

Chief Executive Officer's review

Louise Beardmore

Delivering for customers now, and building our plan for a stronger, greener and healthier North West

It has been an extremely busy year, in which we have submitted a high-quality and ambitious business plan for the 2025–30 period (AMP8) while continuing to deliver for customers and the environment in the face of challenging weather conditions.



Strategic report

The water industry continues to find itself in the spotlight and we recognise that there is significant work to do in restoring public confidence and trust, and improving services for the benefit of customers, communities and the environment. We have put forward an ambitious plan to enrich services across the five diverse counties that make up the North West. This would see us invest significantly over the 2020–25 period to deliver the step change we all want to see.

Our AMP8 plan targets the largest reduction in spills from storm overflows of any company, and we aren't waiting. We have got to work already, bringing forward around £400 million of AMP8 investment to reduce spills at more than 150 overflows and accelerate other environmental programmes. We have started work on some rapid solutions to achieve spill reductions faster. These initiatives have been extremely successful, and we are now rolling them out to a further 29 locations. At the same time, we are accelerating a groundbreaking Integrated Water Management Plan. This initiative sees us working closely with the Greater Manchester Combined Authority and the Environment Agency (EA) to establish a new partnership and new way of working to ensure the best management of water resources across Greater Manchester.

We have delivered strong performance across a number of our commitments for customers in areas such as customer service, affordability support, leakage and water quality. At the same time, we rank highly in a range of ESG indices – rated World Class in the Dow Jones Sustainability Index, maintaining our Fair Tax Mark accreditation and CDP Climate disclosures score at A- (environmental leadership), and we were categorised as having the highest financial resilience status in Ofwat's latest Monitoring Financial Resilience assessment.

Any service is underpinned by the people who deliver it and I am pleased that we have achieved UK high performance levels of employee engagement and were awarded the Water Industry Skills Employer of the Year 2023 award in recognition of our commitment and dedication to training and development.

Delivering great service for all our customers

We continue to focus on delivering great service. In the summer we completed a rigorous eight-year programme of inspecting and cleaning every storage reservoir as part of our Water Quality First programme, with our efforts to improve water quality being recognised by the Drinking Water Inspectorate (DWI) and leading to the award for the Drinking Water Initiative of the Year in the 2023 Water Industry Awards. We have met our regulatory leakage target for the 18th consecutive year, now fixing on average six leaks every 30 minutes. Building on the strong overall level of service we have delivered this year, we are reorganising our water and wastewater services to align with our county-based approach to drive further improvements for customers.

In the latest Customer Service Index (an independent survey from the Institute of Customer Service that benchmarks over 280 organisations across many sectors), we were ranked as the top water and sewerage company and retained our top five position amongst the 31 utility companies.

Supporting customers with affordability and vulnerability continues to be an area of important focus, particularly against a backdrop of rising household costs. We have helped around 375,000 customers with affordability support so far this AMP, and our proposals for AMP8 include our biggest ever support package, which would see us provide over £500 million of support, helping one in six customers.

We also support over 400,000 vulnerable customers on the Priority Services Register, and will publish our new vulnerability strategy this year.

Weather during the year has brought challenges, with dry weather in the early summer triggering actions under our drought plan, and then shifting suddenly to a prolonged period of heavy rainfall over autumn and winter, followed by a sharp freeze-thaw event in January. Annual rainfall in 2023 was exceptionally high across the North West – it was the wettest for the last 69 years, with parts of our region experiencing rainfall up to a third higher than the long-run average – and this had an adverse impact on service for customers, with increased instances of flooding and spills from storm overflows.

In June, we experienced a fractured outlet pipe at our Fleetwood Wastewater Treatment Works that required a complex engineering solution. We worked quickly and safely to construct a two-kilometre five-lane bypass around the damaged pipe in two weeks to minimise the environmental impact and allow us to then safely replace the damaged pipe. Despite our significant efforts and commitment to recover services to the area, pending a permanent solution, the loss of amenity caused disruption to the community and its visitors. We worked hard to keep residents up to date through a variety of communication channels – from social media to drop-in centres – and we have made contributions to local communities after the event, as well as replacing the pipe and returning the site to full service. The bypass and repair resulted in £38 million of additional operating and infrastructure renewals expenditure in the period, which has been excluded from underlying results as shown on pages 96 to 97.

Improving rivers across the North West

We continue to drive forward with improvements to protect and enhance the North West's waterways and natural habitats. We met our target of monitoring 100 per cent of our overflows before the end of 2023, and we have made some great inroads, thanks to the dedicated effort that our team has delivered, including our interventions at Cargo, one of our highest spilling sites, where we have reduced spills from 343 in 2022 to just nine between September 2023 and the year-end. Read more on page 73.

With significantly higher rainfall in 2023 than the previous year, and with more monitoring providing increased visibility of overflow activations, despite the underlying improvements we have delivered spills increased to 97,537, which was 41 per cent higher than the much drier 2022. Our investment in wastewater treatment and networks, alongside improvements in data and operational processes, has reduced average spills per monitored overflow to 45, down by 24 per cent compared to our baseline year of 2020, which was also a comparably wet year. We remain on track to meet our target of a one-third reduction by 2025.

There is still a lot to do, and our business plan includes £3.1 billion of proposed investment dedicated to tackling storm overflows in AMP8 – the UK's biggest spill reduction plan, targeting a 60 per cent reduction across the decade to 2030. As part of Defra's Accelerated Infrastructure Delivery project, Ofwat gave approval for us to progress with more than 150 priority projects during 2023–25. This early investment, alongside our Better Rivers programme, is helping us to deliver the step change that we and our stakeholders want to see – replumbing the wastewater network to suit the modern world we live in.

We are focused on agile solutions that enable us to make meaningful progress quickly, while our longer-term plans look at 'blue-green' nature-based solutions as well as the traditional 'grey' options like storm tanks. We have appointed a dedicated Better Rivers director and established a new storm overflow integrated delivery team to accelerate our improvement plan and reduce spills from storm overflows as quickly as possible.

Creating a greener future

We take our environmental commitments very seriously and are proud to have a sector-leading track record on minimising pollution for over a decade.

We have achieved the upper ratings (3-star 'good' and 4-star 'industry leading') in the EA's Environmental Performance Assessment in every year since it began in 2011. This includes the top 4-star rating secured in five of the last eight years, representing a strong performance against increasingly challenging criteria. We were rated 3-star in the latest assessment for 2022, but were pleased that our performance across a number of measures improved. Our rating for 2023 will be confirmed in July, and we are on track to return to 4-star.

We also continue to deliver our Water Industry National Environment Programme (WINEP), having met all our commitments for environmental improvements in 2023. We are an early adopter of the Task Force on Nature-related Financial Disclosures (TNFD) recommendations, and published our Corporate Natural Capital Account during the year setting out the value our land provides to the North West.

Climate change is already affecting our business, with increasingly volatile weather. We are dedicated to both adaptation and mitigation activities, increasing our resilience to a changing climate and playing our part in the UK's plans for net zero by 2050. For the third year running, we have performed strongly in the Financial Times Climate Leaders' Report on 500 European companies; with United Utilities leading the utility sector. We will submit our fourth climate change risk assessment (Adaptation Report) in the next 12 months. We continue to work with customers to help drive a reduction in water consumption, including testing a new rising block tariff as well as a non-household demand reduction programme that includes direct messages to those businesses with a continuous flow, business visits and self-help training guides for leak identification and resolution.

We continue to make good progress against our carbon pledges and science-based targets to reduce greenhouse gas emissions. Over the next five years we will continue to focus on opportunities for biodiversity net gain, peatland restoration and tree planting, and best use of our land including for renewable energy generation.

We are also progressing plans for a pioneering carbon-capture facility that will be hosted at our head office in Warrington – an innovative project funded by the UK's Department for Energy Security and Net Zero. The vision for the site is that nothing will go to waste and the heat and power generated by the process will be redirected to heat our on-site buildings as part of our long-term sustainability goals.

Chief Executive Officer's review

AMP7 regulatory performance

We have delivered improved performance for customers and the environment, meeting or beating 80 per cent of our performance commitments, resulting in a significant uplift in outcome delivery incentives (ODIs), with our highest ever net ODI reward of £34 million. This includes strong performance on water quality improvements through a programme of cleaning and re-lining the Vyrnwy Aqueduct, improving hydraulic flood risk resilience, enhanced water service resilience, reducing sewer blockages, reducing voids, and reducing lead risk. Exceptionally high rainfall has adversely impacted performance on our flooding and pollution performance commitments.

While this net reward reflects strong delivery for customers, it is lower than previously anticipated as the extreme weather (with 14 named storms since the beginning of 2023) has had a £30 million adverse impact on what we otherwise expected. We have earned a cumulative net ODI reward of £104 million so far in AMP7, already significantly higher than our AMP6 reward of £44 million, and we are guiding to a net reward in FY25 at least in line with FY24.

Return on regulated equity (RoRE) for 2023/24 was 8.5 per cent on a real, RPI/CPIH blended basis, outperforming the base return of 4.0 per cent (including our 11 basis point fast track reward). More details on our RoRE performance can be found on page 93.

Financial highlights

The group reported an underlying profit after tax of £227 million for the year, moving from underlying loss per share of (1.3) pence last year to underlying earnings per share of 33.3 pence. The principal drivers of this movement were an increased revenue allowance and a lower underlying finance expense, partially offset by inflationary pressures on our core costs, with the largest increases seen on power and labour costs.

Reported profit after tax was £127 million, with reported basic earnings per share of 18.6 pence. The difference mainly reflects £38 million exceptional costs in relation to the outlet pipe at Fleetwood, fair value gains, and the deferred tax adjustment.

Cost-of-living pressures continue to place a strain on customers' ability to pay their bills. However, we have 80 per cent of household customers on direct debit and payment plans and, through proactive engagement and tailored assistance, we continue to achieve strong cash collection. This has contributed to a low bad debt charge of 1.6 per cent.

Our balance sheet remains one of the strongest in the sector. During the year,

we completed a pension scheme buy-in transaction, covering two-thirds of scheme liabilities and representing a significant milestone in our de-risking journey. We have liquidity out to March 2026, and this, alongside our low level of gearing at 59 per cent and solid credit ratings, provides us with financial flexibility as we approach AMP8.


Submitted a high-quality and ambitious business plan

In October 2023, we submitted our AMP8 business plan to Ofwat. It is a plan that delivers benefits for customers, communities and the environment, and was shaped by county-based engagement with customers and other stakeholders. This proposed plan demonstrates extensive ambition and would see us deliver the largest investment in water and wastewater infrastructure in more than a century, investing in assets and delivering improved services for customers and the environment. If approved, it will deliver a step change in tackling those issues that matter the most – from reliable water supplies to cleaner rivers and bathing waters – helping to make the North West greener, healthier and stronger. We are proposing to:

- Safeguard supplies for three million people – as we improve water quality and the security of future water supplies, increasing resilience and halving the chance of a hosepipe ban in the future;
- Protect and enhance more than 500 kilometres of rivers and bathing waters – delivering the largest spill reduction programme in the UK, reducing storm overflow spills by 60 per cent from the 2020 baseline;
- Reduce leakage – building a more resilient water network, fixing leaks and replacing old pipes, targeting a reduction in leakage of 25 per cent over the decade to 2030; and
- Respond to the challenges of climate change – strengthening our network to reduce flooding of homes and businesses, improving services for customers, protecting the environment and reducing greenhouse gas emissions.

The plan would support 30,000 jobs, of which 7,000 would be new jobs within the company and wider supply chain, bringing investment in skills and opportunities to the heart of our local communities and giving a boost to the regional economy, contributing £35 billion of economic value to the North West, and our proposed investment would lead to 50 per cent growth in nominal RCV across the five-year period. Importantly, we have taken robust action to make bills as affordable as possible despite delivering record levels of investment. Our plan

would see average bill increases of £22 per year, and we are proposing to provide more support for hard-pressed households than ever before, with £525 million of support so we can help more than one in six customers. Our engagement has been robust – we have spoken with 95,000 customers, securing strong advocacy with 74 per cent support for the plan. We have also conducted 79 research projects driving innovation and opportunity.

 More details on our business plan can be found at pr24.unitedutilities.com

Following submission of our business plan, Ofwat is now reviewing our proposals. It is expected to publish a draft determination on 12 June 2024 and, having taken account of representations, a final determination in December 2024. Our strong balance sheet and liquidity puts us in a great position to deliver our plan, and at the same time as building the plan we have been building capability. In addition to our existing strong team, we have recruited some fantastic new talent. Our in-house rainwater management and modelling team, new regulatory and compliance function, and county-level stakeholder managers are mobilising ahead of the start of AMP8. Our accelerated investment has enabled us to press ahead with our storm overflow reduction programme.

Spending customers' money wisely

Our capital programme performance is measured through our capital delivery programme incentive (CDPI) KPI, which places strong emphasis on efficiency as well as reducing the carbon impact of our enhancement projects. We have improved our performance, delivering a strong score of 98 per cent this year, demonstrating that we are spending money wisely. This has been achieved in part through the application of value engineering techniques, innovation and supply chain opportunities.

We have revolutionised our supply chain approach leading into AMP8, and have expanded our number of delivery partners tenfold to underpin deliverability of our significant capital programme and ensure we are able to secure the best value for money for customers. We have awarded two strategic optimisation partnerships with mobilisation underway, and we are in the process of appointing capital delivery partners for AMP8. Other workstreams have been mobilised ready to start on our AMP8 plans, including the development of standard products and designs to secure maximum efficiency of designs and optimise our capital programme.

Contributing to our communities

We are proud to be the longest serving FTSE100 company in the region, and we continue to play a key role in the North West economy. Our AMP8 plan would see this increase further, with our investment plans supporting 30,000 jobs within the company and our supply chain.

We invest in local communities with financial investment in environmental and community partnerships, delivery of education in schools, and time volunteered by colleagues across the business. We have directly invested £11.8 million in communities so far in AMP7, as well as additional contributions to our UU Trust Fund to help those struggling to pay.

The Lake District is a special place in our region, with Windermere at the heart of the National Park. Over the summer, we opened an information centre on Windermere High Street, increasing engagement and visibility of the important work we are delivering in this community.

Each of our five counties has very different challenges and needs, and our AMP8 business plan reflects these differences. Customer and stakeholder engagement in each of our diverse counties has helped us to build and adapt five targeted county-based plans that deliver what matters to each of them. This five counties engagement has not just actively informed the development, engagement and support for our plan, it is also at the heart of how we intend to deliver the step change that we all want to see. We are organising ourselves into 'county delivery squads' so we are ready to deliver our county plans at pace and with purpose, and we have already moved to this new team structure. Read more about our five counties approach on pages 26 to 27 and 83.

Providing a safe and great place to work

Our colleagues are key to delivering great service for customers and, following submission of our business plan this year, we hosted an event in Blackpool open to everyone across the organisation to hear about our plans and ask questions. We also launched a new 'Call it Out' initiative this year to encourage colleagues to raise ideas for improving efficiency and performance, and this is already delivering improvements. Our engagement was very positively received, and helpful in bringing all our people along on the transformation journey as we enter AMP8.

The most important thing is that every colleague goes home safe and well, and we continue to have a strong focus on health, safety and wellbeing. We have

introduced additional benefits for all colleagues this year, including a virtual GP service and menopause support app, and we continue to focus on mental as well as physical health.

We are focused on training and development opportunities, and were awarded Water Industry Skills Employer of the Year 2023, with the judge recognising United Utilities as a company that visibly attracts, develops and retains talent, and as an employer of choice. We continue to recruit and train new talent through our graduate and apprentice programmes. We welcomed more than 80 new graduates and apprentices in our September 2023 intake and we have launched our largest ever apprenticeship recruitment process with more than 90 new opportunities available in 2024.

We have been recognised for our focus on wellbeing and awarded the National Workplace Wellbeing Charter, demonstrating our commitment to proactively championing a healthy workplace. We continue to perform well in ShareAction's Workforce Disclosure Initiative, with our score of 89 per cent exceeding the UK and utilities averages, and our continued dedication to equity, diversity and inclusion was reflected in us being ranked highest in the Inclusive Top 50 UK Employers List 2022/23.

Service is underpinned by the people who deliver it, and it's encouraging to see that we have achieved 81 per cent employee engagement in our annual survey, which is in line with the UK high performance norm.

Grateful for the support and ready for the future

I want to extend a wholehearted thank you to the fantastic team we have at United Utilities. The dedication and efforts of colleagues across the business has helped us deliver another strong performance for customers this year, demonstrating the resilience and strength that we have as a business, and I'm immensely proud of the exciting business plan we have developed for AMP8. I'd also like to thank the customers, communities and other stakeholders across each of the five beautiful counties of the North West for their continued support.



Louise Beardmore
Chief Executive Officer

15 May 2024

Integrated Report and TCFD disclosure

This annual report is an Integrated Report and has been prepared and presented in accordance with the International <IR> Framework published by the International Integrated Reporting Council in January 2021. The board, which is responsible for the integrity of this report, has considered the preparation and presentation of this report and concluded that it has been prepared and presented in accordance with the Framework.

This report contains all climate-related financial disclosures required to be consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and in line with the Listing Rules requirements (Listing Rule 9.8.6R(8)) and the 2022 amendments in S414CB (A1) of the Companies Act. In making our disclosures we have considered 'Guidance for All Sectors' in the TCFD implementation guidance. 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. Our assessment of materiality can be found on pages 28 to 30.