Corporate governance report

Sir David Higgins
Chair

Quick facts

- Sir David Higgins met the independence criteria as set out in provision 10 of the 2018 UK Corporate Governance Code (the code) when he was appointed.
- The code requires that at least half of the board, excluding the Chair, should be non-executive directors whom the board considers to be independent. At 31 March, five out of the remaining eight directors were independent non-executive directors.
- The company secretary attends all board and committee meetings and advises the Chair on governance matters. The company secretariat team provides administrative support.
- The directors' biographies (see pages 122 to 125) include specific reasons why each director's contribution is, and continues to be, important to the company's long-term sustainable success.
- All directors are subject to annual election at the annual general meeting (AGM) held in July. The board concluded, following the completion of the evaluation of the effectiveness of the board, that each director continues to contribute effectively.
- The board recommends that shareholders vote in favour of those directors standing for a further term at the forthcoming AGM, as they will be doing in respect of their individual shareholdings.

Quick links

Schedule of matters reserved for the board:
unitedutilities.com/corporate-governance

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at **frc.org.uk**

Letter from the Chair

As a board we are fully engaged and intent on playing our part in ensuring that United Utilities delivers on its newly adopted purpose of providing great water for a stronger, greener and healthier North West.

Dear shareholder

The board's discussions have been dominated during the year by the challenging operating environment and the difficult times faced by many of our customers and other stakeholders due to the increased cost of living and the adverse economic conditions. The board was ever more conscious of the need for the group to play its part in the North West and deliver on its purpose both now, and in the future, and to ensure that it fulfilled its own oversight role to promote the long-term sustainable success of the company.

Evolution of Better Rivers

The board has provided challenge, support and advice to management in its navigation of a number of key issues including the regulatory, environmental and media focus on sewage in rivers. Our management team are committed to respond to the enormity of the challenge for United Utilities. As one of the three most impacted companies, it requires considerable investment to progressively reduce the adverse impacts of storm overflow activations in our network. The Environment Act 2021 set legally binding environmental targets for water companies to reduce the number of activations from storm overflows. As a board we are fully engaged and intent on playing our part in ensuring that United Utilities delivers on its newly adopted purpose of providing great water for a stronger, greener and healthier North West.

Environmental, social and governance

The board is responsible for overseeing environmental, social and governance (ESG) issues. Many facets of ESG have been high on the agenda for the board and for the ESG committee (formerly the corporate responsibility committee), which takes the lead in the oversight of environmental (including climate change) and social issues. The business is working hard to achieve the six carbon pledges made in 2020 and our four verified science-based targets. Our climate change mitigation strategy forms the basis of our net zero transition plan (see pages 45 to 47), which demonstrates how we intend to contribute to, and prepare for a rapid global transition towards, a low greenhouse gas emissions economy.

To incentivise management, the remuneration committee incorporated targets related to our carbon pledges into the performance elements of 2022 award of the long-term incentive plan. The board does not underestimate the challenge to the business of reducing emissions, particularly nitrous oxide and methane from sewage - an issue likely to be further exacerbated by the expected population growth in our region. We also recognise the significant challenge of Scope 3 emissions and are working closely with our supply chain partners to manage and reduce these within the constraints of growth, demand, resources and cost.

The extreme weather and freeze-thaw event in December 2022, was a very challenging time in our region, requiring our incident teams to be mobilised at the highest level. As ever, many of our colleagues and those of our contracting partners, sacrificed time with family and friends over the Christmas period to maintain services to customers.

Affordability is key to many customers, with many parts of the North West suffering from high levels of acute deprivation. The board is an advocate of the Consumer Council for Water's pursuit of the introduction of a national social tariff that is consistent with the group's own affordability schemes and core values. The group's approach to affordability and to those in lower income groups who find it a struggle to pay their water bill is a standing item overseen, in the first instance, by the ESG committee. A comprehensive dashboard of low income metrics enables the committee to monitor performance and mitigating actions on household retail cash, debt and affordability. Around 330,000 customers are supported by the group's affordability schemes.

At our AGM in 2022, the board proposed a resolution on the company's climate-related financial disclosures in the form of our TCFD report (in this report, see TCFD index on page 05) on a non-binding advisory basis. The resolution attracted 80.62 per cent of the votes cast in favour. We were disappointed in the 19.38 per cent of the vote being withheld or cast against the resolution. Following the AGM we engaged with the proxy voting agency which had recommended a vote against the resolution and responded to feedback from several investors - clarifying the responsibilities of the then corporate responsibility committee for environmental matters and providing information on our climate change mitigation strategy.

In the following pages of this corporate governance report, we set out how the board has fully applied the principles and fully complied and reported on the provisions of the 2018 UK Corporate Governance Code (the Code).

Cyber security

The board has regular oversight of cyber security matters. The group's approach to the protection of information and holding of data about its assets and operations, customers and colleagues is aligned with its strategic priorities (see page 38). There are a number of regulatory drivers in relation to cyber security that the group must comply with. United Utilities Water is designated as a provider of essential services for UK Critical National Infrastructure and is governed by The Network and Information Systems Regulations 2018, which focuses on cyber security compliance. Good progress is being made with our programme of work to comply with these regulations. United Utilities Water is required to comply with the Security and Emergency Measures Direction (SEMD), which directs water undertakers to maintain plans to provide a supply of water at all times and includes security components. A report, subject to independent attestation, is submitted annually to the DWI. Furthermore, the group's information security policies and compliance are aligned to ISO 27001.

Like most companies we are facing the increasing challenge of cyber threats. Cyber security is a principal risk over which the board has oversight, both as part of twice-yearly reviews of risk management supported by the audit committee, and directly through interaction with the chief security officer who also provides the board with an update on cyber security twice a year. More information on the work to mitigate the risk of cyber security threats can be found on pages 53 and 57 and information on the progress with enhancing the group's digital strategy on page 26.

Looking ahead

Focus for the board is now on the price review process for the 2025–30 asset management period (the PR24 process). We welcomed Michael Lewis as an independent non-executive director to the board on 1 May 2023. Michael brings his considerable experience of working in the regulated electricity sector, which will be invaluable to the board as we work through the PR24 process.

On 16 March 2023, the company announced that Steve Mogford would step down from the board with effect from 31 March 2023 and would be succeeded by Louise Beardmore, who was appointed to the board as CEO designate on 1 May 2022. Since her appointment last year, Louise has, amongst other things, been overseeing the preparation of the group's business plan covering the 2025–30 period. More information on Louise's transition into the CEO role can be found on page 145.

On behalf of the board, I wish to express our immense gratitude to Steve for his visionary and strategic leadership over the last 12 years. He leaves the group in a position standing tall amongst its peers, and as an integrated and forward-thinking business better prepared to take on the challenges of the future. We wish him well in his retirement.

Sir David Higgins
Chair

Read more about **our core values** on page 50

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

UK Corporate Governance Code

Reporting on the application of principles and against the provisions of the 2018 UK Corporate Governance Code.

"The business plans we submit in 2023 will cover the 2025–30 period, with a long-term delivery strategy out to 2050."

Board leadership and company purpose

Principle A:

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

We set out our application of principle A and provision 1 on pages 128 and 129, and our reporting against risk as part of provision 1 on pages 60 to 75. The S172(1) Statement is on page 58.

Principle B:

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The board is satisfied it has applied principle B - see page 38. See page 135 and 186 for our reporting against provision 2 and pages 58 and 136 in respect of provision 5.

Principle C:

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Application of principle C to identify the resource within the business is delegated to management, but monitored by the board through the measurement of performance. See page 143 regarding our succession pipeline, and page 149 for the board's approach to risk management and internal control.

Principle D:

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Engagement of stakeholders fulfilling the application of principle D, and our reporting against provision 3 is set out on pages 56 to 57 and 137 to 138 in relation to our engagement with shareholders and stakeholders.

Principle E:

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The board recognises the importance of a two-way flow of communication and the importance of colleagues having the facilities to raise matters of concern. See pages 56, 100, and 136 to 137 in relation to engagement with colleagues for our reporting against provisions 5 and 6.

Areas of focus for the board in 2022/23

As part of the board's role in promoting the long-term sustainable success of the company, generating value for shareholders and contributing to society the board focused on a number of areas:

Regulatory, environmental and media focus on sewage in rivers

The board is acutely aware of the ongoing criticism aimed at the group and other wastewater companies in relation to discharges from storm overflows that are incorporated into the sewerage network in our region to carry sewage and rainwater. The Environment Act 2021 sets out legally binding environmental targets for water companies to progressively reduce the adverse impacts of storm overflow activations. United Utilities has a significantly higher proportion of combined sewers than any other water company. Over 54 per cent of our public sewers combine foul and surface water compared to an average of 33 per cent. United Utilities is one of the three most impacted companies and will face considerable investment requirements relative to its customer base. Combined sewers respond more quickly to a storm with the capacity filling up more rapidly than when compared to more separate systems, but which helps address areas of higher rainfall like the North West. When sewers and treatment plants are operating at full capacity they can discharge storm water (including diluted sewage) into rivers via the storm overflow, therefore helping to prevent the flooding of streets, homes and businesses during periods of heavy rainfall. We have committed to £230 million in environmental improvements, supporting at least a one third sustainable reduction in the number of recorded storm overflow activations by 2025 compared to the 2020 baseline, making improvements to reduce the use of some of the most frequently activated storm overflows by around 10,000 hours, and making improvements to around 184 kilometres of rivers in our region. In May 2022 we committed £250 million of reinvestment to support our Better Rivers: Better North West programme and other environmental enhancements across our region. Furthermore, working with our regulators, we are bringing forward over £900 million of investment and expecting to spend around £200 million over the next two years.

Environmental sustainability

Environmental issues are integral to the way our business operates. The ESG committee takes the lead in overseeing management's development of our climate change mitigation strategy, and reports regularly to the board on the matter. Plans are progressing to drive the group's transition to a low carbon future by minimising our contribution to global warming through a reduction in greenhouse gas emissions. During the year, our draft strategic carbon plan has been developed setting out the ways in which we can achieve our science based targets and an integrated programme of decarbonisation interventions to 2030 and beyond. Net zero is referenced as one of the key objectives for the 2024 price review and carbon will be fully integrated into our price review submission.

As part of our business-as-usual activities, carbon has been incorporated as a factor to be considered in:

- our investment appraisal and decision-making processes;
- our land management practices to enhance/improve natural capital;
- the innovation that we encourage both within our operations and through working with our partners and suppliers; and
- our implementation of a 'circular' mindset.

The board is kept fully informed by management on the impacts of climate change from an operational perspective. Extreme weather events impacting our region and our operations in recent years are increasingly common. When such incidents occur, the CEO keeps board members fully apprised of the impact on operations via virtual meetings and other forms of communication. The board would be informed of any material points of learning identified in the post-incident review process, and progress with the implementation of material actions. A table of our reporting against TCFD and TNFD recommended disclosures can be found on page 5.

Working with our regulators

We have continued to work alongside Ofwat in its newly introduced approach for major capital construction projects, namely Direct Procurement for Customers (DPC). The group's first project that has been approved for procurement via the DPC method is the Haweswater Aqueduct Resilience Programme (HARP). The information currently available suggests that the DPC route has the potential to offer the best value for customers and, therefore supports the position that this should be tested by progressing HARP through a DPC procurement process. The Haweswater Aqueduct is a critical asset, and as such the board is being kept fully apprised through the procurement process.

In December 2022, Ofwat published its methodology for the forthcoming 2024 price review. The board has been fully engaged with the process during the year including participation in deep-dive sessions and regular discussions at scheduled board meetings.

Equity, diversity and inclusion (ED&I)

During the year, considerable progress has been made on the journey to drive forward progress with ED&I as part of the long-term sustainable success of the business. During the year, a number of board members attended the inaugural Colleague Network AGM and Inclusion Awards, celebrating colleagues' contributions to championing inclusion in the workplace and our local communities. Further information on ED&I can be found on page 54. The board diversity policy (see page 143) promotes and encourages diversity and inclusion among board members by fostering an inclusive and belonging environment in the boardroom, encouraging open and frank contributions from all board members.

Delivering against our regulatory contract

Under the current regulatory model, we are a monopoly supplier of water and wastewater services to our domestic customers. In short, the opportunities for improving our financial performance are based on outperforming our five-year contract. Underlying this is a complex set of regulatory key performance indicators, including total expenditure (totex) outperformance, the outcome delivery incentive (ODI) mechanism, customer measure of experience (C-MeX) and financing expenditure (see pages 84 to 119), which are managed and monitored by the business.

Overview of the board's responsibilities

- Sets the strategy of the group, ensuring the long-term success of the group for customers, investors and wider stakeholders.
- Is responsible for challenging and encouraging the executive team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set.
- Has responsibility for ensuring the company's risk management and internal control systems (including financial, operational and compliance) and processes operate effectively (see pages 166 to 167).
- Must ensure that the company has the necessary financial resources and people with the necessary skills to achieve its objectives. It reviews managerial performance annually.
- Approves appointments to and removals from the board and membership of the committees.
- Applies the principles of the code and reports against the provisions.
- Has oversight of major capital expenditure projects within UUW that exceed £150 million, and any project that materially increases the group's risk profile or is not in the ordinary course of the group's business.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Board leadership and company purpose

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

Governance structure for the board and its committees

Role of the board

The board has responsibility for establishing the purpose, values and strategy, which is broken down into six strategic priorities (see page 38). The governance structure encompassing the board, its principal committees and the principal management committees (and set out in the diagram below) contributes to ensuring that the group focuses on its strategic priorities.

The CEO provides an updated overview of the business, and its financial and operational performance at every scheduled meeting.

A rolling calendar of business is maintained to provide an overview of the board's annual business. The company secretary will agree board agendas with the CEO and Chair of the board prior to the meeting. Papers are tabled at the executive meeting prior to inclusion on the board agenda and electronic board packs are circulated in a timely manner in advance of the meeting to enable board members to prepare and participate in board discussions. A full schedule of the matters reserved for the board can be found on the company's website and at **unitedutilities.com/corporate-governance**

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

Group board
Chair – Sir David Higgins

Code principal board committees

Audit committee
Chair: Doug Webb
Contribution to our strategy:
See pages 153 to 167

Remuneration committee
Chair: Kath Cates
Contribution to our strategy:
See pages 170 to 203

Nomination committee
Chair: Sir David Higgins
Contribution to our strategy:
See pages 140 to 148

Other board committees

ESG committee
Chair: Paulette Rowe
Contribution to our strategy:
See pages 204 to 207

Treasury committee
Chair: Doug Webb
Contribution to our strategy:
See page 169

Compliance committee
Chair: Alison Goligher
Contribution to our strategy:
Reviews key regulatory submissions and underlying governance processes.

Announcements committee
Chair: Any member of the committee
Contribution to our strategy:
Responsible for overseeing compliance with the group's disclosure controls and considering the materiality of information.

Chief Executive Officer – Louise Beardmore

Principal management committees

Group audit and risk board
Chair: Louise Beardmore, CEO
Contribution to our strategy:
See page 60

Sustainable finance committee
Chair: Phil Aspin, CFO
Contribution to our strategy:
The committee is responsible for ensuring funds raised under the sustainable finance framework are allocated to eligible green or social projects.

Security steering group
Chair: Jon Wyatt, chief security officer
Contribution to our strategy:
The group is responsible for the oversight of cyber and physical security matters, risks and mitigating actions.

Executive team
Chair: Louise Beardmore, CEO
Contribution to our strategy:
See page 131

Political and regulatory group
Chair: Gaynor Kenyon, corporate affairs director
Contribution to our strategy:
This forum is responsible for discussing political and regulatory issues affecting the company, where any 'horizon scanning' issues are raised and business responses to consultations are agreed.

Climate change mitigation steering group
Chair: Phil Aspin, CFO and Jo Harrison, EP&I director
Contribution to our strategy:
Leads the ongoing development and delivery of our strategy and activity to achieve our science-based targets and carbon pledges.

Capital investment committee
Chair: Louise Beardmore, CEO
Contribution to our strategy:
The committee is responsible for authorising expenditure relating to the capital investment programme.

Future plan strategy board
Chair: Louise Beardmore, CEO
Contribution to our strategy:
This forum makes strategic decisions on scope and outcomes to ensure the overall delivery of the PR24 programme, and sets the risk appetite for the programme. It retains authority for programme monitoring and reporting and acts as an advisory forum, and has responsibility for oversight of the overall programme budget, deliverables, risks and issues.

Key ↑ inform and implement ↓ oversight and challenge

Key

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

Board committees

In line with the code, the board delegates certain roles and responsibilities to its principal board committees. While the board retains overall responsibility, a sub-committee structure allows these committees to probe the subject matters more deeply and gain a greater understanding of the detail. The committees then report back to the board on the matters discussed, decisions taken, and, where appropriate, make recommendations to the board on matters requiring its approval. The reports of the principal board committees required by the code can be found on the subsequent pages. Minutes of the board and principal board committee meetings (with the exception of the remuneration committee) are tabled at board meetings and the chairs of each of the board committees report verbally to the board on their activities.

Executive team

The executive team is chaired by the CEO, and its members are the senior managers who have a direct reporting line to the CEO. The executive team is responsible for the day-to-day running of the business and other operational matters and implementing the strategies that the board has set. The executive team holds two scheduled meetings each month, focusing on the day to day performance of the business at one meeting and matters of a strategic nature at the other, along with weekly informal 'scrums'. The principal management committees are vital to the implementation of the group's strategic priorities enabling senior management to meet together to discuss the needs of the business, raise issues, identify and delegate appropriate actions, monitor progress of key performance measures and ensure any lessons learnt are implemented. The board receives a report from the CEO providing an updated overview of the business, and its financial and operational performance at every scheduled meeting.

Short biographies of the executive team can be found on the company's website at **unitedutilities.com/executive-team**

Summary of board activity in 2022/23

During the year the board has focused on a number of strategic matters and received regular updates.

Actions	Outcomes	Cross reference	Link to strategic priorities
Leadership and colleagues			
Review of health, safety and wellbeing activities and consideration of health and safety incidents of colleagues and contractors.	Challenged management to heighten the focus on embedding a health and safety culture within the business, with added focus being placed on process safety improvements at operational sites.	See pages 100 to 101	
Review of board succession plans.	Succession plan implemented for the appointment of a non-executive director during the year and approved changes to the membership of the board committees.	See pages 143 to 144	
Reviewed progress with our aspiration for a diverse and inclusive workforce.	Board kept apprised of the programme of work to increase diversity of the workforce and improve equity and inclusivity.	See pages 54 to 55	
Reviewed and discussed the results of the annual colleague engagement survey and received updates on workforce engagement mechanisms, including the Colleague Voice panel chaired by Alison Goligher, the non-executive director designated for engagement with the workforce.	Board kept apprised of the activities and insight provided by the Colleague Voice panel and its links to the colleague network groups, and the panel's ongoing contribution to the work on equity, diversity and inclusion. Non-executive director attendance at panel meetings providing further two-way insight.	See page 136	
Reviewed the company's dashboard of culture metrics and associated analysis.	Monitored and assessed culture and agreed it was aligned with the company's purpose, values and strategy.	See page 135	
Strategy			
Reviewed and monitored the progress against the climate change mitigation/carbon reduction strategy.	Board apprised of the maturing governance structures and options being considered to reduce the group's carbon footprint and develop a net zero transition plan.	See pages 45 to 47	
Price Review 2024 (PR24) deep-dive session – developing strategy for PR24 relating to customers, stakeholders and financial matters. Discussed the timeline for PR24 and the overlap with related price review submissions, including the Drainage and Wastewater Management Plan, the Water Resources Management Plan and the Water Industry National Environment Plan.	Guidance and challenge provided by the board as to the progress of the plan of work to develop the draft submission for the 2024 price review process and consideration of the implications for the group of the methodology published by Ofwat in December 2022. The board have been fully engaged on progress with the development of PR24 throughout the year through regular updates at board meetings.	See pages 40 to 41	
Received regular updates at each meeting of items with a strategic component, such as emerging changes to regulation, major capital expenditure and business structuring decisions.	Facilitated more informed board discussion and planning.	–	
Held a full day meeting to consider the strategic development of the group and its long-term priorities.	In-depth review of the water and wastewater strategy and progress of work to develop the group's Water Industry National Environment Plan, which will inform the 2025–30 price review submission.	See page 59	

Board leadership and company purpose

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

Actions	Outcomes	Cross reference	Link to strategic priorities
Governance			
Reviewed and debated the overall risk profile of the group, and in particular the principal risks, emerging risks and risk appetite, including a review of the most significant operational risks.	Endorsed the nature, extent and management of key business risks and endorsed the view that the risk appetite approach and framework remained fit for purpose.	See page 60	
Reviewed the risk management systems, including financial, operational and compliance controls and reviewed the effectiveness of the internal control systems.	The risk management and internal control systems were considered to be effective.	See page 150	
Reviewed and discussed developments in cyber crime.	Approved the activities undertaken to enhance the effectiveness of the group's security controls.	See page 73	
Reviewed the terms of reference for the audit, remuneration, treasury and ESG committees and received post-meeting reports from the chairs of each committee summarising discussions and actions.	Approved amendments to the terms of reference of the company's committees as appropriate.	–	
Considered the proposal to establish a board committee with delegated responsibility to oversee compliance with regulatory assurance requirements and to be kept abreast of any changes thereto.	Established the compliance committee chaired by Alison Goligher.		
Reviewed biannual updates on changes and developments in corporate governance.	Matters implemented as considered appropriate.	–	
Reviewed and discussed the internal evaluation of the board, its committees and individual directors and conflicts of interest.	Identified action points and any ongoing training needs.	See page 145	
Reviewed the performance of the statutory auditor and recommendation for reappointment at the 2023 AGM.	Accepted the recommendation from the audit committee that KPMG be proposed for reappointed at the 2023 AGM.	See page 165	
Reviewed the resolutions and notice of meeting for the 2023 AGM.	Approved the resolutions to be proposed at the 2023 AGM, and convened the meeting.	See page 214	
Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain.	Approved the 2023/24 slavery and human trafficking statement.	See page 213	
Reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud.	Concluded that the whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud.	See pages 137 and 167	
Treasury hedging policies deep-dive session.	Provide the board with an in-depth session into the group's treasury hedging policies regarding interest rates, inflation, electricity and other commodity prices.	See page 169	
Considered the impact of the Russian invasion of Ukraine on the supply chain.	Sought to mitigate the impact on the supply chain and source alternative suppliers where possible.	See page 74	
Regulated business and its stakeholders			
Regular review of the progress of the Direct Procurement for Customers (DPC) approach and readiness of UUW as part of the project to replace sections of the Haweswater Aqueduct.	Board kept fully apprised of progress at key stages of the project through regular presentations at board meetings and the UUW board approved the issue of the tender pre-qualification questionnaire.	See page 68	
Water quality deep-dive session.	Provide the board with an in-depth view of the strategy for managing and improving water quality; an understanding of the importance of critical assets in the integrated supply zone during the future construction activity to replace sections of the Haweswater Aqueduct.		
Reviewed the 2022 Annual Performance Report and supporting assurance..	Approved the submission of the 2022 Annual Performance Report to Ofwat.		

Key

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

Actions	Outcomes	Cross reference	Link to strategic priorities
Regulated business and its stakeholders continued			
Reviewed customer service performance measures.	In-year customer performance measures monitored against regulatory targets.	See page 101	Deliver great service for all our customers
Drainage and Wastewater Management Plan deep dive.	Provided an in-depth review of the submission and the opportunity for the board to challenge management's approach and provide strategic guidance prior to submission of the draft plan in June 2022.		Create a greener future; Deliver great service for all our customers; Spend customers' money wisely; Contribute to our communities
Considered the capital sanction to support the project at Oswestry water treatment works.	Approved the capital sanction.		Deliver great service for all our customers; Spend customers' money wisely
Other group business			
Considered the offer for the entire issued capital of United Utilities Renewable Energy Limited.	Approved the disposal of United Utilities Renewable Energy Limited.	See page 246	Spend customers' money wisely
Considered the renewal and extension of the existing revolving credit facilities until December 2026 to support the working capital needs of the Water Plus Group, the joint venture with Severn Trent.	Approved the renewal and extension of revolving credit facilities until December 2026, aligning with those provided by Severn Trent, the joint venture partner.	See page 278	Spend customers' money wisely
Shareholder relations			
Received and discussed a presentation by Rothschild Investor Advisory on investors' views and perceptions of the group in relation to, among other things: strategy; the group's unique selling proposition; performance; and how the company compares with other listed water and wastewater companies.	Provided the board with an indirect view of investor perceptions.	See page 137	Deliver great service for all our customers; Spend customers' money wisely
Regularly received and discussed feedback from roadshows, presentations, face-to-face meetings and correspondence between investors and the Chair, CEO and/or the CFO, and other communications received from large investors.	Provided the board with a direct view of investor perceptions and the opportunity for review and discussion and review of the group's response as applicable.	See page 137	Deliver great service for all our customers; Spend customers' money wisely
Financial			
Reviewed the 2020–25 business plan and the 2022/23 budget.	Noted the 2020–25 business plan and approved the 2022/23 budget.	–	Improve our rivers; Create a greener future; Provide a safe and great place to work; Deliver great service for all our customers; Spend customers' money wisely; Contribute to our communities
Reviewed and approved the half and full-year results and associated announcements and applicable dividend payments.	Approved the half and full-year results and associated announcements and considered and approved the interim and final dividend payments to be paid to shareholders.	–	Spend customers' money wisely
Reviewed management's proposed going concern and long-term viability statement.	Approved the going concern and long-term viability statement.	See pages 150 to 152	Deliver great service for all our customers; Spend customers' money wisely
Reviewed tax policies and objectives proposed by management for 2021/22.	Approved tax policies and objectives for 2021/22.	See page 208	Deliver great service for all our customers; Spend customers' money wisely
Reviewed the annual pensions update.	Pensions strategy affirmed and endorsed the preferred methodology for Guaranteed Minimum Pension equalisation.	See page 255	Provide a safe and great place to work; Deliver great service for all our customers; Spend customers' money wisely
Reviewed the annual treasury update.	Approved the treasury policies; the group's funding requirements for the year and the potential sources to meeting these funding requirements; and managing the group's interest rate and other market risk exposure.	See page 169	Deliver great service for all our customers; Spend customers' money wisely
Reviewed the annual insurance programme for 2022/23.	Approved the annual insurance programme for 2022/23.	–	Deliver great service for all our customers; Spend customers' money wisely
Reviewed progress with material litigation involving the group.	Strategy to defend claims robustly affirmed.	See page 75	Deliver great service for all our customers; Spend customers' money wisely

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

Attendance at board and committee meetings

Eight scheduled board meetings were planned and held during the year (2022: eight). A number of other board meetings and telephone conferences were held during the year, as the need arose. The table below shows the number of scheduled meetings attended and the maximum number of scheduled meetings that the directors could have attended. Only in exceptional circumstances would directors not attend board and committee meetings. Similarly, every effort is made to attend ad hoc meetings either in person or via the use of video or telephone conferencing facilities if needs be. None of the non-executive directors has raised concerns over the time commitment required of them to fulfil their duties. Scheduled meetings are usually held face to face, occasionally a board member may attend virtually.

On the evening before most scheduled board meetings, all of the non-executive directors meet either by themselves, or together with just the CEO, or with the entire board and the company secretary. This time is usefully spent enabling board members to build a rapport, share views and consider issues impacting the company, resulting in improved board dynamics and better decision-making.

	Boards meetings[1]	Audit committee	Remuneration committee	Nomination committee	ESG committee	Treasury committee
Sir David Higgins	8 8	–	–	3 3	–	–
Steve Mogford	8 8	–	–	–	4 4	–
Louise Beardmore	7 7 [2]	–	–	–	–	–
Phil Aspin	8 8	–	–	–	–	3 3
Mark Clare	4 4 [3]	–	2 2 [3]	1 1 [3]	–	–
Alison Goligher	7 8 [4]	–	4 4	3 3	4 4	–
Liam Butterworth	8 8	4 4	–	3 3	2 3 [7]	–
Stephen Carter	4 4 [3]	1 1 [3]	–	1 1 [3]	1 1 [3]	–
Kath Cates	8 8	3 3 [5]	4 4	3 3	–	–
Paulette Rowe	8 8	1 1 [6]	–	3 3	4 4	–
Doug Webb	8 8	4 4	4 4	3 3	–	3 3

● Meetings attended ● Possible meetings

(1) Actual number of meetings attended/maximum number of scheduled meetings that the directors could have attended during the financial year ended 31 March 2023.
(2) Louise Beardmore was appointed to the board on 1 May 2022.
(3) Mark Clare and Stephen Carter stepped down from the board at the conclusion of the AGM in July 2022.
(4) Alison Goligher was unable to attend one board meeting due to a personal matter.
(5) Kath Cates was appointed as a member of the audit committee in July 2022.
(6) Paulette Rowe stepped down from the audit committee in July 2022.
(7) Liam Butterworth was unable to attend a committee meeting due to a commitment arranged prior to his appointment.

Purpose, values and culture

Our purpose is to provide great water for a stronger, greener and healthier North West. With the water industry evolving to meet new challenges and priorities, the board took into account feedback gained from stakeholders and colleagues on what, and how, things needed to be done and as a result, our purpose, strategic priorities and core values were refreshed to better reflect the future needs of the business. Six strategic priorities (see page 38) were identified reflecting the key areas of focus for the coming years and the alignment of our ambitions with the ESG concerns of our stakeholders.

Our core values demonstrate how we behave individually and collectively as the board and how we ask our colleagues to behave. Our colleagues are fundamental to delivering our strategy and achieving our purpose. Our values of 'doing the right thing', 'make it happen' and 'be better' (see page 50) underpin our culture of behaving as a responsible business in the way we interact with all the stakeholders we serve. We must continually reinforce these values so that the right behaviours cascade throughout the organisation, ensuring our culture of behaving responsibly drives what we do.

For the year ended 31 March 2023, the board is satisfied that the formulation of our aspirations in terms of our purpose, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all.

Monitoring our culture

Throughout the organisation, our culture is monitored to ensure behaving responsibly drives what we do. Key to this is taking action to address any issues where there is misalignment with the company's culture.

To support this, we have a framework of qualitative and quantitative cultural measures to provide the board with insight into the culture of the group. These measures are tracked so that any issues can be identified and actioned. We were pleased to have received external validation of our approach to monitoring culture, featuring as a best practice case study by the Financial Reporting Council 'Creating Positive Culture Opportunities and Challenges Report', December 2021. A recent independent audit found our approach to be a "pragmatic and effective model" for supporting the board in their role of monitoring and assessing culture and a "useful framework for driving improvements and interventions" (PwC, February 2021).

1 Dashboard of cultural metrics

In addition to the existing reporting, management has developed a dashboard of cultural metrics, providing a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The dashboard comprises relevant metrics derived from: the annual colleague engagement survey; human resources policies in relation to equity, diversity and inclusion along with associated training; whistleblowing reporting; health, safety and wellbeing policies and practices; and other key performance indicators relating to how we behave as a responsible business.

Metrics from the dashboard used to monitor culture include:

- Engagement response rate shows the level of participation in our survey – in 2022/23 it was 87 per cent compared to the UK norm of 76 per cent, demonstrating that colleagues are keen to tell us how they feel about working at United Utilities.
- Engagement is at the heart of what we do and the overall engagement score gives us a quantifiable measure of company culture, in 2022/23 it was 82 per cent compared to the UK norm of 78 per cent.
- Health and safety is at the heart of what we do and we want our people to go home safe and well. In 2022/23 it was 91 per cent compared to the UK norm of 87 per cent. The home safe and well programme training is now part of our business as usual training programme and 88.6 per cent of our workforce have completed this training programme.

2 Existing reporting structures for discussion

There are a number of existing reporting structures that allow our cultural metrics to be measured, discussed and challenged by the board and its committees, many of which are regularly provided to the board at its scheduled board meetings.

3 Alignment with purpose, values and strategy

The board was satisfied that policies, practices and behaviours within the business were aligned with the company's purpose, values and strategy.

Board leadership and company purpose

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

Read more about **our female talent pipeline** on page 102

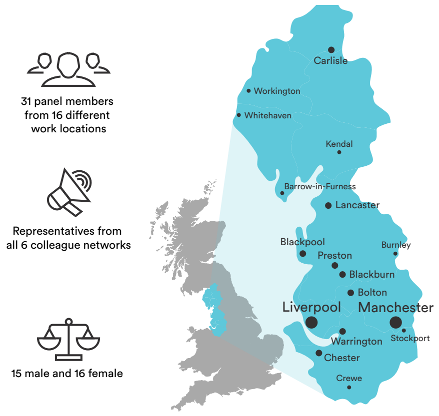
Read more about **our colleague networks** on page 55

Listening to our colleagues

Our colleagues are at the heart of the culture of our business and their 'lived experience', is a key part of the board's assessment and monitoring of culture. Alison Goligher, the current designated non-executive director for engagement with the workforce, facilitates two-way dialogue between the board and the wider workforce. There is an open invitation to all board members to attend meetings of the panel. During the year, Liam Butterworth and Doug Webb each attended a panel meeting participating in a question and answer session with panel members.

Alison chairs the Colleague Voice panel (the panel) formed from representatives of a number of colleague groups and networks from across the business and with representatives drawn from around the region. During the year, the panel met four times including its AGM in July 2022. Meetings alternate between in-person and virtual, providing a flexible approach to enable colleagues to attend.

Profile of the Colleague Voice panel



Throughout the year, the panel have been provided with business updates and information sessions to broaden their knowledge of board and corporate governance, including governance around executive remuneration. A summary of the meeting content is set out in the table opposite.

The panel has three key sub-groups focused on actively providing business insights on the following key areas:

- continuous improvement and feedback on how we measure colleague engagement;
- helping our colleague networks promote and support an inclusive culture across the company; and
- exploring the drivers and measures of organisation culture. The culture sub-group has focused its energies on obtaining grass-roots view of changes implemented across the organisation.

Colleagues' views are measured annually through the engagement Your Opinion Survey with the objective of taking any required action to improve how permanent colleagues feel about the company and understand its direction. Colleagues are provided with information through briefings and access to online materials, to enable them to understand the financial and economic factors affecting the group's performance.

Alison has regular meetings with senior trade union representatives as part of the agreed panel approach. Furthermore, along with our employee relations team, our CEO holds regular face-to-face meetings with senior trade union representatives to facilitate two-way communication and engagement with the views of colleagues' representatives.

The group has a commercial arrangement with a third party for the provision of agency staff and contractors. Engagement and communication in relation to these members of the wider workforce is managed directly by the third party via a dedicated third-party account manager who liaises directly with the company's human resources team. If there is any significant change activity, a representative of the third party joins the project team, thereby ensuring consistency when communicating key information to colleagues, agency staff and contractors.

Set out on pages 56 and 76 respectively is the company's approach to our engagement with and creating value for colleagues, with health, safety and wellbeing a priority. Furthermore, an explanation of the company's approach to rewarding the workforce can be found in the report of the remuneration committee on page 186.

Colleague Voice panel

Outcomes from the work since the panel was established to strengthen the 'employee voice' in the boardroom include:

- The transfer of the governance of the annual colleague engagement survey to the panel. The panel enhanced the underlying anonymity of the survey and provided more opportunities to provide free text comments. Survey questions were updated to reflect key topics, including: wellbeing; inclusivity; and working differently;
- Additional administrative and communications resource was made available for network groups and executive sponsors identified; and
- Panel members' views were sought on the 'next ways of working' project, the 'home safe and well' project and the 'diversity and inclusion' audit.

Board

'Lived experience'

ESG committee

Non-executive director
Alison Goligher

Network leads	Colleague champion groups	Early careers and managers	Union partners

Colleague groups

Panel members from	Panel members from	Panel members from	Full time trade union representatives
• Multicultural • Identity (LGBT) • GENEq • Armed Forces • Ability	• Health, safety and wellbeing champions • Engagement champions • Colleague engagement group	• The early careers board • Aspiring managers • Apprentices • Graduates	• Unite • GMB • Unison • Prospect

Colleague sub-groups

Meeting content of the panel during the year is set out in the table below:

June 2022	November 2022	February 2023
• Board update • A Kickstarter's perspective of life at United Utilities • Profile of the workforce (part 1) • Digital academy update • Updates from each of the sub-groups • Q&A with Liam Butterworth	• Board update • Digital workplace update • Monitoring and assessing culture • Profile of the workforce (part 2) • Updates from each of the sub-groups • Q&A with Doug Webb	• Board update • Sub-group updates – colleague engagement; culture and cross network collaboration • Digital workplace update • Building our digital skills • Update on totex efficiency work to ensure customers' money is spent wisely • Overview of colleague benefits offering • Annual board governance

Whistleblowing policy

The following sets out the company's compliance with code provision 6.

As part of our two-way communication, the board has responsibility for reviewing the group's arrangements for individuals to raise matters of concern and the arrangements for the investigation of such matters. The group's whistleblowing policy (the policy) supports the culture within the group where genuine concerns may be reported and investigated without reprisals for whistleblowers. A confidential telephone helpline and a web portal are available to enable colleagues (including agency workers and contractors) to raise matters of concern in relation to possible incidents of fraud, dishonesty, corruption, theft, security and bribery. Furthermore, colleagues are encouraged to raise any matters relating to health and safety and any activities of the business that have caused or may cause damage to the environment, such as pollution or other contamination. Both the helpline and web portal are operated by a third-party, enabling any concerns to be reported anonymously. The policy states that no colleague will be victimised for raising a matter in accordance with the policy. Matters raised with the helpline/portal are in the first instance reported to the whistleblowing committee and investigated by senior managers independent of any involvement of the issues being considered. Details of the findings of the investigation and proposed solution are then considered by the whistleblowing committee (whose membership comprises the company secretary, the people director, the strategy, policy and regulation director, the head of internal audit and the commercial, engineering and capital delivery director) and which meets quarterly. The board routinely reviews matters considered by the whistleblowing committee, the outcome of the investigation and the ways in which the matters were brought to a conclusion, thus ensuring that the core value of integrity is upheld and fostering an environment where colleagues feel it is 'safe to speak up' and to do so without fear of reprisal.

Board engagement with shareholders and other stakeholders

The board as a whole accepts its responsibility for engaging with shareholders and is kept fully informed about information in the marketplace through the following channels:

- The investor relations adviser produces an annual survey of investors' views and perceptions about United Utilities, the results of which are presented and discussed by the board;
- The board receives regular updates and feedback on investor meetings involving the CEO, CFO and/or investor relations team and reports from sector analysts to ensure that the board maintains an understanding of investors' priorities; and
- The executive and non-executive directors are available to meet with major shareholders and institutional investors. When revising the directors' remuneration policy, the chair of the remuneration committee invited engagement from the company's major shareholders. Feedback from any such engagement would be shared with all board members.

Investor dialogue with the Chair

During the year, the Chair offered to meet with 20 institutional investors, and 11 meetings were held. Common themes from these discussions included:

- affordability of customer bills and the impact of inflation and rising interest rates;
- the board's support for Louise Beardmore as she transitions into the CEO role and the executive leadership team;
- 2022 AGM vote on climate-related financial disclosures;
- operational and ODI performance; and
- the operation of storm overflows and related programme of work.

Institutional investors

As well as current investors, we engage actively with institutional investors who do not currently hold shares in United Utilities, as we are keen to ensure our business is well understood across the investment community, and to hear and discuss the views of all investors.

We have an active investor relations programme, which includes:

- an invitation to major shareholders to meet with the Chair;
- a regular schedule of meetings between the CEO and CFO and representatives from our major shareholders, supplemented with meetings hosted by our investor relations team;
- presentations by the CEO and CFO to groups of institutional investors, both on an ad hoc basis and linked to our half and full-year results announcements;
- the programme covers a range of major global financial centres, typically including the UK, Europe, North America and the Asia Pacific region;
- regular feedback provided to the board on the views of our institutional investors following these meetings; and
- maintaining close contact between the investor relations team and a range of City analysts that conduct research on United Utilities.

In 2022/23, our investor relations activities were conducted through a combination of virtual and face-to-face meetings. We met or offered to meet with 87 per cent (2021/22: 80 per cent), by value, of the active targetable institutional shareholder base (after adjusting for shareholders who do not typically meet with companies, such as indexed funds).

Frequent areas of common interest arising in meetings with investors include operational and environmental performance, customer service, capital investment, efficiency initiatives, regulatory performance, regulatory changes and ESG matters. Investors are always keen to observe financial stability and are interested in: the level of gearing versus regulatory assumptions; cost of finance; our debt portfolio and debt maturity profile; future financing requirements; and dividends. Investors are keen to understand how the company is performing relative to the price review allowances and targets each year, along with the potential implications of regulatory change.

Retail shareholders

We have retained a large number of individual shareholders with registered addresses in the North West – in fact, over 50 per cent of registered shareholdings on the share register. We have always held our AGM in our region, which enables our more local shareholders, many of whom are customers, to attend the meeting. The 2023 AGM will, for the first time, be held at the company's main offices in Warrington.

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

Read more about **creating value for our stakeholders** on pages 76 to 77

Read more about our **treasury committee** on page 169

There is a considerable amount of information on our website, which provides information on our key social and environmental impacts and performance during the year. Together with the annual and half-yearly results announcements, our integrated annual report and financial statements are also available on our website; these are the principal ways by which we communicate with our retail shareholders. Our company secretariat and investor relations teams, along with our registrar, Equiniti, are on hand to help our retail shareholders with any queries. Information for shareholders can also be found on the inside back cover of this document, along with a number of useful website addresses.

Other stakeholders

The board has direct contact with other stakeholder representatives, including: Ofwat, the DWI and YourVoice (the independent customer challenge group). The chair of YourVoice attends a UUW board meeting to provide an opportunity for discussion, in-depth customer insight and the sharing of views.

The remuneration committee regularly engages with colleagues via the Colleague Voice panel.

Engagement with representatives of all our stakeholder groups occurs widely across many aspects of the business, and more information can be found on pages 56 to 57.

Relations with banks and credit investors

Running a water and wastewater business, by its very nature, requires a long-term outlook. Our regulatory cycle is based on five-year periods, and we raise funding to build and improve our water and wastewater treatment works and associated network of pipes for each five-year cycle and beyond. We are heavily reliant on successfully raising long-term funding from banks and credit investors to fund our capital investment programme and refinance upcoming debt maturities.

This requires long-term support from our credit investors who invest in the company by making term funding available in return for receiving interest on their investment and repayment of principal on maturity of the loans or bonds. We arrange term debt finance in the debt capital markets (with maturities typically ranging from seven years to up to 50 years at issue). Debt finance is primarily raised via the group's London listed multi-issuer £10 billion Euro Medium Term Note Programme, which gives us access to the sterling and euro public bond markets and privately arranged note issues. Committed credit facilities are arranged with our relationship banks on a bilateral basis.

Additionally, the European Investment Bank (EIB), which is the financing arm of the European Union (EU), remains a significant lender to United Utilities Water, currently providing around £1.1 billion of loan funding supporting past capital investment programmes, with our existing EIB loan portfolio expected to 'run-off' in line with the scheduled maturities of each loan.

A greater proportion of the group's term finance is, therefore, likely to come from the debt capital markets, including funding raised under the group's sustainable finance framework that was established in November 2020. In April 2023, the group issued its second sustainable public bond issue, a £300 million, 15.5-year maturity, in accordance with the group's sustainable finance framework. An allocation and impact report is published annually in respect of any green/sustainable finance raised, which provides credit investors with details on the use of proceeds of any sustainable finance raised, along with the selected case studies on eligible projects funded.

The group currently has gross borrowings of circa £8,435.4 million. Given the importance of debt funding to our group, we have an active credit investor programme coordinated by our group treasury team, which provides a first point of contact for credit investors' queries and maintains a dedicated area of the company's website. One-to-one meetings are held with credit investors through a programme aimed at the major European fund managers known to invest in corporate bonds that may be existing holders of the group's debt or potential holders. Regular mailings of company information are sent to keep credit investors informed of significant events. The treasury team has regular dialogue with the group's relationship banks, the EIB and the credit rating agencies.

More information can be found on our website at **unitedutilities.com/corporate/investors/credit-investors**

Rating agency services continue to be provided to the group by Moody's Investors Service Limited, Fitch Ratings Ltd and S&P Global Ratings UK Limited under contracts that are periodically renewed or tendered.

Outcome of 2022 AGM

At the 2022 AGM, votes were cast in relation to approximately 73 per cent of the issued share capital (2021: 70 per cent; 2020: 69 per cent). All 23 resolutions proposed by the board were passed by the required majority. There were no significant votes cast against the board's recommendations, resolution 16, relating to our climate-related financial disclosures, was passed with 80.62 per cent of the votes cast favour.

Votes cast in favour of the election/reappointment of the board directors were as follows:

Sir David Higgins	98.14%	Kath Cates	98.19%
Steve Mogford	99.93%	Alison Goligher	99.19%
Louise Beardmore	99.95%	Paulette Rowe	98.19%
Phil Aspin	99.92%	Doug Webb	98.20%
Liam Butterworth	99.97%		

Principle F:

The Chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensure that directors receive accurate, timely and clear information.

The internally facilitated board evaluation (see pages 145 to 147) tested and confirmed the Chair's application of principle F. Sir David was independent on appointment when assessed against the circumstances set out in provision 10, his biography is on page 122.

Principle G:

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. The responsibilities of each director is set out in their biographical details set out on pages 122 to 125.

The internal board evaluation (see pages 145 to 147) tested and confirmed the application of principle G, concluding that the skills and experience of executive and independent non-executives were appropriate with the board working together as a cohesive unit, but maintaining the clear division of responsibility between the board and the executive management team. See pages 122 to 124 for our reporting against provision 10; and the governance structure of the board and its principal committees on page 130.

Principle H:

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

As part of the annual review of conflicts of interest, the board was satisfied that, after taking into account the other commitments of directors, board members had sufficient time to meet their board responsibilities and principle H had been applied (see page 139). Throughout the year the board demonstrated constructive challenge and offered strategic guidance and advice to management in relation to storm overflows and Better Rivers: Better North West programme (see page 59).

Principle I:

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

The internally facilitated board evaluation tested and confirmed the application of principle I, the views of board members were sought on whether the necessary support and information was provided effectively and efficiently, see page 146.

Chair of the board

The role and behaviour of the Chair is fundamental to the effective operation and decision-making of the board and in creating an atmosphere where open and frank discussion is facilitated and encouraged. The roles and responsibilities of the Chair are set out as part of the company's governance framework. Sir David was independent on appointment when assessed against the circumstances set out in provision 10 of the code.

It is the role of the Chair, supported by the company secretary, to drive forward the business agenda of board meetings to ensure that the board is kept abreast of the regulatory drivers and strategic needs of the business, and to ensure that the directors receive accurate, timely and clear information. The Chair and company secretary hold regular meetings to discuss agenda items and board materials. Board packs are distributed electronically five days before the meeting. Ensuring board materials are of an appropriate length, on what can be particularly complex and technical issues, is a constant challenge, and progress has been made during the year by the introduction of a revised board paper template.

Conflicts of interest and time commitment

The following section sets out the company's compliance with provision 7.

The company's articles of association contain provisions that permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chair of any potential conflict or potential new appointment or directorship. Additionally, the board reviews the position of each director annually. No changes were recorded that would impact the independence of any of the directors. No conflicts of interest had arisen during the year.

The board does not specify the precise time commitment it requires from its non-executive directors in taking on the role as they are expected to fulfil it and manage their diaries accordingly. The board is content that none of its directors is overcommitted and unable to fulfil their responsibilities as a board director for United Utilities. Each individual's circumstances are different, as is their ability to take on the responsibilities of a non-executive directorship role. Should a director be unable to attend meetings on a regular basis, not be preparing appropriately or not contributing appropriately to board discussions, the Chair would be responsible for discussing the matter with them and agreeing a course of action.

During the year, permission was sought from the board to take on additional non-executive responsibilities by: Paulette Rowe who was appointed as a non-executive director of Thredd, a private equity owned venture.

Executive directors are not normally allowed to take on more than one non-executive position.

Division of responsibilities

Sir David Higgins
Chair of the nomination committee

Quick facts

- All members of the committee are independent, thus fulfilling the code requirement that a 'majority of members of the nomination committee should be independent non-executive directors'. On joining the board, all independent non-executive directors become members of the nomination committee.
- The role of the committee is to lead the process for appointments to the board and ensure plans are in place for orderly succession to both the board and senior management positions and oversee a diverse pipeline for succession.
- The company secretary attends all meetings of the committee.
- The people director has responsibility for human resources, she regularly attends meetings and is responsible for engaging with executive search recruitment advisers.
- The CEO is not a member of the committee, but from time to time is invited to attend. Neither the Chair nor the CEO would participate in the recruitment of their own successor.

Quick links

Terms of reference:
unitedutilities.com/corporate-governance

Nomination committee

Louise is no stranger to colleagues across the organisation given her previous roles, but she is determined to spend time going out and about, meeting with them and listening to their views, particularly those who work at our many operational sites and are at the heart of our business.

Dear shareholder

I am delighted with the progress that Louise has made in transitioning into the role of chief executive officer, supported throughout the period as she has been by Steve Mogford, with her formally assuming the role when Steve retired on 31 March 2023. She has taken over the leadership in challenging and changing times for both the water sector and the company. With time of the essence, and being only one facet of her new role, Louise has been working tirelessly on the group's Better Rivers; Better North West programme, engaging with key stakeholders across the sector and her peers among the other water companies to promote a more collaborative approach to address the underlying issue, being the need to better manage and reduce the volumes of rainwater entering the sewer network. She is clear that there will be full transparency and accountability on making inroads on United Utilities' performance with this matter.

Louise has reset the approach to communicating with her executive team holding two scheduled monthly meetings and regular informal weekly 'scrum' meetings to touch base and keep abreast of the team's activities and share concerns and successes. Louise's promotion generated a vacancy in her previous role as customer services and people director and as a member of the executive team. The role was separated into that of customer services director and people director and

Nomination committee members:

Sir David Higgins
Chair of the nomination committee

Liam Butterworth

Michael Lewis

Kath Cates

Paulette Rowe

Alison Goligher

Doug Webb

external appointments were made for both roles during the year. During the year, a further vacancy arose for the position of capital delivery, engineering and commercial director, for which an external appointment was made. Biographies of the executive team can be found at **unitedutilities.com/executive-team**

Louise is leading the regular sessions with the executive team and the senior leadership team, which have been introduced to ensure consistency of communication throughout the organisation with the senior leadership team thereafter cascading information throughout the business. Louise is no stranger to colleagues across the organisation given her previous roles, but she is determined to spend time going out and about, meeting with them and listening to their views, particularly those who work at our many operational sites and are at the heart of our business. Information on Louise's CEO transition programme and the stakeholder engagement activities she has been undertaking can be found on page 145.

As previously reported, independent non-executive directors Mark Clare and Stephen Carter stepped down from the board at the AGM in July 2022, after serving for nearly nine and eight years respectively. Liam Butterworth joined the board in January 2022, replacing Mark Clare in accordance with the committee's board succession plan. The committee's search for Stephen's replacement commenced in July 2022. The brief for the search, conducted by Lygon Group, was to identify a candidate with extensive utility and regulatory experience. The search culminated in the appointment of Michael Lewis. On 23 January 2023, it was announced that Michael would join the board as an independent non-executive director with effect from 1 May 2023. Michael's biography can be found on page 124. He has spent most of his career working in the electricity sector, and was appointed as CEO of E.ON UK in 2017. He started his career in the water industry, and having grown up in the North West and attended the University of Manchester, he has a close affinity with our region.

His considerable regulatory experience replaces skills lost when Mark and Stephen left the board. He has focused on sustainability issues throughout his career, and his insight will be helpful as the board further develops its ambitions to reduce the group's carbon footprint and achieve its net zero commitment by 2030, on his appointment he was appointed as a member of the ESG committee. Michael has now attended his inaugural board meeting and I look forward to welcoming his contribution and insight as we further progress with our business planning for the 2025-2030 price review period.

As a consequence of the various board changes, the committee reviewed the membership and diversity of the board committees (more information can be found on page 144).

Alison Goligher stepped into the role of the senior independent director succeeding Mark Clare in July 2022. Alison has also taken on the role of chairing the newly formed compliance committee, which will take the lead in providing initial oversight, and challenge for regulatory assurance matters, and management will undoubtedly find her a useful sounding board as we progress through the drafting process for the price review submission.

At 31 March 2023, 44 per cent of the board were female, two of the senior board positions were held by females and one member of the board is from a minority ethnic background.

As a collective, and with some relatively new board members among us, we are continuing to work hard to prepare for the forthcoming price review process.

Sir David Higgins
Chair of the nomination committee

Read more about **storm overflows** on page 22

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

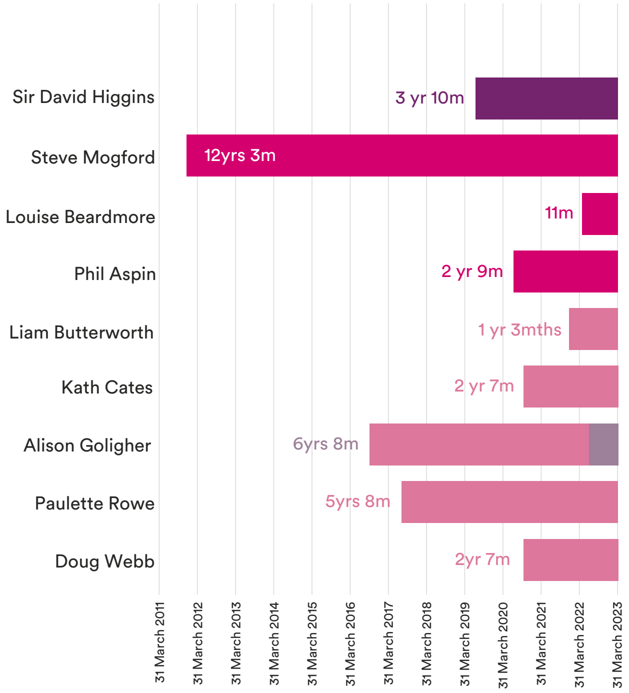
Main responsibilities

- Lead the process for board appointments and make recommendations to the board about filling board vacancies, including the role of company secretary.
- Consider the succession planning of directors and members of the executive team.
- Make recommendations to the board on refreshing the membership of the board's principal committees.
- Review directors' conflict authorisations.
- Consider requests from executive directors for election to the boards of other companies and make a recommendation to the board.
- Consider requests from non-executive directors for election to the boards of other companies; this role has been delegated to the Chair (other than in respect of his own requests).

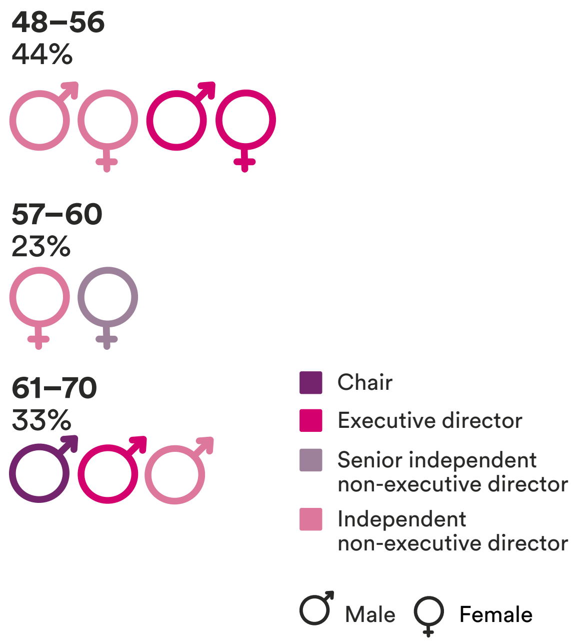
> "Louise has been hard at work, demonstrating her passion and commitment to United Utilities."

Nomination committee continued

Directors' tenure as at 31 March 2023



Age and gender profile as at 31 March 2023



	At 31 March 2023
Non-executive directors average tenure	3 years 9 months
Executive director average career time within the business	22 years 4 months
Average age of the non-executive directors	59 years
Average age of the executive directors	56 years

Gender identity or sex as at 31 March 2023

	No. of board members	Percentage of the board	No. of senior positions on the board (CEO, CFO, SID, Chair)	No. in executive management	Percentage of executive management
Men	5	55.5%	3	7	53.8%
Women	4	44.5%	1[(1)]	6	46.2%
Not specified/prefer not to say	–	–	–	–	–

(1) from 31 March 2023 Louise Beardmore was appointed as CEO.

Ethnic background as at 31 March 2023

	No. of board members	Percentage of the board	No. of senior positions on the board (CEO, CFO, SID, Chair)	No. in executive management	Percentage of executive management
White	8	88.9%	4	13	100%
Mixed/multiple	–	–	–	–	–
Asian	–	–	–	–	–
Black	1	11.1%	–	–	–
Other ethnic group	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Data for the above tables is drawn from HR management information at 31 March 2023, with the directors and members of the executive team each having completed the company's 'All about me' equity, diversity and inclusion survey.

Principle J:

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The board is satisfied it has applied principle J. An explanation of the board appointment and succession planning activities can be found on pages 143 to 144 and forms our disclosure as part of provision 23, our policy on board diversity is on set out below and details of the gender balance of senior management on pages 143 and 148. Information on the company's approach to equity, diversity and inclusion is set out on pages 54 to 55. Our disclosure against provision 20 is on page 143.

Principle K:

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

The board is satisfied it has applied principle K. Biographies of the board can be found on pages 122 to 125. An overview of directors' areas of expertise is set out in the skills matrix on page 144 and the length of service of board members on page 142. Board biographies include our reporting against provision 18.

Principle L:

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The board is satisfied it has applied principle L. Details of the board evaluation and disclosure against provision 23 can be found on pages 145 to 147.

Summary of the board diversity policy

- Ensure the selection process for board appointments provides access to a range of candidates. Any such appointments will be made on the basis of merit and objective criteria, and within this context should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- Ensure that the policies adopted by the group will promote diversity in the broadest sense among senior managers who will in turn aspire to a board position.
- Ensure that the board, led by the Chair, collectively fosters an inclusive and belonging environment in the boardroom, enabling open and frank contributions from all board members.
- In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms.
- Adopt measurable objectives from time to time for achieving diversity on the board, which shall be to maintain at least 40 per cent female representation, to have at least one director from a minority ethnic background[1], and to have at least one of the positions of: Chair, CEO, senior independent director or CFO held by a female.

What has been on the committee's agenda during the year?

Board succession

The succession planning matrix tool and skills matrix (see page 144) for board directors is used to support the planning process for board appointments. The skills matrix captures the skills and experience board directors need as a collective to be able to deliver the company's purpose and strategic priorities. The succession planning matrix tool highlights the code governance requirements; existing directors' terms of appointment and a forecast/anticipated time frame when an individual might leave the business; the projected strategic needs of the business and resulting preferred experience of any potential new board member; existing potential internal successors to a role (where identified); and those who could act as an interim should the need arise. A candidate suitable for the role of CEO would need to demonstrate that their management approach would fit with the company's culture of behaving responsibly. The committee would seek to consult with the incumbent CEO, given their unique knowledge and perspective of the group, and views on the needs of the business going forward. Neither the Chair nor the CEO would be involved in the appointment process of their own successor.

Board succession – non-executive

Michael Lewis was recruited as an independent non-executive director with effect from 1 May 2023. The committee is supported during any non-executive director recruitment process, by the people director. Due to the timing of the process Louise Beardmore, as part of her then human resources responsibilities supported the committee, as her successor was not yet in post. The executive search firm Lygon Group were engaged as part of the recruitment process.

Board succession – executive

As stated above, the committee sought the views of Steve Mogford on the attributes of the candidate best placed to succeed him in the CEO role, but he was not involved in the final decision. The Chair, supported by the company secretary, led the process to identify suitable candidates for the CEO role and the executive search firm Lygon Group were engaged as part of the recruitment process, having demonstrated, of the executive search firms considered, that they had the best understanding and knowledge of the group and its culture. Against the brief for the role, Lygon Group undertook the internal appraisal process for a number of internal candidates and identified a number of potential external candidates for the committee to consider. Louise Beardmore, in relation to her human resources responsibilities, had no involvement in the process other than being an internal candidate.

Other than providing executive search services on previous occasions, Lygon Group have no other connection with the company.

(1) Defined by reference to categories recommended by the Office for National Statistics (ONS), excluding those listed by ONS as coming from a white ethnic background.

As required by LR 9.8.6(9), the company has met the following board diversity targets at 31 March 2023:

a. at least 40 per cent of the individuals on the board are women;
b. at least one of the following senior positions is held by a woman: the chair; the CEO; the SID or the CFO ; and
c. at least one individual on the board is from a minority ethnic background.

Nomination committee continued

Membership of the principal board committees

Paulette Rowe was appointed as chair of the ESG committee during the year, succeeding Stephen Carter who left the board at the conclusion of the 2022 AGM. Paulette has been a significant contributor to the work on equity, diversity and inclusion, and she has a keen interest in social matters, as a former trustee and chair of a children's charity and is well placed to lead the committee. On his appointment, Michael Lewis was appointed as a member of the ESG committee.

Alison Goligher was appointed as the SID at the conclusion of the 2022 AGM when she stepped aside as chair of the remuneration committee, although she remained as a member of the committee, and was succeeded by Kath Cates. Kath has considerable experience as a remuneration committee chair, having held the role for three years at RSA Insurance Group plc.

The board has applied the board diversity policy (set out on page 143) to the audit, nomination and remuneration committees, thereby ensuring diversity of attributes and female representation on each committee. Furthermore, it is satisfied that the membership of the audit committee is in accordance with provision 24, and that the membership of the remuneration committee is in accordance with provision 32.

Board diversity

The board diversity policy is to 'ensure the selection process for board appointments provides access to a range of candidates. Any appointments will be made on the basis of merit and objective criteria, and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, but with due regard for the benefits of diversity on the board, including gender diversity'. The objective of the policy is for new directors to bring something different to the board table, be it in terms of experience, skills, perspective, interests or other attributes.

The selection process and application of the board diversity policy aims to attract board members whose values reflect those of the company and our culture. As referred to above, our board diversity policy would be brought to the attention of any executive search firm used as part of the selection and appointment process for a board position. Feedback would be sought from the search firm in terms of their success in attracting potential candidates in terms of their diversity of attributes. Feedback would also be gathered first hand through the interview process with candidates conducted by other board members and taken into consideration in identifying those suitable for the role in question.

As a board, the benefits of diversity and inclusion, and associated benefits to the decision-making process are widely recognised and is a topic regularly discussed with major investors. On the board at 31 March 2023, female representation was 44 per cent and there was 10 per cent representation by a director from a minority ethnic background. Among the workforce, colleagues from a minority ethnic background represented 2.7 per cent, 8.2 per cent of colleagues choose not to disclose. We recognise the benefits of diversity across our business with initiatives in place to support women in the workplace and tackle the ethnic imbalance of our workforce, thereby aligning with our strategic priority of providing a safe and great place to work (see page 38).

Skills matrix of board directors

	Sir David Higgins	Steve Mogford	Louise Beardmore	Phil Aspin	Alison Goligher	Liam Butterworth	Kath Cates	Michael Lewis	Paulette Rowe	Doug Webb
Finance/accounting				✓			✓			✓
Utilities		✓	✓	✓				✓		
Regulation	✓	✓	✓	✓			✓	✓	✓	✓
Government	✓			✓						
Construction/engineering	✓	✓			✓	✓		✓		
Industrial					✓	✓				✓
Customer-facing		✓	✓	✓			✓	✓	✓	
FTSE companies		✓	✓	✓	✓	✓	✓		✓	✓
Digital/technology		✓	✓			✓	✓		✓	
ESG		✓	✓	✓	✓	✓	✓	✓	✓	✓
Current CEO/CFO FTSE 350[1]						✓				
Former CEO/CFO of FTSE 350	✓									✓

[1] Excludes United Utilities

CEO's transition programme

Louise Beardmore has worked for the group for more than 20 years having joined its graduate programme. She has led teams in business transformation, water operations, electricity and telecoms and was appointed as customer services and people director in 2016. During the year, in order to support the transition into her new role, she has undertaken a number of activities including:

- Investor relations: met with Rothschild & Co the group's investor relations adviser to gain greater insight into equity investor themes and perceptions;
- Corporate brokers: met with JPM Cazenove and Deutsche Bank to gain a better understanding of equity markets;
- Legal adviser: met with Slaughter and May and received an in-depth review of directors' responsibilities and corporate governance requirements;
- Statutory auditor: met with representatives of the group's statutory auditor, KPMG;
- Communications adviser: met with representatives of Teneo Communications, the group's communications adviser;
- Completed the corporate director programme at Harvard Business School; and
- Regular feedback sessions held with the Chair and non-executive directors.

CEO's engagement programme

Louise has undertaken an extensive stakeholder engagement programme since her appointment to the board in May 2022 including:

- Having met with representatives from Ofwat, the DWI, Defra and the Environment Agency;
- Holding meetings with North West MPs - having made an invitation to do so to all 76 of the MPs in our region;
- Holding meetings with regional local authority representatives and devolved mayors;
- Reshaping her leadership communication rhythm to include monthly full day sessions with the executive and senior leadership team and weekly update emails to ensure information is cascaded throughout the business and a monthly blog and email is sent to all colleagues to provide important information and insight into the work that Louise has been involved in during the month and engagement activities with third party organisations;
- Reshaping the executive team's operating rhythm, holding two scheduled meetings per month and a weekly 'scrum' session;
- Making regular site visits and talking to operational teams to understand their perspective of United Utilities, including spending time with colleagues at Blackburn, Stockport, Warrington and Davyhulme - the group's primary wastewater treatment site in Manchester;
- Holding regular meetings with colleague engagement champions, trade union representatives and meetings of the colleague network groups;
- Holding an extensive programme of investor meetings in conjunction with the CFO; and
- Meeting with counterparts at other water and wastewater companies.

Evaluation of the effectiveness of the board, board committees and individual directors

An annual evaluation of the board, its committees, the Chair and the individual directors is conducted as recommended by the code. This year the evaluation was facilitated internally by the company secretary, in consultation with the Chair and the board committee chairs. The most recent external evaluation was conducted by Independent Audit Limited during 2020/21. The process of how the evaluation was conducted is set out below.

Overall, the self assessment evaluation completed by the directors and others attending and supporting the board committees, concluded that the board and its committees functioned well, were well chaired and the position was positive. Members of the committees had the appropriate skills, experience and a particular interest in the work of the committee to debate issues and provide challenge to management. All of the individual directors demonstrated the expected level of commitment to the role and contributed effectively during board discussions.

Internally facilitated self-assessment evaluation process

1 Questionnaires

The evaluation was based on the completion of questionnaires (including questions to be scored and free text questions) by board members assessing both the performance of the board and each of its principal committees, as well as that of the Chair. Each director also completed a self-assessment questionnaire assessing their own performance.

Board members were also asked to provide a view on how well the actions identified in the 2021/22 evaluation had been addressed.

In addition to board members, other members of the executive team and representatives of external advisers who regularly attend and support the committee meetings were asked to participate in the evaluation process.

2 Appraisal

The results were collated by the company secretary.

3 Consultation

The results were then shared and reviewed with the Chair and each of the chairs of the relevant committees and presented at a meeting of the relevant committee and discussed. The results of the board evaluation were presented to the board for discussion.

The Chair reviewed the performance of the individual directors.

Alison Goligher, as the senior independent non-executive director (SID), led the review of the Chair. She held a discussion with the other non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair.

4 Evaluation and actions

The conclusions of the evaluation were reached and actions identified as set out on page 146.

Nomination committee continued

A summary of the review of the responses of the self-assessment questionnaire process is set out below:

2022/23 areas of assessment	Commentary and priorities for action
Strategic oversight	Responses indicated that the board felt quality time was spent considering the group's strategic aims and reviewing implementation of strategy. Priorities for action included the board providing robust challenge of the PR24 submission and ensuring readiness as the group transitions into the next asset management period.
Board composition, dynamics and expertise	Board members felt that the board dynamic between members was good and the board had a cohesive approach allowing members to provide helpful oversight and challenge to management. Priorities for action included support for the CEO as she settles into her new role and ensuring support for the wider leadership team.
Board agenda	The overall board agenda was felt to be well managed and focused on the correct areas and the addition of a regular schedule of deep-dive sessions had been welcomed providing more time for discussion on topical issues. Priorities for action included ensuring that board papers were kept succinct and that there was benefit for board members in allowing more time for interaction with the executive presenting the paper.
Managing risk	The respondents indicated that there was good visibility of risk and changes to the risk profile at board level and risk was considered to be well managed. Priorities for action included the need for the board to gain a more in-depth understanding of the risks associated with storm overflows and the Better Rivers programme and the contract risk of the HARP procurement process.
Support and information	Respondents indicated that the company secretary and his team provide a good level of support to the board and its committees. Priorities for action included greater standardisation of board papers and that contributors provided papers for distribution in line with agreed time frames.
Committees	• **Audit committee:** the committee was well chaired and encouraged probing debate and contribution from all committee members and attendees. Priorities for action included the appropriate assurance of the evolving ESG landscape and internal control systems. • **Remuneration committee:** the chair encouraged robust and probing debate and all members contributed their views proactively and the committee was well briefed and well supported, providing members with a clear view of regulatory and shareholder views on remuneration. • **Nomination committee:** respondents indicated that the CEO succession had been well managed and all committee members had been able to contribute effectively to the process. Priorities for action included addressing long-term succession planning for both the board and management and there was a focus on all aspects of diversity. • **ESG committee:** respondents indicated that some ESG matters would benefit from discussion at full board meetings. Priorities for action included knowledge development and training on relevant ESG matters for committee members. • **Treasury committee:** respondents felt the committee should continue to test the existing policies to ensure they remained relevant and consider the treasury-related challenges of PR24.
Individual directors	The responses from the questionnaires completed by each director assessing their own effectiveness were reviewed by the Chair. Individual directors were asked, among other things, to identify how they could improve their overall contribution to the board and its committees and if they had any skill or knowledge gaps that could be addressed. The following were identified: to attend more site visits and interactions with specific areas of the business and to receive more subject specific deep-dives to enhance understanding. The review supported the view that all the directors were considered to be contributing effectively to the board and all demonstrated the expected level of commitment to their roles.
Chair	The responses from the questionnaires completed by each director assessing the Chair's performance were reviewed by the senior independent director (SID) and discussed at a session with the non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair. It was concluded that the Chair had fulfilled the expected commitment to the role and was an effective leader of the board.

2021/22 evaluation recommendations	Actions taken during 2022/23
Greater visibility of the PR24 plan and a better understanding of the strategic drivers of the group's various regulators and providing more focus on climate change and improving asset resilience.	The board have received regular updates throughout the year on progress with the drafting of the PR24 business plan submission and spent considerable time on the matter at the annual strategy day held in October 2022. Addressing climate change and improving asset resilience are key drivers for PR24.
Nomination committee: improved focus on long-term succession planning was needed along with ensuring talent management and retention of senior management was debated.	The committee's time was spent focusing on non-executive director recruitment, developing a more structured approach to executive succession planning supported by the new people director.
Remuneration committee: ensure any future ESG metrics were understood and incorporated in a meaningful way into the new directors' remuneration policy and long-term plan.	Details of ESG metrics included in the 2022/23 incentive framework are set out on page 184.
Audit committee: provide more focus on risk management, processes and controls and non-financial/ESG reporting and assurance.	Progress made in this area, in particular through the development of an audit and assurance framework, which was applied to the 2023 narrative reporting.
ESG committee: ensure the focus on areas where the committee could add greatest value to the PR24 process.	The committee's oversight of: carbon and renewables; affordability and vulnerability; and Better Rivers and storm overflows has contributed to the PR24 process.

Ongoing board development and training

Board directors regularly receive updates to improve their understanding and knowledge about the business and, in particular, its regulatory environment. As part of the individual director's element of the board evaluation exercise, directors are asked to identify any skills or knowledge gaps they would like to address. Directors made a number of suggestions, as set out on page 146.

Consideration of ESG issues are fundamental to our purpose of providing great water for a stronger, greener and healthier North West and central to board discussions (see the summary of board activity on pages 131 to 133 and the report of the ESG committee on pages 204 to 207). During the year, the ESG committee discussed the options for board and executive training on climate change and more specific ESG training, and agreed the approach.

Through presentations and discussions with representatives of YourVoice, the independent customer challenge group, whose role is predicated on protecting customer interests in how the group goes about its business, the board is kept informed of customer, in-region environmental affairs and social matters. Similarly, during the year, the board had the opportunity to meet with representatives from Ofwat and the DWI.

In addition to this less formal approach to board development, during the year the board received briefings from both Slaughter and May (legal and governance matters) and KPMG (governance changes relating to reporting requirements), along with a number of other advisers. Our non-executive directors are conscious of the need to keep themselves properly briefed and informed about current issues and to deepen their understanding of the business. During the year, Paulette Rowe and Liam Butterworth attended an event organised by Ofwat for non-executive directors. Alison Goligher has again chaired the Colleague Voice panel as part of the ongoing work to ensure the board has a direct link to understanding the views of colleagues (see page 136). Paulette Rowe has contributed to the work on equity, diversity and inclusion (see pages 54 to 55).

Induction of new non-executive directors

An induction programme is arranged for new non-executive directors, which would include meeting members of the executive team, members of the operational teams and visiting some of the key operational sites and capital projects to ensure they get a first-hand understanding of the water and wastewater business. New directors receive information on the key duties of being a director of a regulated water company. They are required to meet with representatives of Ofwat prior to appointment, as Michael Lewis did in November 2022, prior to him joining the board on 1 May 2023. An induction programme will be arranged for Michael Lewis.

Wider succession pipeline and talent management

The group has had a written succession plan for the executive directors and other members of the executive team, which includes outline timescales, and identifies an interim internal successor to fill a role in the short term should the need arise, and the longer-term development needs of potential successors to be able to fulfil a role on a more permanent basis.

As with all board appointments, in aiming to appoint the best person to fulfil a role it would be common when recruiting for a senior role, for an external search to be conducted alongside an internal candidate recruitment process.

Nomination committee continued

Read more about **our apprentices and graduates** on page 100

Read more about **our human capital** on page 35

During the year, external appointments were made for the roles of people director, customer services director and that of the capital delivery, engineering and commercial director. An additional executive role as director of strategic programmes was fulfilled by an internal candidate. Any changes that are required to the profile of the management team to reflect the changing needs of the business are considered by the board in the executive succession plan. Succession and development initiatives for senior executives include executive mentoring and coaching and/or participating in an executive business school programme, as appropriate. Leadership development centres have been delivered to identify and validate potential for future director and senior leader positions and develop a number of role-ready diverse candidates to provide the group with leadership capacity in an increasingly complex environment.

Senior managers are encouraged to take on a non-executive directorship role as part of their personal development, but it is recognised that this is very much a personal commitment for each individual. The current talent programme at a senior level is well embedded and we believe a non-executive appointment for senior managers provides an excellent opportunity for both personal and career development, and is a way of gaining valuable experience that may be applied at United Utilities so long as no conflicts of interest occur.

During the year, board directors had a number of opportunities to meet with members of the executive team, both formally when senior managers were required to present at board meetings on matters related to their responsibilities, and on more informal occasions.

Our graduate and apprentice programmes are thriving and from time to time, board members have the opportunity to attend events and meet with members of these programmes and other colleagues identified as potential talent within the business.

Historically, our industry has been male dominated, but measures are in place to increase diversity in broad terms among our colleagues (see pages 54 to 55). The gender and ethnic breakdown of the board and executive team can be found on page 142. The gender balance of the direct reports of the executive team is 63 per cent male and 37 per cent female, representation of ethnic minorities is 3 per cent. Gender pay data can be found on page 55.

Along with the wider colleague population, we continue to work towards improving the diversity of our succession pipeline as part of our ongoing equity, diversity and inclusion plans.

Principle M:

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Our application of principle M is formalised in our non-audit services policy and terms of engagement with the auditor as agreed by the committee. The head of internal audit and risk reports to the committee and to the CFO but only on a functional basis, thereby ensuring a direct line of communication between internal audit and the committee. In accordance with provision 25, an explanation of the independence and effectiveness of the external audit process can be found on pages 162 to 164, and the reappointment of the statutory auditor on page 165. The board considered, and was satisfied, as advised by the audit committee given its oversight role, that the statutory audit contributed to the integrity of the financial reporting as set out in DTR 7.1.3(5).

Principle N:

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

We have applied principle N, as confirmed by our disclosure against provision 27, which can be found on page 215 and is supported by our disclosure against provision 25 on page 162.

Principle O:

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Our risk management framework and principal risks are on pages 60 to 75. Further information on the company's internal audit function and controls can be found on pages 166 to 167 and together set out our application of principle O.

Financial oversight responsibilities of the board

Board's responsibility for financial oversight

One of the fundamental roles of the board is to oversee the financial performance of the business. The board is supported in this role by the audit committee, whose activities are described on pages 153 to 167. The board reviews the financial performance of the company at every scheduled board meeting, receiving a report from the CFO, which provides the board with the up-to-date position of the consolidated financial statements, interpretative analysis and other key performance indicators, metrics and ratios. The board takes into account the review by the audit committee of the financial and narrative statements, and the auditor's views on the key risks and judgements identified and given particular focus in their audit work and set out in their report (see pages 218 to 231), and the information and explanations provided by management in relation to their key judgements and adjustments to APMs (see page 118). The board considered the review and assurance process undertaken by management, and considered by the audit committee to support the application of principle N. The board concluded that in the 2022/23 integrated annual report and financial statements it had presented a fair, balanced and understandable assessment of the company's position and prospects, and the board was satisfied on the integrity of the financial and narrative statements. Furthermore, the board approved the accounts and provision of the directors' responsibility statement at its meeting on 24 May 2023, see page 215.

Oversight of financial aspects of ESG

ESG, and behaving responsibly, has been a long-term commitment and part of the board ethos for many years and is embedded throughout the business. It naturally flows through into the board's approach to the integrity of the group's financial reporting. As described on page 128, climate change is a common theme, which poses a risk to the group's provision of water and wastewater services. A table of our reporting against TCFD recommendations is set out on page 5. As part of the processes supporting the provision of the 'fair, balanced and understandable' statement, the board determined that the levels of assurance provided by the combination of the work by internal audit and of the various third parties was satisfactory at this time – a stance endorsed by the audit committee. The impact of environmental risk and other potential risks associated with climate change on the financial statements is kept under review. The board's approach for accounting for climate change for the year ended 31 March 2023 is set out on page 241.

Board's approach to risk management and internal control

The board discharges its responsibility for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives through the risk appetite tolerance framework. As a key part of the risk management framework, risk appetite and tolerance (see page 61) captures the board's desire to take and manage risk relative to the company's obligations, stakeholder interests and the capacity and capability of its key resources.

Financial oversight responsibilities of the board continued

Read more about significant issues on pages 158 to 159

The board is responsible for ensuring that the company's risk management and internal control systems operate effectively across the business and that they receive an appropriate level of scrutiny and board time. The risk profile is reviewed in conjunction with the full and half-year reporting cycle alongside deep dives and routine performance reviews.

The group's risks predominantly reflect those of all regulated water and wastewater companies. These generally relate to the failing of regulatory performance targets or failing to fulfil our obligations in any five-year planning cycle, potentially leading to the imposition of fines and penalties, in addition to reputational damage.

Review of the effectiveness of the risk management and internal control systems

During the year, the board reviewed the effectiveness of the risk management systems and internal control systems, including financial, operational and compliance controls.

Taking into account the principal risks and uncertainties set out on pages 64 to 75, the ongoing work of the audit committee in monitoring the risk management and internal control systems (see pages 166 and 167) on behalf of the board, (and to whom the committee provides regular updates), the board:

- was satisfied that it had carried out a robust assessment of the emerging and principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; and
- had reviewed the effectiveness of the risk management and internal control systems, including all material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

After review, the board concluded that through a combination of the work of the board, the audit committee and the UUW board (which has particular responsibility for operational and compliance controls), and taking into account no significant failings or weaknesses were identified, the company's risk management and internal controls operated effectively throughout the year.

The board's review of the effectiveness of risk management and internal control systems took into account:

- the biannual review of significant risks and emerging risks (see pages 64 to 75);
- the assurance (both internal and external) of the most significant business and operational risks of the group;
- the review of matters correlating to specific event-based operational risks (see pages 67 to 69);
- the outcome of the biannual business risk assessment process (see page 60);
- the activities and review of the effectiveness of the internal audit function (see page 166);
- the opinion provided by internal audit in relation to their work, that "the governance, risk management and internal control framework was suitably designed and effectively applied within the areas under review";
- the self-assessment provided by management confirmed compliance with a range of key internal policies, processes and controls (see page 167);
- the review of reports from the group audit and risk board (see page 52);
- the oversight of treasury matters, in particular debt financing and interest rate management (see page 169);
- the review of the business risk management framework and management's approach and tolerance towards risk (see page 62); and
- the comments made by KPMG on the operation and effectiveness of the risk management and control system it observed whilst undertaking the statutory audit.

Going concern and long-term viability

The following section sets out the company's compliance with part of provisions 30 and 31.

The board, following the review by the audit committee, concluded that it was appropriate to adopt the going concern basis of accounting (see page 239). Similarly, in accordance with the principles of the code, the board concluded, following the recommendation from the audit committee, that it was appropriate to provide the long-term viability statement based on an assessment period of seven years. Assurance supporting these statements was provided by the review of: the group's key financial measures and contingent liabilities; the key credit financial ratios; and the group's liquidity and ongoing ability to meet its financial covenants. As part of the assurance process, the board also took into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks, and include emerging and more topical risks.

These principal risks and uncertainties are detailed on pages 64 to 75, and the risk management processes and structures used to monitor and manage them on pages 52 to 53, and 60 to 61. Biannually, the board receives a report detailing management's assessment of the most significant risks facing the company. The report gives an indication of the level of exposure, subject to the mitigating controls in place, for the risk profile of the group, while also highlighting the reputational and customer service impact. This provides the board with information in two categories: group-wide business risks; and operational risks. The board also receives information during the year from the treasury committee (to which the board has delegated matters of a treasury nature – see page 169), including such matters as liquidity policy, the group's capital funding requirements and interest rate management.

Long-term viability statement

The directors have assessed the viability of the group, taking account of the group's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of the group's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2030.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework, and interpretation thereof, does not substantively change. The long-term planning detailed on page 40 assesses the group's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the group's strategic planning process, and underpins our business model set out on pages 18 to 117.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the group. Specifically, risks associated with current levels of economic uncertainty and climate change have been incorporated into the baseline position and factored into the various scenarios modelled as part of the group's assessment. An overview of our risk management approach that supports the group's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 60 to 75. This approach considers the full range of categories of risk that could impact the company, such as financial, operational and regulatory risks. In addition, consideration is given to the adequacy of workforce policies and practices, all liabilities including pension liabilities, any exposure to revenue variations, and expectations of future performance taking account of past performance in delivering for customers.

Within the context of this long-term planning and management of risks, the group's principal business operates within five-year regulatory price control cycles. Medium-term planning considers the current price control period, over which there is typically a high degree of certainty, and looks beyond this in order to facilitate smooth transitions between price control periods. This results in the board concluding a recurring period of seven years to be an appropriate period over which to perform a robust assessment of the group's long-term viability.

Viability assessment: resilience of the group

The viability assessment is based upon the group's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- the group's policy of maintaining debt to regulatory capital value (RCV) of between 55 per cent and 65 per cent, which is consistent with a robust capital structure and strong solvency position, and which in turn supports the group's current credit ratings for its principal subsidiary United Utilities Water Limited of A3/BBB+/A- with Moody's, S&P and Fitch respectively;
- the group's pension schemes being fully funded on a low dependency basis and fully hedged for market risk;
- the group's policy of maintaining a robust liquidity position, with liquidity to cover expected cash outflows for the next 15 – 24 months, and flexibility to exceed the upper end of the liquidity range in periods of greater uncertainty. At March 2023 the group had £1,190 million of available liquidity covering expected cash outflows through to August 2025 and providing a significant buffer to absorb short-term cash flow impacts; and
- the current regulatory framework within which the group operates – which provides a high degree of cash flow certainty over the regulatory period and the broader regulatory protections outlined below.

From a regulatory perspective, the group benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing reasonable returns on capital; and secure that water and wastewater supply systems have long-term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

The factors set out in this section underpin the expectation of the group's ability to maintain access to equity and debt capital to the extent necessary to maintain the group's capital structure and liquidity policies, which in turn provide the capital buffer and cash liquidity considered appropriate to mitigate the potential realisation of the principal risks facing the business.

Viability assessment: resilience to principal risks facing the business

The directors have assessed the group's viability based on the resilience of the group and its ability to absorb a number of 'severe but plausible' scenarios, derived from the principal risks facing the group, as set out on pages 60 to 75. The baseline plan against which the viability assessment has been performed incorporates the estimated impact of current high levels of inflation which are expected to endure in the near term before falling to more normal levels. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of group's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the group's TCFD disclosures, the index to which is set out on page 5 ; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; current economic uncertainties including high levels of inflation and a squeeze on the cost of living impacting the group's customer base; and the potential for a restriction to the availability of financing resulting from a capital markets crisis.

The scenarios considered are underpinned by the group's established risk management processes, taking into account those risks with a greater than 10 per cent (1 in 10) cumulative likelihood of occurrence. Risks associated with current economic conditions are reflected within the baseline position, with potential downside risks (most notably in relation to bad debt and inflation volatility) covered by the individual scenarios modelled, and collectively within a combined scenario.

Read more about **relations with banks and credit investors** on page 138

Financial oversight responsibilities of the board continued

Read more about **going concern basis of accounting** on page 239

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

Based on these risks, the following six largest impacting scenarios were identified and applied as downside stress scenarios to the group's baseline plan:

Scenario modelled	Link to risk factors
Scenario 1: Totex £400 million one-off impact in 2023/24	Broadly representing the largest 'severe but plausible' risk which is a critical asset failure, all assumed to be operating costs
Scenario 2: Totex underperformance of 10% (circa £130–£390 million) per annum for 2023/24–2027/28	Representing more than the cumulative total expected NPV totex impact of the remaining top 10 'severe but plausible' risks (including environmental, cyber security and network failure risks)
Scenario 3: CPIH inflation of 2.0% below baseline plan for 2023/24–2029/30	Broadly consistent with quantum of inflation impacts modelled within top 10 'severe but plausible 'risks
Scenario 4: An increase in bad debt of £15 million per annum from 2023/24 to 2029/30	Aligned to internal risk factor on debt collection
Scenario 5: Additional ODI penalty of circa £70 million per annum	Assumes mid-point of UUW's baseline and PR19 final determination P90 ODI position
Scenario 6: Debt refinanced as it matures, with new debt financed at 1% above the forward projections of interest rates 2023/24–2029/30	Representing more than top 10 'severe but plausible' risk on credit ratings as well as high impact/low likelihood risk on financial outperformance
Scenario 7: Combined scenario – 50% of scenarios 2-6	50% of scenarios 2-6

Example mitigations (of which none are required to remain viable under the scenarios modelled):

- Reduction in discretionary totex spend
- Capital programme deferral
- Closing out of derivative asset position
- Restriction of dividend

all of which are considered to be within the control of management. In addition to these, it is considered that the following mitigating actions could also be implemented:

- Issuing of new finance
- Raising of additional equity

The assessment has considered the impact of these scenarios on the group's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the group's ability to absorb the impact of all severe but plausible scenarios modelled, without the need to rely on the key mitigating actions.

The most extreme of the severe but plausible scenarios modelled, without any mitigating action, resulted in: the group retaining investment grade credit ratings; liquidity of more than one year; and no projected breaches of financial debt covenants.

Viability assessment: reverse stress testing

As part of the assessment, reverse stress testing of two extreme theoretical scenarios focusing on totex overspend and persisting low inflation have been performed to understand the extent to which the group could further absorb financial stress before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but plausible' scenarios before the group's long-term viability would be at risk.

Viability assessment: key mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the group, the effectiveness of which are underpinned by the strength of the group's capital solvency position.

As well as the protections that exist from the regulatory environment within which the group operates, a number of actions are available to mitigate more severe scenarios, including those outlined in the above table.

Governance

The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the group's external auditor, KPMG, as part of their normal audit procedures

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation note to the accounts.

Doug Webb
Chair of the audit committee

Quick facts

- Doug Webb has chaired the committee since July 2021. He is a chartered accountant and is considered by the board to have recent and relevant financial experience, having served as chief financial officer of a number of listed FTSE companies. He retired from his most recent executive role at Meggitt PLC in 2018.
- All members of the committee are independent non-executive directors and the board is satisfied that the committee as a whole has competence relevant to the sector. Attendance at audit committee meetings is set out on page 134, and the relevant directors' biographies can be found on pages 124 to 125.
- Other regular attendees at meetings at the invitation of the committee include the CEO, the CFO, the company secretary, the head of audit and risk, the group controller, and representatives from the statutory auditor, KPMG LLP (KPMG). None of these attendees are members of the committee.
- The representatives from KPMG and the head of audit and risk each have time with the committee and the company secretary to raise freely any concerns they may have without management being present.
- The chair of the committee has regular one-to-one meetings with the CFO, the head of audit and risk and the KPMG audit engagement partner.
- The committee is authorised to seek outside legal or other independent professional advice as it sees fit, but has not done so during the year.

Quick links

Terms of reference:
unitedutilities.com/corporate-governance

Audit committee

During the year the committee has paid close attention to the financial position being presented by management during the current turbulent economic conditions.

Dear shareholder

After the annual general meeting in July 2022, Stephen Carter stepped down from the board and the audit committee. At that time, the board took the opportunity to review the membership of the principal board committees. As a result, Kath Cates joined the committee in July 2022 ahead of the 2022/23 audit cycle, bringing her wider experience as a current chair of the TPEN audit committee at Columbia Threadneedle Investments. Furthermore, in July 2022, Paulette Rowe took up the role as chair of the ESG committee and, therefore, stood down as a member of the audit committee.

Economic impact

During the year the committee has paid close attention to the financial position being presented by management during the current turbulent economic conditions. The committee has sought comprehensive information impacting the financial statements on the impact of inflation and increases in core costs, particularly those of power and chemicals and, on the impact of the rising cost of living and the ability of customers to pay their bills.

The accounting of additional costs incurred as a result of three atypically large pipe bursts in the water network due to the dry weather during the summer of 2022, were also considered. The committee considered and concluded that management's views were reasonable, which aligned with the view expressed by the external auditor.

BEIS consultation on audit and corporate governance reform

The committee welcomed the publication in May 2022 of the Government's response to its consultation on 'Restoring Trust in Audit and Corporate Governance' and the publication by the Financial Reporting Council on the steps it will take to implement the Government's reforms. As previously reported, management were in the process of drafting the group's audit and assurance policy (see page 165), which has been further refined during the year and has been reviewed by the committee.

Audit committee members:

Doug Webb
Chair of the audit committee

Kath Cates

Liam Butterworth

Audit committee continued

Read more about **accounting policies** on page 239

Read more about **the impact of climate change** on page 241

The assurance framework, as endorsed by the committee and contained therein, provides a standard approach to determine the level of assurance to be applied to different sections of the integrated annual report and was implemented for the year ended 31 March 2023. The committee was satisfied with the progress made to date ahead of the expected extension of the FRC's powers once it transitions into the Audit, Reporting and Governance Authority (ARGA). Among other things, it is expected that ARGA's remit will be to review annual reports in their entirety, reflecting the growing expectations by investors that companies should provide greater levels of assurance over the narrative reporting sections of their annual report.

Audit quality

Each year the committee reviews the findings of the FRC's annual Audit Quality Review (AQR), most recently published in July 2022 (and available on the FRC's website). The committee's focus being the review as pertaining to KPMG, it discussed the findings of the AQR with representatives of KPMG. The committee noted that, of the KPMG audits inspected by the FRC, 84 per cent required no more than limited improvements and none were identified as needing significant improvement, which the committee noted as an improvement on the 2021 AQR.

From time to time the FRC's AQR inspectors contact a company's auditor to undertake an inspection of the audit. During the year, the FRC's AQR inspectors undertook such an inspection of KPMG's 2022 audit of United Utilities Group PLC. The inspectors focused their assessment on the following areas: revenue recognition and bad debt; capitalisation of costs; revenue; trade receivables and accrued income; derivatives, and audit planning and completion. KPMG discussed the inspection with the committee, which was comfortable that no material issues had been identified. Some incremental improvements were identified by the inspectors, all of which were incorporated into the 2023 audit.

As required by the Code, and as an important element in maintaining an appropriate focus on audit quality, the effectiveness of the statutory audit process is assessed annually (see page 162). As part of this assessment the committee took into account the quality interventions implemented by KPMG during the 2022 audit and the impact of these interventions throughout the audit cycle, building on those implemented in previous years (see page 162). The views of members of the committee and management were sought, among other things, on the degree of professional scepticism exhibited by the auditor.

Furthermore, at each of the scheduled committee meetings, management present an updated view of each of the significant issues and areas over which it has exercised its judgement (see pages 158 to 159) following discussion between management and the auditor, many of which correspond with KPMG's key audit matters (see pages 223 to 226). KPMG are present at these meetings where they have the opportunity to critique management's judgements and contribute to the debate, thereby providing an opportunity for the committee to challenge the views of management and the auditor on their assessments. These discussions provide an opportunity for the committee members, drawing on their own experience, to informally assess the degree of professional scepticism applied by the auditor. The committee has time set aside during its meetings to meet with the auditor without management being present in order that they can speak freely and raise any concerns and to ensure the committee is kept fully informed.

Auditor independence is a key principle and contributing factor to audit quality. It is reviewed as part of the audit scope and re-examined prior to the accounts being approved and signed by the board. The auditor must be independent of the company. Independence is a key focus for the auditor, whose staff must comply with their firm's own ethics and independence criteria, which must be consistent with the FRC's Revised Ethical Standard (2019). Information on how the committee assesses the independence of the auditor can be found on page 164. The statutory auditor presents its audit findings to the shareholders as the owners of the business (see pages 218 to 231).

Taking into account the findings of assessment of the 31 March 2022 audit presented to the committee in September 2022, the committee concluded that the statutory audit process for 2022 had been effective.

Main responsibilities

- Make a recommendation to the board for the appointment or reappointment of the auditor, and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor.
- Establish policies for the provision of any non-audit services by the auditor.
- Challenge the auditor on the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- Review the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues proposed by management and in particular those challenged by the committee in relation to the financial statements and how these were addressed.
- Approve the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems.
- Review the group's procedures for reporting fraud and other inappropriate behaviour and to receive reports relating thereto.
- Report to the board on how it has discharged its responsibilities.
- Apply the principles of the code and report against the provisions.

Long-term viability statement

The committee reviewed and concurred with management's view that the long-term viability statement (see page 150) should again be provided for a seven-year period, management's view being that a high-quality assessment can be provided for a seven-year period, and favouring the approach of greater certainty over a shorter period.

The impact of climate change on the financial viability of the group has been reflected in the viability assessment underpinning the long-term viability statement, which the committee reviewed and endorsed prior to approval by the board.

During the year, the committee received an update on the work of the International Sustainability Standards Board (ISSB), with management evolving its approach to the reporting of its business model in line with the ISSB's four pillar approach.

Risk management and internal control

The committee has overseen the steps to implement enhancements and improvements identified by the independent review of the group's fraud risk management framework as reported on in last year's audit committee report. The main improvements being the completion of a formal cross-business fraud risk assessment to supplement the existing business risk assessment process, and the subsequent internal audit review of anti-fraud controls for the principal fraud risks. Furthermore, the implementation of a revised ISA (UK) 240 in order to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area.

During the year, the revised ISA (UK) 315 was implemented by KPMG in order to increase the rigour of the risk identification and assessment process, thereby enabling the introduction of improved mitigating actions to counteract the risk. The revisions to the standard require the audit to included a more detailed consideration of the IT environment. In preparation, the committee received a 'deep dive' session from management on the group's IT control environment.

Audit fees

The revision of the aforementioned standards has contributed to an increase in the audit work undertaken by KPMG and along with additional economic inflationary pressures on KPMG's costs, the committee have approved an increase in the overall fees paid to KPMG for the year ended 31 March 2023 compared to the prior year. These fee increases were mitigated in part, by the provision of parental company guarantees to support an exemption from statutory audit for certain subsidiary companies in accordance with s479C of the Companies Act 2006. While the committee encouraged KPMG to look for efficiencies through innovation to offset the impact of increasing fees, it was cognisant of the need to preserve the auditor's independence and of KPMG's significant progress in recent years in streamlining their processes and making improvements to audit quality. As a consequence, the committee recognised that there was limited scope for further efficiencies at present.

Governance

The evaluation of the committee's performance for 2022/23 was facilitated internally by the company secretary and his team, which provided some useful feedback and points for action (see page 146).

On page 149 the Code principles and provisions applicable to audit, risk and internal control are set out and our responses indexed. In its work, the committee is intent on complying with applicable regulations and best practice.

As chair of the committee, I would welcome any comments you may have on this audit committee report, I intend to be present at the AGM in July 2023, and representatives from KPMG will also be in attendance.

This report was approved by the committee at its meeting held on 16 May 2023.

Doug Webb
Chair of the audit committee

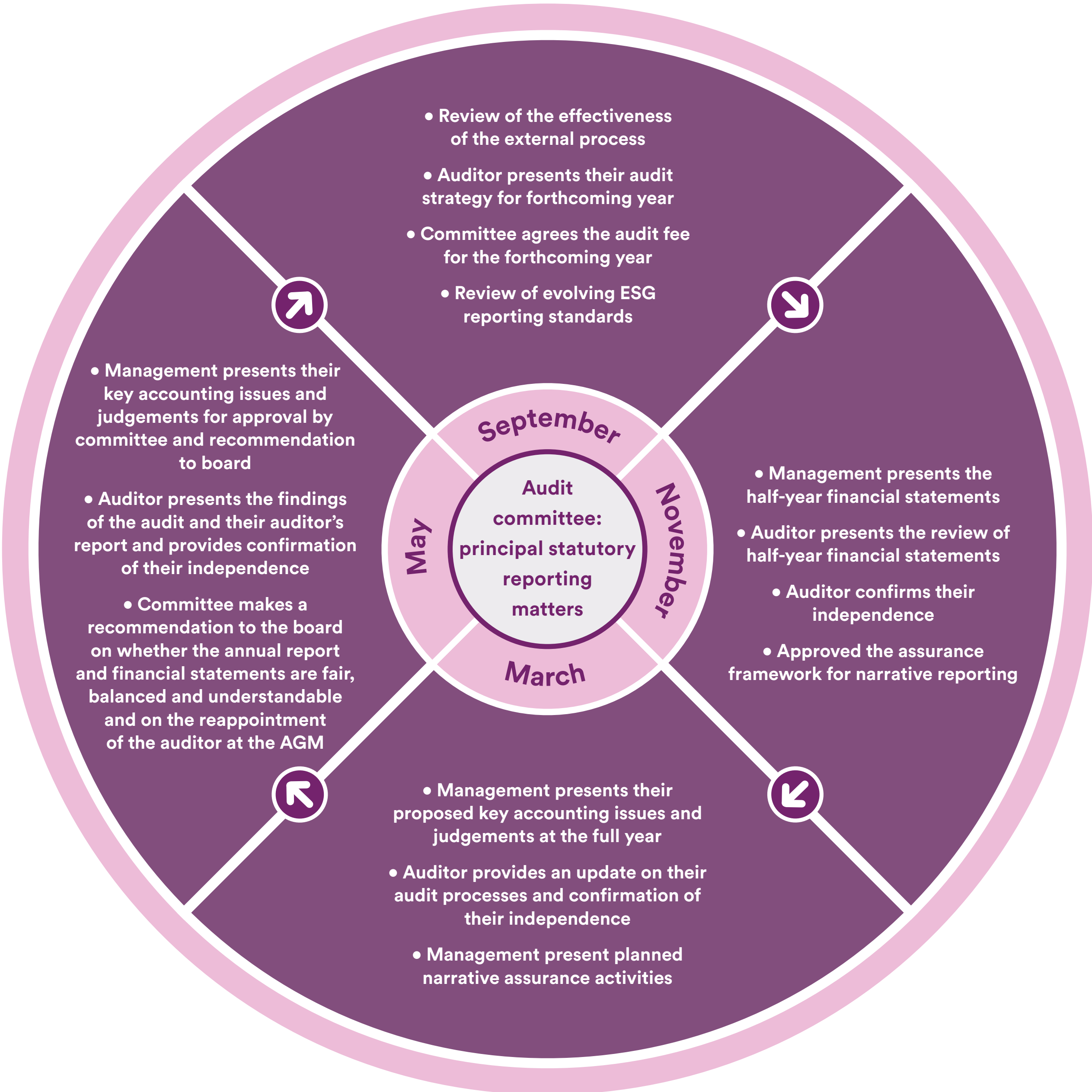
Audit committee continued

Business on the committee's agenda during the year

The committee has an extensive agenda of items of business focusing on the audit, assurance and risk processes within the business, which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team. The committee's role is to ensure that management's disclosures reflect the supporting detail provided to the committee or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The committee reports its findings and makes recommendations to the board accordingly. The committee is supported in this role by using the expertise of the statutory auditor, who, in the course of the audit, considers whether the financial statements have been prepared in accordance with IFRS and whether adequate accounting records have been kept. In doing so it ensures that high standards of financial governance, in line with the regulatory framework along with market practice for audit committees going forward, are maintained. Furthermore, the company's own internal audit team contributes to the assurance process by reviewing compliance with internal processes. The committee's financial reporting cycle, which starts each year in September, is shown below.

There were four meetings of the committee held during the year, the committee intends to continue to hold the two meetings in September and March virtually. Items of business considered by the committee are set out on pages 160 to 161.

Audit committee financial reporting cycle



Audit committee continued

Significant issues considered by the committee in relation to the financial statements

Management presents its updated view of the significant issues whereby it has exercised its professional judgement to each meeting of the committee, thereby providing an opportunity for oversight and for the committee to challenge management's views. Additionally, KPMG receive this information in advance of, and are present at, the committee meetings, providing KPMG with the opportunity to contribute to the discussion both with management present, and privately with only the committee members present.

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Revenue recognition and allowance for doubtful receivables (see pages 240, 242, 253 to 254, 280 and 282) – due to the nature of the group's business, the extent to which revenue is recognised and expected credit losses are recognised in relation to doubtful customer debts is an area of considerable judgement and estimation. This has particularly been the case in recent years (including in the current year) due to high levels of economic uncertainty and increases in the cost of living, which is expected to impact on the ability of some customers to pay their bills as they become due.	• The committee reviewed the group's revenue recognition policy, particularly in light of a higher level of billing of premises registered as void during the year, and challenged whether the criteria for de-recognising revenue relating to amounts billed to customers remains appropriate. Having considered the impact of the de-recognition criteria as applied to the billing of void properties, the committee satisfied itself that no change in the revenue recognition policy is required at the present time, but noted the increased level of challenge in recovering this debt compared with the remainder of the group's customer base. Accordingly, the committee also challenged the adequacy of the group's allowance for expected credit losses in respect of void properties and satisfied itself that, when all relevant factors are taken into consideration, the allowance reported in the financial statements is appropriate. • The committee considered the adequacy of the group's provisions for credit notes that may need issuing in respect of amounts incorrectly billed, focusing particularly on non-household customers where legacy data issues since the non-household market opened to competition have resulted in allowances being processed going back a number of years. The committee satisfied itself with the approach adopted by management for providing for future allowances, and noted that the value of these should reduce over time as data for more recent periods should not be subject to the same legacy issues as earlier periods. • The committee reviewed the approach taken by management in estimating expected credit losses relating to household debt, taking into account estimates of the impact of cash collection risk associated with void properties (see above) and recognising that there is a great deal of uncertainty associated with the future duration and intensity of cost-of-living challenges experienced by customers. Having considered cash collection rates experienced during the year, together with what historic cash collection rates may suggest about future cash collection prospects under a range of possible scenarios, the committee was satisfied that the approach taken by management to accounting for expected credit losses is reasonable and that the associated allowance as at 31 March 2023 is appropriate.
Capitalisation of fixed assets (see pages 241, 250 to 251, 281 to 282) – fixed assets represents a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.	• The committee undertook a 'deep dive with management to better understand, and therefore, be able to challenge, the group's approach to capitalisation and other key accounting judgements in respect of property, plant and equipment. This covered judgements relating to whether spend is considered to be enhancement or maintenance, the commissioning of assets, ensuring the appropriateness of the estimated useful economic lives of assets, capitalisation of support costs, and processes by which abortive costs or asset write-downs are identified. • Having undertaken this deep dive, the committee assessed the reasonableness of the group's capitalisation policy and, having also considered the work performed by KPMG in this area, deemed this to be appropriate. • The committee also sought to gain a better understanding from management of the effects of climate change on accounting for property, plant and equipment, including key controls in this area, and satisfied itself that the controls were adequate.

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Derivative financial instruments (see pages 241, 265 to 272 and 283) – the group has a significant value of swap instruments, the valuation of which is based upon models that require certain judgements and assumptions to be made. Management perform periodic checks to ensure that the model-derived valuations agree back to third-party valuations and KPMG check a sample against their own valuation models.	• The committee noted that the periodic checks performed by management had been completed at the year-end reporting date, and that KPMG had undertaken their testing and challenged management as to certain inputs in respect of the fair value measurement of cross currency swaps, resulting in the valuation approach used being refined. • The committee requested that management deliver a 'teach in' session on the group's hedging activity and accounting thereon during the year. This was particularly for the benefit of those who joined the committee in the year but was an open session to which all board members were invited. The committee found this session to be informative and that it provided a good basis for challenging what can be a technically complex area.
Provisions and contingent liabilities (see pages 256, 258 and 284) – the group provides for contractual, legal and environmental claims brought against it based on management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant claims. Judgement is also required in determining when contingent liabilities exist that require disclosure in the financial statements.	• The committee assessed and challenged the appropriateness of the basis on which provisions are recognised, focusing particularly on instances where provisions are recorded for claims where costs above an insurance deductible amount may be covered by the group's insurance policies. The committee challenged management to ensure that the gross value of claims, where certain amounts may be recoverable from insurers, is provided for, and noted that where an estimate of the gross value of the claim could be made it is provided for at this gross amount with a separate receivable recognised for the insurance recovery. • The committee noted the greater political focus on environmental prosecutions that has emerged during the year, and concurred with management's assessment that, based on current experience, the provisions recorded at the reporting date reflect the best estimate of potential financial outflow in this regard. • The committee considered the reasonableness of disclosures made in respect of contingent liabilities, challenging management as to whether any provision should be recognised in the financial statements for cases in which contingent liabilities disclosures are made. The committee concluded that in such instances the recognition criteria had not been met and, therefore, that disclosure as contingent liabilities, rather than the recognition of provisions, was the most appropriate approach.
Recoverability of United Utilities Group PLC's (parent company) investment in United Utilities PLC (see pages 252 and 282) – the parent company's investment in United Utilities PLC makes up 98 per cent of the company's total assets and is therefore highly material in the context of the parent company's statement of financial position. Management assess the recoverability of this investment periodically to ensure that its carrying value continues to be supported.	• The committee sought to understand management's approach to assessing recoverability, and concluded that management's assessment that an equity value based on the RCV of the group's regulated business, United Utilities Water Limited (UUW), is a reasonable basis for valuing United Utilities PLC given UUW's importance to the United Utilities PLC group.

Other matters considered

Impact of increases in the cost of living – with continuing economic uncertainty and cost of living challenges resulting from the likes of the war in Ukraine, there remains ongoing uncertainty around how this may impact the group's customer base going forward. As uncertainty around how the economic situation may develop continues, this gives rise to a higher level of judgement and estimation uncertainty in this area.	• The committee concurred with management's assessment that the impact of the current cost of living crisis on the group's significant accounting judgements and areas of uncertainty is felt most acutely in relation to revenue recognition and allowances for expected credit losses in relation to doubtful receivables. Considerations in this area are therefore set out more fully above.
Accounting for the sale of United Utilities Renewable Energy Limited – (UURE) (see pages 246 and 280) – during the year ended 31 March 2023 the group concluded the process to sell the group's renewable energy business, UURE.	• The committee challenged management's view that the criteria for presenting the results of UURE as discontinued operations for the period in which it was consolidated into the group's financial statements were not met, and concurred with management's judgement that UURE did not constitute a separate major operation in the context of the group as a whole. • The committee also concurred with management's view that, given the nature and materiality of the transaction, it is appropriate that the sale be treated as an adjusting item in arriving at the group's underlying profit measures included within its Alternative Performance Measures.

Audit committee continued

Business on the committee's agenda during the year

Actions	Outcomes	Cross reference
Annual and half-year reporting		
Reviewed, discussed and challenged the financial reporting team's reports on the financial statements, management's significant accounting judgements, the policies being applied both at the full and half year and how the statutory audit contributed to the integrity of the year-end financial reporting.	The committee challenged management on a number of its judgements and sought detailed explanations of its interpretation. The committee was satisfied with the explanations provided by management. Recommendations were made to the board, supporting the approval of the financial statements.	See pages 158 to 159
Reviewed and challenged the regulatory reporting process relating to the annual performance report (APR) for UUW, including the assurance provided by the technical auditor, as required to be submitted to Ofwat, and noted the differences between the regulatory and statutory accounts.	The committee met with the technical auditor to provide an opportunity for challenge by the committee whose overview contributes to the assurance process of the regulatory reporting prior to the approval of the APR by the UUW board.	–
Assessed management's presentation of APMs to enable comparability with other companies.	Concurred with management's approach that the APMs as defined were satisfactory enabling comparability with other companies.	See page 118
Reviewed and challenged the proposed audit strategy for the 2022/23 statutory audit, including the level of materiality applied by KPMG, audit reports from KPMG on the financial statements and the areas of particular focus for the 2022/23 audit.	The committee monitored progress made by the statutory audit team against the agreed plan, and challenged the auditor in the resolution of any issues as they arose.	See page 220
Reviewed and challenged the basis of preparation of the financial statements as a going concern as set out in the accounting policies.	Recommendation made to the board to support the going concern statement.	See page 217
Reviewed and challenged the long-term viability statement proposed by management and reasons why a seven-year assessment period was appropriate.	The committee challenged management that the length of the period was appropriate, particularly in light of assessment timeframes used by peer companies, but was satisfied with management's preference to continue to provide a statement with greater certainty over a shorter period of time.	See page 150
Reviewed the results of the committee's assessment of the effectiveness of the 2021/22 audit.	The committee concluded that the audit was effective and a recommendation was made to the board on the reappointment of KPMG as the auditor for the year ending 31 March 2024 at the forthcoming annual general meeting.	See page 162
Reviewed whether the company's position and prospects as presented in the 31 March 2023 integrated annual report and financial statements were considered to be a fair, balanced and understandable assessment of the company's position and prospects.	Recommendation made to the board that the 31 March 2023 integrated annual report and financial statements was a fair, balanced and understandable assessment of the company's position and prospects.	See pages 149 and 162
Reviewed the non-audit services and related fees provided by the auditor for 2022/23 and the policy on non-audit services provided by the auditor for 2023/24.	Approved the non-audit services and related fees provided by KPMG for 2022/23 and concluded that no changes were required to the policy for non-audit services provided by the auditor.	See page 165
Negotiated and agreed the statutory audit fee for the year ended 31 March 2023.	The committee approved the fee for the 2022/23 audit.	See pages 155 and 165
Considered management's approach to adopt an assurance framework to guide the assurance sought in relation to the narrative reporting in the 2022/23 integrated annual report encompassing the TCFD, SECR and other ESG sections.	Implemented the assurance framework to identify particular sections within the integrated annual report that the framework identified as higher risk of misstatement/error and would, therefore, benefit from independent third-party assurance namely the TCFD report, oversight responsibilities of the board and the remuneration committee report.	See page 165

Actions	Outcomes	Cross reference
Risk management and internal control		
Reviewed the effectiveness of the risk management and internal control systems including an overview of the output from the independent third-party review of internal controls around financial reporting.	Recommendation made to the board that the risk management and internal control systems operated effectively.	See pages 166 to 167
Considered changes to internal control weaknesses brought to the attention of the committee by KPMG.	Challenged management to resolve any issues relating to internal controls and risk management systems.	See page 218
A deep-dive session was held on the IT control environment.	Challenged management to review the opportunity for a more automated approach to digital access and process controls.	–
Considered the review by internal audit of the fraud risk management action plan, which came about following the independent third-party review of the fraud risk management framework in 2021/22.	No control weaknesses, gaps or effectiveness issues were identified as a result of the review. The cross-business fraud risk and control assessment will be refreshed annually and incorporated into business-as-usual activity.	See page 166
Monitored fraud reporting.	Reviewed the company's anti-fraud policies and processes and alleged incidents of fraud and the outcome of their investigation.	See page 167
Biannual oversight and monitoring of compliance with the group's anti-bribery policy.	Reviewed compliance with the company's ongoing anti-bribery programme.	See page 167
Approved the strategic internal audit planning approach on the work of the internal audit function from the head of audit and risk.	Monitored the implementation of the 2022/23 internal audit plan. Reviewed findings of specific internal audit and implementation of any resulting actions by management.	See page 166
Considered the issues and findings brought to the committee's attention by the internal audit team.	The committee was satisfied that management had resolved or was in the process of resolving any outstanding issues or concerns in relation to matters scrutinised by the internal audit team.	See page 166
Reviewed the quality and effectiveness of internal audit and the effectiveness of the current co-source arrangements.	The committee reviewed the process of assessment of internal audit and made certain recommendations for enhancement, further to which it was concluded that the internal audit team, supported by the PwC co-source resource, was effective.	See page 166
Reviewed and challenged the strategic internal audit planning approach and internal audit plan for 2023/24.	Approved the internal audit plan for 2023/24.	See page 166
Governance		
Review of the committee's terms of reference.	No changes were made to the committee's terms of reference during the year.	-
Considered and challenged management's formulation of an audit and assurance policy, a resilience statement, and a review of internal controls that impact the group's financial reporting ahead of further guidance being issued by the Financial Reporting Council (FRC).	The committee were satisfied in the progress attained ahead of guidance being published by the FRC and the mandatory introduction for companies to disclose their audit and assurance policy and resilience statement in their annual report. Further to the review of the maturity of the internal control framework over financial reporting undertaken by PwC, a working group was established to implement their recommendations for enhancing financial reporting controls (and supporting IT controls).	See page 165
Reviewed the conclusions of the committee's annual evaluation. The evaluation was internally facilitated by the company secretary. The review explored the effectiveness of: the committee's composition, meetings and time management; committee processes and support; and the areas of work of the committee and priorities for change.	All elements of the self-assessment reviewed indicated the committee was working well. The board considered the results of the review of the committee and concluded that the committee continued to be effective.	See page 146

Audit committee continued

How we assessed whether "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy"

The following section sets out the company's compliance with part of provision 25. The directors' responsibility for preparing the annual report and financial statements is set out on page 215.

The board delegates to the committee, in the first instance, the review of the annual report and financial statements with the intention of providing advice to the board on whether, as required by the code, "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy". To make this assessment, the committee received copies of the annual report and financial statements to review during the drafting process to ensure that the key messages being followed in the annual report were aligned with the company's position, performance and strategy being pursued and that the narrative sections of the annual report were consistent with the financial statements. The committee also considered whether the significant issues considered by the committee in relation to the financial statements include the key audit matters identified by the auditor in their report on pages 158 to 159.

Management has again considered and sought to enhance the review processes to provide support to the board in forming its view on whether the accounts and financial statements were fair, balanced and understandable, as it concluded they were (see page 215). In particular, a member of the executive team, not involved in the drafting process, was appropriately briefed to review and challenge the content to ensure that the activities and issues faced by the business were reported in a fair and balanced manner. Following application of the assurance framework (see page 165), third-party 'limited assurance' was provided in relation to our reporting against the TCFD recommendations (see the index on page 5) and remuneration committee report (see page 170).

The committee received updates on the calculation of underlying operating profit measures as one of the principal alternative performance measures (APMs) used by management, a full guide to APMs can be found on page 118.

Many of our regulatory performance commitments are used by management as key performance indicators and are monitored by our regulators, who set the methodology against which we report. As part of their role as auditor of UUW's annual performance, KPMG provides assurance on many of these performance commitments along with Jacobs, the technical auditor of the UUW annual performance report.

KPMG is required (under ISA (UK) 720) to consider whether there are any material inconsistencies between the 'other information' and 'statutory other information' presented in the annual report (i.e. in the strategic report, the directors' report and the corporate governance statement), and the financial statements, taking into account the auditor's knowledge obtained in the audit, or the auditor's understanding of the legal and regulatory requirements applicable to the 'other information' and 'statutory other information'. The TCFD and Streamlined Energy and Carbon Reporting (SECR) disclosures are deemed to be 'other information' as they are included in the company's strategic report, as they are important to the company. Other assurance of the TCFD and SECR disclosures (see pages 80 and 93 respectively) is undertaken both by third parties and our internal audit team. Our disclosures against the code are reviewed by the internal audit team and reported to the committee.

Additionally, the committee was satisfied that all the key events and issues that had been reported to the board in the executive team's monthly board reports during the year, both good and bad, had been adequately referenced or reflected within the integrated annual report.

How we assessed the effectiveness of the statutory audit process

The committee, on behalf of the board, is responsible for the relationship with KPMG the group's statutory auditor, and part of that role is to examine the effectiveness of the statutory audit process. Audit quality is regarded by the committee as the

Audit quality

Additional audit quality processes and interventions

Since 2021 KPMG have employed a number of additional processes as part of its action plan to enhance audit quality. As part of its review of the 2021/22 audit in July 2022, the committee reviewed the effectiveness of these processes and interactions as set out below, concluding they were effective.

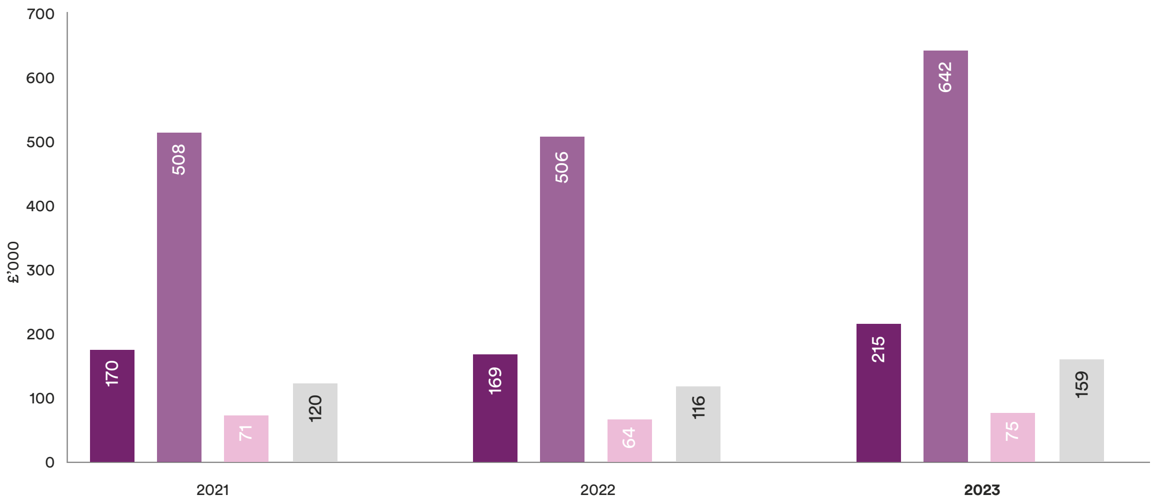
The processes and interventions included:

- providing sight of their interim control findings to the committee early in the audit process and sharing their knowledge and best practice recommendations;
- improving communication and sharing of information and insight between the external and internal audit teams by implementing regular discussion sessions prior to the scheduled committee meetings;
- raising audit points in a more timely manner with the financial reporting team during the audit process by holding regular discussions with the external audit team and financial reporting team;
- enhanced visibility of the key challenges and findings of the second-line of defence review performed by another team independent of the audit team, and of the independent KPMG partner's review of the audit;
- greater use of technical specialists; and
- providing the details of the independent partner's review of the audit to the committee as part of the year-end sign off processes.

Key

- Statutory audit – group and company
- Statutory audit – subsidiaries
- Regulatory audit services provided by the statutory auditor
- Other non-audit services

Statutory auditor's fees



principal requirement of the annual audit process. KPMG present the strategy and scope of the audit for the forthcoming financial year at the meeting of the committee held in September, highlighting any areas that would be given special consideration (these key audit matters are included in the auditor's report on pages 218 to 231). KPMG reported against their audit scope at subsequent committee meetings, providing an opportunity for the committee to monitor progress and raise questions, and challenge both KPMG and management.

Throughout the year, management presents its up-to-date view of the key accounting issues and its resulting judgements to the committee. In response, KPMG informs the committee whether, in its professional view, the judgements management proposes, or has taken, are appropriate. A number of these issues manifest themselves as the significant issues considered by the committee in relation to the financial statements, which are set on pages 158 to 159 in respect of 2022/23. As required by auditor's professional standards, KPMG exercise their professional scepticism in their audit of these significant issues.

Private meetings are held at committee meetings between the committee and KPMG's representatives without management being present to encourage open and transparent feedback by both parties on any matters they wish to raise, and provide the committee with an opportunity to obtain greater insight on the extent to which KPMG has challenged management's analysis and presentation of information.

Prior to the board's approval of the year-end financial statements, the committee provides its view to the board on the outcome of the statutory audit, explaining: management's key accounting issues and judgements; the outcome of the auditor's assessment of key audit matters; other areas of audit focus and control deficiencies (if any), and how the statutory audit contributed to the integrity of the financial reporting process. The independent nature and financial expertise of committee members further contributes to the integrity of the process. KPMG updated the committee on its ongoing Audit Quality Transformation Plan (AQTP). KPMG's AQTP includes: a more standardised audit approach; holding companies to account for the quality of the information provided in the audit process; providing more feedback to companies on the findings of their audit and providing additional senior-level support to the KPMG audit teams during the audit; all of which are well embedded in the audit process. In planning for the 2022/23 audit, KPMG provided a report to the committee on the quality interventions that would be utilised. Each year the committee considers the annual review by the FRC's Audit Quality Review Team and challenges KPMG to ensure continuous improvement.

Audit committee continued

Read more about our **annual performance report** on page 80

Read more about our **treasury committee** on page 169

On completion of the annual audit process the views of those involved in the audit on how well KPMG performed the audit are sought. All members of the committee, key members of the senior management team and those who regularly provide input into the audit committee or have regular contact with the auditor, complete a feedback questionnaire, thereby ensuring a wide range of views were taken into account. The questionnaire reviewing the 2022 audit process was issued in July 2022.

Views of the respondents were sought in terms of:

- the robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity;
- whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit;
- the quality of the delivery of the audit and whether planned quality improvements had been delivered and whether the committee had insight into the auditor's internal quality procedures;
- the expertise of the audit team conducting the audit and their understanding of the company's business risks to assess if there was an impact on the audit;
- whether the auditor made appropriate use of the work of the internal audit team;
- that the degree of professional scepticism applied by the auditor was appropriate;
- the appropriateness of the communication between the committee and the auditor in terms of technical issues;
- the quality of the service provided by the auditor;
- their views on the quality of the interaction between the audit engagement partner, the audit senior manager and the company;
- whether the audit process had been kept on schedule; and
- whether the statutory audit contributed to the integrity of the group's financial reporting.

The feedback was collated and presented to the committee's meeting in September 2022. The committee noted KPMG's quality interventions as part of its AQTP to improve audit quality and the enhancements now embedded in the company's audit (see page 162). The committee concluded that the statutory audit process and services provided by KPMG were satisfactory and effective, with additional measures for further enhancement encouraged.

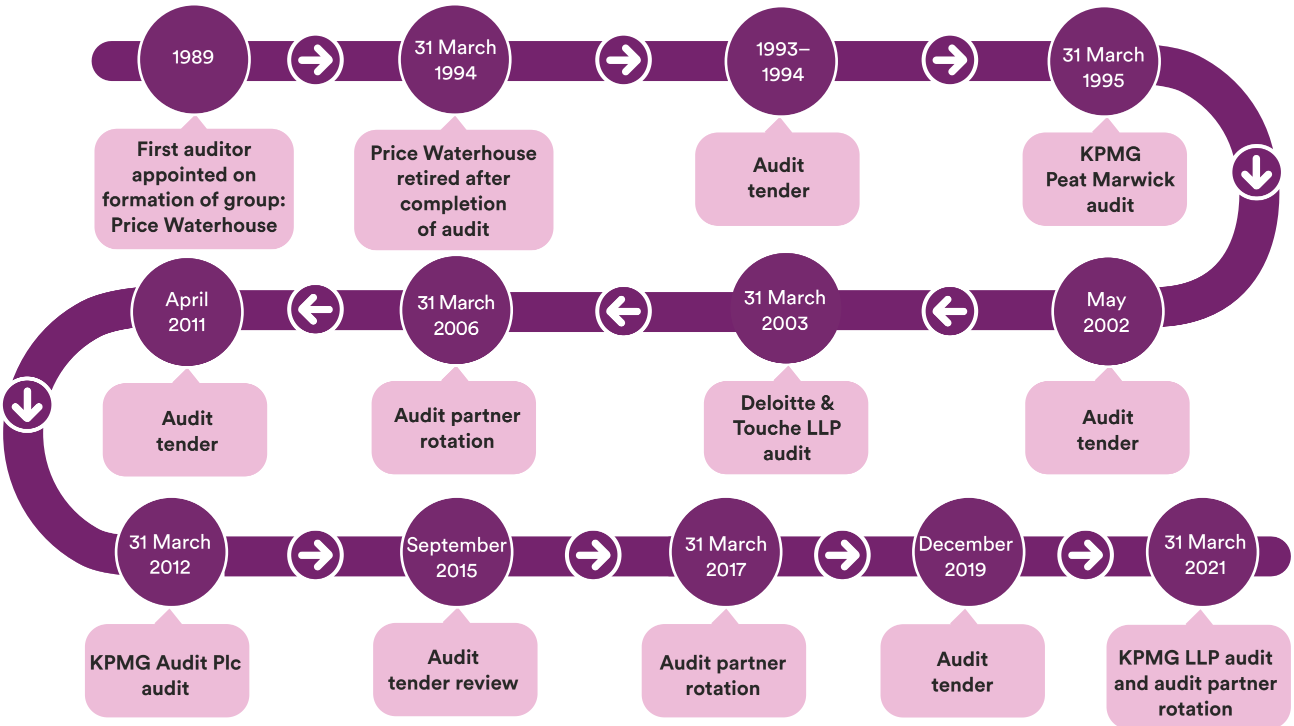
How we assessed the independence of the statutory auditor

The following section sets out the company's compliance with part of provision 26.

There are two aspects to auditor independence that the committee monitors to ensure that the auditor remains independent of the company.

First, in assessing the independence of the auditor from the company, the committee takes into account the information and assurances provided by the auditor confirming that all its partners and staff involved with the audit are independent of any links to United Utilities. KPMG confirmed that all its partners and staff complied with their ethics and independence policies and procedures, which are fully consistent with the FRC's Ethical Standard, including that none of its employees working on our audit hold any shares in United Utilities Group PLC. KPMG is required to provide written disclosure at the planning stage of the audit in the form of an independence confirmation letter. Their letter discloses matters relating to their independence and objectivity, including any

Rotation of external auditor to the group



relationships that may reasonably be thought to have an impact on its independence and the integrity and objectivity of the audit engagement partner and the audit staff. The audit engagement partner must change every five years and other senior audit staff rotate at regular intervals.

Secondly, the committee develops and recommends to the board the company's policy on non-audit services and associated fees that are paid to KPMG. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (i.e. United Utilities Group PLC) that are closely linked to the audit itself or that are required by law or regulation, as such services could impede their independence.

Permitted non-audit services fees paid to the statutory auditor are subject to a fee cap of no more than 70 per cent of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period in which the cap applies - in 2022/23 were 26.1 per cent, as set out in the table below. Permitted services (which remain subject to the 70 per cent cap, apart from the regulatory audit) can be approved by the CFO subject to a cap of £10,000 applied for individual items. Individual items in excess of £10,000 require the approval of the committee. The 70 per cent non-audit services fee cap has been applied to the group for the year ended 31 March 2023.

Financial year	Audit fee
2019/20	£474,000
2020/21[(1)]	£678,000
2021/22	£675,000
Average	**£609,000**
2022/23 proposed non-audit fees	£159,000
2022/23 proposed non-audit fees as % of average audit fees (3 year rolling average)	**26.1%**

(1) Included £100,000 relating to audit of COVID-19 judgements in 2019/20 that were not captured within the reported audit fee for that year due to the additional fee not having been agreed at the point the financial statements were signed off.

Auditor provided permitted services include the non-audit fees paid to the statutory auditor for: the interim review; the regulatory audit; agreed-upon procedures for regulatory reporting; limited assurance work relating to the group's sustainable financing framework; the Euro Medium Term Note Programme; and Law Debenture Trust compliance work. Fees for non-audit services paid to KPMG include the cost of the UUW regulatory assurance work they undertake, which is separate to the regulatory audit. While this work could be performed by a different firm, the information is in fact more granular breakdowns of data that form part of the statutory audit, and by KPMG undertaking the work it reduces duplication and saves considerable cost.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee was satisfied that KPMG continues to be independent, and free from any conflicting interest with the group.

Statutory auditor reappointment for the year ending 31 March 2024

The following section sets out the company's compliance with part of provision 26.

The 2022/23 year-end audit has been KPMG's twelfth consecutive year in office as auditor; they were reappointed after the committee conducted a formal tender process in December 2019 and as reported by the committee in the 2020 annual report. Prior to this, a formal tender was last undertaken in 2011, and resulted in the appointment of KPMG, who thereafter presented their report to shareholders for the year ended 31 March 2012.

The diagram opposite shows the historical tendering and rotation of the role of statutory auditor. The company, as a public interest entity, is required to conduct a competitive tender process every ten years, and rotate auditors after 20 years at most, as a result, KPMG can remain as auditor until the completion of the 31 March 2031 audit. The audit engagement partner rotates at least every five years, the 2022/23 audit has been the third year for Ian Griffiths in the role. On the next partner rotation, the committee intends to assess the need and timing of the next audit tender.

United Utilities has complied fully with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 March 2023.

At its meeting on 16 May 2023, the committee recommended to the board that KPMG be proposed for reappointment for the year ending 31 March 2024 at the forthcoming AGM in July 2023. As a matter of good practice, the committee continually keeps the performance of the auditor under review and there are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence, and no auditor liability agreement has been entered into.

Audit and assurance policy

As reported last year, management has been formulating an audit and assurance policy as a means of tailoring proportionate assurance relating to the narrative disclosures in the integrated annual report. The committee has had several opportunities to challenge and contribute to the policy during the drafting process. As part of the policy, an assurance framework has been devised, providing a standardised approach to identify the risk associated with the disclosures and the appropriate level of assurance. In summary, our assurance framework sets out the well established 'three lines of assurance' approach:

- First line of assurance – management establish the day-to-day business operational and control processes, and is accountable for effective risk management and control activity, and provides management assurance;
- Second line of assurance – second line functions provide policy, direction and frameworks as well monitoring of the first line activities to assure compliance; and
- Third line of assurance – our internal audit team and specialist external auditors review the effectiveness of risk and control activities as well as providing assurance in respect of company disclosures.

As the level of risk increases, the governance and assurance applied to the reporting of data also increases, with material risks escalated to the board. Thereby ensuring that the management, control and reporting of any risks, and resulting actions identified through the process, are proportionate to the level of risk. The approach is broadly consistent with that used for the regulatory reporting of UUW, and has been implemented in identifying the proposed levels of assurance for the integrated annual report for 31 March 2023.

Going concern and long-term viability

The committee challenged and scrutinised management's detailed assessment of the group's long-term viability and its ability to continue as a going concern, taking into account the risks facing the business, and its ability to withstand a number of severe but reasonable scenarios. The committee approved the long-term viability statement set out on page 150. Management apprised the committee of its preparedness to provide a resilience statement in future years, which would encompass the going concern and long-term viability statement should this be a recommendation of the BEIS Consultation on 'Restoring trust in audit and corporate governance'.

Audit committee continued

Read more about **financial oversight responsibilities of the board** on pages 149 to 152

Read more about **our risk and resilience framework** on pages 60 to 61

Internal controls and risk management systems

The main features of the group's internal controls and risk management systems are summarised below:

Internal audit function

The internal audit function is a key element of the group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the audit committee, the board and to senior management. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of risk management systems, business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by colleagues in the areas under review. Once any recommendations are agreed with management, the internal audit function monitors completion of associated actions and reports to the committee on progress made at every meeting.

A five-year strategic audit planning approach is applied. This facilitates an efficient deployment of internal audit resource in providing assurance coverage over time across the whole business, as well as greater variation in the nature, depth and breadth of audit activities. This strategic approach supports the annual audit plan, which is then endorsed by management, and which the committee reviews, challenges and approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the development of the plan considers risk assessments, issues raised by management, areas of business and regulatory change, prior audit findings and the cyclical review programme. The purpose, scope and authority of internal audit is defined within its charter, which is approved annually by the audit committee.

As set out in the charter, internal audit perform their work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors, and with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

Internal audit, led by the head of audit and risk, covers the group's principal activities and reports to the committee and functionally to the CFO, both of whom review the head of audit's annual personal objectives. The head of audit and risk attends all scheduled meetings of the audit committee, and has the opportunity to raise any matters with the members of the committee at these meetings without the presence of management. He is also in regular contact with the chair of the committee outside of committee meetings.

The in-house team is expanded as and when required with additional resource and skills co-sourced from external providers ensuring that the internal audit function has sufficient resources and expertise to deliver the annual audit plan. The committee keeps the relationship with co-source providers under review to ensure the independence of the internal audit function is maintained and there is a documented process to manage possible conflicts of interest with the co-sourced resource. Ensuring that any co-source resource remains independent in the course of its work is crucial to the integrity of its work. Following a competitive tender process, PwC was last re-appointed as co-source resource provider during 2020/21.

The internal audit function liaises with the statutory auditor, discussing relevant aspects of their respective activities, which ultimately supports the assurance provided to the audit committee and board.

Assessing the effectiveness of the internal audit function

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs, including the ongoing audit reports received, the audit committee's interaction with the head of audit and risk, a biannual review of the department's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each committee meeting as well as any other periodic quality reporting requested.

An annual stakeholder survey in the form of a feedback questionnaire is circulated to committee members, senior management and other managers who have regular contact with the internal audit function, including representatives from the auditor KPMG and the co-source audit provider PwC. The responses were anonymous to encourage open and honest feedback, and were consistently favourable, as were previous surveys.

Periodically, the quality and effectiveness of the internal audit function is also assessed externally, with the most recent review being undertaken in early 2019.

Taking all these elements into account, the committee concluded that the internal audit function was an effective provider of assurance over the organisation's risks and controls and appropriate resources were available as required.

Review of the fraud risk management structure

In 2021/22, the committee asked management to commission an independent review of the group's fraud risk management framework to assess its maturity and identify any enhancements required given the evolving nature of business processes and the working environment. An action plan to strengthen the approach to fraud risk assessment was implemented, overseen by the security steering group, with the final report presented to the committee in March 2022. During the year, internal audit have reviewed the design effectiveness of controls for the most significant fraud risks in each business area – no additional control weaknesses, gaps or effectiveness issues were identified as a result of the review. The cross-business fraud risk and control assessment will be refreshed annually and incorporated into business-as-usual activity.

Risk management systems

The group designs its risk management activities to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The committee receives updates and reports from the head of audit and risk on key activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. A diagram and explanation of the risk management governance and reporting process can be found on page 60. The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

Supplementing the more detailed ongoing risk management activities within each business area, the biannual business risk assessment process seeks to identify how well risk management is embedded across the different teams in the business. The business risk assessment process involves a high-level review of the effectiveness of the controls that the business has in place to mitigate risks relating to activities in each business area, while identifying new and emerging risks and generally facilitating improvements in the way risks are managed.

The outcome of the business risk assessment process is communicated to the executive team and the board. This then forms the basis of the determination of the most significant risks that the company faces, which are then subject to review and challenge by the board. The group utilises risk management software in order to maintain an up-to-date view of the assessment and management of risk. The maturity of the risk management framework and its application across the business is assessed on an annual basis against a defined maturity model. This assessment provides an objective appraisal of the degree of maturity in how the risk management system is being applied against the key elements of ISO 31000:2018 Risk Management Standard. The results of the maturity assessment are reported to the GARB, along with a road-map of activity to achieve a target level of maturity.

An external assessment of the risk management framework last took place in 2017/18.

Internal controls

The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our business-as-usual activities and are documented in the company's internal control manual, which covers financial, operational and compliance controls and processes. During the year, work has been undertaken by management to better evidence the operation of existing internal controls. Internal control systems over financial reporting are the responsibility of the CFO, with the support of the GARB, the financial control team and the internal audit team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work, which the committee approves each year as well as aspects being tested by other internal assurance providers. Compliance with the internal control system is monitored annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited on a sample basis by the internal audit team and reported to the committee.

In 2021/22 an independent review of the maturity of the group's internal control framework over financial reporting was conducted in light of the BEIS consultation, and the expected evolution of the UK internal control requirements, in general terms but also more specifically in relation to controls over financial reporting. The findings of the independent review were that: there was a high level of coverage of the financial statement line items in both the consolidated income statement and the balance sheet; risk and control matrices were in operation; and the fundamental building blocks underpinning an internal control framework over financial reporting were in place. A number of enhancements were recommended in relation to IT controls supporting the financial reporting controls. A working group was established to implement these recommendations, with good progress being made against 'no regrets' actions.

Anti-fraud and anti-bribery

The audit committee is responsible for reviewing the group's procedures for detecting fraud, and the systems and controls for preventing other inappropriate behaviour. In the first instance of an incident being reported, a summary of the allegations is passed to the fraud and whistleblowing committee (consisting of the company secretary, the people director, the strategy, policy and regulation director, the commercial, engineering and capital delivery director, the head of people services and the head of internal audit and risk) to decide on the appropriate course of action and investigation and by whom.

During the year, the audit committee was kept fully apprised in regular updates on the progress and findings of investigations of cases of alleged fraud and any remedial actions taken.

In line with the group's anti-fraud culture and zero-tolerance attitude towards fraud, a cross-business fraud risk assessment is carried out through the security steering group to identify and understand potential threats, and optimise the group's response and mitigation and ensure consistency across the business.

The company has an anti-bribery policy to help prevent bribery being committed on its behalf, which all colleagues must follow, and processes in place to monitor compliance with the policy. Colleagues in certain roles are required to complete anti-bribery training materials. As part of the anti-bribery programme, colleagues must comply with the group's hospitality policy. The hospitality policy permits colleagues to accept proportionate and reasonable hospitality for legitimate business purposes only and all hospitality (and gifts) offered and accepted has to be logged, and approved when accepted. Colleagues and representatives of the group's suppliers must comply with the group's responsible sourcing principles and United Supply Chain approach. The group will not tolerate corruption, bribery and anti-competitive actions. Suppliers are expected to comply with applicable laws and regulations, and in particular never to offer or accept any undue payment or other consideration, directly or indirectly, for the purposes of inducing any person or entity to act contrary to their prescribed duties.

As part of the internal control self-assessment checklist (part of the group's internal control processes), senior managers in consultation with their teams are required to confirm, among other things, that they have complied with the group's anti-bribery and hospitality policies. The anti-bribery programme is monitored and reviewed biannually by the committee.

Treasury committee

Doug Webb
Chair of the treasury committee

Quick facts

- The committee meets three times a year.
- The committee operates under terms of reference and delegated authorities approved by the board.
- The company secretary attends all meetings of the committee.
- The treasurer is a member of the committee.
- The members of the committee undertook a self evaluation in February 2022 facilitated internally by the company secretary. The review of the responses indicated that the committee was effective and its members had the appropriate skills and experience to fulfil the committee's responsibilities.

Main responsibilities

- Review of the group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; currency and electricity hedging); financial counterparty credit risk; credit ratings; and capital structure.
- Execution of the financing plan and evaluation of funding opportunities.
- Liquidity management and review of forecasts.
- Execution of hedging transactions and programmes in relation to the management of market risks in accordance with treasury policy parameters.
- Developments in relation to the credit ratings agencies.
- Credit investor relations.
- Banking relationships.
- Treasury delegated authorities, internal controls and governance.
- Reporting to the board on matters relating to the group's treasury activities, including board approval of the annual treasury update and associated financing plan and board delegated authorities.

Quick links

Terms of reference:
unitedutilities.com/corporate-governance

Dear shareholder

During the year, with the board's delegated authority, the committee oversaw the successful execution of the group's funding programme. Approximately £888 million of new term-funding was raised, including the group's second sustainable public bond issue, a £300 million 15.5-year maturity issued in April 2023. The committee has continued to monitor financial market conditions closely as central banks continued tightening monetary policy in response to high inflation, amidst heightened geopolitical tensions, and more volatile markets.

The continuation of our funding programme has positioned the group well, with projected AMP7 financing requirements now fully covered. The committee also completed a 'deep dive' review of the group's electricity hedging policy.

The committee also oversaw the group developing replacement fallback provisions (applicable upon cessation of or fundamental changes to the UK Retail Prices Index (RPI)), in response to proposed changes to RPI that are expected to be implemented by the UK Statistics Authority in 2030. Those changes to RPI are intended to more closely align RPI with the calculation of the Consumer Prices Index including owner-occupier housing costs (CPIH). Under the fallback provisions contained in the group's existing RPI-linked notes, upon such a change to the index being made, an Expert would be appointed to determine what adjustments (if any) are necessary to the terms and conditions of the notes, with the risk that the Expert determination process could lead to an early redemption of the RPI-linked notes at their indexed par value in certain circumstances. The new fallback provisions, which has been adopted in the group's London listed multi-issuer £10 billion Euro Medium Term Note Programme (EMTN Programme), references a relevant reference gilt, thereby reducing the risk of the cessation of or a fundamental change to RPI resulting in redemption of any future RPI-linked notes at their indexed par value. The group is in the process of engaging with existing RPI-linked noteholders to discuss the new fallback and potentially amending the terms and conditions of certain notes to adopt the new fallback.

The group has access to debt capital markets via its EMTN Programme or by putting bespoke documentation in place. The EMTN Programme, in conjunction with our sustainable finance framework launched in November 2020, is expected to continue to be the primary vehicle for the group accessing funding in the debt capital markets. In July 2022, the group published its second sustainable finance framework allocations and impact report. Details of the group's engagement with banks and credit investors can be found on page 138.

Doug Webb
Chair of the treasury committee

Treasury committee members:

Doug Webb
Chair of the treasury committee

Phil Aspin
CFO

Brendan Murphy
Treasurer

ESG committee

Paulette Rowe
Chair of the ESG committee

Quick facts

- The committee comprises four directors appointed by the board, three of whom are independent non-executive directors.
- The company secretary, the corporate affairs director, the people director, and the investor relations and clean energy strategy director attend all meetings of the committee.
- Senior operational directors attend the committee to report on the environmental, social and governance aspects of particular topics and initiatives.
- A committee, with power delegated to if from the board in relation to environmental, social and governance matters, has been in operation for over fifteen years.

Quick links

Terms of reference:
unitedutilities.com/corporate-governance

The long standing commitment to clear and transparent disclosure has ensured the company's performance in ESG has remained strong.

Dear shareholder

I am pleased to introduce my first report on the activities of the ESG committee in 2022/23.

United Utilities has operated a board committee with a clear remit on responsible business strategy and delivery for over fifteen years. Each year the committee evaluates its approach to ensure the appropriate governance is in place.

The focus on environmental, social and governance (ESG) matters has continued to grow and, reflecting that trend, the committee agreed to change its name to the ESG committee. While this does not change its terms of reference, it will help demonstrate to external stakeholders, keen to understand how the company performs on ESG, that board level governance is in place. In addition to changing its name, the committee agreed to strengthen board training on climate change over the coming year.

The committee continued to consider a broad range of ESG topics but two issues have dominated its agenda from a reputational and responsible business perspective, namely storm overflows (and their impact on river water quality) and the cost of living.

Prioritising storm overflows

Over the course of the year, the committee reviewed the company's approach to storm overflows and is encouraged that there is an ambitious plan to address the issue. Because of the particular challenges in the North West – a high percentage of combined sewer systems (that collect both rain and wastewater) and more incidents of heavy downpours sending greater volumes of rainwater into our sewers – this will amount to one of the largest environmental improvement programmes of its kind in the country and the committee will continue to track progress.

Efforts to engage with stakeholders on overflows is delivering positive outcomes. The committee felt that the creation of the Love Windermere partnership to bring about a science-based plan to improve the lake's water quality is a potential model of best practice.

ESG committee members:

Paulette Rowe
Chair of the ESG committee

Steve Mogford
(until 31 March 2023)

Alison Goligher

Liam Butterworth

Louise Beardmore
(from 31 March 2023)

The announcement that the company will bring forward investment totalling £914 million ahead of AMP8 was especially encouraging.

Regular updates to the committee have focused on delivery of the company's commitments under its Better Rivers: Better North West programme. While many of these require working with others to deliver improvements, the committee welcomed how the company has responded to customer feedback about its Better Rivers plan, to report first on the actions United Utilities is taking to improve river health.

Improving river water quality presents a challenge to the entire sector so cross industry collaboration is important. We were pleased that the company hosted the sector's first Pollution Summit to share best practice on measures being taken by all water companies to reduce the frequency of pollution events. Sector body Water UK was present at the summit, reinforcing that collective action is now seen as an essential step in regaining public trust.

Committee members welcomed efforts by the company to engage with stakeholders on other environmental topics and were encouraged by the broad attendance from the region's environmental organisations at the company's first Environmental AGM. This provided an opportunity to discuss the company's recent performance on topics such as climate change, pollution, water use and biodiversity with the region's leading environmental representatives.

Supporting customers and colleagues

From a social perspective, cost of living pressures have dominated headlines with utility and other bills and household expenses rising with inflationary pressures. For some time, the committee has focused on affordability and vulnerability given the North West has some of the most deprived neighbourhoods in the country. During the year, progress on support schemes, such as payment breaks and help to pay, as well as the vital support provided by the United Utilities Trust Fund, has been presented to the committee and it will continue to scrutinise the company's approach on this important topic.

The committee scrutinised several items relating to equity, diversity and inclusion (ED&I), in particular the proposed measures for monitoring ED&I. We received regular reports on the work of the Colleague Voice panel, bringing the views and opinions of colleagues directly to the board table, as well reviewing the annual gender pay report.

A new style report

In recent years, the committee has recognised growing interest in ESG from the investor community with increased expectations on companies to disclose ESG data and demonstrate action on ESG topics. It noted the trend to consolidate ESG reporting across international reporting standards. To ensure that the company's ESG performance is readily available to stakeholders and, in particular, investors, the committee reviewed plans to enhance engagement through a dedicated sustainability report and direct engagement with specific investors.

Evidencing that the company is delivering on its responsible business goals is reviewed twice yearly by the committee. These measures and targets are aligned to ESG and form part of the performance section of this report (see pages 84 to 111). Publishing a set of performance measures and targets in this way enables stakeholders to judge for themselves whether or not the company is delivering on its purpose.

As I look to the coming year, the committee will focus on specific topics that we judge to be especially important to the overall ESG agenda. These include affordability, carbon and renewables, people, diversity and inclusion, river water quality and reputation.

As a listed company, United Utilities complies with the UK Corporate Governance Code and continues to drive for the highest standards of board leadership, transparency and governance.

Finally, I'd like to thank Stephen Carter for his contribution to the work of the committee after he stood down from the board and as chair of the committee. Similar thanks are extended to Steve Mogford who was a member of the committee for his entire tenure as chief executive. I am grateful to both of them for bringing to the committee their expert perspectives and wise counsel on responsible business and reputation.

Paulette Rowe
Chair of the ESG committee

Read more about **how our purpose links to ESG** on page 02

Read more about **how we are working with others to improve river health** on page 90

Main responsibilities

The committee approved a slightly modified set of terms of reference in March 2023. Its main duties are to:

- consider and recommend to the board the broad approach to environmental, social and governance matters taking into account the company's desired ESG positioning;
- keep under review the group's approach to environmental, social and governance matters and ensure it is aligned with the group strategy including the company purpose, strategy and values;
- review environmental, social and governance issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- monitor and review the status of the company's reputation and examine the contribution the of the group's corporate responsibility activities toward protecting and enhancing its reputation;
- monitor and review compliance with the board's approach to environmental, social and governance matters and scrutinise the effectiveness of the delivery of the ESG commitments;
- develop and recommend to the board ESG targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators; and
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually.

ESG committee

Read more about **our TCFD disclosures** on page 05

Read more about **Colleague Voice** on page 136

The committee's agenda during the year: Environmental

Update on carbon strategy and progress

The committee was updated on the company's carbon strategy and reviewed the latest investor and stakeholder expectations for clear and formal responsibilities on climate change and wider environmental, social and governance (ESG) matters at the board. It requested regular updates on climate change mitigation and adaption, noting that this activity would be reflected prominently in the Integrated Annual Report and Financial Statements, and on the company website. The committee asked that an update on the carbon impact of PR24 be brought to a future meeting.

Better Rivers: Better North West update

An update was given to the committee on progress in delivering the company's Better Rivers: Better North West engagement pledges:

1. 'Ensuring our operations progressively reduce impact to river health';
2. 'Being open and transparent about our performance and our plans';
3. 'Making rivers beautiful and supporting others to improve and care for them'; and
4. 'Creating more opportunities for everyone to enjoy rivers and waterways'.

Details on important collaborations with organisations such as The Rivers Trust and Greater Manchester Combined Authority were shared with the committee, reflecting the importance placed on working with others to reduce the amount of rainfall running into sewers. Tackling the impact of storm overflows is a high profile reputational challenge and the committee encouraged the company to craft messages to cut through to specific audiences, to acknowledge that the current system needs to change and to highlight the important role to be played by regulators.

PR24 and natural capital

The committee discussed the company's approach to natural capital, noting that good progress had been made in several areas including the addition of natural capital within decision making tools and the development of a methodology to use natural capital data to inform and influence the AMP8 WINEP. It welcomed the rising profile of nature based solutions for projects, especially where they are the lowest whole-life cost. The committee was encouraged by the approach and recognised the importance of effective collaboration on the issue, with partnerships exploring how to implement catchment system operation.

Clean air update

An update on the company's clean air action plan was presented to the committee. It welcomed the decision to become a signatory to the Business for Clean Air initiative and that investment to address the requirements of the Industrial Emissions Directive had been included in the current business plan. Ahead of setting targets, the committee recognised that further monitoring is needed to fully understand air pollutant emissions to create a robust baseline and enable scenario testing to prioritise activities to reduce air pollution.

Social

Affordability and vulnerability

Given the high levels of social and economic deprivation in the North West, this is a standing item for the committee which received two updates on how the company is assisting customers on low incomes. In light of cost living pressures, the committee noted several actions by the company including increased efforts to support customer bill payments, the use of data to identify customers showing signs of struggling to pay and supplementary campaigns.

Smart metering strategy

The smart meeting strategy was presented setting out the company's approach to increase meter penetration for AMPs 8 and 9, building on a trial currently underway in Greater Manchester. Members suggested that a clearer articulation of the benefits to individual customers would be helpful and noted that an Ofwat consultation on tariffs provided an opportunity to explore new approaches.

Gender pay report

Members commented on the draft gender pay report and welcomed continued focus and reporting against the company's action plan, part of its wider diversity and inclusion strategy. Following a diversity audit by the Clear Company, the committee supported the planned refresh of actions identified through the audit. Reports and innovation from others in the sector and across industry would be reviewed to identify areas for improvement.

Equity, diversity and inclusion

The committee discussed the proposed measures for monitoring equity, diversity and inclusion. It suggested that focus should be on diversity on the board, rather than women on the board, and encouraged reporting of ethnicity trends at all levels.

Approach to education

The committee endorsed the review of the company's approach to education with greater alignment to its core purpose. Whilst the schools' education programme is a key part of the company's educational activities, it was noted that many other initiatives take place such as apprentice and graduate schemes. Members encouraged the company to consider other operating options and to ensure close alignment with the school curriculum.

Access and recreation strategy

An update on the company's approach to access and recreation was presented to the committee. The consequences of the pandemic through increased visitor numbers and issues of anti-social behaviour were discussed along with the implementation of measures at several sites, discussed with community representatives, to stabilise the situation. Topics such as open water swimming and reservoir safety were explored alongside opportunities to further connect with customers through access and recreation.

Community investment expenditure and alignment to community strategy

The annual update on community giving expenditure was reviewed by the committee. Total expenditure of £2.82 million against a 2025 target of £2.82 million was reported. Members were encouraged that activity had returned to more normal levels since the COVID-19 restrictions. Additional data collation such as the inclusion of innovation expenditure which offered a wider benefit outside of the company, had contributed to an increase in the value of community investment.

Governance

Trends in responsible business

The committee discussed current trends in responsible business and agreed that the most relevant responsible business trends for the company included a just transition to a low carbon and adapted economy, protecting fundamental rights and integrating ESG narrative and data. Members requested that relevant items be incorporated into the committee's rolling calendar.

Sustainability reporting in the FTSE 100 and investor ESG communications

A review of sustainability reporting in the FTSE 100 was presented to the Committee which highlighted trends towards consolidation of global reporting frameworks and current expectations of investors. The approach for engaging investors on ESG matters was discussed, which included the production of a standalone sustainability report, changes to the website, regular content on social media channels and direct engagement with specific investors.

Colleague Voice update

Twice a year the committee reviews progress on colleague and board engagement. Members noted the Colleague Voice panel continued to be a valuable mechanism for colleagues to provide feedback, returning to some face-to-face meetings post pandemic. Data from the Your Opinion Survey was providing new insight on employee demographics and it was suggested that some environmental issues such as carbon be discussed at the panel. The committee was encouraged by progress made by the various colleague network groups and supported board member attendance at network events. Members noted that the company was satisfied it could demonstrate compliance with the UK Corporate Governance Code.

Culture

Each year the committee reviews and assesses company culture and its alignment with business purpose, strategy and values. Members welcomed that external validation of the company's approach had been undertaken to assure the adequacy and effectiveness of its governance, processes and key controls. The audit conclusions were positive with a small number of recommended enhancements and the company reported its intention to include diversity demographic data in its annual update. The committee noted that the company's approach for monitoring culture featured as a best practice case study with the Financial Reporting Council.

Progress against demonstrating purpose

The committee reviewed company performance in delivering its five year commitments that demonstrate how it is fulfilling its purpose, noting strong performance in the second year of reporting, with 45 out of 50 targets reporting green status. Members discussed changes to the measures and concluded that the matrix of measures was balanced appropriately.

Stakeholder engagement and reputational risks

Throughout the year, topics discussed by the committee related the changing ministerial landscape, rivers and environmental performance across the sector, price review expectations on stakeholder engagement, sector collaboration, bathing water results, environmental partnerships and proposals for a national social tariff.

Committee evaluation results

The committee reviewed its external evaluation results and matters arising including training and knowledge development, topics for engagement at the board level and the remit of the committee's activities. It agreed that in 2023 it would focus on five key topics including reputation, carbon and renewables, affordability and vulnerability, river water quality and storm overflows and equity, diversity and inclusion.

Committee terms of reference

The recommendation to rename the committee as the 'ESG committee' was endorsed and members agreed to consequential changes to its terms of reference. It clarified that 'governance' would refer to the current five key ESG topics and reporting requirements, not corporate governance as a whole, which is a matter reserved to the board.

Board climate change and ESG training

The committee discussed training on climate change and ESG issues for board and committee members. Options for board and executive training on climate change and more specific ESG training were agreed.

Looking to the next year, the ESG committee will:

- review performance on how the company is fulfilling its purpose, ESG rating performance and the dashboard tracking the company's efforts to support customers on low incomes;
- on behalf of board, review progress and issues arising from the Colleague Voice panel and the company's approach to culture;
- continue to examine the interaction between purpose, ESG and reputation and review the approach to stakeholder engagement and the management of reputational risks;
- oversee matters of general governance such as reviewing the gender pay report; and
- undertake matters of committee governance such as reviewing its rolling calendar of agenda items, the annual committee evaluation and examination of the committee's terms of reference.