UUW72

Executive pay

October 2023

Chapter 9 supplementary document

This supplementary document describes how will continue to meet or exceed Ofwat's expectations on executive performance pay in AMP8, building on our strong track record.

United Utilities

Water for the North West

Contents

1. Executive Pay

1.1 Key messages

- **Industry leading approach on executive performance pay:** We have a track record of implementing executive pay arrangements which have met or exceeded the expectations previously set by Ofwat in respect of executive pay. Our approach in AMP7 moved ahead of the industry and anticipated the requirements now reflected in Ofwat's guidance.
- **Responsible corporate approach:** We have demonstrated high standards of transparency and corporate governance, including seeking advice and assurance from independent third parties. For many years we have incorporated a substantial link in our performance pay outcomes with delivery for customers, communities and the environment through the use of relevant measures; this is not a recent innovation for United Utilities.
- **Meeting or exceeding expectations for AMP8:** We will continue to meet Ofwat's expectations in respect of executive performance pay during AMP8 as we continually review and evolve our approach. We are committed to continuing to demonstrate how performance pay outcomes relate to delivery for customers, communities and the environment, and to making sure that they take account of overall performance not just formulaic outcomes. As in AMP7, we will undertake specific research with customers – as well as other stakeholders – to determine their views on which measures matter most.
- **Targets and measures are stretching and appropriate:** We assess that we have considerably more executive performance pay measures related explicitly to customer and environmental performance than in most other water companies. We base performance pay on stretching targets which are not easy to meet and have not always been met.

1.2 Structure of this document

1.2.1 This supplementary document provides details in relation to the company's approach on performance pay for executives and is structured as follows:

(a) Section 2 sets out how we currently meet Ofwat's expectations on performance related executive pay, including the key features of our approach.

(b) Section 3 sets out in more detail our intended approach for AMP8.

(c) Section 4 describes in detail our track record for linking performance pay with delivery for customers, communities and the environment, including setting stretching targets, and how the alignment of our performance pay with customer delivery compares to other companies in the water sector.

2. Meeting Ofwat's expectations on performance related executive pay

2.1.1 We are confident that our executive pay policy and approach in AMP8 will meet and or exceed Ofwat's expectations of performance related executive pay. The Board is committed to further demonstrating to stakeholders that our performance pay outcomes are well-aligned with delivering value for customers, communities and the environment, based on stretching targets. The Board will continue to take into account overall performance, rather than a formulaic approach. This includes governance mechanisms such as malus, clawback and deferral of rewards. The Board has demonstrated its willingness to use such mechanisms in the past, and it will do so again if necessary.

2.1.2 Our intended AMP8 pay policy and approach is summarised in Chapter 9 and set out in section 3 below, but it is relevant to first summarise the context and components of our current approach, as our AMP8 approach will maintain and build on its already high-quality features.

High standards of transparency and governance in our approach to executive pay

2.1.3 We understand why there is a high level of scrutiny and concern amongst stakeholders around water company performance, and the corresponding focus on executive pay. We believe that legitimacy is strengthened when sound corporate governance processes are operated and visible, and when disclosures about executive pay are clear and transparent. Customers and other stakeholders can gain confidence that we are operating responsibly when executive performance pay is aligned with their experience. Table 1Table 1 below summarises our existing high standards of governance and transparency.

Table 1: High standards of governance and transparency in our existing executive pay policy and approach

Category	Feature of our policy and approach
External context	• We recognise our responsibilities as a monopoly provider of an essential public service and, in the context of United Utilities Group plc, as a FTSE100 listed company on the London Stock Exchange • We consider compliance with key corporate governance standards to be crucial to demonstrate legitimacy. In this respect, the remuneration committee's independent adviser (Ellason LLP) monitors and assures our remuneration approach and external reporting to confirm compliance with key governance standards, including: The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the FCA Listing Rules, and the requirements of the Financial Reporting Council in the UK Corporate Governance Code and its Guidance on Board Effectiveness. Figure 1 below summarises our compliance with these and other relevant regulations and standards, and Ellason's formal assurance statement in relation to the 2023 UUG PLC remuneration report is available on our corporate website[1] • Shareholders have a binding vote on our directors' remuneration policy (policy) at least every three years, and are consulted when changes to policy are proposed. The current policy was approved at the UUG PLC AGM in July 2022, and is publicly available to view in the 2022 and 2023 UUG PLC Annual Reports on our corporate website[2]

[1] unitedutilities.com/globalassets/z_corporate-site/responsibility-pdfs/assurance-statement-for-2022-23-remuneration-report.pdf

[2] unitedutilities.com/corporate/investors/results-and-presentations/annual-reports/

Category	Feature of our policy and approach
Remuneration committee oversight	• Our executive pay policies and practices are governed by the Board's remuneration committee (committee) in line with its terms of reference, which are published on our website[3], along with our long-term incentive plan rules • A minimum of three independent non-executive directors make up the committee, recognising the potential conflict of interest of executives/management being directly involved in decision-making relating to their own pay • The terms of reference require the committee to ensure that "performance elements of executive pay are transparent, stretching and rigorously applied" and the committee's effectiveness is externally and independently evaluated at least every three years • At every meeting the committee receives a report from its independent external adviser covering trends, evolving best practice and emerging issues in the field of executive remuneration, so it can continually review its approach to pay policy and incentives in view of the perspectives of key relevant stakeholder groups, including regulators and customers. The committee's ongoing considerations also include taking account of relevant research undertaken by the company with customers
Transparency and disclosure	• We consider that there is robust and observable evidence which points to UU being amongst the leaders in the water sector in the development, application and clarity of our approach to executive pay. We provide extensive transparency and disclosure on our approach, including our performance pay schemes and outcomes, in our APR and in the UUW statutory accounts • These documents also provide a clear reference to the full executive pay disclosure provided in the UUG PLC annual report[4], which includes transparency about the link between pay and performance (taking account of overall performance, alongside specific incentive measures), alignment to business strategy, and disclosure of annual bonus and long-term incentive measures, targets and outcomes • Our pay disclosures align with the expectations set out in Ofwat's Board leadership, transparency and governance principles
Relevant and stretching targets	• A substantial proportion of the remuneration that executives are eligible for each year is performance related (69%) and long-term (52%). This balance towards recognises the importance of focusing on aspects of performance that will improve outcomes for customers, communities and the environment for the long-term. The performance pay measures selected reflect customer priorities as identified by research in to what matters most to them • Of the performance related pay that executives are eligible for each year, currently 75% of annual bonus and at least 50% of long-term incentives are directly linked to delivery for customers. Overall, this amounts to nearly 63% of all performance pay • The stretching nature of the targets set for performance related pay is evidenced by the fact that they are not always achieved, and so executives therefore do not receive elements of the remuneration that they were eligible for • Even measures and targets which are not directly linked to delivery for customers have the potential to be reflective of customer outcomes. For example, the significant freeze/thaw event that affected our customers in Winter 2022 required a response that resulted in material additional costs to the company, and therefore had a detrimental effect on the outcome of the profit measure in the annual bonus. Additionally, return on regulated equity performance could be materially impacted by customer service delivery failure and have a detrimental effect on the long-term incentive outcome.

[3] See unitedutilities.com/globalassets/documents/pdf/remco-tor---approved-22.11.pdf/download

[4] The 2022/23 directors' remuneration report commences on page 170 of the UUG PLC annual report available at unitedutilities.annualreport2023.com/media/lqrjgtx5/31404-united-utilities-ar-2023-fully-linked-spreads.pdf. Reports for previous years are also available on our corporate website or on request.

Category	Feature of our policy and approach
Taking account of overall performance, applying discretion, judgement and using underpins	• It is central to our remuneration approach that overall performance for customers, communities and the environment influence executive performance pay outcomes • Our pay policy enables the committee to override formulaic incentive outcomes by exercising discretion on outcomes if deemed necessary, and all assessments of performance are ultimately subject to the committee's judgement • Our long-term incentive plan contains a specific underpin whereby overall vesting is subject to the committee being satisfied that the company's achievements on its measures is consistent with underlying business performance • When determining the outcomes for executives at the end of an incentive's performance period, the committee considers the extent to which the formulaic outcomes are aligned with the experience of customers, communities and the environment, amongst other stakeholders • Clear disclosure is provided in our remuneration report of performance against the targets set and the other lenses through which the committee has considered the performance outturn, including the rationale for the eventual outcomes and the impact of any discretion used (if applicable) • The committee has a track record of rigorously applying these governance mechanisms. It exercised and disclosed the use of discretion in recent years by applying downward adjustments to the executive directors' bonuses on two occasions, recognising performance issues that became apparent during the year. For example, in 2016 the committee reduced executive directors' bonuses to reflect the impact on customers caused by a prolonged water quality incident in Lancashire in 2015 ("Franklaw") • In May 2023 the executive directors voluntarily waived around 21% of their incentive outcomes in respect of 2022/23, in recognition of their personal commitment to a reset across the water sector in relation to environmental performance. The committee and Board supported their decision, and also took action to make sure that customers did not pay for any performance-related executive pay outcomes in respect of 2022/23, with the costs being paid by a group holding company rather than the regulated company. This is a further illustration that the committee, Board, and indeed the executives themselves, behave responsibly in regard to executive pay and are sensitive to the external context within which it operates
Our long-term stewardship responsibilities are facilitated by best practice governance mechanisms	• Our incentive plan rules include comprehensive and legally enforceable malus and clawback provisions that enable the committee to withhold or recover payments in a number of circumstances, which are shown in Table 2 below. Any use of the provisions would be disclosed in our remuneration reports along with a clear rationale for their use • Executive directors are required to defer at least 50% of any bonus received into shares and these only become available after a period of three years • Long-term incentive outcomes for executive directors are assessed over a three-year performance period, followed by an additional holding period so that in total at least five years must elapse before any shares are due • These deferral and holding mechanisms provide 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 holding or deferral period, and this could include the use of the malus and clawback provisions referred to above • Executive directors are required to build to and retain a material personal shareholding in the company within five years of their appointment, of at least 200% of their salary • Combined with the deferral and holding periods this means their interests are strongly aligned with the long-term performance of the company, not only during employment but also for at least two years after departure, so any performance or reputational issues arising could have an effect on the value of their shareholding both whilst still employed and after leaving

Figure 1: Independent assessment of our compliance with key corporate governance standards

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United Utilities Group PLC

Remuneration Committee confirmation of legal and regulatory compliance

As independent advisors to the Remuneration Committee, Ellason LLP ('Ellason') regularly monitors the extent to which United Utilities Group PLC ('UU') adheres to relevant legal and regulatory requirements, and market best practice in the area of executive remuneration.

In respect of the Directors' Remuneration Report ('DRR') for the year ending 31 March 2023, Ellason conducted a "Limited Assurance" engagement taking into account the disclosure requirements and methodologies set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations, with our conclusions published on UU's website (see here).

We additionally reviewed UU's remuneration disclosures and practices against the legal and regulatory requirements of the UK Listing Rules (Chapter 9) and Ofwat's Board Leadership, Transparency and Governance Principles (2019), and best practice guidelines outlined in both the UK Corporate Governance Code (2018) and the Investment Association's Principles of Remuneration (November 2022), as well as against broader UK market practice. In all cases, Ellason was satisfied that UU had complied with the relevant requirements or guidance on executive remuneration:

	Assessment of UU's FY23 compliance with executive remuneration-related requirements of:
✓	Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations
✓	UK Listing Rules (Chapter 9)
✓	Ofwat's Board Leadership, Transparency and Governance Principles (2019)
✓	UK Corporate Governance Code (2018)
✓	The Investment Association's Principles of Remuneration (November 2022)

Source: Assurance report from Ellason LLP

Table 2: Malus and clawback provisions applicable to our performance pay schemes

Incentive	Provision available	Timeframe	Circumstances in which the provisions can apply
Annual bonus	Clawback	Within two years of a bonus being paid	• material misstatement of audited financial results • an error in the calculation • gross misconduct • serious reputational damage • serious failure of risk management • corporate failure • other circumstances that the committee may determine
Deferred bonus (held in shares)	Malus and clawback	Within three years of a grant being made	
Long-term incentive plan	Malus and clawback	Malus – at any time before the award vests, including during the holding period after the performance period has ended Clawback – up to two years after the performance outcome is confirmed	

Source: unitedutilities.com/globalassets/z_corporate-site/investor-pdfs/united_utilities_group_plc_-_rules-long_term_plan_2022-final.pdf

3. Our executive pay policy and approach for AMP8

3.1.1 Chapter 9 summarises how the key features of our intended pay policy for AMP8 and how it will meet Ofwat's expectations. Table 3 below provides additional details.

Table 3: Meeting Ofwat's expectations for executive performance pay in AMP8

Ofwat's AMP8 expectation	How our policy and approach will meet the expectation
Alignment to delivery for customers and the environment – *policies should demonstrate that the criteria for awarding both the short- and long-term elements of performance related executive pay demonstrate a substantial link to stretching delivery for customers. This includes delivering on environmental commitments and obligations.*	✓ Short and long-term performance-related pay will remain substantially linked to stretching delivery for customers, communities and the environment ✓ At least 75% of annual bonus outcomes will be linked to customer performance measures, influenced by the identified priorities of customers and regulators. Examples of customer measures used in AMP7 include: reducing storm overflow activations; delivering our Better Rivers commitments; achieving our ODIs; improving water quality so that fewer customers contact us about its appearance; and performing well in the regulatory customer service measure (C-MeX) rankings ✓ 50% of long-term incentive outcomes will be linked to customer performance measures, again influenced by customer and regulator priorities. Examples of measures used in AMP7 include: reducing/mitigating pollution incidents; supporting vulnerable customers; reducing leakage; performing well against the Environment Agency's Environmental Performance Assessment; and delivering carbon-reduction initiatives such as woodland creation ✓ The remaining 50% will be based on RoRE performance, noting that the totex and ODI components of RoRE also relate to delivery for customers ✓ At least 30% of overall executive performance-related pay schemes will be based on environmental measures ✓ Overall, when combining annual bonus and long-term incentives at least 62.5% of performance pay outcomes for executives will be linked to the delivery of stretching performance for customers, communities and the environment. Based on information available to us from other water companies' 2022/23 pay disclosures we are currently one of the sector leaders in regard to linking performance pay with delivery for customers (see section 4 for further details) ✓ We will undertake research with customers to understand their priorities and the committee will take account of the findings when selecting performance pay measures
Stretching targets – *policies should demonstrate that stretching targets are used for criteria which are related to delivery for customers and the environment. Companies will need to consider what is stretching in the context of the metrics being used.*	✓ The committee's terms of reference will continue to require that "*performance elements of executive pay are transparent, <u>stretching</u> and rigorously applied*" ✓ The performance targets used to determine performance-related executive pay outcomes will be stretching by reference to our business plan, sector performance and regulatory requirements and determinations. The level of stretch applied will take account of the context of the specific performance metric/s selected ✓ Clear disclosure will be provided in our remuneration report of the targets used and performance achieved, so stakeholders can readily assess the extent to which they are stretching

Ofwat's AMP8 expectation	How our policy and approach will meet the expectation
Overall performance – *policies should explain how remuneration committees will take into account overall performance delivered for customers, communities and the environment as well as performance against specific metrics when deciding on what, if any, award to make. Policies should set out what factors committees will take into account when considering overall performance, including poor performance. They should also be clear that poor performance overall will not be rewarded and clearly justify and explain any exceptions, for example to reflect stretching longer-term turnaround targets.*	✓ The committee will be able to override formulaic incentive outcomes by exercising discretion on outcomes if deemed necessary ✓ Our long-term incentive plan will retain the specific underpin whereby overall vesting is subject to the committee being satisfied that the company's achievements on its measures is consistent with underlying business performance ✓ When determining performance pay outcomes for executives, in addition to reviewing performance against the specified measures the committee will consider other factors, including: the extent to which the formulaic outcomes are aligned with the wider experience of customers, communities and the environment; the experience of other stakeholders including colleagues and shareholders; significant events impacting customers and/or the environment in the course of the year; serious reputational issues; financial resilience; compliance issues, including actual or potential enforcement action or litigation; and Ofwat's assessment of performance pay outcomes from the prior year ✓ We will disclose clearly the factors considered and the lenses through which the committee has considered performance outcomes, the rationale for any pay-out received, the impact of any discretion used, and where necessary confirm that any identified poor performance has not been rewarded
Underpins, malus and clawback – *policies should set out the approach to any underpinning arrangements, for example, by reference to overall performance, and any malus and clawback provisions and how and when these would be used. Recognising the limitations of intervention after the event, we also expect policies to set out how remuneration committees will take account of the existence of any enforcement activity, actual or pending, including through the use of deferral, or binding malus and clawback arrangements.*	✓ Comprehensive and legally enforceable malus and clawback provisions will continue to apply with the potential triggers remaining at least as extensive as they have been in AMP7 (as shown in Table 2 above), and any use of the provisions will be clearly disclosed ✓ Executive directors will continue to be required to defer at least 50% of any bonus received into shares which will only become available after a period of three years. The committee has the discretion to set the deferral level where it deems appropriate each year, and could choose to set it at a higher level in response to uncertainty, such as in recognition of actual or pending enforcement activity ✓ Long-term incentive outcomes for executive directors will be assessed over a three-year performance period, followed by an additional holding period so that in total at least five years must elapse before any shares are due ✓ These deferral and holding mechanisms will provide 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 or holding period, which could include the use of the malus and clawback provisions referred to above ✓ Executive directors will remain required to build to and retain a material personal shareholding of at least 200% of salary in the company within five years of their appointment, strongly aligning their interests with the long-term performance of the company, not only during employment but also for at least two years after departure

Ofwat's AMP8 expectation	How our policy and approach will meet the expectation
Companies should commit to transparent and accessible reporting of policies and any changes to them and, where there are changes, the reasons for these. *There should also be transparent reporting of the application of the policy in each year to include clarity on how overall performance has been assessed; and in relation to individual metrics being used, the targets set for those metrics, performance against each of them and the resulting award, if any, for each metric.*	✓ We will continue to provide extensive, high-quality disclosures about our executive pay via traditional channels, such as our remuneration reports, recognising the importance of providing robust, clear and accessible explanations to stakeholders about performance-related executive pay, and in particular how it relates to performance for customers, communities and the environment ✓ As stated above, we will clearly disclose the factors considered and the lenses through which the committee has considered performance outcomes, the rationale for performance pay outcomes, the impact of any discretion used, and where applicable confirm that identified poor performance has not been rewarded ✓ We are also committed to improving the accessibility and visibility of important messages about our performance and the link to our executive pay approach and outcomes. We will consider how we might supplement our existing communication methods and with succinct explanatory messages using other media formats and channels, so that these new types of interaction points can be opportunities to prompt dialogue. We may seek input from relevant stakeholders, such as the CCW, on these new communication methods as we develop our approach.

3.1.2 Additionally, and going beyond the stated expectations of Ofwat, during AMP8:

- the committee will regularly take account of developments in the external climate, including those of a regulatory nature and issues affecting other stakeholders, to maintain an awareness of emerging and relevant matters so that any potential impact on the executive pay approach can be considered
- our remuneration approach will be reviewed and updated to appropriately reflect changes arising from the FRC's consultation on enhancing the UK Corporate Governance Code's effectiveness in promoting good corporate governance, expected to take effect in 2025
- we will commission annual independent assessments of our compliance with relevant reporting and governance standards (similar to that shown in Figure 1 above)

Ofwat's performance pay guidance and recovery mechanism

3.1.3 The committee has noted that Ofwat has published guidance on its expectations regarding the approach to performance related pay. The committee will use Ofwat's guidance to help support its decision making throughout AMP8, and is already applying it in AMP7.

3.1.4 The committee has further noted that Ofwat will review companies' approach to executive performance pay and publish its findings each year. The committee will take account of these findings from across the sector and the potential relevance that these findings might have to our own future decisions and what we might learn as a result.

3.1.5 The committee has also noted that Ofwat intends to take action where it considers that customers should be protected from company decisions about performance related pay. This can include use of a recovery mechanism if a company is unable to demonstrate that it has met Ofwat's expectations. Given the committee's commitment to delivering performance pay outcomes that are transparent, well aligned with delivering value for customers, communities and the environment, and based on stretching targets, we would like to assure Ofwat and all stakeholders that were the company to be subject to such action this would be treated as a matter of serious concern. We consider that our approach in AMP7 has demonstrated the strength and depth of our commitment to a high quality and transparent approach to executive pay which is capable of winning the trust and confidence of stakeholders and we are committed to further developing this approach in AMP8.

Putting our pay policy in place

3.1.6 Our current policy was approved by shareholders in July 2022 and would therefore normally be due for renewal at the 2025 UUG AGM. However, the committee has accelerated the process for reviewing the policy, including performance pay criteria, to make sure that as set out above, when AMP8 begins in April 2025 our executive remuneration approach is well-aligned with Ofwat's expectations.

3.1.7 As a listed company there is a legislative requirement for shareholders to approve our pay policy, and so it will be put to shareholders at the 2024 UUG AGM. Our summary timeline for this process is summarised in Table 4 below. Given the support previously expressed by shareholders for our current approach we are confident that the policy and approach outlined above will be approved, and will be in place ready for the start of AMP8. By law, a policy can only apply for up to three years before requiring renewal by shareholders, and whilst we can commit our intention for ongoing alignment with Ofwat's expectations during AMP8 we note that flexibility in this respect is retained.

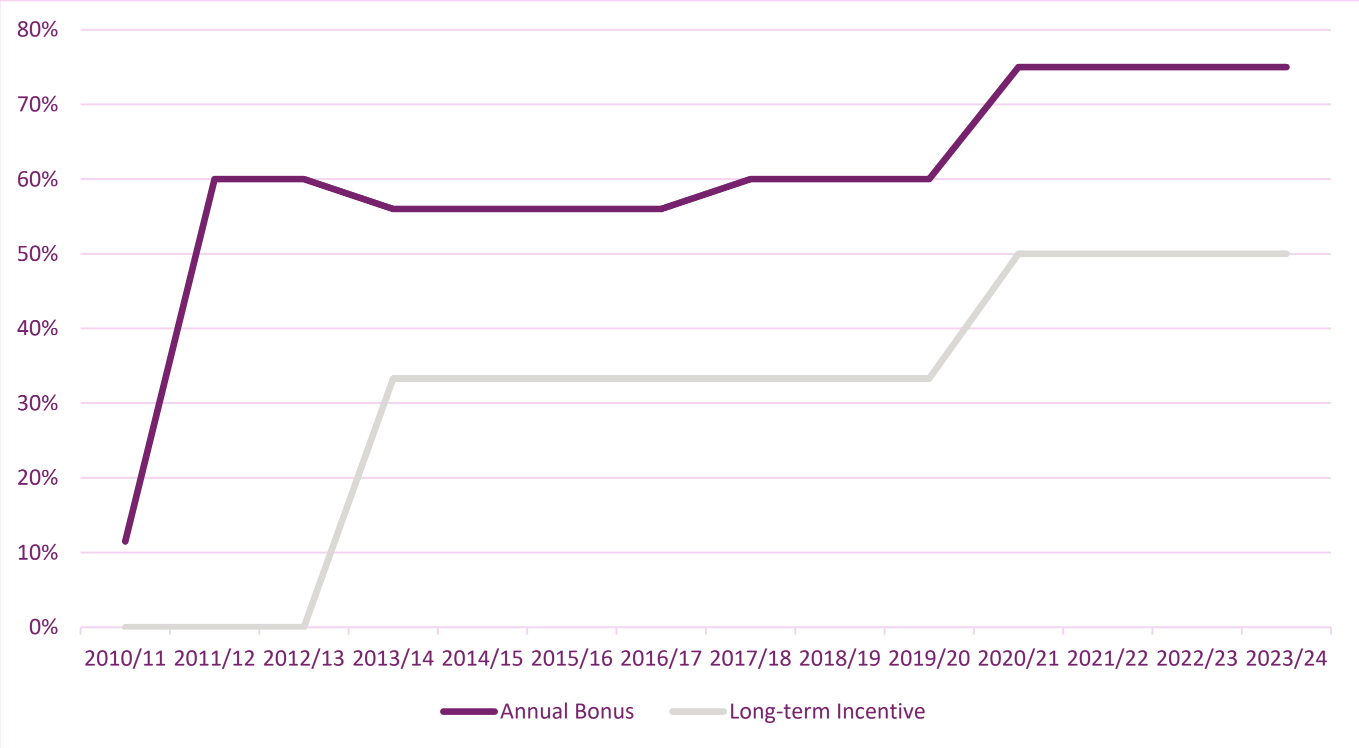
Table 4: Summary timetable for the development and approval of our next pay policy

March-November 23	November 23-March 24	March-April 24	May 24	July 24
Develop proposals for new policy, including taking account of Ofwat's assessment of executive pay outcomes for 2022/23 (if available)	Consult with shareholders Update Ofwat and other stakeholders on progress	Consider feedback from consultation phase Update Ofwat and other stakeholders on progress	Finalise proposed policy *Also in May 24:* Agree performance pay outcomes for 23/24, again taking account of Ofwat's assessment of executive pay outcomes for 2022/23 (if available)	Seek shareholder approval of new policy at the 2024 UUG AGM

4. Our track record of linking performance pay to delivery for customers, communities and the environment

4.1.1 Our executive pay arrangements are aligned to our purpose, strategic priorities and core values, so we have a strong track record of executive performance pay reflecting a high quality and substantial link to delivery for customers, communities and the environment. Figure 2 below shows that we have taken steps over the years to enhance this when possible, from being less than 10% in 2010 to around 63% in 2023.

Figure 2: % of incentives with direct link to delivery for customers, communities and the environment



Source: Data collated from annual performance reports,unitedutilities.com/corporate/about-us/performance/annual-performance-report/

Incentivising delivery for customers, communities and the environment – prior to AMP7

4.1.2 The timeline in Figure 2 above along with Table 5 below show that between 2010/11 and the end of AMP6 we included measures in our incentive arrangements that increasingly focussed executives on delivering for customers.

Table 5: Customer and environment measures and weightings in our performance pay schemes before AMP7

Year	Annual bonus customer and environmental measures		Long-term incentive customer and environmental measures	
2010/11	Customer satisfaction 3.8%; Serviceability 3.8%; Capital outputs 3.8%	11.5%	None	0.0%
2011/12	Capital spend/outputs 20%; SIM 20%; Serviceability 20%	60.0%	None	0.0%
2012/13	Capital spend/outputs 20%; SIM 20%; Serviceability 20%	60.0%	None	0.0%
2013/14	Capital spend/delivery of capital programme to time, cost and quality 16%; SIM 20%; Serviceability 20%	56.0%	Regulatory customer service measure (SIM)	33.3%
2014/15	Capital spend/delivery of capital programme to time, cost and quality 16%; SIM 20%; Serviceability 20%	56.0%	Regulatory customer service measure (SIM)	33.3%
2015/16	Delivery of capital programme to time, cost and quality 20%; SIM 16%; ODIs 20%	56.0%	Regulatory customer service measure (SIM)	33.3%
2016/17	Delivery of capital programme to time, cost and quality 20%; SIM 16%; ODIs 20%	56.0%	Regulatory customer service measure (SIM)	33.3%
2017/18	Delivery of capital programme to time, cost and quality 20%; SIM 16%; ODIs 24%	60.0%	Regulatory customer service measure (SIM)	33.3%
2018/19	Delivery of capital programme to time, cost and quality 20%; SIM 16%; ODIs 24%	60.0%	Regulatory customer service measure (SIM)	33.3%
2019/20	Regulatory customer service measure (C-MeX) 12%; Written complaints 4%; ODIs 24%; delivery of capital programme to time, cost and quality 20%	60.0%	Regulatory customer service measure (SIM proxy)	33.3%

Source: Data collated from annual performance reports,unitedutilities.com/corporate/about-us/performance/annual-performance-report/

Incentivising delivery for customers, communities and the environment – during AMP7

4.1.3 Table 6 below summarises the commitments we made in PR19 and how they were delivered in AMP7. Table 7 then shows the actual measures and weightings used.

Table 6: Delivering our PR19 commitments through performance pay arrangements in AMP7

Our PR19 commitments	What we did
We committed that during AMP7: • measures used for executive performance pay would be directly relevant to the commitments made in our business plan; • performance measures which demonstrate a substantial link to stretching delivery for customers would continue to make up at least 60% of the annual bonus; • we would look at opportunities to increase the weighting of customer-focussed measures in our long-term incentives beyond the 33.3% that applied in AMP6 (subject to shareholder approval); and • we would review our governance practices and disclosures to identify opportunities for enhancement.	✓ We carried out a detailed review of our remuneration policy and consulted with shareholders in late-2018/early-2019 so that a new remuneration policy could be proposed at the 2019 UUG PLC AGM. Shareholders overwhelmingly approved the proposals so we began AMP7 under a refreshed executive pay framework. ✓ Since 2020, 75% of our annual bonus has been directly linked to delivery for customers, communities and the environment through the use of performance measures with stretching targets, with the details shown in Table 7 below. ✓ Our flexible approach has enabled the committee to respond quickly to evolving customer and regulator priorities by introducing new measures during AMP7, such as the use in 2022/23 of new measures focussed on improving river health and water quality, and the introduction in 2023/24 of measures related specifically to reducing storm overflow activations. ✓ We also improved the weighting of customer measures in our long-term incentive from 33.3% to 50% with effect from 2020 through the use of a customer basket of measures, following a detailed consultation process with shareholders regarding its introduction. The customer basket measures selected are shown in Table 7 below, and the process though which they were selected is summarised in section 4.1.3 below. ✓ Our ongoing customer insight programme and research enables the committee to continually reflect customer priorities. In 2022 we evolved the customer basket to include carbon measures, aligning with environmental concerns being raised by customers as a high priority, and with carbon-reduction ultimately being in the interests of all stakeholders. And in 2023, again acknowledging emerging areas of customer and regulator focus, we included a storm overflow measure alongside other environmental targets. ✓ Other performance pay measures used in AMP7 (such as operating profit and return on regulated equity) are subject to direct and/or indirect impact by the company's delivery of services to customers, either through financial or reputational impacts. Reputational issues are particularly important for us as a publicly listed company, as they have the potential to feed directly and quickly through to share price movements on a liquid equity market; this is not the case for privately owned companies where such issues are reflected in company valuations on an infrequent basis. ✓ Details about the measures, targets and outcomes both the annual bonus and the long-term incentive are clearly disclosed in our directors' remuneration reports, so that stakeholders including customers can fully understand the basis of payments for performance. ✓ In 2022 we extended the list of circumstances in which malus and clawback provisions can apply. These are shown Table 2 above. ✓ Whilst it was not a specific commitment we made for AMP7, the committee has taken action to further demonstrate its responsible approach to executive pay levels. We appointed a new Chief Financial Officer in 2020 and a new Chief Executive Officer in 2023, and in both cases the individuals were appointed on salaries that were materially less than their predecessors.

Table 7: AMP7 customer and environment measures and weightings in our performance pay schemes

Year	Annual bonus customer and environmental measures		Long-term incentive basket of customer and environmental measures	
2020/21	• Regulatory customer service measure (C-MeX) ranking - 10% • Number of written complaints received - 10% • Achievement of ODIs - 35% • Delivery of capital programme to time, cost and quality - 20%	75.0%	• Number of sewer flooding incidents • Number of pollution incidents • Leakage • Treatment works compliance • Regulatory customer service measure (C-MeX) ranking • Number of customers lifted out of water poverty • Number of customers registered for Priority Services • Number of customer contacts about water quality concerns • Performance under the DWI's compliance risk index assessment • Environment Agency Environmental Performance Assessment (EA EPA) rating	50.0% (each measure worth 5%)
2021/22	• Regulatory customer service measure (C-MeX) ranking - 10% • Number of written complaints received - 10% • Achievement of ODIs - 35% • Delivery of capital programme to time, cost and quality - 20%	75.0%	• Number of sewer flooding incidents • Number of pollution incidents • Leakage • Treatment works compliance • Regulatory customer service measure (C-MeX) ranking • Number of customers lifted out of water poverty • Number of customers registered for Priority Services • Number of customer contacts about water quality concerns • Performance under the DWI's compliance risk index assessment • EA EPA rating	50.0% (each measure worth 5%)
2022/23	• Regulatory customer service measure (C-MeX) ranking - 10% • Number of written complaints received - 5% • Number of water quality contacts received (regarding the appearance of water) - 10% • Delivery of our Better Rivers commitments - 10% • Achievement of ODIs - 25% • Efficient delivery of our capital programme - 15%	75.0%	• Number of sewer flooding incidents • Number of pollution incidents • Leakage • Treatment works compliance • Number of customers lifted out of water poverty • Number of customers registered for Priority Services • Performance under the DWI's compliance risk index assessment • EA EPA rating • 4 x carbon-reduction measures - 10%	50.0% (each measure worth 5% unless stated)

Year	Annual bonus customer and environmental measures		Long-term incentive basket of customer and environmental measures	
2023/24	• Regulatory customer service measure (C-MeX) ranking - 10% • Number of water quality contacts received (regarding the appearance of water) - 5% • Reducing storm overflow activations - 12.5% • Delivery of our Better Rivers commitments - 12.5% • Achievement of ODIs - 25% • Efficient delivery of our capital programme - 10%	75.0%	The measures for 2023/24 have not yet been confirmed but may include the following (with the combined weighting of the selected measures again being worth 50% of the total): • Storm overflow reduction • EA EPA rating • Number of pollution incidents • Number of sewer flooding incidents • Leakage • Performance under the DWI's compliance risk index assessment • Number of customers registered for Priority Services • Carbon-reduction	50.0%

Source: Data collated from annual performance reports,unitedutilities.com/corporate/about-us/performance/annual-performance-report/

Listening to customers when selecting measures for executives' performance-related incentive arrangements

4.1.4 Ahead of the first use of our "customer basket of measures" in our 2020 long-term incentive, to make sure we were focused on their priorities we consulted customers through a comprehensive research exercise. The company's continuous research programme allows us to capture how customer priorities change and evolve over time, and these insights help inform our incentive framework from year to year. The 'Your water, your say' sessions conducted during Spring/Summer 2023, including the additional regional sessions we held, are a useful example of opportunities for us to hear from customers about their priorities, with any comments received that related to executive pay being fed back to the committee for consideration.

4.1.5 The committee reviews the performance pay measures annually, enabling it to continue to reflect the key areas of priority for the business and our stakeholders at the time of each new incentive cycle. This also allows us to take account of the concerns of regulators and investors in order to make sure that the company is meeting its broader duties to all stakeholders.

4.2 Setting stretching targets

4.2.1 Our annual bonus and long-term incentive plan reflect stretching targets linked to delivery for customers, communities and the environment. Details of the 2022/23 awards and the targets they were based on are available in the UUG PLC remuneration report[5] and summarised in Table 8 and 9 below. As can be seen, these targets were sufficiently stretching that in several cases, stretch target was not achieved.

Table 8: 2022/23 Annual bonus measures related to delivery for customers, communities and the environment

Measure	Weighting (2022/23)	Customers, communities and the environment
C-MeX ranking out of the 17 water companies	10%	**Why this measure:** Using Ofwat's own measure of customer experience makes sure that executives are incentivised to deliver the best service to customers. Delivery of high levels of customer service is required in order to perform well in the C-MeX rankings. The higher the ranking, the better the company performance. **Outcome:** In 2022/23 target performance was a ranking of 7th out of 17 whereas stretch performance was a ranking of 5th out of 17. We achieved 5th position, equating to upper-quartile performance.
Number of written complaints received (per 10,000 customers)	5%	**Why this measure:** A measure which focuses on reducing the number of complaints made by customers again means executive directors are incentivised to deliver the best service to customers. A greater number of complaints represents a worse level of performance. **Outcome:** In 2022/23 target performance was a complaints level of 17.10 per 10,000 customers, whereas stretch performance was a complaints level of 16.80 per 10,000 customers. We achieved 20.70 per 10,000 customers, which was below threshold performance and resulted in nil-payout for the measure.
Number of water quality contacts received (regarding the appearance of water)	10%	**Why this measure:** 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 drives performance improvements in this aspect of our service, as we know it is a priority for our customers. A greater number of contacts means a lower level of performance. **Outcome:** In 2022/23 target performance was 6,974 contacts, whereas stretch performance was 6,344 contacts. We achieved 5,936 contacts which represented a 26% improvement on the prior year's performance.
Delivery of our Better Rivers commitments	10%	**Why this measure:** Improving river health and recreation in the North West is a priority for the company. We have published a four-part plan setting out how we will achieve this for the benefit of customers, the environment and other stakeholders. **Outcome:** In 2022/23 target performance was to deliver 95% of our ambitious programme milestones, whereas stretch performance was to deliver 100% of them. Whilst we achieved 100% of the milestones, the executives voluntarily waived the outcome related to this measure.

[5] The 2022/23 directors' remuneration report commences on page 170 of the UUG PLC annual report available at unitedutilities.com/corporate/about-us/performance/annual-performance-report/. Reports for previous years are also available on our website or by request.

Measure	Weighting (2022/23)	Customers, communities and the environment
Achievement of outcome delivery incentives (ODIs)	25%	**Why this measure:** This measure is aligned to the delivery of the customer priorities underpinning the ODIs, and operates by summing 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. The value of the ODI incentives must exceed a predetermined level set relative to the AMP7 determination, so non-delivery of our performance commitments resulting in financial penalties being applied can therefore reduce the likelihood of targets being achieved. **Outcome:** In 2022/23 target performance was a reward of £28.0M, whereas stretch performance was a reward of £35.7M. We achieved £22.2m, which was between the threshold and target performance levels.
Efficient delivery of our capital programme ("capital programme delivery incentive" or CPDi)	15%	**Why this measure:** The efficient delivery of capital programmes improves services and pricing for customers by focussing on keeping costs low, quality high and completion on time. The CPDi measure also takes account of the carbon impact of our enhancement projects, providing a further environmental element to the annual bonus arrangements. The higher the score, the better the performance. **Outcome:** In 2022/23 target performance was a CPDi score of 85.0%, whereas stretch performance was a CPDi score of 95.0%. We achieved a CPDi score of 92.9%, which was between the target and stretch performance levels.
Total	75%	**Overall outcome:** • 75% of 2022/23 annual bonus was directly linked to delivery for customers, communities and the environment. • Of this, 51.4% was measured as achieved and 23.6% was measured as not achieved, although the executives waived the 10% related to the achievement of the Better Rivers measure. • As such, of the 75% of bonus that related to customer and environmental metrics, the executives received 41.4%.

Source: United Utilities Annual report 22/23, unitedutilities.com/corporate/about-us/performance/annual-performance-report/

Table 9: 2020 long-term incentive plan measures related to delivery for customers, communities and the environment

Long-term incentive plan	Weighting (2020-2023)	Customers, communities and the environment
Customer basket of measures	50%	The customer basket of measures captures delivery of performance for customers, communities and the environment across a broad range of criteria. It covers areas of our service provision that we know from our ongoing programme of customer research are priorities for customers. Stretching targets were set for each of the measures contained in the basket. As summarised in Table 8 above the measures were: • reduce the number of sewer flooding incidents; • reduce the number of pollution incidents; • reduce leakage; • deliver treatment works compliance; • deliver against the regulatory customer service measure (C-MeX) ranking; • lift customers out of water poverty; • support more vulnerable customers by increasing the number of customers registered for Priority Services; • reduce the number of customers who contact us about water quality concerns; • improve our performance under the DWI's compliance risk index assessment; and • deliver against the Environment Agency Environmental Performance Assessment rating.
Total	50%	**Outcome:** • 50% of the 2020 long-term incentive (due to vest in Summer 2023) was directly linked to delivery for customers, communities and the environment through the use of our customer basket of measures. • Overall, 37.8% was measured as achieved and 12.2% was measured as not achieved, although the executives waived 19% related to the achievement of environmental measures. • This meant that only 18.8% of the 50% available under the customer basket component vested.

Source: Annual report 22/23, unitedutilities.com/corporate/about-us/performance/annual-performance-report/

4.2.2 The Final Determination is a significant consideration in determining stretching performance, whilst recognising that performance pay measures and targets need to be set dynamically in order to calibrate performance and act as a strong incentives. The committee always considers what is stretching in the context of the metrics being used. This provides flexibility to build in new and emerging issues during the AMP (such as the incentives applied to management from 2022/23 on our Better Rivers targets, and in 2023/24 on reducing storm overflow activations) and also to ensure that targets remain appropriate and stretching during the performance period if, for example, there were a miscalibration in the price determination package.

4.3 Comparison with other water companies

4.3.1 We commissioned a desktop review of the performance pay policies operated elsewhere in the sector in order to understand how our annual bonus and long-term incentives compare in terms of their degree of customer focus.

4.3.2 We examined the 2022/23 performance pay arrangements for the chief executives of the other water companies, including the ten WaSCs. There are limitations on the analysis related to the degree of disclosure and transparency in some cases, and we are not certain whether the remuneration details we have been able to identify fully reflect all remuneration received by executives from all related parties, including offshore companies. Differences in incentive structures also limit the comparability between companies to some extent, particularly in relation to long-term incentives. We are also aware that the extent to which certain financial measures like totex and RORE relate to performance for customers is open to interpretation, so for the purpose of our review we focused only on measures with a clear impact on customers and the environment.

4.3.3 Despite the acknowledged limitations, the analysis appears to show that only one company had a greater weighting than ours of 75% on clear customer and environmental measures in their annual bonus arrangement, with the majority of companies having a level of 50% or less. When considering incentives overall (annual bonus and long-term incentives if applicable), only one company appears to have had a greater weighting on clear customer and environmental measures than ours of 62.5%, with the average being around 50%.

4.3.4 Further details of this analysis can be made available to Ofwat upon request.

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Water for the North West