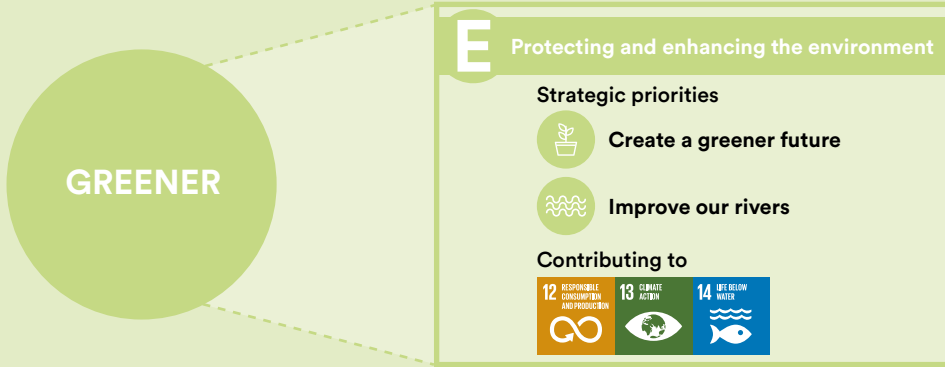


## How we measure performance

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.



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

### 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<sup>(1)</sup>

#### 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

<sup>(1)</sup> 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://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

### 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/](https://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	Performance			Link to assurance	Link to remuneration <sup>(2)</sup>	Link to main stakeholder	Status	
		2022/23	2021/22	2020/21				Annual performance	Against 2025 target
Pollution incidents per 10,000km sewer network <sup>(1)</sup>	19.5	<b>16.29</b>	17.71	18.10	RRA	LTP		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Reduction in reported storm overflow activations	33% sustainable reduction	<b>39%</b>	28%	n/a	IAT			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Treatment works compliance <sup>(1)</sup>	100%	<b>98.45%</b>	98.98%	99.75%	RRA	LTP		<span style="color: pink;">●</span>	<span style="color: orange;">●</span>
Leakage reduction <sup>(1)</sup>	15% <sup>(3)</sup>	<b>6%</b>	8%	5%	RRA	LTP		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Reduction in per capita consumption <sup>(1)</sup>	6.3% <sup>(4)</sup>	<b>0.5% increase</b>	1.5% increase	1.7% increase	RRA	PC		<span style="color: pink;">●</span>	<span style="color: orange;">●</span>
Internal flooding incidents per 10,000 sewer connections <sup>(1)</sup>	1.34	<b>2.32</b>	2.98	4.47	RRA	PC		<span style="color: pink;">●</span>	<span style="color: pink;">●</span>
External flooding incidents <sup>(1)</sup>	5,859	<b>5,916</b>	6,223	6,849	RRA	PC		<span style="color: green;">●</span>	<span style="color: orange;">●</span>
Waste to beneficial use	98%	<b>98.3%</b>	97.8%	97.3%	IAT			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Enhancing natural capital for customers <sup>(1)</sup>	£4 million	<b>£0</b>	£3.234 million	Delivery from 2022	RRA	PC		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Number of trees planted	500,000	<b>565,733</b>	461,240	216,601	IAT			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Carbon pledge 1: reduction of scope 1 & 2 GHG emissions	14% reduction <sup>(5)</sup> (42% by 2030)	<b>3.6% reduction</b>	2.20% reduction	1.5% increase	ITV			<span style="color: orange;">●</span>	<span style="color: orange;">●</span>
Carbon pledge 2: renewable electricity purchased	100% by 2023	<b>100%</b>	96%	93%	ITV			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Carbon pledge 3: green fleet	100% by 2028	<b>33 vehicles</b>	27 vehicles	28 vehicles	IAT	LTP		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Carbon pledge 4: peatland restoration	1,000 hectares (ha) by 2030	<b>585 ha</b>	Activity underway	Plans for 5 sites	ITV	LTP		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Carbon pledge 5: woodland created	550 hectares (ha) by 2030	<b>37 ha</b>	9 ha	9 ha	ITV	LTP		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Construction services suppliers with science based targets	66%	<b>23%</b>	n/a	n/a	IAT	LTP		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Better air quality: nitrogen oxides (NOx) emissions per unit of renewable electricity generated <sup>(1)</sup>	1.42	<b>1.07</b>	1.19	1.30	RRA	PC		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Electricity generated directly and with partners as % of used	Under review	<b>24%</b>	26%	25%	IAT			<span style="color: green;">●</span>	<span style="color: green;">●</span>

<sup>(1)</sup> Measure relates to United Utilities Water Limited.

<sup>(2)</sup> 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.

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

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

<sup>(5)</sup> 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://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





## 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 tCO<sub>2</sub>e Baseline  
2022/23: 133,930 tCO<sub>2</sub>e 3.6% reduction



SBT 1 – scope 1 and 2 emissions

Reduce scope 1 and 2 absolute emissions by

↓ 42%



2030

Near-term science-based targets

NET ZERO BY 2050



Long-term net zero ambition

66%

construction services suppliers by emissions have SBTs by 2025

SBT 3 – scope 3 supplier engagement



### Pledge 2 100% renewable electricity by 2021

Our progress

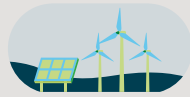
100% Pledge met

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



Reduce other scope 3 absolute emissions by

↓ 25%



2030

SBT 4 – scope 3 emissions



### 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 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 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	2021/22	2020/21	2019/20
	GWh	GWh	GWh	GWh
<b>Energy use</b>				
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
<b>Total energy used</b>	<b>983.9</b>	960.2	951.3	956.9
<b>Electricity purchased</b>				
Grid renewable	655.7	611.0	591.4	602.9
Grid standard tariff <sup>(1)(2)</sup>	<0.1	22.3	47.8	40.8
<b>Total purchased</b>	<b>655.7</b>	633.3	639.2	643.7
<b>Renewable energy generated</b>				
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 <sup>(3)</sup>	14.5	15.9	14.8	14.2
<b>Total generated</b>	<b>195.9</b>	209.5	205.3	190.8
<b>Renewable energy exported</b>				
Electricity	18.3	23.5	22.4	18.1
Biomethane <sup>(3)</sup>	14.5	15.9	14.8	14.2
<b>Total exported</b>	<b>32.8</b>	39.4	37.2	32.3

<sup>(1)</sup> Non half hourly metered supplies were on a standard tariff up to the end of September 2021. The emissions were 289g CO<sub>2</sub>e/kWh in 2019/20, 178g CO<sub>2</sub>e/kWh in 2020/21 and 188g CO<sub>2</sub>e/kWh in 2021/22. Non half hourly supplies moved to a new supplier on a 0g CO<sub>2</sub>e/kWh renewable tariff on 1 October 2021.

<sup>(2)</sup> The residual electricity on a standard tariff is associated with default tariffs for recently adopted sites.

<sup>(3)</sup> Biomethane generated and exported to grid is expressed as an electricity equivalent.

## Energy strategy

Our energy management strategy has four objectives:

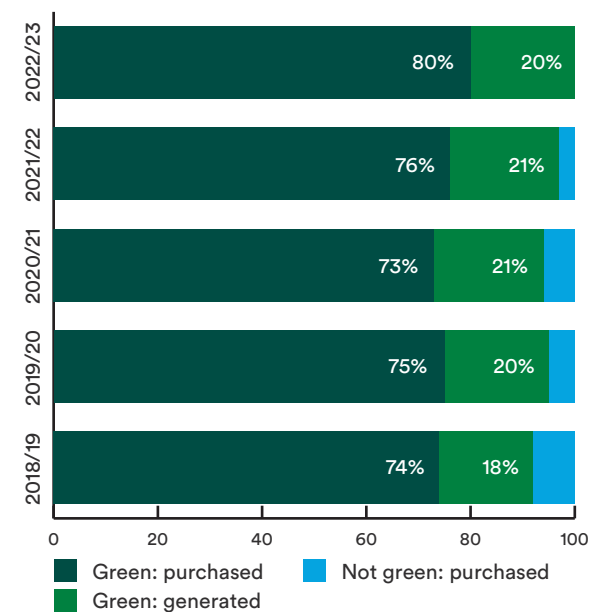
- Efficient use of energy;
- Maximising self-generation and direct supply opportunities;
- Reducing costs (through time of use); and
- Supply resilience to ensure we can deliver our services.

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.



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](https://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 (tCO<sub>2</sub>e). 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	2021/22	2020/21	SBT baseline 2019/20	
		tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	
<b>Scope 1:</b>						
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	
<b>Scope 2:</b>						
Purchased electricity – generation	Market-based <sup>(1)</sup>	9.3 <sup>(5)</sup>	4,201	8,507	11,789	
	Location-based <sup>(2)</sup>	126,813	134,492	149,030	164,521	
Purchased electricity – vehicles	Market-based	1.7	0.04	0	0	
	Location-based	1.7	0.04	0	0	
<b>Total scope 1 &amp; 2 emissions (Gross)</b>		Market-based	133,930	135,936	141,081	138,961
		Location-based	260,734	266,226	281,604	291,693
<b>Emissions reduction from</b>						
Renewable electricity exported <sup>(3)</sup>		-1,310	-4,317	-4,184	-3,979	
Biomethane exported <sup>(4)</sup>	Location-based	-9,360	-10,283	-9,725	-9,302	
Green tariff electricity purchased	Location-based	-125,746	-133,197	-138,015	-164,210	
<b>Total scope 1 &amp; 2 emissions (Net)</b>		Market-based	132,620	131,619	136,897	134,982
		Location-based	124,318	118,429	129,680	114,202

(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	2021/22	2020/21	SBT baseline 2019/20
		tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e
Category 1: Purchased goods and services <sup>(6)</sup>		250,189	292,946	271,871	213,442
Category 2: Capital goods <sup>(6)</sup>		138,182	112,498	95,968	128,286
Category 3: Fuel and energy-related emissions <sup>(7)</sup>		53,487	58,948	42,599	45,262
Category 4: Upstream T&D – sludge transport <sup>(7)</sup>		35	103	1,119	3,374
Category 5: Waste generated in ops: including sludge disposal <sup>(7)</sup>		27,454	25,458	26,333	27,936
Category 6: Business travel: public transport, private vehicles and hotel stays <sup>(7)</sup>		1,486	1,138	1,226	3,508
Category 7: Employee commuting and homeworking <sup>(8)</sup>		5,336	4,066	4,108	4,231
<b>Total scope 3</b>		476,169	495,158	443,224	426,039
<b>Scope 3 SBT measure (excluding category 2)</b>		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 CO<sub>2</sub> 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 CO<sub>2</sub> equivalent per £million revenue.

Regulated emissions per megalitre water treated (kg)		Regulated emissions per megalitre sewage treated (kg)	
2022/23	101.4	2022/23	158.76
2021/22	106.91	2021/22	144.21
2020/21	118.51	2020/21	152.26
Scope 1 and 2 emissions (gross) per £m revenue (tCO <sub>2</sub> e)		Scope 1 and 2 emissions (net) per £m revenue (tCO <sub>2</sub> e)	
2022/23	73.4	2022/23	71.4
2021/22	73.0	2021/22	70.7
2020/21	78.0	2020/21	75.7

**Scope 1 emissions**

Wastewater and sludge processes cause approximately 70 per cent of our scope 1 emissions as the gases released, nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>) have much greater global warming potentials than carbon dioxide (CO<sub>2</sub>). 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 tCO<sub>2</sub>e + 54,487 tCO<sub>2</sub>e**

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 tCO<sub>2</sub>e**

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 tCO<sub>2</sub>e**

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 tCO<sub>2</sub>e**

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 tCO<sub>2</sub>e**

The biological processes used in wastewater treatment produce N<sub>2</sub>O and CH<sub>4</sub> 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 tCO<sub>2</sub>e**

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 tCO<sub>2</sub>e**

Estimated based on our colleagues numbers and ways of working (office/site based or hybrid) using EcoAct's UK models.

**Business travel 1,486 tCO<sub>2</sub>e**

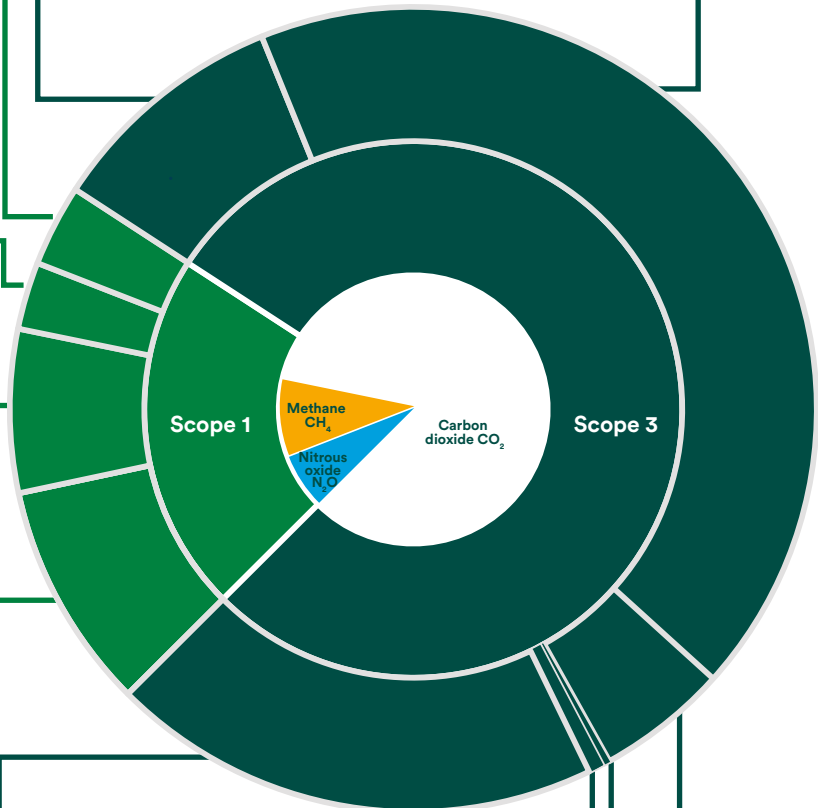
Public transport, private vehicles and hotel stays.

**Sludge transport 35 tCO<sub>2</sub>e**

Contracted sludge transport.

**Waste (biosolids to land) 27,454 tCO<sub>2</sub>e**

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.



## 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.



**S** Supporting society

**Strategic priorities**

- Provide a safe and great place to work
- Deliver great service for all our customers

**Contributing to**

- 1 NO POVERTY
- 6 CLEAN WATER AND SANITATION
- 8 DECENT WORK AND ECONOMIC GROWTH

### 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<sup>(1)</sup>

### 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<sup>(1)</sup>

### 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
- North West regional economy

### Link to risks

- Retail and commercial
- Political and regulatory

### Link to remuneration

LTP

### Link to assurance

Regulatory reporting assurance

<sup>(1)</sup> 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 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



### 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	Performance			Link to assurance	Link to remuneration <sup>(2)</sup>	Link to main stakeholder	Status	
		2022/23	2021/22	2020/21				Annual performance	Against 2025 target
Customer ODIs <sup>(1)</sup>	£200 million cumulative	<b>£25 million</b>	£25 million	£21 million	RRA	Bonus		<span style="color: orange;">●</span>	<span style="color: green;">●</span>
Water quality customer contacts per 10,000 population <sup>(1)</sup>	12.2	<b>14.1</b>	17.9	17.7	RRA	Bonus		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Supply interruptions per property per year (hours:minutes:seconds) <sup>(1)</sup>	00:05:00	<b>00:38:44</b>	00:07:58	00:04:46	RRA	PC		<span style="color: pink;">●</span>	<span style="color: orange;">●</span>
Unplanned outages of peak week production capacity <sup>(1)</sup>	2.34%	<b>1.73%</b>	2.07%	1.88%	RRA	PC		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Number of household written complaints compared to WASCs <sup>(1)</sup>	Upper quartile	<b>Second quartile<sup>(3)</sup></b>	Second quartile	Upper quartile	RRA	Bonus		<span style="color: orange;">●</span>	<span style="color: orange;">●</span>
Speed of resolution <sup>(1)</sup>	5 days	<b>3.9 days</b>	3.5 days	3.5 days	RRA			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Developer satisfaction score (D-MeX) <sup>(1)</sup>	Above industry median	Above industry median	Above industry median	Above industry median	RRA	PC		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Number of households registered for Priority Services <sup>(1)</sup>	In excess of 220,000 (7%)	<b>294,490 (9.1%)</b>	186,224 (5.9%)	128,831 (4.1%)	RRA	LTP		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Certification for Priority Services <sup>(1) (4)</sup>	Maintain certification	<b>ISO22458: 2022 Verification achieved</b>	Maintained BS18477	Maintained BS18477	ITV			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Helping customers look after water in their home <sup>(1)</sup>	10% increase	<b>31.60%</b>	23.85%	13.75%	RRA	PC		<span style="color: green;">●</span>	<span style="color: green;">●</span>
Compliance Risk Index <sup>(1)</sup>	0.00	<b>3.67</b>	3.02	2.58	RRA	LTP		<span style="color: pink;">●</span>	<span style="color: pink;">●</span>
Wellbeing Charter accreditation	Retain accreditation	<b>Retained</b>	Retained	Retained	ITV			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Accident frequency rate for colleagues (per 100,000 hours)	0.064	<b>0.072</b>	0.073	0.094	IAT			<span style="color: green;">●</span>	<span style="color: green;">●</span>
Accident frequency rate for contractors (per 100,000 hours)	Year-on-year improvement	<b>0.078</b>	0.043	0.087	IAT			<span style="color: orange;">●</span>	<span style="color: orange;">●</span>
Your Opinion Survey score for diversity and inclusion questions	Upper quartile against Utilities norm	<b>Upper quartile</b>	Upper quartile	Upper quartile	ITV			<span style="color: green;">●</span>	<span style="color: green;">●</span>

<sup>(1)</sup> Measure relates to United Utilities Water Limited.

<sup>(2)</sup> 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.

<sup>(3)</sup> Latest comparative data available 2021/22.

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

## 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 advisors 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 advisors 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.

### Delivering value for

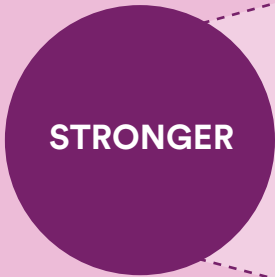


Read more about [affordability and vulnerability](#) on page 98



## 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.



**G** Responsible business and governance

**Strategic priorities**

- Spend customers' money wisely
- Contribute to our communities

**Contributing to**

<b>9</b> <small>INDUSTRY LEADERSHIP AND INFRASTRUCTURE</small>	<b>11</b> <small>SUSTAINABLE OPERATIONS AND COMMUNITIES</small>	<b>16</b> <small>PEACE, JUSTICE AND STRONG INSTITUTIONS</small>
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United Utilities Group PLC Integrated Annual Report and Financial Statements for the year ended 31 March 2023

### 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

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

### 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



## Our governance performance creates value for



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

### 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



FTSE4Good

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.<sup>(1)</sup>

Moody's ESG Solutions



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.<sup>(2)</sup>



As of October 2022, United Utilities Group PLC received an MSCI ESG rating of AA.<sup>(3)</sup>



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.<sup>(4)</sup>



In 2022 we achieved CDP leadership scores in both climate change (A-) and supplier engagement (A) assessments.

<sup>(1)</sup> [issgovernance.com/esg/ratings/badge](https://issgovernance.com/esg/ratings/badge)

<sup>(2)</sup> [moody's.com/esg](https://moody's.com/esg)

<sup>(3)</sup> [msci.com/notice-and-disclaimer](https://msci.com/notice-and-disclaimer)

<sup>(4)</sup> [sustainalytics.com/legal-disclaimers](https://sustainalytics.com/legal-disclaimers)





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](https://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	Link to main Stakeholder	Status	
		2022/23	2021/22	2020/21				Annual Performance	Against 2025 Target
Credit rating UUW (Moody's, S&P, Fitch) <sup>(1)</sup>	A3, BBB+, A-	<b>A3, BBB+, A- (Stable outlook)</b>	A3, BBB+, A- (Stable outlook)	A3, BBB+, A- (Stable outlook)	ITV				
Maintain Sustainable Finance framework	Available/continued issuance	<b>Available</b>	Available	Available	IAT				
Anti-bribery: percentage of identified colleagues completing required training	100%	<b>100%</b>	100%	94%	IAT				
Number of children benefiting from education materials	20,000	<b>23,253</b>	12,998	19,120	ITV				
Partnership leverage <sup>(1)</sup>	1:4	<b>1:4</b>	1:4	1:7	RRA				
Invoices paid within 60 days	At least 95%	<b>98.91%</b>	99.34%	99.55%	ITV				
Average time taken to pay invoices	<28 days	<b>12</b>	13	13	ITV				
Supplier Relationship Management score	90%	<b>90%</b>	54%	69%	IAT				
CIPS ethical mark	Retain accreditation	<b>Retained</b>	Retained	Retained	ITV				
Percentage of targeted suppliers signed up to United Supply Chain	100%	<b>89%</b>	90%	38%	IAT				
Percentage of partner and strategic suppliers that have sustainability risk assessment in place	75%	<b>73%</b>	72%	35%	IAT				
Percentage of suppliers in high risk categories (in sustainability risk assessments) covered by enhanced due diligence audits	5%	<b>3%</b>	Delivery scheduled from 2022	Delivery scheduled from 2021	IAT				
UK Corporate Governance Code	Maintain compliance	<b>Compliant</b>	Compliant	Compliant	IAT				
Fair Tax Mark	Retain accreditation	<b>Retained</b>	Retained	Retained	ITV				
Living Wage accreditation	Secure and retain	<b>Retained</b>	Retained	Secured accreditation	ITV				
Pension Quality Mark +	Retain accreditation	<b>Retained</b>	Retained	Retained	ITV				

<sup>(1)</sup> 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.

### Delivering value for



Read more about **our work in communities** on pages 106 to 107

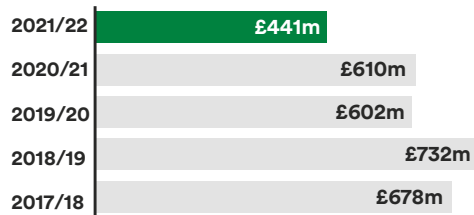


# Our financial performance in 2022/23

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.

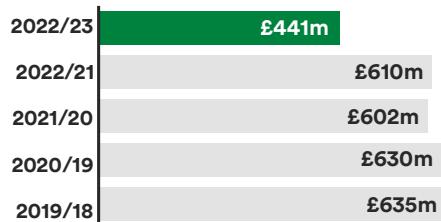
However, the inflation linkage for both the Regulatory Capital Value (RCV) and the allowance for total expenditure (totex), provides additional longer term value that is not reflected in the income statement. This has contributed to a robust economic performance, including an increase in our return on 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<sup>(1)</sup>

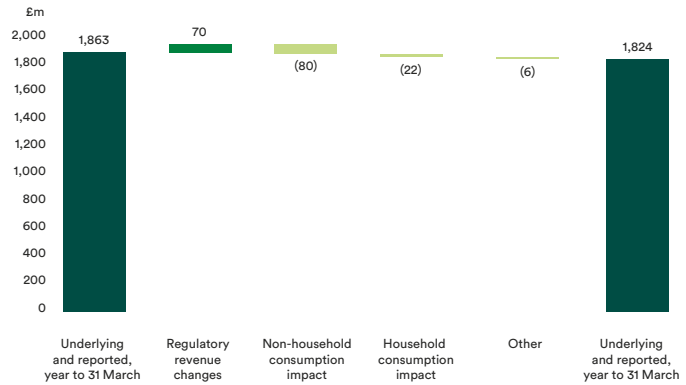


<sup>(1)</sup> A guide to APMs and a reconciliation between underlying profit and reported profit is shown on pages 118 to 119.

## Reported operating profit



## Revenue

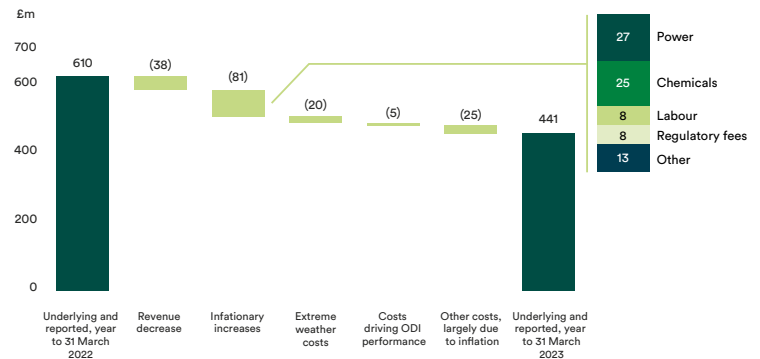


Revenue was down £38 million, at £1,824 million, largely reflecting lower consumption more than offsetting the allowed regulatory revenue increase.

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

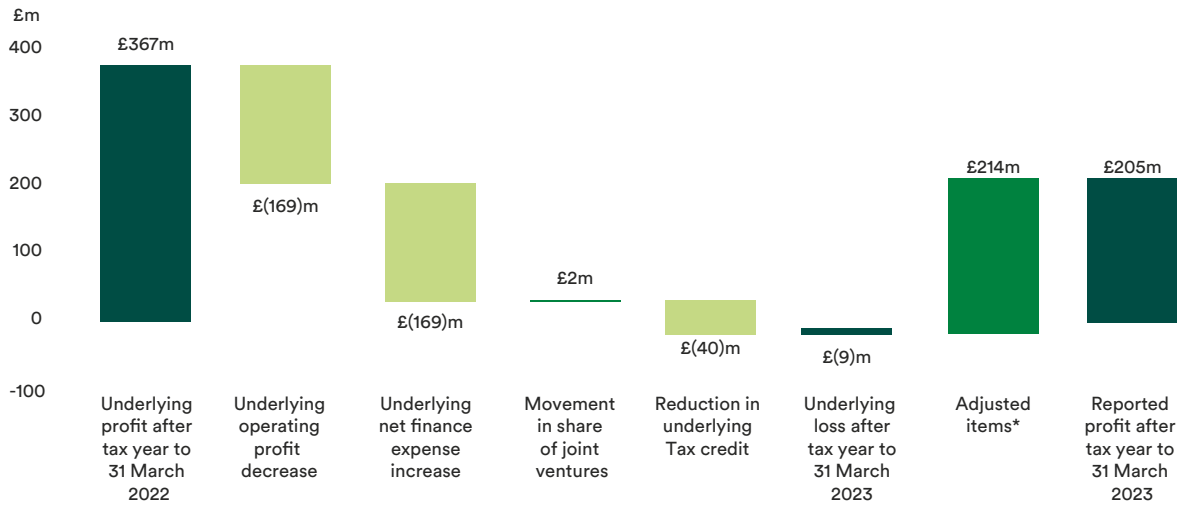
# 1.8%

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 (UUV'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

UUV'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

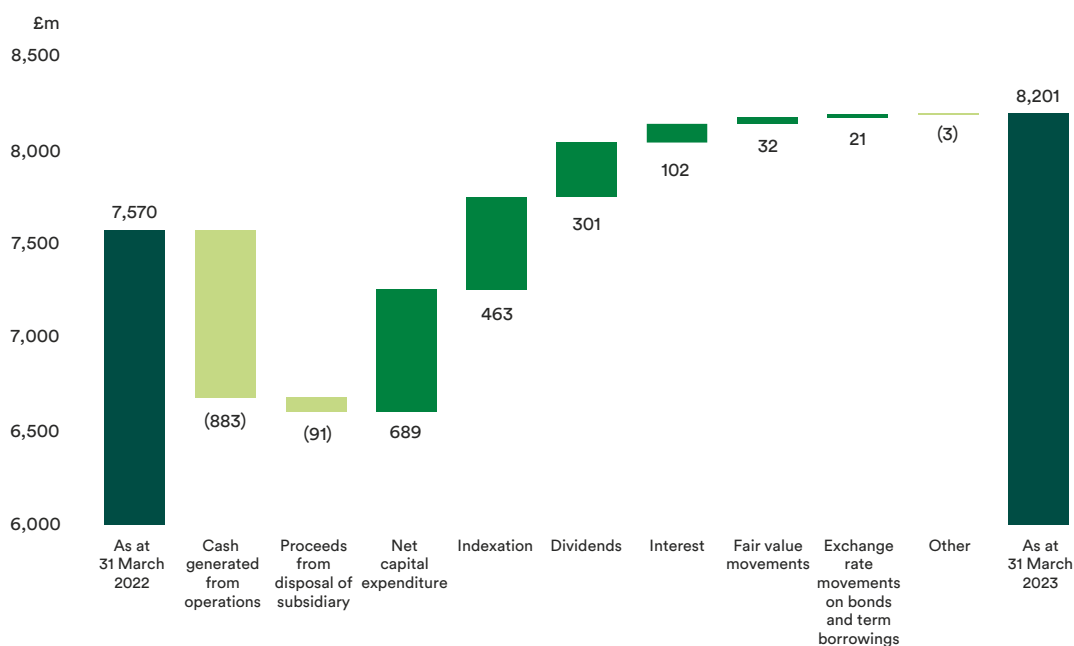
The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme.

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 UUV'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 UUV'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<sup>(3)</sup>. 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.

<sup>(3)</sup> 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 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
<b>Adjustments not expected to recur</b>	
<b>Profit on disposal of subsidiary</b>	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.
<b>Consistently applied presentational adjustments</b>	
<b>Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option</b>	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.
<b>Deferred tax adjustment</b>	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.
<b>Tax in respect of adjustments to underlying profit before tax</b>	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
<b>Underlying profit</b>		
<b>Operating profit per published results</b>	<b>440.8</b>	610.0
<b>Underlying operating profit</b>	<b>440.8</b>	610.0
<b>Net finance expense</b>		
Finance expense	(262.7)	(187.7)
Investment income	47.0	19.4
<b>Net finance expense per published results</b>	<b>(215.7)</b>	(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)
<b>Underlying net finance expense</b>	<b>(475.1)</b>	(306.3)
<b>Share of profits/(losses) of joint ventures per published results</b>	<b>-</b>	(1.8)
<b>Profit on disposal of subsidiary</b>	<b>31.2</b>	-
Adjustments:		
Profit on disposal of subsidiary	(31.2)	-
<b>Underlying profit on disposal of subsidiary</b>	<b>-</b>	-
<b>Profit before tax per published results</b>	<b>256.3</b>	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)	-
<b>Underlying (loss)/profit before tax</b>	<b>(34.3)</b>	301.9
<b>Profit/(Loss) after tax per published results</b>	<b>204.9</b>	(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)
<b>Underlying (loss)/profit after tax</b>	<b>(8.7)</b>	367.0
<b>Earnings per share</b>	<b>£m</b>	<b>£m</b>
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
<b>Underlying net finance expense</b>	<b>(475.1)</b>	(306.3)
Adjustments:		
Net pension interest income	(28.7)	(14.3)
Adjustment for capitalised borrowing costs	(127.5)	(52.7)
<b>Net finance expense for effective interest rate (a)</b>	<b>(631.3)</b>	(373.3)
<b>Average notional net debt (b)</b>	<b>(7,849)</b>	(7,368)
<b>Average effective interest rate (a/b)</b>	<b>8.0%</b>	5.1%