Remuneration

Kath Cates
Chair of the remuneration committee

Quick facts

- The code requires that "the board should establish a remuneration committee of at least three independent non-executive directors".
- By invitation of the committee, meetings are attended by the Chair, the CEO, the company secretary, the people director, the head of reward and the external adviser to the committee.
- Our current remuneration policy was approved by shareholders at the 2022 AGM. The remuneration report sets out how the remuneration policy was applied in 2022/23 and how we intend to apply it in 2023/24.
- Certain sections of the remuneration report are audited. The unaudited sections of the remuneration report, including the annual statement from the remuneration committee chair have been subject to external assurance by the remuneration committee's independent adviser, Ellason LLP. The engagement was performed as a limited assurance engagement in accordance with the requirements of the International Standard on Assurance Engagements (ISAE) 3000 revised. Ellason's full assurance statement is available at **unitedutilities.com/corporate/responsibility/our-approach/esg-performance**

Quick links

Terms of reference:
unitedutilities.com/corporate-governance

Annual statement from the remuneration committee chair

Our executive pay arrangements are aligned to our purpose, values and strategy, incentivising delivery for customers and the environment, and the creation of long-term value.

Dear shareholder

Many aspects of company performance during the year have been strong, as detailed in the strategic report. We are a sector leader at minimising pollution, achieved our best ever performance against our leakage performance commitment despite difficult weather conditions over the winter, supported vulnerable customers during the cost of living crisis, and delivered all of this year's Better Rivers programme milestones.

We recognise however, that the water sector has been subject to significant scrutiny during the year. As a committee we understand this, and we share the concerns of our customers and wider society in relation to environmental performance in particular. On the topic of the use of storm overflows specifically, while the company has materially reduced the number of storm overflow activations since 2020, it is clear there is a lot more to do and we have an ambitious plan to improve performance in this area.

The committee has a robust track record of making sure that executive pay outcomes are aligned with the interests of all our stakeholders. The majority of our performance-related pay is linked to customer-related objectives, with 75 per cent of the annual bonus and 50 per cent of our Long Term Plan (LTP) being based on stretching targets related to our delivery for customers, including environmental commitments and obligations. The company's strong performance in key areas meant that many of these environmental targets were achieved. However, the executive directors informed the committee of their intention to waive their eligibility for environmental elements of their performance-related pay outcomes. This was in recognition of their personal commitment to a reset across the sector, and the board supported their decision.

Remuneration committee members:

Kath Cates
Chair of the remuneration committee

Alison Goligher

Doug Webb

This affected the Better Rivers component of the annual bonus and five of the measures in the customer basket component of the Long Term Plan, reducing their performance-related pay outcomes by around 25 per cent. Furthermore, the performance-related pay outcomes that the executive directors will receive in respect of this year will not be paid for by customers. Going forward, we are committed to making sure that at least 30 per cent of performance-related pay outcomes are related to environmental performance, including reducing storm overflow activations.

Delivering for customers and other stakeholders

Helping our customers cope with cost of living challenges was a priority during the year. We have protected customers in vulnerable circumstances through our comprehensive suite of support schemes, and hosted collaborative summits on affordability and vulnerability to share best practice ideas and work together to improve things for customers in the North West. Recognising the increased cost of living affected our colleagues too, we immediately implemented the latest Living Wage increase for eligible colleagues in September 2022 (around eight months sooner than our Living Wage accreditation required) and helped all colleagues by raising awareness of the full extent of their reward package.

Last year, we announced that we would invest an additional £250 million to deliver environmental improvements, principally in our Better Rivers programme. This investment has already helped us to deliver a reduction in reported activations of 39 per cent since 2020, together with a 41 per cent reduction in both the average recorded frequency and duration. We are on track with our commitment to have 100 per cent of storm overflows monitored by the end of the year, with 97 per cent installed by the end of April.

Extreme weather events during the year tested the resilience of our network and operating capability. Whilst our preparation and planning meant we did not have to place any restrictions on water use for our customers, the increased level of ground movement following the long, dry summer and winter freeze-thaw resulted in a number of burst pipes. Our dedicated teams worked round the clock to fix the damage and minimise disruptions for customers, but the events impacted on our ODI performance (supply interruptions) and underlying operating profit because of additional costs related to emergency network repairs, customer compensation and bottled water. Unsurprisingly, this also impacted on the level of written complaints we received during the year.

In many other areas however, we have provided great outcomes for customers. Our average leakage over the last three years is at its lowest ever level, and we have achieved our best ever performance on water quality, with a 26 per cent reduction in taste, smell and appearance contacts from customers. Examples like these have been reflected in further improvement in our C-MeX performance, Ofwat's measure of customer satisfaction. We were ranked fourth of the water and wastewater companies, and fifth overall in the sector.

Read about how **our remuneration approach** complies with the UK Corporate Governance Code on pages 174 to 175

Read our **at a glance summary: executive directors' remuneration** on pages 176 to 179

Read our **annual report on remuneration** on pages 180 to 194

Read our **directors' remuneration policy** on pages 195 to 201

Main responsibilities of the committee

These include:

- Determining and recommending to the board the policy for executive director remuneration, having reviewed and taken into account workforce remuneration and related policies and the alignment of incentives and reward with our purpose, values and culture;
- Setting the individual employment and remuneration terms for executive directors and other senior executives, including: recruitment and severance terms, bonus plans and targets, and the achievement of performance against targets, including consideration and use of discretion as appropriate;
- Approving the general employment and remuneration terms for selected senior colleagues;
- Setting the remuneration of the Chair of the company;
- Proposing all new long-term incentive schemes for approval of the board, and for recommendation by the board to shareholders; and
- Assisting the board in reporting to shareholders and undertaking appropriate discussions as necessary with institutional shareholders on aspects of executive remuneration.

The committee's terms of reference were last reviewed in November 2022 and are available on our website at **corporate.unitedutilities.com/corporate-governance**

The framework within which we reward our executive directors is subject to approval by our shareholders. Our Directors' Remuneration Policy was approved by shareholders last July receiving over 99 per cent of votes in favour of its adoption. Our Policy remains strongly-aligned with our business plan for 2020–25 and we are not proposing any changes to it this year. An abridged version is included at the end of this report for ease of reference. Our Annual Report on Remuneration, set out on pages 180 to 194, explains how the committee has applied the Policy during the year and the rationale for the decisions it has taken. The Annual Report on Remuneration will be subject to an advisory vote by shareholders at the AGM in July 2023.

Annual statement from the remuneration committee chair continued

Remuneration during 2022/23

Fixed pay

Given his planned retirement in 2023, no salary increase was awarded to Steve Mogford during the year. Louise Beardmore's salary on appointment as CEO designate in May 2022 was set at £425,000 and was unchanged throughout the remainder of the financial year.

Having considered his strong individual performance, the committee approved a 4.75 per cent salary increase for Phil Aspin, CFO, which took effect from 1 September 2022. This was in line with the average increase across the wider workforce in 2022.

Steve Mogford's contractual pension supplement of 22 per cent of salary reduced to 12 per cent of salary with effect from 1 January 2023, meaning that the pension arrangements for all executive directors were fully aligned with the company's approach for other colleagues, and will continue to be going forward.

2022/23 annual bonus

The measures and targets for the annual bonus were agreed by the committee at the beginning of the financial year and as noted in last year's report, the committee chose to introduce a number of new measures to further demonstrate the company's intention to incentivise stretching performance delivery for customers, including environmental commitments and obligations. A consistent bonus scorecard continued to apply throughout the company, to ensure a shared focus on the business plan at all levels.

As outlined earlier, the executive directors waived the element of their bonus that related to our Better Rivers commitments, despite good progress in the year with all of the required milestones being achieved.

The committee also undertook an assessment to determine whether the formulaic outcome of the bonus scorecard was aligned with overall performance and the experience of stakeholders, including customers and the environment. The committee was satisfied that the measures and targets set were robust and stretching and that the overall payout appropriately reflected the achievements of the company. Accordingly, and noting the effect of the voluntary waivers, the committee has not applied any discretion in respect of annual bonus outcomes for 2022/23. See page 181 for further details.

2020 Long Term Plan (LTP)

LTP awards granted in November 2020 were based 50 per cent on a customer basket of measures and 50 per cent on return on regulated equity (RoRE). The customer basket of measures comprised ten metrics selected to reflect customer priorities, demonstrate our focus on customer delivery and recognise stakeholder expectations with regard to ESG matters.

Performance against many of the LTP measures has also been strong, as shown on pages 182 to 183. As a result of the executive directors' decision to waive the environmental elements of the LTP, the estimated overall vesting is around 69 per cent. The final outcome for some of the measures in the customer basket will not be known until all relevant information is available, expected in summer 2023, and we will provide an update in next year's report.

The committee is not currently minded to exercise any discretion in respect of the vesting of these awards (again noting the impact of the executive directors' waiving the environmental elements), believing that the overall outcome fairly reflects the underlying performance of the company and the experience of stakeholders over the period.

The committee has considered whether any adjustments or use of discretion might be warranted on vesting to reflect the possibility of windfall gains on share price movements over the period. Factors which the committee considered include:

- the share price at grant compared to that used for previous award cycles and what the price would have been had the grant been made on the normal timetable (they were delayed to mitigate the potential impact of the COVID-19 pandemic on target-setting)
- TSR performance over the period since grant relative to historic growth rate
- the value of the award at vesting relative to previous award cycles.

The committee is currently satisfied that the growth in share price since grant is within the normal bounds and is not indicative of a windfall gain, and therefore no adjustment is warranted.

Steve Mogford's and Phil Aspin's awards will vest after the completion of a holding period taking the overall vesting period to five years from the grant date.

Louise Beardmore was granted her award prior to her appointment as an executive director, so her award will be treated according to its original terms with no holding period applying, and she will be required to hold the shares vesting (net of tax) as she continues to build her shareholding.

Chief Executive Officer succession

Steve Mogford was paid his contractual salary and benefits until he retired on 31 March 2023, and will receive the bonus he is due in respect of 2022/23 performance in June 2023. As he will no longer be employed when the bonus is paid, in line with the policy, the normal deferred element will be in the form of a deferred cash award (rather than shares), which will vest after three years.

The committee approved that, as Steve was retiring, it was appropriate for good leaver status to be applied in respect of his LTP awards. His 2018 and 2019 LTP awards will vest at the end of their respective holding periods. Once the outcome of his 2020 LTP award is finalised, it will move into a holding period until the stated vesting date, five years from grant. His 2021 and 2022 LTP awards remain subject to performance, will be pro-rated for time served in the performance periods, and will vest at the end of the applicable holding periods. In the two year period following his departure the committee will consider whether good leaver status remains appropriate before each LTP award vests.

His three DBP awards will remain unvested until their original vesting dates. Withholding and recovery provisions applicable to the incentive schemes continue to apply.

Steve is required to maintain an interest in company shares of 200 per cent of salary for two years after ceasing employment.

The committee approved that, on her appointment as CEO, Louise Beardmore's salary would be set at £690,000, with no other changes to her remuneration arrangements. While relevant external benchmarks were taken into account in setting her salary at this level, which was lower than that received by Steve Mogford, the committee reaffirmed its intent to reposition the company's executive remuneration packages (as had also been the case when Phil Aspin was appointed as CFO on a lower base salary than his predecessor).

Engagement with Ofwat

In December 2022, David Black (Ofwat's Chief Executive) sent a letter concerning performance-related executive pay to the remuneration committee chairs of all regulated water and wastewater companies (a copy of which is available on Ofwat's website).

The letter focused on understanding how committees would take into account overall performance for customers and the environment when making decisions around performance-related pay. As set out above, we are committed to making sure that executive pay outcomes are aligned with the interests of our stakeholders, including customers and the environment. We achieve this primarily by having the majority of our performance-related pay directly linked to customer and environmental objectives, and as a listed company and compliant with the UK Corporate Governance Code, we also have additional mechanisms in place to help promote stakeholder alignment and maintain a strong pay for performance culture. This includes: the ability of the committee to override formulaic outcomes to ensure that performance-related pay is aligned with the underlying performance of the business; the use of mandatory annual bonus deferral and LTP holding period; robust and enforceable recovery provisions for performance-related pay; and significant shareholding requirements for executive directors to encourage a long-term focus.

Looking ahead

Executive director salaries will be reviewed during the year with any increases taking effect from 1 September 2023. No changes are expected to pension provisions or benefits in the year.

For 2023/24, the maximum bonus opportunity will remain at 130 per cent of base salary for both executive directors, and they will each receive a 2023 LTP award of 130 per cent of salary. At least 30 per cent of the performance-related pay schemes set this year will be based on stretching performance against environmental measures.

Recognising Ofwat's expectation that initial performance-related pay policies over the 2025–30 period should be aligned with the final methodology for PR24, the committee is minded to accelerate its next review of the remuneration policy and to submit this for shareholder approval at the 2024 AGM.

This timing will ensure that we have an updated policy which can take effect at the start of the new price control period and also recognises the imminent review of the UK Corporate Governance Code, with changes expected to come into effect in 2025. As with previous policy reviews, the committee will look to consult with its largest shareholders to seek their views on its proposals, and additionally welcomes any feedback from other investors or stakeholders.

I hope that you find this report a clear account of the committee's decisions for the year and would be happy to answer any questions you may have at the upcoming AGM.

This report has been approved by the board and is signed on its behalf by:

Kath Cates
Chair of the remuneration committee

Remuneration

Principle P:

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy and aligned with the interests of stakeholders.

We describe how our remuneration approach aligns with our business strategy on pages 176 to 177.

Principle Q:

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

This is detailed in the committee's terms of reference, which are available on the company website. The committee consults with shareholders when changes to policy are being considered.

Principle R:

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The shareholder-approved directors' remuneration policy outlines the ways in which the committee may exercise discretion. Details of how the committee has taken into account the wider context for pay and the rationale for the use of any discretion are set out in the introductory statement from the chair of the committee.

Compliance with the UK Corporate Governance Code

Code principle – remuneration

The following section summarises how our shareholder-approved remuneration policy fulfils the relevant principles and provisions of the 2018 UK Corporate Governance Code.

Clarity

The committee is committed to providing transparent disclosures to all stakeholders about executive remuneration arrangements and, to this end, the directors' remuneration report sets out the remuneration arrangements for the executive directors in a clear and transparent way. At least annually the committee Chair, engages with the Colleague Voice Panel about our executive remuneration approach. Our AGM allows shareholders to ask any questions on the remuneration arrangements, and we welcome any queries on remuneration practices from shareholders throughout the year.

Predictability

Payouts under the annual bonus and Long Term Plan (LTP) schemes are dependent on the performance of the company over the short and long term, and a significant proportion of executive director remuneration is performance-related. These schemes have strict maximum opportunities, with the potential value at threshold, target and maximum performance scenarios provided in the directors' remuneration report.

Simplicity

Our remuneration arrangements for executive directors, as well as those throughout the group, are simple in nature and understood by all participants, having been operated in a similar manner for a number of years. Executive directors receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the annual bonus) and a single long-term incentive (the LTP).

Risk

The committee has designed incentive arrangements that do not encourage inappropriate risk-taking. The committee retains overarching discretion in both the annual bonus and LTP schemes to adjust payouts where the formulaic outcomes are not considered reflective of underlying business performance and individual contributions. Robust withholding and recovery provisions apply to variable incentives.

Proportionality

Payments from variable incentive schemes require strong performance against challenging conditions over the short and longer term. Performance conditions have been selected to support group strategy and consist of both financial and non-financial metrics.

The committee retains discretion to override formulaic outcomes in both schemes to ensure that they are appropriate and reflective of overall performance.

Alignment to culture

Performance measures used in our variable incentive schemes are selected to be consistent with the company's purpose, values and strategy; with a strong emphasis on delivering for our customers and encouraging innovation to provide a great and resilient service at the most efficient cost. The use of annual bonus deferral, LTP holding periods and our shareholding requirements promotes integrity and provides a clear link to the ongoing performance of the group and ensure alignment with shareholders, which continues after employment.

At a glance summary: executive directors' remuneration

continued

Aligning our remuneration approach to business strategy

Our remuneration approach is aligned to our purpose, values and strategy, thereby incentivising delivery for customers and the environment, and the creation of long-term value for all of our stakeholders.

Our purpose is to provide great water for a stronger, greener, healthier North West

Our strategic priorities

Our purpose is implemented throughout our strategy

- 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

Stakeholders

Delivering for all our stakeholders

- Communities
- Colleagues
- Environment
- Customers
- Suppliers
- Investors

Our remuneration approach supports our business and people strategy and reflect the views of different stakeholders. There are three key principles of our approach to executive remuneration:

1. **Align** to our purpose, values and strategy
2. **Incentivise delivery** for customers and the environment
3. **Create long-term value** for all of our stakeholders

Our incentive framework in 2022/23 was designed to align with our business strategy and delivers for each of our stakeholder groups.

Our annual bonus and Long Term Plan (LTP) are closely aligned to our strategic themes and with delivery for our stakeholders. They each demonstrate a clear focus on customers and the environment.

Element	Why it's important to our remuneration approach	Link to strategic priorities	Link to different stakeholders
2022/23 annual bonus			
Underlying operating profit	Underlying operating profit is a key measure of shareholder value.		
Customer service in year • C-MeX ranking • Written complaints • Water quality contacts	By using Ofwat's measure of customer experience alongside a measure that focuses on reducing the number of complaints made by customers, executive directors are incentivised to deliver the best service to customers. Ofwat can apply financial incentives or penalties depending on our customer service performance. Customers expect the water that comes out of their tap to be clear, and when it is discoloured it can affect public confidence in the water supply. This measure helps drive improvements in this aspect of our performance.		
Maintaining and enhancing outcomes for customers and the environment • Better Rivers commitments, including reducing storm overflow activations • Outcome delivery incentive (ODI) composite • Capital programme delivery incentive (CPDi)	We know that improving river health in the North West is a priority for customers, and the executive directors are incentivised to deliver our ambitious plans. The ODI composite measure includes a range of customer and environmental commitments. It is based on the outperformance payments earned and financial penalties incurred by the company based on its delivery of the performance targets embedded in the AMP7 final determination. The performance targets and the financial incentives associated with them are determined by Ofwat in the expectation that achieving them means that stretching outcomes have been delivered for customers and the environment. Bonus awards are only made where the value of these payments exceeds a predetermined level, which the committee sets relative to the AMP7 determination. Non-delivery of our performance commitments can result in financial penalties being applied, which reduces the likelihood of this target being achieved. The CPDi measure incentivises the executive directors to keep tight control of our capital programmes to ensure we can provide a reliable and environmentally conscious service to our customers.		
Compulsory deferral of bonus	Requiring executive directors to defer part of their bonus into shares provides reassurance that the company is being run in the longer-term interests of shareholders and customers, including beyond the annual bonus period. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the deferral period this is deemed necessary.		
2020 Long Term Plan (LTP)			
Return on Regulated Equity (RoRE)	RoRE is a key regulatory measure of performance against the final determination. Outperformance will result in an increase to RoRE, which should translate into higher returns for shareholders through share price performance. Outperformance also benefits customers and the environment through strong delivery against stretching performance commitments, efficiencies in the capital investment programme and lower long-term financing costs.		
Customer basket of measures	The customer basket is made up of specific performance commitments embedded in the AMP7 final determination, focusing on areas that customers have identified via our research as being most important to them. Strong delivery of the commitments benefits our customers, communities and the environment, and can result in outperformance payments from Ofwat, which is positive for shareholders.		
Additional holding period (so the overall vesting and holding period is at least five years)	Requiring the executive directors to wait a further period after the performance outcome of their award is known ensures continued longer-term alignment with shareholder interests and delivery for stakeholders, including customers and the environment. It also reassures shareholders and customers that some/all of the LTP outcome could ultimately be withheld if during the holding period this is deemed necessary.		
Key governance mechanisms			
Discretion over outcomes	The committee retains discretion to override formulaic outcomes in both schemes to ensure that they are appropriate and reflective of overall performance.		
Shareholding guidelines	It is important that each executive director builds and maintains a significant shareholding in shares of the company to provide alignment with shareholder interests (during and after employment) and as a demonstration that the company is being run for the long-term benefit of all its stakeholders, including customers and the environment.		

At a glance summary: executive directors' remuneration

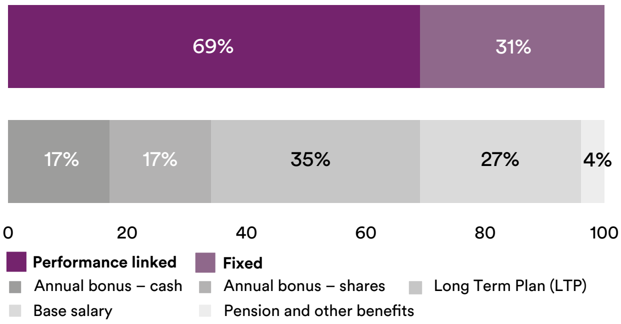
continued

Executive directors' remuneration policy

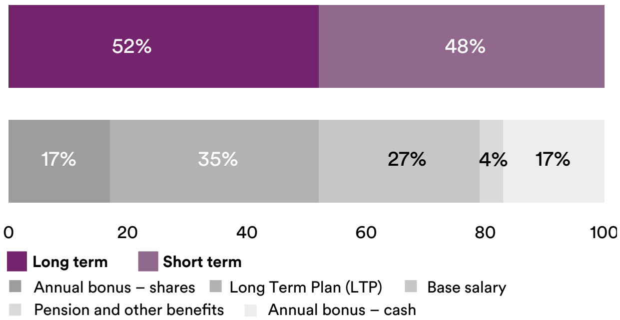
Elements of executive directors' pay

A significant proportion of executive directors' pay is performance-related, long term and remains 'at risk' (i.e. subject to withholding and recovery provisions for a period over which the committee can withhold vesting or recover sums paid):

Performance-related vs fixed (%)[1]



Long term vs short term (%)[1]



(1) Based on maximum payout scenario for executive directors in line with the current remuneration policy, assuming the maximum award level of 130 per cent of salary for the Long Term Plan (LTP).

Single total figure of remuneration for executive directors for 2022/23

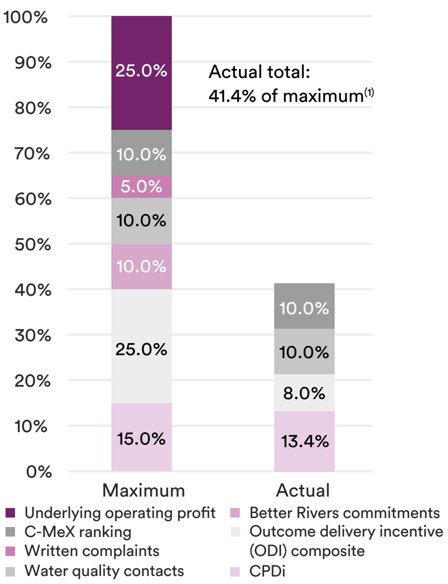
Fixed pay comprises base salary, benefits and pension. Further information on the single figure of remuneration can be seen on page 180.

(1) For Louise Beardmore the LTP relates to awards granted prior to her appointment in her current role.

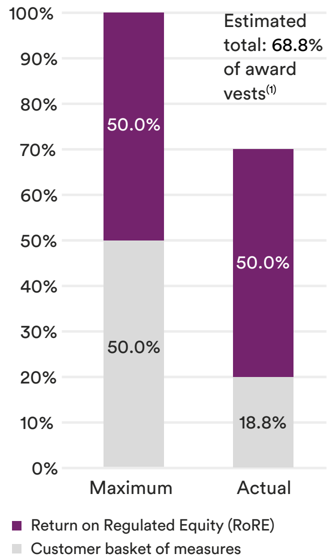
Annual bonus and Long Term Plan (LTP) outcomes

The charts below show the results of the performance against targets for the annual bonus and LTP. Further information about the annual bonus is shown on page 181 and about the LTP on pages 182 and 183.

2022/23 Annual bonus outcome

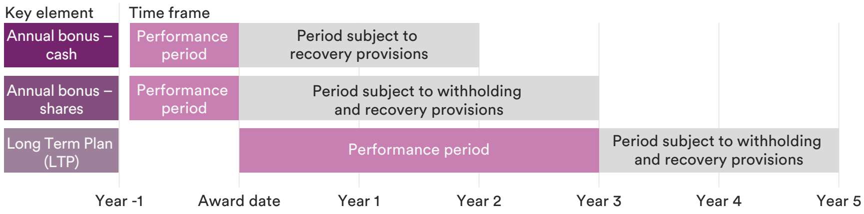


Estimated 2020 Long Term Plan (LTP) outcome



(1) The outcomes before the application of the waivers of the Better Rivers commitments measure (annual bonus) and the environmental measures (LTP) would have been 51.4% and 93.1% respectively.

Pay at risk



Further details on what triggers the withholding and recovery provisions can be found on page 197.

Implementation of directors' remuneration policy in 2022/23

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2022/23. For further details see the annual report on remuneration on pages 180 to 184.

Key element	Implementation of policy in 2022/23
Base salary	• Given Steve Mogford's planned retirement the committee decided not to increase his salary in the year. • Louise Beardmore's salary was set at £425,000 on her appointment as CEO designate in May 2022, with the next review being on 1 April 2023, further to her appointment as CEO. • Phil Aspin's salary was set at £427,380 from 1 September 2022, an increase of 4.75 per cent in line with the increase for the wider workforce.
Benefits and pension	• Market competitive benefits package including a green travel allowance of £14,000; health, life cover and income protection; and reimbursement of taxable expenses. • Steve Mogford had a cash pension allowance of 22 per cent of base salary up until 31 December 2022. With effect from 1 January 2023 this reduced to 12 per cent of base salary in line with the arrangements that apply to the wider workforce. Phil Aspin has a cash pension allowance of 12 per cent of base salary. Louise Beardmore has a combination of a cash pension allowance and a contribution into the pensions scheme such that the cost to the company is broadly the same.
Annual bonus	• Maximum opportunity of 130 per cent of base salary. • 2022/23 annual bonus outcome of 41.4 per cent. • 50 per cent of 2022/23 annual bonus deferred for three years. • Withholding and recovery provisions apply.
Long Term Plan	• Award of 130 per cent of base salary. • Estimated long-term incentive vesting of 68.8 per cent for the performance period 1 April 2020 to 31 March 2023. The awards for Steve Mogford and Phil Aspin will vest after an additional holding period, which ends no earlier than five years from the date of grant. The award for Louise Beardmore was granted prior to her appointment as an executive director and will vest when the performance conditions have been confirmed in the summer. She will be required to hold the vested shares in line with the shareholding guidelines. • Withholding and recovery provisions apply.
Shareholding guidelines	• Personal shareholding for Steve Mogford remained above the 200 per cent of salary minimum guideline. Louise Beardmore and Phil Aspin are building their respective shareholdings and are expected to reach the minimum guidelines within five years of their respective appointments. Post-employment shareholding requirements apply. See page 198 for further details.

Key:
At or above stretch target
Between threshold and stretch targets
Below threshold target

(1) For the purpose of annual bonus, underlying operating profit excludes infrastructure renewals expenditure and property trading.
(2) Average RoRE compared to average allowed RoRE over 2020/21, 2021/22 and 2022/23.
(3) Percentage of customer basket achieved. The environmental measures were waived. See pages 182 to 183.

Aligning pay with performance. See pages 181 to 183 for details

Annual bonus – year ended 31 March 2023

Underlying operating profit[1]
£633.8m

C-MeX ranking versus the other water companies
5th out of 17

Written complaints (per 10,000 customers)
20.70

Water quality contacts (appearance)
5,936

Better Rivers commitments (% of 2022/23 programme milestones delivered)
Waived

Outcome delivery incentive (ODI) composite
£22.2m

Capital programme delivery incentive (CPDi)
92.9%

Long Term Plan – three years ended 31 March 2023

Return on regulated equity (RoRE)[2]
+7.77%

Customer basket of measures[3]
18.8%

Annual report on remuneration

Single total figure of remuneration for executive directors (audited information)

Year ended 31 March	Fixed pay								Variable pay						Total £'000	
	Base salary £'000		Pension £'000		Benefits £'000		Subtotal £'000		Annual bonus £'000		Long-term incentives £'000		Subtotal £'000			
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023[1]	2022[2]	2023	2022	2023	2022
Steve Mogford	**791**	784	**154**	173	**26**	23	**971**	980	**426**	727	**886**	1,504	**1,312**	2,231	**2,283**	3,211
Louise Beardmore[3]	**390**	n/a	**48**	n/a	**20**	n/a	**458**	n/a	**210**	n/a	**172**	n/a	**382**	n/a	**840**	n/a
Phil Aspin	**419**	405	**50**	49	**20**	21	**490**	475	**226**	452	**457**	96	**683**	548	**1,172**	1,023

(1) This relates to the Long Term Plan (LTP) award granted in November 2020. The amount is estimated as the vesting percentage for the half relating to customer basket of measures will not be known until later in 2023. The value of LTP awards has been calculated using an average share price over the three-month period from 1 January 2023 to 31 March 2023 of 1,045 pence per share.

(2) This relates to the Long Term Plan (LTP) award granted in June 2019. The figure stated in last year's report was estimated but was subsequently confirmed at 100 per cent. The award for Steve Mogford will not vest until the end of an additional holding period. Dividend equivalents accrued to 31 March 2023 have been added, and the value of the award has been calculated using an average share price over the three-month period from 1 January 2023 to 31 March 2023 of 1,045 pence per share. The award for Phil Aspin was granted prior to his appointment to the board so no holding period applied. Dividend equivalents accrued to the date of vesting have been added, and the value of the award has been calculated using the share price on the vesting date of 883.40 pence per share.

(3) Salary, benefits, pension and annual bonus figures in 2023 for Louise Beardmore reflect part-year earnings and are for the period from 1 May 2022 when she was first appointed to the board.

Annual bonus

Deferred Bonus Plan awards made in the year ended 31 March 2023 (audited information)

Bonuses are earned by reference to performance in the financial year and paid in June following the end of the financial year. For executive directors, 50 per cent of any bonus is deferred, typically into shares under the Deferred Bonus Plan. These awards vest after three years and are subject to withholding provisions. There are no service or additional performance conditions attached.

The table below provides details of share awards made on 16 June 2022 to the executive directors as at that date in respect of deferred share bonus payments for the 2021/22 financial year.

Executive director	Type of award	Basis of award	Number of shares	Face value of award[1] (£'000)	End of deferral period
Steve Mogford	Conditional shares	50% of bonus	34,782	£363	16.6.2025
Louise Beardmore	Conditional shares	40% of bonus[2]	8,696	£91	16.6.2025
Phil Aspin	Conditional shares	50% of bonus	21,651	£226	16.6.2025

(1) The face value has been calculated using the closing share price on 15 June 2022 (the dealing day prior to the date of grant), which was 1,044.75 pence per share.

(2) The Deferred Bonus Plan award for Louise Beardmore was in respect of the bonus she earned in 2021/22 in her previous role i.e. prior to her appointment to the board, and in which a 40 per cent deferral requirement applied. This amount is not included in the single figure table above.

Annual bonus in respect of financial year ended 31 March 2023 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2023 are set out below. As outlined in the Chair's statement (pages 170 to 172) the executive directors waived the outcome related to the Better Rivers commitments measure, which otherwise would have vested at the stretch outcome with all milestones having been achieved. The committee was satisfied that overall outcomes are reflective of overall company performance during the year as detailed in the strategic report.

Measure	% weighting of measure	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Vesting as a % of maximum	Outcome
Underlying operating profit[1]	25.0%	£694.7m	£719.7m	£744.7m	0.0%	0.0%
		Actual £633.8m (below threshold)				
Customer service in year						
C-MeX contractor and perception ranking out of the 17 water companies	10.0%	8th position	7th position	5th position	100%	10.0%
		Actual: 5th position				
Written complaints (per 10,000 customers)	5.0%	17.50	17.10	16.80	0.0%	0.0%
		Actual: 20.7 (below threshold)				
Water quality contacts (appearance)	10.0%	7,604	6,974	6,344	100%	10.0%
		Actual: 5,936				
Maintaining and enhancing outcomes for customers and the environment						
Better Rivers commitments (% of 2022/23 programme milestones delivered)	10.0%	90.0%	95.0%	100%	100%	Waived
		Actual: 100%				
Outcome delivery incentive (ODI) composite[2]	25.0%	£20.0m	£28.0m	£35.7m	31.9%	8.0%
		Actual: £22.2m				
Capital programme delivery incentive (CPDi)[3]	15.0%	80.0%	85.0%	95.0%	89.5%	13.4%
		Actual: 92.9%				
Total:						
Actual award (% of maximum)						**41.4%**
Maximum award (% of salary)						130%
Actual award (% of salary)						**53.8%**

	Steve Mogford	Louise Beardmore	Phil Aspin
Actual award (£'000 – shown in single figure table)[4]	426	210	226

(1) The underlying operating profit figure for bonus purposes is based on the underlying operating profit on page 112 and excludes infrastructure renewals expenditure and property trading.
(2) The outcome of the ODI composite measure has been subject to independent external assurance.
(3) CPDi is an internal measure that measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.
(4) 50 per cent of the annual bonus will be deferred for three years.

Annual report on remuneration continued

Long-term incentives

2020 Long Term Plan (LTP) awards with a performance period ended 31 March 2023 (audited information)

Measure	% weighting of measure	Achieved[1] Threshold (25% vesting)	Achieved[1] Stretch (100% vesting)	Vesting as a % of maximum	Outcome
Return on Regulated Equity (RoRE)					
Average RoRE compared to the average allowed return set by the regulator across the three-year performance period	50.0%	Equal to the average of Ofwat's allowed RoRE over the three financial years of the performance period	1.0% (or more) above the average of Ofwat's allowed RoRE over the three financial years of the performance period	100%	50.0%
			Actual: Average RoRE of 7.77% was 3.83% above the average allowed return		
Customer basket of measures[2]					
C-MeX ranking out of all of the other water companies[3]	5.0%	Ranked 9th	Ranked 6th (or better)	100%	5.0%
			Actual: 5th position		
Water poverty[3]	5.0%	62,100 customers have been lifted out of water poverty	83,000 (or more) customers have been lifted out of water poverty	100%	5.0%
			Actual: 84,002		
Priority services[3]	5.0%	No threshold target. Stretch target must be achieved for any vesting on this measure	5.5% (or more) of our customers are listed on the Priority Services Register	100%	5.0%
			Actual: 9.1%		
Sewer flooding incidents[3]	5.0%	A combined total of 1,161 sewer flooding incidents per 10,000km of our wastewater network	A combined total of less than, or equal to, 990 sewer flooding incidents per 10,000km of our wastewater network	100%	Waived
			Actual: 849.8		
Pollution incidents[4]	5.0%	23.00 pollution incidents per 10,000km of our wastewater network	21.54 (or fewer) pollution incidents per 10,000km of our wastewater network	100%	Waived
			Actual: 16.29		
Treatment works compliance[4]	5.0%	97.9% compliance	99.0% (or greater) compliance	100%	Waived
			Actual: 99.0%		
Water quality contacts[4]	5.0%	14.7 customer contacts per 10,000 customers	13.8 (or fewer) customer contacts per 10,000 customers	75.0%	3.8%
		Actual: 14.1			
Leakage[3]	5.0%	A three-year average of 101.60 megalitres of leakage per 10,000km of our water network per day	A three-year average of 97.60 megalitres (or less) of leakage per 10,000km of our water network per day	85.2%	Waived
		Actual: 98.39			
Compliance risk index (CRI)[4]	5.0%	CRI score of 3.27	CRI score of 2.00 (or less)	0.0%	0.0%
		Estimate: 3.67 (below threshold)			
The Environment Agency's Environmental Performance Assessment (EPA) rating[5]	5.0%	3 star rating	4 star rating	100%	Waived
			Estimate: 4 star rating		

Overall underpin

✓ Assumed met.

Overall vesting is subject to the committee being satisfied that the company's outcome performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.

Details of the committee's preliminary assessment on the alignment of the vesting outcome to the underlying performance of the business is set out in the introductory statement from the Chair of the committee. The committee will make a final assessment of the company's performance once the outcome of the customer basket of measures is known.

Estimated vesting (% of award) **68.8%**

	Steve Mogford	Louise Beardmore	Phil Aspin
Number of shares granted	112,097	21,802	57,842
Number of dividend equivalent shares	11,184	2,173	5,771
Number of shares before performance conditions applied	123,281	23,975	63,613
Estimated number of shares after performance conditions applied	84,817	16,494	43,765
Three-month average share price at end of performance period (pence)(6)	1,045.0	1,045.0	1,045.0
Estimated value at end of performance period (£'000 – shown in single figure table)(7)	886	172	457

(1) Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance.

(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination.

(3) Outcome based on performance in respect of the financial year ending 31 March 2023 as published in our own and/or the other water companies' annual performance reports for 2022/23.

(4) Outcome based on performance in respect of the calendar year ending 31 December 2022 as published in our own annual performance reports for 2022/23.

(5) Outcome based on performance in respect of the calendar year ending 31 December 2022 as published in the Environment Agency's published report in 2023.

(6) Average share price over the three-month period from 1 January 2023 to 31 March 2023.

(7) 13.95 per cent of the value vesting is attributable to share price appreciation, which equates to £123,663 for Steve Mogford, £24,048 for Louise Beardmore and £63,809 for Phil Aspin.

The 2020 LTP awards were granted in November 2020. Whilst LTP awards are normally granted in June each year, due to the uncertainties posed by the COVID-19 pandemic and particular concerns at the time about the possible extent of the disruption caused, the committee delayed the 2020 LTP award grants until November to allow more time to settle the targets.

Performance against the measures has been strong as detailed in the strategic report, but as outlined in the Chair's statement (pages 170 to 172) and as shown in the table the executives decided to waive the outcomes related to five environmental measures. Performance against each of those measures is expected to be at or near the stretch targets, so their decision to waive the outcomes will materially reduce the value of the awards that will vest.

The final outcome for some measures will not be confirmed until summer 2023, so the values of the awards are estimated and will be restated if necessary in next year's report.

2022 LTP awards with a performance period ending 31 March 2025 (audited information)

The table below provides details of share awards made to executive directors on 29 July 2022 in respect of the 2022 LTP:

Executive director	Type of award	Basis of award	Face value of award (£'000)(1)	Number of shares under award	% vesting at threshold	End of performance period(2)
Steve Mogford	Conditional shares	130% of salary	£1,028	95,909	25%	31.3.2025
Louise Beardmore	Conditional shares	130% of salary	£552	51,551	25%	31.3.2025
Phil Aspin	Conditional shares	130% of salary	£530	49,489	25%	31.3.2025

(1) The face value has been calculated using the closing share price on 28 July 2022 (the dealing day prior to the date of grant), which was 1,071.75 pence per share.

(2) An additional holding period applies after the end of the performance period such that the overall vesting period is at least five years from the grant date.

Details about the measures, targets and underpins for the 2022 LTP awards made during the year were disclosed in last year's report, but in summary the awards were based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures including environmental measures, four of which directly linked to our carbon pledges.

Annual report on remuneration continued

Performance-related pay in 2023/24

Ensuring alignment with our business plan

The performance measures used in our performance-related pay schemes during 2023/24 will remain aligned directly with the business plan, with a material weighting being linked to delivery for customers, and at least 30 per cent on environmental measures.

Annual bonus for 2023/24

The maximum bonus opportunity for the year commencing 1 April 2023 will be unchanged at 130 per cent of base salary. As is outlined on page 177, the measures used in our annual bonus arrangements for executive directors demonstrate significant alignment to stakeholder interests, including customers and the environment, and the table below summarises the measures, weightings and targets for the 2023/24 bonus. We have amended the composition of the bonus scorecard and introduced a new measure to reflect our commitment to tackling storm overflow activations and improve river quality. Targets that are considered commercially sensitive will be disclosed retrospectively in the 2023/24 annual report on remuneration.

	Targets			
Measure	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Weighting (% of award)
Underlying operating profit[1]	Commercially sensitive			25.0%
Customer service in year				
C-MeX ranking out of the 17 water companies[2]	n/a	6th position	5th position	10.0%
Water quality contacts (appearance)	5,800	5,550	5,300	5.0%
Maintaining and enhancing outcomes for customers and the environment				
Better Rivers commitments: % reduction of reported storm overflow activations	8.0%	10.0%	12.0%	12.5%
Better Rivers commitments: % of 2023/24 programme milestones delivered	90.0%	95.0%	100%	12.5%
Outcome delivery incentive (ODI) composite	Commercially sensitive			25.0%
Capital programme delivery incentive (CPDi)	85 .0%	90.0%	95.0%	10.0%
Total				100%

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.
(2) No threshold target applies to this measure.

In line with policy the executive directors will be required to defer at least 50 per cent of any bonus received into shares and these only become available after a period of three years. This provides the committee with time to consider and respond appropriately to any matters that were not known at the end of the relevant performance period but become apparent during the deferral period. This could include the use of the withholding and recovery provisions.

2023 LTP awards with a performance period ending 31 March 2026

Consistent with the approach since 2020, the awards will be based on Return on Regulated Equity and a customer basket of measures, with each component being equally weighted at 50 per cent. At least 30 per cent of the overall award will relate to environmental measures, including those that are within scope of our key regulators.

The award level for executive directors will remain unchanged at 130 per cent of base salary and the performance period for the awards will be 1 April 2023 to 31 March 2026. As work is continuing on the ambitious plan for the next regulatory period, of which the first year will be the final year of the performance period, the committee has decided to wait until later in the summer to grant the awards to give more time for the precise measures and stretching targets to be well-aligned with the proposed plan. We will publish details of the measures and targets at the point of grant.


What do we deal with?
Costs
Schedule
Outputs

Annual report on remuneration continued

Cascade of remuneration through the organisation

Consistent with best practice, the remuneration committee spends considerable time on matters relating to remuneration arrangements in the wider organisation. Details of pay trends for the wider colleague base provide important context when making decisions regarding remuneration for the executive directors as well as ensuring that consistent approaches are being adopted across the organisation.

The table below summarises how remuneration compares across the different groups of colleagues throughout the company.

Colleague group (number of colleagues currently covered)	Element of pay	Policy	Implementation
Colleagues at all levels (around 6,000)	Salary	We want to attract and retain colleagues of the experience and quality required to deliver the company's strategy. Salaries are reviewed annually, with executive directors normally receiving a salary increase no greater than the increase awarded to the general workforce.	In 2022 the base salary increase for colleagues was 4.75 per cent. As a living wage accredited employer all our colleagues (except those on a training scheme such as apprentices) receive at least the voluntary living wage rate.
	Health and wellbeing benefits	We want to create an environment that promotes healthy behaviours and ensure that colleagues have access to early and effective treatment, advice and information to improve their health and wellbeing.	Colleagues at all levels are eligible for company-funded healthcare, an enhanced company sick pay scheme, and have access to a medical advice and information service (Best Doctors) for them and their families. All colleagues have free 24/7 access to our employee assistance programme, which provides counselling and support to them and their households. We have around 350 trained mental health first aiders who can listen to and signpost colleagues to relevant support services, and a similar number of wellbeing champions who help promote our wellbeing campaigns. Financial wellbeing is a key focus, with financial education tools and awareness courses available for all colleagues covering a broad range of money management topics such as financial planning, managing debt and pensions.
	Flexible benefits	All colleagues have access to a variety of additional voluntary benefits to suit their lifestyle, including environmental benefits such as our electric car scheme. Colleagues can choose from a range of deals and discounts all year round, and can donate to their chosen charities directly from their pay if they want to.	Around half of the workforce take up at least one of our flexible benefit options.
	Pension	Almost all colleagues participate in our company pension arrangements, which have received the 'Pension Quality Mark Plus' accreditation in recognition of their high quality.	The company doubles any personal pension contributions made, up to a maximum of 14 per cent of salary. As part of the pension scheme colleagues receive company-funded life assurance and income protection.
	ShareBuy	Any colleague can become a shareholder in our company and share in our success by participating in our ShareBuy scheme. For every five shares purchased under the scheme, the company gives another one free.	Around half of the workforce participate in our ShareBuy scheme.
	Annual bonus – cash	Our bonus scheme provides a strong alignment to strategy throughout the organisation, with the same bonus scorecard applying at all levels.	Colleagues at all levels participate in the annual bonus scheme, receiving financial rewards based on the performance of the company and their personal contribution. Specific weightings and award levels vary by grade.
CEO, CFO and executives (12)	Annual bonus – deferred shares	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.	Each of the executive directors and executives is required to defer a proportion of their bonus into shares for three years.
CEO, CFO, executives and other senior leaders (around 60)	Long Term Plan (LTP)	To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.	Executives and other senior leaders may be invited to participate in the LTP. Performance conditions are the same for all participants but award sizes vary.
CEO, CFO and executives (12)	Shareholding guidelines	The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests.	All executives are subject to shareholding guidelines, aligning their interests with those of shareholders.

Supporting our colleagues during the cost-of-living crisis

In recognition of the challenging financial environment, the company has taken action during the year to support colleagues. Noting that the lowest paid workers have particularly struggled, in September 2022 we increased the pay rates of around 120 colleagues in line with the new living wage rates that had been announced on the same day. While technically all living wage accredited employers had until May 2023 to implement the new rates we decided that it was right to pay the improved rates as early as possible.

As part of the 2022/23 pay settlement for collectively bargained colleagues, alongside the 4.75 per cent salary increase from 1 April 2022 the company paid a one off lump sum of £500 to around 5,000 colleagues. The company also extended this payment to around 600 colleagues who were not covered by the collectively bargained pay arrangements.

During the year, the company delivered a campaign aimed at reminding and encouraging colleagues to maximise the value of their reward package. This included the following activities:

Money management sessions	The sessions were intended to help colleagues take control of their finances and covered the following topics: • The increasing cost of living • How to review your finances and reduce your costs • How to access extra support
Sharing regular financial/money management information	Providing money management tips and tools to help colleagues manage their money better including the option to borrow responsibly in appropriate circumstances via our financial wellbeing partner
Financial awareness courses	Quarterly sessions covering the following topics: • 'Planning your financial future' – aimed at those who may benefit from learning more about financial planning, managing debt and making the most of their money • 'Maximising your financial future' – aimed at those who may benefit from taking stock of their finances and understanding how they might meet their financial goals in later life • 'Planning for retirement' – aimed typically at those aged 50 and over, who are approaching the earliest age that they can take pension benefits • 'Pre-retirement' – aimed at those who are within six months of retirement
Support with healthcare costs	Members of our employee healthcare scheme are able to claim back the cost of every day healthcare items such as eye tests, glasses/contact lenses, dental check ups and prescription fees All colleagues have been able to claim back the cost of a flu vaccination
Promotion of deals and discounts	Improving the visibility of colleague discounts on products and services including supermarket shopping

The committee is always mindful of the alignment of executive pay arrangements with those of the wider workforce, and as is demonstrated in the table on page 186 there is a high level of alignment and consistency of approach.

When reviewing salaries and assessing incentive outcomes for the executives, the committee takes account of how those elements of remuneration have been (or will be) applied across the wider workforce in respect of the same periods. At each of its meetings, the committee receives an update on notable matters affecting pay and benefits among the wider workforce since its previous meeting, and at least annually the committee formally reviews and discusses a report detailing all elements of the pay and benefits framework that applies to the workforce.

The committee has mechanisms through which it hears from, and engages with, the workforce on executive pay. As a member of the committee, insights related to remuneration that arise via Alison Goligher in her role as designated non-executive director for workforce engagement can be quickly and appropriately considered, and a formal report is presented to the committee at least annually. In the last year, Alison has hosted four sessions with the Colleague Voice panel, providing valuable opportunities for open discussions and feedback on a variety of topics including remuneration. See page 136 for further details. During the year, on invitation from Alison, the head of reward provided the panel members with an overview of relevant corporate governance and reporting requirements, our executive remuneration approach and the role of the committee in setting executive remuneration, and an explanation of how executive pay is aligned to that of the wider workforce.

Percentage change in CEO remuneration compared with other colleagues

The figures below show how the percentage change in Steve Mogford's salary, benefits and bonus earned in 2021/22 and 2022/23 compares with the percentage change in the average of each of those components for a group of colleagues.

	% change in CEO remuneration, 2022/23 vs 2021/22	% change in colleague remuneration, 2022/23 vs 2021/22[1]
Base salary[2]	0.8%	6.6%
Bonus[3]	(41.4%)	(27.3%)
Benefits	14.0%	4.1%

(1) To aid comparison, the group of colleagues selected by the committee are all those members of the workforce who were employed over the complete two-year period.

(2) Steve Mogford received no salary increase in 2022/23. For the wider workforce this includes promotional increases. The average salary increase for colleagues was 4.75 per cent.

(3) The decrease in bonuses is due to the payout of the company scorecard element of the bonus scheme being significantly lower than last year.

Annual report on remuneration continued

CEO pay ratios

The table below sets out the ratio of Steve Mogford's pay to that of the 25th percentile (P25), median (P50) and 75th percentile (P75) full- time equivalent colleagues. The ratios have been calculated in accordance with option A as set out in the regulations. This is considered to be the most accurate methodology and uses the same calculation basis as required for Steve Mogford's total remuneration as shown in the single figure table on page 180.

- We identified all colleagues who received base salary during the year and who were still employed on that date.
- The calculations were carried out using their total pay and benefits received in respect of the year ended 31 March 2023, including bonuses earned by reference to performance in the financial year and paid in June following the end of the financial year.
- 'Base salary' includes standby pay, shift pay, overtime and on-call allowances
- For colleagues who were employed on a part-time basis, or who were not employed for the full year, their remuneration has been annualised to reflect the full-time equivalent.
- No other estimates or adjustments have been used in the calculations and no other remuneration items have been omitted.

	Financial year			
	2022/23	2021/22	2020/21	2019/20
Methodology used	A	A	A	A
Average number of colleagues	6,171	5,866	5,570	5,461
Ratio of CEO single figure total remuneration:[1]				
– To colleague at the 25th percentile	62:1	93:1	98:1	87:1
– To colleague at the 50th percentile	47:1	69:1	73:1	66:1
– To colleague at the 75th percentile	37:1	55:1	58:1	53:1
Ratio of CEO base salary plus annual bonus:				
– To colleague at the 25th percentile	38:1	44:1	52:1	47:1
– To colleague at the 50th percentile	28:1	37:1	38:1	37:1
– To colleague at the 75th percentile	23:1	30:1	30:1	31:1
Ratio of CEO base salary:				
– To colleague at the 25th percentile	26:1	24:1	26:1	26:1
– To colleague at the 50th percentile	18:1	20:1	19:1	20:1
– To colleague at the 75th percentile	15:1	17:1	15:1	17:1
Additional details				
CEO total single figure (£'000)	2,283	3,211	3,381	2,925
CEO base salary plus annual bonus (£'000)	1,216	1,511	1,560	1,476
CEO base salary (£'000)	791	784	736	769
Colleagues total pay and benefits (£'000)				
– at the 25th percentile	37	35	34	33
– at the 50th percentile	49	46	46	44
– at the 75th percentile	61	59	58	56
Colleagues base salary plus annual bonus (£'000)				
– at the 25th percentile	32	34	30	32
– at the 50th percentile	44	41	42	40
– at the 75th percentile	53	51	52	48
Colleagues base salary (£'000)				
– at the 25th percentile	31	32	29	30
– at the 50th percentile	43	39	39	38
– at the 75th percentile	52	47	50	44

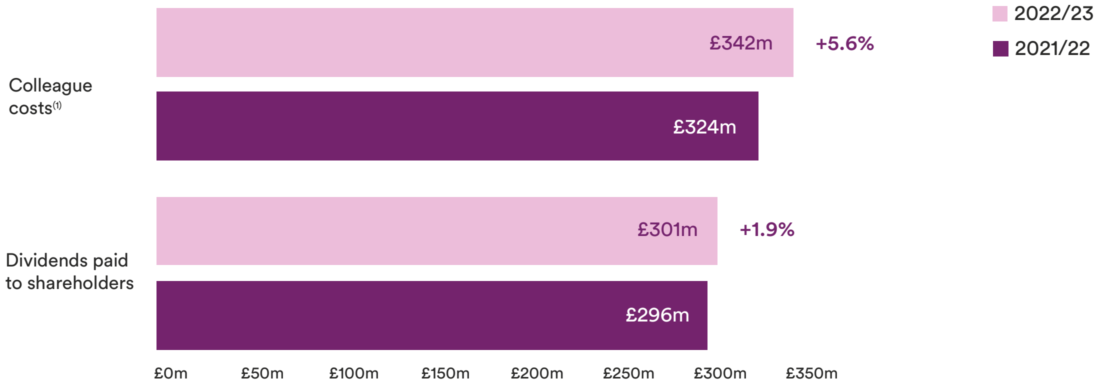
(1) The figures for 2021/22 have been restated to reflect the final vesting outcome, additional dividend equivalents and updated share price for Steve Mogford's 2019 LTP as shown in the single figure table on page 180. The figures for 2020/21 have also been restated to reflect additional dividend equivalents and the closing share price on the date of vesting for his 2018 LTP.

Along with the ratios comparing total remuneration, the committee keeps under review the ratios for salary and salary plus annual bonus, and tracks how these change over time. With a significant proportion of the remuneration of the CEO linked to company performance and share price movements over the longer term, it is expected that the headline ratios will depend primarily on the Long Term Plan (LTP) outcome, and, accordingly, may fluctuate from year to year. Participation in the LTP is currently limited to around 60 executives and senior leaders, with none of the individuals identified as P25, P50 and P75 in this group. On the other hand, colleagues at all levels participate in the annual bonus scheme, and so the committee considers this ratio as well as the ratio comparing only salary, to provide helpful additional context.

This year the pay ratio of CEO single figure total remuneration has reduced at all data points (P25,P50 and P75). This is as expected, given that the CEO did not receive a salary increase during the year and his performance-related pay outcomes are materially less than last year. The committee observes a similar picture across most of the other reported ratios, which is to be expected given the alignment of our remuneration approach across the workforce. The committee will continue to consider the pay ratios in the context of other important metrics such as the gender pay gap and colleague engagement levels.

Relative importance of spend on pay

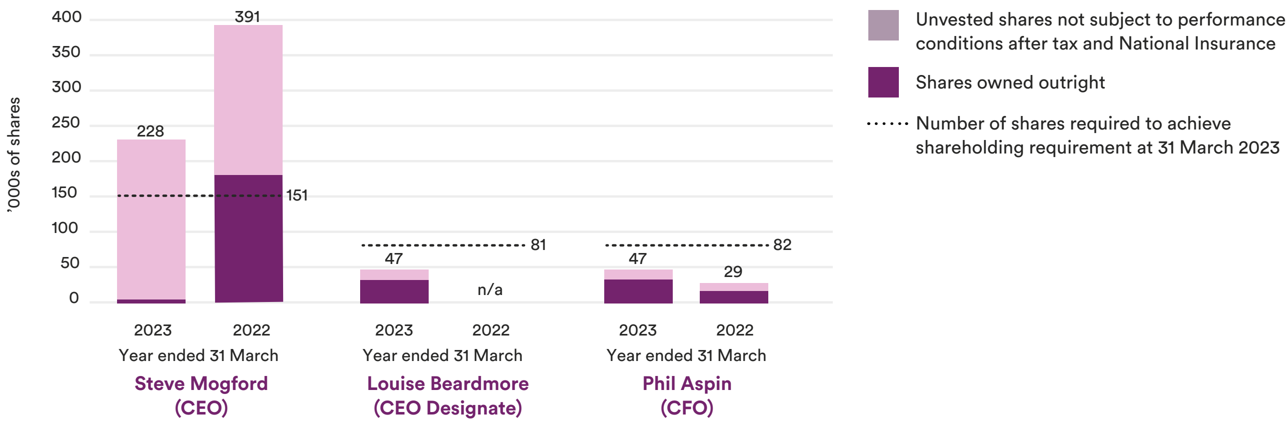
The table below shows the relative importance of spend on pay compared to distributions to shareholders.



(1) Colleague costs includes wages and salaries, social security costs, and post-employment benefits.

Executive directors' shareholding (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2023 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding requirement level. Steve Mogford continued to exceed the target shareholding requirement level of 200 per cent of salary. Louise Beardmore's target shareholding changed on her appointment to CEO on 1 April 2023 and will now be 200 per cent of her new salary. She is expected to reach that by 1 April 2028 (within five years of her appointment as CEO). Phil Aspin is expected to reach the minimum guideline by 24 July 2025 (within five years of his appointment as CFO).



Annual report on remuneration continued

Further details of the executive directors' shareholdings and share plan interests are given in the table below and in appendix 2 on pages 202 and 203.

Director	Shareholding requirement (% of salary)	Number of shares required to meet shareholding requirement[1]	Number of shares owned outright (including connected persons) 2023	2022	Unvested shares not subject to performance conditions[2] 2023	2022	Total shares counting towards shareholding requirements[3] 2023	2022	Shareholding as % of base salary at 31 March 2023[1]	Shareholding requirement met at 31 March 2022	Unvested shares subject to performance conditions[4] 2023	2022
Steve Mogford[5][6]	200%	151,330	5,188	181,144	420,194	395,160	227,907	390,595	301%	Yes	331,654	363,303
Louise Beardmore[5]	200%	81,340	33,180	n/a	26,201	n/a	47,083	n/a	116%	No	97,872	n/a
Phil Aspin[5]	200%	81,795	23,570	17,440	44,787	21,367	47,323	28,781	116%	No	171,132	126,738

(1) Share price used is the average share price over the three months from 1 January 2023 to 31 March 2023 (1,045 pence per share).

(2) Unvested shares subject to no further performance conditions such as matching shares under the ShareBuy scheme. Includes shares subject only to withholding provisions such as Deferred Bonus Plan shares in the three-year deferral period and Long Term Plan shares in the applicable holding period.

(3) Includes unvested shares not subject to performance conditions (net of tax and National Insurance), plus the number of shares owned outright.

(4) Includes unvested shares under the Long Term Plan.

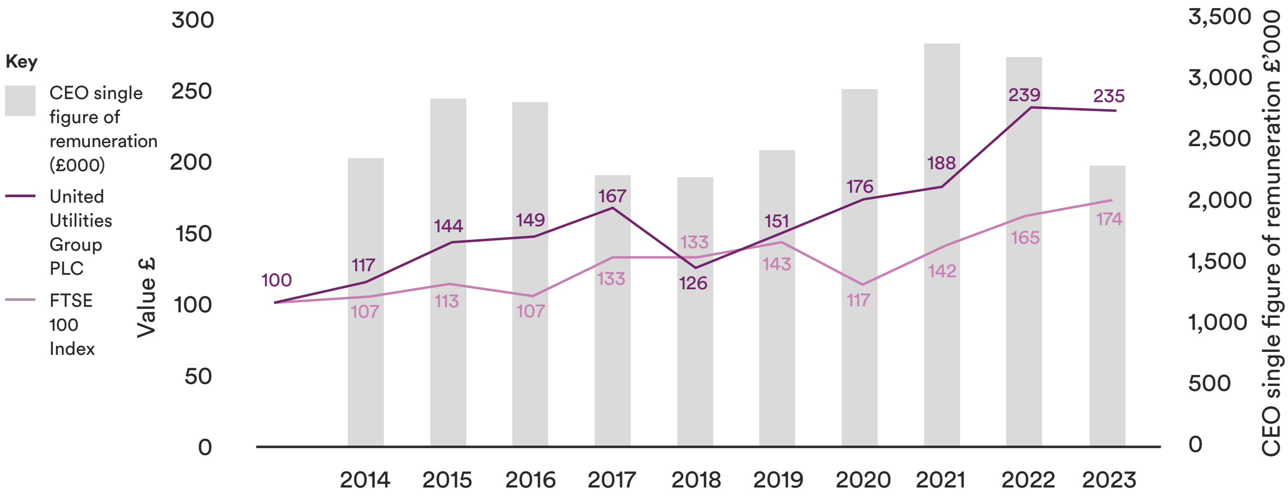
(5) In the period 1 April 2023 to 24 May 2023, additional shares were acquired by Louise Beardmore (28 shares) and Phil Aspin (27 shares) in respect of their monthly contributions to the all employee ShareBuy scheme. Steve Mogford acquired 14 additional shares relating to his ShareBuy contribution in March 2023. These will be matched by the company on a one-for-five basis. Matching shares vest one year after grant provided the colleague remains employed.

(6) On 1 April 2023, shares granted on 25 June 2018 under the Long Term Plan vested for Steve Mogford following a holding period. 152,768 shares vested, of which 68,918 shares were sold to cover tax and National Insurance. Steve retained the remaining balance of 83,850 shares.

Other information

Company performance and CEO remuneration comparison

The total shareholder return (TSR) chart below illustrates the company's performance against the FTSE 100 over the past ten years. The FTSE 100 is an appropriate comparator as the company is a member of the FTSE 100 and it is a widely published benchmark for this purpose. The chart shows the growth in the value of a hypothetical £100 holding invested in the company over the ten-year period. The chart also shows the CEO's single total figure remuneration over the ten years ended 31 March 2023 for comparison. The table below the TSR chart shows the remuneration data for the CEO over the same period. Steve Mogford was the CEO over the whole period.



Year ended 31 March	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CEO single figure of remuneration (£'000)	2,378	2,884	2,760[1]	2,233	2,221	2,448	2,925	3,381[2]	3,211[3]	2,283
Annual bonus payment (% of maximum)	78.2	77.4	54.5	83.7	74.9	79.0	70.7	81.8	71.3	41.4
LTP vesting (% of maximum)[4]	93.5	97.5	33.6	54.5	55.4	64.4	87.3	97.9	100[3]	68.8[5]

(1) This includes the payout from the 2013 Long Term Plan (LTP) as well as £1.028 million in respect of Steve Mogford's one-off Matched Share Investment Scheme that ended on 5 January 2016 (vested at 100 per cent).

(2) The payout from the 2018 LTP, which vested on 1 April 2023 after the end of a two-year holding period, has been updated to reflect the additional dividends accruing on this award and the closing share price on the date of vesting of 1,060 pence per share.

(3) The payout and vesting percentage for the 2019 LTP have been restated to reflect the additional dividend equivalents accruing on the award, the final vesting outcome and updated share price. See page 180 for further details.

(4) For performance periods ended on 31 March, unless otherwise stated.

(5) The 2020 Long Term Plan amount vesting percentage is estimated. See page 182 and 183 for further details.

Exit payments and payments to former directors made in the year (audited information)

There have been no exit payments or payments to former directors in respect of their roles as directors during the year ended 31 March 2023 other than the vesting of legacy share awards (see page 203).

External appointments

Steve Mogford was non-executive director of QinetiQ during the year ended 31 March 2023, for which he received and retained an annual fee of £40,000. Phil Aspin was a member of the UK Endorsement Board during the year ended 31 March 2023, for which he received and retained an annual fee of £14,000.

Non-executive directors

Single total figure of remuneration for non-executive directors (audited information)

	Salary/fees £'000		Taxable benefits £'000		Total £'000	
Year ended 31 March	2023	2022	2023	2022	2023	2022
Sir David Higgins	311	304	1	2	312	306
Liam Butterworth[1]	71	17	1	–	72	17
Stephen Carter[2]	25	81	3	2	28	83
Kath Cates[3]	80	69	1	2	81	71
Mark Clare[2]	26	83	4	2	30	85
Alison Goligher[3]	85	83	–	1	85	84
Paulette Rowe[4]	79	69	1	1	80	70
Doug Webb[5]	87	80	1	1	88	81

(1) Liam Butterworth joined the board on 1 January 2022.

(2) Stephen Carter and Mark Clare both stepped down from the board on 22 July 2022.

(3) Kath Cates was appointed as chair of the remuneration committee with effect from 22 July 2022 and received the applicable additional fee from that date. Alison Goligher stepped down as chair of the remuneration committee with effect from 22 July 2022 when she became the senior independent non-executive director, for which she received the applicable additional fee.

(4) Paulette Rowe was appointed as chair of the ESG committee with effect from 22 July 2022 and received the applicable additional fee from that date.

(5) Doug Webb was appointed as chair of the audit and treasury committees with effect from 23 July 2021 and received the applicable additional fees from that date.

Fees

Non-executive director base fees were reviewed and increased with effect from 1 September 2022 as shown below. Base fees were increased by 3.0 per cent, which is lower than the increase applying to the general workforce in 2022. Additional fees for the senior independent non-executive director and the chairs of committees were also increased by 3.0 per cent.

	Fees £'000	
Role	1 Sept 2022	1 Sept 2021
Base fee: Chair[1]	315.2	306.0
Base fee: other non-executive directors[2]	71.7	69.6
Senior independent non-executive director[2]	13.9	13.5
Chair of audit and treasury committees[2]	16.5	16.0
Chair of remuneration committee[2]	13.9	13.5
Chair of ESG committee[2]	12.4	12.0

(1) Approved by the remuneration committee.

(2) Approved by a separate committee of the board.

Annual report on remuneration continued

Non-executive directors' shareholdings (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2023 held by each of the non-executive directors and their connected persons are set out in the table below.

Non-executive directors	Date first appointed to the board	Number of shares owned outright (including connected persons) at 31 March 2023[1]
Sir David Higgins	13.5.19	3,000
Liam Butterworth	1.1.22	3,000
Stephen Carter[2]	1.9.14	3,075
Kath Cates	1.9.20	2,135
Mark Clare[2]	1.11.13	7,628
Alison Goligher	1.8.16	6,000
Paulette Rowe	1.7.17	3,000
Doug Webb	1.9.20	10,200

(1) From 1 April 2023 to 24 May 2023 there have been no movements in the shareholdings of the non-executive directors.
(2) Stephen Carter and Mark Clare had 3,075 and 7,628 shares respectively when they stepped down from the board on 22 July 2022.

Change in board member and colleague remuneration

	Salary/total fees %			Benefits %			Bonus %		
Year ended 31 March	2023 versus 2022	2022 versus 2021	2021 versus 2020	2023 versus 2022	2022 versus 2021	2021 versus 2020	2023 versus 2022	2022 versus 2021	2021 versus 2020
Executive directors									
Steve Mogford	0.8	6.5	(4.2)	14.0	(23.9)	(14.1)	(41.4)	(11.8)	16.7
Louise Beardmore[1]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Phil Aspin	3.6	1.2	n/a	(6.3)	67.3	n/a	(50.1)	6.4	n/a
Non-executive directors[3]									
Sir David Higgins	2.6	6.5	111.1	(55.6)	1,555.9	(96.6)	n/a	n/a	n/a
Liam Butterworth	2.6[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Stephen Carter	2.5[2]	6.3	(4.4)	123.6	1,556.3	(93.0)	n/a	n/a	n/a
Kath Cates	16.5[4]	6.5	n/a	(59.4)	1,555.9	n/a	n/a	n/a	n/a
Mark Clare	2.5[2]	6.3	(4.4)	166.3	1,555.9	(96.6)	n/a	n/a	n/a
Alison Goligher	2.5	11.5[5]	9.4	(100.0)	708.6	(81.0)	n/a	n/a	n/a
Paulette Rowe	15.0[6]	6.5	(4.2)	(23.7)	782.1	(95.2)	n/a	n/a	n/a
Doug Webb	8.8[7]	23.6	n/a	(55.7)	1,418.0	n/a	n/a	n/a	n/a
All colleagues	6.6	3.7	4.1	4.1	5.0	6.9	(27.3)	11.6	13.6

(1) Louise Beardmore was appointed to the board on 5 May 2022 so no year-on-year comparison is possible.
(2) Liam Butterworth joined the board on 1 January 2022. Stephen Carter and Mark Clare both stepped down from the board on 22 July 2022. To enable a meaningful year-on-year comparison their salary/fees reflect hypothetical full-year earnings in 2021/22 and 2022/23 respectively.
(3) Calculated using the fees and taxable benefits shown in the table on page 191.
(4) The fee increase for Kath Cates reflects her appointment as remuneration committee chair with the associated fee effective from 22 July 2022.
(5) The fee increase for Alison Goligher reflects her appointment as remuneration committee chair with the associated fee effective from 24 July 2020. Alison stepped down as remuneration committee chair and became the senior independent NED with the associated fee effective from 22 July 2022.
(6) The fee increase for Paulette Rowe reflects her appointment as ESG committee chair with the associated fee effective from 22 July 2022.
(7) The fee increase for Doug Webb reflects his role as chair of audit and treasury committees for the full year, whereas in the prior year he was only chair for part of the year and so did not receive an additional fee.

The remuneration committee

Composition of the remuneration committee during the year ended 31 March 2023

Member	Member since
Kath Cates (chair since 22.7.22)	1.9.20
Alison Goligher (chair until 22.7.22)	1.8.16
Mark Clare (until 22.7.22)	1.9.14
Doug Webb	23.7.21

The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors.

Activities of the remuneration committee over the past year

The committee met four times in the year ended 31 March 2023 and carried out a number of key activities:

- Approved the 2021/22 directors' remuneration report;
- Reviewed the executive pay arrangements and consulted with shareholders and other stakeholders on the proposed directors' remuneration policy;
- Wrote to major shareholders following the publication of the company's 2022 annual report and reviewed the feedback received;
- Reviewed the pay comparator group;
- Determined the remuneration arrangements for Steve Mogford related to his retirement, and Louise Beardmore on her appointment as CEO;
- Determined the remuneration arrangements for departing and new executives falling under the remit of the committee;
- Reviewed the base salaries of executive directors and other members of the executive team;
- Reviewed the base fee for the Chair;
- Assessed the achievement of targets for the 2021/22 annual bonus scheme, set the targets for the 2022/23 annual bonus scheme and reviewed progress against the targets;
- Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2019, reviewed progress against the targets for the 2020 and 2021 LTP awards, and set the measures and targets for the 2022 LTP awards;
- Reviewed and approved awards made under the annual bonus, Deferred Bonus Plan (DBP) and LTP;
- Monitored progress against shareholding guidelines for executive directors and other members of the executive team;
- Reviewed the committee's performance during the period;
- Considered the remuneration arrangements of the wider workforce and their alignment with those of the executives, alongside feedback received from the workforce via Alison Goligher in her role as the non-executive director for workforce engagement;
- Considered governance developments and market trends in executive remuneration, including in the wider utilities sector; and
- Noted progress on the company's gender pay gap reporting.

Annual report on remuneration continued

Support to the remuneration committee

By invitation of the committee, meetings are attended by the Chair, the CEO, the company secretary (who acts as secretary to the committee), the people director and the head of reward, who are consulted on matters discussed by the committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other colleagues where the committee feels that such additional contributions will assist the decision-making process.

The committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers.

During the year, the committee was assisted in its work by the following external advisers:

Adviser	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2023	Additional services provided in year ended 31 March 2023	Fees paid by company for services to the remuneration committee and basis of charge
Ellason LLP	Committee	Appointed January 2021; services retained during the financial year	General advice on remuneration matters including analysis of the remuneration policy and regular market and best practice updates	Advice and benchmarking on non-executive director and senior leader remuneration; advice on the company's share schemes; and assurance work on the remuneration report for the audit committee	£52,000 on a time/cost basis as set out in terms and conditions in the relevant engagement letter

Ellason are signatories to the Remuneration Consultant Group's Code of Conduct, which sets out guidelines to ensure that any advice is independent and free of undue influence (which can be found at **remunerationconsultantsgroup.com**). None of the individual directors have a personal connection with Ellason. The committee is satisfied that the advice it receives is objective and independent and confirms that Ellason do not have any connection with the company that may impair their independence.

In addition, during the year the law firm Eversheds Sutherland provided advice to the company in relation to the company's share schemes.

2022 AGM: Statement of voting

At the last annual general meeting on 22 July 2022, votes on the resolutions to approve the remuneration policy and annual report on remuneration were cast as follows:

Resolution	Votes for	Votes against	Votes withheld (abstentions)	Total votes cast
Approval of the directors' remuneration policy	498,652,274 (99.02%)	4,941,551 (0.98%)	203,755	503,593,825
Approval of the directors' remuneration report (other than the part containing the directors' remuneration policy)	465,131,664 (93.94%)	30,016,180 (6.06%)	8,649,736	495,147,844

The directors' remuneration report was approved by the board of directors on 24 May 2023 and signed on its behalf by:

Kath Cates
Chair of the remuneration committee

Appendix 1: Directors' remuneration policy (abridged)

Directors' remuneration policy

The appendix to the directors' remuneration report sets out an abridged version of the directors' remuneration policy for the company, which was approved by shareholders at the AGM on 22 July 2022. The policy took effect from the date of approval and will be reviewed and renewed no later than the 2025 AGM.

In the interests of clarity, this abridged report includes some minor annotations to show, where appropriate, how the policy will be implemented in 2023/24. A full version of the shareholder approved policy can be found in the annual report and financial statements for the year ended 31 March 2022.

Overview of remuneration policy

The company's remuneration arrangements are designed to promote the long-term success of the company. The company does not pay more than is necessary for this purpose. The committee recognises that the company operates in the North West of England in a regulated environment and, therefore, needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

The committee monitors the remuneration arrangements to ensure that there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the company's strategy, and if the strategy is delivered within an acceptable level of risk, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

The committee also understands that listening to the views of the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged. Account is taken of colleague views when consulting on the policy, typically via the colleague voice panel. Additionally, the company carries out annual colleague engagement surveys and regular discussion takes place with union representatives on matters of pay and remuneration for colleagues covered by collective bargaining or consultation arrangements, all of which can provide insight that is of value to the committee. The general base salary increase and broader remuneration arrangements, including pension provision, for the wider colleague population are considered by the committee when determining remuneration policy for the executive directors. As outlined on page 187 processes are in place for the committee to regularly review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the 'colleague voice'.

Policy table for directors

Base salary

Purpose and link to strategy: To attract and retain executives of the experience and quality required to deliver the company's strategy.

Operation	Maximum opportunity
Normally reviewed annually, typically effective 1 September. Significant increases in salary should only take place infrequently, for example where there has been a material increase in: • the size of the individual's role; • the size of the company (through mergers and acquisitions); or • the pay market for directly comparable companies (for example, companies of a similar size and complexity). On recruitment or promotion to executive director, the committee will take into account previous remuneration, and pay levels for comparable companies, when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Current salary levels are shown in the annual report on remuneration. Executive directors will normally receive a salary increase that is generally no greater than the increase awarded to the general workforce, unless one or more of the conditions outlined under 'Operation' is met. Where the committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance. **Performance measures** None.

Appendix 1: Directors' remuneration policy (abridged) continued

Pension

Purpose and link to strategy: To provide a level of benefits that allow for personal retirement planning.

Operation	Maximum opportunity
Executive directors are offered the choice of: • a company contribution into a defined contribution pension scheme; • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance.	The maximum opportunity is aligned to the approach available to the wider workforce, currently: • up to 14 per cent of salary into a defined contribution scheme; • cash allowance of broadly equivalent cost to the company (up to 14 per cent of salary less employer National Insurance contributions at the prevailing rate, i.e. up to 12 per cent of base salary for 2023/24); or • a combination of both such that the cost to the company is broadly the same. For executive directors appointed to role before 26 July 2019 a cash allowance of 22 per cent of salary was payable until 31 December 2022. From 1 January 2023 arrangements for such executive directors were aligned to the approach available to the wider workforce. **Performance measures** None.

Benefits

Purpose and link to strategy: To provide market competitive benefits to help recruit and retain high-calibre executives.

Operation	Maximum opportunity
Provision of benefits such as: • health benefits; • green travel allowance; • relocation assistance; • life assurance; • group income protection; • all employee share schemes (e.g. opportunity to join the ShareBuy scheme); • travel; and • communication costs. Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit). Executives will be eligible for any other benefits that are introduced for the wider workforce on broadly similar terms and additional benefits might be provided from time to time if the committee decides payment of such benefits is appropriate and in line with emerging market practice.	As it is not possible to calculate in advance the cost of all benefits, a maximum is not predetermined. **Performance measures** None.

Annual bonus

Purpose and link to strategy: To incentivise performance against selected financial and operational KPIs that are directly linked to business strategy. Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.

Operation	Maximum opportunity
A maximum of 50 per cent of bonus awarded paid as cash. A minimum of 50 per cent of bonus awarded deferred into company shares under the Deferred Bonus Plan (DBP) for a period of at least three years. Dividends or dividend equivalents accrue during the DBP deferral period and are paid upon vesting. Not pensionable. Bonuses and DBP shares are subject to withholding and recovery provisions in cases of: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine.	Maximum award level of up to 130 per cent of salary, for the achievement of stretching performance objectives. **Performance measures** Payments predominantly based on financial and operational performance, with the possibility of a minority to be based on achievement of personal objectives if determined by the committee. Targets and weightings set by reference to the company's financial and operating plans. Bonus outcomes are subject to the committee being satisfied that the company's performance on the measures is consistent with underlying business performance and individual contributions. The committee will exercise discretion on bonus outcomes if it deems necessary. 100 per cent of maximum bonus potential for stretch performance; up to 50 per cent of maximum for target performance; and up to 25 per cent of maximum for threshold performance. No payout for below-threshold performance.

Long Term Plan (LTP)

Purpose and link to strategy: To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.

Operation	Maximum opportunity
Awards under the Long Term Plan are rights to receive company shares, subject to certain performance conditions. Each award is measured over at least a three-year performance period. An additional holding period applies after the end of the three- year performance period so that the total vesting and holding period is at least five years. Dividends or dividend equivalents accrue until awards are released to participants, to the extent that such awards vest for performance. Shares under the LTP are subject to withholding and recovery provisions in cases of: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine.	The normal maximum award level will be up to 130 per cent of salary per annum. The overall policy limit is 200 per cent of salary. It is not currently anticipated that awards above the normal level will be made to executive directors and any such increase on an ongoing basis will be subject to prior consultation with major shareholders. **Performance measures** The two performance conditions are Return on Regulated Equity and a basket of customer measures. The weighting of each of these two components is 50 per cent. Any vesting is subject to the delivery of the dividend policy applicable to each year of the respective performance period, and the committee being satisfied that the company's performance on these measures is consistent with underlying business performance. The committee will exercise discretion on LTP outcomes if it deems it necessary. The committee has discretion to set alternative performance measures and/or weightings for future awards but will consult with major shareholders before making any material changes to the currently applied measures and/or weightings. 100 per cent of awards vest for stretch performance; and up to 25 per cent of awards vest for threshold performance. No awards vest for below-threshold performance.

Appendix 1: Directors' remuneration policy (abridged) continued

Shareholding requirements

Purpose and link to strategy: The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests during and after employment.

Operation	Maximum opportunity
Executive directors are expected to reach a shareholding requirement of 200 per cent of salary, normally within five years of appointment. The following post-employment shareholding requirements apply in the event of an executive director leaving the company: • Executive directors must continue to hold the lower of 200 percent of salary in shares or their shareholding on departure, for two years after ceasing employment with the group. • Executive directors appointed on or after 19 May 2020 must retain shares vesting (net of tax) from all share awards (including in-flight awards) if not doing so would take their shareholding below the requirement. • As the only executive director in role before 19 May 2020, Steve Mogford must retain shares vesting (net of tax) from share awards relating to performance periods beginning on or after 1 April 2020 if not doing so would take his shareholding below the requirement. Nominee accounts are used to enable the post-employment shareholding requirements to be robustly enforced.	None. **Performance measures** None.

Non-executive directors' fees and benefits

Purpose and link to strategy: To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.

Operation	Maximum opportunity
The remuneration policy for the non-executive directors (with the exception of the Chair) is set by a separate committee of the board. The policy for the Chair is determined by the remuneration committee (of which the Chair is not a member). Fees are reviewed annually taking into account the salary increase for the general workforce and the levels of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 September. Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain board sub-committees, and to the senior independent non-executive director. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the board may pay extra fees on a pro rata basis to recognise the additional workload. No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or colleague share schemes. The company repays any reasonable expenses that a non- executive director incurs in carrying out their duties as a director, including travel, hospitality-related and other modest benefits and any tax liabilities thereon, if appropriate.	Current fee levels are shown in the annual report on remuneration. The value of benefits may vary from year to year, according to the cost to the company. **Performance measures** Non-executive directors are not eligible to participate in any performance-related arrangements.

Notes to the policy table

Selection of performance measures and targets
Performance measures for the annual bonus are selected annually to align with the company's key strategic goals for the year and reflect financial, operational and personal objectives. 'Target' performance is typically set in line with the business plan for the year, following rigorous debate and approval of the plan by the board. Threshold to stretch targets are then typically set based on a sliding scale on the basis of relevant commercial factors.

Only modest rewards are available for delivering threshold performance levels, with rewards at stretch normally requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus and Long Term Plan (LTP) are given in the annual report on remuneration.

The policy provides for committee discretion to alter the LTP measures and weightings to ensure they continue to facilitate an appropriate measurement of performance over the life of the policy (taking into account any evolution of the strategic goals of the company). LTP targets are set taking into account a number of factors, including reference to market practice, the company business plan and analysts' forecasts where relevant. The LTP will only vest in full if stretching business performance is achieved.

Annual bonus and long-term incentives – flexibility, discretion and judgement

The committee will operate the company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards.

These include making awards and setting performance criteria each year, dealing with leavers, and adjustments to awards and performance criteria following acquisitions, disposals, changes in share capital and to take account of the impact of other merger and acquisition activity.

The committee retains discretion within the policy to adjust the targets, set different measures and/or alter weightings for the annual bonus and long-term incentive plans, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the annual bonus and long-term incentive plans to adjust performance conditions to ensure that the awards fulfil their original purposes (for example, if an external benchmark or measure is no longer available). All assessments of performance are ultimately subject to the committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the annual remuneration report.

All historic awards that were granted under any current or previous bonus or share schemes operated by the company and remain outstanding remain eligible to vest based on their original award terms.

Appendix 1: Directors' remuneration policy (abridged) continued

Alignment of executive director remuneration with the wider workforce

The remuneration approach is consistently applied at levels below the executive directors. Key features include:

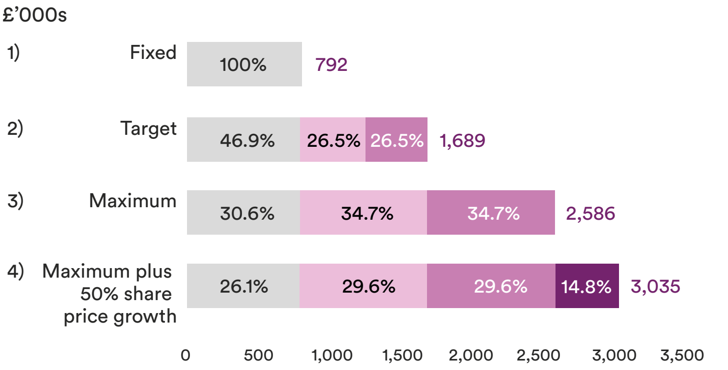
- market competitive levels of remuneration, incentives and benefits to attract and retain colleagues;
- colleagues at all levels participate in a bonus scheme with the same corporate performance measures as for executive directors; and
- all colleagues have the opportunity to participate in the HMRC-approved share incentive plan, ShareBuy.

At senior levels, remuneration is increasingly long term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

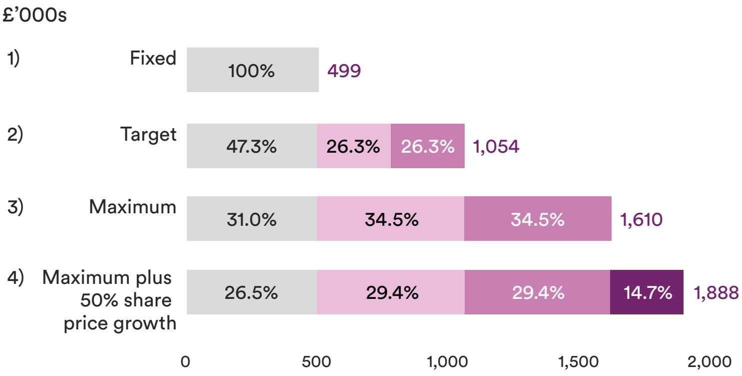
Scenarios for total remuneration

The charts below show the illustrative pay-outs under the remuneration policy for each current executive director under four different scenarios.

Louise Beardmore CEO

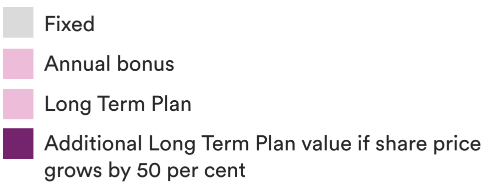


Phil Aspin CFO



Notes on the scenario methodology:

- 'Fixed' is base salary effective 1 April 2023 plus the applicable cash allowance in lieu of pension and the value of benefits as shown in the single total figure of remuneration table for 2022/23;
- 'Target' performance is the level of performance required for the annual bonus and Long Term Plan to pay out at 50 per cent of maximum;
- 'Maximum' performance would result in 100 per cent vesting of the annual bonus and Long Term Plan (i.e. 260 per cent of salary in total);
- 'Maximum performance plus 50 per cent share price growth' shows maximum performance plus the impact on the Long Term Plan of a hypothetical 50 per cent increase in the share price;
- Annual bonus includes amounts compulsorily deferred into shares;
- Long Term Plan is measured at face value, i.e. no assumption for dividends or changes in share price (except in the fourth scenario); and
- Amounts relating to all-colleague share schemes have, for simplicity, been excluded from the charts.



External directorships

The company recognises that its executive directors may be invited to become non-executive directors of other companies outside the company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the company. Any external appointments are subject to board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a director's performance). Directors will be allowed to retain any fees received in respect of such appointments.

Service contracts and letters of appointment

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the company's registered office during normal hours of business and will be available at the company's AGM. Copies of non-executive directors' letters of appointment can also be viewed on the company's website.

The notice period in the service contracts for executive directors' appointed on or after 1 May 2022 is one year. For executive directors appointed prior to 1 May 2022, the notice period is up to one year when terminated by the company and at least six months' notice when terminated by the director. The policy on payments for loss of office is set out in the next section.

The Chair and other non-executive directors have letters of appointment rather than service contracts. Their appointments may be terminated without compensation at any time. All non-executive directors are subject to re-election at each AGM.

Date of service contracts

Executive directors	Date of current service contract
Louise Beardmore	1.4.23
Phil Aspin	24.7.20

Approach to recruitment remuneration

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved directors' remuneration policy in force at the time of appointment. Full details about our approach to recruitment remuneration is set out in the 2022 annual report.

Payment for loss of office

The circumstances of the termination, including the individual's performance and an individual's duty and opportunity to mitigate losses, are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing colleagues may be phased to mitigate loss. Full details of the approach to payment for loss of office and change of control is set out in the 2022 annual report.

Appendix 2: Executive directors' share plan interests

1 April 2022 to 31 March 2023 (audited information)

	Award date	Awards held at 1 April 2022	Granted in year	Vested in year	Lapsed/ forfeited in year	Notional dividends accrued in year[1]	Awards held at 31 March 2023[1]
Steve Mogford							
Shares not subject to performance conditions at 31 March 2023							
DBP	17.6.19	53,659	–	53,659	–	–	–
DBP	16.6.20	42,199	–	–	–	1,739	43,938
DBP	16.6.21	41,601	–	–	–	1,715	43,316
DBP[2]	16.6.22	–	34,782	–	–	1,434	36,216
LTP	27.6.17	110,948	–	110,948	–	–	–
LTP	25.6.18	146,718	–	–	–	6,050	152,768
LTP	28.6.19	138,222	–	–	–	5,700	143,922
ShareBuy matching shares[3]	1.4.22 to 31.3.23	35	34	35	–	–	34
Subtotal		533,382	34,816	164,642	–	16,638	420,194
Shares subject to performance conditions at 31 March 2023							
LTP	30.11.20	118,399	–	–	–	4,882	123,281
LTP	30.6.21	106,682	–	–	–	4,399	111,081
LTP[4]	29.7.22	–	95,909	–	–	1,383	97,292
Subtotal		225,081	95,909	–	–	10,664	331,654
TOTAL		758,463	130,725	164,642	–	27,302	751,848
Louise Beardmore							
Shares not subject to performance conditions at 31 March 2023							
DBP	16.6.20	8,261	–	–	–	340	8,601
DBP	16.6.21	8,175	–	–	–	337	8,512
DBP[2]	16.6.22	–	8,696	–	–	357	9,053
LTP	28.6.19	22,031	–	22,613	–	582	–
ShareBuy matching shares[3]	1.4.22 to 31.3.23	34	35	34	–	–	35
Subtotal		38,501	8,731	22,647	–	1,616	26,201
Shares subject to performance conditions at 31 March 2023							
LTP	30.11.20	23,027	–	–	–	948	23,975
LTP	30.6.21	20,748	–	–	–	855	21,603
LTP[4]	29.7.22	–	51,551	–	–	743	52,294
Subtotal		43,775	51,551	–	–	2,546	97,872
TOTAL		82,276	60,282	22,647	–	4,162	124,073

	Award date	Awards held at 1 April 2022	Awards Granted in year	Vested in year	Lapsed/ forfeited in year	Notional dividends accrued in year(1)	Awards held at 31 March 2023(1)
Phil Aspin							
Shares not subject to performance conditions at 31 March 2023							
DBP	16.6.20	4,430	–	–	–	182	**4,612**
DBP	16.6.21	16,902	–	–	–	696	**17,598**
DBP(2)	16.6.22	–	21,651	–	–	892	**22,543**
LTP	28.6.19	10,597	–	10,877	–	280	**–**
ShareBuy matching shares(3)	1.4.22 to 31.3.23	35	34	35	–	–	**34**
Subtotal		31,964	21,685	10,912	–	2,050	**44,787**
Shares subject to performance conditions at 31 March 2023							
LTP	30.11.20	61,094	–	–	–	2,519	**63,613**
LTP	30.6.21	55,047	–	–	–	2,270	**57,317**
LTP(4)	29.7.22	–	49,489	–	–	713	**50,202**
Subtotal		116,141	49,489	–	–	5,502	**171,132**
TOTAL		148,105	71,174	10,912	–	7,552	**215,919**

(1) Note that these are subject to performance conditions where applicable.

(2) See page 180 for further details.

(3) Under ShareBuy, matching shares vest provided the colleague remains employed by the company one year after grant. During the year, Steve Mogford purchased 173 partnership shares and was awarded 34 matching shares (at an average share price of 1,039.6 pence per share). Louise Beardmore purchased 173 partnership shares and was awarded 35 matching shares (at an average share price of 1,041.1 pence per share). Phil Aspin purchased 173 partnership shares and was awarded 34 matching shares (at an average share price of 1,039.5 pence per share).

(4) See page 183 for further details.

Vesting of legacy share awards for former directors

Russ Houlden retired from the board and left the company in July 2020. In line with policy he retained a number of awards under the DBP and, as a 'good leaver', the LTP. On 1 April 2022, 70,046 shares arising from his 2017 LTP vested, on 1 August 2022, 74,073 shares arising from his 2018 LTP vested and, on 28 October 2022, 39,894 shares arising from his 2019 LTP vested. On 17 June 2022, 33,689 shares arising from his 2019 DBP vested.

Dilution limits

Awards granted under the company's share plans are satisfied by market purchased shares bought on behalf of the company by United Utilities Employee Share Trust immediately prior to the vesting of a share plan. The company does not make regular purchases of shares into the Trust nor employ a share purchase hedging strategy, and shares are bought to satisfy the vesting of share plans.

The rules of the Deferred Bonus Plan do not permit awards to be satisfied by newly issued shares and must be satisfied by market purchased shares. The rules of the Long Term Plan permit the awards to be satisfied by newly issued shares but the company has decided to satisfy awards by market purchased shares.

Should the company's method of satisfying share plan vestings change (i.e. issuing new shares) then the company would monitor the number of shares issued and their impact on dilution limits set by the Investment Association in respect of all share plans (10 per cent in any rolling ten-year period) and executive share plans (5 per cent in any rolling ten-year period). No treasury shares were held or utilised in the year ended 31 March 2023.