet, peatland restoration and woodland creation, and the Environment Agency's Environmental Performance Assessment. We report on a selection of other environmental metrics of interest to stakeholders on page 89.



Overview

The North West has a diverse mix of densely populated and built-up urban areas as well as many rural areas of outstanding natural beauty, and there are different environmental considerations needed for each. We will continue to protect and enhance the environment across our region, and manage our land responsibly to preserve and improve it for future generations.

We delivered a number of environmental improvements over AMP6, our current AMP7 programme is driving this even further, and in October we will submit our business plan for AMP8 with the largest environmental improvement programme we have ever delivered.

Our performance this year has remained strong. We are a sector leader at minimising pollution, have achieved our lowest ever level of leakage despite difficult weather conditions over the winter, and we are making good progress against our carbon pledges. We recognise a step change is needed when it comes to storm overflows. We have already delivered a 39 per cent reduction in reported activations of storm overflows since 2020, helping to improve river health across the region, and have ambitious plans to go further and faster.



Better Rivers: Better North West commitments achieved

Definition

The percentage of 2022/23 milestones delivered as part of our Better Rivers programme.

Target

95% of programme milestones delivered by 2025

Annual performance

100%
of 2022/23 commitments

All of this year's milestones have been delivered including hosting our first Environmental AGM, publishing our Better Rivers report and undertaking our first citizen science event at Windermere.

2021/22: new measure

2020/21: new measure

Status



Met expectation/target

Link to stakeholder



Link to material issues

- Storm overflows
- Political and regulatory environment
- Trust, transparency and legitimacy

Link to risks

- Wastewater service
- Political and regulatory

Link to remuneration

Bonus

Assurance

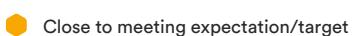
Independent third-party verification

Status key

Annual performance



Met expectation/target



Close to meeting expectation/target



Behind expectation/target

Carbon pledges

Definition

Progress against our green fleet, peatland restoration and woodland creation pledges, and supplier engagement in relation to setting science-based targets.

Target

Individual carbon pledge targets set out on page 92

Annual performance

Good progress

We have plans for 200 electric vehicles in the next 18 months, are more than halfway to our 2030 peatland target, and are making good progress on woodland creation. We are working with construction partners, with 23 per cent having set science-based targets.

2021/22: Pledge 2 met

2020/21: Pledge 6 met

Status



Met expectation/target

Link to stakeholder



Link to material issues

- Climate change
- Resilience
- Trust, transparency and legitimacy

Link to risks

- Supply chain and programme delivery

Link to remuneration

LTP

Assurance

Independent third-party verification

EA's Environmental Performance Assessment (EPA) rating⁽ⁱ⁾

Definition

The Environment Agency's annual assessment across six key sector environmental performance measures.

Target

Upper quartile performance within the water industry each year

Annual performance

Top 4* rating

The most recent assessment is for 2021, when we were awarded the maximum four stars for the second year running, meaning we were classed by the Environment Agency as an industry-leading company. The EA will publish its annual assessment for 2022 in July 2023.

2021: Joint first

2020: Joint first

Status



Met expectation/target

Link to stakeholder



Link to material issues

- Customer service and operational performance
- Trust, transparency and legitimacy
- Political and regulatory environment

Link to risks

- Wastewater service
- Political and regulatory

Link to remuneration

LTP

Link to assurance

Independent third-party verification

⁽ⁱ⁾ Measure relates to United Utilities Water Limited.

➡ Read more about [our approach to materiality](#) on pages 28 to 29 and [our principal risks](#) on pages 64 to 65

➡ Read more about [the bonus and long term plan \(LTP\)](#) in our remuneration report on pages 170 to 203



Our environmental performance creates value for



See the separate report on our website at [unitedutilities.com/globalassets/documents/corporate-documents/united-utilities-better-rivers-report-2023.pdf](https://www.unitedutilities.com/globalassets/documents/corporate-documents/united-utilities-better-rivers-report-2023.pdf)

Industry-leading environmental performance and pollution reduction

The Environmental Performance Assessment (EPA) published by the Environment Agency (EA) consists of six metrics against which company performance is assessed on a red, amber or green (RAG) status. Based on performance across all of the metrics, star ratings (one to four) are then applied to each water company.

The EA will publish its assessment for 2022 in July 2023. The most recent assessment is for 2021, and we were awarded the maximum four stars, meaning we were classed by the EA as an ‘industry-leading company’, for the second year running. This was a strong achievement, particularly as the 2021 assessment used tighter thresholds than in previous years to assess companies’ performance.

We have delivered a sustained reduction in pollution incidents, reducing by more than 57 per cent since 2011. In 2021, we had our lowest ever number of pollution incidents, and we were one of only two companies to be rated as green status for our serious incident (category 1 and 2 pollution) performance. This is the 11th year running that we have been rated as green status for our performance on serious incidents – the only company to have ever achieved this. We expect to achieve green status for serious pollution incidents and the total number of pollution incidents measure in the EA’s assessment for 2022.

We were rated as green status for our discharge permits compliance, something we have achieved for two out of the last three years, and our performance of 99.0 per cent compliance was higher than the sector average of 98.7 per cent.

We achieved green performance for our delivery of the Water Industry National Environment Programme (WINEP). We have delivered 100 per cent of our WINEP schemes by their planned delivery date since the beginning of the current 2020–25 period (AMP7), delivering a total of 137 schemes in the financial year ending 2022 (562 schemes in total this AMP). These schemes are delivering improvements to rivers across the region.

Improving water quality in rivers across the North West

Many of our stakeholders are concerned about the country’s rivers and particularly the impact of storm overflows. The time has come to change this century old practice, and we are committed to going further and faster to reduce the number of incidents where sewage flows into our rivers and seas.

This is a huge change, and achieving the improvement that is needed will not happen overnight. The North West has more rainfall and more combined sewers than elsewhere in the country. However, we are committed to delivering as quickly and as effectively as possible.

We have identified improving our rivers as one of our six strategic priorities. Last year we set out our commitments to improve river health across the North West. As part of Better Rivers: Better North West we set out four pledges supported by 30 specific commitments to kick-start a river revival in the region. This plan is a critical deliverable for our organisation, and we have made good progress so far.

The Environment Agency requires all water companies to fit monitors to their storm overflows in order to capture information on how they are performing. 97 per cent of the North West’s storm overflows are now monitored and we will achieve 100 per cent by the end of 2023.

As a result of our considerable efforts to improve monitoring and operation of storm overflows, we have delivered a 39 per cent reduction in reported activations since 2020.

While we are pleased with progress we so far, we want to go further and faster to deliver improvements.

We have received provisional approval from regulators for over £900 million additional investment to make an early start on our AMP8 investment plans, mainly in relation to reducing activations from overflows, addressing a third of those we are targeting for improvement between now and 2030. We expect to spend £200 million of this over the next two years of AMP7.

Reducing our greenhouse gas emissions

We continue to work towards our long-term net zero ambition. In 2020, we committed to six carbon pledges, underpinned by ambitious science-based targets. These include switching to low carbon energy, greening our fleet, restoring peatland and creating woodland. We have already achieved two of our pledges in relation to 100 per cent renewable electricity and setting scope 3 science-based targets, and we are making good progress with the remaining pledges.

We are delivering landscape-scale change in our peatland restoration and woodland creation programmes. These programmes are not only beneficial from a carbon perspective, creating natural 'carbon sinks', but also deliver wider benefits to protect water and other natural resources, support nature, and enable recreational access for communities and tourism.

As the largest corporate landowner in England, our land assets provide an abundant scope for the development of renewable and other clean technologies. We have showcased our ability in this space, having previously grown a portfolio of renewable assets across the North West. Following the sale of these assets last year, we will be recycling the funds generated by that sale to invest in the next stage of our journey.

As an initial step, we are working on plans to develop up to 200 megawatts of new installed capacity by 2030. This programme could comprise a

combination of solar, wind and batteries, helping to deliver emissions reductions and further improve both operating and financial resilience.

We have now shared our science-based net zero transition plan to achieve our climate change mitigation commitments.

Our scope 1 and 2 emissions target is to reduce emissions by 42 per cent by 2030 (from our 2019/20 baseline) and to further reduce this towards net zero by 2050.

We will also work with our supply chain to achieve two scope 3 targets. Firstly, for 66 per cent of our capital goods suppliers (by emissions) to have science-based targets by 2025. And secondly, for all other scope 3 categories, to achieve a 25 per cent reduction in emissions by 2030 (from a 2020 baseline).

We are part of the global movement of 'Business Ambition for 1.5°C: Our Only Future', and proud to be contributing to the UK water industry's commitment to be net zero.

For more details on our net zero transition plan see pages 45 to 47.

Climate resilience

We continue to invest across our business to protect and enhance the climate resilience of our assets, processes and customer services.

In December 2021 we published a comprehensive overview of our climate risks and plans in our latest climate change adaptation progress report. We have further integrated our approach to

understanding the impacts of climate change in our latest Drainage and Wastewater Management Plan and our Water Resource Management Plan. This is part of our long-term adaptive planning for services that are resilient to a range of plausible climate change scenarios.

We continue to expand our approach to climate resilience, including engagement with stakeholders and interdependent service providers, such as the energy sector. Taking account of interdependent risks in our business planning process allows us to maximise the value we deliver for customers and other stakeholders through working together on common challenges. We are working with electricity distribution network operators to align investment, such as securing resilient energy infrastructure to our sites, as part of our business plan submission for 2025–30 and beyond.

Our annual disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) provide an update on our performance this year, and these can be found throughout this report, as set out on page 05.

39%

reduction in reported storm overflow activations since 2020

4*

industry-leading performance in the latest assessment from the Environment Agency

>£900m

accelerated investment to deliver environmental improvements earlier, mainly reducing overflow activations

Our environmental performance in 2022/23

Enhancing and protecting biodiversity and natural capital

We have developed a value assessment tool which has been used in the development of our future plans to incorporate broader natural capital into our decision-making process. We continue to deliver in line with our outcome delivery incentive (ODI) on enhancing natural capital value for customers, which encourages assessment of the added natural capital value we deliver by pursuing nature-based and catchment solutions – such as using wetlands to treat storm water at Southwaite wastewater treatment works. We are currently outperforming against this performance commitment and expect to improve this further in the remaining two years of AMP7.

Understanding broader value is a key element of driving partnership working and our Catchment Systems Thinking (CaST) approach, which seeks to understand the broader needs of a catchment and deliver these across multiple stakeholders to achieve the outcomes that are needed. This can be seen at the UK's first Catchment Nutrient Balancing trial at our Calthwaite wastewater treatment works on the River Petteril where we have delivered innovative treatment alongside catchment interventions to reduce total phosphorus entering the river. For more details see unitedutilities.com/Transforming-the-River-Petteril/

Following the development of the North West natural capital baseline, we have used it to bring together leading organisations from sectors such as land management, regulation, local government, academia and industry to form a regional natural capital governance group. There has been good support for this and agreement on how the group can improve our regional approach to management of natural capital and the data that supports this delivery.

Biodiversity is a key pillar of natural capital and ensuring the preservation and enhancement of biodiversity is a key element to our CaST approach. As an organisation delivering significant development in the North West we have committed to no net loss of biodiversity through our development for a long time, and we are increasing our delivery in this area.

We have a major impact on biodiversity through the significant amount of land we own that is designated as Site of Special Scientific Interest (SSSI). We have delivered significant investment to improve the condition of habitats on our land, aiming towards a commitment to have 100 per cent of our SSSI land in either favourable or recovering status by 2030.

We have been an active member of the Ofwat working group supporting the development of a new common performance commitment around biodiversity. Through this we are now developing our delivery programme to maximise the value that can be delivered for customers through this performance commitment.

During the year we have planted 104,493 trees to boost biodiversity, protect water quality and improve air quality. Our catchment land at Macclesfield Forest was one of the sites to benefit from planting 500 broadleaf saplings including Birch, Oak, Rowan, Hazel and Alder. These newly established native trees will establish themselves over the coming seasons to become an essential part of the forest habitat.

Over the past three years we have planted over 500,000 trees across the region, achieving our 2025 target ahead of schedule. We continue to identify suitable locations for tree planning and work towards our commitment to plant 1 million trees by 2030.

Strong performance tackling leakage despite challenging weather extremes

Reducing leakage is of huge importance for our stakeholders and for us as an organisation.

We have met our leakage target for the 17th consecutive year. Customer ODI performance on leakage is based on a three-year average, and our average leakage over the last three years is at its lowest ever level. As a result of this strong achievement we expect to receive an outperformance payment this year in relation to our leakage performance commitment.

2022/23 has been a challenging year for our leakage reduction programme. A very severe freeze-thaw event in December 2022 impacted distribution-side (company) and customer-side (private) leakage levels, and some customers experienced short-term interruptions to their water supply. A recovery plan was implemented and we reduced leakage levels back to the levels they were at prior to the freeze.

A number of key activities made up our recovery plan:

- We increased our efforts to promote leakage and used online channels for customers to report leaks, for example using our app;
- We used our fleet of around 70,000 acoustic sensors to identify and pinpoint leaks more efficiently;
- We managed network pressures using around 4,000 pressure management valves, many of which can be controlled remotely;
- We increased resources detecting and repairing leaks, as well as increasing our logger teams to detect leaks that would not be found using traditional manual techniques;
- We worked with our partners and supply chain to speed up leak repairs; and
- We used our partner and company vehicles with digital messaging to run specific advice across the region, alongside existing vans which now carry all-year-round leakage-related messaging.

Over AMP7, we are targeting a reduction in total leakage of 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. We actively look to trial new techniques to understand how these can be scaled and embedded in the most effective way, and this gives us opportunities to accelerate and target those interventions which are demonstrated to be the most effective. We continue to use the learning from these pilots and trials to refine our approach to reducing leakage and deliver our dynamic network management (DNM) ambition.

Status key

Annual performance

- Met expectation/target
- Close to meeting expectation/target
- Behind expectation/target

Against 2025 target

- Confident of meeting target
- Some work to do
- Target unobtainable

Assurance key

ITV Independent third-party verification

RRA Regulatory reporting assurance

IAT Internal audit team

Measure	2025 target	2022/23	Performance		Link to assurance	Link to remuneration ⁽²⁾	Link to main stakeholder	Status	
			2021/22	2020/21				Annual performance	Against 2025 target
Pollution incidents per 10,000km sewer network ⁽¹⁾	19.5	16.29	17.71	18.10	RRA	LTP		●	●
Reduction in reported storm overflow activations	33% sustainable reduction	39%	28%	n/a	IAT			●	●
Treatment works compliance ⁽¹⁾	100%	98.45%	98.98%	99.75%	RRA	LTP		●	●
Leakage reduction ⁽¹⁾	15% ⁽³⁾	6%	8%	5%	RRA	LTP		●	●
Reduction in per capita consumption ⁽¹⁾	6.3% ⁽⁴⁾	0.5% increase	1.5% increase	1.7% increase	RRA	PC		●	●
Internal flooding incidents per 10,000 sewer connections ⁽¹⁾	1.34	2.32	2.98	4.47	RRA	PC		●	●
External flooding incidents ⁽¹⁾	5,859	5,916	6,223	6,849	RRA	PC		●	●
Waste to beneficial use	98%	98.3%	97.8%	97.3%	IAT			●	●
Enhancing natural capital for customers ⁽¹⁾	£4 million	£0	£3.234 million	Delivery from 2022	RRA	PC		●	●
Number of trees planted	500,000	565,733	461,240	216,601	IAT			●	●
Carbon pledge 1: reduction of scope 1 & 2 GHG emissions	14% reduction ⁽⁵⁾ (42% by 2030)	3.6% reduction	2.20% reduction	1.5% increase	ITV			●	●
Carbon pledge 2: renewable electricity purchased	100% by 2023	100%	96%	93%	ITV			●	●
Carbon pledge 3: green fleet	100% by 2028	33 vehicles	27 vehicles	28 vehicles	IAT	LTP		●	●
Carbon pledge 4: peatland restoration	1,000 hectares (ha) by 2030	585 ha	Activity underway	Plans for 5 sites	ITV	LTP		●	●
Carbon pledge 5: woodland created	550 hectares (ha) by 2030	37 ha	9 ha	9 ha	ITV	LTP		●	●
Construction services suppliers with science based targets	66%	23%	n/a	n/a	IAT	LTP		●	●
Better air quality: nitrogen oxides (NOx) emissions per unit of renewable electricity generated ⁽¹⁾	1.42	1.07	1.19	1.30	RRA	PC		●	●
Electricity generated directly and with partners as % of used	Under review	24%	26%	25%	IAT			●	●

⁽¹⁾ Measure relates to United Utilities Water Limited.

⁽²⁾ PC = Performance commitment subject to reward and/or penalty as part of customer outcome delivery incentives (ODIs). These feed into both bonus and LTP through inclusion of customer ODIs and return on regulated equity (RoRE) respectively. Read more about the bonus and long term plan (LTP) in our remuneration report on pages 170 to 203.

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

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

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

Better Rivers: Better North West – working with others to improve river health

We have an important role to play in improving river health across the region, engaging with local communities and interested organisations. Our river rangers and Future Rivers Forum are two ways in which we are working with others to respond to the challenge.

To protect our rivers and help to keep them healthy, we have recruited a brand new team of six river rangers who will be based across the region. The rangers will be working with teams across our catchments, forging close links and engaging with community groups and organisations and collaborating with them to improve the environment and river water quality in those areas. They'll be proactively patrolling the banks of rivers, checking assets to organise maintenance and cleaning litter and debris to mitigate against the aesthetic impact of our operations. The river rangers' work will allow us to further understand the quality of rivers across our region and what more we need to do to protect their health and help them thrive. If successful, we plan to hire more rangers to support our activities right across the North West.

In partnership with the Rivers Trust, we hosted the North West's first Future Rivers Forum to drive awareness and address the challenges that face rivers across the region including climate change, population growth and pollution. The Future Rivers Forum brought together a cross section of people and organisations including local authority representatives, North West businesses, environmental bodies, water sector regulators and local community figures to encourage greater collaboration to improve the health of the region's rivers.

The day consisted of a mixture of speakers as well as networking and interactive sprint workshops to identify new opportunities to work together. Attendees discussed the challenges their industries face, shared solutions and committed to put words into actions and create a lasting impact that goes beyond the day's events. Collaboration, funding, and nature-based solutions were key themes to emerge from discussions.

Delivering value for



“

The river rangers will be working with teams across our catchments to forge close links and engage with community groups and organisations.”



Read more about our Better Rivers commitments on our website at [unitedutilities.com/corporate/responsibility/environment/reducing-pollution/storm-overflows/our-commitments-to-river-health](https://www.unitedutilities.com/corporate/responsibility/environment/reducing-pollution/storm-overflows/our-commitments-to-river-health)



“

We are focused on improving our energy resilience and self-generation capacity, with a target of achieving 50 per cent self-sufficiency by 2030.”

Investing in renewable energy to build resilience and support our net zero ambition

Clean energy is a naturally adjacent business to water and wastewater services, providing us with resilience and helping us to reduce our greenhouse gas emissions and work towards achieving our net zero target.

We own and manage 56,000 hectares of land, and we plan to maximise our land bank to help us build a greener future. We have identified 140 sites with scope for development of renewables and other clean technologies. We are focused on improving our energy resilience and self-generation capacity, with a target of achieving 50 per cent self-sufficiency by 2030.

We have demonstrated our ability in this space, having previously delivered a portfolio of renewable energy assets across the North West. Through the sale of our subsidiary, United Utilities Renewable Energy Limited, last year we retained the benefits of the clean energy through long-term power purchase agreements, but have freed up capital enabling us to accelerate deployment of our clean energy strategy.

As an initial step, we are working on plans to develop 150 megawatts of new installed capacity by 2030. This programme will be made up of a combination of solar and batteries.

With a substantial increase in the size of our capital programme expected in AMP8 and beyond to meet new environmental obligations, this places significant upwards pressures on emissions with our annual energy consumption expected to increase, as discussed in our transition plan on pages 45 to 47.

Increased self-generation will help towards our emission reduction targets, and it will improve financial resilience, which is particularly important with power markets becoming more volatile in recent years. Investment in batteries will improve operating resilience, protecting key assets and sites in the event of a grid outage.

→ Read [our net zero transition plan](#) on pages 45 to 47

Delivering value for



Our environmental performance in 2022/23

Progress against our carbon pledges

In 2020 United Utilities made six pledges that set out our initial priorities in the global goal to curb climate change to no more than 1.5°C. Our progress meeting these pledges is below.

Pledge 1

42% reduction of scope 1 & 2 emissions from our 2020 baseline by 2030

Our progress

 **3.6%**  Confident of meeting pledge

We are making good progress towards our pledge and SBT, having made a year-on-year 1.5 per cent reduction from 2021/22. Progress is not expected to be linear while we have emerging challenges that drive increasing emissions.

2019/20: 138,961 tCO₂e Baseline
2022/23: 133,930 tCO₂e 3.6% reduction



SBT 1 – scope 1 and 2 emissions

Reduce scope 1 and 2 absolute emissions by

↓ 42%



Pledge 2

100% renewable electricity by 2021

Our progress

100%  Pledge met

Since October 2021 all electricity we use is renewable. Around 25 per cent of our needs are renewably generated directly by us or with partners and the remainder is purchased on a renewable tariff backed with REGO certificates. We are working on plans to increase the energy we can self-supply through new investment in renewable capacity and storage.



SBT 2 – scope 2 electricity

100% renewable electricity



construction services suppliers by emissions have SBTs by 2025

66%



SBT 3 – scope 3 supplier engagement



Reduce other scope 3 absolute emissions by

↓ 25%

SBT 4 – scope 3 emissions



Pledge 6

Set a scope 3 science-based target by 2021

Our progress

SBTs verified July 2021  Pledge met

We have two science-based targets which between them cover all our relevant scope 3 emissions. 29 per cent of our scope 3 emissions are from our construction services partners delivering infrastructure as part of our AMP7 business plan. We are working with our partners to reduce the emissions from building these projects by supporting their own environmental ambitions and encouraging them to set their own science-based targets. 23 per cent of these suppliers (by 2022/23 emissions) have set SBTi verified science-based targets for their organisation and approximately 60 per cent more have either made an SBTi or other public commitment statement to set targets that are science-based.

Remuneration: LTP

Pledge 3

100% green fleet by 2028

Our progress

33 vehicles  Confident of meeting pledge

Our initial focus has been on understanding the travel patterns of our fleet. With this insight we have begun the delivery of the required charging infrastructure, the purchase of an initial 200 electric vehicles and are continuing to explore options for HGVs.

We are also supporting colleagues to switch to electric with a salary sacrifice scheme.

Remuneration: LTP

Pledge 4

1,000 hectares of peatland restoration by 2030

Our progress

585ha  Confident of meeting pledge

We have peatland restoration activities across the North West at different stages of maturity including the 2000ha improved through our 2005–15 SCaMP projects. We have 585ha currently under restoration towards meeting this pledge.

Remuneration: LTP

Pledge 5

Plant one million trees to create 550 hectares of woodland by 2030

Our progress

37ha  Confident of meeting pledge

Weather and tree disease slowed our planting progress but we have two well established nurseries and plans for more and have identified hundreds of sites for new and 'replanted' woodlands.

Remuneration: LTP

The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations require us to publish this energy and carbon report applying the 2019 UK Government Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting Guidance (SECR).

We use the financial control approach so our energy and carbon accounting is aligned with the consolidated financial statements for United Utilities Group PLC for 1 April 2022 to 31 March 2023. This includes subsidiaries listed in section A8 on page 286.

Our greenhouse gas inventory, including the underlying energy data summarised below, has undergone independent third-party verification by the Achilles Group to the requirements of Toitu CarbonReduce programme.

	2022/23 GWh	2021/22 GWh	2020/21 GWh	2019/20 GWh
Energy use				
Electricity	818.8	803.3	807.3	802.3
Natural gas	33.6	33.8	40.0	38.3
Stationary fossil fuels (Gas oil, kerosene, diesel)	59.8	50.5	36.5	50.8
Stationary low carbon fuels (HVO, LPG)	<0.1	<0.1	0	0
Energy for transport (from fuel used or distance travelled)	71.7	72.6	67.5	65.5
Total energy used	983.9	960.2	951.3	956.9
Electricity purchased				
Grid renewable	655.7	611.0	591.4	602.9
Grid standard tariff ⁽¹⁾⁽²⁾	<0.1	22.3	47.8	40.8
Total purchased	655.7	633.3	639.2	643.7
Renewable energy generated				
CHP	123.0	133.8	127.6	121.5
Solar	46.4	47.8	50.7	42.6
Wind	5.1	4.8	5.3	5.7
Hydro	6.9	7.2	6.9	6.8
Biomethane ⁽³⁾	14.5	15.9	14.8	14.2
Total generated	195.9	209.5	205.3	190.8
Renewable energy exported				
Electricity	18.3	23.5	22.4	18.1
Biomethane ⁽³⁾	14.5	15.9	14.8	14.2
Total exported	32.8	39.4	37.2	32.3

⁽¹⁾ Non half hourly metered supplies were on a standard tariff up to the end of September 2021. The emissions were 289g CO₂e/kWh in 2019/20, 178g CO₂e/kWh in 2020/21 and 188g CO₂e/kWh in 2021/22. Non half hourly supplies moved to a new supplier on a 0g CO₂e/kWh renewable tariff on 1 October 2021.

⁽²⁾ The residual electricity on a standard tariff is associated with default tariffs for recently adopted sites.

⁽³⁾ Biomethane generated and exported to grid is expressed as an electricity equivalent.

Energy strategy

Our energy management strategy has four objectives:

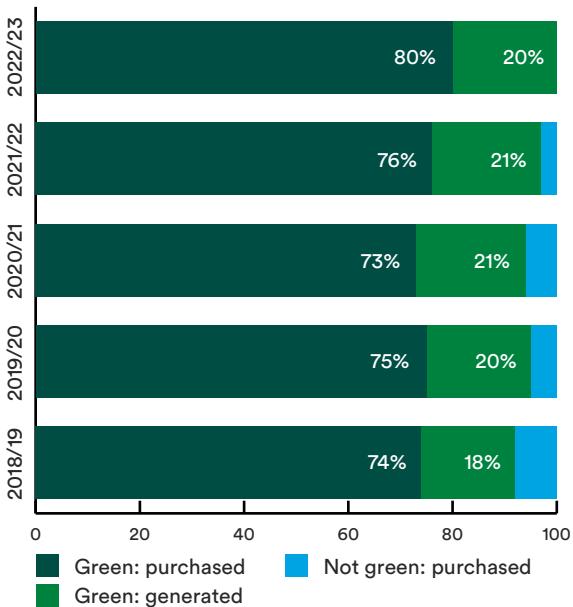
- Efficient use of energy;
- Maximising self-generation and direct supply opportunities;
- Reducing costs (through time of use); and
- Supply resilience to ensure we can deliver our services.

In 2021/22, we set a record for renewable energy generation of 210 GWh through a focus on end-to-end performance of our bioresources operations, which produce electricity, heat and biomethane.

Each year we serve a growing population, driving increased energy use as we strive to achieve environmental performance targets. We seek to mitigate this through our energy management programme and in recent years have maintained consistent energy use in the face of these considerable upward pressures.

100 per cent green electricity transition

Since October 2021 100 per cent of our electricity used has either been renewably generated on site or its purchase backed by REGO (Renewable Energy Guarantee of Origin) certificates.



Energy efficiency actions taken

Our approach to energy efficiency is based on continuous improvement of:

- people – optimising ways of working;
- systems – improving visibility of use and analysis of data systems; and
- technology – targeted investment to remove technological inefficiencies.

Our Energy Management Programme is now firmly established and working well after activities were restricted during COVID-19. The programme carries out site-based workshops and develops ways of working to optimise operations at sites and local areas and is underpinned by e-learning packages and a comprehensive energy performance reporting and analysis capability.

To support reporting and analysis, we have invested over recent years to capture data from our fiscal meters and have installed thousands of sub-meters. The resulting data is used to identify opportunities, assess impacts and benefits of trials and maintain good performance. We use analytics to identify optimisation interventions, such as pump specification.

We have a dedicated investment programme to implement targeted energy solutions in current operations. Examples invest-to-save projects include pump optimisation, time-of-use actions and improved control of wastewater treatment. We are also working to ensure energy and chemical efficient outcomes from our capital programme.

Our environmental performance in 2022/23

TCFD

Greenhouse gas emissions inventory

Our greenhouse gas inventory (including all the underlying energy data) has undergone independent third party verification by Achilles group and is certified to the requirements of the Toitu CarbonReduce programme, as aligned to the GHG Protocol Corporate Accounting and Reporting Standard (2015) and the international carbon reporting standard ISO 14064, Part 1:2018. The assurance certificate and report can be found at unitedutilities.com/corporate/responsibility/environment/climate-change

Emissions are calculated by estimating the individual greenhouse gases that result from all United Utilities' activities, converted into a carbon dioxide equivalent (tCO₂e). Emissions have been estimated using the UK water industry Carbon Accounting Workbook v17 (CAW v17), the 2022 UK Government GHG conversion factors for company reporting and CEDA Global '22 (Comprehensive Environmental Data Archive) factors. We report scope 1, 2 and all relevant scope 3 emissions.

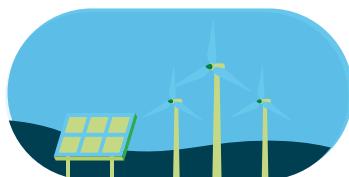
Scope 1

Emissions from activities we own or control, e.g. burning fossil fuels, wastewater and sludge processing.



Scope 2

Emissions from purchased electricity including for use in vehicles.



Scope 3

Emissions from our value chain, e.g. sludge disposal, business travel and products and services.



Scope 1 & 2 greenhouse gas emissions	2022/23 tCO ₂ e	2021/22 tCO ₂ e	2020/21 tCO ₂ e	SBT baseline 2019/20 tCO ₂ e
Scope 1:				
Direct emissions from burning of fossil fuels	21,339	19,207	17,371	15,247
Process and fugitive emissions – including refrigerants	94,915	96,020	98,569	96,186
Transport: Company-owned or leased vehicles	17,665	16,507	16,634	15,739
Scope 2:				
Purchased electricity – generation	Market-based ⁽¹⁾ 9.3⁽⁵⁾	4,201	8,507	11,789
	<i>Location-based⁽²⁾ 126,813</i>	<i>134,492</i>	<i>149,030</i>	<i>164,521</i>
Purchased electricity – vehicles	Market-based 1.7	0.04	0	0
	<i>Location-based 1.7</i>	<i>0.04</i>	<i>0</i>	<i>0</i>
Total scope 1 & 2 emissions (Gross)	Market-based 133,930	135,936	141,081	138,961
	<i>Location-based 260,734</i>	<i>266,226</i>	<i>281,604</i>	<i>291,693</i>
Emissions reduction from				
Renewable electricity exported ⁽³⁾	-1,310	-4,317	-4,184	-3,979
Biomethane exported ⁽⁴⁾	<i>Location-based -9,360</i>	<i>-10,283</i>	<i>-9,725</i>	<i>-9,302</i>
Green tariff electricity purchased	<i>Location-based -125,746</i>	<i>-133,197</i>	<i>-138,015</i>	<i>-164,210</i>
Total scope 1 & 2 emissions (Net)	Market-based 132,620	131,619	136,897	134,982
	<i>Location-based 124,318</i>	<i>118,429</i>	<i>129,680</i>	<i>114,202</i>

⁽¹⁾ Market-based figures use emission factors specific to the actual electricity purchased. If electricity is on a standard grid tariff they are calculated using factors from suppliers' published fuel mix disclosures.

⁽²⁾ Location-based figures use average UK grid emissions to calculate electricity emissions and are shown in *italics*.

⁽³⁾ Exported electricity emissions use the average UK grid emissions factor for both market and location-based totals.

⁽⁴⁾ Exported biomethane was sold with green gas certificates so has zero emissions reduction benefits in market-based accounts.

⁽⁵⁾ The residual market-based electricity emissions is associated with default tariffs for recently adopted sites.

Scope 3 greenhouse gas emissions	2022/23 tCO ₂ e	2021/22 tCO ₂ e	2020/21 tCO ₂ e	SBT baseline 2019/20 tCO ₂ e
Category 1: Purchased goods and services ⁽⁶⁾	250,189	292,946	271,871	213,442
Category 2: Capital goods ⁽⁶⁾	138,182	112,498	95,968	128,286
Category 3: Fuel and energy-related emissions ⁽⁷⁾	53,487	58,948	42,599	45,262
Category 4: Upstream T&D – sludge transport ⁽⁷⁾	35	103	1,119	3,374
Category 5: Waste generated in ops: including sludge disposal ⁽⁷⁾	27,454	25,458	26,333	27,936
Category 6: Business travel: public transport, private vehicles and hotel stays ⁽⁷⁾	1,486	1,138	1,226	3,508
Category 7: Employee commuting and homeworking ⁽⁸⁾	5,336	4,066	4,108	4,231
Total scope 3	476,169	495,158	443,224	426,039
Scope 3 SBT measure (excluding category 2)	337,987	382,660	347,256	297,753

⁽⁶⁾ For Category 1 and 2 we use CEDA Global '22 (an EEIO (environmentally-extended input-output) inventory) to estimate emissions based on the £ spent by spend category.

⁽⁷⁾ Category 3, 4, 5 and 6 use company activity records and UK Government conversion factors.

⁽⁸⁾ Category 7 uses EcoAct models to estimate emissions from employee commuting and homeworking based on company FTE figures and home, site, hybrid working patterns.

United Utilities' greenhouse gas emissions intensity

As in previous years, we report the regulated emissions kilograms CO₂ equivalent per megalitre treated (using the location-based method as calculated in the CAW v17), as these are common metrics for our industry.

We also state our scope 1 plus 2 emissions (market-based) as tonnes CO₂ equivalent per £million revenue.

	Regulated emissions per megalitre water treated (kg)	Regulated emissions per megalitre sewage treated (kg)
2022/23	101.4	158.76
2021/22	106.91	144.21
2020/21	118.51	152.26
Scope 1 and 2 emissions (gross) per £m revenue (tCO ₂ e)		
2022/23	73.4	71.4
2021/22	73.0	70.7
2020/21	78.0	75.7
Scope 1 and 2 emissions (net) per £m revenue (tCO ₂ e)		

Scope 1 emissions

Wastewater and sludge processes cause approximately 70 per cent of our scope 1 emissions as the gases released, nitrous oxide (N_2O) and methane (CH_4) have much greater global warming potentials than carbon dioxide (CO_2). Our process emissions are currently estimated as a direct function of the amount of wastewater we treat. We are undertaking research with other UK water companies to better quantify these emissions from measured values and to find ways to reduce or capture those emissions for beneficial use.

Scope 2 emissions

Our market-based scope 2 emissions are negligible as our agreed supply contracts are REGO backed renewable tariffs.

Scope 3 emissions

Most of our scope 3 emissions are in GHG Protocol categories 1 (products and services) and 2 (capital goods); the latter being those provided by our construction services suppliers. We currently calculate category 1 and 2 emissions using records of the amount we have spent. This provides an indicative estimate but is determined by the scale

of our investment programme rather than our design choices. We are working internally and with supply chain partners to enhance our data and systems so that we can calculate these emissions based on types and quantities of materials used, thereby showing the full impact of our management decisions.

The next highest category is indirect emissions from fuel and energy use. Electricity and fuels used at our operational sites make up 90 per cent of this quantity, so our clean energy and renewable generation ambitions will reduce these as well as scope 1 emissions.

Fuel and energy 21,339 tCO₂e + 54,487 tCO₂e

Fuel and energy emissions include scope 1 emissions from burning of fossil fuels such as kerosene in our treatment processes and also scope 3 emissions associated with the losses from well to tank and in transmission and distribution. We are investigating and trialling ways to reduce our use of fossil fuels through both efficiencies and use of alternative low emission fuels.

Purchased goods and services 250,189 tCO₂e

We currently estimate our emissions from purchased goods and services based on the records of the amount we have spent using CEDA Global '22. This gives us a comprehensive but indicative estimate of scope 3 emissions. We are looking to change key emission categories, such as those from chemicals, to a product-based or supplier-based emissions factor which will enable us to make operational and purchasing decisions based on the carbon impact. To do this, however, we are reliant on our suppliers carrying out and publishing life-cycle carbon assessments.

Transport 17,665 tCO₂e

We made a ten-year green fleet commitment in 2018 to convert our fleet to low-carbon fuels. We have begun our investment in electric vehicles and are exploring options to fuel HGVs, including hydrogen and HVO.

Sludge processing 38,886 tCO₂e

Processing of sludge releases methane. Half of our facilities use advanced digestion which captures more of this methane to power and heat our processes or generate electricity. This reduces the methane lost as an emission.

Wastewater processing 55,665 tCO₂e

The biological processes used in wastewater treatment produce N_2O and CH_4 both potent GHGs. Emissions are approximately proportional to the size of the communities producing the wastewater. Recent monitoring studies show that they may be far higher than the UK water industry currently estimate, but further knowledge will enable mitigation.

Capital goods 138,182 tCO₂e

We have a significant capital programme to develop our water and wastewater services infrastructure and this construction will drive substantial emissions.

Employees – commuting and homeworking 5,336 tCO₂e

Estimated based on our colleagues numbers and ways of working (office/site based or hybrid) using EcoAct's UK models.

Scope 1

Scope 3

Methane
 CH_4
Nitrous
oxide
 N_2O

Carbon
dioxide
 CO_2

Business travel 1,486 tCO₂e

Public transport, private vehicles and hotel stays.

Sludge transport 35 tCO₂e

Contracted sludge transport.

Waste (biosolids to land) 27,454 tCO₂e

97 per cent of these emissions are from disposal of sludge biosolids to agricultural land. Recent UKWIR data shows that the industry estimation method is likely to be significantly overestimating these emissions.

Our social performance in 2022/23

How we measure performance

Our key performance indicators for building a healthier North West are colleague engagement, customer satisfaction as measured through our ranking within Ofwat's C-MeX survey, and the number of customers lifted out of water poverty. We report on a selection of other social metrics of interest to stakeholders on page 101.



Overview

We put customers at the heart of everything we do and are focused on continually improving performance and supporting customers with affordability and vulnerability.

We met or beat 83 per cent of our performance commitments this year – our best ever performance, and we were the top performing listed company in Ofwat's measure of customer satisfaction, C-MeX.

We have supported over 330,000 households through our affordability schemes so far in AMP7, and this year hosted collaborative summits on affordability and vulnerability to share best practice ideas and work together to improve help and advice for customers in the North West.

Our colleagues are critical to the success of our business, their health, safety and wellbeing is paramount, and it is important we give them the opportunity to develop their skills and knowledge and support them with the most effective technology.

We are committed to promoting and improving diversity and inclusion, and our colleague engagement score was higher than both the UK norm and Utilities norm benchmarks.

We are committed to improving health, safety and wellbeing, and have reduced our accident frequency rate for colleagues every year for the last five years.



Colleague engagement**Definition**

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

Target

At least as high as Utilities norm benchmark

Annual performance

82%

We have achieved a strong set of results this year, scoring well against external benchmarks, and despite falling slightly since last year our overall engagement score is higher than both the UK norm and Utilities norm benchmarks.

2021/22: 87%

2020/21: 89%

Status

Met expectation/target

Link to stakeholder**Link to material issues**

- Colleague engagement
- Diverse and skilled workforce
- Health, safety and wellbeing

Link to risks

- Resources
- Health, safety and environmental

Link to remuneration

n/a

Link to assurance

Independent third-party verification

Status key**Annual performance**

Met expectation/target



Close to meeting expectation/target



Behind expectation/target

C-MeX ranking⁽ⁱ⁾**Definition**

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

Target

Upper quartile against water and sewerage companies (WASCs)

Annual performance

2nd quartile

We continue to be the highest performing listed company, ranked fourth out of the WASCs, and fifth out of all 17 companies. We expect to achieve a £3 million reward for C-MeX this year.

2021/22: 4th WASC, top listed company and 7th overall, earning £2.3m reward

2020/21: 4th WASC, top listed company and 5th overall, earning £2.1m reward

Status

Close to meeting expectation/target

Link to stakeholder**Link to material issues**

- Customer service and operational performance
- Trust, transparency and legitimacy
- Political and regulatory environment

Link to risks

- Water service
- Wastewater service

Link to remuneration

Bonus

Link to assurance

Regulatory reporting assurance

Customers lifted out of water poverty⁽ⁱ⁾**Definition**

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

Target

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

Annual performance

84,002

We have helped more than 80,000 customers out of water poverty. The increase on last year has been driven by the number of customers supported via lower bill tariffs following wider increases in the cost of living.

2021/22: 77,312

2020/21: 71,057

Status

Met expectation/target

Link to stakeholder**Link to material issues**

- Affordability and vulnerability
- Customer service and operational performance
- Trust, transparency and legitimacy
- Political and regulatory environment
- North West regional economy

Link to risks

- Retail and commercial
- Political and regulatory

Link to remuneration

LTP

Link to assurance

Regulatory reporting assurance

⁽ⁱ⁾ Measure relates to United Utilities Water Limited.

➔ Read more about [our approach to materiality](#) on pages 28 to 29 and [our principal risks](#) on pages 64 to 65

➔ Read more about [the bonus and long term plan \(LTP\)](#) in our remuneration report on pages 170 to 203

Our social performance in 2022/23

Our social performance creates value for



Affordability

Affordability support remains a key focus area and over the last year we have seen a 95 per cent increase in the number of customers asking for help with their bills. We have supported more than 330,000 households so far in AMP7 through our comprehensive range of affordability schemes. We extended the eligibility criteria for our social tariff in 2022, as part of our cost of living response, enabling us to support low income customers who have a change of circumstances that reduces their income.

We've increased our efforts to support customers with management of their bills, many of whom will be disproportionately impacted by the cost of living increases, highlighting the support we have available. Utilising data, we're monitoring customer payment behaviour to proactively identify customers showing signs of struggling to pay. So far we've sent over 300,000 early intervention emails with tailored messaging designed to increase customer awareness of the support we and third-party organisations can offer.

In January we held our fourth affordability summit bringing together partner agencies and key stakeholders to highlight the importance of collaborative cross-sector working. Attendees from councils, charities, energy companies, housing associations and others shared experiences and discussed ways to be more joined up when it comes to helping people across the region. We remain supportive of the Consumer Council for Water's drive to introduce a national social tariff, which would help to provide a more equitable sharing of support for customers across the country.

Vulnerability

We are a leader in vulnerability assistance in the water industry, with a wide range of support schemes for customers, many of which are firsts for the industry.

During the year we underwent an audit of our Priority Services offering against the new ISO Consumer Vulnerability standard, ISO 22458:2022. Every required standard was achieved, with no non-conformances or recommendations for improvement, and we are now one of the first in the industry

to hold the accreditation. In reviewing how we support vulnerable customers, assessors looked at how the company makes its services accessible to all through a variety of communication options, the ways it supports colleagues so they have the skills and confidence to help customers in the most appropriate way, and what it does to ensure compliance with regulatory requirements. They met people from across the customer team and listened in to calls to understand how the processes are put into practice. Assessors were impressed with how our customer care approach is embedded right across the organisation, the range of help we provide, and our constant desire to improve.

In November we held our first ever vulnerability summit. This was the first we've hosted specifically on the subject of customer vulnerability showcasing how we support vulnerable people on Priority Services, billing, incidents, struggling to pay, water meters and water efficiency. Attendees from different vulnerability charities, the NHS, voluntary organisations, councils, utility providers and housing associations provided us with useful feedback on our Priority Services scheme and highlighted ways we could all work together more around many of our common challenges. Delegates told us that they welcomed the addition of signing to accompany the presentations, helping to demonstrate how we're starting to communicate to customers via British Sign Language during events.

Providing great customer service

Our operational performance has been strong this year, and we have met or exceeded 83 per cent of our performance commitments – our best ever performance – achieving a £25 million reward against customer outcome delivery incentives (ODIs).

Our investment in water quality, principally avoiding discolouration, has supported a 25 per cent reduction in discoloured water events in the last 12 months and a subsequent 26 per cent reduction in customer contacts for discoloured water.



This has been supported by our Water Quality First programme, launched in 2021 with the aim of providing customers with industry-leading water quality. Alongside improvements to our assets, such as cleaning over 15,000 kilometres of mains to reduce the risk of discolouration, over 5,000 colleagues and many of our key supply chain partners have completed an e-learning module on water quality.

While we have seen a significant improvement in discolouration, we know there is still work to do to improve our overall performance. The DWI is satisfied we're heading in the right direction and we have the right people and plans in place to continue to improve.

The reduction in water quality contacts is contributing towards our ODI reward, alongside other water measures such as water service resilience and supporting the removal of lead pipes from customers' properties.

Reducing leakage is of huge importance for our stakeholders and for us as an organisation. Customer ODI performance on leakage is based on a three-year average, and our average leakage over the last three years is at its lowest ever level, for which we expect to earn a reward this year. Reducing leakage is critical to help us manage water resources and we are challenging ourselves to go further in reducing leakage from our network and in customer properties.

Our basket of measures for avoiding flooding is also delivering a net ODI reward, and we have made great progress in reducing flooding incidents. We have nearly halved the number of internal sewer flooding incidents since the start of AMP7. This year's performance includes a 39 per cent reduction in repeat internal flooding incidents - these are incidents affecting a customer that has already experienced a previous incident. This has been supported by our investment in Dynamic Network Management (DNM).

We have experienced periods of volatile weather this year including a very dry summer in 2022, but customers in the North West experienced no temporary use restrictions. We have delivered our largest ever reduction in per capita consumption (PCC), supported by engagement activity to encourage customers to use less water and by talking about the link between heating water and energy bills.

In the winter, we experienced an extremely rapid freeze-thaw event that resulted in burst pipes across our region. Our teams and partners worked exceptionally hard to minimise the disruption. However, some customers experienced short-term interruptions to their water supply, which led to an ODI penalty against this performance commitment.

Our strong performance on customer service metrics has helped us to drive a 14 per cent reduction in written complaints from customers this year, achieving our lowest ever volume.

We are also proud to have been re-accredited with the Institute of Customer Service – Service Mark with Distinction award, one of only 18 brands to achieve the distinction status.

Customer satisfaction

The great service we've delivered for customers has been reflected in further improvement this year in our performance against Ofwat's measure of customer satisfaction, C-MeX. We continue to be the highest performing listed company, ranked fourth out of the water and wastewater companies and fifth overall out of all 17 companies. We expect to achieve a record £3 million reward for our C-MeX performance this year.

Customer service is hugely important to us. Every month we receive fantastic feedback from customers telling us how, in their opinion, our colleagues have gone the extra mile. We were proud to become the first company ever to receive 100,000 commendations from customers through the WOW! Awards scheme, where customers provide independent, proactive feedback on the service we provide, and nine colleagues received over 500 WOW! nominations from customers.

330k

households helped so far in AMP7 through our affordability schemes

83%

performance commitments met or beaten this year

100k

WOW! Award nominations for great customer service

Our social performance in 2022/23

Cash collection

Cash collection performance has been good this year and our household bad debt charge has remained stable at 1.8 per cent of regulated revenue. Only £1.6 million of our net household debtors are aged by more than one year, showing we are not storing up a problem for future bad debts. We have a high level of direct debit penetration, at 72 per cent, and overall over 81 per cent of customers are on payment plans. This helps to provide a high degree of collection certainty and enables us to spot potential affordability issues early, at the first missed payment, so that we can make contact swiftly.

For customers that need affordability support, we can quickly get them onto the right scheme to help them get back on track. For those customers that can afford to pay but choose not to do so, we have a comprehensive data-led approach to collections that helps us accurately pursue payment in an efficient and timely manner. This includes a range of techniques, such as ‘nudging’ customers through email or text if a payment is late, enhanced credit reference sharing, and credit reporting.

A safe and great place to work

We have continued to embed ‘home safe and well’ across the business, which focuses on the behavioural aspects of our health, safety and wellbeing culture.

Our colleague accident frequency rate for 2022/23 was 0.072 accidents per 100,000 hours worked, lower than last year and amounting to nine accidents reported. We have focused risk-based plans in place to maintain progress toward our 2025 target of a 10 per cent year-on-year improvement in performance.

Our contractor accident frequency rate increased slightly to 0.078 accidents per 100,000 hours worked, following an unusually low performance in 2021/22. 60 per cent of incidents were from four contractors and we are increasing our monitoring of their performance and working together to review their improvement plans.

In recognition of our commitment to health and safety, we were awarded the Royal Society for the Prevention of Accidents (RoSPA) gold standard medal for the 11th consecutive year. In support of colleagues’ wellbeing we have again retained the Workplace wellbeing charter accreditation.

Focusing on equity, diversity and inclusion (ED&I)

We want fantastic people to enable us to deliver a great service now and into the future. We are supporting colleagues to achieve their full potential and to

feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background, and we make sure we are reaching and recruiting from every part of our community.

Our workforce profile remains at 65 per cent male and 35 per cent female. This year we have set measurable and actionable ambitions on gender, ethnicity and women in senior positions, as part of our ED&I plan. See more on equity, diversity and inclusion on pages **54 to 55**.

Attracting and developing future talent

We want to inspire and attract people into STEM careers and have many outreach activities to reach people from the widest talent pools. We’ve committed to supporting the ‘10,000 Black Interns’ programme over the next five years. During the year, we welcomed 23 students onto placements, with 56 per cent of those who were ready for employment being offered a role with us. We continue to run events, including our ‘Engineering Masterclass’, with local secondary schools. 95 per cent of students who attended this year’s masterclass said they were extremely interested in pursuing a STEM-related career. All of the attendees said they would recommend the session and now have a better understanding of engineering at United Utilities.

Our award-winning graduate and apprentice programmes

In the last 12 months, 61 apprentices have joined us on operational, service and future-facing digital and environmental schemes. We continue to deliver a high-quality training provision at our dedicated training centre and our award winning scheme is outperforming the UK success rate of 96.7 per cent against a national average of 51.8 per cent. In 2022, all our apprentices passed their qualification including 46 per cent who received a distinction. 30 per cent of our apprentices are female. We are on track to demonstrate our Better Rivers commitment of 100 new ‘green apprenticeships’ by 2025. We look forward to welcoming 30 graduates and 42 apprentices in September 2023, including 31 roles classified as green apprenticeships. We are delighted that 22 of our apprentices to qualify this year are leakage technicians, a key part of our AMP7 leakage commitment.

At the 2022 North West Apprenticeship Awards, we won the Recruitment Excellence Award, recognising our commitment to diversity in apprenticeship recruitment and were Highly Commended in the Macro Employer of the Year category. After

winning North West Intermediate Apprentice of the Year, our credit controller apprentice Samuel Johnson won the award for Intermediate Apprentice of the Year at the National Apprenticeship Awards.

Strengthening our leadership talent pipeline

We continue our efforts to develop a strong female leadership pipeline through our leadership talent programmes. We launched our partnership with Women on Boards to support female colleagues’ development into senior roles.

Awards and recognition

We are proud to have been ranked 11th in the Inclusive Companies Top 50 UK Employers list, reinforcing our pledge to take action on diversity and inclusion and recognising our commitment to creating a more equal and inclusive workplace.

We have improved our position in the Financial Times Inclusive Leaders Index 2023, which assesses companies’ success in promoting diversity aspects, such as gender, age, ethnicity, disability and sexual orientation, in their workforce. We were placed 89th out of 850 companies across Europe, and are the only UK utilities company in the top 100.

We are proud to be included once again in the Bloomberg LP Gender-Equality Index, which tracks the performance of public companies committed to transparency in gender-data reporting.

Training and development

During the year, we have delivered over 20,000 days of training, ensuring our colleagues have the right skills, knowledge and behaviours to safely and effectively undertake their roles. A major delivery this year was the water quality awareness elearning completed by 4,500 colleagues as part of our wider Water Quality First programme.

Supporting colleagues when they need it most

During the year, we ran a communications campaign aimed at reminding and encouraging colleagues to maximise the value of their reward package. This included money management workshops and support with healthcare costs.

Status key

Annual performance

- Met expectation/target
- Close to meeting expectation/target
- Behind expectation/target

Against 2025 target

- Confident of meeting target
- Some work to do
- Target unobtainable

Assurance key

ITV Independent third-party verification

RRA Regulatory reporting assurance

IAT Internal audit team

Measure	2025 target	2022/23	Performance		Link to assurance	Link to remuneration ⁽²⁾	Link to main stakeholder	Annual performance	Against 2025 target	Status
			2021/22	2020/21						
Customer ODIs ⁽¹⁾	£200 million cumulative	£25 million	£25 million	£21 million	RRA	Bonus		●	●	●
Water quality customer contacts per 10,000 population ⁽¹⁾	12.2	14.1	17.9	17.7	RRA	Bonus		●	●	●
Supply interruptions per property per year (hours:minutes:seconds) ⁽¹⁾	00:05:00	00:38:44	00:07:58	00:04:46	RRA	PC		●	●	●
Unplanned outages of peak week production capacity ⁽¹⁾	2.34%	1.73%	2.07%	1.88%	RRA	PC		●	●	●
Number of household written complaints compared to WASCs ⁽¹⁾	Upper quartile	Second quartile ⁽³⁾	Second quartile	Upper quartile	RRA	Bonus		●	●	●
Speed of resolution ⁽¹⁾	5 days	3.9 days	3.5 days	3.5 days	RRA			●	●	●
Developer satisfaction score (D-MeX) ⁽¹⁾	Above industry median	Above industry median	Above industry median	Above industry median	RRA	PC		●	●	●
Number of households registered for Priority Services ⁽¹⁾	In excess of 220,000 (7%)	294,490 (9.1%)	186,224 (5.9%)	128,831 (4.1%)	RRA	LTP		●	●	●
Certification for Priority Services ^{(1) (4)}	Maintain certification	ISO22458: 2022 Verification achieved	Maintained BS18477	Maintained BS18477	ITV			●	●	●
Helping customers look after water in their home ⁽¹⁾	10% increase	31.60%	23.85%	13.75%	RRA	PC		●	●	●
Compliance Risk Index ⁽¹⁾	0.00	3.67	3.02	2.58	RRA	LTP		●	●	●
Wellbeing Charter accreditation	Retain accreditation	Retained	Retained	Retained	ITV			●	●	●
Accident frequency rate for colleagues (per 100,000 hours)	0.064	0.072	0.073	0.094	IAT			●	●	●
Accident frequency rate for contractors (per 100,000 hours)	Year-on-year improvement	0.078	0.043	0.087	IAT			●	●	●
Your Opinion Survey score for diversity and inclusion questions	Upper quartile against Utilities norm	Upper quartile	Upper quartile	Upper quartile	ITV			●	●	●

⁽¹⁾ Measure relates to United Utilities Water Limited.

⁽²⁾ PC = Performance commitment subject to reward and/or penalty as part of customer outcome delivery incentives (ODIs). These feed into both bonus and LTP through inclusion of customer ODIs and return on regulated equity (RoRE) respectively. Read more about the bonus and long term plan (LTP) in our Remuneration report on pages 170 to 203.

⁽³⁾ Latest comparative data available 2021/22.

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

Our social performance in 2022/23

Developing a strong female talent pipeline

Our ambition is to have strong female representation at the top of the organisation and we want to provide our female leaders with opportunities to develop their careers at United Utilities.

We are proud to have been recognised as one of the top 15 FTSE company performers when it comes to women in leadership, having exceeded the 40 per cent target for Women on Boards and Women Leaders set by the FTSE 100 Women Leaders Review and tracking at 44 per cent and 43 per cent respectively. With Louise Beardmore becoming the first female CEO at United Utilities and Alison Goligher taking up the role of senior independent non-executive director of our board, this strengthens our female presence in key board roles.

During the year, we launched our partnership with Women on Boards, which offers services such as workshops, podcasts, CV writing support and access to non-executive vacancies. Facilitating access to these services strengthens our ambition to support female colleagues in developing into senior leadership roles.

Our chief digital officer, Heena Mistry, made the Northern Power Women 2023 Power List for her drive and passion to influence, inspire and deliver positive change. One of the 13 per cent of female senior IT leaders in the UK, Heena is proud of the diverse teams she's built while working in different cultures and situations – often being the only female or ethnic minority at the table. Heena was voted in the UKTech50 for 2022, which identifies the 50 most influential leaders in the UK tech sector. She said: "It's such a privilege to do what I love, to feel like I make a difference and be recognised for it. Our ambition to become a digital utility is more than technology; it's about working with fantastic people every day to really accelerate the value we provide to customers and to look after our environment for generations to come."

Meg Johnson (pictured below) joined our Aspiring Manager Programme in 2021 while working as a team leader and is currently in the final phase of her chartered manager degree apprenticeship at Manchester Metropolitan University. The Aspiring Manager Programme was set up to mitigate risks around hard-to-fill operational positions. Meg was recently promoted to the role of wastewater production manager; a critical role in our business and one traditionally held by male colleagues.

Delivering value for



“

Our ambition is to have strong female representation at the top of the organisation.”



Read more about
our approach
to equity, diversity
and inclusion on
pages 54 to 55





“

We continue to develop strong relationships with those organisations and charities which provide support to customers struggling with their household bills.”

Working in partnership to support more people who are struggling financially

The rising cost of living has had an impact on many households over the last year, and it's more important than ever that we support customers through this difficult period.

We've supported more than 330,000 customers with their payments in the last three years via lower tariffs, capped bills and payment matching schemes. When customers get in touch with us, our team is on the other end of the phone to offer help and do all we can to make their bills more affordable. Our online form also allows customers to apply for support via our website, making it even easier to obtain the help they need by completing a single application for all our schemes.

We know that customers are sometimes reluctant to speak to us directly about their water bills, especially if they're having payment difficulties for the first time.

So, alongside our industry-leading affordability schemes, we continue to develop strong relationships with those organisations and charities which provide support to customers struggling with their household bills. By working closely with these organisations we can ensure they recommend our affordability schemes to customers who would be eligible for financial support with their water bills.

Our outreach and engagement team is instrumental in helping us to achieve this objective, visiting local organisations to increase awareness of our schemes among those debt advisors who play a key role in helping people obtain the support they need. Our home visits are also extremely successful in targeting our support at customers who need a helping hand with their payments.

We hosted our fourth affordability summit this year, attracting more than 100 delegates and bringing together debt advisers from across the region to discuss how organisations can support them in their efforts to help people who are having difficulties making ends meet.

The more we can do to help those debt advisers who customers turn to for help when they're having money issues, the more we can continue to target our support to help them get back on track with their payments.

 Read more about affordability and vulnerability on page 98

Delivering value for



Our governance performance in 2022/23

How we measure performance

Our key performance indicators for building a stronger North West are our capital programme delivery incentive, community investment, and our ratings and rankings against a range of trusted investor indices. We report on a selection of wider governance metrics of interest to stakeholders on page 109.



Overview

Ensuring we are efficient and effective in our investments and delivering against our commitments and promises helps to build trust with our communities.

Our activities support thousands of jobs in the supply chain, helping to generate employment and income for the North West economy at a critical time when the country faces significant rises in the cost of living.

We have strong relationships with suppliers, helped by prompt payment and engagement through our United Supply Chain programme, and we work collaboratively with partners on common goals.

We continue to invest in North West communities as well as opening our beautiful areas of land to locals and tourists to enjoy the health and recreational benefits linked with access to nature.

We monitor our performance against a suite of investor indices and we continue to perform in the upper quartile among peers across these varied assessments.



Capital programme delivery incentive (CPDi)

Definition

Measures the extent to which we have delivered our capital projects efficiently, on time, and to the required quality standard.

Target

At least 85%

Annual performance

92.9%

We have delivered strong performance of 92.9 per cent against the new CPDi measure.

2021/22: n/a

2020/21: n/a

Status

 Met expectation/target

Link to stakeholder



Link to material issue

- Customer service and operational performance
- Financial risk management
- Corporate governance and business conduct

Link to risks

- Finance
- Supply chain and programme delivery

Link to remuneration

Bonus

Link to assurance

Internal audit team

Status key

Annual performance

 Met expectation/target

 Close to meeting expectation/target

 Behind expectation/target

Community investment

Definition

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

Target

Average community investment between 2020 and 2025 to be at least 10 per cent higher than the average between 2010 and 2020 of £2.56 million per annum

Annual performance

£2.88m

This year our direct community investment calculated using the B4SI method was above the £2.82 million target.

2021/22: £2.82 million

2020/21: £2.15 million

Status

 Met expectation/target

Link to stakeholder



Link to material issue

- Supporting communities
- Trust, transparency and legitimacy
- Land management, access and recreation

Link to risks

- Conduct and compliance

Link to remuneration

n/a

Link to assurance

Independent third-party verification

Performance across a range of trusted investor indices

Definition

Company performance relative to water and utilities sector participants in a selection of trusted investor ESG ratings and indices.

Target

Upper quartile

Annual performance

Upper quartile

We have maintained upper quartile performance across our selection of ESG ratings and indices.

2021/22: Upper quartile

2020/21: Upper quartile

Status

 Met expectation/target

Link to stakeholder



Link to material issue

- Trust, transparency and legitimacy
- Corporate governance and business conduct
- Political and regulatory environment

Link to risks

- Conduct and compliance
- Health, safety and environmental

Link to remuneration

n/a

Link to assurance

Independent third-party verification

 Read more about [our approach to materiality](#) on pages 28 to 29 and [our principal risks](#) on pages 64 to 65

 Read more about [the bonus and long term plan \(LTP\)](#) in our remuneration report on pages 170 to 203

Our governance performance in 2022/23

Our governance performance creates value for



Efficient and effective delivery of our capital programmes

Our capital programme performance has been measured in recent years based on time, cost, and quality. This year, we placed greater emphasis on efficiency and reducing the carbon impact of our enhancement projects. This has been achieved through the application of value engineering techniques, innovation and reviewing opportunities in our current supply chain.

We have delivered strong performance of 92.9 per cent against our new capital programme delivery incentive (CPDi) measure, surpassing the target of 85 per cent.

Community investment

This year, our direct community investment (calculated using the B4SI method) totalled £2.88 million, exceeding the £2.82 million target. This has been achieved through increased investment in environmental and community partnerships, delivery of education in schools, and the contribution of time volunteered by our colleagues across the business.

In addition to the direct community investment, we contributed to our Trust Fund to help those struggling to pay their bills, with further support available to help customers reduce their water bill to an affordable amount through our social tariff.

Performance across a range of trusted investor indices

We have participated in a range of independently assessed global ESG ratings and indices for many years to benchmark our approach against best practice and emerging sustainability challenges. Our approach to responsible business has ensured consistent upper quartile performance in selected ESG ratings and indices. After a year's absence, we have returned as a component of the Dow Jones Sustainability World Index along with just three other companies from the Multi Utilities and Water sector. In the Sustainalytics assessment, we continue to be classified as low risk and a top ten performer in the Utilities industry group. We are proud to have maintained an MSCI ESG rating of AA since 2014.

The external perspective provided by these ESG ratings is beyond the UK water sector and compares our performance against international water utilities, wider utilities and non-utility companies. We continue to respond to best practice and emerging ESG trends to maintain our performance in these ratings and we are increasing our engagement with investors on ESG matters.

Engaging with communities

Direct engagement with communities provides the opportunity to hear what customers think and to explore ways we can work together to address issues and make the North West stronger. During the year we have been to some of the busiest shopping centres in Liverpool, Manchester and Blackpool inviting customers to drop by and have a chat with our team about all things water, wastewater, billing and more.

We have been engaging communities and customers more widely on what they care about to inform our business plan for 2025–30. See our case study on page 110.

Educating children about water

Alongside our 'All about water' education sessions that inspire children on all things water, this year we have teamed up with Mad Science to engage children in Grime Scene Assemblies. The fun interactive workshops enable children to learn more about how the sewer system works – and how problems can arise when wet wipes and fatty food waste is put down the drain. Overall, 23,000 children benefited from our educational programmes over the past 12 months – exceeding our 2025 target of 20,000.

Helping schools look after water

Work to help schools and colleges become more water friendly has shown positive results. The project, run in collaboration with the Department for Education and Groundwork Greater Manchester, visited over 60 schools across the North West to undertake a water efficiency visit that included fixing leaking toilets, taps, urinals and showers. As well as repairing leaks, the project team also introduced water efficiency devices, such as save-a-flush devices, tap inserts and shower heads, to help reduce ongoing water consumption.



In total, the project fixed 368 leaks and fitted 319 water efficiency devices saving an estimated 329,000 litres per day or 5,222 litres per day per school. Over a year, each school saved enough water to fill an Olympic sized pool, saving water and saving money. We are now developing plans to offer water efficiency visits to more non-household customers across the whole of the North West as part of our plans for 2025–30.

SuDS in schools

Schools across the region have benefited from our £1 million Sustainable Drainage for Schools programme. We have funded the award-winning project with support from the Department for Education and delivered in partnership with the designer Atkins Ltd and contractor Horticon Ltd.

As part of the pilot project, schools have had sustainable drainage solutions installed on playgrounds to help harvest water and divert rainwater away from entering the sewer system. SuDS are a fantastic way to incorporate a multitude of benefits into school spaces through increased biodiversity, water quality and carbon sequestration while reducing key issues like flood risk and strain on the sewer network.

Partnership working

We invest in community partnerships to tackle issues more effectively, to find new solutions to the challenges we face, and to access new funding streams, driving efficiency and a better overall outcome. As part of our £300,000 CaST fund, we provided funding to community groups across the North West to deliver elements of our catchment management approach, focused in particular on community engagement with nature or helping shape and promote natural capital markets.

One of the projects to receive funding this year is The Land Trust's Green Angels project at Port Sunlight River Park on the Wirral. The park, a former landfill site on the banks of the River Mersey, has been the venue for free workshops, walks and bug hunts to find out what kinds of creatures call the water their home. A family summer day also brought children and adults together for mindfulness sessions, guided walks, treasure hunts and craft activities. Giving people the chance to get hands-on is not only helping the park and improving it for the wildlife, but it is also offering a great boost for their physical and mental health and providing the opportunity to learn new skills.

We have been working with communities in Oldham to improve the local environment and bring communities together. See our case study on page 111.

Working with suppliers

Suppliers play an important role in delivering our services and, alongside our colleagues, often act as the face of our business for many customers and communities. Events in recent years have shown the importance of our relationships with our supply chain partners and we want this to continue to grow as part of our United Supply Chain approach. We work constantly to improve our processes, procurement routes and overall market engagement to ensure that our core service delivers maximum value to internal stakeholders, key suppliers, our broader supply chain and ultimately, customers. Our activities support around 15,500 jobs in the supply chain, and the acceleration of around £500 million of capital expenditure into the first three years of AMP7 will continue to play a part in helping to generate jobs and income for the North West economy.

External recognition and benchmarking



United Utilities Group PLC has been included in the FTSE4Good Index Series since June 2001. Latest review December 2022.



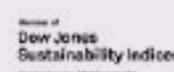
In the annual review of July 2022 our status was assessed as Prime.⁽¹⁾



We received an overall Advanced ESG score by Moody's ESG of 64/100 in year 2021 and United Utilities Group PLC has been reconfirmed as a constituent of the Euronext Vigeo UK 20 and Europe 120 indices in December 2022.⁽²⁾



As of October 2022, United Utilities Group PLC received an MSCI ESG rating of AA.⁽³⁾



For 2022, our overall performance was 81% and we are proud to be a component of the iconic Dow Jones Sustainability World Index. Effective December 2022.



In November 2022, United Utilities Group PLC received an ESG Risk Rating of 11.4 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors.⁽⁴⁾



In 2022 we achieved CDP leadership scores in both climate change (A-) and supplier engagement (A) assessments.

⁽¹⁾ issgovernance.com/esg/ratings/badge
⁽²⁾ moodys.com/esg

⁽³⁾ msci.com/notice-and-disclaimer
⁽⁴⁾ sustainalytics.com/legal-disclaimers

Our governance performance in 2022/23

Payment practices are critical to United Utilities and our suppliers – this can be a critical time for suppliers, who are also facing significant rises in the cost of living. As a signatory to the Prompt Payment Code and in addition to the commitment to pay at least 95 per cent of invoices within 60 working days, we also continue to pay 95 per cent of our small and medium-sized enterprise (SME) suppliers within 30 days. Over the last year we have continued to outperform our target to pay suppliers promptly, with 99 per cent of our invoices paid within 60 days, and an average time to pay of 12 days. We act fairly and transparently with all our suppliers and as a signatory to the Code, comply fully with the reporting requirements.

We were awarded a ‘Fast Payer Award’ by Good Business Pays for the second year running. This award recognises FTSE350 companies who are fast payers of their invoices and can demonstrate that over the past 12 months they have paid their suppliers in less than 30 days as well as paying 95 per cent or more of all invoices on time. Alongside this, in March 2023 we took part in a cross-sector Industry Leaders Advisory Group with Liz Barclay, Small Business Commissioner, to discuss the importance of the Prompt Payment Code in supply chain management.

United Supply Chain

Our United Supply Chain (USC) approach plays a fundamental part in achieving our purpose. USC helps to mitigate risk, build resilience, improve compliance, assurance and ultimately deliver better value within a high quality supply chain and will help to deliver our responsible sourcing principles effectively throughout our supply chain. USC recognises suppliers as an extension of United Utilities and they are asked, as a minimum, to become a signatory to our responsible sourcing principles. For those suppliers that are integral to our operations, we encourage them to become leaders and to work jointly with us to deliver improvements across ESG areas and to improve value for customers.

Through our continued membership of the Supply Chain Sustainability School (SCSS) we can provide additional training and events to assist our suppliers in their own sustainability efforts. We have created tailored learning pathways for over 70 of our key suppliers aligned to our responsible sourcing principles and have held several sponsored workshops. We have achieved the maximum SCSS ‘Gold’ status in 2022, due largely in part to our continued commitment through USC.

During the year the USC approach was shortlisted for a 2022 CIPS Excellence in Procurement Award, demonstrating how it remains at the forefront of industry thought leadership on collaboration with supply partners.

Supply chain innovation

We have been leading a pilot project in partnership with Dŵr Cymru (Welsh Water), Jacobs, Severn Trent Water and International Synergies Ltd to identify opportunities for the supply and demand of reused and repurposed materials to create a new test market. Benefits include using fewer virgin materials, which in turn will help reduce emissions and ultimately pollution, lowering the environmental impact of the industry and developing a new, inclusive relationship across the sector and supply chain. For more information on United Utilities Industrial Symbiosis project see <https://waterinnovation.challenges.org/case-studies/community-creatives-championed/>.

Sustainable finance

Our sustainable finance framework allows us to raise financing based on our strong ESG credentials alongside conventional issuance. During the year we secured a £150 million loan through the framework adding to the sustainable bond issued in 2021. An allocation and impact report detailing the investments made with the proceeds of funds raised under the framework is expected to be published in July 2023.

Recognising the group’s ongoing commitment to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs, we were delighted to retain the Fair Tax Mark independent certification for a fourth consecutive year. Every year, the group pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for our more than 5,000 strong workforce – see pages 208 to 209.

Business ethics

We aim to maintain high ethical standards of business conduct and corporate governance – those systems and processes through which our organisation is managed, controlled and held accountable. This extends to our commercial activities and we have retained the Chartered Institute for Procurement and Supply (CIPS) Corporate Ethics Mark for the fourth consecutive year. This requires all relevant commercial colleagues to undertake online training covering human rights and forced labour in supply chains; the implications, the risks and how to respond. To complete the training, participants must reach the required pass mark.

During the past year we have undertaken a gap analysis of our approach to modern slavery and human trafficking with the help of independent social enterprise Slave-Free Alliance. The objective of the analysis was to assess our modern slavery initiatives, identify good practice and main risk areas, and develop a set of recommendations for continuous improvement. The report identified several areas of best practice and highlighted areas for focus in our policies, due diligence and risk mitigation approach. We are using the recommendations to build upon our approach over the coming year. Our anti-slavery and human trafficking statement 2023 can be found on our website at unitedutilities.com/human-rights.

Status key

Annual performance

- Met expectation/target
- Close to meeting expectation/target
- Behind expectation/target

Against 2025 target

- Confident of meeting target
- Some work to do
- Target unobtainable

Assurance key

ITV Independent third-party verification

RRA Regulatory reporting assurance

IAT Internal audit team

Measure	2025 target	Performance			Link to assurance	Link to remuneration	Status	
		2022/23	2021/22	2020/21			Annual Performance	Against 2025 Target
Credit rating UUW (Moody's, S&P, Fitch) ⁽¹⁾	A3, BBB+, A-	A3, BBB+, A- (Stable outlook)	A3, BBB+, A- (Stable outlook)	A3, BBB+, A- (Stable outlook)	ITV		●	●
Maintain Sustainable Finance framework	Available/continued issuance	Available	Available	Available	IAT		●	●
Anti-bribery: percentage of identified colleagues completing required training	100%	100%	100%	94%	IAT		●	●
Number of children benefiting from education materials	20,000	23,253	12,998	19,120	ITV		●	●
Partnership leverage ⁽¹⁾	1:4	1:4	1:4	1:7	RRA		●	●
Invoices paid within 60 days	At least 95%	98.91%	99.34%	99.55%	ITV		●	●
Average time taken to pay invoices	<28 days	12	13	13	ITV		●	●
Supplier Relationship Management score	90%	90%	54%	69%	IAT		●	●
CIPS ethical mark	Retain accreditation	Retained	Retained	Retained	ITV		●	●
Percentage of targeted suppliers signed up to United Supply Chain	100%	89%	90%	38%	IAT		●	●
Percentage of partner and strategic suppliers that have sustainability risk assessment in place	75%	73%	72%	35%	IAT		●	●
Percentage of suppliers in high risk categories (in sustainability risk assessments) covered by enhanced due diligence audits	5%	3%	Delivery scheduled from 2022	Delivery scheduled from 2021	IAT		●	●
UK Corporate Governance Code	Maintain compliance	Compliant	Compliant	Compliant	IAT		●	●
Fair Tax Mark	Retain accreditation	Retained	Retained	Retained	ITV		●	●
Living Wage accreditation	Secure and retain	Retained	Retained	Secured accreditation	ITV		●	●
Pension Quality Mark +	Retain accreditation	Retained	Retained	Retained	ITV		●	●

⁽¹⁾ Measure relates to United Utilities Water Limited.

Engaging with customers to inform our business plan

Engaging with customers early on in our business planning process for 2025–30 has allowed us to understand their priorities and determine the focus for AMP8 to make sure our investment and actions reflects those priorities.

Our research included over 3,000 customers from a wide range of our key customer groups, including household, business, vulnerable, low income, future and digitally-excluded customers. It provided an early view of the minimum service expectations of customers, as well as the growing priorities for environmental improvement, and affordability. It showed that 'safe water to drink' was the most important priority for all customers.

Using a range of our own research projects as well as industry and regulator research and independent consultancy, we have continued to track customer priorities over time to see how they have evolved. These findings have allowed us to prioritise investment in areas which matter most to customers, focusing on schemes which improve resilience, environmental benefits and affordability.

We carried out innovative 'immersive' research to inform the development of our options hierarchy for our Drainage and Wastewater Management Plan and our Water Resources Management Plan. A three-week 'pop-up' community, made up of customers, business users and future bill payers, gave us incredible detail into how customers view the future of water and wastewater management in the North West. The research showed customers' appetite for more education into using water responsibly, innovation and smarter ways of working before the more traditional grey measures.

All of these learnings are helping to shape our plans as we prepare for AMP8 and beyond.

Delivering value for



“

Learnings from engagement have allowed us to prioritise investment in areas which matter most to customers, focusing on schemes that improve resilience, environmental benefits and affordability.”



Read more about
**engaging with
stakeholders** on
pages 56 to 57





“

Partnership working creates a host of new opportunities, brings increased benefit for customers, for the land, and for the water, and ensures we're delivering the right solution in the right place.”

Northern Roots partnership helps us create innovative community-led behaviour change

To deliver the best possible outcomes for customers and the wider community, we know we must work together.

Partnership working creates a host of new opportunities, brings increased benefit for customers, for the land, and for the water, and ensures we're delivering the right solution in the right place.

Our partnership with Northern Roots is an example of how we're working with organisations that are best placed to create an innovative model of community-led behaviour change that can be adopted by communities elsewhere across the UK.

Northern Roots is a project to create the UK's largest urban farm and country park on 160 acres of under-used green space in the heart of Oldham, in Greater Manchester. Developed for and with local communities, the vision for Northern Roots is to create sustainable economic, social and environmental benefits for those communities. This includes working to enhance the quality of the large volume of water that runs through the Northern Roots site and into the River Medlock.

We identified Oldham as an area with relatively poor performance in terms of sewer blockages, and sewer litter impacting the receiving environment. We partnered with Northern Roots to create a

unique new project, working with local communities in Glodwick to better understand practices and behaviours linked to non-flushable items, such as wet wipes and nappies being flushed down toilets, or fats, oils and grease being poured down drains. The project used creative activities to empower local residents to take simple steps to change behaviour – which is more cost efficient and sustainable than clearing blockages or resolving the problems caused by unsafe sewer behaviour.

In-depth discussions, focus groups and personal interviews were carried out with residents, with the research highlighting a fundamental lack of awareness of what constitutes unsafe sewer behaviour. Residents emphasised the need for simple, educational communication and recommended a tailored approach to resonate with different demographics. The research has given us a baseline from which the impact of future campaigns in the area can be measured, allowing us to produce effective campaigns for sewer safety in the future.



Read more about our work in communities on pages 106 to 107

Delivering value for





Our financial performance in 2022/23

This has been a challenging year for the business. Revenue declined 2 per cent, mainly driven by lower than expected consumption while underlying operating profit fell 28 per cent or £169 million, primarily due to the reduction in revenue and inflationary pressures on core costs, particularly power and chemicals. The higher inflation has also significantly increased non-cash interest expense on our index-linked debt, which alongside the lower operating profit, has resulted in a small underlying loss for the year of £9 million and an underlying earnings per share of minus 1.3 pence.

However, the inflation linkage for both the Regulatory Capital Value (RCV) and the allowance for total expenditure (totex), provides additional longer term value that is not reflected in the income statement. This has contributed to a robust economic performance, including an increase in our return on regulated equity of 11.0 per cent. This extra value accruing to the RCV has resulted in a reduction in RCV gearing to 58 per cent, consistent with our strong balance sheet and supporting our dividend policy.

Underlying operating profit⁽¹⁾

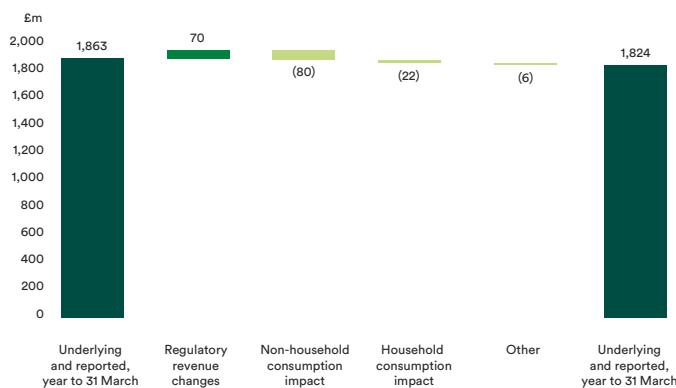
2021/22	£441m
2020/21	£610m
2019/20	£602m
2018/19	£732m
2017/18	£678m

⁽¹⁾ A guide to APMs and a reconciliation between underlying profit and reported profit is shown on pages 118 to 119.

Reported operating profit

2022/23	£441m
2022/21	£610m
2021/20	£602m
2020/19	£630m
2019/18	£635m

Revenue

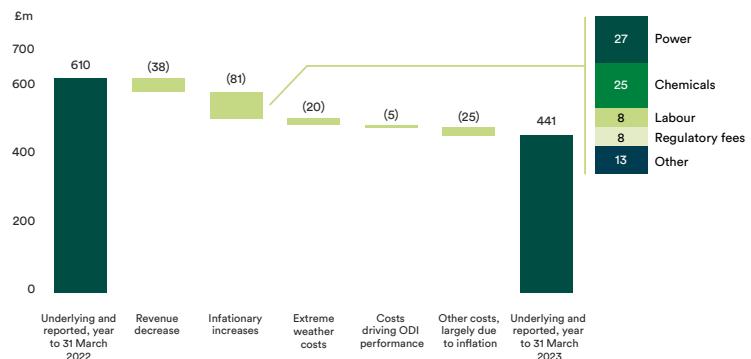


Revenue was down £38 million, at £1,824 million, largely reflecting lower consumption more than offsetting the allowed regulatory revenue increase.

In 2022/23 we had a £70 million increase in the revenue cap due to regulatory adjustments, incorporating £21 million in relation to ODI rewards earned in 2020/21 and a 4.6 per cent CPIH-linked increase partly offset by 1.3 per cent real reduction in allowed wholesale revenues as set out in our PR19 Final Determination.

Non-household revenue has decreased by £80 million compared with last year and household consumption has decreased by £22 million, as consumption across both customer groups has changed since charges and tariffs for the year were set in December 2021. Taking into consideration the regulatory adjustments, revenue for the year represents a £41 million under-recovery against allowed revenue, which, under the revenue control, will be recoverable in two years' time.

Operating profit



Operating profit at £441 million was £169 million lower than last year, largely reflecting the decrease in revenue, inflation impacting our core cost base, and the impact of operational incidents as a result of extreme weather during the year.

Inflationary pressures have impacted input costs, resulting in an £81 million increase. The largest increases have been to power, chemicals, labour costs and regulatory fees, where we have incurred an additional £27 million, £25 million, £8 million and £8 million respectively. We have experienced smaller inflationary increases to other costs of £13 million, which on a cost base of £518 million represents an inflationary impact of 3 per cent, which was less than CPIH inflation.

Our regulatory model allows for indexation of our overall totex allowance (including capital expenditure) and, with average CPIH of 8.9 per cent, we are managing to contain the inflation impact on overall costs within the totex inflation allowance.

Extreme weather events adversely impacted not only our ODI performance, but also drove an adverse operating cost impact of £20 million.

The £5 million of additional expenditure driving improvements to ODI performance was primarily in relation to infrastructure renewals expenditure (IRE) investment in Dynamic Network Management (DNM) – our innovative approach to managing our sewer network – and improving water quality.

The rising cost of living increases the strain on customers' ability to pay their bills and therefore cash collection. However, we have 81 per cent of household customers on direct debit and other payment plans and, with the help of proactive engagement, innovative solutions and tailored assistance, we have achieved our best ever performance for cash collection. This has contributed to bad debt remaining at an all time low 1.8 per cent of household revenue.

Profit/(loss) before tax

Underlying loss before tax of £34 million was compared to a £302 million underlying profit before tax last year. The £336 million difference reflects the £169 million reduction in underlying operating profit and a £169 million increase in underlying net finance expense, partly offset by a decrease in the share of losses of joint ventures of £2 million. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 118 to 119.

Reported profit before tax decreased by £184 million to £256 million, reflecting the £169 million decrease in reported operating profit and a £48 million increase in reported net finance expense, partly offset by a £31 million profit on disposal of our subsidiary United Utilities Renewable Energy Limited, and a decrease in the share of losses of joint ventures of £2 million.

Net finance expense

The underlying net finance expense of £475 million was £169 million higher than last year mainly due to significantly higher inflation resulting in a £520 million increase in the non-cash indexation on our debt and derivative portfolio, partly offset by higher capitalised interest of £127 million (2021/22: £53 million) and higher net pension interest income of £29 million (2021/22: £14 million).

Cash interest of £102 million was £16 million lower than last year. Cash interest excludes non-cash items mainly comprising the indexation on our debt and derivative portfolio, capitalised interest, and net pension interest income.

Reported net finance expense of £216 million was £48 million higher than last year, reflecting the £169 million increase in the underlying net finance expense, partly offset by a £123 million increase in net fair value gains on debt and derivatives (excluding interest on debt and derivatives under fair value option) from £138 million last year to £261 million this year.

Joint ventures

In the prior year we recognised a £1.8 million net share of losses from joint ventures primarily in relation to Water Plus. For the year to 31 March 2023, Water Plus's financial performance has improved to a breakeven position, and we therefore recognise neither a share of profit or loss in our income statement.



Read more about
**how we responded
to the extreme
weather** on page 48

£1.8bn

revenue impacted by lower consumption,
with £41 million to be recovered in
2024/25

£441m

operating profit reduced due to lower
revenue and inflation on core costs,
particularly energy and chemicals

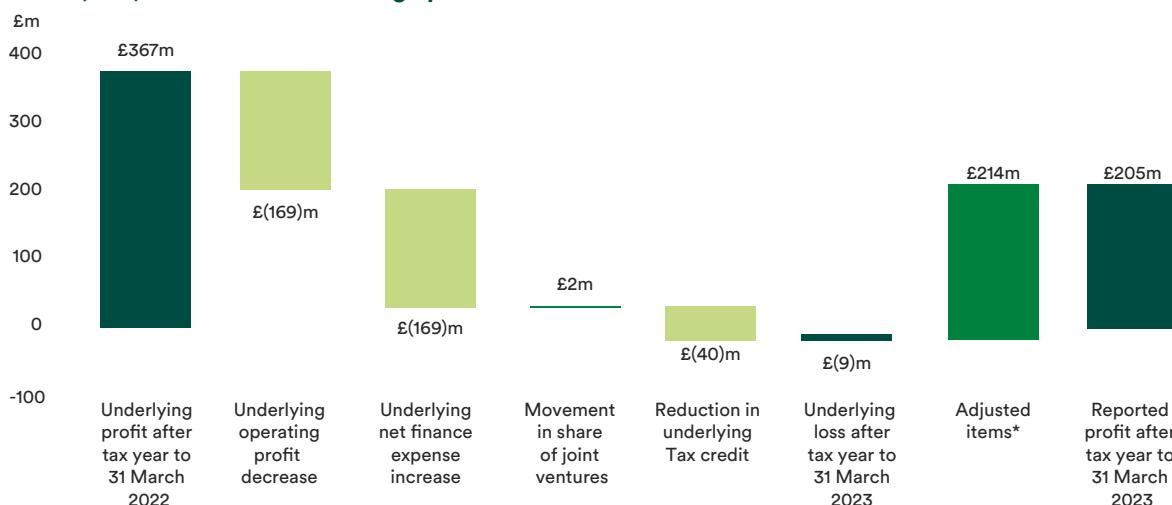
1.8%

bad debt as a percentage of household
revenue remains stable with strong cash
collection despite the rising cost of living



Our financial performance in 2022/23

Profit/(loss) after tax and earnings per share



* Adjusted items are set out on pages 118 and 119

The underlying loss after tax of £9 million is £376 million lower than the underlying profit after tax of £367 million last year, reflecting the £336 million reduction in underlying profit before tax and a £40 million reduction in underlying tax credit.

Reported profit after tax is higher at £205 million and reported earnings per share at 30.0 pence per share, with the adjusted items between underlying and reported profit after tax set out on pages 118 to 119.

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 are delighted to have retained the Fair Tax Mark independent certification for a fourth year.

In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its over 5,000 strong workforce. The total payments for 2022/23 were around £229 million and included business rates, employment taxes, environmental taxes, and other regulatory service fees such as water abstraction charges.

In the current year, we received a net corporation tax repayment of £1 million which represents an effective cash tax rate of 0 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment, including the temporary capital allowance ‘super deductions’.

The group recognised a current tax credit of £25 million due to the utilisation a prior year adjustment to recognise the utilisation of tax losses previously assumed to be carried forwards.

The deferred tax charge of £77 million is £486 million lower than last year primarily due to a £403 million charge in the prior year relating to the increase in the tax rate from 19 per cent to 25 per cent from 1 April 2023.

There are £171 million of tax adjustments recorded within other comprehensive income, 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.

Dividend per share

The Board has proposed a final dividend of 30.34 pence per ordinary share in respect of the year ended 31 March 2023. Taken together with the interim dividend of 15.17 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2022/23 of 45.51 pence. This is an increase of 4.6 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 4.6 per cent increase is based on the CPIH element included within allowed regulated revenue for the 2022/23 financial year (i.e. the movement in CPIH between November 2020 and November 2021).

The final dividend is expected to be paid on 1 August 2023 to shareholders on the register at the close of business on 23 June 2023. The ex-dividend date is 22 June 2023. The election date for the Dividend Reinvestment Plan is 11 July 2023.

Cash flow

Net cash generated from continuing operating activities for the year to 31 March 2023 was £788 million, £146 million lower than £934 million last year, principally due to the reduced revenue of £38 million and inflationary impacts on costs of £81 million.

The net cash generated from continuing operating activities supports the dividends paid for the year of £301 million and partially funds some of the group’s net capital expenditure of £690 million, with the balance being funded by net borrowings and cash and cash equivalents. This forms part of a £2.0 billion capital programme undertaken in the first three years of the period, representing 62 per cent delivery of our AMP7 programme. We have been able to deliver this expenditure effectively, scoring 92.9 per cent against our Capital Programme Delivery incentive (CPDi) measure this year.

Pensions

As at 31 March 2023, the group had an IAS 19 net pension surplus of £601 million, compared with a surplus of £1,017 million at 31 March 2022. This £416 million decrease principally reflects a decrease in the value of the schemes’ assets due to changes in financial conditions over the course of the financial year, as well as experience losses resulting from actual inflation being higher than assumed at 1 April 2022. This more than offsets the significant reduction in the schemes’ liabilities during the year due to an increase in the average discount rate since the start of the year and a lower long-term RPI assumption.

Further detail on pensions is provided in note 18 ('Retirement benefits') of the consolidated financial statements on page 255.



Financing

Net debt at 31 March 2023 was £8,201 million, compared with £7,570 million at 31 March 2022. This comprises gross borrowings with a carrying value of £8,435 million and net derivative liabilities hedging specific debt instruments of £106 million, net of cash and short-term deposits of £340 million.

Underlying movements in net debt are largely a result of net operating cash inflows offset by our net capital expenditure, dividends, indexation and cash interest.

Gearing, measured as group net debt (including a £76 million loan receivable from a joint venture) divided by United Utilities Water Limited's (UUW's) adjusted regulatory capital value (RCV, adjusted for actual spend, timing differences, and including the full expected value of AMP7 ex-post adjustment mechanisms) of £14.0 billion, was 58 per cent at 31 March 2023, slightly lower than the equivalent 59 per cent at 31 March 2022, and remains within our target range of 55 to 65 per cent.

Cost of debt

As at 31 March 2023, the group had approximately £3.4 billion of RPI-linked instruments and £0.5 billion of CPI or CPIH-linked instruments held as debt. Including swaps, the group has RPI-linked debt exposure of £3.3 billion at an average real rate of 1.3 per cent, and £1.2 billion of CPI or CPIH-linked debt exposure at an average real rate of minus 0.6 per cent.

A significantly higher RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 8.0 per cent being higher than the rate of 5.1 per cent last year. More information on this can be found on page 119.

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 2.9 per cent for the remainder of the AMP7 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), 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

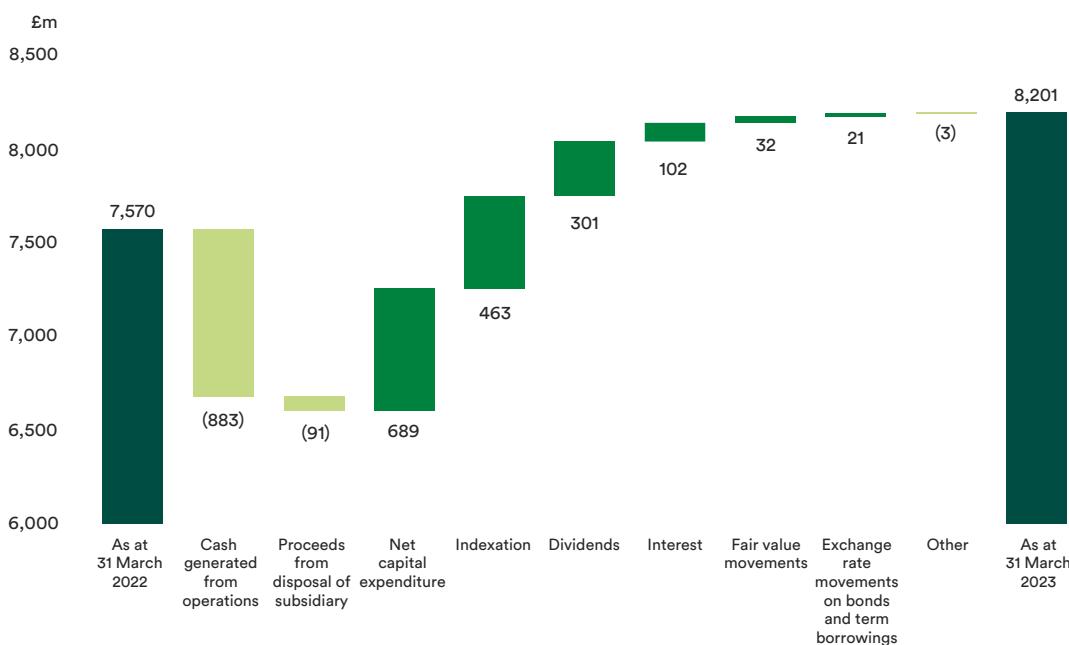
The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme.

In total over 2020-25, we expect to raise around £2.7 billion to cover refinancing and incremental debt, supporting our five-year investment programme. So far in AMP7, we have raised around £1.8 billion, taking advantage of attractive funding opportunities available and extending our liquidity out to August 2025.

In the year to March 2023 we raised £638 million of term funding including new/renewed bank facilities.

Following the year end we issued a further £400 million of term funding, with the proceeds of a £300 million sustainable public bond being received on 6 April 2023 and executing a £100 million nine-year maturity bilateral loan with one of the group's relationship banks during April 2023.

Summary of net debt movement





Our financial performance in 2022/23

Interest rate management

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings under the regulatory model. At 31 March 2023, approximately 40 per cent of the group's net debt was in RPI-linked form, representing around 25 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 minus 0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 17 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.

Liquidity

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

At 31 March 2023, we had liquidity out to August 2025, comprising cash and short-term deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our capital investment programme.

Return on Regulated Equity (RoRE)

Reported RoRE for 2022/23 was 11.0 per cent on a real, RPI/CPIH blended basis.

This comprises the base return of 4.0 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 4.7 per cent, tax outperformance of 2.5 per cent, and customer ODI outperformance of 0.5 per cent, partially offset by the total expenditure (totex) impact on RoRE of minus 0.8 per cent as a result of our additional investment to improve operational and environmental performance.

Totex performance

The totex impact on RoRE of minus 0.8 per cent, largely reflects the year three impact of the additional investment we are making outside the scope of our Final Determination (FD) to improve operational and environmental performance. This includes, for example, our investment in Dynamic Network Management and investment as part of our Better Rivers programme.

Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector, and our performance improvements over AMP6 meant we started AMP7 at a totex run rate that supported delivery of the stretching efficiency challenge in our FD allowance. Our totex allowance increases with inflation, which helps to mitigate some of the cost pressures experienced this year, and we continue to exploit technology and innovation to help us deliver our investment efficiently.

Customer outcome delivery incentives (ODIs)

Customer ODI outperformance of 0.5 per cent reflects a net reward of £25 million⁽³⁾. Our customer ODI performance has been strong across the board, meeting or exceeding 83 per cent of our performance commitments, our best ever performance. We continue to target a total cumulative net ODI reward over this five-year period of around £200 million.

Customer ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore the net reward earned this year will be reflected in an increase to revenues earned in 2024/25 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism.

Tax outperformance

The 2.5 per cent outperformance on tax reflects the current year underlying tax credit, including capital allowances associated with temporary 'super deductions'.

Financing outperformance

We earned financing outperformance this year of 4.7 per cent. 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 locked-in for AMP7 compare favourably with the price review assumptions. Our financing outperformance this year has also been supported by the recent high level of inflation, which increases the benefit of the roughly £3 billion fixed rate debt we have locked in.

⁽³⁾ Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID-19 and any enduring effects.

11.0%

highest ever return on regulated equity (RoRE) for 2022/23

£25m

reward for customer ODIs earned in 2022/23

AMP7 financial framework

Our five-year financial framework captures anticipated performance in the five years to 31 March 2025. This period aligns with the AMP7 regulatory period.

Investment and regulated asset growth

We expect to deliver a number of capital programmes in AMP7, in addition to our base totex programme. These include Green Recovery and the recently approved AMP8 accelerated environmental enhancement programmes. Combined with the impact of inflation, our regulated assets are expected to grow at a compound annual growth rate of 4 to 5 per cent across the five years to March 2025.

Return on regulated equity

The return on regulatory equity (RoRE) metric measures returns (after tax and interest) earned by reference to notional regulated equity. Overall returns comprise a base return on equity plus a contribution from outcome delivery incentives, operating efficiency, financing efficiency and customer service. We currently expect to deliver average returns of between 6 and 8 per cent in AMP7, on a real RPI/CPIH blended basis.

Balance sheet

The board has set a target gearing range for the AMP7 regulatory period of 55 to 65 per cent net debt to regulated capital value. As at 31 March 2023 our gearing is in the lower half of this range at 58 per cent.

Dividend policy

The group maintains a dividend policy to target a growth rate of CPIH inflation each year through to 2025. The annual increase in the dividend is based on the CPIH element included within allowed regulated revenue for the current financial year. This is calculated as using the CPIH annual rate from the November prior (i.e. the 2022/23 dividend is equal to the 2021/22 dividend indexed for the movement in CPIH between November 2020 and November 2021).

Outlook and guidance

ODI rewards

We are targeting a net customer ODI reward of around £200 million in total over AMP7.

Revenue

Revenue is expected to increase by around £150 million in 2023/24, largely reflecting the November 2022 CPIH inflation of 9.3 per cent, partially offset by a £20 million net impact of over/under-recovery during 2022/23 and 2021/22.

Underlying operating costs

Operating costs are expected to be around £60 million higher year-on-year. This increase is largely driven by inflation, with the largest inflationary pressures impacting power and labour costs. The remaining increase reflects the 2023/24 operating cost impact of additional investments, including our Better Rivers programme.

Underlying net finance expense

Underlying net finance expense is expected to be at least £150 million lower year-on-year, due to the impact of falling inflation. As at 31 March 2023, we had £4.5 billion of index-linked debt exposure, giving rise to a £45 million swing in our interest charge for every 1 per cent change in inflation. Our cash interest in 2022/23 was £102 million and we expect this to be slightly higher in 2023/24.

Underlying tax

Our current tax charge is expected to be zero in 2023/24, reflecting expected benefits following the spring budget in relation to 'full expensing' and the 50 per cent first year allowances on longer-life assets.

Capital expenditure

Capex in 2023/24 is expected to be in the range of £720 million to £800 million. In addition to our AMP7 base programme, this reflects capital expenditure for the year in relation to our additional investment (including Green Recovery, and investment supporting our Better Rivers programme), and AMP8 acceleration capital programmes.



Our financial performance in 2022/23

Guide to alternative performance measures (APMs)

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006 in the group's consolidated income statement, which can be found on page 232. As such, they represent non-GAAP measures.

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

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

Adjusted item	Rationale
Adjustments not expected to recur	
Profit on disposal of subsidiary	This relates to the disposal of the group's subsidiary United Utilities Renewable Energy Limited, 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	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	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.



	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Underlying profit		
Operating profit per published results	440.8	610.0
Underlying operating profit	440.8	610.0
 Net finance expense		
Finance expense	(262.7)	(187.7)
Investment income	47.0	19.4
Net finance expense per published results	(215.7)	(168.3)
Adjustments:		
Fair value (gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(259.4)	(138.0)
Underlying net finance expense	(475.1)	(306.3)
 Share of profits/(losses) of joint ventures per published results	–	(1.8)
 Profit on disposal of subsidiary	31.2	–
Adjustments:		
Profit on disposal of subsidiary	(31.2)	–
Underlying profit on disposal of subsidiary	–	–
 Profit before tax per published results	256.3	439.9
Adjustments:		
In respect of operating profit	–	–
In respect of net finance expense	(259.4)	(138.0)
In respect of profit on disposal of subsidiary	(31.2)	–
Underlying (loss)/profit before tax	(34.3)	301.9
 Profit/(Loss) after tax per published results	204.9	(56.8)
Adjustments:		
In respect of profit before tax	(290.6)	(138.0)
Deferred tax adjustment	76.6	562.5
Tax in respect of adjustments to underlying profit before tax	0.4	(0.7)
Underlying (loss)/profit after tax	(8.7)	367.0
 Earnings per share	£m	£m
Profit/(Loss) after tax per published results (a)	204.9	(56.8)
Underlying (loss)/profit after tax (b)	(8.7)	367.0
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	30.0	(8.3)
Underlying (loss)/earnings per share, in pence (b/c)	(1.3)	53.8
Dividend per share, in pence	45.51p	43.50p
 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 pension 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.		
	Year ended 31 March 2023	Year ended 31 March 2022
Underlying net finance expense	(475.1)	(306.3)
Adjustments:		
Net pension interest income	(28.7)	(14.3)
Adjustment for capitalised borrowing costs	(127.5)	(52.7)
Net finance expense for effective interest rate (a)	(631.3)	(373.3)
 Average notional net debt (b)	(7,849)	(7,368)
 Average effective interest rate (a/b)	8.0%	5.1%



Responsible business culture with remuneration linked to performance

Strong governance is a core part of who we are as a business. Our values drive a high-performance culture and our executive, and all colleagues across the business, are remunerated against customer and environmental measures as well as financial performance.



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Corporate governance report

Board of directors



N

Sir David Higgins

Chair

Responsibilities: Responsible for the leadership of the board, setting its agenda and ensuring its effectiveness on all aspects of its role.

Qualifications: BEng Civil Engineering, Diploma Securities Institute of Australia, Fellow of the Institute of Civil Engineers and the Royal Academy of Engineering.

Appointment to the board: May 2019; appointed as Chair in January 2020.

Skills and experience: Sir David has spent his career overseeing high profile infrastructure projects, including: the delivery of the Sydney Olympic Village and Aquatics centre; Bluewater Shopping Centre, Kent; and the delivery of the 2012 London Olympic Infrastructure Project.

Career experience: Sir David was previously chief executive of: Network Rail Limited; The Olympic Delivery Authority; and English Partnerships. He has held non-executive roles as chair of both High Speed Two Limited and Sirius Minerals plc. In December 2019 he stepped down as non-executive director and chair of the remuneration committee at the Commonwealth Bank of Australia.

Current directorships/business interests: Chair of Gatwick Airport Limited and a member of the Council at the London School of Economics. He is Chair of United Utilities Water Limited.

Independence: Sir David met the 2018 UK Corporate Governance Code's independence criteria (provision 10) on his appointment as a non-executive director and chair designate.

Specific contribution to the company's long-term success: Sir David's experience of major infrastructure projects and his knowledge and understanding of the role of regulators will be invaluable in meeting the challenges of the current regulatory period and beyond. As Chair of the nomination committee he is responsible for ensuring the succession plans for the board and senior management identify the right skillsets to face the challenges of the business.



E

Steve Mogford

**Chief Executive Officer (CEO)
(until 31 March 2023)**

Responsibilities: To manage the group's business and to implement the strategy and policies approved by the board.

Qualifications: BSc (Hons) Astrophysics/Maths/Physics.

Appointment to the board: January 2011.

Skills and experience: Steve's experience of the highly competitive defence market and of complex design, manufacturing and support programmes has driven forwards the board's strategy of improving customer service and operational performance at United Utilities. His perspective of the construction and infrastructure sector provides valuable experience and insight to support United Utilities' capital investment programme.

Career experience: Steve was previously chief executive of SELEX Galileo, the defence electronics company owned by Italian aerospace and defence organisation Finmeccanica; chief operating officer of BAE Systems PLC; and a member of its PLC board. His early career was spent with British Aerospace PLC. He is a former non-executive director of G4S plc. Until January 2023, he was a non-executive director of Water Plus, a joint venture with Severn Trent serving business customers. Until 31 March 2023 he was Chief Executive Officer of United Utilities Water Limited.

Current directorships/business interests: Steve is a non-executive director of QinetiQ Group plc.

Specific contribution to the company's long-term success: During his time as the Chief Executive Officer, Steve transformed the company's operational performance, and implemented the Systems Thinking approach to underpin future operational activities and further improve performance.



E

Louise Beardmore

**Chief Executive Officer
(from 31 March 2023)**

Responsibilities: As Chief Executive Officer Louise is responsible for managing the group's business and implementing the strategies and policies approved by the board. She is leading UUW's PR24 business planning process covering the next five-year regulatory period.

Qualifications: BSc (Hons) Business Management, Fellow of the Chartered Institute of Personnel Development, Vice-President of the Institute of Customer Services.

Appointment to the board: May 2022.

Skills and experience: Louise has a wealth of experience leading utility and infrastructure businesses both in the UK and internationally. She has a strong track record in driving transformational change and service improvements for the benefit of customers, stakeholders and the environment.

Career experience: Louise joined United Utilities on its graduate programme and has comprehensive experience of the company, its customers and its regulators, having worked for the group for more than 20 years. She was appointed as customer service and people director in 2016, prior to which she held a number of senior positions, leading teams in business transformation, water operations, electricity and telecoms. She completed the corporate director programme at Harvard Business School in 2022.

Current directorships/business interests: Louise is Chief Executive Officer of United Utilities Water Limited and a non-executive director of Water Plus, a joint venture with Severn Trent serving business customers. She is a non-executive director of Water UK and a non-executive director of the UK Engage for Success Foundation, named on the Northern Power Women's 'Power List' and a member of the 30% Club.

Specific contribution to the company's long-term success: Louise's strategic vision and constant customer focus will continue to build on the group's significant performance and delivery for customers, communities and the environment.



T

Phil Aspin

Chief Financial Officer (CFO)

Responsibilities: To manage the group's financial affairs, to contribute to the management of the group's business and to the implementation of the strategy and policies approved by the board.

Qualifications: BSc (Hons) Mathematics, Chartered Accountant (ACA), Fellow of the Association of Corporate Treasurers (FCT).

Appointment to the board: July 2020.

Skills and experience: Phil has extensive experience of financial and corporate reporting, having qualified as a chartered accountant with KPMG and more latterly through his role as group controller. He has a comprehensive knowledge of capital markets and corporate finance underpinned through his previous role as group treasurer and his FCT qualification. Having been actively engaged in the last four regulatory price reviews he has a strong understanding of the economic regulatory environment.

Career experience: Phil has over 25 years' experience working for United Utilities. Prior to his appointment as CFO in July 2020, he was group controller with responsibility for the group's financial reporting and prior to that he was group treasurer with responsibility for funding and financial risk management. He has been a member of EFRAG TEG and chaired the EFRAG Rate Regulated Activities Working Group.

Current directorships/business interests: Phil was appointed as a member of the UK Accounting Standards Endorsement Board in March 2021. He is chair of the 100 Group pensions committee and a member of both the 100 Group main committee and the stakeholder communications and reporting committee. He is Chief Financial Officer of United Utilities Water Limited and a non-executive director of Water Plus, a joint venture with Severn Trent serving business customers.

Specific contribution to the company's long-term success: Phil has driven forward the financial performance of the group and delivered the group's competitive advantage in financial risk management and excellence in corporate reporting.



N R E

Alison Goligher

Senior independent
non-executive director

Responsibilities: Responsible, in addition to her role as an independent non-executive director, for discussing any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chair or Chief Executive Officer. She is the current designated non-executive director for workforce engagement.

Qualifications: BSc (Hons) Mathematical Physics, MEng Petroleum Engineering.

Appointment to the board: August 2016.

Skills and experience: Alison has strong technical and capital project management skills, having been involved in large projects and the production side of Royal Dutch Shell's business. This experience of engineering and industrial sectors provides the board with additional insight into delivering United Utilities' capital investment programme.

Career experience: Royal Dutch Shell (2006 to 2015), where Alison's most recent executive role was Executive Vice President Upstream International Unconventionals. Prior to that she spent 17 years with Schlumberger, an international supplier of technology, integrated project management and information solutions to the oil and gas industry. In September 2022 she stepped down as a non-executive director at Meggitt PLC.

Current directorships/business interests: Alison is a part-time executive chair at Silixa Ltd and a non-executive director of Technip Energies NV. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Alison's understanding of the operational challenges of large capital projects and the benefits of deploying technology provides valuable insight into addressing the longer-term strategic risks faced by the business. Her role as the designated non-executive director for workforce engagement provides the board with a better understanding of the views of colleagues and greater clarity on the culture of the company.

Changes to the board

Alison Goligher succeeded **Mark Clare** as senior independent non-executive director when Mark stepped down from the board at the conclusion of the annual general meeting (AGM) in July 2022. **Stephen Carter** also stepped down from the board at the conclusion of the AGM in July 2022. **Steve Mogford** retired from the board on 31 March 2023.

Michael Lewis joined the board on 1 May 2023.

Board role

- Chair
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- Nomination committee
- ESG committee
- Treasury committee
- Remuneration committee
- Audit committee
- Chair of the committee

Corporate governance report

Board of directors



N A E

Liam Butterworth

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: MBA Business Administration and Management, CIM Marketing, HND Mechanical Production Engineering.

Appointment to the board:
January 2022

Skills and experience: As a serving CEO, Liam brings strong engineering and industrial technology experience to the board, with a track record of managing performance and enhancing corporate culture.

Career experience: Liam has over 30 years' experience in the automotive industry. He started his career at Lucas Industries as an apprentice toolmaker, before moving into marketing, sales and purchasing at FCI Automotive. Joining Delphi Technologies plc in 2012, he became CEO in December 2017. He joined GKN Automotive Limited, owned by Melrose plc, as CEO in 2018. During the year, following a demerger, the Dowlais Group plc was listed on the London Stock Exchange, with Liam appointed as CEO.

Current directorships/business interests: Liam is CEO of Dowlais Group plc. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Liam's operational experience contributes to the board's continuing focus on the performance of the business via the Systems Thinking approach.



N A R

Kath Cates

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's activities concerning directors' remuneration.

Qualifications: Solicitor of England and Wales.

Appointment to the board:
September 2020.

Skills and experience: Kath has spent most of her career working in a regulated environment in the financial services industry. Since 2014, she has focused on her non-executive roles, chairing all the main board committees and undertaking the role of senior independent director.

Career experience: Kath was chief operating officer at Standard Chartered plc, before which she held a number of roles at UBS Limited over a 22-year period prior to which she qualified as a solicitor. She is a former non-executive director at Brewin Dolphin Holdings plc and RSA Insurance Group plc, where she chaired the remuneration committee.

Current directorships/business interests: Kath is a non-executive director at Columbia Threadneedle Investments where she chairs the TPEN audit committee. She is the senior independent director of TP ICAP Group Plc and a non-executive director at Brown Shipley. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Kath's extensive board experience and knowledge of different regulated sectors enables her to contribute to board governance and risk management at United Utilities.



N E

Michael Lewis

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: BEng (Hons) Engineering Technology, MSc Pollution and Environmental Control, MA Environmental Law.

Appointment to the board: May 2023.

Skills and experience: Michael has spent his career in customer-facing regulated utilities and has considerable experience of working with both environmental and economic regulators. He has been responsible for managing a wide range of capital investment projects aimed at improving the customer experience, and driving environmental sustainability has been a key focus throughout his career.

Career experience: Michael started his career at Wessex Water plc, prior to joining PowerGen plc, which was subsequently acquired by E.ON SE. He joined the management board of E.ON Climate and Renewables in 2007, and was appointed as CEO in 2015, where he pioneered its large scale offshore wind power capabilities. He was appointed as CEO of E.ON UK in 2017, where he led the company's transformation into a leading supplier of zero carbon energy solutions. He became CEO of the German listed Uniper SE, one of Europe's leading power generation and gas supply companies, in June 2023. He was formerly a non-executive director of Equinor ASA.

Current directorships/business interests: Michael is CEO of Uniper SE, and a Member of Council the Natural Environment Research Council. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Michael's extensive experience in regulated customer-facing utilities will assist the board in its planning for the 2025-30 Price Review period, and his focus on sustainability will help the board further develop its ambitions to reduce the group's carbon footprint and achieve its net zero commitment by 2030.



N E

Paulette Rowe**Independent non-executive director**

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's agenda on ESG matters.

Qualifications: MEng + Man (Hons), MBA.

Appointment to the board: July 2017.

Skills and experience: Paulette has spent most of her career in the regulated finance industry and so provides the board with additional perspective and first-hand regulatory experience. Her experience of technology-driven transformation contributes to United Utilities' customer experience programme and its Systems Thinking approach.

Career experience: Paulette has held senior executive roles in banking and technology at Meta, Barclays, the Royal Bank of Scotland/NatWest and at Paysafe Group. She is a former trustee and chair of children's charity The Mayor's Fund for London.

Current directorships/business interests: During the year, Paulette joined private equity firm Greater Sum Ventures and was appointed as a non-executive director of Thredd, a private equity-owned venture. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Paulette's wide-ranging experience in regulated sectors, profit and loss management, technology and innovation enables her to provide a first-hand contribution to many board topics of discussion and has been instrumental in providing challenge on the group's equity, diversity and inclusion activities.



N A T R

Doug Webb**Independent non-executive director**

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the audit and treasury committees.

Qualifications: MA Geography and Management Science, Chartered Accountant (FCA).

Appointment to the board: September 2020.

Skills and experience: Doug has extensive career experience in finance from qualifying as a chartered accountant with Price Waterhouse, his executive roles as CFO of major listed companies and more recently through his non-executive positions and focus on audit committee activities.

Career experience: Doug was previously chief financial officer at Meggitt PLC from 2013 to 2018 and prior to that, he was chief financial officer at the London Stock Exchange Group plc and QinetiQ Group plc. He is a former non-executive director and audit committee chair at SEGRO plc and the Manufacturing Technology Group Ltd.

Current directorships/business interests: Doug currently serves as a non-executive director and audit committee chair at Johnson Matthey plc, and the senior independent non-executive director at BMT Group Ltd. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Doug applies his financial capabilities and his technical knowledge and experience covering audit and treasury matters in his role as chair of both the audit and the treasury committee strengthen the board's financial expertise.

Board role

- Chair
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- Nomination committee
- ESG committee
- Treasury committee
- Remuneration committee
- Audit committee
- Chair of the committee

Corporate governance report



Sir David Higgins
Chair

Quick facts

- Sir David Higgins met the independence criteria as set out in provision 10 of the 2018 UK Corporate Governance Code (the code) when he was appointed.
- The code requires that at least half of the board, excluding the Chair, should be non-executive directors whom the board considers to be independent. At 31 March, five out of the remaining eight directors were independent non-executive directors.
- The company secretary attends all board and committee meetings and advises the Chair on governance matters. The company secretariat team provides administrative support.
- The directors' biographies (see pages 122 to 125) include specific reasons why each director's contribution is, and continues to be, important to the company's long-term sustainable success.
- All directors are subject to annual election at the annual general meeting (AGM) held in July. The board concluded, following the completion of the evaluation of the effectiveness of the board, that each director continues to contribute effectively.
- The board recommends that shareholders vote in favour of those directors standing for a further term at the forthcoming AGM, as they will be doing in respect of their individual shareholdings.

Quick links



Schedule of matters reserved for the board:
unitedutilities.com/corporate-governance

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at
frc.org.uk

Letter from the Chair

As a board we are fully engaged and intent on playing our part in ensuring that United Utilities delivers on its newly adopted purpose of providing great water for a stronger, greener and healthier North West.

Dear shareholder

The board's discussions have been dominated during the year by the challenging operating environment and the difficult times faced by many of our customers and other stakeholders due to the increased cost of living and the adverse economic conditions. The board was ever more conscious of the need for the group to play its part in the North West and deliver on its purpose both now, and in the future, and to ensure that it fulfilled its own oversight role to promote the long-term sustainable success of the company.

Evolution of Better Rivers

The board has provided challenge, support and advice to management in its navigation of a number of key issues including the regulatory, environmental and media focus on sewage in rivers. Our management team are committed to respond to the enormity of the challenge for United Utilities. As one of the three most impacted companies, it requires considerable investment to progressively reduce the adverse impacts of storm overflow activations in our network. The Environment Act 2021 set legally binding environmental targets for water companies to reduce the number of activations from storm overflows. As a board we are fully engaged and intent on playing our part in ensuring that United Utilities delivers on its newly adopted purpose of providing great water for a stronger, greener and healthier North West.

Environmental, social and governance

The board is responsible for overseeing environmental, social and governance (ESG) issues. Many facets of ESG have been high on the agenda for the board and for the ESG committee (formerly the corporate responsibility committee), which takes the lead in the oversight of environmental (including climate change) and social issues. The business is working hard to achieve the six carbon pledges made in 2020 and our four verified science-based targets. Our climate change mitigation strategy forms the basis of our net zero transition plan (see pages 45 to 47), which demonstrates how we intend to contribute to, and prepare for a rapid global transition towards, a low greenhouse gas emissions economy.

To incentivise management, the remuneration committee incorporated targets related to our carbon pledges into the performance elements of 2022 award of the long-term incentive plan. The board does not underestimate the challenge to the business of reducing emissions, particularly nitrous oxide and methane from sewage - an issue likely to be further exacerbated by the expected population growth in our region. We also recognise the significant challenge of Scope 3 emissions and are working closely with our supply chain partners to manage and reduce these within the constraints of growth, demand, resources and cost.

The extreme weather and freeze-thaw event in December 2022, was a very challenging time in our region, requiring our incident teams to be mobilised at the highest level. As ever, many of our colleagues and those of our contracting partners, sacrificed time with family and friends over the Christmas period to maintain services to customers.

Affordability is key to many customers, with many parts of the North West suffering from high levels of acute deprivation. The board is an advocate of the Consumer Council for Water's pursuit of the introduction of a national social tariff that is consistent with the group's own affordability schemes and core values. The group's approach to affordability and to those in lower income groups who find it a struggle to pay their water bill is a standing item overseen, in the first instance, by the ESG committee. A comprehensive dashboard of low income metrics enables the committee to monitor performance and mitigating actions on household retail cash, debt and affordability. Around 330,000 customers are supported by the group's affordability schemes.

At our AGM in 2022, the board proposed a resolution on the company's climate-related financial disclosures in the form of our TCFD report (in this report, see TCFD index on page 05) on a non-binding advisory basis. The resolution attracted 80.62 per cent of the votes cast in favour. We were disappointed in the 19.38 per cent of the vote being withheld or cast against the resolution. Following the AGM we engaged with the proxy voting agency which had recommended a vote against the resolution and responded to feedback from several investors - clarifying the responsibilities of the then corporate responsibility committee for environmental matters and providing information on our climate change mitigation strategy.

In the following pages of this corporate governance report, we set out how the board has fully applied the principles and fully complied and reported on the provisions of the 2018 UK Corporate Governance (the Code).

Cyber security

The board has regular oversight of cyber security matters. The group's approach to the protection of information and holding of data about its assets and operations, customers and colleagues is aligned with its strategic priorities (see page 38). There are a number of regulatory drivers in relation to cyber security that the group must comply with. United Utilities Water is designated as a provider of essential services for UK Critical National Infrastructure and is governed by The Network and Information Systems Regulations 2018, which focuses on cyber security compliance. Good progress is being made with our programme of work to comply with these regulations. United Utilities Water is required to

comply with the Security and Emergency Measures Direction (SEMD), which directs water undertakers to maintain plans to provide a supply of water at all times and includes security components. A report, subject to independent attestation, is submitted annually to the DfE. Furthermore, the group's information security policies and compliance are aligned to ISO 27001.

Like most companies we are facing the increasing challenge of cyber threats. Cyber security is a principal risk over which the board has oversight, both as part of twice-yearly reviews of risk management supported by the audit committee, and directly through interaction with the chief security officer who also provides the board with an update on cyber security twice a year. More information on the work to mitigate the risk of cyber security threats can be found on pages 53 and 57 and information on the progress with enhancing the group's digital strategy on page 26.

Looking ahead

Focus for the board is now on the price review process for the 2025–30 asset management period (the PR24 process). We welcomed Michael Lewis as an independent non-executive director to the board on 1 May 2023. Michael brings his considerable experience of working in the regulated electricity sector, which will be invaluable to the board as we work through the PR24 process.

On 16 March 2023, the company announced that Steve Mogford would step down from the board with effect from 31 March 2023 and would be succeeded by Louise Beardmore, who was appointed to the board as CEO designate on 1 May 2022. Since her appointment last year, Louise has, amongst other things, been overseeing the preparation of the group's business plan covering the 2025–30 period. More information on Louise's transition into the CEO role can be found on page 145.

On behalf of the board, I wish to express our immense gratitude to Steve for his visionary and strategic leadership over the last 12 years. He leaves the group in a position standing tall amongst its peers, and as an integrated and forward-thinking business better prepared to take on the challenges of the future. We wish him well in his retirement.

Sir David Higgins

Chair

UK Corporate Governance Code

Reporting on the application of principles and against the provisions of the 2018 UK Corporate Governance Code.

- 1** Board leadership and company purpose
➡ See page 128
- 2** Division of responsibilities
➡ See page 139
- 3** Composition, succession and evaluation
➡ See page 143
- 4** Audit, risk and internal control
➡ See page 149
- 5** Remuneration
➡ See page 170

“

The business plans we submit in 2023 will cover the 2025–30 period, with a long-term delivery strategy out to 2050.”

Board leadership and company purpose

Principle A:

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

We set out our application of principle A and provision 1 on pages 128 and 129, and our reporting against risk as part of provision 1 on pages 60 to 75. The S172(1) Statement is on page 58.

Principle B:

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The board is satisfied it has applied principle B - see page 38. See page 135 and 186 for our reporting against provision 2 and pages 58 and 136 in respect of provision 5.

Principle C:

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Application of principle C to identify the resource within the business is delegated to management, but monitored by the board through the measurement of performance. See page 143 regarding our succession pipeline, and page 149 for the board's approach to risk management and internal control.

Principle D:

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Engagement of stakeholders fulfilling the application of principle D, and our reporting against provision 3 is set out on pages 56 to 57 and 137 to 138 in relation to our engagement with shareholders and stakeholders.

Principle E:

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The board recognises the importance of a two-way flow of communication and the importance of colleagues having the facilities to raise matters of concern. See pages 56, 100, and 136 to 137 in relation to engagement with colleagues for our reporting against provisions 5 and 6.

Areas of focus for the board in 2022/23

As part of the board's role in promoting the long-term sustainable success of the company, generating value for shareholders and contributing to society the board focused on a number of areas:

Regulatory, environmental and media focus on sewage in rivers

The board is acutely aware of the ongoing criticism aimed at the group and other wastewater companies in relation to discharges from storm overflows that are incorporated into the sewerage network in our region to carry sewage and rainwater. The Environment Act 2021 sets out legally binding environmental targets for water companies to progressively reduce the adverse impacts of storm overflow activations. United Utilities has a significantly higher proportion of combined sewers than any other water company. Over 54 per cent of our public sewers combine foul and surface water compared to an average of 33 per cent. United Utilities is one of the three most impacted companies and will face considerable investment requirements relative to its customer base. Combined sewers respond more quickly to a storm with the capacity filling up more rapidly than when compared to more separate systems, but which helps address areas of higher rainfall like the North West. When sewers and treatment plants are operating at full capacity they can discharge storm water (including diluted sewage) into rivers via the storm overflow, therefore helping to prevent the flooding of streets, homes and businesses during periods of heavy rainfall. We have committed to £230 million in environmental improvements, supporting at least a one third sustainable reduction in the number of recorded storm overflow activations by 2025 compared to the 2020 baseline, making improvements to reduce the use of some of the most frequently activated storm overflows by around 10,000 hours, and making improvements to around 184 kilometres of rivers in our region. In May 2022 we committed £250 million of reinvestment to support our Better Rivers: Better North West programme and other environmental enhancements across our region. Furthermore, working with our regulators, we are bringing forward over £900 million of investment and expecting to spend around £200 million over the next two years.

Environmental sustainability

Environmental issues are integral to the way our business operates. The ESG committee takes the lead in overseeing management's development of our climate change mitigation strategy, and reports regularly to the board on the matter. Plans are progressing to drive the group's transition to a low carbon future by minimising our contribution to global warming through a reduction in greenhouse gas emissions. During the year, our draft strategic carbon plan has been developed setting out the ways in which we can achieve our science based targets and an integrated programme of decarbonisation interventions to 2030 and beyond. Net zero is referenced as one of the key objectives for the 2024 price review and carbon will be fully integrated into our price review submission.

As part of our business-as-usual activities, carbon has been incorporated as a factor to be considered in:

- our investment appraisal and decision-making processes;
- our land management practices to enhance/improve natural capital;
- the innovation that we encourage both within our operations and through working with our partners and suppliers; and
- our implementation of a 'circular' mindset.

The board is kept fully informed by management on the impacts of climate change from an operational perspective. Extreme weather events impacting our region and our operations in recent years are increasingly common. When such incidents occur, the CEO keeps board members fully apprised of the impact on operations via virtual meetings and other forms of communication. The board would be informed of any material points of learning identified in the post-incident review process, and progress with the implementation of material actions. A table of our reporting against TCFD and TNFD recommended disclosures can be found on page 5.

Working with our regulators

We have continued to work alongside Ofwat in its newly introduced approach for major capital construction projects, namely Direct Procurement for Customers (DPC). The group's first project that has been approved for procurement via the DPC method is the Haweswater Aqueduct Resilience Programme (HARP). The information currently available suggests that the DPC route has the potential to offer the best value for customers and, therefore supports the position that this should be tested by progressing HARP through a DPC procurement process. The Haweswater Aqueduct is a critical asset, and as such the board is being kept fully apprised through the procurement process.

In December 2022, Ofwat published its methodology for the forthcoming 2024 price review. The board has been fully engaged with the process during the year including participation in deep-dive sessions and regular discussions at scheduled board meetings.

Equity, diversity and inclusion (ED&I)

During the year, considerable progress has been made on the journey to drive forward progress with ED&I as part of the long-term sustainable success of the business. During the year, a number of board members attended the inaugural Colleague Network AGM and Inclusion Awards, celebrating colleagues' contributions to championing inclusion in the workplace and our local communities. Further information on ED&I can be found on page 54. The board diversity policy (see page 143) promotes and encourages diversity and inclusion among board members by fostering an inclusive and belonging environment in the boardroom, encouraging open and frank contributions from all board members.

Delivering against our regulatory contract

Under the current regulatory model, we are a monopoly supplier of water and wastewater services to our domestic customers. In short, the opportunities for improving our financial performance are based on outperforming our five-year contract. Underlying this is a complex set of regulatory key performance indicators, including total expenditure (totex) outperformance, the outcome delivery incentive (ODI) mechanism, customer measure of experience (C-MeX) and financing expenditure (see pages 84 to 119), which are managed and monitored by the business.



Overview of the board's responsibilities

- Sets the strategy of the group, ensuring the long-term success of the group for customers, investors and wider stakeholders.
- Is responsible for challenging and encouraging the executive team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set.
- Has responsibility for ensuring the company's risk management and internal control systems (including financial, operational and compliance) and processes operate effectively (see pages 166 to 167).
- Must ensure that the company has the necessary financial resources and people with the necessary skills to achieve its objectives. It reviews managerial performance annually.
- Approves appointments to and removals from the board and membership of the committees.
- Applies the principles of the code and reports against the provisions.
- Has oversight of major capital expenditure projects within UUW that exceed £150 million, and any project that materially increases the group's risk profile or is not in the ordinary course of the group's business.

Quick link

 Terms of reference:
unitedutilities.com/corporate-governance

Board leadership and company purpose

Providing great water for a stronger, greener and healthier North West

Governance structure for the board and its committees

Role of the board

The board has responsibility for establishing the purpose, values and strategy, which is broken down into six strategic priorities (see page 38). The governance structure encompassing the board, its principal committees and the principal management committees (and set out in the diagram below) contributes to ensuring that the group focuses on its strategic priorities.

The CEO provides an updated overview of the business, and its financial and operational performance at every scheduled meeting.

A rolling calendar of business is maintained to provide an overview of the board's annual business. The company secretary will agree board agendas with the CEO and Chair of the board prior to the meeting. Papers are tabled at the executive meeting prior to inclusion on the board agenda and electronic board packs are circulated in a timely manner in advance of the meeting to enable board members to prepare and participate in board discussions. A full schedule of the matters reserved for the board can be found on the company's website and at unitedutilities.com/corporate-governance

Governance structure of the board and its committees and the principal management committees



Key

Improve our rivers



Create a greener future



Provide a safe and great place to work



Deliver great service for all our customers



Spend customers' money wisely



Contribute to our communities

Board committees

In line with the code, the board delegates certain roles and responsibilities to its principal board committees. While the board retains overall responsibility, a sub-committee structure allows these committees to probe the subject matters more deeply and gain a greater understanding of the detail. The committees then report back to the board on the matters discussed, decisions taken, and, where appropriate, make recommendations to the board on matters requiring its approval. The reports of the principal board committees required by the code can be found on the subsequent pages. Minutes of the board and principal board committee meetings (with the exception of the remuneration committee) are tabled at board meetings and the chairs of each of the board committees report verbally to the board on their activities.

Executive team

The executive team is chaired by the CEO, and its members are the senior managers who have a direct reporting line to the CEO. The executive team is responsible for the day-to-day running of the business and other operational matters and implementing the strategies that the board has set. The executive team holds two scheduled meetings each month, focusing on the day to day performance of the business at one meeting and matters of a strategic nature at the other, along with weekly informal 'scrums'. The principal management committees are vital to the implementation of the group's strategic priorities enabling senior management to meet together to discuss the needs of the business, raise issues, identify and delegate appropriate actions, monitor progress of key performance measures and ensure any lessons learnt are implemented. The board receives a report from the CEO providing an updated overview of the business, and its financial and operational performance at every scheduled meeting.

Short biographies of the executive team can be found on the company's website at unitedutilities.com/executive-team

Summary of board activity in 2022/23

During the year the board has focused on a number of strategic matters and received regular updates.

Actions	Outcomes	Cross reference	Link to strategic priorities
Leadership and colleagues			
Review of health, safety and wellbeing activities and consideration of health and safety incidents of colleagues and contractors.	Challenged management to heighten the focus on embedding a health and safety culture within the business, with added focus being placed on process safety improvements at operational sites.	See pages 100 to 101	
Review of board succession plans.	Succession plan implemented for the appointment of a non-executive director during the year and approved changes to the membership of the board committees.	See pages 143 to 144	
Reviewed progress with our aspiration for a diverse and inclusive workforce.	Board kept apprised of the programme of work to increase diversity of the workforce and improve equity and inclusivity.	See pages 54 to 55	
Reviewed and discussed the results of the annual colleague engagement survey and received updates on workforce engagement mechanisms, including the Colleague Voice panel chaired by Alison Goligher, the non-executive director designated for engagement with the workforce.	Board kept apprised of the activities and insight provided by the Colleague Voice panel and its links to the colleague network groups, and the panel's ongoing contribution to the work on equity, diversity and inclusion. Non-executive director attendance at panel meetings providing further two-way insight.	See page 136	
Reviewed the company's dashboard of culture metrics and associated analysis.	Monitored and assessed culture and agreed it was aligned with the company's purpose, values and strategy.	See page 135	
Strategy			
Reviewed and monitored the progress against the climate change mitigation/carbon reduction strategy.	Board apprised of the maturing governance structures and options being considered to reduce the group's carbon footprint and develop a net zero transition plan.	See pages 45 to 47	
Price Review 2024 (PR24) deep-dive session – developing strategy for PR24 relating to customers, stakeholders and financial matters. Discussed the timeline for PR24 and the overlap with related price review submissions, including the Drainage and Wastewater Management Plan, the Water Resources Management Plan and the Water Industry National Environment Plan.	Guidance and challenge provided by the board as to the progress of the plan of work to develop the draft submission for the 2024 price review process and consideration of the implications for the group of the methodology published by Ofwat in December 2022. The board have been fully engaged on progress with the development of PR24 throughout the year through regular updates at board meetings.	See pages 40 to 41	
Received regular updates at each meeting of items with a strategic component, such as emerging changes to regulation, major capital expenditure and business structuring decisions.	Facilitated more informed board discussion and planning.	–	
Held a full day meeting to consider the strategic development of the group and its long-term priorities.	In-depth review of the water and wastewater strategy and progress of work to develop the group's Water Industry National Environment Plan, which will inform the 2025–30 price review submission.	See page 59	

Board leadership and company purpose

Providing great water for a stronger, greener and healthier North West continued

Actions	Outcomes	Cross reference	Link to strategic priorities
Governance			
Reviewed and debated the overall risk profile of the group, and in particular the principal risks, emerging risks and risk appetite, including a review of the most significant operational risks.	Endorsed the nature, extent and management of key business risks and endorsed the view that the risk appetite approach and framework remained fit for purpose.	See page 60	 
Reviewed the risk management systems, including financial, operational and compliance controls and reviewed the effectiveness of the internal control systems.	The risk management and internal control systems were considered to be effective.	See page 150	 
Reviewed and discussed developments in cyber crime.	Approved the activities undertaken to enhance the effectiveness of the group's security controls.	See page 73	 
Reviewed the terms of reference for the audit, remuneration, treasury and ESG committees and received post-meeting reports from the chairs of each committee summarising discussions and actions.	Approved amendments to the terms of reference of the company's committees as appropriate.	–	  
Considered the proposal to establish a board committee with delegated responsibility to oversee compliance with regulatory assurance requirements and to be kept abreast of any changes thereto.	Established the compliance committee chaired by Alison Goligher.		
Reviewed biannual updates on changes and developments in corporate governance.	Matters implemented as considered appropriate.	–	 
Reviewed and discussed the internal evaluation of the board, its committees and individual directors and conflicts of interest.	Identified action points and any ongoing training needs.	See page 145	 
Reviewed the performance of the statutory auditor and recommendation for reappointment at the 2023 AGM.	Accepted the recommendation from the audit committee that KPMG be proposed for reappointed at the 2023 AGM.	See page 165	
Reviewed the resolutions and notice of meeting for the 2023 AGM.	Approved the resolutions to be proposed at the 2023 AGM, and convened the meeting.	See page 214	
Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain.	Approved the 2023/24 slavery and human trafficking statement.	See page 213	  
Reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud.	Concluded that the whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud.	See pages 137 and 167	  
Treasury hedging policies deep-dive session.	Provide the board with an in-depth session into the group's treasury hedging policies regarding interest rates, inflation, electricity and other commodity prices.	See page 169	
Considered the impact of the Russian invasion of Ukraine on the supply chain.	Sought to mitigate the impact on the supply chain and source alternative suppliers where possible.	See page 74	  
Regulated business and its stakeholders			
Regular review of the progress of the Direct Procurement for Customers (DPC) approach and readiness of UUW as part of the project to replace sections of the Haweswater Aqueduct.	Board kept fully apprised of progress at key stages of the project through regular presentations at board meetings and the UUW board approved the issue of the tender pre-qualification questionnaire.	See page 68	  
Water quality deep-dive session.	Provide the board with an in-depth view of the strategy for managing and improving water quality; an understanding of the importance of critical assets in the integrated supply zone during the future construction activity to replace sections of the Haweswater Aqueduct.		  
Reviewed the 2022 Annual Performance Report and supporting assurance..	Approved the submission of the 2022 Annual Performance Report to Ofwat.		     

Key

Improve our rivers



Create a greener future



Provide a safe and great place to work



Deliver great service for all our customers



Spend customers' money wisely



Contribute to our communities

Actions	Outcomes	Cross reference	Link to strategic priorities
Regulated business and its stakeholders continued			
Reviewed customer service performance measures.	In-year customer performance measures monitored against regulatory targets.	See page 101	
Drainage and Wastewater Management Plan deep dive.	Provided an in-depth review of the submission and the opportunity for the board to challenge management's approach and provide strategic guidance prior to submission of the draft plan in June 2022.		
Considered the capital sanction to support the project at Oswestry water treatment works.	Approved the capital sanction.		
Other group business			
Considered the offer for the entire issued capital of United Utilities Renewable Energy Limited.	Approved the disposal of United Utilities Renewable Energy Limited.	See page 246	
Considered the renewal and extension of the existing revolving credit facilities until December 2026 to support the working capital needs of the Water Plus Group, the joint venture with Severn Trent.	Approved the renewal and extension of revolving credit facilities until December 2026, aligning with those provided by Severn Trent, the joint venture partner.	See page 278	
Shareholder relations			
Received and discussed a presentation by Rothschild Investor Advisory on investors' views and perceptions of the group in relation to, among other things: strategy; the group's unique selling proposition; performance; and how the company compares with other listed water and wastewater companies.	Provided the board with an indirect view of investor perceptions.	See page 137	
Regularly received and discussed feedback from roadshows, presentations, face-to-face meetings and correspondence between investors and the Chair, CEO and/or the CFO, and other communications received from large investors.	Provided the board with a direct view of investor perceptions and the opportunity for review and discussion and review of the group's response as applicable.	See page 137	
Financial			
Reviewed the 2020–25 business plan and the 2022/23 budget.	Noted the 2020–25 business plan and approved the 2022/23 budget.	–	
Reviewed and approved the half and full-year results and associated announcements and applicable dividend payments.	Approved the half and full-year results and associated announcements and considered and approved the interim and final dividend payments to be paid to shareholders.	–	
Reviewed management's proposed going concern and long-term viability statement.	Approved the going concern and long-term viability statement.	See pages 150 to 152	
Reviewed tax policies and objectives proposed by management for 2021/22.	Approved tax policies and objectives for 2021/22.	See page 208	
Reviewed the annual pensions update.	Pensions strategy affirmed and endorsed the preferred methodology for Guaranteed Minimum Pension equalisation.	See page 255	
Reviewed the annual treasury update.	Approved the treasury policies; the group's funding requirements for the year and the potential sources to meeting these funding requirements; and managing the group's interest rate and other market risk exposure.	See page 169	
Reviewed the annual insurance programme for 2022/23.	Approved the annual insurance programme for 2022/23.	–	
Reviewed progress with material litigation involving the group.	Strategy to defend claims robustly affirmed.	See page 75	

Providing great water for a stronger, greener and healthier North West continued

Attendance at board and committee meetings

Eight scheduled board meetings were planned and held during the year (2022: eight). A number of other board meetings and telephone conferences were held during the year, as the need arose. The table below shows the number of scheduled meetings attended and the maximum number of scheduled meetings that the directors could have attended. Only in exceptional circumstances would directors not attend board and committee meetings. Similarly, every effort is made to attend ad hoc meetings either in person or via the use of video or telephone conferencing facilities if needs be. None of the non-executive directors has raised

concerns over the time commitment required of them to fulfil their duties. Scheduled meetings are usually held face to face, occasionally a board member may attend virtually.

On the evening before most scheduled board meetings, all of the non-executive directors meet either by themselves, or together with just the CEO, or with the entire board and the company secretary. This time is usefully spent enabling board members to build a rapport, share views and consider issues impacting the company, resulting in improved board dynamics and better decision-making.

	Boards meetings ⁽¹⁾	Audit committee	Remuneration committee	Nomination committee	ESG committee	Treasury committee
Sir David Higgins	8 8	–	–	3 3	–	–
Steve Mogford	8 8	–	–	–	4 4	–
Louise Beardmore	7 7 ⁽²⁾	–	–	–	–	–
Phil Aspin	8 8	–	–	–	–	3 3
Mark Clare	4 4 ⁽³⁾	–	2 2 ⁽³⁾	1 1 ⁽³⁾	–	–
Alison Goligher	7 8 ⁽⁴⁾	–	4 4	3 3	4 4	–
Liam Butterworth	8 8	4 4	–	3 3	2 3 ⁽⁷⁾	–
Stephen Carter	4 4 ⁽³⁾	1 1 ⁽³⁾	–	1 1 ⁽³⁾	1 1 ⁽³⁾	–
Kath Cates	8 8	3 3 ⁽⁵⁾	4 4	3 3	–	–
Paulette Rowe	8 8	1 1 ⁽⁶⁾	–	3 3	4 4	–
Doug Webb	8 8	4 4	4 4	3 3	–	3 3

● Meetings attended ● Possible meetings

⁽¹⁾ Actual number of meetings attended/maximum number of scheduled meetings that the directors could have attended during the financial year ended 31 March 2023.

⁽²⁾ Louise Beardmore was appointed to the board on 1 May 2022.

⁽³⁾ Mark Clare and Stephen Carter stepped down from the board at the conclusion of the AGM in July 2022.

⁽⁴⁾ Alison Goligher was unable to attend one board meeting due to a personal matter.

⁽⁵⁾ Kath Cates was appointed as a member of the audit committee in July 2022.

⁽⁶⁾ Paulette Rowe stepped down from the audit committee in July 2022.

⁽⁷⁾ Liam Butterworth was unable to attend a committee meeting due to a commitment arranged prior to his appointment.

Purpose, values and culture

Our purpose is to provide great water for a stronger, greener and healthier North West. With the water industry evolving to meet new challenges and priorities, the board took into account feedback gained from stakeholders and colleagues on what, and how, things needed to be done and as a result, our purpose, strategic priorities and core values were refreshed to better reflect the future needs of the business. Six strategic priorities (see page 38) were identified reflecting the key areas of focus for the coming years and the alignment of our ambitions with the ESG concerns of our stakeholders.

Our core values demonstrate how we behave individually and collectively as the board and how we ask our colleagues to behave. Our colleagues are fundamental to delivering our strategy and achieving our purpose. Our values of 'doing the right thing', 'make it happen' and 'be better' (see page 50) underpin our culture of behaving as a responsible business in the way we interact with all the stakeholders we serve. We must continually reinforce these values so that the right behaviours cascade throughout the organisation, ensuring our culture of behaving responsibly drives what we do.

For the year ended 31 March 2023, the board is satisfied that the formulation of our aspirations in terms of our purpose, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all.

Monitoring our culture

Throughout the organisation, our culture is monitored to ensure behaving responsibly drives what we do. Key to this is taking action to address any issues where there is misalignment with the company's culture.

To support this, we have a framework of qualitative and quantitative cultural measures to provide the board with insight into the culture of the group. These measures are tracked so that any issues can be identified and actioned. We were pleased to have received external validation of our approach to monitoring culture, featuring as a best practice case study by the Financial Reporting Council 'Creating Positive Culture Opportunities and Challenges Report', December 2021. A recent independent audit found our approach to be a "pragmatic and effective model" for supporting the board in their role of monitoring and assessing culture and a "useful framework for driving improvements and interventions" (PwC, February 2021).

1 Dashboard of cultural metrics

In addition to the existing reporting, management has developed a dashboard of cultural metrics, providing a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The dashboard comprises relevant metrics derived from: the annual colleague engagement survey; human resources policies in relation to equity, diversity and inclusion along with associated training; whistleblowing reporting; health, safety and wellbeing policies and practices; and other key performance indicators relating to how we behave as a responsible business.

Metrics from the dashboard used to monitor culture include:

- Engagement response rate shows the level of participation in our survey – in 2022/23 it was 87 per cent compared to the UK norm of 76 per cent, demonstrating that colleagues are keen to tell us how they feel about working at United Utilities.
- Engagement is at the heart of what we do and the overall engagement score gives us a quantifiable measure of company culture, in 2022/23 it was 82 per cent compared to the UK norm of 78 per cent.
- Health and safety is at the heart of what we do and we want our people to go home safe and well. In 2022/23 it was 91 per cent compared to the UK norm of 87 per cent. The home safe and well programme training is now part of our business as usual training programme and 88.6 per cent of our workforce have completed this training programme.

2 Existing reporting structures for discussion

There are a number of existing reporting structures that allow our cultural metrics to be measured, discussed and challenged by the board and its committees, many of which are regularly provided to the board at its scheduled board meetings.

3 Alignment with purpose, values and strategy

The board was satisfied that policies, practices and behaviours within the business were aligned with the company's purpose, values and strategy.

Board leadership and company purpose

Providing great water for a stronger, greener and healthier North West continued

 Read more about our female talent pipeline on page 102

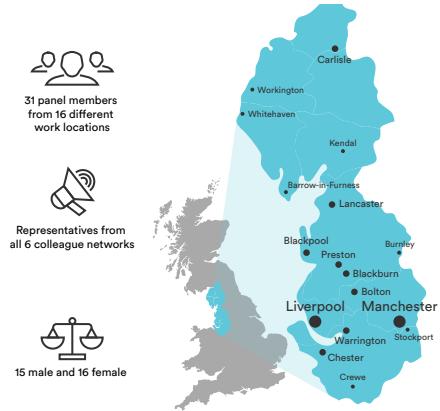
 Read more about our colleague networks on page 55

Listening to our colleagues

Our colleagues are at the heart of the culture of our business and their 'lived experience' is a key part of the board's assessment and monitoring of culture. Alison Goligher, the current designated non-executive director for engagement with the workforce, facilitates two-way dialogue between the board and the wider workforce. There is an open invitation to all board members to attend meetings of the panel. During the year, Liam Butterworth and Doug Webb each attended a panel meeting participating in a question and answer session with panel members.

Alison chairs the Colleague Voice panel (the panel) formed from representatives of a number of colleague groups and networks from across the business and with representatives drawn from around the region. During the year, the panel met four times including its AGM in July 2022. Meetings alternate between in-person and virtual, providing a flexible approach to enable colleagues to attend.

Profile of the Colleague Voice panel



Throughout the year, the panel have been provided with business updates and information sessions to broaden their knowledge of board and corporate governance, including governance around executive remuneration. A summary of the meeting content is set out in the table opposite.

The panel has three key sub-groups focused on actively providing business insights on the following key areas:

- continuous improvement and feedback on how we measure colleague engagement;
- helping our colleague networks promote and support an inclusive culture across the company; and
- exploring the drivers and measures of organisation culture. The culture sub-group has focused its energies on obtaining grass-roots view of changes implemented across the organisation.

Colleagues' views are measured annually through the engagement Your Opinion Survey with the objective of taking any required action to improve how permanent colleagues feel about the company and understand its direction. Colleagues are provided with information through briefings and access to online materials, to enable them to understand the financial and economic factors affecting the group's performance.

Alison has regular meetings with senior trade union representatives as part of the agreed panel approach. Furthermore, along with our employee relations team, our CEO holds regular face-to-face meetings with senior trade union representatives to facilitate two-way communication and engagement with the views of colleagues' representatives.

The group has a commercial arrangement with a third party for the provision of agency staff and contractors. Engagement and communication in relation to these members of the wider workforce is managed directly by the third party via a dedicated third-party account manager who liaises directly with the company's human resources team. If there is any significant change activity, a representative of the third party joins the project team, thereby ensuring consistency when communicating key information to colleagues, agency staff and contractors.

Set out on pages 56 and 76 respectively is the company's approach to our engagement with and creating value for colleagues, with health, safety and wellbeing a priority. Furthermore, an explanation of the company's approach to rewarding the workforce can be found in the report of the remuneration committee on page 186.

Colleague Voice panel

Outcomes from the work since the panel was established to strengthen the 'employee voice' in the boardroom include:

- The transfer of the governance of the annual colleague engagement survey to the panel. The panel enhanced the underlying anonymity of the survey and provided more opportunities to provide free text comments. Survey questions were updated to reflect key topics, including: wellbeing; inclusivity; and working differently;
- Additional administrative and communications resource was made available for network groups and executive sponsors identified; and
- Panel members' views were sought on the 'next ways of working' project, the 'home safe and well' project and the 'diversity and inclusion' audit.

 Board	 'Lived experience'		
	 ESG committee		
		Non-executive director Alison Goligher	
Network leads	Colleague champion groups	Early careers and managers	Union partners
Colleague groups			
Panel members from	Panel members from	Panel members from	Full time trade union representatives
<ul style="list-style-type: none"> Multicultural Identity (LGBT) GENEq Armed Forces Ability 	<ul style="list-style-type: none"> Health, safety and wellbeing champions Engagement champions Colleague engagement group 	<ul style="list-style-type: none"> The early careers board Aspiring managers Apprentices Graduates 	<ul style="list-style-type: none"> Unite GMB Unison Prospect
Colleague sub-groups			

Meeting content of the panel during the year is set out in the table below:

June 2022	November 2022	February 2023
• Board update	• Board update	• Board update
• A Kickstarter's perspective of life at United Utilities	• Digital workplace update	• Sub-group updates – colleague engagement; culture and cross network collaboration
• Profile of the workforce (part 1)	• Monitoring and assessing culture	• Digital workplace update
• Digital academy update	• Profile of the workforce (part 2)	• Building our digital skills
• Updates from each of the sub-groups	• Updates from each of the sub-groups	• Update on totex efficiency work to ensure customers' money is spent wisely
• Q&A with Liam Butterworth	• Q&A with Doug Webb	• Overview of colleague benefits offering
		• Annual board governance

Whistleblowing policy

The following sets out the company's compliance with code provision 6.

As part of our two-way communication, the board has responsibility for reviewing the group's arrangements for individuals to raise matters of concern and the arrangements for the investigation of such matters. The group's whistleblowing policy (the policy) supports the culture within the group where genuine concerns may be reported and investigated without reprisals for whistleblowers. A confidential telephone helpline and a web portal are available to enable colleagues (including agency workers and contractors) to raise matters of concern in relation to possible incidents of fraud, dishonesty, corruption, theft, security and bribery. Furthermore, colleagues are encouraged to raise any matters relating to health and safety and any activities of the business that have caused or may cause damage to the environment, such as pollution or other contamination. Both the helpline and web portal are operated by a third-party, enabling any concerns to be reported anonymously. The policy states that no colleague will be victimised for raising a matter in accordance with the policy. Matters raised with the helpline/portal are in the first instance reported to the whistleblowing committee and investigated by senior managers independent of any involvement of the issues being considered. Details of the findings of the investigation and proposed solution are then considered by the whistleblowing committee (whose membership comprises the company secretary, the people director, the strategy, policy and regulation director, the head of internal audit and the commercial, engineering and capital delivery director) and which meets quarterly. The board routinely reviews matters considered by the whistleblowing committee, the outcome of the investigation and the ways in which the matters were brought to a conclusion, thus ensuring that the core value of integrity is upheld and fostering an environment where colleagues feel it is 'safe to speak up' and to do so without fear of reprisal.

Board engagement with shareholders and other stakeholders

The board as a whole accepts its responsibility for engaging with shareholders and is kept fully informed about information in the marketplace through the following channels:

- The investor relations adviser produces an annual survey of investors' views and perceptions about United Utilities, the results of which are presented and discussed by the board;
- The board receives regular updates and feedback on investor meetings involving the CEO, CFO and/or investor relations team and reports from sector analysts to ensure that the board maintains an understanding of investors' priorities; and
- The executive and non-executive directors are available to meet with major shareholders and institutional investors. When revising the directors' remuneration policy, the chair of the remuneration committee invited engagement from the company's major shareholders. Feedback from any such engagement would be shared with all board members.

Investor dialogue with the Chair

During the year, the Chair offered to meet with 20 institutional investors, and 11 meetings were held. Common themes from these discussions included:

- affordability of customer bills and the impact of inflation and rising interest rates;
- the board's support for Louise Beardmore as she transitions into the CEO role and the executive leadership team;
- 2022 AGM vote on climate-related financial disclosures;
- operational and ODI performance; and
- the operation of storm overflows and related programme of work.

Institutional investors

As well as current investors, we engage actively with institutional investors who do not currently hold shares in United Utilities, as we are keen to ensure our business is well understood across the investment community, and to hear and discuss the views of all investors.

We have an active investor relations programme, which includes:

- an invitation to major shareholders to meet with the Chair;
- a regular schedule of meetings between the CEO and CFO and representatives from our major shareholders, supplemented with meetings hosted by our investor relations team;
- presentations by the CEO and CFO to groups of institutional investors, both on an ad hoc basis and linked to our half and full-year results announcements;
- the programme covers a range of major global financial centres, typically including the UK, Europe, North America and the Asia Pacific region;
- regular feedback provided to the board on the views of our institutional investors following these meetings; and
- maintaining close contact between the investor relations team and a range of City analysts that conduct research on United Utilities.

In 2022/23, our investor relations activities were conducted through a combination of virtual and face-to-face meetings. We met or offered to meet with 87 per cent (2021/22: 80 per cent), by value, of the active targetable institutional shareholder base (after adjusting for shareholders who do not typically meet with companies, such as indexed funds).

Frequent areas of common interest arising in meetings with investors include operational and environmental performance, customer service, capital investment, efficiency initiatives, regulatory performance, regulatory changes and ESG matters. Investors are always keen to observe financial stability and are interested in: the level of gearing versus regulatory assumptions; cost of finance; our debt portfolio and debt maturity profile; future financing requirements; and dividends. Investors are keen to understand how the company is performing relative to the price review allowances and targets each year, along with the potential implications of regulatory change.

Retail shareholders

We have retained a large number of individual shareholders with registered addresses in the North West – in fact, over 50 per cent of registered shareholdings on the share register. We have always held our AGM in our region, which enables our more local shareholders, many of whom are customers, to attend the meeting. The 2023 AGM will, for the first time, be held at the company's main offices in Warrington.

Board leadership and company purpose

Providing great water for a stronger, greener and healthier North West continued

 Read more about creating value for our stakeholders on pages 76 to 77

 Read more about our treasury committee on page 169

There is a considerable amount of information on our website, which provides information on our key social and environmental impacts and performance during the year. Together with the annual and half-yearly results announcements, our integrated annual report and financial statements are also available on our website; these are the principal ways by which we communicate with our retail shareholders. Our company secretariat and investor relations teams, along with our registrar, Equiniti, are on hand to help our retail shareholders with any queries. Information for shareholders can also be found on the inside back cover of this document, along with a number of useful website addresses.

Other stakeholders

The board has direct contact with other stakeholder representatives, including: Ofwat, the DWI and YourVoice (the independent customer challenge group). The chair of YourVoice attends a UUW board meeting to provide an opportunity for discussion, in-depth customer insight and the sharing of views.

The remuneration committee regularly engages with colleagues via the Colleague Voice panel.

Engagement with representatives of all our stakeholder groups occurs widely across many aspects of the business, and more information can be found on pages 56 to 57.

Relations with banks and credit investors

Running a water and wastewater business, by its very nature, requires a long-term outlook. Our regulatory cycle is based on five-year periods, and we raise funding to build and improve our water and wastewater treatment works and associated network of pipes for each five-year cycle and beyond. We are heavily reliant on successfully raising long-term funding from banks and credit investors to fund our capital investment programme and refinance upcoming debt maturities.

This requires long-term support from our credit investors who invest in the company by making term funding available in return for receiving interest on their investment and repayment of principal on maturity of the loans or bonds. We arrange term debt finance in the debt capital markets (with maturities typically ranging from seven years to up to 50 years at issue). Debt finance is primarily raised via the group's London listed multi-issuer £10 billion Euro Medium Term Note Programme, which gives us access to the sterling and

euro public bond markets and privately arranged note issues. Committed credit facilities are arranged with our relationship banks on a bilateral basis.

Additionally, the European Investment Bank (EIB), which is the financing arm of the European Union (EU), remains a significant lender to United Utilities Water, currently providing around £1.1 billion of loan funding supporting past capital investment programmes, with our existing EIB loan portfolio expected to 'run-off' in line with the scheduled maturities of each loan.

A greater proportion of the group's term finance is, therefore, likely to come from the debt capital markets, including funding raised under the group's sustainable finance framework that was established in November 2020. In April 2023, the group issued its second sustainable public bond issue, a £300 million, 15.5-year maturity, in accordance with the group's sustainable finance framework. An allocation and impact report is published annually in respect of any green/sustainable finance raised, which provides credit investors with details on the use of proceeds of any sustainable finance raised, along with the selected case studies on eligible projects funded.

The group currently has gross borrowings of circa £8,435.4 million. Given the importance of debt funding to our group, we have an active credit investor programme coordinated by our group treasury team, which provides a first point of contact for credit investors' queries and maintains a dedicated area of the company's website. One-to-one meetings are held with credit investors through a programme aimed at the major European fund managers known to invest in corporate bonds that may be existing holders of the group's debt or potential holders. Regular mailings of company information are sent to keep credit investors informed of significant events. The treasury team has regular dialogue with the group's relationship banks, the EIB and the credit rating agencies.

 More information can be found on our website at unitedutilities.com/corporate/investors/credit-investors

Rating agency services continue to be provided to the group by Moody's Investors Service Limited, Fitch Ratings Ltd and S&P Global Ratings UK Limited under contracts that are periodically renewed or tendered.

Outcome of 2022 AGM

At the 2022 AGM, votes were cast in relation to approximately 73 per cent of the issued share capital (2021: 70 per cent; 2020: 69 per cent). All 23 resolutions proposed by the board were passed by the required majority. There were no significant votes cast against the board's recommendations, resolution 16, relating to our climate-related financial disclosures, was passed with 80.62 per cent of the votes cast in favour.

Votes cast in favour of the election/reappointment of the board directors were as follows:

Sir David Higgins	98.14%	Kath Cates	98.19%
Steve Mogford	99.93%	Alison Goligher	99.19%
Louise Beardmore	99.95%	Paulette Rowe	98.19%
Phil Aspin	99.92%	Doug Webb	98.20%
Liam Butterworth	99.97%		

Principle F:

The Chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensure that directors receive accurate, timely and clear information.

The internally facilitated board evaluation (see pages 145 to 147) tested and confirmed the Chair's application of principle F. Sir David was independent on appointment when assessed against the circumstances set out in provision 10, his biography is on page 122.

Principle G:

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. The responsibilities of each director is set out in their biographical details set out on pages 122 to 125.

The internal board evaluation (see pages 145 to 147) tested and confirmed the application of principle G, concluding that the skills and experience of executive and independent non-executives were appropriate with the board working together as a cohesive unit, but maintaining the clear division of responsibility between the board and the executive management team. See pages 122 to 124 for our reporting against provision 10; and the governance structure of the board and its principal committees on page 130.

Principle H:

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

As part of the annual review of conflicts of interest, the board was satisfied that, after taking into account the other commitments of directors, board members had sufficient time to meet their board responsibilities and principle H had been applied (see page 139). Throughout the year the board demonstrated constructive challenge and offered strategic guidance and advice to management in relation to storm overflows and Better Rivers: Better North West programme (see page 59).

Principle I:

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

The internally facilitated board evaluation tested and confirmed the application of principle I, the views of board members were sought on whether the necessary support and information was provided effectively and efficiently, see page 146.

Chair of the board

The role and behaviour of the Chair is fundamental to the effective operation and decision-making of the board and in creating an atmosphere where open and frank discussion is facilitated and encouraged. The roles and responsibilities of the Chair are set out as part of the company's governance framework. Sir David was independent on appointment when assessed against the circumstances set out in provision 10 of the code.

It is the role of the Chair, supported by the company secretary, to drive forward the business agenda of board meetings to ensure that the board is kept abreast of the regulatory drivers and strategic needs of the business, and to ensure that the directors receive accurate, timely and clear information. The Chair and company secretary hold regular meetings to discuss agenda items and board materials. Board packs are distributed electronically five days before the meeting. Ensuring board materials are of an appropriate length, on what can be particularly complex and technical issues, is a constant challenge, and progress has been made during the year by the introduction of a revised board paper template.

Conflicts of interest and time commitment

The following section sets out the company's compliance with provision 7.

The company's articles of association contain provisions that permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chair of any potential conflict or potential new appointment or directorship. Additionally, the board reviews the position of each director annually. No changes were recorded that would impact the independence of any of the directors. No conflicts of interest had arisen during the year.

The board does not specify the precise time commitment it requires from its non-executive directors in taking on the role as they are expected to fulfil it and manage their diaries accordingly. The board is content that none of its directors is overcommitted and unable to fulfil their responsibilities as a board director for United Utilities. Each individual's circumstances are different, as is their ability to take on the responsibilities of a non-executive directorship role. Should a director be unable to attend meetings on a regular basis, not be preparing appropriately or not contributing appropriately to board discussions, the Chair would be responsible for discussing the matter with them and agreeing a course of action.

During the year, permission was sought from the board to take on additional non-executive responsibilities by: Paulette Rowe who was appointed as a non-executive director of Thredd, a private equity owned venture.

Executive directors are not normally allowed to take on more than one non-executive position.

Division of responsibilities



Sir David Higgins
Chair of the nomination committee

Quick facts

- All members of the committee are independent, thus fulfilling the code requirement that a 'majority of members of the nomination committee should be independent non-executive directors'. On joining the board, all independent non-executive directors become members of the nomination committee.
- The role of the committee is to lead the process for appointments to the board and ensure plans are in place for orderly succession to both the board and senior management positions and oversee a diverse pipeline for succession.
- The company secretary attends all meetings of the committee.
- The people director has responsibility for human resources, she regularly attends meetings and is responsible for engaging with executive search recruitment advisers.
- The CEO is not a member of the committee, but from time to time is invited to attend. Neither the Chair nor the CEO would participate in the recruitment of their own successor.

Quick links



Terms of reference:
unitedutilities.com/corporate-governance

Nomination committee

Louise is no stranger to colleagues across the organisation given her previous roles, but she is determined to spend time going out and about, meeting with them and listening to their views, particularly those who work at our many operational sites and are at the heart of our business.

Dear shareholder

I am delighted with the progress that Louise has made in transitioning into the role of chief executive officer, supported throughout the period as she has been by Steve Mogford, with her formally assuming the role when Steve retired on 31 March 2023. She has taken over the leadership in challenging and changing times for both the water sector and the company. With time of the essence, and being only one facet of her new role, Louise has been working tirelessly on the group's Better Rivers; Better North West programme, engaging with key stakeholders across the sector and her peers among the other water companies to promote a more collaborative approach to address the underlying issue, being the need to better manage and reduce the volumes of rainwater entering the sewer network. She is clear that there will be full transparency and accountability on making inroads on United Utilities' performance with this matter.

Louise has reset the approach to communicating with her executive team holding two scheduled monthly meetings and regular informal weekly 'scrum' meetings to touch base and keep abreast of the team's activities and share concerns and successes. Louise's promotion generated a vacancy in her previous role as customer services and people director and as a member of the executive team. The role was separated into that of customer services director and people director and

Nomination committee members:



Sir David Higgins
Chair of the nomination committee



Liam Butterworth



Michael Lewis



Kath Cates



Paulette Rowe



Alison Goligher



Doug Webb

external appointments were made for both roles during the year. During the year, a further vacancy arose for the position of capital delivery, engineering and commercial director, for which an external appointment was made. Biographies of the executive team can be found at unitedutilities.com/executive-team

Louise is leading the regular sessions with the executive team and the senior leadership team, which have been introduced to ensure consistency of communication throughout the organisation with the senior leadership team thereafter cascading information throughout the business. Louise is no stranger to colleagues across the organisation given her previous roles, but she is determined to spend time going out and about, meeting with them and listening to their views, particularly those who work at our many operational sites and are at the heart of our business. Information on Louise's CEO transition programme and the stakeholder engagement activities she has been undertaking can be found on page 145.

As previously reported, independent non-executive directors Mark Clare and Stephen Carter stepped down from the board at the AGM in July 2022, after serving for nearly nine and eight years respectively. Liam Butterworth joined the board in January 2022, replacing Mark Clare in accordance with the committee's board succession plan. The committee's search for Stephen's replacement commenced in July 2022. The brief for the search, conducted by Lygon Group, was to identify a candidate with extensive utility and regulatory experience. The search culminated in the appointment of Michael Lewis. On 23 January 2023, it was announced that Michael would join the board as an independent non-executive director with effect from 1 May 2023. Michael's biography can be found on page 124. He has spent most of his career working in the electricity sector, and was appointed as CEO of E.ON UK in 2017. He started his career in the water industry, and having grown up in the North West and attended the University of Manchester, he has a close affinity with our region.

His considerable regulatory experience replaces skills lost when Mark and Stephen left the board. He has focused on sustainability issues throughout his career, and his insight will be helpful as the board further develops its ambitions to reduce the group's carbon footprint and achieve its net zero commitment by 2030, on his appointment he was appointed as a member of the ESG committee. Michael has now attended his inaugural board meeting and I look forward to welcoming his contribution and insight as we further progress with our business planning for the 2025-2030 price review period.

As a consequence of the various board changes, the committee reviewed the membership and diversity of the board committees (more information can be found on page 144).

Alison Goligher stepped into the role of the senior independent director succeeding Mark Clare in July 2022. Alison has also taken on the role of chairing the newly formed compliance committee, which will take the lead in providing initial oversight, and challenge for regulatory assurance matters, and management will undoubtedly find her a useful sounding board as we progress through the drafting process for the price review submission.

At 31 March 2023, 44 per cent of the board were female, two of the senior board positions were held by females and one member of the board is from a minority ethnic background.

As a collective, and with some relatively new board members among us, we are continuing to work hard to prepare for the forthcoming price review process.

Sir David Higgins

Chair of the nomination committee

Main responsibilities

- Lead the process for board appointments and make recommendations to the board about filling board vacancies, including the role of company secretary.
- Consider the succession planning of directors and members of the executive team.
- Make recommendations to the board on refreshing the membership of the board's principal committees.
- Review directors' conflict authorisations.
- Consider requests from executive directors for election to the boards of other companies and make a recommendation to the board.
- Consider requests from non-executive directors for election to the boards of other companies; this role has been delegated to the Chair (other than in respect of his own requests).

Read more about **storm overflows** on page 22

Read more about **equity, diversity, and inclusion** on pages 54 to 55

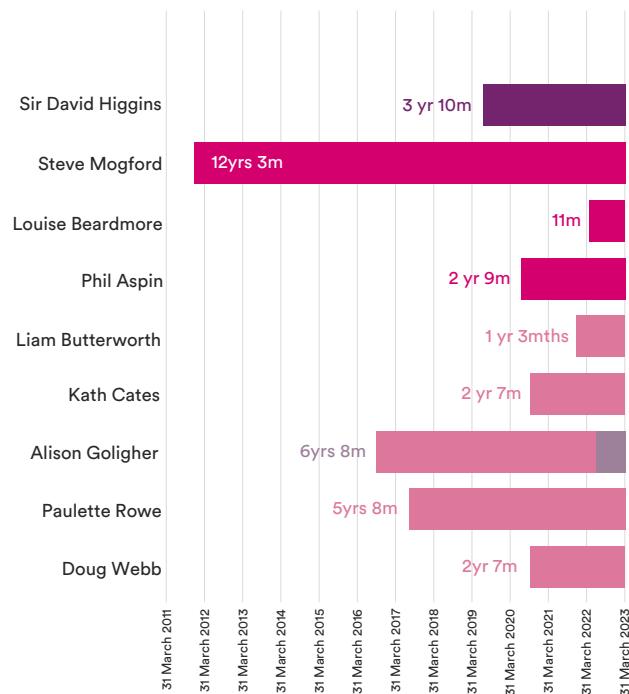
“

Louise has been hard at work, demonstrating her passion and commitment to United Utilities.”

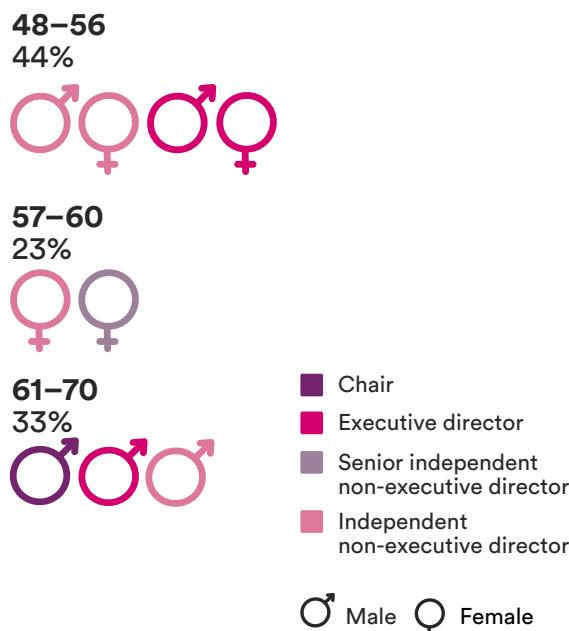
Division of responsibilities

Nomination committee continued

Directors' tenure as at 31 March 2023



Age and gender profile as at 31 March 2023



	At 31 March 2023
Non-executive directors average tenure	3 years 9 months
Executive director average career time within the business	22 years 4 months
Average age of the non-executive directors	59 years
Average age of the executive directors	56 years

Gender identity or sex as at 31 March 2023

	No. of board members	Percentage of the board	No. of senior positions on the board (CEO, CFO, SID, Chair)	No. in executive management	Percentage of executive management
Men	5	55.5%	3	7	53.8%
Women	4	44.5%	1 ⁽¹⁾	6	46.2%
Not specified/prefer not to say	–	–	–	–	–

⁽¹⁾ from 31 March 2023 Louise Beardmore was appointed as CEO.

Ethnic background as at 31 March 2023

	No. of board members	Percentage of the board	No. of senior positions on the board (CEO, CFO, SID, Chair)	No. in executive management	Percentage of executive management
White	8	88.9%	4	13	100%
Mixed/multiple	–	–	–	–	–
Asian	–	–	–	–	–
Black	1	11.1%	–	–	–
Other ethnic group	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Data for the above tables is drawn from HR management information at 31 March 2023, with the directors and members of the executive team each having completed the company's 'All about me' equity, diversity and inclusion survey.

Composition, success and evaluation

Principle J:

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The board is satisfied it has applied principle J. An explanation of the board appointment and succession planning activities can be found on pages 143 to 144 and forms our disclosure as part of provision 23, our policy on board diversity is set out below and details of the gender balance of senior management on pages 143 and 148. Information on the company's approach to equity, diversity and inclusion is set out on pages 54 to 55. Our disclosure against provision 20 is on page 143.

Principle K:

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

The board is satisfied it has applied principle K. Biographies of the board can be found on pages 122 to 125. An overview of directors' areas of expertise is set out in the skills matrix on page 144 and the length of service of board members on page 142. Board biographies include our reporting against provision 18.

Principle L:

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The board is satisfied it has applied principle L. Details of the board evaluation and disclosure against provision 23 can be found on pages 145 to 147.

Summary of the board diversity policy

- Ensure the selection process for board appointments provides access to a range of candidates. Any such appointments will be made on the basis of merit and objective criteria, and within this context should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- Ensure that the policies adopted by the group will promote diversity in the broadest sense among senior managers who will in turn aspire to a board position.
- Ensure that the board, led by the Chair, collectively fosters an inclusive and belonging environment in the boardroom, enabling open and frank contributions from all board members.
- In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms.
- Adopt measurable objectives from time to time for achieving diversity on the board, which shall be to maintain at least 40 per cent female representation, to have at least one director from a minority ethnic background⁽ⁱ⁾, and to have at least one of the positions of: Chair, CEO, senior independent director or CFO held by a female.

What has been on the committee's agenda during the year?

Board succession

The succession planning matrix tool and skills matrix (see page 144) for board directors is used to support the planning process for board appointments. The skills matrix captures the skills and experience board directors need as a collective to be able to deliver the company's purpose and strategic priorities. The succession planning matrix tool highlights the code governance requirements; existing directors' terms of appointment and a forecast/anticipated time frame when an individual might leave the business; the projected strategic needs of the business and resulting preferred experience of any potential new board member; existing potential internal successors to a role (where identified); and those who could act as an interim should the need arise. A candidate suitable for the role of CEO would need to demonstrate that their management approach would fit with the company's culture of behaving responsibly. The committee would seek to consult with the incumbent CEO, given their unique knowledge and perspective of the group, and views on the needs of the business going forward. Neither the Chair nor the CEO would be involved in the appointment process of their own successor.

Board succession – non-executive

Michael Lewis was recruited as an independent non-executive director with effect from 1 May 2023. The committee is supported during any non-executive director recruitment process, by the people director. Due to the timing of the process Louise Beardmore, as part of her then human resources responsibilities supported the committee, as her successor was not yet in post. The executive search firm Lygon Group were engaged as part of the recruitment process.

Board succession – executive

As stated above, the committee sought the views of Steve Mogford on the attributes of the candidate best placed to succeed him in the CEO role, but he was not involved in the final decision. The Chair, supported by the company secretary, led the process to identify suitable candidates for the CEO role and the executive search firm Lygon Group were engaged as part of the recruitment process, having demonstrated, of the executive search firms considered, that they had the best understanding and knowledge of the group and its culture. Against the brief for the role, Lygon Group undertook the internal appraisal process for a number of internal candidates and identified a number of potential external candidates for the committee to consider. Louise Beardmore, in relation to her human resources responsibilities, had no involvement in the process other than being an internal candidate.

Other than providing executive search services on previous occasions, Lygon Group have no other connection with the company.

⁽ⁱ⁾ Defined by reference to categories recommended by the Office for National Statistics (ONS), excluding those listed by ONS as coming from a white ethnic background.

As required by LR 9.8.6(9), the company has met the following board diversity targets at 31 March 2023:

- a. at least 40 per cent of the individuals on the board are women;
- b. at least one of the following senior positions is held by a woman: the chair; the CEO; the SID or the CFO ; and
- c. at least one individual on the board is from a minority ethnic background.

Composition, success and evaluation

Nomination committee continued

Membership of the principal board committees

Paulette Rowe was appointed as chair of the ESG committee during the year, succeeding Stephen Carter who left the board at the conclusion of the 2022 AGM. Paulette has been a significant contributor to the work on equity, diversity and inclusion, and she has a keen interest in social matters, as a former trustee and chair of a children's charity and is well placed to lead the committee. On his appointment, Michael Lewis was appointed as a member of the ESG committee.

Alison Goligher was appointed as the SID at the conclusion of the 2022 AGM when she stepped aside as chair of the remuneration committee, although she remained as a member of the committee, and was succeeded by Kath Cates. Kath has considerable experience as a remuneration committee chair, having held the role for three years at RSA Insurance Group plc.

The board has applied the board diversity policy (set out on page 143) to the audit, nomination and remuneration committees, thereby ensuring diversity of attributes and female representation on each committee. Furthermore, it is satisfied that the membership of the audit committee is in accordance with provision 24, and that the membership of the remuneration committee is in accordance with provision 32.

Board diversity

The board diversity policy is to 'ensure the selection process for board appointments provides access to a range of candidates. Any appointments will be made on the basis of merit and objective criteria, and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive

and personal strengths, but with due regard for the benefits of diversity on the board, including gender diversity'. The objective of the policy is for new directors to bring something different to the board table, be it in terms of experience, skills, perspective, interests or other attributes.

The selection process and application of the board diversity policy aims to attract board members whose values reflect those of the company and our culture. As referred to above, our board diversity policy would be brought to the attention of any executive search firm used as part of the selection and appointment process for a board position. Feedback would be sought from the search firm in terms of their success in attracting potential candidates in terms of their diversity of attributes. Feedback would also be gathered first hand through the interview process with candidates conducted by other board members and taken into consideration in identifying those suitable for the role in question.

As a board, the benefits of diversity and inclusion, and associated benefits to the decision-making process are widely recognised and is a topic regularly discussed with major investors. On the board at 31 March 2023, female representation was 44 per cent and there was 10 per cent representation by a director from a minority ethnic background. Among the workforce, colleagues from a minority ethnic background represented 2.7 per cent, 8.2 per cent of colleagues choose not to disclose. We recognise the benefits of diversity across our business with initiatives in place to support women in the workplace and tackle the ethnic imbalance of our workforce, thereby aligning with our strategic priority of providing a safe and great place to work (see page 38).

Skills matrix of board directors

	Sir David Higgins	Steve Mogford	Louise Beardmore	Phil Aspin	Alison Goligher	Liam Butterworth	Kath Cates	Michael Lewis	Paulette Rowe	Doug Webb
Finance/accounting										
Utilities										
Regulation										
Government										
Construction/engineering										
Industrial										
Customer-facing										
FTSE companies										
Digital/technology										
ESG										
Current CEO/CFO FTSE 350 ⁽¹⁾										
Former CEO/CFO of FTSE 350										

⁽¹⁾ Excludes United Utilities

CEO's transition programme

Louise Beardmore has worked for the group for more than 20 years having joined its graduate programme. She has led teams in business transformation, water operations, electricity and telecoms and was appointed as customer services and people director in 2016. During the year, in order to support the transition into her new role, she has undertaken a number of activities including:

- Investor relations: met with Rothschild & Co the group's investor relations adviser to gain greater insight into equity investor themes and perceptions;
- Corporate brokers: met with JPM Cazenove and Deutsche Bank to gain a better understanding of equity markets;
- Legal adviser: met with Slaughter and May and received an in-depth review of directors' responsibilities and corporate governance requirements;
- Statutory auditor: met with representatives of the group's statutory auditor, KPMG;
- Communications adviser: met with representatives of Teneo Communications, the group's communications adviser;
- Completed the corporate director programme at Harvard Business School; and
- Regular feedback sessions held with the Chair and non-executive directors.

CEO's engagement programme

Louise has undertaken an extensive stakeholder engagement programme since her appointment to the board in May 2022 including:

- Having met with representatives from Ofwat, the DWI, Defra and the Environment Agency;
- Holding meetings with North West MPs - having made an invitation to do so to all 76 of the MPs in our region;
- Holding meetings with regional local authority representatives and devolved mayors;
- Reshaping her leadership communication rhythm to include monthly full day sessions with the executive and senior leadership team and weekly update emails to ensure information is cascaded throughout the business and a monthly blog and email is sent to all colleagues to provide important information and insight into the work that Louise has been involved in during the month and engagement activities with third party organisations;
- Reshaping the executive team's operating rhythm, holding two scheduled meetings per month and a weekly 'scrum' session;
- Making regular site visits and talking to operational teams to understand their perspective of United Utilities, including spending time with colleagues at Blackburn, Stockport, Warrington and Davyhulme - the group's primary wastewater treatment site in Manchester;
- Holding regular meetings with colleague engagement champions, trade union representatives and meetings of the colleague network groups;
- Holding an extensive programme of investor meetings in conjunction with the CFO; and
- Meeting with counterparts at other water and wastewater companies.

Evaluation of the effectiveness of the board, board committees and individual directors

An annual evaluation of the board, its committees, the Chair and the individual directors is conducted as recommended by the code. This year the evaluation was facilitated internally by the company secretary, in consultation with the Chair and the board committee chairs. The most recent external evaluation was conducted by Independent Audit Limited during 2020/21. The process of how the evaluation was conducted is set out below.

Overall, the self assessment evaluation completed by the directors and others attending and supporting the board committees, concluded that the board and its committees functioned well, were well chaired and the position was positive. Members of the committees had the appropriate skills, experience and a particular interest in the work of the committee to debate issues and provide challenge to management. All of the individual directors demonstrated the expected level of commitment to the role and contributed effectively during board discussions.

Internally facilitated self-assessment evaluation process

1 Questionnaires

The evaluation was based on the completion of questionnaires (including questions to be scored and free text questions) by board members assessing both the performance of the board and each of its principal committees, as well as that of the Chair. Each director also completed a self-assessment questionnaire assessing their own performance.

Board members were also asked to provide a view on how well the actions identified in the 2021/22 evaluation had been addressed.

In addition to board members, other members of the executive team and representatives of external advisers who regularly attend and support the committee meetings were asked to participate in the evaluation process.

2 Appraisal

The results were collated by the company secretary.

3 Consultation

The results were then shared and reviewed with the Chair and each of the chairs of the relevant committees and presented at a meeting of the relevant committee and discussed. The results of the board evaluation were presented to the board for discussion.

The Chair reviewed the performance of the individual directors.

Alison Goligher, as the senior independent non-executive director (SID), led the review of the Chair. She held a discussion with the other non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair.

4 Evaluation and actions

The conclusions of the evaluation were reached and actions identified as set out on page 146.

Composition, success and evaluation

Nomination committee continued

A summary of the review of the responses of the self-assessment questionnaire process is set out below:

2022/23 areas of assessment	Commentary and priorities for action
Strategic oversight	Responses indicated that the board felt quality time was spent considering the group's strategic aims and reviewing implementation of strategy. Priorities for action included the board providing robust challenge of the PR24 submission and ensuring readiness as the group transitions into the next asset management period.
Board composition, dynamics and expertise	Board members felt that the board dynamic between members was good and the board had a cohesive approach allowing members to provide helpful oversight and challenge to management. Priorities for action included support for the CEO as she settles into her new role and ensuring support for the wider leadership team.
Board agenda	The overall board agenda was felt to be well managed and focused on the correct areas and the addition of a regular schedule of deep-dive sessions had been welcomed providing more time for discussion on topical issues. Priorities for action included ensuring that board papers were kept succinct and that there was benefit for board members in allowing more time for interaction with the executive presenting the paper.
Managing risk	The respondents indicated that there was good visibility of risk and changes to the risk profile at board level and risk was considered to be well managed. Priorities for action included the need for the board to gain a more in-depth understanding of the risks associated with storm overflows and the Better Rivers programme and the contract risk of the HARP procurement process.
Support and information	Respondents indicated that the company secretary and his team provide a good level of support to the board and its committees. Priorities for action included greater standardisation of board papers and that contributors provided papers for distribution in line with agreed time frames.
Committees	<ul style="list-style-type: none"> • Audit committee: the committee was well chaired and encouraged probing debate and contribution from all committee members and attendees. Priorities for action included the appropriate assurance of the evolving ESG landscape and internal control systems. • Remuneration committee: the chair encouraged robust and probing debate and all members contributed their views proactively and the committee was well briefed and well supported, providing members with a clear view of regulatory and shareholder views on remuneration. • Nomination committee: respondents indicated that the CEO succession had been well managed and all committee members had been able to contribute effectively to the process. Priorities for action included addressing long-term succession planning for both the board and management and there was a focus on all aspects of diversity. • ESG committee: respondents indicated that some ESG matters would benefit from discussion at full board meetings. Priorities for action included knowledge development and training on relevant ESG matters for committee members. • Treasury committee: respondents felt the committee should continue to test the existing policies to ensure they remained relevant and consider the treasury-related challenges of PR24.
Individual directors	<p>The responses from the questionnaires completed by each director assessing their own effectiveness were reviewed by the Chair. Individual directors were asked, among other things, to identify how they could improve their overall contribution to the board and its committees and if they had any skill or knowledge gaps that could be addressed. The following were identified: to attend more site visits and interactions with specific areas of the business and to receive more subject specific deep-dives to enhance understanding.</p> <p>The review supported the view that all the directors were considered to be contributing effectively to the board and all demonstrated the expected level of commitment to their roles.</p>
Chair	<p>The responses from the questionnaires completed by each director assessing the Chair's performance were reviewed by the senior independent director (SID) and discussed at a session with the non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair.</p> <p>It was concluded that the Chair had fulfilled the expected commitment to the role and was an effective leader of the board.</p>

2021/22 evaluation recommendations	Actions taken during 2022/23
Greater visibility of the PR24 plan and a better understanding of the strategic drivers of the group's various regulators and providing more focus on climate change and improving asset resilience.	The board have received regular updates throughout the year on progress with the drafting of the PR24 business plan submission and spent considerable time on the matter at the annual strategy day held in October 2022. Addressing climate change and improving asset resilience are key drivers for PR24.
Nomination committee: improved focus on long-term succession planning was needed along with ensuring talent management and retention of senior management was debated.	The committee's time was spent focusing on non-executive director recruitment, developing a more structured approach to executive succession planning supported by the new people director.
Remuneration committee: ensure any future ESG metrics were understood and incorporated in a meaningful way into the new directors' remuneration policy and long-term plan.	Details of ESG metrics included in the 2022/23 incentive framework are set out on page 184.
Audit committee: provide more focus on risk management, processes and controls and non-financial/ESG reporting and assurance.	Progress made in this area, in particular through the development of an audit and assurance framework, which was applied to the 2023 narrative reporting.
ESG committee: ensure the focus on areas where the committee could add greatest value to the PR24 process.	The committee's oversight of: carbon and renewables; affordability and vulnerability; and Better Rivers and storm overflows has contributed to the PR24 process.

Ongoing board development and training

Board directors regularly receive updates to improve their understanding and knowledge about the business and, in particular, its regulatory environment. As part of the individual director's element of the board evaluation exercise, directors are asked to identify any skills or knowledge gaps they would like to address. Directors made a number of suggestions, as set out on page 146.

Consideration of ESG issues are fundamental to our purpose of providing great water for a stronger, greener and healthier North West and central to board discussions (see the summary of board activity on pages 131 to 133 and the report of the ESG committee on pages 204 to 207). During the year, the ESG committee discussed the options for board and executive training on climate change and more specific ESG training, and agreed the approach.

Through presentations and discussions with representatives of YourVoice, the independent customer challenge group, whose role is predicated on protecting customer interests in how the group goes about its business, the board is kept informed of customer, in-region environmental affairs and social matters. Similarly, during the year, the board had the opportunity to meet with representatives from Ofwat and the DWI.

In addition to this less formal approach to board development, during the year the board received briefings from both Slaughter and May (legal and governance matters) and KPMG (governance changes relating to reporting requirements), along with a number of other advisers. Our non-executive directors are conscious of the need to keep themselves properly briefed and informed about current issues and to deepen their understanding of the business. During the year, Paulette Rowe and Liam Butterworth attended an event organised by Ofwat for

non-executive directors. Alison Goligher has again chaired the Colleague Voice panel as part of the ongoing work to ensure the board has a direct link to understanding the views of colleagues (see page 136). Paulette Rowe has contributed to the work on equity, diversity and inclusion (see pages 54 to 55).

Induction of new non-executive directors

An induction programme is arranged for new non-executive directors, which would include meeting members of the executive team, members of the operational teams and visiting some of the key operational sites and capital projects to ensure they get a first-hand understanding of the water and wastewater business. New directors receive information on the key duties of being a director of a regulated water company. They are required to meet with representatives of Ofwat prior to appointment, as Michael Lewis did in November 2022, prior to him joining the board on 1 May 2023. An induction programme will be arranged for Michael Lewis.

Wider succession pipeline and talent management

The group has had a written succession plan for the executive directors and other members of the executive team, which includes outline timescales, and identifies an interim internal successor to fill a role in the short term should the need arise, and the longer-term development needs of potential successors to be able to fulfil a role on a more permanent basis.

As with all board appointments, in aiming to appoint the best person to fulfil a role it would be common when recruiting for a senior role, for an external search to be conducted alongside an internal candidate recruitment process.

Composition, success and evaluation

Nomination committee continued

 Read more about our apprentices and graduates on page 100

 Read more about our human capital on page 35

During the year, external appointments were made for the roles of people director, customer services director and that of the capital delivery, engineering and commercial director. An additional executive role as director of strategic programmes was fulfilled by an internal candidate. Any changes that are required to the profile of the management team to reflect the changing needs of the business are considered by the board in the executive succession plan. Succession and development initiatives for senior executives include executive mentoring and coaching and/or participating in an executive business school programme, as appropriate. Leadership development centres have been delivered to identify and validate potential for future director and senior leader positions and develop a number of role-ready diverse candidates to provide the group with leadership capacity in an increasingly complex environment.

Senior managers are encouraged to take on a non-executive directorship role as part of their personal development, but it is recognised that this is very much a personal commitment for each individual. The current talent programme at a senior level is well embedded and we believe a non-executive appointment for senior managers provides an excellent opportunity for both personal and career development, and is a way of gaining valuable experience that may be applied at United Utilities so long as no conflicts of interest occur.

During the year, board directors had a number of opportunities to meet with members of the executive team, both formally when senior managers were required to present at board meetings on matters related to their responsibilities, and on more informal occasions.

Our graduate and apprentice programmes are thriving and from time to time, board members have the opportunity to attend events and meet with members of these programmes and other colleagues identified as potential talent within the business.

Historically, our industry has been male dominated, but measures are in place to increase diversity in broad terms among our colleagues (see pages 54 to 55). The gender and ethnic breakdown of the board and executive team can be found on page 142. The gender balance of the direct reports of the executive team is 63 per cent male and 37 per cent female, representation of ethnic minorities is 3 per cent. Gender pay data can be found on page 55.

Along with the wider colleague population, we continue to work towards improving the diversity of our succession pipeline as part of our ongoing equity, diversity and inclusion plans.



Principle M:

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Our application of principle M is formalised in our non-audit services policy and terms of engagement with the auditor as agreed by the committee. The head of internal audit and risk reports to the committee and to the CFO but only on a functional basis, thereby ensuring a direct line of communication between internal audit and the committee. In accordance with provision 25, an explanation of the independence and effectiveness of the external audit process can be found on pages 162 to 164, and the reappointment of the statutory auditor on page 165. The board considered, and was satisfied, as advised by the audit committee given its oversight role, that the statutory audit contributed to the integrity of the financial reporting as set out in DTR 7.1.3(5).

Principle N:

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

We have applied principle N, as confirmed by our disclosure against provision 27, which can be found on page 215 and is supported by our disclosure against provision 25 on page 162.

Principle O:

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Our risk management framework and principal risks are on pages 60 to 75. Further information on the company's internal audit function and controls can be found on pages 166 to 167 and together set out our application of principle O.

Financial oversight responsibilities of the board

Board's responsibility for financial oversight

One of the fundamental roles of the board is to oversee the financial performance of the business. The board is supported in this role by the audit committee, whose activities are described on pages 153 to 167. The board reviews the financial performance of the company at every scheduled board meeting, receiving a report from the CFO, which provides the board with the up-to-date position of the consolidated financial statements, interpretative analysis and other key performance indicators, metrics and ratios. The board takes into account the review by the audit committee of the financial and narrative statements, and the auditor's views on the key risks and judgements identified and given particular focus in their audit work and set out in their report (see pages 218 to 231), and the information and explanations provided by management in relation to their key judgements and adjustments to APMs (see page 118). The board considered the review and assurance process undertaken by management, and considered by the audit committee to support the application of principle N. The board concluded that in the 2022/23 integrated annual report and financial statements it had presented a fair, balanced and understandable assessment of the company's position and prospects, and the board was satisfied on the integrity of the financial and narrative statements. Furthermore, the board approved the accounts and provision of the directors' responsibility statement at its meeting on 24 May 2023, see page 215.

Oversight of financial aspects of ESG

ESG, and behaving responsibly, has been a long-term commitment and part of the board ethos for many years and is embedded throughout the business. It naturally flows through into the board's approach to the integrity of the group's financial reporting. As described on page 128, climate change is a common theme, which poses a risk to the group's provision of water and wastewater services. A table of our reporting against TCFD recommendations is set out on page 5. As part of the processes supporting the provision of the 'fair, balanced and understandable' statement, the board determined that the levels of assurance provided by the combination of the work by internal audit and of the various third parties was satisfactory at this time – a stance endorsed by the audit committee. The impact of environmental risk and other potential risks associated with climate change on the financial statements is kept under review. The board's approach for accounting for climate change for the year ended 31 March 2023 is set out on page 241.

Board's approach to risk management and internal control

The board discharges its responsibility for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives through the risk appetite tolerance framework. As a key part of the risk management framework, risk appetite and tolerance (see page 61) captures the board's desire to take and manage risk relative to the company's obligations, stakeholder interests and the capacity and capability of its key resources.

Financial oversight responsibilities of the board continued



Read more about
significant issues on pages
158 to 159

The board is responsible for ensuring that the company's risk management and internal control systems operate effectively across the business and that they receive an appropriate level of scrutiny and board time. The risk profile is reviewed in conjunction with the full and half-year reporting cycle alongside deep dives and routine performance reviews.

The group's risks predominantly reflect those of all regulated water and wastewater companies. These generally relate to the failing of regulatory performance targets or failing to fulfil our obligations in any five-year planning cycle, potentially leading to the imposition of fines and penalties, in addition to reputational damage.

Review of the effectiveness of the risk management and internal control systems

During the year, the board reviewed the effectiveness of the risk management systems and internal control systems, including financial, operational and compliance controls.

Taking into account the principal risks and uncertainties set out on pages 64 to 75, the ongoing work of the audit committee in monitoring the risk management and internal control systems (see pages 166 and 167) on behalf of the board, (and to whom the committee provides regular updates), the board:

- was satisfied that it had carried out a robust assessment of the emerging and principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; and
- had reviewed the effectiveness of the risk management and internal control systems, including all material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

After review, the board concluded that through a combination of the work of the board, the audit committee and the UUW board (which has particular responsibility for operational and compliance controls), and taking into account no significant failings or weaknesses were identified, the company's risk management and internal controls operated effectively throughout the year.

The board's review of the effectiveness of risk management and internal control systems took into account:

- the biannual review of significant risks and emerging risks (see pages 64 to 75);
- the assurance (both internal and external) of the most significant business and operational risks of the group;
- the review of matters correlating to specific event-based operational risks (see pages 67 to 69);
- the outcome of the biannual business risk assessment process (see page 60);
- the activities and review of the effectiveness of the internal audit function (see page 166);
- the opinion provided by internal audit in relation to their work, that "the governance, risk management and internal control framework was suitably designed and effectively applied within the areas under review";

- the self-assessment provided by management confirmed compliance with a range of key internal policies, processes and controls (see page 167);
- the review of reports from the group audit and risk board (see page 52);
- the oversight of treasury matters, in particular debt financing and interest rate management (see page 169);
- the review of the business risk management framework and management's approach and tolerance towards risk (see page 62); and
- the comments made by KPMG on the operation and effectiveness of the risk management and control system it observed whilst undertaking the statutory audit.

Going concern and long-term viability

The following section sets out the company's compliance with part of provisions 30 and 31.

The board, following the review by the audit committee, concluded that it was appropriate to adopt the going concern basis of accounting (see page 239). Similarly, in accordance with the principles of the code, the board concluded, following the recommendation from the audit committee, that it was appropriate to provide the long-term viability statement based on an assessment period of seven years. Assurance supporting these statements was provided by the review of: the group's key financial measures and contingent liabilities; the key credit financial ratios; and the group's liquidity and ongoing ability to meet its financial covenants. As part of the assurance process, the board also took into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks, and include emerging and more topical risks.

These principal risks and uncertainties are detailed on pages 64 to 75, and the risk management processes and structures used to monitor and manage them on pages 52 to 53, and 60 to 61. Biannually, the board receives a report detailing management's assessment of the most significant risks facing the company. The report gives an indication of the level of exposure, subject to the mitigating controls in place, for the risk profile of the group, while also highlighting the reputational and customer service impact. This provides the board with information in two categories: group-wide business risks; and operational risks. The board also receives information during the year from the treasury committee (to which the board has delegated matters of a treasury nature – see page 169), including such matters as liquidity policy, the group's capital funding requirements and interest rate management.

Long-term viability statement

The directors have assessed the viability of the group, taking account of the group's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of the group's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2030.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework, and interpretation thereof, does not substantively change. The long-term planning detailed on page 40 assesses the group's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the group's strategic planning process, and underpins our business model set out on pages 18 to 117.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the group. Specifically, risks associated with current levels of economic uncertainty and climate change have been incorporated into the baseline position and factored into the various scenarios modelled as part of the group's assessment. An overview of our risk management approach that supports the group's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 60 to 75. This approach considers the full range of categories of risk that could impact the company, such as financial, operational and regulatory risks. In addition, consideration is given to the adequacy of workforce policies and practices, all liabilities including pension liabilities, any exposure to revenue variations, and expectations of future performance taking account of past performance in delivering for customers.

Within the context of this long-term planning and management of risks, the group's principal business operates within five-year regulatory price control cycles. Medium-term planning considers the current price control period, over which there is typically a high degree of certainty, and looks beyond this in order to facilitate smooth transitions between price control periods. This results in the board concluding a recurring period of seven years to be an appropriate period over which to perform a robust assessment of the group's long-term viability.

Viability assessment: resilience of the group

The viability assessment is based upon the group's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- the group's policy of maintaining debt to regulatory capital value (RCV) of between 55 per cent and 65 per cent, which is consistent with a robust capital structure and strong solvency position, and which in turn supports the group's current credit ratings for its principal subsidiary United Utilities Water Limited of A3/BBB+/A- with Moody's, S&P and Fitch respectively;
- the group's pension schemes being fully funded on a low dependency basis and fully hedged for market risk;
- the group's policy of maintaining a robust liquidity position, with liquidity to cover expected cash outflows for the next 15 – 24 months, and flexibility to exceed the upper end of the liquidity range in periods of greater uncertainty. At March 2023 the group had £1,190 million of available liquidity covering expected cash outflows through to August 2025 and providing a significant buffer to absorb short-term cash flow impacts; and

- the current regulatory framework within which the group operates – which provides a high degree of cash flow certainty over the regulatory period and the broader regulatory protections outlined below.

From a regulatory perspective, the group benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing reasonable returns on capital; and secure that water and wastewater supply systems have long-term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

The factors set out in this section underpin the expectation of the group's ability to maintain access to equity and debt capital to the extent necessary to maintain the group's capital structure and liquidity policies, which in turn provide the capital buffer and cash liquidity considered appropriate to mitigate the potential realisation of the principal risks facing the business.

Viability assessment: resilience to principal risks facing the business

The directors have assessed the group's viability based on the resilience of the group and its ability to absorb a number of 'severe but plausible' scenarios, derived from the principal risks facing the group, as set out on pages 60 to 75. The baseline plan against which the viability assessment has been performed incorporates the estimated impact of current high levels of inflation which are expected to endure in the near term before falling to more normal levels. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of group's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the group's TCFD disclosures, the index to which is set out on page 5 ; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; current economic uncertainties including high levels of inflation and a squeeze on the cost of living impacting the group's customer base; and the potential for a restriction to the availability of financing resulting from a capital markets crisis.

The scenarios considered are underpinned by the group's established risk management processes, taking into account those risks with a greater than 10 per cent (1 in 10) cumulative likelihood of occurrence. Risks associated with current economic conditions are reflected within the baseline position, with potential downside risks (most notably in relation to bad debt and inflation volatility) covered by the individual scenarios modelled, and collectively within a combined scenario.

 Read more about
relations with
banks and credit
investors on
page 138

Audit, risk and internal control

Financial oversight responsibilities of the board continued

 Read more about **going concern basis of accounting** on page 239

 Read more about **financial performance** on pages 112 to 119

Based on these risks, the following six largest impacting scenarios were identified and applied as downside stress scenarios to the group's baseline plan:

Scenario modelled	Link to risk factors
Scenario 1: Totex £400 million one-off impact in 2023/24	Broadly representing the largest 'severe but plausible' risk which is a critical asset failure, all assumed to be operating costs
Scenario 2: Totex underperformance of 10% (circa £130–£390 million) per annum for 2023/24–2027/28	Representing more than the cumulative total expected NPV totex impact of the remaining top 10 'severe but plausible' risks (including environmental, cyber security and network failure risks)
Scenario 3: CPIH inflation of 2.0% below baseline plan for 2023/24–2029/30	Broadly consistent with quantum of inflation impacts modelled within top 10 'severe but plausible' risks
Scenario 4: An increase in bad debt of £15 million per annum from 2023/24 to 2029/30	Aligned to internal risk factor on debt collection
Scenario 5: Additional ODI penalty of circa £70 million per annum	Assumes mid-point of UUW's baseline and PR19 final determination P90 ODI position
Scenario 6: Debt refinanced as it matures, with new debt financed at 1% above the forward projections of interest rates 2023/24–2029/30	Representing more than top 10 'severe but plausible' risk on credit ratings as well as high impact/low likelihood risk on financial outperformance
Scenario 7: Combined scenario – 50% of scenarios 2–6	50% of scenarios 2–6

Example mitigations (of which none are required to remain viable under the scenarios modelled):

- Reduction in discretionary totex spend
- Capital programme deferral
- Closing out of derivative asset position
- Restriction of dividend

all of which are considered to be within the control of management. In addition to these, it is considered that the following mitigating actions could also be implemented:

- Issuing of new finance
- Raising of additional equity

The assessment has considered the impact of these scenarios on the group's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the group's ability to absorb the impact of all severe but plausible scenarios modelled, without the need to rely on the key mitigating actions.

The most extreme of the severe but plausible scenarios modelled, without any mitigating action, resulted in: the group retaining investment grade credit ratings; liquidity of more than one year; and no projected breaches of financial debt covenants.

Viability assessment: reverse stress testing

As part of the assessment, reverse stress testing of two extreme theoretical scenarios focusing on totex overspend and persisting low inflation have been performed to understand the extent to which the group could further absorb financial stress before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but plausible' scenarios before the group's long-term viability would be at risk.

Viability assessment: key mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the group, the effectiveness of which are underpinned by the strength of the group's capital solvency position.

As well as the protections that exist from the regulatory environment within which the group operates, a number of actions are available to mitigate more severe scenarios, including those outlined in the above table.

Governance

The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the group's external auditor, KPMG, as part of their normal audit procedures

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation note to the accounts.



Doug Webb
Chair of the audit committee

Quick facts

- Doug Webb has chaired the committee since July 2021. He is a chartered accountant and is considered by the board to have recent and relevant financial experience, having served as chief financial officer of a number of listed FTSE companies. He retired from his most recent executive role at Meggitt PLC in 2018.
- All members of the committee are independent non-executive directors and the board is satisfied that the committee as a whole has competence relevant to the sector. Attendance at audit committee meetings is set out on page 134, and the relevant directors' biographies can be found on pages 124 to 125.
- Other regular attendees at meetings at the invitation of the committee include the CEO, the CFO, the company secretary, the head of audit and risk, the group controller, and representatives from the statutory auditor, KPMG LLP (KPMG). None of these attendees are members of the committee.
- The representatives from KPMG and the head of audit and risk each have time with the committee and the company secretary to raise freely any concerns they may have without management being present.
- The chair of the committee has regular one-to-one meetings with the CFO, the head of audit and risk and the KPMG audit engagement partner.
- The committee is authorised to seek outside legal or other independent professional advice as it sees fit, but has not done so during the year.

Quick links

 Terms of reference:
unitedutilities.com/corporate-governance

Audit committee

During the year the committee has paid close attention to the financial position being presented by management during the current turbulent economic conditions.

Dear shareholder

After the annual general meeting in July 2022, Stephen Carter stepped down from the board and the audit committee. At that time, the board took the opportunity to review the membership of the principal board committees. As a result, Kath Cates joined the committee in July 2022 ahead of the 2022/23 audit cycle, bringing her wider experience as a current chair of the TPEN audit committee at Columbia Threadneedle Investments. Furthermore, in July 2022, Paulette Rowe took up the role as chair of the ESG committee and, therefore, stood down as a member of the audit committee.

Economic impact

During the year the committee has paid close attention to the financial position being presented by management during the current turbulent economic conditions. The committee has sought comprehensive information impacting the financial statements on the impact of inflation and increases in core costs, particularly those of power and chemicals and, on the impact of the rising cost of living and the ability of customers to pay their bills.

The accounting of additional costs incurred as a result of three atypically large pipe bursts in the water network due to the dry weather during the summer of 2022, were also considered. The committee considered and concluded that management's views were reasonable, which aligned with the view expressed by the external auditor.

BEIS consultation on audit and corporate governance reform

The committee welcomed the publication in May 2022 of the Government's response to its consultation on 'Restoring Trust in Audit and Corporate Governance' and the publication by the Financial Reporting Council on the steps it will take to implement the Government's reforms. As previously reported, management were in the process of drafting the group's audit and assurance policy (see page 165), which has been further refined during the year and has been reviewed by the committee.

Audit committee members:



Doug Webb
Chair of the
audit committee



Kath Cates



Liam Butterworth

Audit, risk and internal control

Audit committee continued



Read more about accounting policies on page 239



Read more about the impact of climate change on page 241

The assurance framework, as endorsed by the committee and contained therein, provides a standard approach to determine the level of assurance to be applied to different sections of the integrated annual report and was implemented for the year ended 31 March 2023. The committee was satisfied with the progress made to date ahead of the expected extension of the FRC's powers once it transitions into the Audit, Reporting and Governance Authority (ARGA). Among other things, it is expected that ARGA's remit will be to review annual reports in their entirety, reflecting the growing expectations by investors that companies should provide greater levels of assurance over the narrative reporting sections of their annual report.

Audit quality

Each year the committee reviews the findings of the FRC's annual Audit Quality Review (AQR), most recently published in July 2022 (and available on the FRC's website). The committee's focus being the review as pertaining to KPMG, it discussed the findings of the AQR with representatives of KPMG. The committee noted that, of the KPMG audits inspected by the FRC, 84 per cent required no more than limited improvements and none were identified as needing significant improvement, which the committee noted as an improvement on the 2021 AQR.

From time to time the FRC's AQR inspectors contact a company's auditor to undertake an inspection of the audit. During the year, the FRC's AQR inspectors undertook such an inspection of KPMG's 2022 audit of United Utilities Group PLC. The inspectors focused their assessment on the following areas: revenue recognition and bad debt; capitalisation of costs; revenue; trade receivables and accrued income; derivatives, and audit planning and completion. KPMG discussed the inspection with the committee, which was comfortable that no material issues had been identified. Some incremental improvements were identified by the inspectors, all of which were incorporated into the 2023 audit.

As required by the Code, and as an important element in maintaining an appropriate focus on audit quality, the effectiveness of the statutory audit process is assessed annually (see page 162). As part of this assessment the

committee took into account the quality interventions implemented by KPMG during the 2022 audit and the impact of these interventions throughout the audit cycle, building on those implemented in previous years (see page 162). The views of members of the committee and management were sought, among other things, on the degree of professional scepticism exhibited by the auditor.

Furthermore, at each of the scheduled committee meetings, management present an updated view of each of the significant issues and areas over which it has exercised its judgement (see pages 158 to 159) following discussion between management and the auditor, many of which correspond with KPMG's key audit matters (see pages 223 to 226). KPMG are present at these meetings where they have the opportunity to critique management's judgements and contribute to the debate, thereby providing an opportunity for the committee to challenge the views of management and the auditor on their assessments. These discussions provide an opportunity for the committee members, drawing on their own experience, to informally assess the degree of professional scepticism applied by the auditor. The committee has time set aside during its meetings to meet with the auditor without management being present in order that they can speak freely and raise any concerns and to ensure the committee is kept fully informed.

Auditor independence is a key principle and contributing factor to audit quality. It is reviewed as part of the audit scope and re-examined prior to the accounts being approved and signed by the board. The auditor must be independent of the company. Independence is a key focus for the auditor, whose staff must comply with their firm's own ethics and independence criteria, which must be consistent with the FRC's Revised Ethical Standard (2019). Information on how the committee assesses the independence of the auditor can be found on page 164. The statutory auditor presents its audit findings to the shareholders as the owners of the business (see pages 218 to 231).

Taking into account the findings of assessment of the 31 March 2022 audit presented to the committee in September 2022, the committee concluded that the statutory audit process for 2022 had been effective.

Main responsibilities

- Make a recommendation to the board for the appointment or reappointment of the auditor, and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor.
- Establish policies for the provision of any non-audit services by the auditor.
- Challenge the auditor on the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- Review the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues proposed by

management and in particular those challenged by the committee in relation to the financial statements and how these were addressed.

- Approve the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems.
- Review the group's procedures for reporting fraud and other inappropriate behaviour and to receive reports relating thereto.
- Report to the board on how it has discharged its responsibilities.
- Apply the principles of the code and report against the provisions.

Long-term viability statement

The committee reviewed and concurred with management's view that the long-term viability statement (see page 150) should again be provided for a seven-year period, management's view being that a high-quality assessment can be provided for a seven-year period, and favouring the approach of greater certainty over a shorter period.

The impact of climate change on the financial viability of the group has been reflected in the viability assessment underpinning the long-term viability statement, which the committee reviewed and endorsed prior to approval by the board.

During the year, the committee received an update on the work of the International Sustainability Standards Board (ISSB), with management evolving its approach to the reporting of its business model in line with the ISSB's four pillar approach.

Risk management and internal control

The committee has overseen the steps to implement enhancements and improvements identified by the independent review of the group's fraud risk management framework as reported on in last year's audit committee report. The main improvements being the completion of a formal cross-business fraud risk assessment to supplement the existing business risk assessment process, and the subsequent internal audit review of anti-fraud controls for the principal fraud risks. Furthermore, the implementation of a revised ISA (UK) 240 in order to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area.

During the year, the revised ISA (UK) 315 was implemented by KPMG in order to increase the rigour of the risk identification and assessment process, thereby enabling the introduction of improved mitigating actions to counteract the risk. The revisions to the standard require the audit to include a more detailed consideration of the IT environment. In preparation, the committee received a 'deep dive' session from management on the group's IT control environment.

Audit fees

The revision of the aforementioned standards has contributed to an increase in the audit work undertaken by KPMG and along with additional economic inflationary pressures on KPMG's costs, the committee have approved an increase in the overall fees paid to KPMG for the year ended 31 March 2023 compared to the prior year. These fee increases were mitigated in part, by the provision of parental company guarantees to support an exemption from statutory audit for certain subsidiary companies in accordance with s479C of the Companies Act 2006. While the committee encouraged KPMG to look for efficiencies through innovation to offset the impact of increasing fees, it was cognisant of the need to preserve the auditor's independence and of KPMG's significant progress in recent years in streamlining their processes and making improvements to audit quality. As a consequence, the committee recognised that there was limited scope for further efficiencies at present.

Governance

The evaluation of the committee's performance for 2022/23 was facilitated internally by the company secretary and his team, which provided some useful feedback and points for action (see page 146).

On page 149 the Code principles and provisions applicable to audit, risk and internal control are set out and our responses indexed. In its work, the committee is intent on complying with applicable regulations and best practice.

As chair of the committee, I would welcome any comments you may have on this audit committee report, I intend to be present at the AGM in July 2023, and representatives from KPMG will also be in attendance.

This report was approved by the committee at its meeting held on 16 May 2023.

Doug Webb

Chair of the audit committee



Audit, risk and internal control

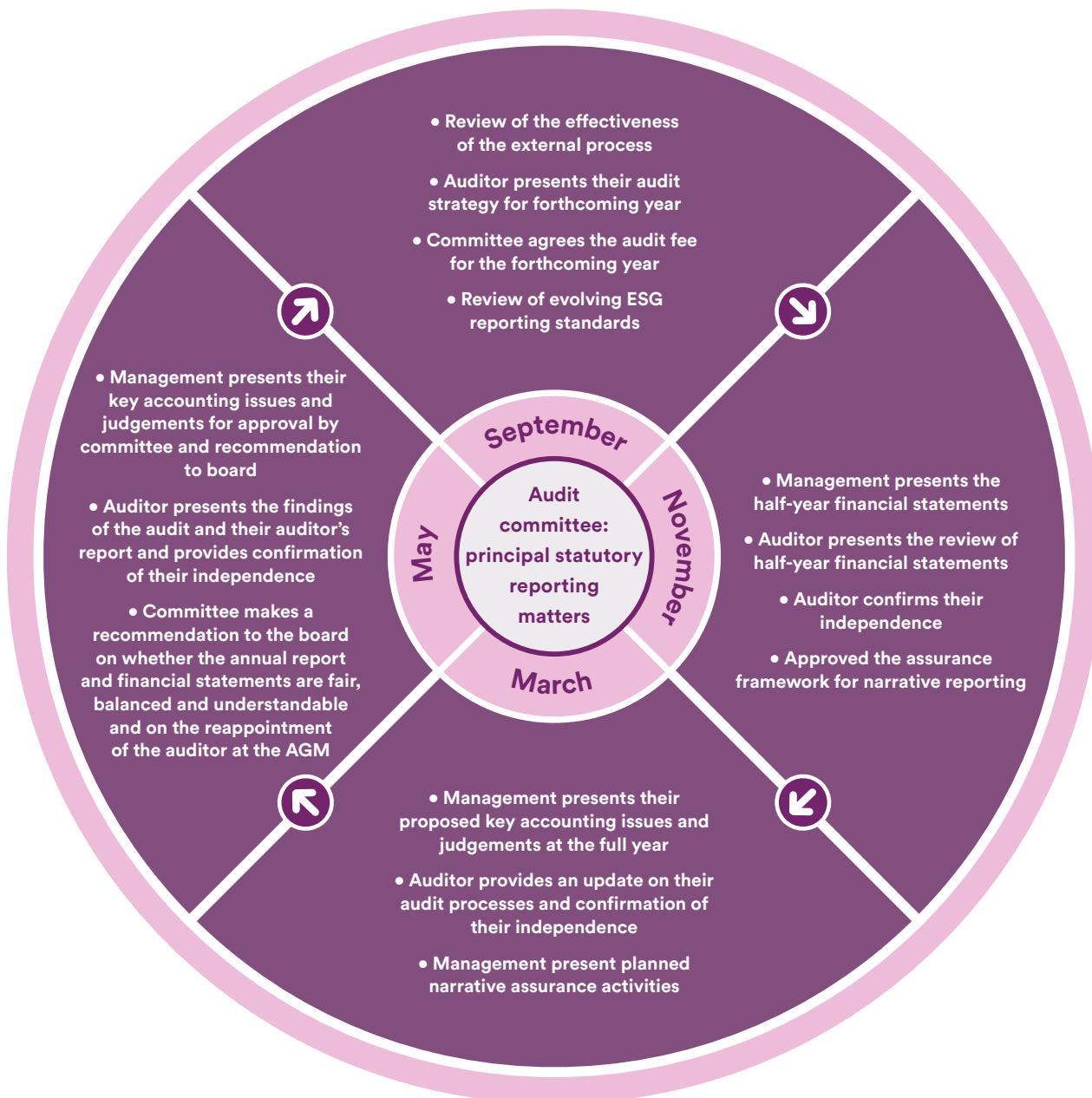
Audit committee continued

Business on the committee's agenda during the year

The committee has an extensive agenda of items of business focusing on the audit, assurance and risk processes within the business, which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team. The committee's role is to ensure that management's disclosures reflect the supporting detail provided to the committee or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The committee reports its findings and makes recommendations to the board accordingly. The committee is supported in this role by using the expertise of the statutory auditor, who, in the course of the audit, considers whether the financial statements have been prepared in accordance with IFRS and

whether adequate accounting records have been kept. In doing so it ensures that high standards of financial governance, in line with the regulatory framework along with market practice for audit committees going forward, are maintained. Furthermore, the company's own internal audit team contributes to the assurance process by reviewing compliance with internal processes. The committee's financial reporting cycle, which starts each year in September, is shown below. There were four meetings of the committee held during the year, the committee intends to continue to hold the two meetings in September and March virtually. Items of business considered by the committee are set out on pages 160 to 161.

Audit committee financial reporting cycle





Audit, risk and internal control

Audit committee continued

Significant issues considered by the committee in relation to the financial statements

Management presents its updated view of the significant issues whereby it has exercised its professional judgement to each meeting of the committee, thereby providing an opportunity for oversight and for the committee to challenge management's views. Additionally, KPMG receive this information in advance of, and are present at, the committee meetings, providing KPMG with the opportunity to contribute to the discussion both with management present, and privately with only the committee members present.

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Revenue recognition and allowance for doubtful receivables (see pages 240, 242, 253 to 254, 280 and 282) – due to the nature of the group's business, the extent to which revenue is recognised and expected credit losses are recognised in relation to doubtful customer debts is an area of considerable judgement and estimation. This has particularly been the case in recent years (including in the current year) due to high levels of economic uncertainty and increases in the cost of living, which is expected to impact on the ability of some customers to pay their bills as they become due.	<ul style="list-style-type: none"> The committee reviewed the group's revenue recognition policy, particularly in light of a higher level of billing of premises registered as void during the year, and challenged whether the criteria for de-recognising revenue relating to amounts billed to customers remains appropriate. Having considered the impact of the de-recognition criteria as applied to the billing of void properties, the committee satisfied itself that no change in the revenue recognition policy is required at the present time, but noted the increased level of challenge in recovering this debt compared with the remainder of the group's customer base. Accordingly, the committee also challenged the adequacy of the group's allowance for expected credit losses in respect of void properties and satisfied itself that, when all relevant factors are taken into consideration, the allowance reported in the financial statements is appropriate. The committee considered the adequacy of the group's provisions for credit notes that may need issuing in respect of amounts incorrectly billed, focusing particularly on non-household customers where legacy data issues since the non-household market opened to competition have resulted in allowances being processed going back a number of years. The committee satisfied itself with the approach adopted by management for providing for future allowances, and noted that the value of these should reduce over time as data for more recent periods should not be subject to the same legacy issues as earlier periods. The committee reviewed the approach taken by management in estimating expected credit losses relating to household debt, taking into account estimates of the impact of cash collection risk associated with void properties (see above) and recognising that there is a great deal of uncertainty associated with the future duration and intensity of cost-of-living challenges experienced by customers. Having considered cash collection rates experienced during the year, together with what historic cash collection rates may suggest about future cash collection prospects under a range of possible scenarios, the committee was satisfied that the approach taken by management to accounting for expected credit losses is reasonable and that the associated allowance as at 31 March 2023 is appropriate.
Capitalisation of fixed assets (see pages 241, 250 to 251, 281 to 282) – fixed assets represents a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.	<ul style="list-style-type: none"> The committee undertook a 'deep dive' with management to better understand, and therefore, be able to challenge, the group's approach to capitalisation and other key accounting judgements in respect of property, plant and equipment. This covered judgements relating to whether spend is considered to be enhancement or maintenance, the commissioning of assets, ensuring the appropriateness of the estimated useful economic lives of assets, capitalisation of support costs, and processes by which abortive costs or asset write-downs are identified. Having undertaken this deep dive, the committee assessed the reasonableness of the group's capitalisation policy and, having also considered the work performed by KPMG in this area, deemed this to be appropriate. The committee also sought to gain a better understanding from management of the effects of climate change on accounting for property, plant and equipment, including key controls in this area, and satisfied itself that the controls were adequate.

Material and/or judgemental areas of the financial statements

Significant issues considered

How these were addressed by the committee

Derivative financial instruments (see pages 241, 265 to 272 and 283) – the group has a significant value of swap instruments, the valuation of which is based upon models that require certain judgements and assumptions to be made. Management perform periodic checks to ensure that the model-derived valuations agree back to third-party valuations and KPMG check a sample against their own valuation models.

Provisions and contingent liabilities (see pages 256, 258 and 284) – the group provides for contractual, legal and environmental claims brought against it based on management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant claims. Judgement is also required in determining when contingent liabilities exist that require disclosure in the financial statements.

Recoverability of United Utilities Group PLC's (parent company) investment in United Utilities PLC (see pages 252 and 282) – the parent company's investment in United Utilities PLC makes up 98 per cent of the company's total assets and is therefore highly material in the context of the parent company's statement of financial position. Management assess the recoverability of this investment periodically to ensure that its carrying value continues to be supported.

- The committee noted that the periodic checks performed by management had been completed at the year-end reporting date, and that KPMG had undertaken their testing and challenged management as to certain inputs in respect of the fair value measurement of cross currency swaps, resulting in the valuation approach used being refined.
- The committee requested that management deliver a 'teach in' session on the group's hedging activity and accounting thereon during the year. This was particularly for the benefit of those who joined the committee in the year but was an open session to which all board members were invited. The committee found this session to be informative and that it provided a good basis for challenging what can be a technically complex area.
- The committee assessed and challenged the appropriateness of the basis on which provisions are recognised, focusing particularly on instances where provisions are recorded for claims where costs above an insurance deductible amount may be covered by the group's insurance policies. The committee challenged management to ensure that the gross value of claims, where certain amounts may be recoverable from insurers, is provided for, and noted that where an estimate of the gross value of the claim could be made it is provided for at this gross amount with a separate receivable recognised for the insurance recovery.
- The committee noted the greater political focus on environmental prosecutions that has emerged during the year, and concurred with management's assessment that, based on current experience, the provisions recorded at the reporting date reflect the best estimate of potential financial outflow in this regard.
- The committee considered the reasonableness of disclosures made in respect of contingent liabilities, challenging management as to whether any provision should be recognised in the financial statements for cases in which contingent liabilities disclosures are made. The committee concluded that in such instances the recognition criteria had not been met and, therefore, that disclosure as contingent liabilities, rather than the recognition of provisions, was the most appropriate approach.
- The committee sought to understand management's approach to assessing recoverability, and concluded that management's assessment that an equity value based on the RCV of the group's regulated business, United Utilities Water Limited (UUW), is a reasonable basis for valuing United Utilities PLC given UUW's importance to the United Utilities PLC group.

Other matters considered

Impact of increases in the cost of living – with continuing economic uncertainty and cost of living challenges resulting from the likes of the war in Ukraine, there remains ongoing uncertainty around how this may impact the group's customer base going forward. As uncertainty around how the economic situation may develop continues, this gives rise to a higher level of judgement and estimation uncertainty in this area.

Accounting for the sale of United Utilities Renewable Energy Limited – (UURE) (see pages 246 and 280) – during the year ended 31 March 2023 the group concluded the process to sell the group's renewable energy business, UURE.

- The committee concurred with management's assessment that the impact of the current cost of living crisis on the group's significant accounting judgements and areas of uncertainty is felt most acutely in relation to revenue recognition and allowances for expected credit losses in relation to doubtful receivables. Considerations in this area are therefore set out more fully above.
- The committee challenged management's view that the criteria for presenting the results of UURE as discontinued operations for the period in which it was consolidated into the group's financial statements were not met, and concurred with management's judgement that UURE did not constitute a separate major operation in the context of the group as a whole.
- The committee also concurred with management's view that, given the nature and materiality of the transaction, it is appropriate that the sale be treated as an adjusting item in arriving at the group's underlying profit measures included within its Alternative Performance Measures.

Audit, risk and internal control

Audit committee continued

Business on the committee's agenda during the year

Actions	Outcomes	Cross reference
Annual and half-year reporting		
Reviewed, discussed and challenged the financial reporting team's reports on the financial statements, management's significant accounting judgements, the policies being applied both at the full and half year and how the statutory audit contributed to the integrity of the year-end financial reporting.	The committee challenged management on a number of its judgements and sought detailed explanations of its interpretation. The committee was satisfied with the explanations provided by management. Recommendations were made to the board, supporting the approval of the financial statements.	See pages 158 to 159
Reviewed and challenged the regulatory reporting process relating to the annual performance report (APR) for UUW, including the assurance provided by the technical auditor, as required to be submitted to Ofwat, and noted the differences between the regulatory and statutory accounts.	The committee met with the technical auditor to provide an opportunity for challenge by the committee whose overview contributes to the assurance process of the regulatory reporting prior to the approval of the APR by the UUW board.	–
Assessed management's presentation of APMs to enable comparability with other companies.	Concurred with management's approach that the APMs as defined were satisfactory enabling comparability with other companies.	See page 118
Reviewed and challenged the proposed audit strategy for the 2022/23 statutory audit, including the level of materiality applied by KPMG, audit reports from KPMG on the financial statements and the areas of particular focus for the 2022/23 audit.	The committee monitored progress made by the statutory audit team against the agreed plan, and challenged the auditor in the resolution of any issues as they arose.	See page 220
Reviewed and challenged the basis of preparation of the financial statements as a going concern as set out in the accounting policies.	Recommendation made to the board to support the going concern statement.	See page 217
Reviewed and challenged the long-term viability statement proposed by management and reasons why a seven-year assessment period was appropriate.	The committee challenged management that the length of the period was appropriate, particularly in light of assessment timeframes used by peer companies, but was satisfied with management's preference to continue to provide a statement with greater certainty over a shorter period of time.	See page 150
Reviewed the results of the committee's assessment of the effectiveness of the 2021/22 audit.	The committee concluded that the audit was effective and a recommendation was made to the board on the reappointment of KPMG as the auditor for the year ending 31 March 2024 at the forthcoming annual general meeting.	See page 162
Reviewed whether the company's position and prospects as presented in the 31 March 2023 integrated annual report and financial statements were considered to be a fair, balanced and understandable assessment of the company's position and prospects.	Recommendation made to the board that the 31 March 2023 integrated annual report and financial statements was a fair, balanced and understandable assessment of the company's position and prospects.	See pages 149 and 162
Reviewed the non-audit services and related fees provided by the auditor for 2022/23 and the policy on non-audit services provided by the auditor for 2023/24.	Approved the non-audit services and related fees provided by KPMG for 2022/23 and concluded that no changes were required to the policy for non-audit services provided by the auditor.	See page 165
Negotiated and agreed the statutory audit fee for the year ended 31 March 2023.	The committee approved the fee for the 2022/23 audit.	See pages 155 and 165
Considered management's approach to adopt an assurance framework to guide the assurance sought in relation to the narrative reporting in the 2022/23 integrated annual report encompassing the TCFD, SECR and other ESG sections.	Implemented the assurance framework to identify particular sections within the integrated annual report that the framework identified as higher risk of misstatement/error and would, therefore, benefit from independent third-party assurance namely the TCFD report, oversight responsibilities of the board and the remuneration committee report.	See page 165

Actions	Outcomes	Cross reference
Risk management and internal control		
Reviewed the effectiveness of the risk management and internal control systems including an overview of the output from the independent third-party review of internal controls around financial reporting.	Recommendation made to the board that the risk management and internal control systems operated effectively.	See pages 166 to 167
Considered changes to internal control weaknesses brought to the attention of the committee by KPMG.	Challenged management to resolve any issues relating to internal controls and risk management systems.	See page 218
A deep-dive session was held on the IT control environment.	Challenged management to review the opportunity for a more automated approach to digital access and process controls.	–
Considered the review by internal audit of the fraud risk management action plan, which came about following the independent third-party review of the fraud risk management framework in 2021/22.	No control weaknesses, gaps or effectiveness issues were identified as a result of the review. The cross-business fraud risk and control assessment will be refreshed annually and incorporated into business-as-usual activity.	See page 166
Monitored fraud reporting.	Reviewed the company's anti-fraud policies and processes and alleged incidents of fraud and the outcome of their investigation.	See page 167
Biannual oversight and monitoring of compliance with the group's anti-bribery policy.	Reviewed compliance with the company's ongoing anti-bribery programme.	See page 167
Approved the strategic internal audit planning approach on the work of the internal audit function from the head of audit and risk.	Monitored the implementation of the 2022/23 internal audit plan. Reviewed findings of specific internal audit and implementation of any resulting actions by management.	See page 166
Considered the issues and findings brought to the committee's attention by the internal audit team.	The committee was satisfied that management had resolved or was in the process of resolving any outstanding issues or concerns in relation to matters scrutinised by the internal audit team.	See page 166
Reviewed the quality and effectiveness of internal audit and the effectiveness of the current co-source arrangements.	The committee reviewed the process of assessment of internal audit and made certain recommendations for enhancement, further to which it was concluded that the internal audit team, supported by the PwC co-source resource, was effective.	See page 166
Reviewed and challenged the strategic internal audit planning approach and internal audit plan for 2023/24.	Approved the internal audit plan for 2023/24.	See page 166
Governance		
Review of the committee's terms of reference.	No changes were made to the committee's terms of reference during the year.	–
Considered and challenged management's formulation of an audit and assurance policy, a resilience statement, and a review of internal controls that impact the group's financial reporting ahead of further guidance being issued by the Financial Reporting Council (FRC).	The committee were satisfied in the progress attained ahead of guidance being published by the FRC and the mandatory introduction for companies to disclose their audit and assurance policy and resilience statement in their annual report. Further to the review of the maturity of the internal control framework over financial reporting undertaken by PwC, a working group was established to implement their recommendations for enhancing financial reporting controls (and supporting IT controls).	See page 165
Reviewed the conclusions of the committee's annual evaluation. The evaluation was internally facilitated by the company secretary. The review explored the effectiveness of: the committee's composition, meetings and time management; committee processes and support; and the areas of work of the committee and priorities for change.	All elements of the self-assessment reviewed indicated the committee was working well. The board considered the results of the review of the committee and concluded that the committee continued to be effective.	See page 146

Audit, risk and internal control

Audit committee continued

How we assessed whether “the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy”

The following section sets out the company’s compliance with part of provision 25. The directors’ responsibility for preparing the annual report and financial statements is set out on page 215.

The board delegates to the committee, in the first instance, the review of the annual report and financial statements with the intention of providing advice to the board on whether, as required by the code, “the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy”. To make this assessment, the committee received copies of the annual report and financial statements to review during the drafting process to ensure that the key messages being followed in the annual report were aligned with the company’s position, performance and strategy being pursued and that the narrative sections of the annual report were consistent with the financial statements. The committee also considered whether the significant issues considered by the committee in relation to the financial statements include the key audit matters identified by the auditor in their report on pages 158 to 159.

Management has again considered and sought to enhance the review processes to provide support to the board in forming its view on whether the accounts and financial statements were fair, balanced and understandable, as it concluded they were (see page 215). In particular, a member of the executive team, not involved in the drafting process, was appropriately briefed to review and challenge the content to ensure that the activities and issues faced by the business were reported in a fair and balanced manner. Following application of the assurance framework (see page 165), third-party ‘limited assurance’ was provided in relation to our reporting against the TCFD recommendations (see the index on page 5) and remuneration committee report (see page 170).

The committee received updates on the calculation of underlying operating profit measures as one of the principal alternative performance measures (APMs) used by management, a full guide to APMs can be found on page 118.

Many of our regulatory performance commitments are used by management as key performance indicators and are monitored by our regulators, who set the methodology against which we report. As part of their role as auditor of UUW’s annual performance, KPMG provides assurance on many of these performance commitments along with Jacobs, the technical auditor of the UUW annual performance report.

KPMG is required (under ISA (UK) 720) to consider whether there are any material inconsistencies between the ‘other information’ and ‘statutory other information’ presented in the annual report (i.e. in the strategic report, the directors’ report and the corporate governance statement), and the financial statements, taking into account the auditor’s knowledge obtained in the audit, or the auditor’s understanding of the legal and regulatory requirements applicable to the ‘other information’ and ‘statutory other information’. The TCFD and Streamlined Energy and Carbon Reporting (SECR) disclosures are deemed to be ‘other information’ as they are included in the company’s strategic report, as they are important to the company. Other assurance of the TCFD and SECR disclosures (see pages 80 and 93 respectively) is undertaken both by third parties and our internal audit team. Our disclosures against the code are reviewed by the internal audit team and reported to the committee.

Additionally, the committee was satisfied that all the key events and issues that had been reported to the board in the executive team’s monthly board reports during the year, both good and bad, had been adequately referenced or reflected within the integrated annual report.

How we assessed the effectiveness of the statutory audit process

The committee, on behalf of the board, is responsible for the relationship with KPMG the group’s statutory auditor, and part of that role is to examine the effectiveness of the statutory audit process. Audit quality is regarded by the committee as the

Audit quality

Additional audit quality processes and interventions

Since 2021 KPMG have employed a number of additional processes as part of its action plan to enhance audit quality. As part of its review of the 2021/22 audit in July 2022, the committee reviewed the effectiveness of these processes and interactions as set out below, concluding they were effective.

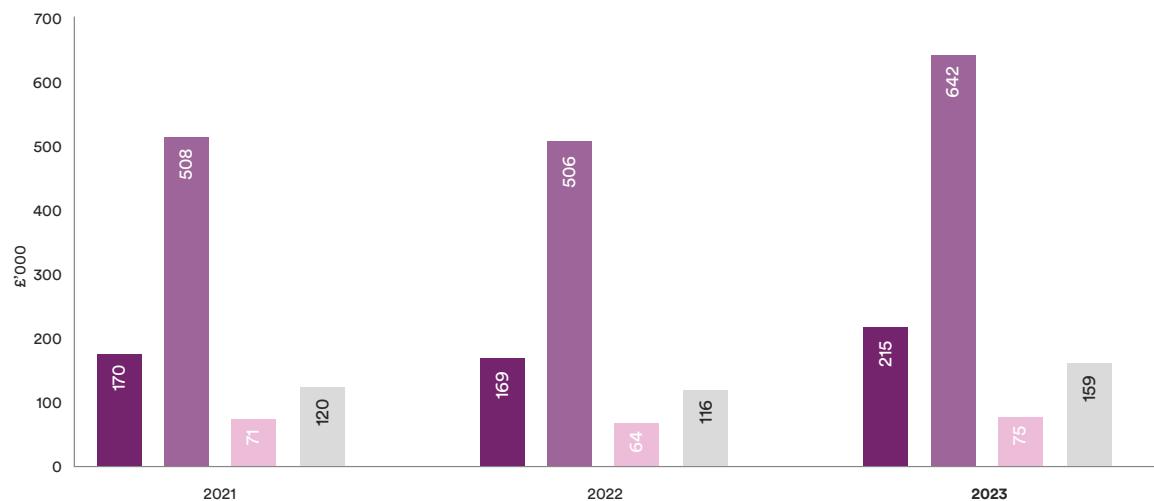
The processes and interventions included:

- providing sight of their interim control findings to the committee early in the audit process and sharing their knowledge and best practice recommendations;
- improving communication and sharing of information and insight between the external and internal audit teams by implementing regular discussion sessions prior to the scheduled committee meetings;
- raising audit points in a more timely manner with the financial reporting team during the audit process by holding regular discussions with the external audit team and financial reporting team;
- enhanced visibility of the key challenges and findings of the second-line of defence review performed by another team independent of the audit team, and of the independent KPMG partner’s review of the audit;
- greater use of technical specialists; and
- providing the details of the independent partner’s review of the audit to the committee as part of the year-end sign off processes.

Key

■ Statutory audit – group and company
 ■ Statutory audit – subsidiaries

■ Regulatory audit services provided by the statutory auditor
 ■ Other non-audit services

Statutory auditor's fees

principal requirement of the annual audit process. KPMG present the strategy and scope of the audit for the forthcoming financial year at the meeting of the committee held in September, highlighting any areas that would be given special consideration (these key audit matters are included in the auditor's report on pages 218 to 231). KPMG reported against their audit scope at subsequent committee meetings, providing an opportunity for the committee to monitor progress and raise questions, and challenge both KPMG and management.

Throughout the year, management presents its up-to-date view of the key accounting issues and its resulting judgements to the committee. In response, KPMG informs the committee whether, in its professional view, the judgements management proposes, or has taken, are appropriate. A number of these issues manifest themselves as the significant issues considered by the committee in relation to the financial statements, which are set on pages 158 to 159 in respect of 2022/23. As required by auditor's professional standards, KPMG exercise their professional scepticism in their audit of these significant issues.

Private meetings are held at committee meetings between the committee and KPMG's representatives without management being present to encourage open and transparent feedback by both parties on any matters they wish to raise, and provide the

committee with an opportunity to obtain greater insight on the extent to which KPMG has challenged management's analysis and presentation of information.

Prior to the board's approval of the year-end financial statements, the committee provides its view to the board on the outcome of the statutory audit, explaining: management's key accounting issues and judgements; the outcome of the auditor's assessment of key audit matters; other areas of audit focus and control deficiencies (if any), and how the statutory audit contributed to the integrity of the financial reporting process. The independent nature and financial expertise of committee members further contributes to the integrity of the process. KPMG updated the committee on its ongoing Audit Quality Transformation Plan (AQTP). KPMG's AQTP includes: a more standardised audit approach; holding companies to account for the quality of the information provided in the audit process; providing more feedback to companies on the findings of their audit and providing additional senior-level support to the KPMG audit teams during the audit; all of which are well embedded in the audit process. In planning for the 2022/23 audit, KPMG provided a report to the committee on the quality interventions that would be utilised. Each year the committee considers the annual review by the FRC's Audit Quality Review Team and challenges KPMG to ensure continuous improvement.

Audit, risk and internal control

Audit committee continued

 Read more about our **annual performance report** on page 80

 Read more about our **treasury committee** on page 169

On completion of the annual audit process the views of those involved in the audit on how well KPMG performed the audit are sought. All members of the committee, key members of the senior management team and those who regularly provide input into the audit committee or have regular contact with the auditor, complete a feedback questionnaire, thereby ensuring a wide range of views were taken into account. The questionnaire reviewing the 2022 audit process was issued in July 2022.

Views of the respondents were sought in terms of:

- the robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity;
- whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit;
- the quality of the delivery of the audit and whether planned quality improvements had been delivered and whether the committee had insight into the auditor's internal quality procedures;
- the expertise of the audit team conducting the audit and their understanding of the company's business risks to assess if there was an impact on the audit;
- whether the auditor made appropriate use of the work of the internal audit team;
- that the degree of professional scepticism applied by the auditor was appropriate;
- the appropriateness of the communication between the committee and the auditor in terms of technical issues;
- the quality of the service provided by the auditor;
- their views on the quality of the interaction between the audit engagement partner, the audit senior manager and the company;

- whether the audit process had been kept on schedule; and
- whether the statutory audit contributed to the integrity of the group's financial reporting.

The feedback was collated and presented to the committee's meeting in September 2022. The committee noted KPMG's quality interventions as part of its AQTP to improve audit quality and the enhancements now embedded in the company's audit (see page 162). The committee concluded that the statutory audit process and services provided by KPMG were satisfactory and effective, with additional measures for further enhancement encouraged.

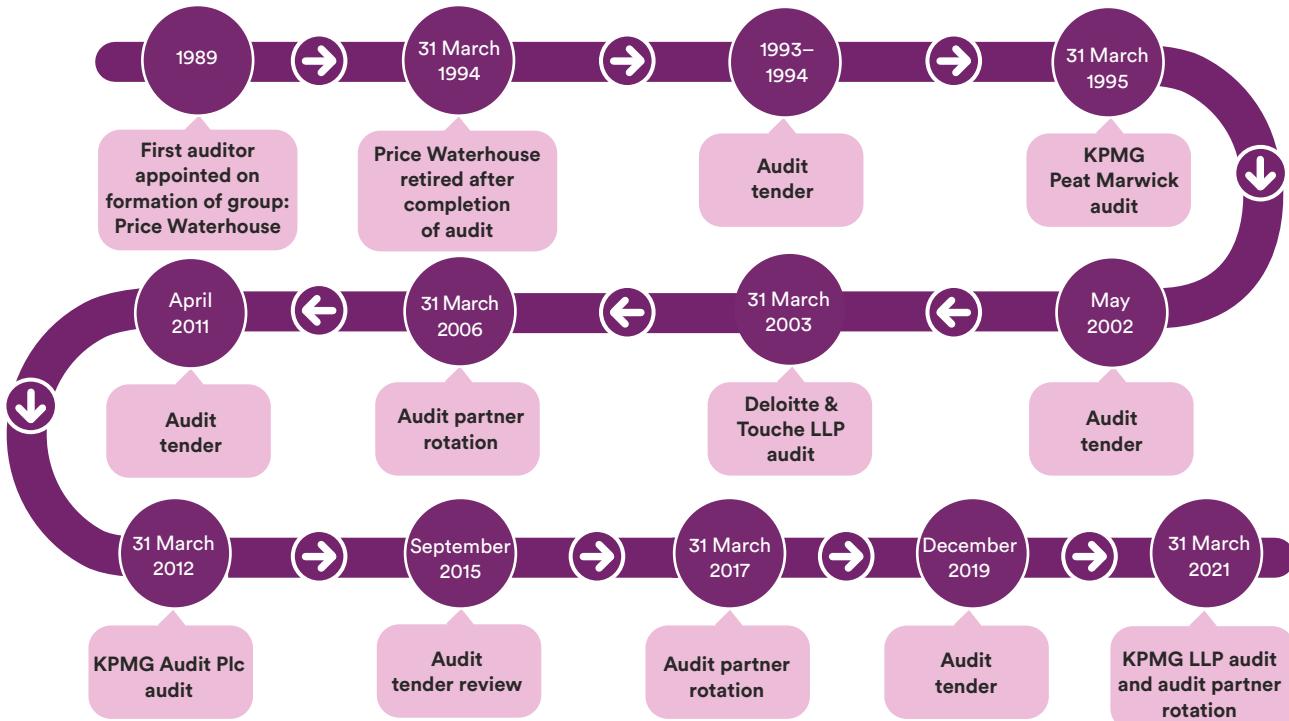
How we assessed the independence of the statutory auditor

The following section sets out the company's compliance with part of provision 26.

There are two aspects to auditor independence that the committee monitors to ensure that the auditor remains independent of the company.

First, in assessing the independence of the auditor from the company, the committee takes into account the information and assurances provided by the auditor confirming that all its partners and staff involved with the audit are independent of any links to United Utilities. KPMG confirmed that all its partners and staff complied with their ethics and independence policies and procedures, which are fully consistent with the FRC's Ethical Standard, including that none of its employees working on our audit hold any shares in United Utilities Group PLC. KPMG is required to provide written disclosure at the planning stage of the audit in the form of an independence confirmation letter. Their letter discloses matters relating to their independence and objectivity, including any

Rotation of external auditor to the group



relationships that may reasonably be thought to have an impact on its independence and the integrity and objectivity of the audit engagement partner and the audit staff. The audit engagement partner must change every five years and other senior audit staff rotate at regular intervals.

Secondly, the committee develops and recommends to the board the company's policy on non-audit services and associated fees that are paid to KPMG. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (i.e. United Utilities Group PLC) that are closely linked to the audit itself or that are required by law or regulation, as such services could impede their independence.

Permitted non-audit services fees paid to the statutory auditor are subject to a fee cap of no more than 70 per cent of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period in which the cap applies - in 2022/23 were 26.1 per cent, as set out in the table below. Permitted services (which remain subject to the 70 per cent cap, apart from the regulatory audit) can be approved by the CFO subject to a cap of £10,000 applied for individual items. Individual items in excess of £10,000 require the approval of the committee. The 70 per cent non-audit services fee cap has been applied to the group for the year ended 31 March 2023.

Financial year	Audit fee
2019/20	£474,000
2020/21 ⁽¹⁾	£678,000
2021/22	£675,000
Average	£609,000
2022/23 proposed non-audit fees	£159,000
2022/23 proposed non-audit fees as % of average audit fees (3 year rolling average)	26.1%

⁽¹⁾ Included £100,000 relating to audit of COVID-19 judgements in 2019/20 that were not captured within the reported audit fee for that year due to the additional fee not having been agreed at the point the financial statements were signed off.

Auditor provided permitted services include the non-audit fees paid to the statutory auditor for: the interim review; the regulatory audit; agreed-upon procedures for regulatory reporting; limited assurance work relating to the group's sustainable financing framework; the Euro Medium Term Note Programme; and Law Debenture Trust compliance work. Fees for non-audit services paid to KPMG include the cost of the UUW regulatory assurance work they undertake, which is separate to the regulatory audit. While this work could be performed by a different firm, the information is in fact more granular breakdowns of data that form part of the statutory audit, and by KPMG undertaking the work it reduces duplication and saves considerable cost.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee was satisfied that KPMG continues to be independent, and free from any conflicting interest with the group.

Statutory auditor reappointment for the year ending 31 March 2024

The following section sets out the company's compliance with part of provision 26.

The 2022/23 year-end audit has been KPMG's twelfth consecutive year in office as auditor; they were reappointed after the committee conducted a formal tender process in December 2019 and as reported by the committee in the 2020 annual report. Prior to this, a formal tender was last undertaken in 2011, and resulted in the appointment of KPMG, who thereafter presented their report to shareholders for the year ended 31 March 2012.

The diagram opposite shows the historical tendering and rotation of the role of statutory auditor. The company, as a public interest entity, is required to conduct a competitive tender process every ten years, and rotate auditors after 20 years at most, as a result, KPMG can remain as auditor until the completion of the 31 March 2031 audit. The audit engagement partner rotates at least every five years, the 2022/23 audit has been the third year for Ian Griffiths in the role. On the next partner rotation, the committee intends to assess the need and timing of the next audit tender.

United Utilities has complied fully with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 March 2023.

At its meeting on 16 May 2023, the committee recommended to the board that KPMG be proposed for reappointment for the year ending 31 March 2024 at the forthcoming AGM in July 2023. As a matter of good practice, the committee continually keeps the performance of the auditor under review and there are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence, and no auditor liability agreement has been entered into.

Audit and assurance policy

As reported last year, management has been formulating an audit and assurance policy as a means of tailoring proportionate assurance relating to the narrative disclosures in the integrated annual report. The committee has had several opportunities to challenge and contribute to the policy during the drafting process. As part of the policy, an assurance framework has been devised, providing a standardised approach to identify the risk associated with the disclosures and the appropriate level of assurance. In summary, our assurance framework sets out the well established 'three lines of assurance' approach:

- First line of assurance – management establish the day-to-day business operational and control processes, and is accountable for effective risk management and control activity, and provides management assurance;
- Second line of assurance – second line functions provide policy, direction and frameworks as well monitoring of the first line activities to assure compliance; and
- Third line of assurance – our internal audit team and specialist external auditors review the effectiveness of risk and control activities as well as providing assurance in respect of company disclosures.

As the level of risk increases, the governance and assurance applied to the reporting of data also increases, with material risks escalated to the board. Thereby ensuring that the management, control and reporting of any risks, and resulting actions identified through the process, are proportionate to the level of risk. The approach is broadly consistent with that used for the regulatory reporting of UUW, and has been implemented in identifying the proposed levels of assurance for the integrated annual report for 31 March 2023.

Going concern and long-term viability

The committee challenged and scrutinised management's detailed assessment of the group's long-term viability and its ability to continue as a going concern, taking into account the risks facing the business, and its ability to withstand a number of severe but reasonable scenarios. The committee approved the long-term viability statement set out on page 150. Management apprised the committee of its preparedness to provide a resilience statement in future years, which would encompass the going concern and long-term viability statement should this be a recommendation of the BEIS Consultation on 'Restoring trust in audit and corporate governance'.

Audit, risk and internal control

Audit committee continued

 Read more about **financial oversight responsibilities of the board** on pages 149 to 152

 Read more about **our risk and resilience framework** on pages 60 to 61

Internal controls and risk management systems

The main features of the group's internal controls and risk management systems are summarised below:

Internal audit function

The internal audit function is a key element of the group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the audit committee, the board and to senior management. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of risk management systems, business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by colleagues in the areas under review. Once any recommendations are agreed with management, the internal audit function monitors completion of associated actions and reports to the committee on progress made at every meeting.

A five-year strategic audit planning approach is applied. This facilitates an efficient deployment of internal audit resource in providing assurance coverage over time across the whole business, as well as greater variation in the nature, depth and breadth of audit activities. This strategic approach supports the annual audit plan, which is then endorsed by management, and which the committee reviews, challenges and approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the development of the plan considers risk assessments, issues raised by management, areas of business and regulatory change, prior audit findings and the cyclical review programme. The purpose, scope and authority of internal audit is defined within its charter, which is approved annually by the audit committee.

As set out in the charter, internal audit perform their work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors, and with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

Internal audit, led by the head of audit and risk, covers the group's principal activities and reports to the committee and functionally to the CFO, both of whom review the head of audit's annual personal objectives. The head of audit and risk attends all scheduled meetings of the audit committee, and has the opportunity to raise any matters with the members of the committee at these meetings without the presence of management. He is also in regular contact with the chair of the committee outside of committee meetings.

The in-house team is expanded as and when required with additional resource and skills co-sourced from external providers ensuring that the internal audit function has sufficient resources and expertise to deliver the annual audit plan. The committee keeps the relationship with co-source providers under review to ensure the independence of the internal audit function is maintained and there is a documented process to manage possible conflicts of interest with the co-sourced resource. Ensuring that any co-source resource remains independent in the course of its work is crucial to the integrity of its work. Following a competitive tender process, PwC was last re-appointed as co-source resource provider during 2020/21.

The internal audit function liaises with the statutory auditor, discussing relevant aspects of their respective activities, which ultimately supports the assurance provided to the audit committee and board.

Assessing the effectiveness of the internal audit function

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs, including the ongoing audit reports received, the audit committee's interaction with the head of audit and risk, a biannual review of the department's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each committee meeting as well as any other periodic quality reporting requested.

An annual stakeholder survey in the form of a feedback questionnaire is circulated to committee members, senior management and other managers who have regular contact with the internal audit function, including representatives from the auditor KPMG and the co-source audit provider PwC. The responses were anonymous to encourage open and honest feedback, and were consistently favourable, as were previous surveys.

Periodically, the quality and effectiveness of the internal audit function is also assessed externally, with the most recent review being undertaken in early 2019.

Taking all these elements into account, the committee concluded that the internal audit function was an effective provider of assurance over the organisation's risks and controls and appropriate resources were available as required.

Review of the fraud risk management structure

In 2021/22, the committee asked management to commission an independent review of the group's fraud risk management framework to assess its maturity and identify any enhancements required given the evolving nature of business processes and the working environment. An action plan to strengthen the approach to fraud risk assessment was implemented, overseen by the security steering group, with the final report presented to the committee in March 2022. During the year, internal audit have reviewed the design effectiveness of controls for the most significant fraud risks in each business area – no additional control weaknesses, gaps or effectiveness issues were identified as a result of the review. The cross-business fraud risk and control assessment will be refreshed annually and incorporated into business-as-usual activity.

Risk management systems

The group designs its risk management activities to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The committee receives updates and reports from the head of audit and risk on key activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. A diagram and explanation of the risk management governance and reporting process can be found on page 60. The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

Supplementing the more detailed ongoing risk management activities within each business area, the biannual business risk assessment process seeks to identify how well risk management is embedded across the different teams in the business. The business risk assessment process involves a high-level review of the effectiveness of the controls that the business has in place to mitigate risks relating to activities in each business area, while identifying new and emerging risks and generally facilitating improvements in the way risks are managed.

The outcome of the business risk assessment process is communicated to the executive team and the board. This then forms the basis of the determination of the most significant risks that the company faces, which are then subject to review and challenge by the board. The group utilises risk management software in order to maintain an up-to-date view of the assessment and management of risk. The maturity of the risk management framework and its application across the business is assessed on an annual basis against a defined maturity model. This assessment provides an objective appraisal of the degree of maturity in how the risk management system is being applied against the key elements of ISO 31000:2018 Risk Management Standard. The results of the maturity assessment are reported to the GARB, along with a road-map of activity to achieve a target level of maturity.

An external assessment of the risk management framework last took place in 2017/18.

Internal controls

The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our business-as-usual activities and are documented in the company's internal control manual, which covers financial, operational and compliance controls and processes. During the year, work has been undertaken by management to better evidence the operation of existing internal controls. Internal control systems over financial reporting are the responsibility of the CFO, with the support of the GARB, the financial control team and the internal audit team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work, which the committee approves

each year as well as aspects being tested by other internal assurance providers. Compliance with the internal control system is monitored annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited on a sample basis by the internal audit team and reported to the committee.

In 2021/22 an independent review of the maturity of the group's internal control framework over financial reporting was conducted in light of the BEIS consultation, and the expected evolution of the UK internal control requirements, in general terms but also more specifically in relation to controls over financial reporting. The findings of the independent review were that: there was a high level of coverage of the financial statement line items in both the consolidated income statement and the balance sheet; risk and control matrices were in operation; and the fundamental building blocks underpinning an internal control framework over financial reporting were in place. A number of enhancements were recommended in relation to IT controls supporting the financial reporting controls. A working group was established to implement these recommendations, with good progress being made against 'no regrets' actions.

Anti-fraud and anti-bribery

The audit committee is responsible for reviewing the group's procedures for detecting fraud, and the systems and controls for preventing other inappropriate behaviour. In the first instance of an incident being reported, a summary of the allegations is passed to the fraud and whistleblowing committee (consisting of the company secretary, the people director, the strategy, policy and regulation director, the commercial, engineering and capital delivery director, the head of people services and the head of internal audit and risk) to decide on the appropriate course of action and investigation and by whom.

During the year, the audit committee was kept fully apprised in regular updates on the progress and findings of investigations of cases of alleged fraud and any remedial actions taken.

In line with the group's anti-fraud culture and zero-tolerance attitude towards fraud, a cross-business fraud risk assessment is carried out through the security steering group to identify and understand potential threats, and optimise the group's response and mitigation and ensure consistency across the business.

The company has an anti-bribery policy to help prevent bribery being committed on its behalf, which all colleagues must follow, and processes in place to monitor compliance with the policy. Colleagues in certain roles are required to complete anti-bribery training materials. As part of the anti-bribery programme, colleagues must comply with the group's hospitality policy. The hospitality policy permits colleagues to accept proportionate and reasonable hospitality for legitimate business purposes only and all hospitality (and gifts) offered and accepted has to be logged, and approved when accepted. Colleagues and representatives of the group's suppliers must comply with the group's responsible sourcing principles and United Supply Chain approach. The group will not tolerate corruption, bribery and anti-competitive actions. Suppliers are expected to comply with applicable laws and regulations, and in particular never to offer or accept any undue payment or other consideration, directly or indirectly, for the purposes of inducing any person or entity to act contrary to their prescribed duties.

As part of the internal control self-assessment checklist (part of the group's internal control processes), senior managers in consultation with their teams are required to confirm, among other things, that they have complied with the group's anti-bribery and hospitality policies. The anti-bribery programme is monitored and reviewed biannually by the committee.



Treasury committee



Doug Webb
Chair of the treasury committee

Quick facts

- The committee meets three times a year.
- The committee operates under terms of reference and delegated authorities approved by the board.
- The company secretary attends all meetings of the committee.
- The treasurer is a member of the committee.
- The members of the committee undertook a self evaluation in February 2022 facilitated internally by the company secretary. The review of the responses indicated that the committee was effective and its members had the appropriate skills and experience to fulfil the committee's responsibilities.

Main responsibilities

- Review of the group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; currency and electricity hedging); financial counterparty credit risk; credit ratings; and capital structure.
- Execution of the financing plan and evaluation of funding opportunities.
- Liquidity management and review of forecasts.
- Execution of hedging transactions and programmes in relation to the management of market risks in accordance with treasury policy parameters.
- Developments in relation to the credit ratings agencies.
- Credit investor relations.
- Banking relationships.
- Treasury delegated authorities, internal controls and governance.
- Reporting to the board on matters relating to the group's treasury activities, including board approval of the annual treasury update and associated financing plan and board delegated authorities.

Quick links

 Terms of reference:
unitedutilities.com/corporate-governance

Dear shareholder

During the year, with the board's delegated authority, the committee oversaw the successful execution of the group's funding programme. Approximately £888 million of new term-funding was raised, including the group's second sustainable public bond issue, a £300 million 15.5-year maturity issued in April 2023. The committee has continued to monitor financial market conditions closely as central banks continued tightening monetary policy in response to high inflation, amidst heightened geopolitical tensions, and more volatile markets.

The continuation of our funding programme has positioned the group well, with projected AMP7 financing requirements now fully covered. The committee also completed a 'deep dive' review of the group's electricity hedging policy.

The committee also oversaw the group developing replacement fallback provisions (applicable upon cessation of or fundamental changes to the UK Retail Prices Index (RPI)), in response to proposed changes to RPI that are expected to be implemented by the UK Statistics Authority in 2030. Those changes to RPI are intended to more closely align RPI with the calculation of the Consumer Prices Index including owner-occupier housing costs (CPIH). Under the fallback provisions contained in the group's existing RPI-linked notes, upon such a change to the index being made, an Expert would be appointed to determine what adjustments (if any) are necessary to the terms and conditions of the notes, with the risk that the Expert determination process could lead to an early redemption of the RPI-linked notes at their indexed par value in certain circumstances. The new fallback provisions, which has been adopted in the group's London listed multi-issuer £10 billion Euro Medium Term Note Programme (EMTN Programme), references a relevant reference gilt, thereby reducing the risk of the cessation of or a fundamental change to RPI resulting in redemption of any future RPI-linked notes at their indexed par value. The group is in the process of engaging with existing RPI-linked noteholders to discuss the new fallback and potentially amending the terms and conditions of certain notes to adopt the new fallback.

The group has access to debt capital markets via its EMTN Programme or by putting bespoke documentation in place. The EMTN Programme, in conjunction with our sustainable finance framework launched in November 2020, is expected to continue to be the primary vehicle for the group accessing funding in the debt capital markets. In July 2022, the group published its second sustainable finance framework allocations and impact report. Details of the group's engagement with banks and credit investors can be found on page 138.

Doug Webb
Chair of the treasury committee

Treasury committee members:



Doug Webb
Chair of the
treasury
committee



Phil Aspin
CFO



Brendan Murphy
Treasurer

Remuneration



Kath Cates
Chair of the remuneration committee

Quick facts

- The code requires that “the board should establish a remuneration committee of at least three independent non-executive directors”.
- By invitation of the committee, meetings are attended by the Chair, the CEO, the company secretary, the people director, the head of reward and the external adviser to the committee.
- Our current remuneration policy was approved by shareholders at the 2022 AGM. The remuneration report sets out how the remuneration policy was applied in 2022/23 and how we intend to apply it in 2023/24.
- Certain sections of the remuneration report are audited. The unaudited sections of the remuneration report, including the annual statement from the remuneration committee chair have been subject to external assurance by the remuneration committee’s independent adviser, Ellason LLP. The engagement was performed as a limited assurance engagement in accordance with the requirements of the International Standard on Assurance Engagements (ISAE) 3000 revised. Ellason’s full assurance statement is available at unitedutilities.com/corporate/responsibility/our-approach/esg-performance

Quick links



Terms of reference:
unitedutilities.com/corporate-governance

Annual statement from the remuneration committee chair

Our executive pay arrangements are aligned to our purpose, values and strategy, incentivising delivery for customers and the environment, and the creation of long-term value.

Dear shareholder

Many aspects of company performance during the year have been strong, as detailed in the strategic report. We are a sector leader at minimising pollution, achieved our best ever performance against our leakage performance commitment despite difficult weather conditions over the winter, supported vulnerable customers during the cost of living crisis, and delivered all of this year’s Better Rivers programme milestones.

We recognise however, that the water sector has been subject to significant scrutiny during the year. As a committee we understand this, and we share the concerns of our customers and wider society in relation to environmental performance in particular. On the topic of the use of storm overflows specifically, while the company has materially reduced the number of storm overflow activations since 2020, it is clear there is a lot more to do and we have an ambitious plan to improve performance in this area.

The committee has a robust track record of making sure that executive pay outcomes are aligned with the interests of all our stakeholders. The majority of our performance-related pay is linked to customer-related objectives, with 75 per cent of the annual bonus and 50 per cent of our Long Term Plan (LTP) being based on stretching targets related to our delivery for customers, including environmental commitments and obligations. The company’s strong performance in key areas meant that many of these environmental targets were achieved. However, the executive directors informed the committee of their intention to waive their eligibility for environmental elements of their performance-related pay outcomes. This was in recognition of their personal commitment to a reset across the sector, and the board supported their decision.

Remuneration committee members:



Kath Cates
Chair of the remuneration committee



Alison Goligher



Doug Webb

This affected the Better Rivers component of the annual bonus and five of the measures in the customer basket component of the Long Term Plan, reducing their performance-related pay outcomes by around 25 per cent. Furthermore, the performance-related pay outcomes that the executive directors will receive in respect of this year will not be paid for by customers. Going forward, we are committed to making sure that at least 30 per cent of performance-related pay outcomes are related to environmental performance, including reducing storm overflow activations.

Delivering for customers and other stakeholders

Helping our customers cope with cost of living challenges was a priority during the year. We have protected customers in vulnerable circumstances through our comprehensive suite of support schemes, and hosted collaborative summits on affordability and vulnerability to share best practice ideas and work together to improve things for customers in the North West. Recognising the increased cost of living affected our colleagues too, we immediately implemented the latest Living Wage increase for eligible colleagues in September 2022 (around eight months sooner than our Living Wage accreditation required) and helped all colleagues by raising awareness of the full extent of their reward package.

Last year, we announced that we would invest an additional £250 million to deliver environmental improvements, principally in our Better Rivers programme. This investment has already helped us to

deliver a reduction in reported activations of 39 per cent since 2020, together with a 41 per cent reduction in both the average recorded frequency and duration. We are on track with our commitment to have 100 per cent of storm overflows monitored by the end of the year, with 97 per cent installed by the end of April.

Extreme weather events during the year tested the resilience of our network and operating capability. Whilst our preparation and planning meant we did not have to place any restrictions on water use for our customers, the increased level of ground movement following the long, dry summer and winter freeze-thaw resulted in a number of burst pipes. Our dedicated teams worked round the clock to fix the damage and minimise disruptions for customers, but the events impacted on our ODI performance (supply interruptions) and underlying operating profit because of additional costs related to emergency network repairs, customer compensation and bottled water. Unsurprisingly, this also impacted on the level of written complaints we received during the year.

In many other areas however, we have provided great outcomes for customers. Our average leakage over the last three years is at its lowest ever level, and we have achieved our best ever performance on water quality, with a 26 per cent reduction in taste, smell and appearance contacts from customers. Examples like these have been reflected in further improvement in our C-MeX performance, Ofwat's measure of customer satisfaction. We were ranked fourth of the water and wastewater companies, and fifth overall in the sector.

 Read about how **our remuneration approach** complies with the UK Corporate Governance Code on pages 174 to 175

 Read our **at a glance summary: executive directors' remuneration** on pages 176 to 179

 Read our **annual report on remuneration** on pages 180 to 194

 Read our **directors' remuneration policy** on pages 195 to 201

Main responsibilities of the committee

These include:

- Determining and recommending to the board the policy for executive director remuneration, having reviewed and taken into account workforce remuneration and related policies and the alignment of incentives and reward with our purpose, values and culture;
- Setting the individual employment and remuneration terms for executive directors and other senior executives, including: recruitment and severance terms, bonus plans and targets, and the achievement of performance against targets, including consideration and use of discretion as appropriate;
- Approving the general employment and remuneration terms for selected senior colleagues;
- Setting the remuneration of the Chair of the company;
- Proposing all new long-term incentive schemes for approval of the board, and for recommendation by the board to shareholders; and
- Assisting the board in reporting to shareholders and undertaking appropriate discussions as necessary with institutional shareholders on aspects of executive remuneration.

The committee's terms of reference were last reviewed in November 2022 and are available on our website at corporate.unitedutilities.com/corporate-governance

The framework within which we reward our executive directors is subject to approval by our shareholders. Our Directors' Remuneration Policy was approved by shareholders last July receiving over 99 per cent of votes in favour of its adoption. Our Policy remains strongly-aligned with our business plan for 2020–25 and we are not proposing any changes to it this year. An abridged version is included at the end of this report for ease of reference. Our Annual Report on Remuneration, set out on pages 180 to 194, explains how the committee has applied the Policy during the year and the rationale for the decisions it has taken. The Annual Report on Remuneration will be subject to an advisory vote by shareholders at the AGM in July 2023.

Annual statement from the remuneration committee chair continued

Remuneration during 2022/23

Fixed pay

Given his planned retirement in 2023, no salary increase was awarded to Steve Mogford during the year. Louise Beardmore's salary on appointment as CEO designate in May 2022 was set at £425,000 and was unchanged throughout the remainder of the financial year.

Having considered his strong individual performance, the committee approved a 4.75 per cent salary increase for Phil Aspin, CFO, which took effect from 1 September 2022. This was in line with the average increase across the wider workforce in 2022.

Steve Mogford's contractual pension supplement of 22 per cent of salary reduced to 12 per cent of salary with effect from 1 January 2023, meaning that the pension arrangements for all executive directors were fully aligned with the company's approach for other colleagues, and will continue to be going forward.

2022/23 annual bonus

The measures and targets for the annual bonus were agreed by the committee at the beginning of the financial year and as noted in last year's report, the committee chose to introduce a number of new measures to further demonstrate the company's intention to incentivise stretching performance delivery for customers, including environmental commitments and obligations. A consistent bonus scorecard continued to apply throughout the company, to ensure a shared focus on the business plan at all levels.

As outlined earlier, the executive directors waived the element of their bonus that related to our Better Rivers commitments, despite good progress in the year with all of the required milestones being achieved.

The committee also undertook an assessment to determine whether the formulaic outcome of the bonus scorecard was aligned with overall performance and the experience of stakeholders, including customers and the environment. The committee was satisfied that the measures and targets set were robust and stretching and that the overall payout appropriately reflected the achievements of the company. Accordingly, and noting the effect of the voluntary waivers, the committee has not applied any discretion in respect of annual bonus outcomes for 2022/23.

See page 181 for further details.

2020 Long Term Plan (LTP)

LTP awards granted in November 2020 were based 50 per cent on a customer basket of measures and 50 per cent on return on regulated equity (RoRE). The customer basket of measures comprised ten metrics selected to reflect customer priorities, demonstrate our focus on customer delivery and recognise stakeholder expectations with regard to ESG matters.

Performance against many of the LTP measures has also been strong, as shown on pages 182 to 183. As a result of the executive directors' decision to waive

the environmental elements of the LTP, the estimated overall vesting is around 69 per cent. The final outcome for some of the measures in the customer basket will not be known until all relevant information is available, expected in summer 2023, and we will provide an update in next year's report.

The committee is not currently minded to exercise any discretion in respect of the vesting of these awards (again noting the impact of the executive directors' waiving the environmental elements), believing that the overall outcome fairly reflects the underlying performance of the company and the experience of stakeholders over the period.

The committee has considered whether any adjustments or use of discretion might be warranted on vesting to reflect the possibility of windfall gains on share price movements over the period. Factors which the committee considered include:

- the share price at grant compared to that used for previous award cycles and what the price would have been had the grant been made on the normal timetable (they were delayed to mitigate the potential impact of the COVID-19 pandemic on target-setting)
- TSR performance over the period since grant relative to historic growth rate
- the value of the award at vesting relative to previous award cycles.

The committee is currently satisfied that the growth in share price since grant is within the normal bounds and is not indicative of a windfall gain, and therefore no adjustment is warranted.

Steve Mogford's and Phil Aspin's awards will vest after the completion of a holding period taking the overall vesting period to five years from the grant date.

Louise Beardmore was granted her award prior to her appointment as an executive director, so her award will be treated according to its original terms with no holding period applying, and she will be required to hold the shares vesting (net of tax) as she continues to build her shareholding.

Chief Executive Officer succession

Steve Mogford was paid his contractual salary and benefits until he retired on 31 March 2023, and will receive the bonus he is due in respect of 2022/23 performance in June 2023. As he will no longer be employed when the bonus is paid, in line with the policy, the normal deferred element will be in the form of a deferred cash award (rather than shares), which will vest after three years.

The committee approved that, as Steve was retiring, it was appropriate for good leaver status to be applied in respect of his LTP awards. His 2018 and 2019 LTP awards will vest at the end of their respective holding periods. Once the outcome of his 2020 LTP award is finalised, it will move into a holding period until the stated vesting date, five years from grant. His 2021 and 2022 LTP awards remain subject to performance, will be pro-rated for time served in the performance periods, and will vest at the end of the applicable holding periods. In the two year period following his departure the committee will consider whether good leaver status remains appropriate before each LTP award vests.

His three DBP awards will remain unvested until their original vesting dates. Withholding and recovery provisions applicable to the incentive schemes continue to apply.

Steve is required to maintain an interest in company shares of 200 per cent of salary for two years after ceasing employment.

The committee approved that, on her appointment as CEO, Louise Beardmore's salary would be set at £690,000, with no other changes to her remuneration arrangements. While relevant external benchmarks were taken into account in setting her salary at this level, which was lower than that received by Steve Mogford, the committee reaffirmed its intent to reposition the company's executive remuneration packages (as had also been the case when Phil Aspin was appointed as CFO on a lower base salary than his predecessor).

Engagement with Ofwat

In December 2022, David Black (Ofwat's Chief Executive) sent a letter concerning performance-related executive pay to the remuneration committee chairs of all regulated water and wastewater companies (a copy of which is available on Ofwat's website).

The letter focused on understanding how committees would take into account overall performance for customers and the environment when making decisions around performance-related pay. As set out above, we are committed to making sure that executive pay outcomes are aligned with the interests of our stakeholders, including customers and the environment. We achieve this primarily by having the majority of our performance-related pay directly linked to customer and environmental objectives, and as a listed company and compliant with the UK Corporate Governance Code, we also have additional mechanisms in place to help promote stakeholder alignment and maintain a strong pay for performance culture. This includes: the ability of the committee to override formulaic outcomes to ensure that performance-related pay is aligned with the underlying performance of the business; the use of mandatory annual bonus deferral and LTP holding period; robust and enforceable recovery provisions for performance-related pay; and significant shareholding requirements for executive directors to encourage a long-term focus.

Looking ahead

Executive director salaries will be reviewed during the year with any increases taking effect from 1 September 2023. No changes are expected to pension provisions or benefits in the year.

For 2023/24, the maximum bonus opportunity will remain at 130 per cent of base salary for both executive directors, and they will each receive a 2023 LTP award of 130 per cent of salary. At least 30 per cent of the performance-related pay schemes set this year will be based on stretching performance against environmental measures.

Recognising Ofwat's expectation that initial performance-related pay policies over the 2025–30 period should be aligned with the final methodology for PR24, the committee is minded to accelerate its next review of the remuneration policy and to submit this for shareholder approval at the 2024 AGM.

This timing will ensure that we have an updated policy which can take effect at the start of the new price control period and also recognises the imminent review of the UK Corporate Governance Code, with changes expected to come into effect in 2025. As with previous policy reviews, the committee will look to consult with its largest shareholders to seek their views on its proposals, and additionally welcomes any feedback from other investors or stakeholders.

I hope that you find this report a clear account of the committee's decisions for the year and would be happy to answer any questions you may have at the upcoming AGM.

This report has been approved by the board and is signed on its behalf by:

Kath Cates

Chair of the remuneration committee

Principle P:

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy and aligned with the interests of stakeholders.

We describe how our remuneration approach aligns with our business strategy on pages 176 to 177.

Principle Q:

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

This is detailed in the committee's terms of reference, which are available on the company website. The committee consults with shareholders when changes to policy are being considered.

Principle R:

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The shareholder-approved directors' remuneration policy outlines the ways in which the committee may exercise discretion. Details of how the committee has taken into account the wider context for pay and the rationale for the use of any discretion are set out in the introductory statement from the chair of the committee.

Compliance with the UK Corporate Governance Code

Code principle – remuneration

The following section summarises how our shareholder-approved remuneration policy fulfils the relevant principles and provisions of the 2018 UK Corporate Governance Code.



Clarity

The committee is committed to providing transparent disclosures to all stakeholders about executive remuneration arrangements and, to this end, the directors' remuneration report sets out the remuneration arrangements for the executive directors in a clear and transparent way. At least annually the committee Chair, engages with the Colleague Voice Panel about our executive remuneration approach. Our AGM allows shareholders to ask any questions on the remuneration arrangements, and we welcome any queries on remuneration practices from shareholders throughout the year.



Predictability

Payouts under the annual bonus and Long Term Plan (LTP) schemes are dependent on the performance of the company over the short and long term, and a significant proportion of executive director remuneration is performance-related. These schemes have strict maximum opportunities, with the potential value at threshold, target and maximum performance scenarios provided in the directors' remuneration report.

Simplicity

Our remuneration arrangements for executive directors, as well as those throughout the group, are simple in nature and understood by all participants, having been operated in a similar manner for a number of years. Executive directors receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the annual bonus) and a single long-term incentive (the LTP).

Proportionality

Payments from variable incentive schemes require strong performance against challenging conditions over the short and longer term. Performance conditions have been selected to support group strategy and consist of both financial and non-financial metrics.

The committee retains discretion to override formulaic outcomes in both schemes to ensure that they are appropriate and reflective of overall performance.

Risk

The committee has designed incentive arrangements that do not encourage inappropriate risk-taking. The committee retains overarching discretion in both the annual bonus and LTP schemes to adjust payouts where the formulaic outcomes are not considered reflective of underlying business performance and individual contributions. Robust withholding and recovery provisions apply to variable incentives.

Alignment to culture

Performance measures used in our variable incentive schemes are selected to be consistent with the company's purpose, values and strategy; with a strong emphasis on delivering for our customers and encouraging innovation to provide a great and resilient service at the most efficient cost. The use of annual bonus deferral, LTP holding periods and our shareholding requirements promotes integrity and provides a clear link to the ongoing performance of the group and ensure alignment with shareholders, which continues after employment.

At a glance summary: executive directors' remuneration

continued

Aligning our remuneration approach to business strategy

Our remuneration approach is aligned to our purpose, values and strategy, thereby incentivising delivery for customers and the environment, and the creation of long-term value for all of our stakeholders.

Our purpose is to provide great water for a stronger, greener, healthier North West

Our strategic priorities

Our purpose is implemented throughout our strategy

-  Improve our rivers
-  Create a greener future
-  Provide a safe and great place to work
-  Deliver great service for all our customers
-  Spend customers' money wisely
-  Contribute to our communities

Stakeholders

Delivering for all our stakeholders

- | | |
|---|--|
|  Communities |  Colleagues |
|  Environment |  Customers |
|  Suppliers |  Investors |

Our remuneration approach supports our business and people strategy and reflect the views of different stakeholders. There are three key principles of our approach to executive remuneration:

1 Align
to our purpose, values and strategy

2 Incentivise delivery
for customers and the environment

3 Create long-term value
for all of our stakeholders

Our incentive framework in 2022/23 was designed to align with our business strategy and delivers for each of our stakeholder groups.

Our annual bonus and Long Term Plan (LTP) are closely aligned to our strategic themes and with delivery for our stakeholders. They each demonstrate a clear focus on customers and the environment.

Element	Why it's important to our remuneration approach	Link to strategic priorities	Link to different stakeholders
2022/23 annual bonus			
Underlying operating profit	Underlying operating profit is a key measure of shareholder value.		
Customer service in year <ul style="list-style-type: none">• C-MeX ranking• Written complaints• Water quality contacts	<p>By using Ofwat's measure of customer experience alongside a measure that focuses on reducing the number of complaints made by customers, executive directors are incentivised to deliver the best service to customers.</p> <p>Ofwat can apply financial incentives or penalties depending on our customer service performance.</p> <p>Customers expect the water that comes out of their tap to be clear, and when it is discoloured it can affect public confidence in the water supply. This measure helps drive improvements in this aspect of our performance.</p>		
Maintaining and enhancing outcomes for customers and the environment <ul style="list-style-type: none">• Better Rivers commitments, including reducing storm overflow activations• Outcome delivery incentive (ODI) composite• Capital programme delivery incentive (CPDi)	<p>We know that improving river health in the North West is a priority for customers, and the executive directors are incentivised to deliver our ambitious plans.</p> <p>The ODI composite measure includes a range of customer and environmental commitments. It is based on the outperformance payments earned and financial penalties incurred by the company based on its delivery of the performance targets embedded in the AMP7 final determination. The performance targets and the financial incentives associated with them are determined by Ofwat in the expectation that achieving them means that stretching outcomes have been delivered for customers and the environment. Bonus awards are only made where the value of these payments exceeds a predetermined level, which the committee sets relative to the AMP7 determination. Non-delivery of our performance commitments can result in financial penalties being applied, which reduces the likelihood of this target being achieved.</p> <p>The CPDi measure incentivises the executive directors to keep tight control of our capital programmes to ensure we can provide a reliable and environmentally conscious service to our customers.</p>	 	
Compulsory deferral of bonus	Requiring executive directors to defer part of their bonus into shares provides reassurance that the company is being run in the longer-term interests of shareholders and customers, including beyond the annual bonus period. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the deferral period this is deemed necessary.		
2020 Long Term Plan (LTP)			
Return on Regulated Equity (RoRE)	RoRE is a key regulatory measure of performance against the final determination. Outperformance will result in an increase to RoRE, which should translate into higher returns for shareholders through share price performance. Outperformance also benefits customers and the environment through strong delivery against stretching performance commitments, efficiencies in the capital investment programme and lower long-term financing costs.	 	
Customer basket of measures	The customer basket is made up of specific performance commitments embedded in the AMP7 final determination, focusing on areas that customers have identified via our research as being most important to them. Strong delivery of the commitments benefits our customers, communities and the environment, and can result in outperformance payments from Ofwat, which is positive for shareholders.	 	
Additional holding period (so the overall vesting and holding period is at least five years)	Requiring the executive directors to wait a further period after the performance outcome of their award is known ensures continued longer-term alignment with shareholder interests and delivery for stakeholders, including customers and the environment. It also reassures shareholders and customers that some/all of the LTP outcome could ultimately be withheld if during the holding period this is deemed necessary.		
Key governance mechanisms			
Discretion over outcomes	The committee retains discretion to override formulaic outcomes in both schemes to ensure that they are appropriate and reflective of overall performance.	 	
Shareholding guidelines	It is important that each executive director builds and maintains a significant shareholding in shares of the company to provide alignment with shareholder interests (during and after employment) and as a demonstration that the company is being run for the long-term benefit of all its stakeholders, including customers and the environment.		

At a glance summary: executive directors' remuneration

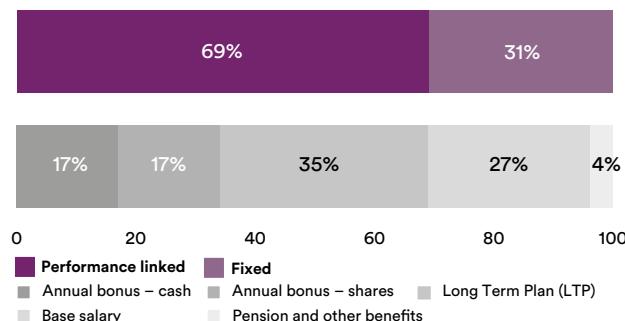
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Executive directors' remuneration policy

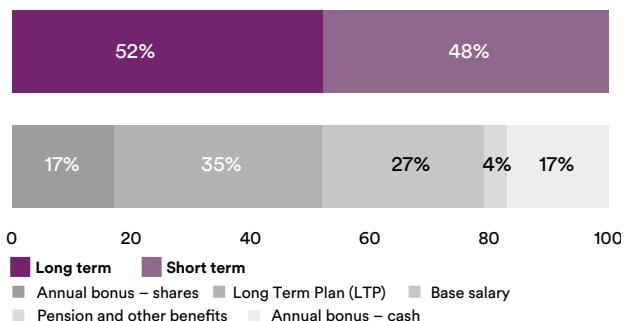
Elements of executive directors' pay

A significant proportion of executive directors' pay is performance-related, long term and remains 'at risk' (i.e. subject to withholding and recovery provisions for a period over which the committee can withhold vesting or recover sums paid):

Performance-related vs fixed (%)⁽¹⁾



Long term vs short term (%)⁽¹⁾



⁽¹⁾ Based on maximum payout scenario for executive directors in line with the current remuneration policy, assuming the maximum award level of 130 per cent of salary for the Long Term Plan (LTP).

Single total figure of remuneration for executive directors for 2022/23

Fixed pay comprises base salary, benefits and pension. Further information on the single figure of remuneration can be seen on page 180.

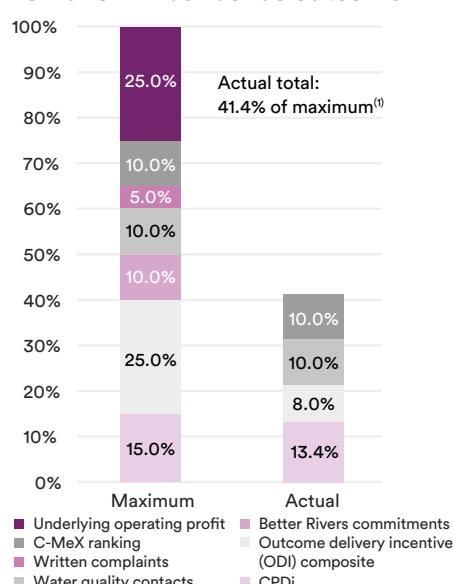


⁽¹⁾ For Louise Beardmore the LTP relates to awards granted prior to her appointment in her current role.

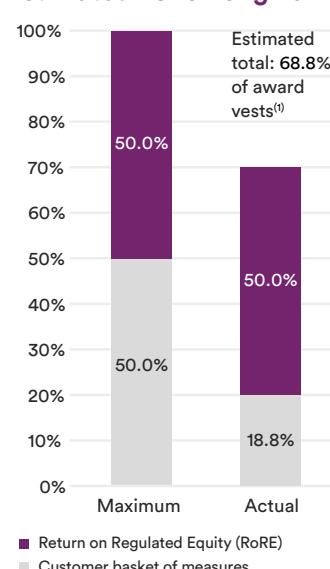
Annual bonus and Long Term Plan (LTP) outcomes

The charts below show the results of the performance against targets for the annual bonus and LTP. Further information about the annual bonus is shown on page 181 and about the LTP on pages 182 and 183.

2022/23 Annual bonus outcome



Estimated 2020 Long Term Plan (LTP) outcome



⁽¹⁾ The outcomes before the application of the waivers of the Better Rivers commitments measure (annual bonus) and the environmental measures (LTP) would have been 51.4% and 93.1% respectively.

Pay at risk

Key element	Time frame		Period subject to recovery provisions							
	Performance period			Year -1	Award date	Year 1	Year 2	Year 3	Year 4	Year 5
Annual bonus – cash	Performance period		Period subject to recovery provisions							
Annual bonus – shares	Performance period		Period subject to withholding and recovery provisions							
Long Term Plan (LTP)			Performance period					Period subject to withholding and recovery provisions		

Further details on what triggers the withholding and recovery provisions can be found on page 197.

Implementation of directors' remuneration policy in 2022/23

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2022/23. For further details see the annual report on remuneration on pages 180 to 184.

Key element	Implementation of policy in 2022/23
Base salary	<ul style="list-style-type: none"> Given Steve Mogford's planned retirement the committee decided not to increase his salary in the year. Louise Beardmore's salary was set at £425,000 on her appointment as CEO designate in May 2022, with the next review being on 1 April 2023, further to her appointment as CEO. Phil Aspin's salary was set at £427,380 from 1 September 2022, an increase of 4.75 per cent in line with the increase for the wider workforce.
Benefits and pension	<ul style="list-style-type: none"> Market competitive benefits package including a green travel allowance of £14,000; health, life cover and income protection; and reimbursement of taxable expenses. Steve Mogford had a cash pension allowance of 22 per cent of base salary up until 31 December 2022. With effect from 1 January 2023 this reduced to 12 per cent of base salary in line with the arrangements that apply to the wider workforce. Phil Aspin has a cash pension allowance of 12 per cent of base salary. Louise Beardmore has a combination of a cash pension allowance and a contribution into the pensions scheme such that the cost to the company is broadly the same.
Annual bonus	<ul style="list-style-type: none"> Maximum opportunity of 130 per cent of base salary. 2022/23 annual bonus outcome of 41.4 per cent. 50 per cent of 2022/23 annual bonus deferred for three years. Withholding and recovery provisions apply.
Long Term Plan	<ul style="list-style-type: none"> Award of 130 per cent of base salary. Estimated long-term incentive vesting of 68.8 per cent for the performance period 1 April 2020 to 31 March 2023. The awards for Steve Mogford and Phil Aspin will vest after an additional holding period, which ends no earlier than five years from the date of grant. The award for Louise Beardmore was granted prior to her appointment as an executive director and will vest when the performance conditions have been confirmed in the summer. She will be required to hold the vested shares in line with the shareholding guidelines. Withholding and recovery provisions apply.
Shareholding guidelines	<ul style="list-style-type: none"> Personal shareholding for Steve Mogford remained above the 200 per cent of salary minimum guideline. Louise Beardmore and Phil Aspin are building their respective shareholdings and are expected to reach the minimum guidelines within five years of their respective appointments. Post-employment shareholding requirements apply. See page 198 for further details.

Key:



At or above stretch target



Between threshold and stretch targets



Below threshold target

⁽¹⁾ For the purpose of annual bonus, underlying operating profit excludes infrastructure renewals expenditure and property trading.

⁽²⁾ Average RoRE compared to average allowed RoRE over 2020/21, 2021/22 and 2022/23.

⁽³⁾ Percentage of customer basket achieved. The environmental measures were waived. See pages 182 to 183.

Aligning pay with performance. See pages 181 to 183 for details

Annual bonus – year ended 31 March 2023

Underlying operating profit⁽¹⁾

£633.8m

C-MeX ranking versus the other water companies

5th out of 17

Written complaints (per 10,000 customers)

20.70

Water quality contacts (appearance)

5,936

Better Rivers commitments (% of 2022/23 programme milestones delivered)

Waived

Outcome delivery incentive (ODI) composite

£22.2m

Capital programme delivery incentive (CPDI)

92.9%

Long Term Plan – three years ended 31 March 2023

Return on regulated equity (RoRE)⁽²⁾

+7.77%

Customer basket of measures⁽³⁾

18.8%

Annual report on remuneration

Single total figure of remuneration for executive directors (audited information)

Year ended 31 March	Fixed pay								Variable pay							
	Base salary £'000		Pension £'000		Benefits £'000		Subtotal £'000		Annual bonus £'000		Long-term incentives £'000		Subtotal £'000		Total £'000	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Steve Mogford	791	784	154	173	26	23	971	980	426	727	886	1,504	1,312	2,231	2,283	3,211
Louise Beardmore ⁽³⁾	390	n/a	48	n/a	20	n/a	458	n/a	210	n/a	172	n/a	382	n/a	840	n/a
Phil Aspin	419	405	50	49	20	21	490	475	226	452	457	96	683	548	1,172	1,023

⁽¹⁾ This relates to the Long Term Plan (LTP) award granted in November 2020. The amount is estimated as the vesting percentage for the half relating to customer basket of measures will not be known until later in 2023. The value of LTP awards has been calculated using an average share price over the three-month period from 1 January 2023 to 31 March 2023 of 1,045 pence per share.

⁽²⁾ This relates to the Long Term Plan (LTP) award granted in June 2019. The figure stated in last year's report was estimated but was subsequently confirmed at 100 per cent. The award for Steve Mogford will not vest until the end of an additional holding period. Dividend equivalents accrued to 31 March 2023 have been added, and the value of the award has been calculated using an average share price over the three-month period from 1 January 2023 to 31 March 2023 of 1,045 pence per share. The award for Phil Aspin was granted prior to his appointment to the board so no holding period applied. Dividend equivalents accrued to the date of vesting have been added, and the value of the award has been calculated using the share price on the vesting date of 883.40 pence per share.

⁽³⁾ Salary, benefits, pension and annual bonus figures in 2023 for Louise Beardmore reflect part-year earnings and are for the period from 1 May 2022 when she was first appointed to the board.

Annual bonus

Deferred Bonus Plan awards made in the year ended 31 March 2023 (audited information)

Bonuses are earned by reference to performance in the financial year and paid in June following the end of the financial year. For executive directors, 50 per cent of any bonus is deferred, typically into shares under the Deferred Bonus Plan. These awards vest after three years and are subject to withholding provisions. There are no service or additional performance conditions attached.

The table below provides details of share awards made on 16 June 2022 to the executive directors as at that date in respect of deferred share bonus payments for the 2021/22 financial year.

Executive director	Type of award	Basis of award	Number of shares	Face value of award ⁽¹⁾ (£'000)	End of deferral period
Steve Mogford	Conditional shares	50% of bonus	34,782	£363	16.6.2025
Louise Beardmore	Conditional shares	40% of bonus ⁽²⁾	8,696	£91	16.6.2025
Phil Aspin	Conditional shares	50% of bonus	21,651	£226	16.6.2025

⁽¹⁾ The face value has been calculated using the closing share price on 15 June 2022 (the dealing day prior to the date of grant), which was 1,044.75 pence per share.

⁽²⁾ The Deferred Bonus Plan award for Louise Beardmore was in respect of the bonus she earned in 2021/22 in her previous role i.e. prior to her appointment to the board, and in which a 40 per cent deferral requirement applied. This amount is not included in the single figure table above.

Annual bonus in respect of financial year ended 31 March 2023 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2023 are set out below. As outlined in the Chair's statement (pages 170 to 172) the executive directors waived the outcome related to the Better Rivers commitments measure, which otherwise would have vested at the stretch outcome with all milestones having been achieved. The committee was satisfied that overall outcomes are reflective of overall company performance during the year as detailed in the strategic report.

Measure	% weighting of measure	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Vesting as a % of maximum	Outcome
Underlying operating profit ⁽¹⁾	25.0%	£694.7m	£719.7m	£744.7m	0.0%	0.0%
Actual £633.8m (below threshold)						
Customer service in year						
C-MeX contractor and perception ranking out of the 17 water companies	10.0%	8th position	7th position	5th position	100%	10.0%
Actual: 5th position						
Written complaints (per 10,000 customers)	5.0%	17.50	17.10	16.80	0.0%	0.0%
Actual: 20.7 (below threshold)						
Water quality contacts (appearance)	10.0%	7,604	6,974	6,344	100%	10.0%
Actual: 5,936						
Maintaining and enhancing outcomes for customers and the environment						
Better Rivers commitments (% of 2022/23 programme milestones delivered)	10.0%	90.0%	95.0%	100%	100%	Waived
Actual: 100%						
Outcome delivery incentive (ODI) composite ⁽²⁾	25.0%	£20.0m	£28.0m	£35.7m	31.9%	8.0%
Actual: £22.2m						
Capital programme delivery incentive (CPDi) ⁽³⁾	15.0%	80.0%	85.0%	95.0%	89.5%	13.4%
Actual: 92.9%						
Total:						
Actual award (% of maximum)						41.4%
Maximum award (% of salary)						130%
Actual award (% of salary)						53.8%
				Steve Mogford	Louise Beardmore	Phil Aspin
Actual award (£'000 – shown in single figure table)⁽⁴⁾				426	210	226

⁽¹⁾ The underlying operating profit figure for bonus purposes is based on the underlying operating profit on page 112 and excludes infrastructure renewals expenditure and property trading.

⁽²⁾ The outcome of the ODI composite measure has been subject to independent external assurance.

⁽³⁾ CPDi is an internal measure that measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

⁽⁴⁾ 50 per cent of the annual bonus will be deferred for three years.

Remuneration

Annual report on remuneration continued

Long-term incentives

2020 Long Term Plan (LTP) awards with a performance period ended 31 March 2023 (audited information)

Measure	% weighting of measure	Achieved ⁽¹⁾		Vesting as a % of maximum	Outcome
		Threshold (25% vesting)	Stretch (100% vesting)		
Return on Regulated Equity (RoRE)					
Average RoRE compared to the average allowed return set by the regulator across the three-year performance period	50.0%	Equal to the average of Ofwat's allowed RoRE over the three financial years of the performance period	1.0% (or more) above the average of Ofwat's allowed RoRE over the three financial years of the performance period	100%	50.0%
		Actual: Average RoRE of 7.77% was 3.83% above the average allowed return			
Customer basket of measures⁽²⁾					
C-MeX ranking out of all of the other water companies ⁽³⁾	5.0%	Ranked 9th	Ranked 6th (or better)	100%	5.0%
		Actual: 5th position			
Water poverty ⁽³⁾	5.0%	62,100 customers have been lifted out of water poverty	83,000 (or more) customers have been lifted out of water poverty	100%	5.0%
		Actual: 84,002			
Priority services ⁽³⁾	5.0%	No threshold target. Stretch target must be achieved for any vesting on this measure	5.5% (or more) of our customers are listed on the Priority Services Register	100%	5.0%
		Actual: 9.1%			
Sewer flooding incidents ⁽³⁾	5.0%	A combined total of 1,161 sewer flooding incidents per 10,000km of our wastewater network	A combined total of less than, or equal to, 990 sewer flooding incidents per 10,000km of our wastewater network	100%	Waived
		Actual: 849.8			
Pollution incidents ⁽⁴⁾	5.0%	23.00 pollution incidents per 10,000km of our wastewater network	21.54 (or fewer) pollution incidents per 10,000km of our wastewater network	100%	Waived
		Actual: 16.29			
Treatment works compliance ⁽⁴⁾	5.0%	97.9% compliance	99.0% (or greater) compliance	100%	Waived
		Actual: 99.0%			
Water quality contacts ⁽⁴⁾	5.0%	14.7 customer contacts per 10,000 customers	13.8 (or fewer) customer contacts per 10,000 customers	75.0%	3.8%
		Actual: 14.1			
Leakage ⁽³⁾	5.0%	A three-year average of 101.60 megalitres of leakage per 10,000km of our water network per day	A three-year average of 97.60 megalitres (or less) of leakage per 10,000km of our water network per day	85.2%	Waived
		Actual: 98.39			
Compliance risk index (CRI) ⁽⁴⁾	5.0%	CRI score of 3.27	CRI score of 2.00 (or less)	0.0%	0.0%
		Estimate: 3.67 (below threshold)			
The Environment Agency's Environmental Performance Assessment (EPA) rating ⁽⁵⁾	5.0%	3 star rating	4 star rating	100%	Waived
		Estimate: 4 star rating			
Overall underpin					
Overall vesting is subject to the committee being satisfied that the company's outcome performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.			✓ Assumed met.		
			Details of the committee's preliminary assessment on the alignment of the vesting outcome to the underlying performance of the business is set out in the introductory statement from the Chair of the committee. The committee will make a final assessment of the company's performance once the outcome of the customer basket of measures is known.		
Estimated vesting (% of award)					
					68.8%

	Steve Mogford	Louise Beardmore	Phil Aspin
Number of shares granted	112,097	21,802	57,842
Number of dividend equivalent shares	11,184	2,173	5,771
Number of shares before performance conditions applied	123,281	23,975	63,613
Estimated number of shares after performance conditions applied	84,817	16,494	43,765
Three-month average share price at end of performance period (pence) ⁽⁶⁾	1,045.0	1,045.0	1,045.0
Estimated value at end of performance period (£'000 – shown in single figure table) ⁽⁷⁾	886	172	457

(1) Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance.

(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination.

(3) Outcome based on performance in respect of the financial year ending 31 March 2023 as published in our own and/or the other water companies' annual performance reports for 2022/23.

(4) Outcome based on performance in respect of the calendar year ending 31 December 2022 as published in our own annual performance reports for 2022/23.

(5) Outcome based on performance in respect of the calendar year ending 31 December 2022 as published in the Environment Agency's published report in 2023.

(6) Average share price over the three-month period from 1 January 2023 to 31 March 2023.

(7) 13.95 per cent of the value vesting is attributable to share price appreciation, which equates to £123,663 for Steve Mogford, £24,048 for Louise Beardmore and £63,809 for Phil Aspin.

The 2020 LTP awards were granted in November 2020. Whilst LTP awards are normally granted in June each year, due to the uncertainties posed by the COVID-19 pandemic and particular concerns at the time about the possible extent of the disruption caused, the committee delayed the 2020 LTP award grants until November to allow more time to settle the targets.

Performance against the measures has been strong as detailed in the strategic report, but as outlined in the Chair's statement (pages 170 to 172) and as shown in the table the executives decided to waive the outcomes related to five environmental measures. Performance against each of those measures is expected to be at or near the stretch targets, so their decision to waive the outcomes will materially reduce the value of the awards that will vest.

The final outcome for some measures will not be confirmed until summer 2023, so the values of the awards are estimated and will be restated if necessary in next year's report.

2022 LTP awards with a performance period ending 31 March 2025 (audited information)

The table below provides details of share awards made to executive directors on 29 July 2022 in respect of the 2022 LTP:

Executive director	Type of award	Basis of award	Face value of award (£'000) ⁽¹⁾	Number of shares under award	% vesting at threshold	End of performance period ⁽²⁾
Steve Mogford	Conditional shares	130% of salary	£1,028	95,909	25%	31.3.2025
Louise Beardmore	Conditional shares	130% of salary	£552	51,551	25%	31.3.2025
Phil Aspin	Conditional shares	130% of salary	£530	49,489	25%	31.3.2025

(1) The face value has been calculated using the closing share price on 28 July 2022 (the dealing day prior to the date of grant), which was 1,071.75 pence per share.

(2) An additional holding period applies after the end of the performance period such that the overall vesting period is at least five years from the grant date.

Details about the measures, targets and underpins for the 2022 LTP awards made during the year were disclosed in last year's report, but in summary the awards were based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures including environmental measures, four of which directly linked to our carbon pledges.

Annual report on remuneration continued

Performance-related pay in 2023/24

Ensuring alignment with our business plan

The performance measures used in our performance-related pay schemes during 2023/24 will remain aligned directly with the business plan, with a material weighting being linked to delivery for customers, and at least 30 per cent on environmental measures.

Annual bonus for 2023/24

The maximum bonus opportunity for the year commencing 1 April 2023 will be unchanged at 130 per cent of base salary. As is outlined on page 177, the measures used in our annual bonus arrangements for executive directors demonstrate significant alignment to stakeholder interests, including customers and the environment, and the table below summarises the measures, weightings and targets for the 2023/24 bonus. We have amended the composition of the bonus scorecard and introduced a new measure to reflect our commitment to tackling storm overflow activations and improve river quality. Targets that are considered commercially sensitive will be disclosed retrospectively in the 2023/24 annual report on remuneration.

Measure	Targets				Weighting (% of award)
	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)		
Underlying operating profit⁽¹⁾	Commercially sensitive				25.0%
Customer service in year					
C-MeX ranking out of the 17 water companies ⁽²⁾	n/a	6th position	5th position		10.0%
Water quality contacts (appearance)	5,800	5,550	5,300		5.0%
Maintaining and enhancing outcomes for customers and the environment					
Better Rivers commitments: % reduction of reported storm overflow activations	8.0%	10.0%	12.0%		12.5%
Better Rivers commitments: % of 2023/24 programme milestones delivered	90.0%	95.0%	100%		12.5%
Outcome delivery incentive (ODI) composite	Commercially sensitive				25.0%
Capital programme delivery incentive (CPDI)	85 .0%	90.0%	95.0%		10.0%
Total					100%

⁽¹⁾ Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

⁽²⁾ No threshold target applies to this measure.

In line with policy the executive directors will be required to defer at least 50 per cent of any bonus received into shares and these only become available after a period of three years. This provides the committee with time to consider and respond appropriately to any matters that were not known at the end of the relevant performance period but become apparent during the deferral period. This could include the use of the withholding and recovery provisions.

2023 LTP awards with a performance period ending 31 March 2026

Consistent with the approach since 2020, the awards will be based on Return on Regulated Equity and a customer basket of measures, with each component being equally weighted at 50 per cent. At least 30 per cent of the overall award will relate to environmental measures, including those that are within scope of our key regulators.

The award level for executive directors will remain unchanged at 130 per cent of base salary and the performance period for the awards will be 1 April 2023 to 31 March 2026. As work is continuing on the ambitious plan for the next regulatory period, of which the first year will be the final year of the performance period, the committee has decided to wait until later in the summer to grant the awards to give more time for the precise measures and stretching targets to be well-aligned with the proposed plan. We will publish details of the measures and targets at the point of grant.



Remuneration

Annual report on remuneration continued

Cascade of remuneration through the organisation

Consistent with best practice, the remuneration committee spends considerable time on matters relating to remuneration arrangements in the wider organisation. Details of pay trends for the wider colleague base provide important context when making decisions regarding remuneration for the executive directors as well as ensuring that consistent approaches are being adopted across the organisation.

The table below summarises how remuneration compares across the different groups of colleagues throughout the company.

Colleague group (number of colleagues currently covered)	Element of pay	Policy	Implementation
Colleagues at all levels (around 6,000)	Salary	We want to attract and retain colleagues of the experience and quality required to deliver the company's strategy. Salaries are reviewed annually, with executive directors normally receiving a salary increase no greater than the increase awarded to the general workforce.	In 2022 the base salary increase for colleagues was 4.75 per cent. As a living wage accredited employer all our colleagues (except those on a training scheme such as apprentices) receive at least the voluntary living wage rate.
	Health and wellbeing benefits	We want to create an environment that promotes healthy behaviours and ensure that colleagues have access to early and effective treatment, advice and information to improve their health and wellbeing.	Colleagues at all levels are eligible for company-funded healthcare, an enhanced company sick pay scheme, and have access to a medical advice and information service (Best Doctors) for them and their families. All colleagues have free 24/7 access to our employee assistance programme, which provides counselling and support to them and their households. We have around 350 trained mental health first aiders who can listen to and signpost colleagues to relevant support services, and a similar number of wellbeing champions who help promote our wellbeing campaigns. Financial wellbeing is a key focus, with financial education tools and awareness courses available for all colleagues covering a broad range of money management topics such as financial planning, managing debt and pensions.
	Flexible benefits	All colleagues have access to a variety of additional voluntary benefits to suit their lifestyle, including environmental benefits such as our electric car scheme. Colleagues can choose from a range of deals and discounts all year round, and can donate to their chosen charities directly from their pay if they want to.	Around half of the workforce take up at least one of our flexible benefit options.
	Pension	Almost all colleagues participate in our company pension arrangements, which have received the 'Pension Quality Mark Plus' accreditation in recognition of their high quality.	The company doubles any personal pension contributions made, up to a maximum of 14 per cent of salary. As part of the pension scheme colleagues receive company-funded life assurance and income protection.
	ShareBuy	Any colleague can become a shareholder in our company and share in our success by participating in our ShareBuy scheme. For every five shares purchased under the scheme, the company gives another one free.	Around half of the workforce participate in our ShareBuy scheme.
	Annual bonus – cash	Our bonus scheme provides a strong alignment to strategy throughout the organisation, with the same bonus scorecard applying at all levels.	Colleagues at all levels participate in the annual bonus scheme, receiving financial rewards based on the performance of the company and their personal contribution. Specific weightings and award levels vary by grade.
CEO, CFO and executives (12)	Annual bonus – deferred shares	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.	Each of the executive directors and executives is required to defer a proportion of their bonus into shares for three years.
CEO, CFO, executives and other senior leaders (around 60)	Long Term Plan (LTP)	To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.	Executives and other senior leaders may be invited to participate in the LTP. Performance conditions are the same for all participants but award sizes vary.
CEO, CFO and executives (12)	Shareholding guidelines	The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests.	All executives are subject to shareholding guidelines, aligning their interests with those of shareholders.

Supporting our colleagues during the cost-of-living crisis

In recognition of the challenging financial environment, the company has taken action during the year to support colleagues. Noting that the lowest paid workers have particularly struggled, in September 2022 we increased the pay rates of around 120 colleagues in line with the new living wage rates that had been announced on the same day. While technically all living wage accredited employers had until May 2023 to implement the new rates we decided that it was right to pay the improved rates as early as possible.

As part of the 2022/23 pay settlement for collectively bargained colleagues, alongside the 4.75 per cent salary increase from 1 April 2022 the company paid a one off lump sum of £500 to around 5,000 colleagues. The company also extended this payment to around 600 colleagues who were not covered by the collectively bargained pay arrangements.

During the year, the company delivered a campaign aimed at reminding and encouraging colleagues to maximise the value of their reward package. This included the following activities:

Money management sessions	The sessions were intended to help colleagues take control of their finances and covered the following topics: <ul style="list-style-type: none"> • The increasing cost of living • How to review your finances and reduce your costs • How to access extra support
Sharing regular financial/money management information	Providing money management tips and tools to help colleagues manage their money better including the option to borrow responsibly in appropriate circumstances via our financial wellbeing partner
Financial awareness courses	Quarterly sessions covering the following topics: <ul style="list-style-type: none"> • ‘Planning your financial future’ – aimed at those who may benefit from learning more about financial planning, managing debt and making the most of their money • ‘Maximising your financial future’ – aimed at those who may benefit from taking stock of their finances and understanding how they might meet their financial goals in later life • ‘Planning for retirement’ – aimed typically at those aged 50 and over, who are approaching the earliest age that they can take pension benefits • ‘Pre-retirement’ – aimed at those who are within six months of retirement
Support with healthcare costs	Members of our employee healthcare scheme are able to claim back the cost of every day healthcare items such as eye tests, glasses/contact lenses, dental check ups and prescription fees All colleagues have been able to claim back the cost of a flu vaccination
Promotion of deals and discounts	Improving the visibility of colleague discounts on products and services including supermarket shopping

The committee is always mindful of the alignment of executive pay arrangements with those of the wider workforce, and as is demonstrated in the table on page 186 there is a high level of alignment and consistency of approach.

When reviewing salaries and assessing incentive outcomes for the executives, the committee takes account of how those elements of remuneration have been (or will be) applied across the wider workforce in respect of the same periods. At each of its meetings, the committee receives an update on notable matters affecting pay and benefits among the wider workforce since its previous meeting, and at least annually the committee formally reviews and discusses a report detailing all elements of the pay and benefits framework that applies to the workforce.

The committee has mechanisms through which it hears from, and engages with, the workforce on executive pay. As a member of the committee, insights related to remuneration that arise via Alison Goligher in her role as designated non-executive director for workforce engagement can be quickly and appropriately considered, and a formal report is presented to the committee at least annually. In the last year, Alison has hosted four sessions with the Colleague Voice panel, providing valuable opportunities for open discussions and feedback on a variety of topics including remuneration. See page 136 for further details. During the year, on invitation from Alison, the head of reward provided the panel members with an overview of relevant corporate governance and reporting requirements, our executive remuneration approach and the role of the committee in setting executive remuneration, and an explanation of how executive pay is aligned to that of the wider workforce.

Percentage change in CEO remuneration compared with other colleagues

The figures below show how the percentage change in Steve Mogford's salary, benefits and bonus earned in 2021/22 and 2022/23 compares with the percentage change in the average of each of those components for a group of colleagues.

	% change in CEO remuneration, 2022/23 vs 2021/22	% change in colleague remuneration, 2022/23 vs 2021/22 ⁽¹⁾
Base salary ⁽²⁾	0.8%	6.6%
Bonus ⁽³⁾	(41.4%)	(27.3%)
Benefits	14.0%	4.1%

⁽¹⁾ To aid comparison, the group of colleagues selected by the committee are all those members of the workforce who were employed over the complete two-year period.

⁽²⁾ Steve Mogford received no salary increase in 2022/23. For the wider workforce this includes promotional increases. The average salary increase for colleagues was 4.75 per cent.

⁽³⁾ The decrease in bonuses is due to the payout of the company scorecard element of the bonus scheme being significantly lower than last year.

Annual report on remuneration continued

CEO pay ratios

The table below sets out the ratio of Steve Mogford's pay to that of the 25th percentile (P25), median (P50) and 75th percentile (P75) full-time equivalent colleagues. The ratios have been calculated in accordance with option A as set out in the regulations. This is considered to be the most accurate methodology and uses the same calculation basis as required for Steve Mogford's total remuneration as shown in the single figure table on page 180.

- We identified all colleagues who received base salary during the year and who were still employed on that date.
- The calculations were carried out using their total pay and benefits received in respect of the year ended 31 March 2023, including bonuses earned by reference to performance in the financial year and paid in June following the end of the financial year.
- 'Base salary' includes standby pay, shift pay, overtime and on-call allowances
- For colleagues who were employed on a part-time basis, or who were not employed for the full year, their remuneration has been annualised to reflect the full-time equivalent.
- No other estimates or adjustments have been used in the calculations and no other remuneration items have been omitted.

	Financial year			
	2022/23	2021/22	2020/21	2019/20
Methodology used	A	A	A	A
Average number of colleagues	6,171	5,866	5,570	5,461
Ratio of CEO single figure total remuneration:⁽ⁱ⁾				
– To colleague at the 25th percentile	62:1	93:1	98:1	87:1
– To colleague at the 50th percentile	47:1	69:1	73:1	66:1
– To colleague at the 75th percentile	37:1	55:1	58:1	53:1
Ratio of CEO base salary plus annual bonus:				
– To colleague at the 25th percentile	38:1	44:1	52:1	47:1
– To colleague at the 50th percentile	28:1	37:1	38:1	37:1
– To colleague at the 75th percentile	23:1	30:1	30:1	31:1
Ratio of CEO base salary:				
– To colleague at the 25th percentile	26:1	24:1	26:1	26:1
– To colleague at the 50th percentile	18:1	20:1	19:1	20:1
– To colleague at the 75th percentile	15:1	17:1	15:1	17:1
Additional details				
CEO total single figure (£'000)	2,283	3,211	3,381	2,925
CEO base salary plus annual bonus (£'000)	1,216	1,511	1,560	1,476
CEO base salary (£'000)	791	784	736	769
Colleagues total pay and benefits (£'000)				
– at the 25th percentile	37	35	34	33
– at the 50th percentile	49	46	46	44
– at the 75th percentile	61	59	58	56
Colleagues base salary plus annual bonus (£'000)				
– at the 25th percentile	32	34	30	32
– at the 50th percentile	44	41	42	40
– at the 75th percentile	53	51	52	48
Colleagues base salary (£'000)				
– at the 25th percentile	31	32	29	30
– at the 50th percentile	43	39	39	38
– at the 75th percentile	52	47	50	44

⁽ⁱ⁾ The figures for 2021/22 have been restated to reflect the final vesting outcome, additional dividend equivalents and updated share price for Steve Mogford's 2019 LTP as shown in the single figure table on page 180. The figures for 2020/21 have also been restated to reflect additional dividend equivalents and the closing share price on the date of vesting for his 2018 LTP.

Along with the ratios comparing total remuneration, the committee keeps under review the ratios for salary and salary plus annual bonus, and tracks how these change over time. With a significant proportion of the remuneration of the CEO linked to company performance and share price movements over the longer term, it is expected that the headline ratios will depend primarily on the Long Term Plan (LTP) outcome, and, accordingly, may fluctuate from year to year. Participation in the LTP is currently limited to around 60 executives and senior leaders, with none of the individuals identified as P25, P50 and P75 in this group. On the other hand, colleagues at all levels participate in the annual bonus scheme, and so the committee considers this ratio as well as the ratio comparing only salary, to provide helpful additional context.

This year the pay ratio of CEO single figure total remuneration has reduced at all data points (P25, P50 and P75). This is as expected, given that the CEO did not receive a salary increase during the year and his performance-related pay outcomes are materially less than last year. The committee observes a similar picture across most of the other reported ratios, which is to be expected given the alignment of our remuneration approach across the workforce. The committee will continue to consider the pay ratios in the context of other important metrics such as the gender pay gap and colleague engagement levels.

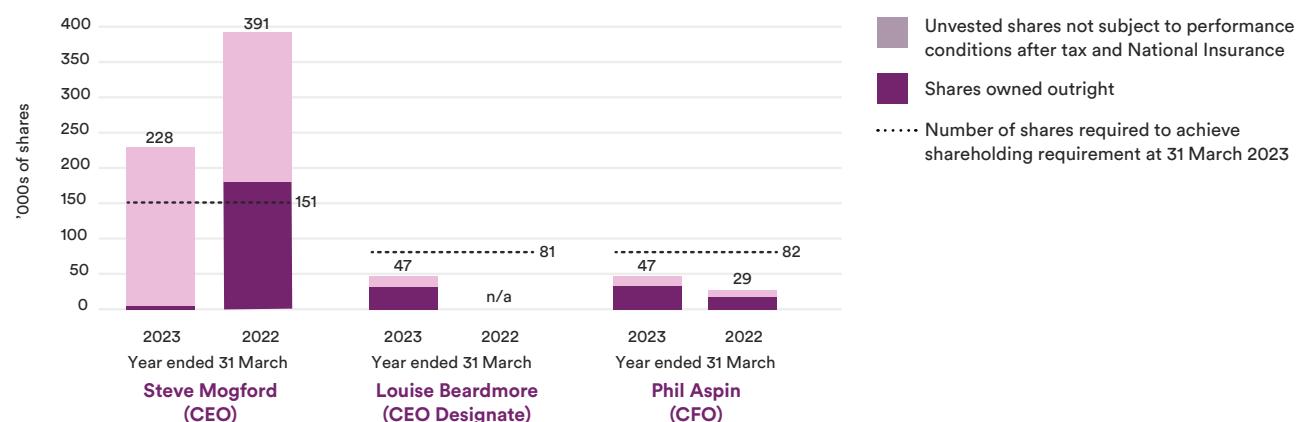
Relative importance of spend on pay

The table below shows the relative importance of spend on pay compared to distributions to shareholders.



Executive directors' shareholding (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2023 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding requirement level. Steve Mogford continued to exceed the target shareholding requirement level of 200 per cent of salary. Louise Beardmore's target shareholding changed on her appointment to CEO on 1 April 2023 and will now be 200 per cent of her new salary. She is expected to reach that by 1 April 2028 (within five years of her appointment as CEO). Phil Aspin is expected to reach the minimum guideline by 24 July 2025 (within five years of his appointment as CFO).



Remuneration

Annual report on remuneration continued

Further details of the executive directors' shareholdings and share plan interests are given in the table below and in appendix 2 on pages 202 and 203.

Director	Shareholding requirement (% of salary)	Number of shares required to meet shareholding requirement ⁽¹⁾	Number of shares owned outright (including connected persons)		Unvested shares not subject to performance conditions ⁽²⁾		Total shares counting towards shareholding requirements ⁽³⁾		Shareholding as % of base salary at 31 March	Shareholding requirement met at 31 March	Unvested shares subject to performance conditions ⁽⁴⁾
			2023	2022	2023	2022	2023	2022			
Steve Mogford ⁽⁵⁾⁽⁶⁾	200%	151,330	5,188	181,144	420,194	395,160	227,907	390,595	301%	Yes	331,654
Louise Beardmore ⁽⁵⁾	200%	81,340	33,180	n/a	26,201	n/a	47,083	n/a	116%	No	97,872
Phil Aspin ⁽⁵⁾	200%	81,795	23,570	17,440	44,787	21,367	47,323	28,781	116%	No	171,132
											363,303
											n/a
											126,738

⁽¹⁾ Share price used is the average share price over the three months from 1 January 2023 to 31 March 2023 (1,045 pence per share).

⁽²⁾ Unvested shares subject to no further performance conditions such as matching shares under the ShareBuy scheme. Includes shares subject only to withholding provisions such as Deferred Bonus Plan shares in the three-year deferral period and Long Term Plan shares in the applicable holding period.

⁽³⁾ Includes unvested shares not subject to performance conditions (net of tax and National Insurance), plus the number of shares owned outright.

⁽⁴⁾ Includes unvested shares under the Long Term Plan.

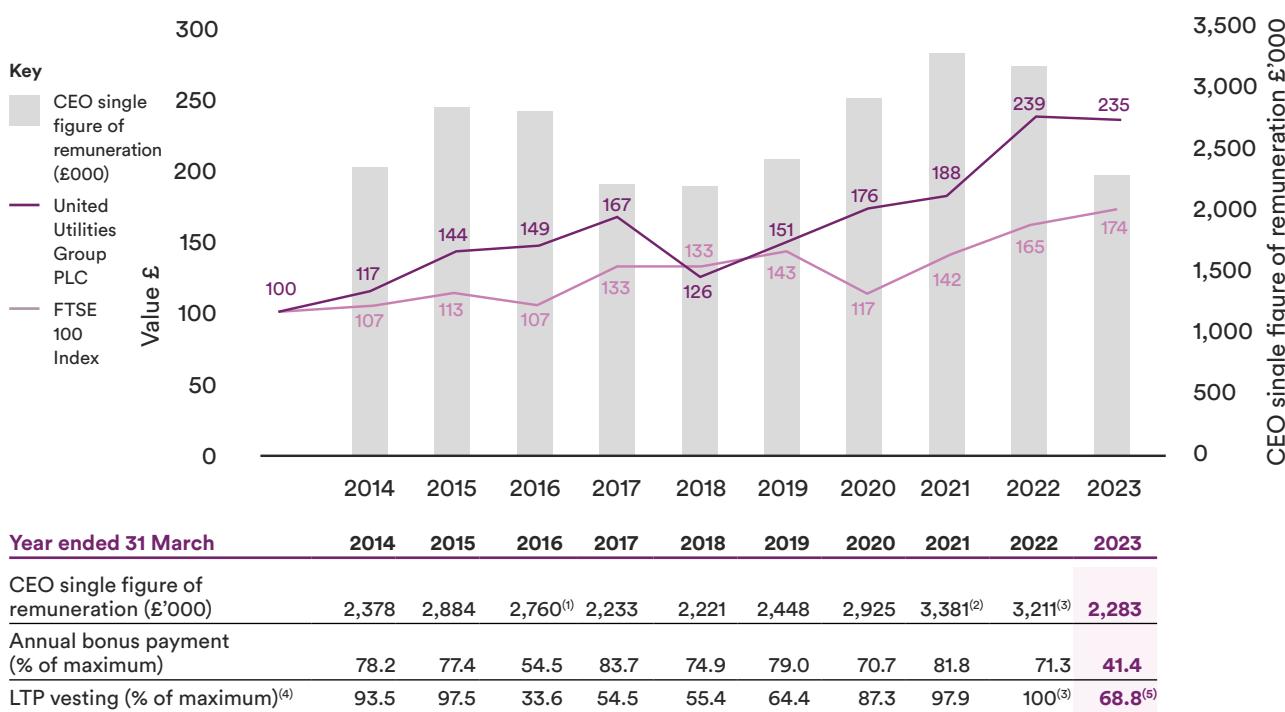
⁽⁵⁾ In the period 1 April 2023 to 24 May 2023, additional shares were acquired by Louise Beardmore (28 shares) and Phil Aspin (27 shares) in respect of their monthly contributions to the all employee ShareBuy scheme. Steve Mogford acquired 14 additional shares relating to his ShareBuy contribution in March 2023. These will be matched by the company on a one-for-five basis. Matching shares vest one year after grant provided the colleague remains employed.

⁽⁶⁾ On 1 April 2023, shares granted on 25 June 2018 under the Long Term Plan vested for Steve Mogford following a holding period. 152,768 shares vested, of which 68,918 shares were sold to cover tax and National Insurance. Steve retained the remaining balance of 83,850 shares.

Other information

Company performance and CEO remuneration comparison

The total shareholder return (TSR) chart below illustrates the company's performance against the FTSE 100 over the past ten years. The FTSE 100 is an appropriate comparator as the company is a member of the FTSE 100 and it is a widely published benchmark for this purpose. The chart shows the growth in the value of a hypothetical £100 holding invested in the company over the ten-year period. The chart also shows the CEO's single total figure remuneration over the ten years ended 31 March 2023 for comparison. The table below the TSR chart shows the remuneration data for the CEO over the same period. Steve Mogford was the CEO over the whole period.



⁽¹⁾ This includes the payout from the 2013 Long Term Plan (LTP) as well as £1.028 million in respect of Steve Mogford's one-off Matched Share Investment Scheme that ended on 5 January 2016 (vested at 100 per cent).

⁽²⁾ The payout from the 2018 LTP, which vested on 1 April 2023 after the end of a two-year holding period, has been updated to reflect the additional dividends accruing on this award and the closing share price on the date of vesting of 1,060 pence per share.

- ⁽³⁾ The payout and vesting percentage for the 2019 LTP have been restated to reflect the additional dividend equivalents accruing on the award, the final vesting outcome and updated share price. See page 180 for further details.
- ⁽⁴⁾ For performance periods ended on 31 March, unless otherwise stated.
- ⁽⁵⁾ The 2020 Long Term Plan amount vesting percentage is estimated. See page 182 and 183 for further details.

Exit payments and payments to former directors made in the year (audited information)

There have been no exit payments or payments to former directors in respect of their roles as directors during the year ended 31 March 2023 other than the vesting of legacy share awards (see page 203).

External appointments

Steve Mogford was non-executive director of QinetiQ during the year ended 31 March 2023, for which he received and retained an annual fee of £40,000. Phil Aspin was a member of the UK Endorsement Board during the year ended 31 March 2023, for which he received and retained an annual fee of £14,000.

Non-executive directors

Single total figure of remuneration for non-executive directors (audited information)

Year ended 31 March	Salary/fees £'000		Taxable benefits £'000		Total £'000	
	2023	2022	2023	2022	2023	2022
Sir David Higgins	311	304	1	2	312	306
Liam Butterworth ⁽¹⁾	71	17	1	–	72	17
Stephen Carter ⁽²⁾	25	81	3	2	28	83
Kath Cates ⁽³⁾	80	69	1	2	81	71
Mark Clare ⁽²⁾	26	83	4	2	30	85
Alison Goligher ⁽³⁾	85	83	–	1	85	84
Paulette Rowe ⁽⁴⁾	79	69	1	1	80	70
Doug Webb ⁽⁵⁾	87	80	1	1	88	81

⁽¹⁾ Liam Butterworth joined the board on 1 January 2022.

⁽²⁾ Stephen Carter and Mark Clare both stepped down from the board on 22 July 2022.

⁽³⁾ Kath Cates was appointed as chair of the remuneration committee with effect from 22 July 2022 and received the applicable additional fee from that date. Alison Goligher stepped down as chair of the remuneration committee with effect from 22 July 2022 when she became the senior independent non-executive director, for which she received the applicable additional fee.

⁽⁴⁾ Paulette Rowe was appointed as chair of the ESG committee with effect from 22 July 2022 and received the applicable additional fee from that date.

⁽⁵⁾ Doug Webb was appointed as chair of the audit and treasury committees with effect from 23 July 2021 and received the applicable additional fees from that date.

Fees

Non-executive director base fees were reviewed and increased with effect from 1 September 2022 as shown below. Base fees were increased by 3.0 per cent, which is lower than the increase applying to the general workforce in 2022. Additional fees for the senior independent non-executive director and the chairs of committees were also increased by 3.0 per cent.

Role	Fees £'000	
	1 Sept 2022	1 Sept 2021
Base fee: Chair ⁽¹⁾	315.2	306.0
Base fee: other non-executive directors ⁽²⁾	71.7	69.6
Senior independent non-executive director ⁽²⁾	13.9	13.5
Chair of audit and treasury committees ⁽²⁾	16.5	16.0
Chair of remuneration committee ⁽²⁾	13.9	13.5
Chair of ESG committee ⁽²⁾	12.4	12.0

⁽¹⁾ Approved by the remuneration committee.

⁽²⁾ Approved by a separate committee of the board.

Remuneration

Annual report on remuneration continued

Non-executive directors' shareholdings (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2023 held by each of the non-executive directors and their connected persons are set out in the table below.

Non-executive directors	Date first appointed to the board	Number of shares owned outright (including connected persons) at 31 March 2023 ⁽¹⁾	
		31 March 2023 ⁽¹⁾	31 March 2022 ⁽²⁾
Sir David Higgins	13.5.19	3,000	
Liam Butterworth	1.1.22	3,000	
Stephen Carter ⁽²⁾	1.9.14	3,075	
Kath Cates	1.9.20	2,135	
Mark Clare ⁽²⁾	1.11.13	7,628	
Alison Goligher	1.8.16	6,000	
Paulette Rowe	1.7.17	3,000	
Doug Webb	1.9.20	10,200	

⁽¹⁾ From 1 April 2023 to 24 May 2023 there have been no movements in the shareholdings of the non-executive directors.

⁽²⁾ Stephen Carter and Mark Clare had 3,075 and 7,628 shares respectively when they stepped down from the board on 22 July 2022.

Change in board member and colleague remuneration

Year ended 31 March	Salary/total fees %			Benefits %			Bonus %		
	2023 versus 2022	2022 versus 2021	2021 versus 2020	2023 versus 2022	2022 versus 2021	2021 versus 2020	2023 versus 2022	2022 versus 2021	2021 versus 2020
	Executive directors								
Steve Mogford	0.8	6.5	(4.2)	14.0	(23.9)	(14.1)	(41.4)	(11.8)	16.7
Louise Beardmore ⁽¹⁾	n/a								
Phil Aspin	3.6	1.2	n/a	(6.3)	67.3	n/a	(50.1)	6.4	n/a
Non-executive directors ⁽³⁾									
Sir David Higgins	2.6	6.5	111.1	(55.6)	1,555.9	(96.6)	n/a	n/a	n/a
Liam Butterworth	2.6 ⁽²⁾	n/a							
Stephen Carter	2.5 ⁽²⁾	6.3	(4.4)	123.6	1,556.3	(93.0)	n/a	n/a	n/a
Kath Cates	16.5 ⁽⁴⁾	6.5	n/a	(59.4)	1,555.9	n/a	n/a	n/a	n/a
Mark Clare	2.5 ⁽²⁾	6.3	(4.4)	166.3	1,555.9	(96.6)	n/a	n/a	n/a
Alison Goligher	2.5	11.5 ⁽⁵⁾	9.4	(100.0)	708.6	(81.0)	n/a	n/a	n/a
Paulette Rowe	15.0 ⁽⁶⁾	6.5	(4.2)	(23.7)	782.1	(95.2)	n/a	n/a	n/a
Doug Webb	8.8 ⁽⁷⁾	23.6	n/a	(55.7)	1,418.0	n/a	n/a	n/a	n/a
All colleagues	6.6	3.7	4.1	4.1	5.0	6.9	(27.3)	11.6	13.6

⁽¹⁾ Louise Beardmore was appointed to the board on 5 May 2022 so no year-on-year comparison is possible.

⁽²⁾ Liam Butterworth joined the board on 1 January 2022. Stephen Carter and Mark Clare both stepped down from the board on 22 July 2022. To enable a meaningful year-on-year comparison their salary/fees reflect hypothetical full-year earnings in 2021/22 and 2022/23 respectively.

⁽³⁾ Calculated using the fees and taxable benefits shown in the table on page 191.

⁽⁴⁾ The fee increase for Kath Cates reflects her appointment as remuneration committee chair with the associated fee effective from 22 July 2022.

⁽⁵⁾ The fee increase for Alison Goligher reflects her appointment as remuneration committee chair with the associated fee effective from 24 July 2020. Alison stepped down as remuneration committee chair and became the senior independent NED with the associated fee effective from 22 July 2022.

⁽⁶⁾ The fee increase for Paulette Rowe reflects her appointment as ESG committee chair with the associated fee effective from 22 July 2022.

⁽⁷⁾ The fee increase for Doug Webb reflects his role as chair of audit and treasury committees for the full year, whereas in the prior year he was only chair for part of the year and so did not receive an additional fee.

The remuneration committee

Composition of the remuneration committee during the year ended 31 March 2023

Member	Member since
Kath Cates (chair since 22.7.22)	1.9.20
Alison Goligher (chair until 22.7.22)	1.8.16
Mark Clare (until 22.7.22)	1.9.14
Doug Webb	23.7.21

The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors.

Activities of the remuneration committee over the past year

The committee met four times in the year ended 31 March 2023 and carried out a number of key activities:

- Approved the 2021/22 directors' remuneration report;
- Reviewed the executive pay arrangements and consulted with shareholders and other stakeholders on the proposed directors' remuneration policy;
- Wrote to major shareholders following the publication of the company's 2022 annual report and reviewed the feedback received;
- Reviewed the pay comparator group;
- Determined the remuneration arrangements for Steve Mogford related to his retirement, and Louise Beardmore on her appointment as CEO;
- Determined the remuneration arrangements for departing and new executives falling under the remit of the committee;
- Reviewed the base salaries of executive directors and other members of the executive team;
- Reviewed the base fee for the Chair;
- Assessed the achievement of targets for the 2021/22 annual bonus scheme, set the targets for the 2022/23 annual bonus scheme and reviewed progress against the targets;
- Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2019, reviewed progress against the targets for the 2020 and 2021 LTP awards, and set the measures and targets for the 2022 LTP awards;
- Reviewed and approved awards made under the annual bonus, Deferred Bonus Plan (DBP) and LTP;
- Monitored progress against shareholding guidelines for executive directors and other members of the executive team;
- Reviewed the committee's performance during the period;
- Considered the remuneration arrangements of the wider workforce and their alignment with those of the executives, alongside feedback received from the workforce via Alison Goligher in her role as the non-executive director for workforce engagement;
- Considered governance developments and market trends in executive remuneration, including in the wider utilities sector; and
- Noted progress on the company's gender pay gap reporting.

Remuneration

Annual report on remuneration continued

Support to the remuneration committee

By invitation of the committee, meetings are attended by the Chair, the CEO, the company secretary (who acts as secretary to the committee), the people director and the head of reward, who are consulted on matters discussed by the committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other colleagues where the committee feels that such additional contributions will assist the decision-making process.

The committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers.

During the year, the committee was assisted in its work by the following external advisers:

Adviser	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2023	Additional services provided in year ended 31 March 2023	Fees paid by company for services to the remuneration committee and basis of charge
Ellason LLP	Committee	Appointed January 2021; services retained during the financial year	General advice on remuneration matters including analysis of the remuneration policy and regular market and best practice updates	Advice and benchmarking on non-executive director and senior leader remuneration; advice on the company's share schemes; and assurance work on the remuneration report for the audit committee	£52,000 on a time/cost basis as set out in terms and conditions in the relevant engagement letter

Ellason are signatories to the Remuneration Consultant Group's Code of Conduct, which sets out guidelines to ensure that any advice is independent and free of undue influence (which can be found at remunerationconsultantsgroup.com). None of the individual directors have a personal connection with Ellason. The committee is satisfied that the advice it receives is objective and independent and confirms that Ellason do not have any connection with the company that may impair their independence.

In addition, during the year the law firm Eversheds Sutherland provided advice to the company in relation to the company's share schemes.

2022 AGM: Statement of voting

At the last annual general meeting on 22 July 2022, votes on the resolutions to approve the remuneration policy and annual report on remuneration were cast as follows:

Resolution	Votes for	Votes against	Votes withheld (abstentions)	Total votes cast
Approval of the directors' remuneration policy	498,652,274 (99.02%)	4,941,551 (0.98%)	203,755	503,593,825
Approval of the directors' remuneration report (other than the part containing the directors' remuneration policy)	465,131,664 (93.94%)	30,016,180 (6.06%)	8,649,736	495,147,844

The directors' remuneration report was approved by the board of directors on 24 May 2023 and signed on its behalf by:

Kath Cates

Chair of the remuneration committee

Appendix 1: Directors' remuneration policy (abridged)

Directors' remuneration policy

The appendix to the directors' remuneration report sets out an abridged version of the directors' remuneration policy for the company, which was approved by shareholders at the AGM on 22 July 2022. The policy took effect from the date of approval and will be reviewed and renewed no later than the 2025 AGM.

In the interests of clarity, this abridged report includes some minor annotations to show, where appropriate, how the policy will be implemented in 2023/24. A full version of the shareholder approved policy can be found in the annual report and financial statements for the year ended 31 March 2022.

Overview of remuneration policy

The company's remuneration arrangements are designed to promote the long-term success of the company. The company does not pay more than is necessary for this purpose. The committee recognises that the company operates in the North West of England in a regulated environment and, therefore, needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

The committee monitors the remuneration arrangements to ensure that there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the company's strategy, and if the strategy is delivered within an acceptable level of risk, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

The committee also understands that listening to the views of the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged. Account is taken of colleague views when consulting on the policy, typically via the colleague voice panel. Additionally, the company carries out annual colleague engagement surveys and regular discussion takes place with union representatives on matters of pay and remuneration for colleagues covered by collective bargaining or consultation arrangements, all of which can provide insight that is of value to the committee. The general base salary increase and broader remuneration arrangements, including pension provision, for the wider colleague population are considered by the committee when determining remuneration policy for the executive directors. As outlined on page 187 processes are in place for the committee to regularly review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the 'colleague voice'.

Policy table for directors

Base salary

Purpose and link to strategy: To attract and retain executives of the experience and quality required to deliver the company's strategy.

Operation	Maximum opportunity
Normally reviewed annually, typically effective 1 September. Significant increases in salary should only take place infrequently, for example where there has been a material increase in: <ul style="list-style-type: none"> • the size of the individual's role; • the size of the company (through mergers and acquisitions); or • the pay market for directly comparable companies (for example, companies of a similar size and complexity). On recruitment or promotion to executive director, the committee will take into account previous remuneration, and pay levels for comparable companies, when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Current salary levels are shown in the annual report on remuneration. Executive directors will normally receive a salary increase that is generally no greater than the increase awarded to the general workforce, unless one or more of the conditions outlined under 'Operation' is met. Where the committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance.
	Performance measures
	None.

Appendix 1: Directors' remuneration policy (abridged) continued

Pension

Purpose and link to strategy: To provide a level of benefits that allow for personal retirement planning.

Operation	Maximum opportunity
<p>Executive directors are offered the choice of:</p> <ul style="list-style-type: none"> • a company contribution into a defined contribution pension scheme; • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance. 	<p>The maximum opportunity is aligned to the approach available to the wider workforce, currently:</p> <ul style="list-style-type: none"> • up to 14 per cent of salary into a defined contribution scheme; • cash allowance of broadly equivalent cost to the company (up to 14 per cent of salary less employer National Insurance contributions at the prevailing rate, i.e. up to 12 per cent of base salary for 2023/24); or • a combination of both such that the cost to the company is broadly the same. <p>For executive directors appointed to role before 26 July 2019 a cash allowance of 22 per cent of salary was payable until 31 December 2022. From 1 January 2023 arrangements for such executive directors were aligned to the approach available to the wider workforce.</p>
Performance measures	
	None.

Benefits

Purpose and link to strategy: To provide market competitive benefits to help recruit and retain high-calibre executives.

Operation	Maximum opportunity
<p>Provision of benefits such as:</p> <ul style="list-style-type: none"> • health benefits; • green travel allowance; • relocation assistance; • life assurance; • group income protection; • all employee share schemes (e.g. opportunity to join the ShareBuy scheme); • travel; and • communication costs. <p>Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit).</p> <p>Executives will be eligible for any other benefits that are introduced for the wider workforce on broadly similar terms and additional benefits might be provided from time to time if the committee decides payment of such benefits is appropriate and in line with emerging market practice.</p>	<p>As it is not possible to calculate in advance the cost of all benefits, a maximum is not predetermined.</p>
Performance measures	
	None.

Annual bonus

Purpose and link to strategy: To incentivise performance against selected financial and operational KPIs that are directly linked to business strategy. Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.

Operation	Maximum opportunity
A maximum of 50 per cent of bonus awarded paid as cash.	Maximum award level of up to 130 per cent of salary, for the achievement of stretching performance objectives.
A minimum of 50 per cent of bonus awarded deferred into company shares under the Deferred Bonus Plan (DBP) for a period of at least three years.	
Dividends or dividend equivalents accrue during the DBP deferral period and are paid upon vesting.	
Not pensionable.	
Bonuses and DBP shares are subject to withholding and recovery provisions in cases of: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine.	
	Targets and weightings set by reference to the company's financial and operating plans.
	Bonus outcomes are subject to the committee being satisfied that the company's performance on the measures is consistent with underlying business performance and individual contributions.
	The committee will exercise discretion on bonus outcomes if it deems necessary.
	100 per cent of maximum bonus potential for stretch performance; up to 50 per cent of maximum for target performance; and up to 25 per cent of maximum for threshold performance. No payout for below-threshold performance.

Long Term Plan (LTP)

Purpose and link to strategy: To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.

Operation	Maximum opportunity
Awards under the Long Term Plan are rights to receive company shares, subject to certain performance conditions.	The normal maximum award level will be up to 130 per cent of salary per annum.
Each award is measured over at least a three-year performance period.	The overall policy limit is 200 per cent of salary. It is not currently anticipated that awards above the normal level will be made to executive directors and any such increase on an ongoing basis will be subject to prior consultation with major shareholders.
An additional holding period applies after the end of the three-year performance period so that the total vesting and holding period is at least five years.	
Dividends or dividend equivalents accrue until awards are released to participants, to the extent that such awards vest for performance.	
Shares under the LTP are subject to withholding and recovery provisions in cases of: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine.	
	The two performance conditions are Return on Regulated Equity and a basket of customer measures. The weighting of each of these two components is 50 per cent.
	Any vesting is subject to the delivery of the dividend policy applicable to each year of the respective performance period, and the committee being satisfied that the company's performance on these measures is consistent with underlying business performance. The committee will exercise discretion on LTP outcomes if it deems it necessary.
	The committee has discretion to set alternative performance measures and/or weightings for future awards but will consult with major shareholders before making any material changes to the currently applied measures and/or weightings.
	100 per cent of awards vest for stretch performance; and up to 25 per cent of awards vest for threshold performance. No awards vest for below-threshold performance.

Remuneration

Appendix 1: Directors' remuneration policy (abridged) continued

Shareholding requirements

Purpose and link to strategy: The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests during and after employment.

Operation	Maximum opportunity
Executive directors are expected to reach a shareholding requirement of 200 per cent of salary, normally within five years of appointment.	None.
The following post-employment shareholding requirements apply in the event of an executive director leaving the company:	Performance measures
<ul style="list-style-type: none"> Executive directors must continue to hold the lower of 200 percent of salary in shares or their shareholding on departure, for two years after ceasing employment with the group. Executive directors appointed on or after 19 May 2020 must retain shares vesting (net of tax) from all share awards (including in-flight awards) if not doing so would take their shareholding below the requirement. As the only executive director in role before 19 May 2020, Steve Mogford must retain shares vesting (net of tax) from share awards relating to performance periods beginning on or after 1 April 2020 if not doing so would take his shareholding below the requirement. 	
<p>Nominee accounts are used to enable the post-employment shareholding requirements to be robustly enforced.</p>	

Non-executive directors' fees and benefits

Purpose and link to strategy: To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.

Operation	Maximum opportunity
The remuneration policy for the non-executive directors (with the exception of the Chair) is set by a separate committee of the board. The policy for the Chair is determined by the remuneration committee (of which the Chair is not a member).	Current fee levels are shown in the annual report on remuneration.
Fees are reviewed annually taking into account the salary increase for the general workforce and the levels of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 September. Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain board sub-committees, and to the senior independent non-executive director.	The value of benefits may vary from year to year, according to the cost to the company.
<p>In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the board may pay extra fees on a pro rata basis to recognise the additional workload.</p>	
<p>No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or colleague share schemes.</p>	
<p>The company repays any reasonable expenses that a non-executive director incurs in carrying out their duties as a director, including travel, hospitality-related and other modest benefits and any tax liabilities thereon, if appropriate.</p>	

Notes to the policy table

Selection of performance measures and targets

Performance measures for the annual bonus are selected annually to align with the company's key strategic goals for the year and reflect financial, operational and personal objectives. 'Target' performance is typically set in line with the business plan for the year, following rigorous debate and approval of the plan by the board. Threshold to stretch targets are then typically set based on a sliding scale on the basis of relevant commercial factors.

Only modest rewards are available for delivering threshold performance levels, with rewards at stretch normally requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus and Long Term Plan (LTP) are given in the annual report on remuneration.

The policy provides for committee discretion to alter the LTP measures and weightings to ensure they continue to facilitate an appropriate measurement of performance over the life of the policy (taking into account any evolution of the strategic goals of the company). LTP targets are set taking into account a number of factors, including reference to market practice, the company business plan and analysts' forecasts where relevant. The LTP will only vest in full if stretching business performance is achieved.

Annual bonus and long-term incentives – flexibility, discretion and judgement

The committee will operate the company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards.

These include making awards and setting performance criteria each year, dealing with leavers, and adjustments to awards and performance criteria following acquisitions, disposals, changes in share capital and to take account of the impact of other merger and acquisition activity.

The committee retains discretion within the policy to adjust the targets, set different measures and/or alter weightings for the annual bonus and long-term incentive plans, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the annual bonus and long-term incentive plans to adjust performance conditions to ensure that the awards fulfil their original purposes (for example, if an external benchmark or measure is no longer available). All assessments of performance are ultimately subject to the committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the annual remuneration report.

All historic awards that were granted under any current or previous bonus or share schemes operated by the company and remain outstanding remain eligible to vest based on their original award terms.

Appendix 1: Directors' remuneration policy (abridged) continued

Alignment of executive director remuneration with the wider workforce

The remuneration approach is consistently applied at levels below the executive directors. Key features include:

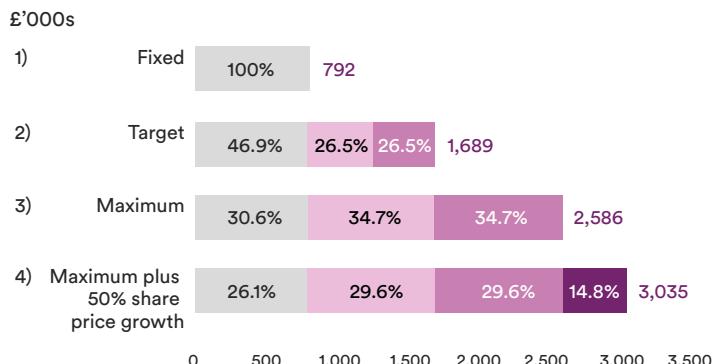
- market competitive levels of remuneration, incentives and benefits to attract and retain colleagues;
- colleagues at all levels participate in a bonus scheme with the same corporate performance measures as for executive directors; and
- all colleagues have the opportunity to participate in the HMRC-approved share incentive plan, ShareBuy.

At senior levels, remuneration is increasingly long term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

Scenarios for total remuneration

The charts below show the illustrative pay-outs under the remuneration policy for each current executive director under four different scenarios.

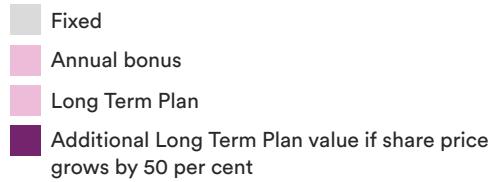
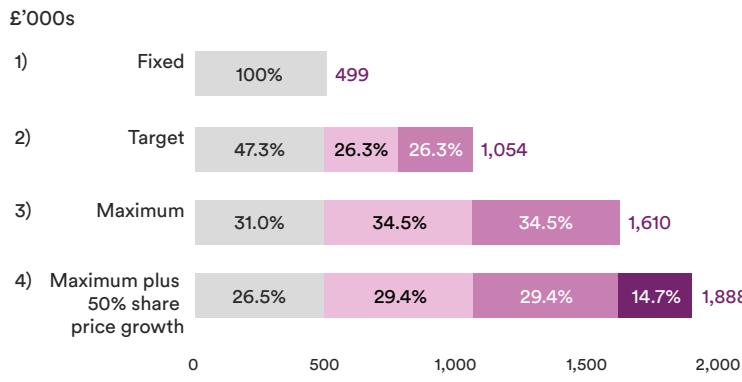
Louise Beardmore CEO



Notes on the scenario methodology:

- 'Fixed' is base salary effective 1 April 2023 plus the applicable cash allowance in lieu of pension and the value of benefits as shown in the single total figure of remuneration table for 2022/23;
- 'Target' performance is the level of performance required for the annual bonus and Long Term Plan to pay out at 50 per cent of maximum;
- 'Maximum' performance would result in 100 per cent vesting of the annual bonus and Long Term Plan (i.e. 260 per cent of salary in total);
- 'Maximum performance plus 50 per cent share price growth' shows maximum performance plus the impact on the Long Term Plan of a hypothetical 50 per cent increase in the share price;
- Annual bonus includes amounts compulsorily deferred into shares;
- Long Term Plan is measured at face value, i.e. no assumption for dividends or changes in share price (except in the fourth scenario); and
- Amounts relating to all-colleague share schemes have, for simplicity, been excluded from the charts.

Phil Aspin CFO



External directorships

The company recognises that its executive directors may be invited to become non-executive directors of other companies outside the company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the company. Any external appointments are subject to board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a director's performance). Directors will be allowed to retain any fees received in respect of such appointments.

Service contracts and letters of appointment

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the company's registered office during normal hours of business and will be available at the company's AGM. Copies of non-executive directors' letters of appointment can also be viewed on the company's website.

The notice period in the service contracts for executive directors appointed on or after 1 May 2022 is one year. For executive directors appointed prior to 1 May 2022, the notice period is up to one year when terminated by the company and at least six months' notice when terminated by the director. The policy on payments for loss of office is set out in the next section.

The Chair and other non-executive directors have letters of appointment rather than service contracts. Their appointments may be terminated without compensation at any time. All non-executive directors are subject to re-election at each AGM.

Date of service contracts

Executive directors	Date of current service contract
Louise Beardmore	1.4.23
Phil Aspin	24.7.20

Approach to recruitment remuneration

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved directors' remuneration policy in force at the time of appointment. Full details about our approach to recruitment remuneration is set out in the 2022 annual report.

Payment for loss of office

The circumstances of the termination, including the individual's performance and an individual's duty and opportunity to mitigate losses, are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing colleagues may be phased to mitigate loss. Full details of the approach to payment for loss of office and change of control is set out in the 2022 annual report.

Remuneration

Appendix 2: Executive directors' share plan interests

1 April 2022 to 31 March 2023 (audited information)

	Award date	Awards held at 1 April 2022	Granted in year	Vested in year	Lapsed/forfeited in year	Notional dividends accrued in year ⁽¹⁾	Awards held at 31 March 2023 ⁽¹⁾
Steve Mogford							
Shares not subject to performance conditions at 31 March 2023							
DBP	17.6.19	53,659	–	53,659	–	–	–
DBP	16.6.20	42,199	–	–	–	1,739	43,938
DBP	16.6.21	41,601	–	–	–	1,715	43,316
DBP ⁽²⁾	16.6.22	–	34,782	–	–	1,434	36,216
LTP	27.6.17	110,948	–	110,948	–	–	–
LTP	25.6.18	146,718	–	–	–	6,050	152,768
LTP	28.6.19	138,222	–	–	–	5,700	143,922
ShareBuy matching shares ⁽³⁾	1.4.22 to 31.3.23	35	34	35	–	–	34
Subtotal		533,382	34,816	164,642	–	16,638	420,194
Shares subject to performance conditions at 31 March 2023							
LTP	30.11.20	118,399	–	–	–	4,882	123,281
LTP	30.6.21	106,682	–	–	–	4,399	111,081
LTP ⁽⁴⁾	29.7.22	–	95,909	–	–	1,383	97,292
Subtotal		225,081	95,909	–	–	10,664	331,654
TOTAL		758,463	130,725	164,642	–	27,302	751,848
Louise Beardmore							
Shares not subject to performance conditions at 31 March 2023							
DBP	16.6.20	8,261	–	–	–	340	8,601
DBP	16.6.21	8,175	–	–	–	337	8,512
DBP ⁽²⁾	16.6.22	–	8,696	–	–	357	9,053
LTP	28.6.19	22,031	–	22,613	–	582	–
ShareBuy matching shares ⁽³⁾	1.4.22 to 31.3.23	34	35	34	–	–	35
Subtotal		38,501	8,731	22,647	–	1,616	26,201
Shares subject to performance conditions at 31 March 2023							
LTP	30.11.20	23,027	–	–	–	948	23,975
LTP	30.6.21	20,748	–	–	–	855	21,603
LTP ⁽⁴⁾	29.7.22	–	51,551	–	–	743	52,294
Subtotal		43,775	51,551	–	–	2,546	97,872
TOTAL		82,276	60,282	22,647	–	4,162	124,073

	Award date	Awards held at 1 April 2022	Awards Granted in year	Vested in year	Lapsed/forfeited in year	Notional dividends accrued in year ⁽¹⁾	Awards held at 31 March 2023 ⁽¹⁾
Phil Aspin							
Shares not subject to performance conditions at 31 March 2023							
DBP	16.6.20	4,430	–	–	–	182	4,612
DBP	16.6.21	16,902	–	–	–	696	17,598
DBP ⁽²⁾	16.6.22	–	21,651	–	–	892	22,543
LTP	28.6.19	10,597	–	10,877	–	280	–
ShareBuy matching shares ⁽³⁾							
	1.4.22 to 31.3.23	35	34	35	–	–	34
Subtotal		31,964	21,685	10,912	–	2,050	44,787
Shares subject to performance conditions at 31 March 2023							
LTP	30.11.20	61,094	–	–	–	2,519	63,613
LTP	30.6.21	55,047	–	–	–	2,270	57,317
LTP ⁽⁴⁾	29.7.22	–	49,489	–	–	713	50,202
Subtotal		116,141	49,489	–	–	5,502	171,132
TOTAL		148,105	71,174	10,912	–	7,552	215,919

⁽¹⁾ Note that these are subject to performance conditions where applicable.

⁽²⁾ See page 180 for further details.

⁽³⁾ Under ShareBuy, matching shares vest provided the colleague remains employed by the company one year after grant. During the year, Steve Mogford purchased 173 partnership shares and was awarded 34 matching shares (at an average share price of 1,039.6 pence per share). Louise Beardmore purchased 173 partnership shares and was awarded 35 matching shares (at an average share price of 1,041.1 pence per share). Phil Aspin purchased 173 partnership shares and was awarded 34 matching shares (at an average share price of 1,039.5 pence per share).

⁽⁴⁾ See page 183 for further details.

Vesting of legacy share awards for former directors

Russ Houlden retired from the board and left the company in July 2020. In line with policy he retained a number of awards under the DBP and, as a ‘good leaver’, the LTP. On 1 April 2022, 70,046 shares arising from his 2017 LTP vested, on 1 August 2022, 74,073 shares arising from his 2018 LTP vested and, on 28 October 2022, 39,894 shares arising from his 2019 LTP vested. On 17 June 2022, 33,689 shares arising from his 2019 DBP vested.

Dilution limits

Awards granted under the company’s share plans are satisfied by market purchased shares bought on behalf of the company by United Utilities Employee Share Trust immediately prior to the vesting of a share plan. The company does not make regular purchases of shares into the Trust nor employ a share purchase hedging strategy, and shares are bought to satisfy the vesting of share plans.

The rules of the Deferred Bonus Plan do not permit awards to be satisfied by newly issued shares and must be satisfied by market purchased shares. The rules of the Long Term Plan permit the awards to be satisfied by newly issued shares but the company has decided to satisfy awards by market purchased shares.

Should the company’s method of satisfying share plan vestings change (i.e. issuing new shares) then the company would monitor the number of shares issued and their impact on dilution limits set by the Investment Association in respect of all share plans (10 per cent in any rolling ten-year period) and executive share plans (5 per cent in any rolling ten-year period). No treasury shares were held or utilised in the year ended 31 March 2023.

ESG committee



Paulette Rowe
Chair of the ESG committee

Quick facts

- The committee comprises four directors appointed by the board, three of whom are independent non-executive directors.
- The company secretary, the corporate affairs director, the people director, and the investor relations and clean energy strategy director attend all meetings of the committee.
- Senior operational directors attend the committee to report on the environmental, social and governance aspects of particular topics and initiatives.
- A committee, with power delegated to it from the board in relation to environmental, social and governance matters, has been in operation for over fifteen years.

The long standing commitment to clear and transparent disclosure has ensured the company's performance in ESG has remained strong.

Dear shareholder

I am pleased to introduce my first report on the activities of the ESG committee in 2022/23.

United Utilities has operated a board committee with a clear remit on responsible business strategy and delivery for over fifteen years. Each year the committee evaluates its approach to ensure the appropriate governance is in place.

The focus on environmental, social and governance (ESG) matters has continued to grow and, reflecting that trend, the committee agreed to change its name to the ESG committee. While this does not change its terms of reference, it will help demonstrate to external stakeholders, keen to understand how the company performs on ESG, that board level governance is in place. In addition to changing its name, the committee agreed to strengthen board training on climate change over the coming year.

The committee continued to consider a broad range of ESG topics but two issues have dominated its agenda from a reputational and responsible business perspective, namely storm overflows (and their impact on river water quality) and the cost of living.

Prioritising storm overflows

Over the course of the year, the committee reviewed the company's approach to storm overflows and is encouraged that there is an ambitious plan to address the issue. Because of the particular challenges in the North West – a high percentage of combined sewer systems (that collect both rain and wastewater) and more incidents of heavy downpours sending greater volumes of rainwater into our sewers – this will amount to one of the largest environmental improvement programmes of its kind in the country and the committee will continue to track progress.

Efforts to engage with stakeholders on overflows is delivering positive outcomes. The committee felt that the creation of the Love Windermere partnership to bring about a science-based plan to improve the lake's water quality is a potential model of best practice.

ESG committee members:



Paulette Rowe
Chair of the ESG committee



Steve Mogford
(until 31 March 2023)



Alison Goligher



Liam Butterworth



Louise Beardmore
(from 31 March 2023)

Quick links



Terms of reference:
unitedutilities.com/corporate-governance

The announcement that the company will bring forward investment totalling £914 million ahead of AMP8 was especially encouraging.

Regular updates to the committee have focused on delivery of the company's commitments under its Better Rivers: Better North West programme. While many of these require working with others to deliver improvements, the committee welcomed how the company has responded to customer feedback about its Better Rivers plan, to report first on the actions United Utilities is taking to improve river health.

Improving river water quality presents a challenge to the entire sector so cross industry collaboration is important. We were pleased that the company hosted the sector's first Pollution Summit to share best practice on measures being taken by all water companies to reduce the frequency of pollution events. Sector body Water UK was present at the summit, reinforcing that collective action is now seen as an essential step in regaining public trust.

Committee members welcomed efforts by the company to engage with stakeholders on other environmental topics and were encouraged by the broad attendance from the region's environmental organisations at the company's first Environmental AGM. This provided an opportunity to discuss the company's recent performance on topics such as climate change, pollution, water use and biodiversity with the region's leading environmental representatives.

Supporting customers and colleagues

From a social perspective, cost of living pressures have dominated headlines with utility and other bills and household expenses rising with inflationary pressures. For some time, the committee has focused on affordability and vulnerability given the North West has some of the most deprived neighbourhoods in the country. During the year, progress on support schemes, such as payment breaks and help to pay, as well as the vital support provided by the United Utilities Trust Fund, has been presented to the committee and it will continue to scrutinise the company's approach on this important topic.

The committee scrutinised several items relating to equity, diversity and inclusion (ED&I), in particular the proposed measures for monitoring ED&I. We received regular reports on the work of the Colleague Voice

panel, bringing the views and opinions of colleagues directly to the board table, as well reviewing the annual gender pay report.

A new style report

In recent years, the committee has recognised growing interest in ESG from the investor community with increased expectations on companies to disclose ESG data and demonstrate action on ESG topics. It noted the trend to consolidate ESG reporting across international reporting standards. To ensure that the company's ESG performance is readily available to stakeholders and, in particular, investors, the committee reviewed plans to enhance engagement through a dedicated sustainability report and direct engagement with specific investors.

Evidencing that the company is delivering on its responsible business goals is reviewed twice yearly by the committee. These measures and targets are aligned to ESG and form part of the performance section of this report (see pages 84 to 111). Publishing a set of performance measures and targets in this way enables stakeholders to judge for themselves whether or not the company is delivering on its purpose.

As I look to the coming year, the committee will focus on specific topics that we judge to be especially important to the overall ESG agenda. These include affordability, carbon and renewables, people, diversity and inclusion, river water quality and reputation.

As a listed company, United Utilities complies with the UK Corporate Governance Code and continues to drive for the highest standards of board leadership, transparency and governance.

Finally, I'd like to thank Stephen Carter for his contribution to the work of the committee after he stood down from the board and as chair of the committee. Similar thanks are extended to Steve Mogford who was a member of the committee for his entire tenure as chief executive. I am grateful to both of them for bringing to the committee their expert perspectives and wise counsel on responsible business and reputation.

Paulette Rowe

Chair of the ESG committee

Main responsibilities

The committee approved a slightly modified set of terms of reference in March 2023. Its main duties are to:

- consider and recommend to the board the broad approach to environmental, social and governance matters taking into account the company's desired ESG positioning;
- keep under review the group's approach to environmental, social and governance matters and ensure it is aligned with the group strategy including the company purpose, strategy and values;
- review environmental, social and governance issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;

- monitor and review the status of the company's reputation and examine the contribution the of the group's corporate responsibility activities toward protecting and enhancing its reputation;
- monitor and review compliance with the board's approach to environmental, social and governance matters and scrutinise the effectiveness of the delivery of the ESG commitments;
- develop and recommend to the board ESG targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators; and
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually.

 Read more about [how our purpose links to ESG](#) on page 02

 Read more about [how we are working with others to improve river health](#) on page 90

ESG committee

 Read more about our TCFD disclosures on page 05

 Read more about Colleague Voice on page 136

The committee's agenda during the year:

Environmental

Update on carbon strategy and progress

The committee was updated on the company's carbon strategy and reviewed the latest investor and stakeholder expectations for clear and formal responsibilities on climate change and wider environmental, social and governance (ESG) matters at the board. It requested regular updates on climate change mitigation and adaption, noting that this activity would be reflected prominently in the Integrated Annual Report and Financial Statements, and on the company website. The committee asked that an update on the carbon impact of PR24 be brought to a future meeting.

Better Rivers: Better North West update

An update was given to the committee on progress in delivering the company's Better Rivers: Better North West engagement pledges:

1. 'Ensuring our operations progressively reduce impact to river health';
2. 'Being open and transparent about our performance and our plans';
3. 'Making rivers beautiful and supporting others to improve and care for them'; and
4. 'Creating more opportunities for everyone to enjoy rivers and waterways'.

Details on important collaborations with organisations such as The Rivers Trust and Greater Manchester Combined Authority were shared with the committee, reflecting the importance placed on working with others to reduce the amount of rainfall running into sewers. Tackling the impact of storm overflows is a high profile reputational challenge and the committee encouraged the company to craft messages to cut through to specific audiences, to acknowledge that the current system needs to change and to highlight the important role to be played by regulators.

PR24 and natural capital

The committee discussed the company's approach to natural capital, noting that good progress had been made in several areas including the addition of natural capital within decision making tools and the development of a methodology to use natural capital data to inform and influence the AMP8 WINEP. It welcomed the rising profile of nature based solutions for projects, especially where they are the lowest whole-life cost. The committee was encouraged by the approach and recognised the importance of effective collaboration on the issue, with partnerships exploring how to implement catchment system operation.

Clean air update

An update on the company's clean air action plan was presented to the committee. It welcomed the decision to become a signatory to the Business for Clean Air initiative and that investment to address the requirements of the Industrial Emissions Directive had been included in the current business plan. Ahead of setting targets, the committee recognised that further monitoring is needed to fully understand air pollutant emissions to create a robust baseline and enable scenario testing to prioritise activities to reduce air pollution.

Social

Affordability and vulnerability

Given the high levels of social and economic deprivation in the North West, this is a standing item for the committee which received two updates on how the company is assisting customers on low incomes. In light of cost living pressures, the committee noted several actions by the company including increased efforts to support customer bill payments, the use of data to identify customers showing signs of struggling to pay and supplementary campaigns.

Smart metering strategy

The smart metering strategy was presented setting out the company's approach to increase meter penetration for AMPs 8 and 9, building on a trial currently underway in Greater Manchester. Members suggested that a clearer articulation of the benefits to individual customers would be helpful and noted that an Ofwat consultation on tariffs provided an opportunity to explore new approaches.

Gender pay report

Members commented on the draft gender pay report and welcomed continued focus and reporting against the company's action plan, part of its wider diversity and inclusion strategy. Following a diversity audit by the Clear Company, the committee supported the planned refresh of actions identified through the audit. Reports and innovation from others in the sector and across industry would be reviewed to identify areas for improvement.

Equity, diversity and inclusion

The committee discussed the proposed measures for monitoring equity, diversity and inclusion. It suggested that focus should be on diversity on the board, rather than women on the board, and encouraged reporting of ethnicity trends at all levels.

Approach to education

The committee endorsed the review of the company's approach to education with greater alignment to its core purpose. Whilst the schools' education programme is a key part of the company's educational activities, it was noted that many other initiatives take place such as apprentice and graduate schemes. Members encouraged the company to consider other operating options and to ensure close alignment with the school curriculum.

Access and recreation strategy

An update on the company's approach to access and recreation was presented to the committee. The consequences of the pandemic through increased visitor numbers and issues of anti-social behaviour were discussed along with the implementation of measures at several sites, discussed with community representatives, to stabilise the situation. Topics such as open water swimming and reservoir safety were explored alongside opportunities to further connect with customers through access and recreation.

Community investment expenditure and alignment to community strategy

The annual update on community giving expenditure was reviewed by the committee. Total expenditure of £2.82 million against a 2025 target of £2.82 million was reported. Members were encouraged that activity had returned to more normal levels since the COVID-19 restrictions. Additional data collation such as the inclusion of innovation expenditure which offered a wider benefit outside of the company, had contributed to an increase in the value of community investment.

Governance

Trends in responsible business

The committee discussed current trends in responsible business and agreed that the most relevant responsible business trends for the company included a just transition to a low carbon and adapted economy, protecting fundamental rights and integrating ESG narrative and data. Members requested that relevant items be incorporated into the committee's rolling calendar.

Sustainability reporting in the FTSE 100 and investor ESG communications

A review of sustainability reporting in the FTSE 100 was presented to the Committee which highlighted trends towards consolidation of global reporting frameworks and current expectations of investors. The approach for engaging investors on ESG matters was discussed, which included the production of a standalone sustainability report, changes to the website, regular content on social media channels and direct engagement with specific investors.

Colleague Voice update

Twice a year the committee reviews progress on colleague and board engagement. Members noted the Colleague Voice panel continued to be a valuable mechanism for colleagues to provide feedback, returning to some face-to-face meetings post pandemic. Data from the Your Opinion Survey was providing new insight on employee demographics and it was suggested that some environmental issues such as carbon be discussed at the panel. The committee was encouraged by progress made by the various colleague network groups and supported board member attendance at network events. Members noted that the company was satisfied it could demonstrate compliance with the UK Corporate Governance Code.

Culture

Each year the committee reviews and assesses company culture and its alignment with business purpose, strategy and values. Members welcomed that external validation of the company's approach had been undertaken to assure the adequacy and effectiveness of its governance, processes and key controls. The audit conclusions were positive with a small number of recommended enhancements and the company reported its intention to include diversity demographic data in its annual update. The committee noted that the company's approach for monitoring culture featured as a best practice case study with the Financial Reporting Council.

Progress against demonstrating purpose

The committee reviewed company performance in delivering its five year commitments that demonstrate how it is fulfilling its purpose, noting strong performance in the second year of reporting, with 45 out of 50 targets reporting green status. Members discussed changes to the measures and concluded that the matrix of measures was balanced appropriately.

Stakeholder engagement and reputational risks

Throughout the year, topics discussed by the committee related the changing ministerial landscape, rivers and environmental performance across the sector, price review expectations on stakeholder engagement, sector collaboration, bathing water results, environmental partnerships and proposals for a national social tariff.

Committee evaluation results

The committee reviewed its external evaluation results and matters arising including training and knowledge development, topics for engagement at the board level and the remit of the committee's activities. It agreed that in 2023 it would focus on five key topics including reputation, carbon and renewables, affordability and vulnerability, river water quality and storm overflows and equity, diversity and inclusion.

Committee terms of reference

The recommendation to rename the committee as the 'ESG committee' was endorsed and members agreed to consequential changes to its terms of reference. It clarified that 'governance' would refer to the current five key ESG topics and reporting requirements, not corporate governance as a whole, which is a matter reserved to the board.

Board climate change and ESG training

The committee discussed training on climate change and ESG issues for board and committee members. Options for board and executive training on climate change and more specific ESG training were agreed.

Looking to the next year, the ESG committee will:

- review performance on how the company is fulfilling its purpose, ESG rating performance and the dashboard tracking the company's efforts to support customers on low incomes;
- on behalf of board, review progress and issues arising from the Colleague Voice panel and the company's approach to culture;
- continue to examine the interaction between purpose, ESG and reputation and review the approach to stakeholder engagement and the management of reputational risks;
- oversee matters of general governance such as reviewing the gender pay report; and
- undertake matters of committee governance such as reviewing its rolling calendar of agenda items, the annual committee evaluation and examination of the committee's terms of reference.

UK tax policies and objectives

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in marketed, artificial or abusive tax avoidance;
- do not use tax havens for tax avoidance purposes, including not taking advantage of any related secrecy rules which can apply to tax havens;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

We expect to fully adhere to the HMRC framework for co-operative compliance.

Our Chief Financial Officer (CFO) has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the head of tax.

The head of tax has day-to-day responsibility for managing the group's tax affairs and engages regularly with key stakeholders from around the group in ensuring that tax risk is proactively managed. Where appropriate, she will also engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the group's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the group and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes, which lead to increased cash outflow, which has not been reflected in the current regulatory settlement. The group is committed to actively engaging with relevant authorities in order to manage any such risk.

In any given year, the group's effective cash tax rate on underlying profits may fluctuate from the standard UK rate mainly due to the available tax deductions on capital investment. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.

Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers; reducing their bills. For 2022/23, the impact of tax deductions on capital investment alone reduced average household bills by around £20.

The group's principal subsidiary, United Utilities Water Limited (UUW), operates solely in the UK and its customers are based here. In addition, all of the group's profits are taxable in the UK.

Every year, the group pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2023 of around £229 million are set out below.

Taxes/contributions to public finances for 2023

Total taxes and contributions to public finances

£229m

£88m	£0m	£29m	£59m	£13m	£40m
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Business rates



Corporation tax*



Employment taxes:
company



Employment taxes:
employees

Environmental taxes
and other duties



Regulatory services fees
(e.g. water extraction charges)



* The corporation tax paid for 2022 and 2023 is lower due to benefit accruing from the temporary capital allowances super deductions rules introduced in 2021.

The above tax policy disclosure meets the group's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2023.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- How much tax we pay;
- How we ensure that we pay the right tax at the right time; and
- How we ensure that our tax affairs are transparent for all our stakeholders.

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



Directors' report

Statutory and other information

Our directors present their management report, including the strategic report, on pages 08 to 119 and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2023.

Business model A description of the company's business model can be found within the strategic report on pages 20 to 83.

Dividends Our directors are recommending a final dividend of 30.34 pence per ordinary share for the year ended 31 March 2023, which, together with the interim dividend of 15.17 pence, gives a total dividend for the year of 45.51 pence per ordinary share (the interim and final dividends paid in respect of the 2021/22 financial year were 14.50 pence and 29.00 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, the final dividend will be paid on 1 August 2023 to shareholders on the register at the close of business on 23 June 2022.

Directors The names of our directors who served during the financial year ended 31 March 2023 can be found on pages 122 to 125 and on page 134.

Reappointment Our articles of association provide that our directors must retire at every annual general meeting following their last election or reappointment by our shareholders, which is consistent with the recommendation contained within the 2018 UK Corporate Governance Code (the code) that all directors should be subject to annual election by shareholders. This has been the case at all the AGMs since 2011. Information regarding the appointment of our directors is included in our corporate governance report on pages 140 to 148.

Interests Details of the interests in the company's shares held by our directors and persons connected with them are set out in our directors' remuneration report on pages 170 to 203, which is hereby incorporated by reference into this directors' report.

Corporate governance statement The corporate governance report on pages 122 to 203 is hereby incorporated by reference into this directors' report and includes details of our application of the principles and reporting against the provisions of the code. Our statement includes a description of the main features of our internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the 2018 version of the code, as applicable to the company for the year ended 31 March 2023, can be found at the Financial Reporting Council's website frc.org.uk. Copies of the matters reserved for the board and the terms of reference for each of the main board committees can be found on our website.

Share capital At 31 March 2023, the issued share capital of the company was £499,819,926 divided into 681,888,418 ordinary shares of 5 pence each and 273,956,180 deferred shares of 170 pence each. Details of our share capital and movements in our issued share capital are shown in note 22 to the financial statements on page 258. The ordinary shares represented 71.3 per cent and the deferred shares represented 28.7 per cent respectively of the shares in issue as at 31 March 2023.

All our ordinary shares have the same rights, including the rights to one vote at any of our general meetings, to an equal proportion of any dividends we declare and pay, and to an equal amount of any surplus assets, which are distributed in the event of a winding-up.

Our deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding-up. The rights attaching to our shares in the company are provided by our articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company renews annually its power to issue and buy back shares at our AGM and such resolutions will be proposed at our 2023 AGM. Our directors' powers are conferred on them by UK legislation and by the company's articles. At the AGM of the company held on 22 July 2022, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £11,364,806 and were empowered to allot equity securities for cash on a non-pre-emptive basis to an aggregate nominal amount of £1,704,721.

Voting Electronic and paper proxy appointment and voting instructions must be received by our registrar, Equiniti, no less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day.

Transfers	There are no restrictions on the transfer of our ordinary shares in the company, nor any limitations on the holding of our shares in the company, save: (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.		
	There are no agreements known to us between holders of securities that may result in restrictions on the transfer of securities or on voting rights. All our issued shares are fully paid.		
Major shareholdings	At 24 May 2023, our directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority:		
	Per cent of issued share capital	Direct or indirect nature of holding	
Lazard Asset Management LLC	9.93	Indirect	
BlackRock Inc.	10.88	Indirect	
Purchase of own shares	At our AGM held on 22 July 2022, our shareholders authorised the company to purchase, in the market, up to 68,188,841 of our ordinary shares of 5 pence each. We did not purchase any shares under this authority during the year. We normally seek such an authority from our shareholders annually. At our 2023 AGM, we will again seek authority from our shareholders to purchase up to 68,188,841 of our ordinary shares of 5 pence each with such authority expiring at the end of our AGM held in 2024.		
Change of control	As at 31 March 2023, Ocorian Corporate Services (UK) Limited was the trustee that administered our executive share plans and had the ability to exercise voting rights at its discretion, which related to shares that it held under the trust deed constituting the trust. In the event of a takeover offer, which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust.		
	In the event of a change of control, the participants in our all-employee share incentive plan (ShareBuy) would be able to direct the trustee of ShareBuy, Equiniti Share Plan Trustees Limited, how to act on their behalf.		
Information required by UK Listing Rule 9.8.4	Details of the amount of interest capitalised by the group during the financial year can be found in note 6 to the financial statements on page 245. In line with current UK tax legislation, the amount is fully deductible against the group's corporation tax liability, resulting in tax relief of £24.2 million.		
	There are no other disclosures to be made under Listing Rule 9.8.4.		
Directors' indemnities and insurance	We have in place contractual entitlements for the directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third-party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006 and have been in force throughout the financial year. They include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries. The company maintains an appropriate level of directors' and officers' liability insurance.		

Directors' report

Statutory and other information continued

Political donations

It is the company's policy position that we do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. The wide definition of donations in the Political Parties, Elections and Referendums Act 2000, however, covers activities that form part of the necessary relationship between the group and our political stakeholders. This can include promoting United Utilities' activities at the main political parties' annual conferences, as well as occasional stakeholder engagement in Westminster. The group incurred expenditure of £11,465 (2021/22): £15,834; 2020/21: £5,801) as part of this process. At the 2022 AGM, an authority was taken to cover such expenditure. A similar resolution will be put to shareholders at the 2023 AGM to authorise the company and its subsidiaries to make such expenditure.

Relationships with regional MPs is very important to United Utilities, and as the provider of an essential service to seven million people across the North West, customers do raise issues with their constituency MP. In 2022/23, we received 482 such MP contacts covering a wide range of topics, particularly as we face challenging times from an economic, environmental and social perspective. Our approach is to always have an open door policy with our MPs and members of their offices, to meet with us, visit our sites or land at any time. We are readily available to discuss topics, whether that is about service, climate change, environmental performance, flooding or quality, and regularly meet our MPs face to face.

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

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

Trade associations

We are members of a small number of trade associations. Some have a national focus, such as Water UK, the representative body of the UK water industry. Others focus on specific professions such as the 100 Group representing the views of the finance directors of FTSE 100 and large UK private companies and the GC100, the voice of general counsel and company secretaries in FTSE 100 companies. The company is a member of regional bodies, such as the North West Business Leadership Team, which encourages engagement across the public and private sectors. Our total contribution to these associations in 2022/23 was £418,561 (2021/22 £408,441; 2020/21: £420,403).

Through Water UK, the company has supported efforts to interact with parliamentary bodies, such as Select Committees and Chairs of specific committees, to provide information on a range of topics. In the past twelve months, we have worked closely with Water UK to share data in our storm overflow performance and what this means for river water quality in the North West. On behalf of the sector, we were pleased to host its first Pollution Summit to share best practice on measures being taken by companies to reduce the frequency of pollution events. Water UK convened a session on the emerging pollution roadmap for the sector.

Through our membership with the North West Business Leadership Team, we have engaged with regional MPs and political stakeholders, such as local authorities and metro mayors, to explore how the business community can work more effectively with the public sector to drive economic growth in the region and tackle some of the North West's pressing social issues. For example, we participated in discussions on unlocking regional growth/levelling up agenda, and colleague resilience and wellbeing. We were pleased to sponsor its North West parliamentary reception, providing a platform to update regional MPs on our efforts to improve river water quality.

Colleagues	<p>Our policies on employee consultation and on equal opportunities for all colleagues can be found on pages 35 and 100. Applicants with disabilities are given equal consideration in our application process, and disabled colleagues have equipment and working practices modified for them as far as possible and where it is safe and practical to do so. Importance is placed on strengthening colleagues' engagement (see page 97). The effect of our regard towards colleagues in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 58 to 59.</p> <p>Colleagues are encouraged to own shares in the company through the operation of an all employee share incentive plan (ShareBuy).</p> <p>Information on our average number of employees during the year can be found in note 3 on page 243.</p>
Environmental, social and community matters	<p>Details of our approach, as a responsible business, is set out in the strategic report, in particular where we describe our approach to our purpose and strategic themes on page 38, and our core values on page 50, and how we create value for stakeholders on page 76 to 77. Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on pages 56 to 57. Further information is available on our website at unitedutilities.com/corporate/responsibility</p> <p>The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 58 to 59.</p>
Customers and suppliers and key stakeholders	<p>Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on pages 56 to 57. The effect of our regard towards customers, suppliers, regulators and other key stakeholders in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 58 to 59.</p> <p>Our United Supply Chain approach sets out how we work with our suppliers, which can be found on our website at unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supply-chain We are a signatory to the Prompt Payment Code. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for Business, Energy & Industrial Strategy's website. Information is published on a six-monthly basis. For the six months to 31 March 2023, our average time taken to pay invoices was 11 days; in the previous six months it was 12 days.</p>
Energy and carbon report	<p>Our energy and carbon report can be found on page 95 and is hereby incorporated by reference into this directors' report.</p>
Approach to technology development	<p>We are committed to using innovative, cost effective and practical solutions for providing high-quality services and we recognise the importance of ensuring that we focus our investment on the development of technology and that we have the right skills to apply technology to achieve sustainable competitive advantage and we continue to be alert to emerging technological opportunities.</p>
Financial instruments	<p>Our risk management objectives and policies in relation to the use of financial instruments can be found in note A4 on page 265.</p>
Slavery and human trafficking	<p>Our statement can be found on our website at unitedutilities.com/humanrights</p>
Events occurring after the reporting period	<p>Details of events after the reporting period are included in note 24 on page 258.</p>

Directors' report

Statutory and other information

continued

Annual General Meeting

Our 2023 annual general meeting (AGM) will be held on 21 July. Full details of the resolutions to be proposed to our shareholders, and explanatory notes in respect of these resolutions, can be found in our notice of AGM. A copy can be found on our website.

At our 2023 AGM, resolutions will be proposed, among other matters: to receive the integrated annual report and financial statements; to approve the directors' remuneration report; to declare a final dividend; to approve the directors' general authority to allot shares; to grant the authority to issue shares without first applying statutory rights of pre-emption; to authorise the company to make market purchases of its own shares; to authorise the making of limited political donations by the company and its subsidiaries; and to enable the company to continue to hold general meetings on not less than 14 clear days' notice.

Information given to the auditor

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

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

Reappointment of the auditor

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

Approved by the board on 24 May 2023 and signed on its behalf by:

Simon Gardiner
Company Secretary

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

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 / UK-adopted international accounting standards and applicable law and have elected to prepare the parent company financial statements on the same basis. In addition the group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('IFRSs as adopted by the EU').

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Approved by the board on 24 May 2023 and signed on its behalf by:

Sir David Higgins
Chair

Phil Aspin
Chief Financial Officer

Our robust balance sheet supports long-term resilience

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

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1. Our opinion is unmodified

In our opinion:

- the financial statements of United Utilities Group PLC give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023, and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What our opinion covers

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion and matters included in this report are consistent with those discussed and included in our reporting to the Audit Committee ('AC').

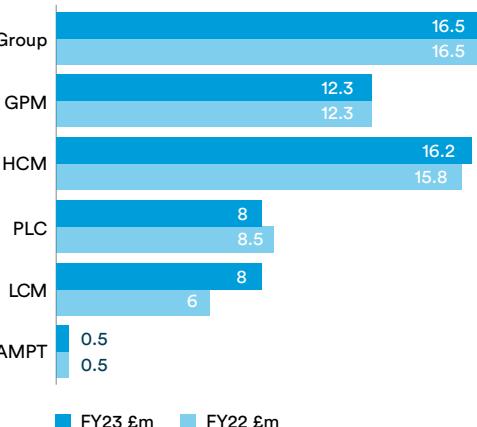
We have fulfilled our ethical responsibilities under, and we remain independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

2. Overview of our audit

	Key Audit Matters	Vs FY22	Item
Factors driving our view of risks	<p>Following our FY22 audit, and considering developments affecting the United Utilities Group since then, our assessment of risks and our view of how these impact the audit of the financial statements have been updated for the current year where needed.</p> <p>The group is presently operating in a high inflationary environment, where customers (and household customers in particular) are experiencing a cost of living squeeze. Whilst the average increase in water bills has not been as high as other utility bills, the ability of customers to pay for services provided by the company carries a greater risk. The group offers a number of schemes and operates many initiatives to encourage customers to pay its bills, and recent cash collection rates have been strong. This would suggest that the cost of living impact has yet to impact the group, but remains a factor as inflation remains high. The Provisions for Household Customer Debt remains a Key Audit Matter (KAM) and in our challenge of management over the appropriateness of the recoverability of the year end balance, we assessed the impact of a deterioration of cash collection rates as one of the sensitivities we performed.</p> <p>The group's capital programme has also been impacted by inflation, as general contracting costs have increased beyond that expected at the start of the current 5-year regulatory period. This could increase the incentive to treat operating costs as capital items. Whilst our overall risk assessment for the capitalisation of costs KAM did not change, our selection of projects to test considered those that could be more susceptible to judgement.</p> <p>There was no change to our risk assessment or approach in relation to the valuation of retirement benefit obligations and recoverability of the parent company's investments.</p>	◀ ▶	4.1
Audit committee interaction	<p>During the year, the AC met four times. KPMG are invited to attend all AC meetings and are provided with an opportunity to meet with the AC in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the AC in section 4, including matters that required particular judgement for each.</p> <p>The matters included in the Audit Committee report on pages 158 to 159 of the Annual Report and Accounts are materially consistent with our observations of those meetings.</p>	◀ ▶	4.2
		◀ ▶	4.3
		◀ ▶	4.4

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

2. Overview of our audit

Our independence	We have fulfilled our ethical responsibilities under, and we remain independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.	Total audit fee £0.807m
	We have not performed any non-audit services during FY23 or subsequently which are prohibited by the FRC Ethical Standard.	Audit-related fees (including interim review) £0.085m
	We were first appointed as auditor by the shareholders for the year ended 31 March 2012. The period of total uninterrupted engagement is for the 12 financial years ended 31 March 2023.	Other services £0.149m
	The group engagement partner is required to rotate every 5 years. As these are the third set of the group's financial statements signed by Ian Griffiths, he will be required to rotate off after the FY25 audit.	Non-audit fee as a % of total audit and audit-related fee % 16.1%
Date first appointed 22 July 2011		Date first appointed 22 July 2011
Uninterrupted audit tenure 12 years		Uninterrupted audit tenure 12 years
Next financial period which requires a tender 2032		Next financial period which requires a tender 2032
Tenure of group engagement partner 3 years		Tenure of group engagement partner 3 years
Materiality (Item 6 below)	The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.	Materiality levels used in our audit
	We have determined overall materiality for the group financial statements as a whole at £16.5m (FY22: £16.5m) and for the parent company financial statements as a whole at £8.0m (FY22: £8.5m).	
	A key judgement in determining materiality was the most relevant metric to select as the benchmark, by considering which metrics have the greatest bearing on shareholder decisions.	
	Last year we determined our materiality to be £16.5m based on a primary benchmark of normalised profit before tax, of which it represented 5.6%. United Utilities is facing rising finance costs, as a result of the current high-inflationary environment, which is causing profit before tax to decline. Using the same benchmark this year would cause a significant reduction in our materiality. In our view, there has been no change to the underlying operations of the business, nor a change in investor perception around overall performance, therefore we have determined materiality with reference to a range of metrics. We have determined materiality for FY23 to be £16.5m in line with the prior year. This represents 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit (FY22: 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit).	
Materiality for the parent company financial statements was determined with reference to a benchmark of parent company total assets of which it represents 0.1% (FY22: 0.1%).		

2. Overview of our audit

	<p>We have performed risk assessment and planning procedures to determine which of the group's components are likely to include risks of material misstatement to the group financial statements and the type of procedures to be performed at these components. The work on all components (2022: all components) including the audit of the parent company, was performed by the group team.</p> <p>Of the group's 23 (2022: 25) reporting components, we subjected 4 (2022: 5) to full scope audits for group purposes and 0 (2022: 0) to specified risk-focused audit procedures.</p> <p>The components within the scope of our work accounted for the percentages illustrated opposite. For the FY23 audit, components within scope of our work accounted for 99% of profit before tax, 100% of total assets and 100% of revenue (FY22: 100% of profit before tax, 100% of total assets and 99% of revenue).</p> <p>In addition, we have performed group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.</p> <p>We consider the scope of our audit, as communicated to the Audit Committee, to be an appropriate basis for our audit opinion.</p>	<p>Coverage of group financial statements</p> <table border="1"> <thead> <tr> <th>Metric</th> <th>Covered (%)</th> <th>Remaining (%)</th> </tr> </thead> <tbody> <tr> <td>Profit before tax</td> <td>99%</td> <td>1%</td> </tr> <tr> <td>Total assets</td> <td>100%</td> <td>0%</td> </tr> <tr> <td>Revenue</td> <td>100%</td> <td>0%</td> </tr> </tbody> </table> <p>Group scope (Item 7 below)</p> <ul style="list-style-type: none"> ■ Full scope audits ■ Remaining components 	Metric	Covered (%)	Remaining (%)	Profit before tax	99%	1%	Total assets	100%	0%	Revenue	100%	0%
Metric	Covered (%)	Remaining (%)												
Profit before tax	99%	1%												
Total assets	100%	0%												
Revenue	100%	0%												
The impact of climate change on our audit	<p>We have considered the potential impacts of climate change on the financial statements as part of planning our audit.</p> <p>The group has set out its climate targets in line with limiting global warming to 1.5°C by 2030, and to be climate net zero by 2050. The majority of the group's carbon emissions are from the burning of fossil fuels, fuels used for transport and the grid electricity purchased. The group continues to develop its assessment of climate change. Climate change initiatives impact the group in a variety of ways including opportunities and risks relating to renewable energy sources and extreme weather events. Further information is provided on pages 84 to 95. While the group has set out its targets, it is continually developing its assessment of the impact of climate change on capital expenditure, the cost base, and impacts on cash flows. The group considered the impact of climate change and the group's targets in the preparation of the financial statements, including an evaluation of critical accounting estimates and judgements. The group concluded that this did not have a material effect on the consolidated financial statements, as described on page 241.</p> <p>As part of our audit, we have made enquiries of directors and operational managers to understand the extent of the potential impact of climate change risks on the group's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment, and the valuation of certain unquoted pension assets.</p> <p>We held discussions with our own climate change professionals to challenge our risk assessment. Taking into account the expected remaining useful lives of property, plant and equipment, and the nature of unquoted pension assets, we assessed that there is not a significant impact on our audit for this financial year. There was no significant impact of climate on our key audit matters.</p> <p>We have read the group's disclosure of climate-related information in the front half of the annual report as set out on pages 84 to 95 and considered consistency with the financial statements and our audit knowledge.</p>													

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

3. Going concern, viability and principal risks and uncertainties

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

Going concern

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

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

Accordingly, based on those procedures, we found the directors' use of the going concern basis of accounting without any material uncertainty for the group and parent company to be acceptable. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the parent company will continue in operation.

Our conclusions

- We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's or company's ability to continue as a going concern for the going concern period;
- We have nothing material to add or draw attention to in relation to the directors' statement in the basis of preparation section of the accounting policies note to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the group and parent company's use of that basis for the going concern period, and we found the going concern disclosure in this note to be acceptable; and
- The related statement under the Listing Rules set out on page 150 is materially consistent with the financial statements and our audit knowledge.

Disclosures of emerging and principal risks and longer-term viability

Our responsibility

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

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

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

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

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

Our reporting

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

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

4. Key Audit Matters

What we mean

Key Audit Matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

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

4.1 Provisions for household customer debt (group)

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

Description of the Key Audit Matter

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

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

We continue to perform procedures over revenue recognition. However, due to the consistency of the balance in recent years and low estimation uncertainty, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Our response to the risk

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

Our procedures to address the risk included:

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

Communications with United Utilities Group PLC's Audit Committee

Our discussions with and reporting to the Audit Committee included:

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

Areas of particular auditor judgement

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

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

Our results

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

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

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

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

Financial statement elements			Our assessment of risk vs FY22	Our results
	FY23	FY22		
Property, plant and equipment additions	£867.7m	£728.5m	◀ ▶ We have not identified any significant changes to our assessment of the level of risk relating to the capitalisation of costs relating to the capital programme compared to FY22	FY23: Acceptable FY22: Acceptable
Description of the Key Audit Matter			Our response to the risk	
<p>The group has a substantial capital programme which has been agreed with the Water Services Regulation Authority (Ofwat) and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.</p> <p>The determination of in-year project costs as capital or operating expenditure is inherently judgemental, particularly for certain projects where projects contain both capital and operating expenditure elements. Under IAS 16, expenditure is capitalised when it is probable that the future economic benefits associated with the item will flow to the entity and where such expenditure enhances or increases the capacity of the network. We determined that the costs capitalised has a high degree of judgement, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p>			<p>We performed the detailed tests below rather than seeking to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> - Accounting analysis: assessed the group's capitalisation policy for compliance with relevant accounting standards; - Tests of detail: critically assessed the capital nature of a sample of projects against the capitalisation policy focusing on new projects approved, project overspend, forecast cost to complete; and - Assessing transparency: assessed the adequacy of the group's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital. 	
<p>Communications with United Utilities Group PLC's Audit Committee</p> <p>Our discussions with and reporting to the Audit Committee included:</p> <ul style="list-style-type: none"> • Our approach to the audit of capitalisation of costs relating to the capital programme. • The results of our procedures. • The adequacy of the disclosures. <p>Areas of particular auditor judgement</p> <p>We identified the following as the area of particular auditor judgement:</p> <ul style="list-style-type: none"> • The appropriateness of the capitalisation rates applied to capital projects, where projects have an element of both capital and operating expenditure elements. <p>Our results</p> <p>Based on the risk identified and the procedures that we performed, we found the capitalisation of costs relating to the capital programme and the related disclosures to be acceptable (FY22: acceptable).</p>				

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

4.3 Valuation of retirement benefit obligations (group)

Financial statement elements			Our assessment of risk vs FY22	Our results
	FY23	FY22	◀ ▶	
Retirement benefit obligation	£2,330.5m	£3,018.9m	We have not identified any significant changes to our assessment of the level of risk relating to the valuation of retirement benefit obligations compared to FY22	FY23: Acceptable FY22: Acceptable
Description of the Key Audit Matter		Our response to the risk		
<p>The valuation of the retirement benefit obligations depends on a number of estimates, including the discount rates used to calculate the current value of the future payments to pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments, and the life expectancy of pension scheme members.</p> <p>There is a considerable amount of estimation uncertainty involved in setting the above assumptions and a small change in the assumptions and estimates may have a significant impact on the retirement benefit obligations.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>				<p>We performed the tests below rather than seeking to rely on the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> - Our actuarial expertise: used our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the retirement benefit obligations; and performed a comparison of key assumptions against our own benchmark ranges derived from externally available data and against those used by other companies reporting on the same period; - Methodology assessment: used our own actuarial specialists to assess the appropriateness and consistency of the methodology applied by management in setting the key assumptions; - Assessing external actuary's credentials: assessed competence and independence of the external actuary engaged by the group; and - Assessing transparency: considered the adequacy of the group's disclosure in respect of retirement benefits, in particular the gross defined benefit obligation and the assumptions used and sensitivities disclosed, which are set out in notes 18 and A5 to the financial statements.

Communications with United Utilities Group PLC's Audit Committee

Our discussions with and reporting to the Audit Committee included:

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

Areas of particular auditor judgement

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

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

Our results

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

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

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

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

Financial statement elements	FY23	FY22	Our assessment of risk vs FY22	Our results
Investment in United Utilities PLC	£6,326.8m	£6,326.8m	<p style="text-align: center;">◀ ▶</p> <p>We have not identified any significant changes to our assessment of the level of risk relating to the recoverability of the parent company's investment in United Utilities PLC compared to FY22</p>	FY23: Acceptable FY22: Acceptable
Description of the Key Audit Matter			Our response to the risk	
<p>The carrying amount of the parent company's investment in United Utilities PLC represents 98% (FY22: 99%) of the company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.</p>			<p>We performed the tests below rather than seeking to rely on any of the company's controls because testing for recoverability through detailed testing is inherently the most effective means of obtaining audit evidence.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> – Tests of detail: compared the carrying amount of the investment with the expected value of the business based on the regulatory capital value (a recognised method of valuation within the industry). 	
<p>Communications with United Utilities Group PLC's Audit Committee</p> <p>Our discussions with and reporting to the Audit Committee included:</p> <ul style="list-style-type: none"> • Our approach to the audit of the recoverability of the parent company's investment in United Utilities PLC. • Our conclusions on the appropriateness of key assumptions used. • The adequacy of the disclosures. <p>Areas of particular auditor judgement</p> <p>We identified the following as the area of particular auditor judgement:</p> <ul style="list-style-type: none"> • The valuation of the regulatory capital value. <p>Our results</p> <p>Based on the risk identified and procedures performed, we concluded that the recognition of no impairment was appropriate (FY22: no impairment).</p>				

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

5. Our ability to detect irregularities, and our response

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

Fraud risk assessment	<p>To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:</p> <ul style="list-style-type: none"> – Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the group's high level policies and procedures to prevent and detect fraud, including the internal audit function, and the group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud. – Reading Board and Audit Committee minutes; and – Considering remuneration incentive schemes and performance targets for directors including Long Term Plan awards.
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Fraud – identifying and responding to risks of material misstatement due to fraud

Fraud risks	As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular: the risk that group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates such as provisions for household customer debt and capitalisation of costs relating to the capital programme.
Link to KAMS	We also identified fraud risks related to inappropriate provision for household customer debt and inappropriate capitalisation of costs relating to the capital programme, which are set out in section 4 of this report.
Procedures to address fraud risks	<p>We also performed procedures including:</p> <ul style="list-style-type: none"> – Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals relating to revenue, capitalised costs and treasury posted to unexpected or unrelated accounts; and – Assessing significant accounting estimates for bias.

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

Laws and regulations risk assessment	<p>We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.</p> <p>As the group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.</p>
Risk communications	We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.
Direct laws context and link to audit	<p>The potential effect of these laws and regulations on the financial statements varies considerably.</p> <p>The group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.</p>
Most significant indirect law/ regulation areas	<p>The group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Ofwat, Environment Agency, Drinking Water Inspectorate, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities and its legal form.</p> <p>Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.</p>

Context

Context of the ability of the audit to detect fraud or breaches of law or regulation	Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.
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KPMG LLP's Independent Auditor's Report to the members of United Utilities Group PLC

6. Our determination of materiality

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

£16.5m (FY22: £16.5m) Materiality for the group financial statements as a whole	What we mean A quantitative reference for the purpose of planning and performing our audit.
	Basis for determining materiality and judgements applied Materiality for the group financial statements as a whole was set at £16.5m (FY22: £16.5m). This was determined with reference to a range of benchmarks of revenue (0.9%), total assets (0.1%) and operating profit (3.7%). Last year we determined our materiality to be £16.5m based on a primary benchmark of normalised profit before tax, of which it represented 5.6%. United Utilities is facing rising finance costs, as a result of the current high-inflationary environment, which is causing profit before tax to decline. Using the same benchmark this year would cause a significant reduction in our materiality. In our view, there has been no change to the underlying operations of the business, nor a change in investor perception around overall performance, therefore we have determined materiality with reference to a range of metrics. We have determined materiality for FY23 to be £16.5m in line with the prior year. This represents 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit (FY22: 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit). When using a benchmark of either revenue, total assets, or profit before tax to determine overall materiality, KPMG's approach for listed entities considers a guideline range of 0.5-1%, 0.5-1% and 3-5% respectively. Materiality for the parent company financial statements as a whole was set at £8.0m (FY22: £8.5m), determined with reference to a benchmark of parent company total assets, of which it represents 0.1% (FY22: 0.1%).
	What we mean Our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.
£12.3m (FY22: £12.3m) Performance materiality	Basis for determining performance materiality and judgements applied We have considered performance materiality at a level of 75% (FY22: 75%) of materiality for United Utilities Group PLC group financial statements as a whole to be appropriate. The parent company performance materiality was set at £6.0m (FY22: £6.3m), which equates to 75% (FY22: 75%) of materiality for the parent company financial statements as a whole. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.
	What we mean This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud. This is also the amount above which all misstatements identified are communicated to United Utilities Group PLC's Audit Committee.
	Basis for determining the audit misstatement posting threshold and judgements applied We set our audit misstatement posting threshold at 3.0% (FY22: 3.0%) of our materiality for the group financial statements. We also report to the Audit Committee any other identified misstatements that warrant reporting on qualitative grounds.

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

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

7. The scope of our audit

Group scope	What we mean	How the group audit team determined the procedures to be performed across the group.			
		The group has 23 (FY22: 25) reporting components. In order to determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance and those remaining components on which we required procedures to be performed to provide us with the evidence we required in order to conclude on the group financial statements as a whole.			
		We determined individually financially significant components as those contributing at least 5% (FY22: 5%) of total assets or 1% (FY22: 1%) of total revenue or 3% (FY22: 3%) of total liabilities. We selected total assets, total revenue, and total liabilities because these are the most representative of the relative size of the components. We identified 4 (FY22: 5) components as individually financially significant components and performed full scope audits on these components.			
		The components within the scope of our work accounted for the following percentages of the group's results, with the prior year comparatives indicated in brackets:			
	Scope	Number of components	Range of materiality applied		
	Full scope audit	4 (5)	£8.0m – £16.2m (£6.0m – £15.8m)		
	For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these. The work on 4 of the 4 components (FY22: 5 of the 5 components), including the audit of the parent company, was performed by the group team.				
	The scope of the audit work performed was predominately substantive as we placed limited reliance upon the group's internal control over financial reporting.				
	The components within the scope of our work accounted for the percentages illustrated in section 2 – Group Scope.				

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

8. Other information in the annual report

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

All other information

Our responsibility	Our reporting
Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.	Based solely on that work we have not identified material misstatements or inconsistencies in the other information.
<hr/>	
Strategic report and directors' report	
<hr/>	
Our responsibility and reporting	
Based solely on our work on the other information described above we report to you as follows:	
<ul style="list-style-type: none">• we have not identified material misstatements in the strategic report and the directors' report;• in our opinion the information given in those reports for the financial year is consistent with the financial statements; and• in our opinion those reports have been prepared in accordance with the Companies Act 2006.	
<hr/>	
Directors' remuneration report	
<hr/>	
Our responsibility	Our reporting
We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.	In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
<hr/>	
Corporate governance disclosures	
<hr/>	
Our responsibility	Our reporting
We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:	Based on those procedures, we have concluded that each of these disclosures is materially consistent with the financial statements and our audit knowledge.
<ul style="list-style-type: none">• the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy;• the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and• the section of the annual report that describes the review of the effectiveness of the group's risk management and internal control systems.	
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We are also required to review the part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.	We have nothing to report in this respect.

Other matters on which we are required to report by exception

Our responsibility	Our reporting
Under the Companies Act 2006, we are required to report to you if, in our opinion:	We have nothing to report in these respects.
<ul style="list-style-type: none"> • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit. 	

9. Respective responsibilities

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

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

Ian Griffiths

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square, Manchester, M2 3AE

24 May 2023

Consolidated income statement for the year ended 31 March

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

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 March

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

Consolidated and company statements of financial position at 31 March

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

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

Louise Beardmore
Chief Executive Officer

Phil Aspin
Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

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

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

Guide to detailed financial statements disclosures

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

Notes and appendices	Page	Notes and appendices	Page
<i>Operations – information relating to our operating results</i>			
1 Segmental reporting	242	4 Operating profit	244
2 Revenue	242	A1 Consolidated statement of cash flows – further analysis	259
3 Directors and employees	242		
<i>Financing – information relating to how we finance our business</i>			
5 Investment income	245	17 Borrowings	255
6 Finance expense	245	22 Share capital	258
9 Earnings per share	249	A2 Net debt	260
10 Dividends	249	A3 Borrowings	262
16 Cash and cash equivalents	254	A4 Financial risk management	265
<i>Working capital – information relating to the day-to-day working capital of our business</i>			
14 Inventories	253	20 Trade and other payables	257
15 Trade and other receivables	253	A6 Related party transactions	279
16 Cash and cash equivalents	254		
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Accounting policies

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

Basis of preparation

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

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

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

In assessing the appropriateness of the going concern basis of accounting, the directors have reviewed the resources available to the group in the form of cash and committed facilities as well as consideration of the group's capital adequacy, along with a baseline plan that incorporates latest views of the current economic climate. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe, but plausible, downside scenarios in order to assess the group's ability to operate within the amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact of £500 million arising in the assessment period; elevated levels of bad debt of £15 million per annum; outcome delivery incentive penalties equivalent to 1.0 per cent of RoRE per annum; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

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

Adoption of new and revised standards

There were no new standards, interpretations and amendments, effective for the year ended 31 March 2023, that were relevant to the group or would have a material impact on the group's financial statements, or that were not early adopted in previous years.

Future accounting developments

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

on the entity in the current or future reporting periods and on foreseeable future transactions.

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

Retirement benefits

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

Accounting estimate* – Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £216.3 million (2022: £271.1 million) that are categorised as 'level 3' assets within the IFRS 13 'Fair value measurement' hierarchy, meaning that the value of the assets is not observable at 31 March 2023. Estimates of the fair value of these assets have been performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total level 3 asset balance, updated for any subsequent cash movements between the statement date and the year end reporting date.

Accounting policies

Revenue recognition and allowance for doubtful receivables

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

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

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

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

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

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

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

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

negatively. At 31 March 2023, an allowance for expected credit losses relating to household customer debt of £81.5 million (2022: £78.3 million) was supported by a six-year cash collection projection. Based on a five-year or seven-year cash collection projection the allowance for doubtful receivables would have increased by £2.2 million (2022: £1.1 million) or reduced by £0.2 million (2022: £0.5 million), respectively.

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

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

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

Had future cash collection been assessed based on the average cash collection rates for the current year only, the allowance for expected credit losses charged to the income statement would have been 1.8 per cent of household revenue resulting in an increase in the charge of £0.1 million, with similar results based on using average cash collection from the last two or the last four years. At 31 March 2023, a charge of 1.8 per cent is considered to be appropriate given prevailing levels of uncertainty and recognising the level of estimation uncertainty associated with the assumptions made in forecasting the year end debt position upon which the allowance for expected credit losses is based.

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

Revenue recognised for unbilled amounts for these customers at 31 March 2023 was £141.0 million (2022: £145.8 million). Had actual consumption been 5 per cent higher or lower than the estimate of units supplied, this would have resulted in revenue recognised for unbilled amounts being £4.7million (2022: £5.0 million) higher or lower respectively. For customers who do not have a meter, the receivable billed and revenue recognised is dependent on the rateable value of the property as assessed by an independent rating officer.

Property, plant and equipment

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

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

Derivative financial instruments

Accounting estimate** – The model used to fair value the group's derivative financial instruments requires management to estimate future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors that are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate. Sensitivities relating to the impact of financial risks on profit before tax and equity, driven in part by derivative financial instruments, are included in note A4.

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

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

Climate change

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

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

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

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

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

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

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

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

Notes to the financial statements

1 Segmental reporting

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

2 Revenue

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

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

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

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

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

3 Directors and employees

Directors' remuneration

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

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

Remuneration of key management personnel

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

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

3 Directors and employees continued

Staff costs (including directors)

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

Note:

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

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

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

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

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

Company

The company has no staff.

Notes to the financial statements

4 Operating profit

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

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

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

Research and development expenditure for the year ended 31 March 2023, was £1.2 million (2022: £1.2 million). In addition, £6.1 million (2022: £5.9 million) of costs have been accrued by United Utilities Water Limited in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses offset amounts recognised in revenue during each year intended to fund innovation projects across England and Wales as part of an industry-wide scheme to promote innovation in the sector. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

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

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

5 Investment income

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

6 Finance expense

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

Notes:

- (1) Includes a £463.5 million (2022: £227.9 million) non-cash inflation uplift expense repayable on maturity in relation to the group's index-linked debt and £1.5 million (2022: £1.6 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.
- (2) Includes foreign exchange losses of £20.6 million (2022: £4.3 million losses). These gains/losses are largely offset by fair value losses/gains on derivatives.
- (3) Under the provisions of IFRS 9 'Financial Instruments', a £6.3 million gain (2022: nil) resulting from changes to the foreign currency basis spread are recognised in other comprehensive income rather than profit or loss as they relate to items designated in an accounting hedge relationship.
- (4) Under the provisions of IFRS 9 'Financial Instruments', a £4.8 million gain (2022: £4.1 million loss) due to changes in the group's own credit risk is recognised in other comprehensive income rather than within profit or loss.
- (5) These swap contracts are not designated within an IFRS 9 hedge relationship and are classed as 'held for trading' under the accounting standard. These derivatives form economic hedges and, as such, management intends to hold these through to maturity.
- (6) Includes £31.8 million income (2022: £33.2 million) due to net interest on derivatives and debt under fair value option and £56.2 million expense (2022: £28.3 million expense) due to non-cash inflation uplift on index-linked derivatives. Fair value movements excluding this net income are deducted to reach underlying finance expense, which forms part of the group's alternative performance measures (APMs) as set out on pages 118 to 119.

Interest payable is stated net of £127.5 million (2022: £52.7 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. This has been calculated by applying an average capitalisation rate of 7.9 per cent (2022: 4.2 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

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

Notes to the financial statements

7 Profit on disposal of subsidiary

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

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

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

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

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

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

8 Tax

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

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

The current tax 'adjustments in respect of prior years' of £25.2 million is mainly due to the utilisation of losses, which were previously being carried forward.

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

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

8 Tax continued

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

8 Tax continued

Current tax asset/(liability)

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

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

Deferred tax liabilities

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

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

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

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

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

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

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

Company

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

9 Earnings per share

	2023 £m	2022 £m
	2023 pence	2022 pence
Profit/(loss) after tax attributable to equity holders of the company – continuing operations	204.9	(56.8)
Earnings per share		
Basic	30.0	(8.3)
Diluted	30.0	(8.3)

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

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

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

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

10 Dividends

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

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

Notes to the financial statements

11 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

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

Property, plant and equipment – owned

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

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

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

11 Property, plant and equipment continued

Right-of-use assets – leased

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

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

Company

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

Notes to the financial statements

12 Intangible assets

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

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

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

Company

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

13 Joint ventures and other investments

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

The group's interests in joint ventures mainly comprises its 50 per cent interest in Water Plus Group Limited (Water Plus), which is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement. The group also has a 50 per cent interest in Lingley Mere Business Park Development Company Limited, which is jointly owned and controlled by the group and Muse Developments Limited under a joint venture agreement.

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

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

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

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

Company

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

14 Inventories

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

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

Company

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

15 Trade and other receivables

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

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

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

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

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

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

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

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

Notes to the financial statements

15 Trade and other receivables continued

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

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

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

At 31 March 2023, the group had £0.3 million (2022: £0.1 million) of trade receivables that were not past due.

The majority of accrued income balances represent contract assets arising from timing differences between the billing cycle and the usage of water by customers. They therefore typically reverse in subsequent months, with all amounts held in relation to these contract assets at the beginning of the reporting period having subsequently reversed into the income statement during the year. At 31 March 2023 and 31 March 2022, the group had no accrued income that was past due. In instances where the collection of consideration is not considered probable at the point services are delivered, no accrued income balance is recognised, as the criteria to recognise revenue in accordance with IFRS 15 has not been met.

Company

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

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

16 Cash and cash equivalents

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

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

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

17 Borrowings

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

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

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

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

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

18 Retirement benefits

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

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

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

Defined benefit schemes

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

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

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

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

Notes to the financial statements

18 Retirement benefits continued

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

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

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

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

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

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

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

Defined contribution schemes

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

Company

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

19 Provisions

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

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

The severance provision as at 31 March 2023 and 31 March 2022 relates to severance costs as a result of group reorganisation.

Other provisions principally relate to contractual, legal and environmental claims against the group and represent management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant claims.

Company

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

20 Trade and other payables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Non-current				
Deferred grants and contributions	873.3	818.2	—	—
Other creditors	19.1	17.0	—	—
	892.4	835.2	—	—
Current				
Trade payables	26.4	28.3	—	—
Amounts owed to subsidiary undertakings	—	—	2.0	9.5
Other tax and social security	6.9	6.6	—	—
Deferred grants and contributions	16.6	16.0	—	—
Accruals and other creditors	272.8	266.8	3.6	3.6
Deferred income	54.0	48.1	—	—
	376.7	365.8	5.6	13.1

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

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

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

Deferred grants and contributions

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

21 Other reserves

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

Notes to the financial statements

21 Other reserves continued

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

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

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

Company

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

22 Share capital

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

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

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

23 Contingent liabilities

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

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

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

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

24 Events after the reporting period

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

Notes to the financial statements – appendices

A1 Consolidated statement of cash flows – further analysis

Cash generated from operations

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

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

Reconciliation of fixed asset purchases to fixed asset additions

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

Notes:

- ⁽¹⁾ This reconciliation relates to property, plant and equipment owned by the group and therefore excludes right-of-use assets recognised in accordance with IFRS 16 'Leases', for which cash flows relating to the associated lease liabilities are included within repayment of borrowings and interest paid in the statement of cash flows.
- ⁽²⁾ Timing differences arise and reverse when additions are recognised in the statement of financial position in a different period to when cash payments for capital expenditure are made. Capital accruals recognised in relation to these timing differences are included in 'Accruals and other creditors' within trade and other payables (see note 20).

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

Notes to the financial statements – appendices

A2 Net debt

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

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

Notes:

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

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

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

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

A2 Net debt continued

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

Notes:

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

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

Notes to the financial statements – appendices

A3 Borrowings

Terms and debt repayment schedule

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

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

A3 Borrowings continued

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

Note:

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

IL Index-linked debt – this debt is adjusted for movements in the Consumer or Retail Prices Indices with reference to a base CPI or RPI established at trade date.

CPI The UK general index of consumer prices (for all items) as published by the Office for National Statistics (May 2015 = 100).

RPI The UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987 = 100).

EIB Borrowings that are held with the European Investment Bank.

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

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

Notes to the financial statements – appendices

A3 Borrowings continued

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

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

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

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

Payment of interest forms part of cash flows from operating activities and payment of principal is included within repayment of borrowings, which forms part of cash flows from financing activities in the group's statement of cash flows.

A4 Financial risk management

Risk management

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

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

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

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

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

Liquidity risk

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

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

The group had available committed borrowing facilities as follows:

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

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

Company

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

Maturity analysis

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

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

Notes to the financial statements – appendices

A4 Financial risk management continued

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

* Re-presented (see footnote 3).

Notes:

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

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

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

Company

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

Credit risk

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

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

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

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

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

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

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

A4 Financial risk management continued

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

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

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

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

Market risk

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

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

Inflation risk

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

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

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

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

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

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

Sensitivity analysis

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

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

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

Company

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

Interest rate risk

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

Notes to the financial statements – appendices

A4 Financial risk management continued

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

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

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

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

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

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

Sensitivity analysis

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

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

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

Hedge accounting

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

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

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

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

Note:

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

Currency risk

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

A4 Financial risk management continued

Hedge accounting

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

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

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average net receivable for the fixed interest rate elements of the swap disclosed. The SONIA/LIBOR credit adjustment spread has been assumed to form part of the fixed rate payable, which is to be netted off against the fixed rate receivable for the purposes of the rates shown here.

Further detail on the fair value hedging relationships is provided below:

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

Note:

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

Interest rate benchmark reform

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

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

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

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

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

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

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

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

Notes to the financial statements – appendices

A4 Financial risk management continued

Repricing analysis

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

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

Group At 31 March 2023	Total £m	1 year					More than 5 years	
		or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	5 years £m	
Borrowings in fair value hedge relationships								
Fixed rate instruments	2,332.3	–	427.8	108.0	–	431.9	1,364.6	
Effect of swaps	–	–	–	–	–	–	–	–
	2,332.3	–	427.8	108.0	–	431.9	1,364.6	
Borrowings designated at fair value through profit or loss								
Fixed rate instruments	361.0	–	–	–	–	–	–	361.0
Effect of swaps	–	361.0	–	–	–	–	–	(361.0)
	361.0	361.0	–	–	–	–	–	–
Borrowings measured at amortised cost								
Fixed rate instruments	970.4	46.8	1.2	1.5	2.7	1.7	916.5	
Floating rate instruments	842.0	842.0	–	–	–	–	–	–
Index-linked instruments	3,929.7	3,929.7	–	–	–	–	–	–
	5,742.1	4,818.5	1.2	1.5	2.7	1.7	916.5	
Effect of fixed hedge for the term of the regulatory period	–	(2,027.8)	200.0	200.0	389.8	99.5	1,138.5	
Total borrowings	8,435.4	3,151.7	629.0	309.5	392.5	533.1	3,419.6	
Cash and short-term deposits	(340.4)	(340.4)	–	–	–	–	–	–
Net borrowings	8,095.0	2,811.3	629.0	309.5	392.5	533.1	3,419.6	
Group At 31 March 2022	Total £m	1 year					More than 5 years	
		or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	5 years £m	
Borrowings in fair value hedge relationships								
Fixed rate instruments	2,494.0	–	–	441.2	103.7	–	1,949.1	
Effect of swaps	–	2,494.0	–	(441.2)	(103.7)	–	(1,949.1)	
	2,494.0	2,494.0	–	–	–	–	–	–
Borrowings designated at fair value through profit or loss								
Fixed rate instruments	369.9	–	–	–	–	–	369.9	
Effect of swaps	–	369.9	–	–	–	–	(369.9)	
	369.9	369.9	–	–	–	–	–	–
Borrowings measured at amortised cost								
Fixed rate instruments	924.9	50.1	1.1	1.9	3.2	1.4	867.2	
Floating rate instruments	508.3	508.3	–	–	–	–	–	–
Index-linked instruments	3,682.7	3,682.7	–	–	–	–	–	–
	5,115.9	4,241.1	1.1	1.9	3.2	1.4	867.2	
Effect of fixed hedge for the term of the regulatory period	–	(2,267.8)	575.0	350.0	200.0	–	1,142.8	
Total borrowings	7,979.8	4,837.2	576.1	351.9	203.2	1.4	2,010.0	
Cash and short-term deposits	(240.9)	(240.9)	–	–	–	–	–	–
Net borrowings	7,738.9	4,596.3	576.1	351.9	203.2	1.4	2,010.0	

A4 Financial risk management continued

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

Electricity price risk

The group is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flows. The group's policy, therefore, is to manage this risk by fixing a proportion of electricity commodity prices in a cost-effective manner. The group has fixed the price on a proportion of its anticipated net electricity usage out on a rolling four-year basis, partially through entering into electricity swap contracts.

Hedge accounting

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

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

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

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

Note:

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

Capital risk management

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

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

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

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

Notes to the financial statements – appendices

A4 Financial risk management continued

Fair values

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

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

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

Note:

(1) These derivatives form economic hedges and, as such, management intends to hold these through to maturity. Derivatives forming an economic hedge of the currency exposure on borrowings included in these balances were £133.9 million (2022: £130.1 million).

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

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

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

Company

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

A5 Retirement benefits

Defined benefit schemes

Under the group's defined benefit pension schemes – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS) – members are entitled to annual pensions on retirement. Benefits are payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these members.

The assets of these schemes are held in trust funds independent of the group's finances. The trustees are composed of representatives of both the employer and employees, who are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regards to the assets plus the day-to-day administration of the benefits.

As at 31 March, the total fair value of the schemes' assets, and the present value of the defined benefit obligations, and therefore the value of the net retirement benefit surplus included in the consolidated statement of financial position, was as follows:

	2023 £m	2022 £m
Group		
Total fair value of schemes' assets	2,931.3	4,035.7
Present value of defined benefit obligations	(2,330.5)	(3,018.9)
Net retirement benefit surplus	600.8	1,016.8

Estimated future benefits payable

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

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

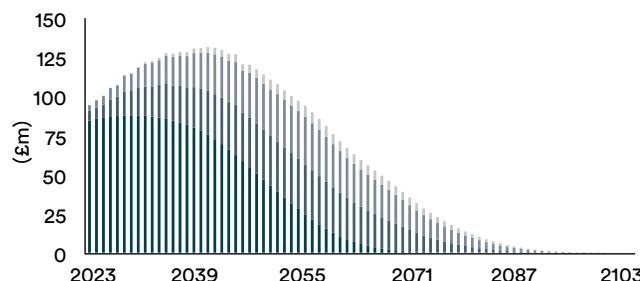
Movements in the present value of the defined benefit obligations are as follows:

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

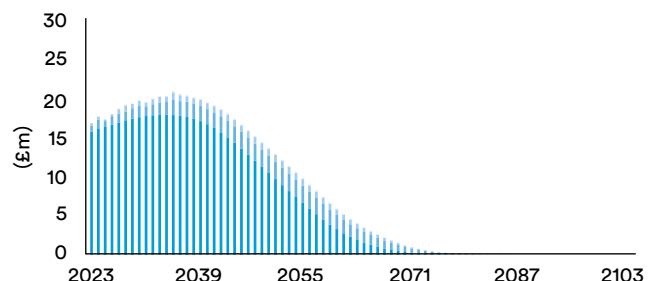
The duration of the combined schemes is around 14 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

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

UUPS



ESPS



■ Pensioners ■ Deferreds ■ Actives ■ Future service

■ Pensioners ■ Deferreds ■ Actives ■ Future service

Notes to the financial statements – appendices

A5 Retirement benefits continued

Funding of future benefits payable

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

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

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

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

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

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

Impact of scheme risk management on IAS 19 disclosures

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

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

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

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

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

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

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

The fall in value of the schemes' assets is largely a result of the changes in financial conditions seen over the period. The schemes' investment strategies have been designed such that the assets are fully hedged against the schemes' technical provisions funding positions, and are therefore more than 100 per cent hedged on an IAS 19 basis. As a result, increases in net yields are expected to reduce the schemes' assets by a greater amount than the IAS 19 liabilities.

A5 Retirement benefits continued

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

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

Reporting and assumptions

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

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuations as at 31 March 2021 for both UUPS and ESPS. As part of each actuarial valuation and, more frequently, as required by the trustees, member data is reassessed for completeness and accuracy and to ensure it reflects any relevant changes to benefits entitled by each member.

Financial assumptions

The main financial and demographic assumptions used by the actuary to calculate the defined benefit surplus of UUPS and ESPS are outlined below:

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

Note:

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

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

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

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

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

Demographic assumptions

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

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

Notes to the financial statements – appendices

A5 Retirement benefits continued

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

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

Financial and demographic assumptions – further analysis

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

- **Asset volatility** – If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long term, create volatility in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.
- **Discount rate** – An increase/decrease in the discount rate of 0.25 per cent would have resulted in a £78.2/£82.7 million (2022: £119.7/£127.7 million) decrease/increase in the schemes' liabilities at 31 March 2023, although as long as credit spreads remain stable this will be largely offset by an increase/decrease in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on high-quality corporate bond yields of a similar duration to the schemes' liabilities. High quality corporate bonds are considered to be those that have a credit rating of AA or above with at least one rating agency. An alternative approach could be taken whereby only those bonds rated AA or higher by at least two rating agencies are used. While this alternative approach may provide additional comfort around the quality of these corporate bonds, management believes that the wider population of corporate bonds under a 'single agency' approach gives a more representative indication of high quality corporate bonds that are aligned to the schemes' liabilities, and therefore provides a more robust estimate.
- **Price inflation** – An increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £73.3/69.5 million (2022: £111.5/105.2 million) increase/decrease in the schemes' liabilities at 31 March 2023, as a significant proportion of the schemes' benefit obligations are linked to inflation. However, nearly all of the schemes' liabilities were hedged for RPI in the external market at 31 March 2023, meaning that this sensitivity is likely to be insignificant as a result. The sensitivity to price inflation allows for the impact of changes to pensionable salary growth and pension increases, which are both assumed to be linked to price inflation. While inflation may be volatile in the near term, as has been the case during the year ended 31 March 2023, the value of the schemes' liabilities is based on inflation assumptions that reflect the full profile of the liabilities, in particular the long-term nature.
 - Consistent with market practice, and reflecting the possibility that inflation may rise or fall more than expected in the future, in arriving at the company's best estimate for RPI, an inflation risk premium of 0.2 per cent (2022: 0.2 per cent) has been deducted from the break-even inflation rate for the year ended 31 March 2023. The impact of this is a decrease in the defined benefit obligation of around £61.0 million and therefore an increase in the net defined benefit surplus compared with no inflation risk premium being deducted. There is no allowance for any further change in the inflation risk premium post 2030 as a result of RPI reform. A reduction in expected RPI will result in a reduction to the value of pension scheme liabilities; however, as our pension schemes are hedged for RPI inflation movements, this will result in a comparable reduction to the value of pension scheme assets.
 - The assumption for CPI is set by deducting a 'wedge' from the RPI inflation assumption to reflect structural differences. For pre-2030 inflation this wedge has been estimated at 0.9 per cent per annum, reducing to 0.1 per cent per annum post-2030 given that RPI and CPI are expected to converge. The impact of this reduction in the post-2030 wedge as a result of RPI reform is a circa £7.0 million increase to the defined benefit obligation and therefore a decrease in the net defined benefit surplus compared with the wedge remaining at 0.9 per cent per annum after 2030.
- **Mortality long-term improvement rate** – An increase in the mortality long-term improvement rate from 1.25 per cent to 1.50 per cent would have resulted in a £16.5 million increase in the schemes' liabilities at 31 March 2023 (2022: £29.1 million increase in the schemes' liabilities).
- **Life expectancy** – An increase/decrease in life expectancy of one year would have resulted in a £83.9 million (2022: £135.0 million) increase/decrease in the schemes' liabilities at 31 March 2023. The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions.

A5 Retirement benefits continued

Schemes' assets

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

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

Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £216.3 million that are categorised as 'level 3' assets within the IFRS 13 'Fair value measurement' hierarchy, meaning that the value of the assets is not observable at 31 March 2023. Estimates of the fair value of these assets have been performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total level 3 asset balance, updated for any subsequent cash movements between the statement date and the year-end reporting date.

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

The portfolio contains a proportion of assets set aside for collateral purposes linked to the derivative contracts entered into. The collateral portfolio, comprising cash and eligible securities readily convertible to cash, provides sufficient liquidity to manage exposure relating to the derivative transactions and is expected to achieve a return in excess of SONIA (Sterling Overnight Index Average). During the year ended 31 March 2023 no liquidity support or facilities were required by the company as a result of collateral calls.

The derivative values in the table above represent the net market value of derivatives held within each of these asset categories as follows:

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

The derivatives shown in the tables only cover those expressly held for the purpose of reducing certain undesirable asset and liability risks as part of the liability driven investment strategies. The schemes invest in a number of other pooled funds that make use of derivatives. No allowance is made in the figures above for any derivatives held within these other pooled funds, as they are not held expressly for the purpose of managing risk. The total fair value of pooled funds held within the schemes' assets was £371.2 million (2022: £681.5 million).

Notes to the financial statements – appendices

A5 Retirement benefits continued

The intention is that the schemes' assets provide a full economic hedge of interest rates and RPI inflation of the schemes' liabilities on a scheme funding basis. As the scheme funding basis is more prudent than the IAS 19 measurement basis for the defined benefit obligation, the schemes are more than 100 per cent hedged on an accounting basis.

Movements in the fair value of the schemes' assets were as follows:

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

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

The trustees of both the ESPS and UUPS schemes publish a statement of investment principles, available via the United Utilities corporate website. The statements set out the ESG principles, in particular climate risk, behind the choice of investments.

A6 Related party transactions

Group

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

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

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

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

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

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

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

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

A6 Related party transactions continued

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

During the year, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £48.9 million, of which £26.0 million related to guarantees to United Utilities Water Limited.

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

Company

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

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

Notes to the financial statements – appendices

A7 Accounting policies

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

Basis of consolidation

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

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

Subsidiaries

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

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

Joint ventures

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

Revenue recognition

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

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

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

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

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

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

Operating profit

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

Borrowing costs and finance income

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

Tax

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

Current tax

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

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

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

Deferred tax

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

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

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

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

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

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

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment comprises water and wastewater infrastructure assets and overground assets.

The useful economic lives of these assets are primarily as follows:

- Water and wastewater infrastructure assets:
 - Impounding reservoirs 200 years;
 - Mains and raw water aqueducts 30 to 300 years;
 - Sewers and sludge pipelines 60 to 300 years;
 - Sea outfalls 75 years;
- Buildings 10 to 60 years;
- Operational assets 5 to 80 years; and
- Fixtures, fittings, tools and equipment 3 to 40 years.

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

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

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

Water and wastewater infrastructure assets

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

Other assets

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

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

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

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

Transfer of assets from customers and developers

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

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

Intangible assets

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

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

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

The group expenses costs incurred in the implementation and ongoing operation of computing systems built and delivered on a 'software as a service' (SaaS) basis and hosted in an external cloud environment. These do not generally give rise to an identifiable intangible asset that the group controls. In limited circumstances, costs incurred in association with the implementation and

Notes to the financial statements – appendices

customisation of a SaaS system may enhance the group's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the group controls, the costs are capitalised in accordance with IAS 38 and are subsequently amortised over a period of generally three to 10 years.

Impairment of assets

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

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

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

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

Capitalisation of costs associated with regulatory price review programmes

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

Non-current assets held for sale

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

Financial instruments

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

Cash and short-term deposits

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

Financial investments

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

Trade and other receivables

Trade and other receivables are initially measured at fair value on initial recognition. Trade and other receivables are held within a business model to collect contractual cash flows which comprise solely payments of principal and interest on the principal amount outstanding. After initial recognition, trade and other receivables are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. At each reporting date, the group evaluates the estimated recoverability of trade and other receivables and records allowances for expected credit losses. An allowance is recognised where there is objective evidence the group will be unable to collect all of the amount due. The receivable is recognised at the recoverable amount and the difference between the amortised cost and the recoverable amount is recorded as an expense within the profit and loss account.

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

Trade payables

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

Financial liabilities and equity

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

Equity instruments

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

Borrowings

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

The default treatment of measuring at amortised cost, while associated hedging derivatives are recognised at fair value, presents an accounting measurement mismatch that has

the potential to introduce considerable volatility to both the income statement and the statement of financial position. Therefore, where feasible, the group takes advantage of the provisions under IFRS 9 'Financial Instruments' to make fair value adjustments to its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

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

Borrowings designated within a fair value hedge relationship

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

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

Borrowings designated at fair value through profit or loss

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

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

Derivative financial instruments

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

Derivative financial instruments designated within a cash flow hedge relationship

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

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

Derivatives and borrowings – valuation

Where an active market exists, designated borrowings and derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value valuation model. The model uses applicable interest rate curve data at each reporting date to determine any floating cash

flows. Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

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

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

Inventories

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

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

Employee benefits

Retirement benefit obligations

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

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

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

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

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

Share-based compensation arrangements

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

Provisions

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

Foreign currency translation

Transactions and balances

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

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

Group companies

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

Grants and contributions

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

Leases

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

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

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

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

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

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

Statement of cash flows

Grants and contributions received

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

Interest payments and receipts

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

Support costs

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

Cash flows on derivatives

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

Taxes paid

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

Dividend receipts

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

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A8 Subsidiaries and other group undertakings

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

	Class of share capital held	Proportion of share capital owned/voting rights %*	Nature of business
Subsidiary undertakings			
Great Britain			
Halkyn District Mines Drainage Company Limited	Ordinary	99.9	Dormant
Lingley Mere Management Company Limited	Ordinary	90.9	Property management
North West Water International Limited	Ordinary	100.0	Dormant
North West Water Limited	Ordinary	100.0	Dormant
United Utilities (Overseas Holdings) Limited	Ordinary	100.0	Dormant
United Utilities Energy Limited	Ordinary	100.0	Energy generation
United Utilities Healthcare Trustee Limited	Ordinary	100.0	Corporate trustee
United Utilities International Limited	Ordinary	100.0	Consulting services and project management
United Utilities North West Limited	Ordinary	100.0	Holding company
United Utilities Pensions Trustees Limited	Ordinary	100.0	Corporate trustee
United Utilities PLC	Ordinary	100.0	Holding company
United Utilities Property Services Limited	Ordinary	100.0	Property management
United Utilities Total Solutions Limited	Ordinary	100.0	Non-trading
United Utilities Utility Solutions (Industrial) Limited	Ordinary	100.0	Holding company
United Utilities Water Finance PLC	Ordinary	100.0	Financing company
United Utilities Water Limited	Ordinary	100.0	Water and wastewater services
UU (ESPS) Pension Trustee Limited	Ordinary	100.0	Corporate trustee
UU Group Limited	Ordinary	100.0	Dormant
UU Secretariat Limited	Ordinary	100.0	Dormant
YCL Transport Limited	Ordinary	100.0	Non-trading
United Utilities Bioresources Limited	Ordinary	100.0	Wastewater services
Joint ventures			

All joint ventures are accounted for using the equity method and are strategic to the group's activities to varying degrees.

Great Britain

Lingley Mere Business Park Development Company Limited	Ordinary	50.0	Development company
Selectusonline Limited	Ordinary	16.7	Dormant
Water Plus Group Limited ⁽ⁱ⁾	Ordinary	50.0	Holding company
Water Plus Limited ⁽ⁱ⁾	Ordinary	50.0	Water and wastewater retail services
Water Plus Select Limited ⁽ⁱ⁾	Ordinary	50.0	Water and wastewater retail services

* Shares are held by subsidiary undertakings rather than directly by United Utilities Group PLC

Note:

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

Five-year summary – unaudited

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

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

Note:

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

Shareholder information

Key dates

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

Electronic communications

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

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

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

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

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

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

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

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

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

Online annual report

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

Keeping you in the picture

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

Registrar

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

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

The address is:

Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex BN99 6DA.

Overseas shareholders may contact them on:

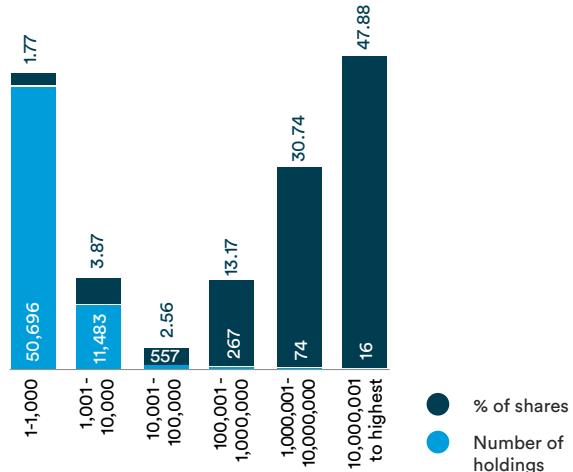
+44 (0)121 415 7048

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

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

Key shareholder facts

Balance analysis as at 31 March 2023



Geographic location of major shareholdings %



Dividend history – pence per share

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

Warning to shareholders

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

fca.org.uk/consumers/unauthorised-firms-individuals

Important information

Cautionary statement:

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

Terms used in this report:

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



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Registered number 6559020



Water for the North West