

Chair's review



Sir David Higgins
Chair

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

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

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

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

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

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

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

Our first female CEO, and other board changes

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

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

Strategic refresh

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

Dividend and annual general meeting

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

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

Outlook

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

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

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

Thank you

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

Sir David Higgins
Chair
24 May 2023

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

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

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

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

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

45.51p

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

+4.6%

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

21 July

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



Louise Beardmore
Chief Executive Officer

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

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

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

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

Strengthening our industry-leading affordability support for customers

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

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

Delivering improvements in performance for customers and the environment

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

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

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

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

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

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

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

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

Driving a step change in river health

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

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

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

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

Creating a greener future

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

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

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

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

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

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

⁽¹⁾ 50 per cent company funded, over the course of the 2020–25 regulatory period (AMP7).

⁽²⁾ These are incidents affecting a customer that has already experienced a previous incident.

39%

reduction in reported activations of storm overflows since 2020 baseline

83%

performance commitments met or exceeded for the year

£25m

customer outcome delivery incentive (ODI) reward

Chief Executive Officer's review

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

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

Financial performance

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

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

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

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

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

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

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

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

Supported by a talented, diverse and engaged workforce

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

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

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

Building an ambitious future plan

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

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

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

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

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

Thanks to our stakeholders for their continued support

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



Louise Beardmore

Chief Executive Officer
24 May 2023

Integrated Report and TCFD disclosure

This annual report is an Integrated Report and has been prepared and presented in accordance with the International <IR> Framework published by the International Integrated Reporting Council in January 2021. The board, which is responsible for the integrity of this report, has considered the preparation and presentation of this report and concluded that it has been prepared and presented in accordance with the Framework. This report contains all climate-related financial disclosures required to be consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and in line with the Listing Rules requirements (Listing Rule 9.8.6R(3)). Further supplementary detail, such as our 2021 adaptation progress report, WRMP and supporting technical documents, are available on our website.

Materiality

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

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

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

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

