

Chair's review



Sir David Higgins
Chair

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

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

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

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

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

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

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

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

Our first female CEO, and other board changes

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

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

Strategic refresh

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

Dividend and annual general meeting

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

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

Outlook

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

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

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

Thank you

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



Sir David Higgins
Chair
24 May 2023

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

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

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

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

45.51p

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

+4.6%

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

21 July

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