Corporate governance report

Annual statement from the remuneration committee chair

Our executive pay arrangements are aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all.

Alison Goligher
Chair of the remuneration committee

Dear Shareholder

I am pleased to introduce the directors' remuneration report for the year ended 31 March 2021, which includes the annual report on remuneration and an abridged version of our directors' remuneration policy which was approved by shareholders at our 2019 AGM.

The onset of the COVID-19 pandemic in early 2020 introduced a unique set of challenges for the company and the communities within which we operate. As is outlined elsewhere in this annual report, our focus throughout the past year has been on protecting colleagues, supporting customers, and maintaining our essential water and wastewater services across the North West. Thanks to the extraordinary hard work and dedication of our employees, many of whom are key workers, we have continued to deliver high quality services to our customers and support the interests of our other stakeholders.

The year in focus

As a remuneration committee we are always mindful of the extent to which the remuneration of the executives aligns with the experience of our stakeholder groups. We have taken a close interest in the actions that have been taken to protect our employees and support their wellbeing during this difficult year. As outlined on pages 126 to 127, my role as the designated non-executive director for workforce engagement has enabled me to gain a first-hand understanding of the various initiatives that have been put in place and the feedback received from employees, which I have then been able to share with the committee for consideration. The committee has received regular updates on relevant matters affecting the workforce from our customer services and people director and head of reward at each meeting.

In the initial days and weeks of the pandemic, we made important changes to support the safety of our front-line colleagues, introducing safeguarding measures such as conducting risk assessments across all our sites. We implemented a range of measures to help and support over 3,000 employees who transitioned to home-working during the period. Recognising the broader impact of the pandemic on our employees and their families, we introduced a staff outreach scheme, offering one-time grants to employees whose families faced COVID-19 related financial challenges, to supplement our existing group-wide health and wellbeing schemes. No government support was accessed, no employees were furloughed or had their pay or benefits reduced, we have continued to recruit people through our graduate and apprentice programmes, and we are currently supporting the Government's Kickstart Scheme providing jobs for 16 to 24 year olds who are at risk of long term unemployment.

The team has performed extremely well in these challenging circumstances, with high levels of customer satisfaction and resilient services in times of significantly increased demand. In serving some of the most economically deprived areas in the country, we have been alert to the need to help customers who struggle to pay their bills and have extended our ongoing charitable support and community engagement programmes. As part of our commitment to Ofwat, we reduced average household bills by 5 per cent in real terms this year and acted swiftly to increase the number of households eligible for our social tariff alongside the extensive support we already provide to customers struggling with affordability, which now covers over 200,000 customers. We worked with our suppliers across the region to provide enhanced payment terms to aid cash flows, and accelerated our capital expenditure to bring forward benefits and help support 17,700 jobs in the supply chain.

Against this background our performance in this first year of the new regulatory period has been strong, with outperformance of the regulatory contract and positive ODI rewards resulting in good outcomes for shareholders.

QUICK FACTS

- The code requires that "the board should establish a remuneration committee of at least three independent non-executive directors".
- The role of the committee is to set remuneration terms for all executive directors, other senior executives and the Chairman.
- By invitation of the committee, meetings are attended by the Chairman, the CEO, the company secretary, the customer services and people director, the head of reward and the external adviser to the committee.
- Our remuneration policy was approved by shareholders at the 2019 AGM and is intended to apply until the 2022 AGM.

Quick link

Terms of reference – unitedutilities.com/corporate-governance

Index

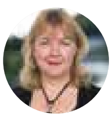
Read about how our remuneration approach complies with the UK Corporate Governance Code on page 162

Read our At a glance summary: executive directors' remuneration on pages 164 to 166

Read our Annual report on remuneration on pages 167 to 181

Read our Directors' remuneration policy on pages 182 to 188

Remuneration committee members



Alison Goligher (chair)

Kath Cates

Mark Clare

Brian May

Implementation of the directors' remuneration policy during 2020/21

Salary

Recognising the difficulty being experienced by many customers in our region, all members of the board, including the executive directors, volunteered a 20 per cent reduction to their salary/fees for the three-month period to August 2020, and agreed that giving the money to the foodbank charity FareShare would be an effective way to support vulnerable groups within our communities. Further details on our relationship with FareShare are shown on page 43.

Whilst our policy is that executive directors normally receive a salary increase broadly in line with the increase awarded to the general workforce (which was 2.3 per cent in the year), in recognition of the wider economic environment, all members of the board agreed that they would not receive scheduled increases during 2020/21. Salaries will next be reviewed in September 2021.

Annual bonus

Employees throughout the company participate in the same bonus scorecard as the executive directors, to ensure a shared focus on the business plan at all levels. As outlined in the Strategic Report we have seen another strong year of customer service, operational and financial performance, despite the challenges presented by the pandemic and periods of significantly increased demand.

We are leading the way on customer satisfaction and have made a strong start to our AMP7 customer ODIs delivering net outperformance this year, demonstrating resilient performance across most of the targets set for us by the regulators. While our written customer complaints performance for the year has fallen below our targets, in part reflecting the higher level of complaints during the dry spring in 2020 and our focus on collecting cash from those customers who are able to pay, but choose not to, we still expect our relative performance to be upper quartile compared with the other water and wastewater companies.

Underlying operating profit was down compared to last year as expected, and largely reflecting lower revenues arising from the new price control.

The efficient and effective delivery of the capital programme is reflected in our Time, Cost and Quality index (TCQi) score which remains high at 95.3 per cent.

Overall company results have led to an annual bonus out-turn for the executive directors of around 82 per cent of maximum (compared to the 2019/20 outcome of around 71 per cent of maximum) and a company-wide bonus pool totalling around £18 million (compared to around £17 million in the prior year), reflecting the exceptional efforts and high levels of performance of the workforce during the very challenging year.

Long-term incentives

The outcome of the Long Term Plan (LTP) awards which were granted in 2018 will be confirmed in the summer of 2021, with an estimated vesting outcome of around 90 per cent. This reflects the continued delivery of high standards of customer service set in recent years, the achievement of just under the stretch level of sustainable dividend performance, and full vesting under the relative total shareholder return condition due to a return of 48 per cent over the performance period (compared to the stretch target of 26 per cent). As outlined in last year's report and as noted on page 169, as a result of Ofwat transitioning from SIM to C-MeX, the committee used its discretion to amend the customer service element of the award to be based on the new C-MeX measure and written complaints. The final outcome of this element will not be known until the volume of written complaints received by other companies are available later in 2021 and the overall vesting level can be confirmed. The awards for the executive directors will vest only after the completion of a two-year holding period, during which the shares will remain subject to withholding provisions. The committee believes that this approach aligns the interests of the executive directors with those of shareholders and customers.

During 2018/19, the committee consulted with shareholders on changing the structure of the LTP, so future awards would be based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures. These changes were approved at the 2019 AGM and applied with respect to the 2020 awards onwards. LTP awards are normally granted in June each year, but 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 grants until November to allow more time to settle the targets, details of which are set out on page 170. Stretching targets have been set for RoRE based on the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance. In respect of the customer basket, the committee finalised the selection of measures having taking into account the feedback received from customer research and focus groups (as to which areas of service/performance they considered the highest priority) and the performance commitments agreed with Ofwat, thereby ensuring that the measures reflect the views of our stakeholders.

Executive director changes

Russ Houlden retired from the board and as chief financial officer on 24 July 2020 and left the company on 31 July 2020. Russ' departure was treated in line with the remuneration policy for retirees and in line with the approach set out in last year's remuneration report. Following a rigorous selection process, we were delighted to appoint Phil Aspin to the role as successor. Phil's salary was set at £400,000 on his appointment, with a pension contribution aligned to the workforce rate. Other details of his package are set out on page 167.

Agenda for 2021/22

As a committee, we have always sought to fully embrace the changing landscape and implement remuneration arrangements that are transparent and well-aligned to our purpose, vision and strategy, and this continues to guide our approach for the current year and beyond.

No significant changes are proposed to the operation of the policy for 2021/22. Details of the measures and targets for the annual bonus plan and 2021 LTP awards are set out on page 171.

We have a regular programme of engagement with shareholders each year in advance of our AGM and were pleased that towards the end of 2020 the company had the opportunity to speak with Glass Lewis about our approach to executive remuneration.

The next directors' remuneration policy will be subject to approval by shareholders in 2022 and we will engage with shareholders about any potential changes to the policy at the appropriate time.

We continue to use our Employee Voice panel meetings as opportunities to discuss directly with employees our executive pay approach and its alignment with that of the workforce, as well as hearing the general views, concerns and comments from our workforce. Listening to the views of all the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy, and the committee is grateful for all inputs received.

This is my first report as chair of the remuneration committee, having been on the board and a member of the committee since 2016. I was delighted to be appointed committee chair in July 2020, taking over from Sara Weller, and I would like to express my personal thanks and that of the whole committee to Sara for her guidance and stewardship over last eight years.

I hope we will continue to receive your support this year for the remuneration resolution at the forthcoming AGM.

Alison Goligher
Chair of the remuneration committee

Corporate governance report

Code principle – remuneration

5
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.

We describe how our remuneration approach aligns with our business strategy on page 164.

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.

The following table summarises how our shareholder approved remuneration policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

CLARITY

The committee is committed to providing transparent disclosures to shareholders and the workforce 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. 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.

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 Long Term Plan).

PREDICTABILITY

Payouts under the annual bonus and 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-linked. These schemes have strict maximum opportunities, with the potential value at threshold, target and maximum performance scenarios provided in the directors' remuneration report.

RISK

The committee has designed incentive arrangements that explicitly 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. The use of annual bonus deferral, LTP holding periods and our shareholding requirements provide a clear link to the ongoing performance of the group and ensure alignment with shareholders, which continues after employment.

REMUNERATION APPROACH

There are three key principles of our approach to executive remuneration.

1

Align
to our purpose, vision and strategy

2

Incentivise
great customer service

3

Create long-term value
for all of our stakeholders

Corporate governance report

At a glance summary: executive directors' remuneration

ALIGNING OUR REMUNERATION APPROACH TO BUSINESS STRATEGY

Our remuneration approach is aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all of our stakeholders.

The following table provides a summary of how our incentive framework in 2020/21 aligns with our business strategy and the results that it delivers. Many of the performance measures are key performance indicators (KPIs) for the regulatory period 2020–25 (see pages 50 to 51). Details about how our approach to executive remuneration is aligned with the approach to remuneration across the wider workforce are shown on pages 172 to 175.

	Alignment to strategy	Link to strategic themes	Alignment to purpose reflecting views of different stakeholders
Annual bonus			
Underlying operating profit	Key measure of shareholder value.		
Customer service in year • C-MeX ranking • Written complaints	Delivering the best service to customers is a strategic objective. Ofwat can apply financial incentives or penalties depending on our customer service performance.		
Maintaining and enhancing services for customers • Outcome delivery incentive (ODI) composite • Time, cost and quality of the capital programme (TCQi)	Delivering the best service to customers is a strategic objective. There is a direct financial impact on the company of Ofwat incentives and penalties for delivery/non-delivery of customer promises. Keeping tight control of our capital programmes ensures we can provide a reliable service to our customers at the lowest sustainable cost.		
Compulsory deferral of bonus	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.		
Long Term Plan (LTP)			
Return on Regulated Equity (RoRE)	Outperformance will result in an increase to RoRE which should translate into higher returns for investors through share price performance.		
Customer basket of measures	Delivering the best service to customers is a strategic objective. There is a direct financial impact on the company of Ofwat incentives and penalties for delivery/non-delivery of customer promises.		
Additional holding period (at least two years)	Ensures continued alignment with shareholder interests and provides an additional period over which withholding can be applied.		
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.		

KEY

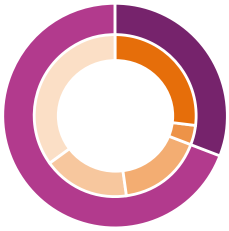
- The best service to customers
- At the lowest sustainable cost
- In a responsible manner
- Communities
- Customers
- Environment
- Investors
- Suppliers

EXECUTIVE DIRECTORS' REMUNERATION POLICY

Elements of executive directors' pay

A significant proportion of executive directors' pay is performance-linked, 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):

Fixed vs performance-linked (%)[1]



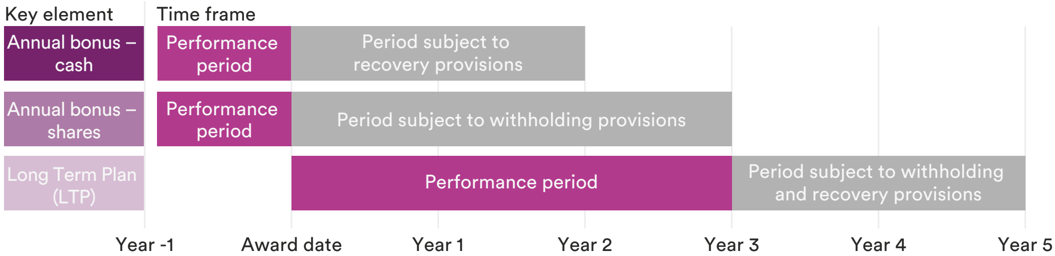
Fixed	**31%**	**Performance-linked**	**69%**
Base salary	27%	Annual bonus – cash	17%
Pension and other benefits	4%	Annual bonus – shares	17%
		Long Term Plan (LTP)	35%

Short-term vs long-term (%)[1]

Short-term	**48%**	**Long-term**	**52%**
Base salary	27%	Annual bonus – shares	17%
Pension and other benefits	4%	Long Term Plan (LTP)	35%
Annual bonus – cash	17%		

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

Pay at risk



Further details on what triggers the withholding and recovery provisions can be found on page 184.

Implementation of directors' remuneration policy in 2020/21

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2020/21. For further details see the annual report on remuneration on pages 167 to 181.

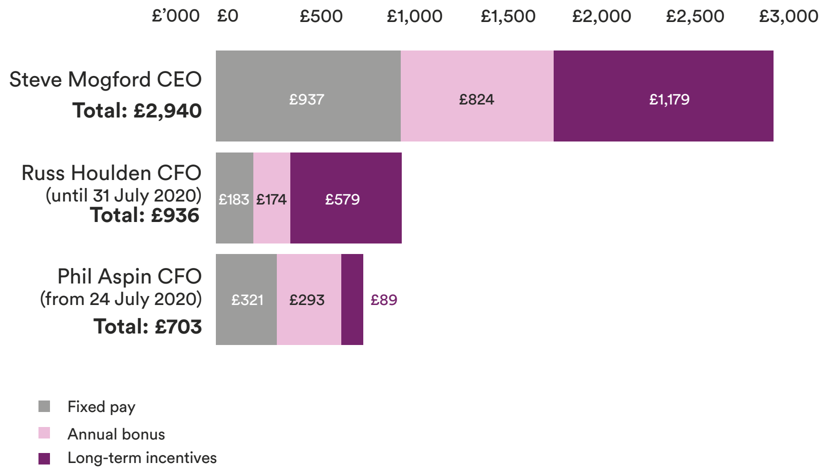
Key element	Implementation of policy in 2020/21
Base salary	• No salary increase for Steve Mogford in 2020. Phil Aspin's salary was set at £400,000 on his appointment as Chief Financial Officer from 24 July 2020. See page 167 for further details.
Benefits and pension	• Market competitive benefits package. • Steve Mogford has a cash pension allowance of 22 per cent of base salary. His pension arrangements will be aligned to those of the wider workforce as part of the next directors' remuneration policy. See page 167 for further details. Phil Aspin has a cash pension allowance of 12 per cent of base salary in line with the wider workforce.
Annual bonus	• Maximum opportunity of 130 per cent of base salary. • 2020/21 annual bonus outcome of 81.8 per cent of maximum. • 50 per cent of 2020/21 annual bonus deferred in shares 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 89.6 per cent for the performance period 1 April 2018 to 31 March 2021. These awards will vest after an additional two-year holding period. • Withholding and recovery provisions apply.
Shareholding guidelines	• Personal shareholding for Steve Mogford remains above the 200 per cent of salary minimum guideline. Phil Aspin is expected to reach the minimum guideline within five years of his appointment to the board. Post-employment shareholding requirements apply. See page 176.

Corporate governance report

At a glance summary: executive directors' remuneration

SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS FOR 2020/21

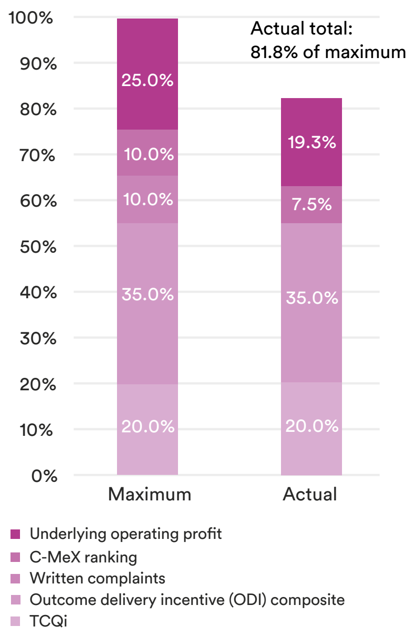
Fixed pay comprises base salary, benefits and pension. Further information on the single figure of remuneration can be seen on page 167.



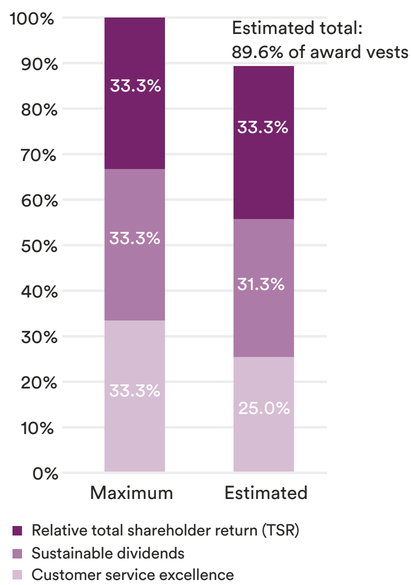
ANNUAL BONUS AND LONG TERM PLAN (LTP) OUTCOMES

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 168 and about the LTP on page 169.

2020/21 Annual bonus outcome



Estimated 2018 Long Term Plan (LTP) outcome



ALIGNING PAY WITH PERFORMANCE

ANNUAL BONUS – YEAR ENDED 31 MARCH 2021

Underlying operating profit(1)
£763.0m

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

Written complaints
16.51

Outcome delivery incentive (ODI) composite
£18.1m

Time, Cost and Quality index (TCQi)
95.3%

LONG TERM PLAN – THREE YEARS ENDED 31 MARCH 2021

Relative total shareholder return (TSR)(2)
48.0%

Sustainable dividends(3)
1.35

Customer service excellence(4)
4th out of 11

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) Above stretch versus the comparator group. See page 169 for further details.

(3) Average underlying dividend cover over 2018/19 and 2019/20.

(4) The estimated ranking versus the other WASCs in a combined customer service measure comprising C-MeX and written complaints.

Corporate governance report

Annual report on remuneration

EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 MARCH 2021

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

	Fixed pay								Variable pay							
Year ended	Base salary £'000		Pension £'000		Benefits £'000		Subtotal £'000		Annual bonus £'000		Long-term incentives £'000		Subtotal £'000		Total £'000	
31 March	2021[1]	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021[2]	2020[3]	2021	2020	2021	2020
Steve Mogford	**736**	769	**171**	169	**30**	35	**937**	973	**824**	707	**1,179**	974	**2,003**	1,681	**2,940**	2,654
Russ Houlden[4]	**139**	486	**36**	107	**8**	24	**183**	617	**174**	446	**579**	615	**753**	1,061	**936**	1,678
Phil Aspin[5]	**275**	n/a	**33**	n/a	**13**	n/a	**321**	n/a	**293**	n/a	**89**	n/a	**382**	n/a	**703**	n/a

(1) Salary for Steve Mogford and Russ Houlden reflects a voluntary reduction of 20 per cent of salary for three months which was donated to charity. See page 43.

(2) The long-term incentive amount is in respect of the Long Term Plan (LTP) award which was granted in June 2018 for which the outcome is based on performance over the three-year period from 1 April 2018 to 31 March 2021. The LTP amount is estimated as the vesting percentage for the one-third relating to customer service excellence will not be known until later in 2021, and the awards for Steve Mogford and Russ Houlden will not vest until the end of an additional two-year holding period. Phil Aspin's award was granted prior to his appointment to the board and so no holding period applies. The shares under Russ Houlden's 2018 LTP award have been pro rated for time served in the performance period i.e. 28/36 months. For the purposes of this table the value of LTP awards has been calculated using an average share price over the three-month period from 1 January 2021 to 31 March 2021 of 913.3 pence per share. This is higher than the share price at the time these awards were made to participants and accordingly some of the value shown is attributable to share price appreciation. See page 169 for further details.

(3) The long-term incentive amount for the year ended 31 March 2020 is in respect of the LTP award that was granted in June 2017 and whose performance period ended on 31 March 2020. The figure stated in last year's report was based on a latest best estimate (LBE) for the customer service excellence measure which indicated an overall vesting outcome of 79 per cent. The final confirmed outcome for the measure was better than the LBE which meant the actual overall vesting outcome was 87.3 per cent. The figure for 2020 has been updated to reflect this. Additionally, dividend equivalents accrued to 31 March 2021 have been added. The awards for Steve Mogford and Russ Houlden are not due to vest until April 2022 following an additional two-year holding period and for the purposes of this table have been valued on the basis of the average share price over the three-month period from 1 January 2021 to 31 March 2021 of 913.3 pence per share.

(4) Salary, benefits, pension and annual bonus figures for Russ Houlden reflect part-year earnings and are for the period from 1 April 2020 to 31 July 2020 when his employment ended. He stepped down from the board on 24 July 2020.

(5) Salary, benefits, pension and annual bonus figures for Phil Aspin reflect part-year earnings and are for the period from 24 July 2020 when he was first appointed to the board. A bonus of around £53,000 was earned by Phil Aspin in respect of the period 1 April 2020 to 23 July 2020 prior to him joining the board. This is not included in the table.

Base salary

	Base salary £'000	
Executive director	1 September 2020	1 September 2019
Steve Mogford	**775.2**	775.2
Phil Aspin	**400.0**	n/a

The committee judged, and Steve Mogford was in agreement, that in the context of the COVID-19 pandemic his salary should not increase in 2020. This is a different approach in comparison to the 2.3 per cent increase applying to the general workforce in the year. Steve requested a voluntarily reduction of his salary by 20 per cent for three months with the value saved being donated to charity. See page 43.

On his appointment as Chief Financial Officer on 24 July 2020, Phil Aspin's salary was set at £400,000. In setting it at this level, which was lower than that received by Russ Houlden, the committee demonstrated its intent to reposition executive remuneration packages, whilst taking into account relevant external benchmarks. It is expected that future salary increases for Phil will be in line with the normal policy i.e. broadly in line with increases applied across the wider workforce in normal circumstances. The next salary review for the executive directors will be in September 2021.

Pensions

Steve Mogford has a contractual entitlement to receive a cash allowance of 22 per cent of base salary in lieu of pension. In accordance with code provision 38, his pension arrangements will be aligned to those of the wider workforce as part of the next directors' remuneration policy, expected to be put to shareholders at the 2022 AGM. Phil Aspin receives a cash allowance of 12 per cent of base salary in lieu of pension which aligns with the workforce rate, and again illustrates the committee's intention to reposition the overall executive remuneration package. For employees, the company doubles any contributions that employees make up to a maximum of 14 per cent of salary.

Benefits

For executive directors, benefits include: a car allowance of £14,000; health, life cover and income protection insurance; travel costs; and communication costs. No material changes are expected to benefits during the year commencing 1 April 2021.

External appointments

Steve Mogford was senior independent director of G4S PLC during the year ended 31 March 2021 for which he received and retained an annual fee of £97,000. He stepped down from the G4S PLC board in April 2021. Phil Aspin was appointed as a member of the UK Accounting Standards Endorsement board by BEIS with effect from 15 March 2021 for which he will receive an annual fee of £14,000.

Corporate governance report

Annual report on remuneration

ANNUAL BONUS

Deferred Bonus Plan awards made in the year ended 31 March 2021 (audited information)

Bonuses are earned by reference to performance in the financial year and paid in June following the end of the financial year. Fifty per cent of any bonus is deferred 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 2020 to the executive directors as at that date in respect of deferred share bonus payments for the 2019/20 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	38,742	£353	16.6.2023
Russ Houlden	Conditional shares	50% of bonus	24,469	£223	16.6.2023

(1) The face value has been calculated using the closing share price on 15 June 2020 (the dealing day prior to the date of grant), which was 911.9 pence per share.

Annual bonus in respect of financial year ended 31 March 2021 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2021 are set out below. As disclosed in last year's report the annual bonus for 2020/21 was wholly aligned to the group bonus scorecard with no specific personal performance element, although when determining the overall outcomes and whether any discretion should be exercised the committee took in to account the personal contributions of each individual. The table on page 164 summarises how the performance measures are linked to our business strategy.

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%	£643.0m	£729.2m	£791.0m	77.3%	19.3%
		Actual: £763.0m				
Customer service in year						
C-MeX ranking out of the 17 water companies	10.0%	8th position	6th position	4th position	75.0%	7.5%
		Actual: 5th position				
Written complaints	10.0%	14.63	14.49	14.36	0%	0%
	16.51					
Maintaining and enhancing services for customers						
Outcome delivery incentive (ODI) composite	35.0%	(£25.3m)	(£14.3m)	£0m	100%	35.0%
		Actual: £18.1m				
Time, cost and quality of capital programme (TCQi)[2]	20.0%	80.0%	87.5%	95.0%	100%	20.0%
		Actual: 95.3%				
Total:						
Actual award (% of maximum)						81.8%
Maximum award (% of salary)						130%
Actual award (% of salary)[3]						106.3%

	Steve Mogford	Russ Houlden[4]	Phil Aspin[5]
Actual award (£'000 – shown in single figure table)[6]	824	174	293

(1) The underlying operating profit figure for bonus purposes is based on the underlying operating profit on page 83 and excludes infrastructure renewals expenditure and property trading.

(2) TCQi is an internal measure which 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.

(3) Bonuses have been calculated using contractual salary.

(4) This is the bonus earned by Russ Houlden until his date of leaving the company on 31 July 2020.

(5) This is the bonus earned by Phil Aspin since his appointment as CFO on 24 July 2020. A bonus of around £53,000 was earned by Phil in respect of the period 1 April 2020 to 23 July 2020 prior to him joining the board. This is not included in the table above.

(6) Under the Deferred Bonus Plan, 50 per cent of the annual bonus for Steve Mogford and Phil Aspin will be deferred in shares for three years. As Russ Houlden is no longer employed, in line with the plan rules and as stated in last year's report the bonus will be paid in cash in full with no element being deferred in to shares.

LONG-TERM INCENTIVES

2018 Long Term Plan (LTP) awards with a performance period ended 31 March 2021 (audited information)

The 2018 LTP awards were granted in June 2018 and performance was measured over the three-year period from 1 April 2018 to 31 March 2021. As they were executive directors when they were granted in 2018 the awards for Steve Mogford and Russ Houlden will normally vest in April 2023, following an additional two-year holding period. The unvested shares will remain subject to withholding provisions during this two-year holding period. Phil Aspin was not an executive director when his award was granted and so in line with the remuneration policy this historic award will vest once the final outcome is confirmed. Under the shareholding guidelines he will be required to hold the vesting shares.

Note that the final outcome for the customer service excellence measure (which forms one-third of the award) will not be known until the customer service scores for the other water and wastewater companies are published in late summer 2021. The values of the 2018 LTP awards in the single total figure of remuneration table are therefore estimated and will be restated in next year's report once the final outcome is known.

The table below shows how the long-term incentive amount in respect of the 2018 LTP was calculated:

		Achieved				
Measure	% weighting of measure	Threshold (25% vesting)	Intermediate	Stretch (100% vesting)	Vesting as a % of maximum	**Outcome**
Relative total shareholder return (TSR)						
TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies)[1]	33.3%	Median TSR	Straight-line between threshold and stretch	Median TSR × 1.15	100%	**33.3%**
		Actual: TSR above stretch				
		Company TSR of 48.0% was above stretch TSR of 25.8%				
Sustainable dividends			(50% vesting)			
Average underlying dividend cover over the part of the performance period up to the end of the regulatory period	33.3%	1.18	1.27	1.36	93.9%	**31.3%**
		Actual: 1.35				
Underpin: Dividend growth of at least RPI in each of the years 2018/19 and 2019/20		✓ Met				
Customer service excellence[2]						
Ranking for the year ended 31 March 2021 out of the 11 water and wastewater companies using a combined customer service measure comprising C-MeX performance and customer complaints[3]	33.3%	Median rank (6th position)	Straight-line between threshold and stretch	Upper quartile rank (3rd position)	75.0.%	**25.0%**
		Estimate: 4th position				
Overall underpin Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance		✓ Assumed met. The committee will make a final assessment of the company's performance once the outcome of the customer service excellence measure is known.				
Estimated vesting (% of award)						**89.6%**

	Steve Mogford	Russ Houlden[4]	Phil Aspin
Number of shares granted	129,030	81,488	9,753
Number of dividend equivalent shares	15,016	8,577	1,133
Number of shares (including dividend equivalent shares) lapsed due to time pro rating	n/a	19,264	n/a
Number of shares before performance conditions applied	144,046	70,801	10,886
Estimated number of shares after performance conditions applied	129,065	63,437	9,753
Three-month average share price at end of performance period (pence)[5]	913.3	913.3	913.3
Estimated value at end of performance period (£'000 – shown in single figure table)[6]	£1,179	£579	£89

(1) For the purposes of calculating TSR, the TSR index is averaged over the three months prior to the start and end of the performance period. TSR is independently calculated by the committee's advisers.
(2) As disclosed in the 2019 DRR, this element of the 2018 LTP was originally based on a ranking versus the other water and wastewater companies using Ofwat's Service Incentive Mechanism (SIM) combined score, with 25 per cent vesting for a median ranking and 100 per cent vesting for an upper quartile ranking. As a result of Ofwat transitioning from SIM to C-MeX as its primary assessment of customer service, the committee resolved to adjust this element of the 2018 LTP to be based on the new C-MeX measure and written complaints, with targets set to be of equivalent difficulty.
(3) This is an estimate as the final outcome will not be known until the volume of written complaints received by other companies are available later in 2021.
(4) As confirmed in last year's report, the committee exercised its discretion to allow good leaver status to apply to Russ Houlden's outstanding LTP awards upon his retirement. A pro rata reduction has been made to his 2018 LTP award to reflect the proportion of the performance period served.
(5) Average share price over the three-month period from 1 January 2021 to 31 March 2021.
(6) 17.8 per cent of the value vesting is attributable to share price appreciation which equates to £210,000 for Steve Mogford, £103,000 for Russ Houlden and £16,000 for Phil Aspin.

Corporate governance report

Annual report on remuneration

2020 LTP awards with a performance period ending 31 March 2023 (audited information)

The table below provides details of share awards made to executive directors on 30 November 2020 in respect of the 2020 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	£1,008	112,097	25%	31.3.2023
Phil Aspin	Conditional shares	130% of salary	£520	57,842	25%	31.3.2023

(1) The face value has been calculated using the closing share price 27 November 2020 (the dealing day prior to the date of grant) which was 899.2 pence per share.

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

As part of the directors' remuneration policy review during 2018/19 the committee consulted with shareholders on changing the structure of the LTP such that the 2020 and future awards would be based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures. Shareholders approved the new policy at the 2019 AGM.

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.

Stretching targets were set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance. When determining the measures that should form the customer basket component of the awards the committee took in to account feedback received from customer research and focus groups (as to which areas of service and performance they considered the highest priority) and the performance commitments agreed with Ofwat in the final determination for the regulatory period, thereby ensuring that the measures selected reflected the views and priorities of key stakeholders. The committee is pleased that alongside focusing on areas of performance that will have meaningful and tangible outcomes for customers, the measures chosen reflect its commitment to recognising evolving expectations in regard to environmental, social and governance matters.

Details about the 2020 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2020 to 31 March 2023. The table on page 164 summarises how these performance measures are linked to our business strategy.

Measure	Targets(1) Threshold (25% vesting)	Stretch (100% vesting)	Weighting
Return on Regulated Equity (RoRE)			
Company RoRE	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	50.0%
Customer basket of measures(2)			
C-MeX ranking out of all the other water and wastewater companies(3)	Ranked 9th	Ranked 6th or better	5.0%
Water poverty(3)	62,100 customers have been lifted out of water poverty	83,000 (or more) customers have been lifted out of water poverty	5.0%
Priority services(3)	N/A	5.5% or more of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents(3)	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	5.0%
Pollution incidents(4)	23.00 pollution incidents per 10,000km of our wastewater network	≤21.54 pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance(4)	97.9% compliance	≥99.0% compliance	5.0%
Water quality contacts(4)	14.7 customer contacts per 10,000 customers	≤13.8 customer contacts per 10,000 customers	5.0%
Leakage(3)	A three-year average of 101.6 megalitres of leakage per 10,000km of our water network per day	A three-year average of less than or equal to 97.6 megalitres of leakage per 10,000km of our water network per day	5.0%
Compliance risk index (CRI)(4)	CRI score of 3.27	CRI score of ≤2.00	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating(5)	3 star rating	4 star rating	5.0%
Overall underpin			
Overall vesting is subject to the committee being satisfied that the company's 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.			

(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 and/or the other water companies' 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

INCENTIVES IN 2021/22

Ensuring alignment with our business plan

The performance measures used in our incentive schemes during 2021/22 will remain aligned directly with the business plan, with a material weighting on measures that are linked to delivery for customers. Further details about the measures used and the stretching targets set will be provided in next year's directors' remuneration report.

Annual bonus in respect of the financial year commencing 1 April 2021

The maximum bonus opportunity for the year commencing 1 April 2021 will remain unchanged at 130 per cent of base salary.

The annual bonus will operate in broadly the same way as that for 2020/21, except the calculation approach for the written complaints measure will be different compared to previous years. Complaints were previously reported using the SIM complaints and unwanted contacts methodology which is now discontinued. Water companies now report all complaints to the Consumer Council for Water on the basis of 10,000 connected properties and so the targets for 2021/22 have been set on this basis. This means that comparing the written complaints targets from 2020/21 with those agreed for 2021/22 is not a like-for-like comparison, but the committee is satisfied that the targets set are stretching when taking account of previous performance and expected relative performance versus the other water and wastewater companies.

The table below summarises the measures, weighting and targets for the 2021/22 bonus. Targets that are considered commercially sensitive will be disclosed retrospectively in the 2021/22 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	8th position	6th position	4th position	10.0%
Written complaints (per 10,000 connected properties)	20.50	20.25	20.00	10.0%
Maintaining and enhancing services for customers				
Outcome delivery incentive (ODI) composite		Commercially sensitive		35.0%
Time, cost and quality of capital programme (TCQi)[2]	85.0%	90.0%	95.0%	20.0%
Total				100%

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

(2) TCQi is an internal measure which 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.

2021 LTP awards with a performance period ending 31 March 2024

Awards are expected to be made in late June 2021 and the award level for executive directors will remain unchanged at 130 per cent of base salary.

Stretching targets will be set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance.

In respect of the customer basket, the committee will again finalise the selection of measures in consideration of customer priorities and performance commitments agreed by Ofwat in the final determination for the regulatory period.

Corporate governance report

Annual report on remuneration

ALIGNMENT OF EXECUTIVE PAY APPROACH WITH THAT OF THE WIDER WORKFORCE AND LISTENING TO THE EMPLOYEE VOICE

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 173, 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 workforce's pay and benefits.

The committee has mechanisms through which it hears from and engages with the workforce on executive pay. As chair 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 this respect. Alison hosts sessions with the Employee Voice panel which cover topics including the alignment of our executive pay approach with that of the wider workforce, providing valuable opportunities for open discussions and feedback. See pages 126 and 127 for further details.

The figures below show how the percentage change in the CEO's salary, benefits and bonus earned in 2019/20 and 2020/21 compares with the percentage change in the average of each of those components for a group of employees. The table below that shows the same information in respect of each board member.

Change in CEO remuneration

Base salary[1]	Bonus[2]	Benefits[3]
-4.2%	+16.7%	-14.1%

Change in employee remuneration[4]

Base salary[5]	Bonus	Benefits
+4.1	+13.6%	+6.9%

Change in other board member remuneration

	% change in 2020/21 versus 2019/20		
	Salary/Fees	Benefits[3]	Bonus
Executive directors[2]			
Russ Houlden[6]	-4.2%	n/a	n/a
Phil Aspin[7]	n/a	n/a	n/a
Non-executive directors[8]			
Sir David Higgins[6] [9]	111.1%	-96.6%	n/a
Stephen Carter	-4.4%	-93.0%	n/a
Kath Cates[7]	n/a	n/a	n/a
Mark Clare	-4.4%	-96.6%	n/a
Alison Goligher[10]	9.4%	-81.0%	n/a
Brian May	-4.4%	-96.6%	n/a
Paulette Rowe	-4.2%	-95.2%	n/a
Doug Webb[7]	n/a	n/a	n/a
Sara Weller[6]	-4.4%	n/a	n/a

(1) Steve Mogford received no salary increase in 2020/21 and the salary received reflects a voluntary reduction of 20 per cent for three months which was donated to charity. See page 43 for further details.
(2) Steve Mogford's annual bonus in 2019/20 reflected a discretionary reduction related to the performance of Water Plus in that year. No such adjustment has been made to his 2020/21 annual bonus with the outcome being based on the group scorecard, which also applies to the bonuses received by the wider workforce. See page 168 for further details.
(3) Benefits for all board members decreased primarily due to a reduction in travel and subsistence costs arising from the COVID-19 pandemic. A year-on-year comparison of benefits for Russ Houlden and Sara Weller would not be meaningful as they both stepped down from the board on 24 July 2020.
(4) To aid comparison, the group of employees selected by the committee are all those members of the workforce who were employed over the complete two-year period.
(5) Includes promotional increases. The headline salary increase for employees was 2.3 per cent.
(6) Russ Houlden stepped down from the board on 24 July 2020. Sir David Higgins was appointed to the board on 13 May 2019. Sara Weller stepped down from the board on 24 July 2020. To enable a meaningful year-on-year comparison their salary/fees reflect hypothetical full-year earnings, however we do not believe a year-on-year comparison of bonus outcomes for Russ Houlden is appropriate given his date of departure.
(7) Phil Aspin was appointed to the board on 24 July 2020. Kath Cates and Doug Webb were appointed to the board on 1 September 2020.
(8) Calculated using the fees and taxable benefits shown in the table on page 178. The fees for the non-executive directors were not changed in 2020/21 and reflect a voluntary reduction of 20 per cent for three months which was donated to charity. See page 43 for further details.
(9) The fee increase shown for Sir David Higgins reflects 2020/21 being his first full year as Chairman. In the prior year his fees were associated with his role as a non-executive director and chairman designate.
(10) The fee increase for Alison Goligher reflects her appointment as remuneration committee chair with the associated fee effective from 24 July 2020.

CASCADE OF REMUNERATION THROUGH THE ORGANISATION

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

Employee group (number of employees covered)	Element of pay	Description
Employees at all levels (around 5,700)	Salary	We want to attract and retain employees of the experience and quality required to deliver the company's strategy. Salaries are reviewed annually, with executive directors normally receiving a salary increase broadly in line with the increase awarded to the general workforce. As a Living Wage accredited employer all our employees (except those on a training scheme such as apprentices) receive at least the voluntary living wage rate. In 2020 the base salary increase for employees was 2.3 per cent (the executive directors did not receive an increase).
	Health and wellbeing benefits	All employees are eligible for company-funded healthcare and an enhanced company sick pay scheme. Employees have access to a medical advice and information service (Best Doctors) service for them and their families. All employees have free 24/7 access to our employee assistance programme which provides counselling and support to employees and their households. We have over 150 trained mental health first aiders who can listen to and signpost employees 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 employees covering a broad range of money management topics such as financial planning, managing debt and pensions.
	Flexible benefits	All employees have access to a variety of additional voluntary benefits to suit their lifestyle, and can choose from a range of deals and discounts all year round. Employees can donate to their chosen charities directly from their pay if they want to. Around 50 per cent of employees take up at least one of these flexible options.
	Pension	Employees at all levels can participate in our award-winning pension arrangements and almost all of our employees choose to do so. The company doubles any contributions that employees make up to a maximum of 14 per cent of salary. As part of the pension scheme employees receive company-funded life assurance and income protection.
	ShareBuy	Any employee can become a shareholder in our company and share in our success by participating in our ShareBuy scheme. For every five shares an employee buys the company gives another one free. Just over half of the workforce participate in our ShareBuy scheme.
	Annual bonus – cash	Employees 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. There is strong alignment to strategy throughout the organisation, with the same scorecard applying at all levels.
CEO, CFO and executives (10)	Annual bonus – deferred shares	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)	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 (10)	Shareholding guidelines	All executives are subject to shareholding guidelines, aligning their interests with those of shareholders.

Corporate governance report
Annual report on remuneration

CEO PAY RATIOS

The table below sets out the ratio of the CEO's pay to that of the 25th percentile (P25), median (P50) and 75th percentile (P75) full-time equivalent employees. The ratios have been calculated in accordance with the regulations which provide for three different approaches to determine the pay ratio (Options A, B and C).

The data in the tables below has been calculated using Option A which is considered to be the most accurate methodology and uses the same calculation basis as required for the CEO's total remuneration as shown in the single figure table on page 167.

- We identified all employees who received base salary during the year ended 31 March 2021 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 2021, including bonuses earned by reference to performance in the financial year and paid in June following the end of the financial year.
- For employees 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.

		Pay ratios		
Financial year	Method	P25	P50	P75
2020/21	Option A	85:1	64:1	51:1
2019/20[1]	Option A	79:1	60:1	48:1

(1) The figures for 2019/20 have been restated to reflect the final vesting outcome, additional dividend equivalents and updated share price for Steve Mogford's 2017 LTP as shown in the single figure table on page 167.

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, employees 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.

	Pay ratios		
Pay ratios for different elements of remuneration (2020/21)	P25	P50	P75
Total remuneration (as above)	85:1	64:1	51:1
Salary plus annual bonus	52:1	38:1	30:1
Salary	26:1	19:1	15:1

The table below shows the total remuneration, salary plus annual bonus, and salary at each of the three quartiles.

	£'000			
	CEO	P25	P50	P75
Total remuneration	2,940	34	46	58
Salary plus annual bonus	1,560	30	42	52
Salary	736	29	39	50

The committee notes that there has been a small increase in the statutory CEO pay ratios this year, with the ratio of CEO total remuneration to the median employee (P50), for example, increasing from 60:1 to 64:1. This increase is driven primarily by a higher payout under the annual bonus and higher expected vesting under the LTP than recorded last year, and is partially offset by the voluntary salary reduction taken by the CEO for three months during the year. Having considered both the statutory and additional ratios, the committee is satisfied that the changes are related to appropriate differences in the structure of remuneration at different levels of the workforce, with 'at risk' performance-linked pay elements forming a greater proportion of the overall remuneration package at the most senior levels. See page 165 for further details. The committee will continue to consider the pay ratios in the context of other important metrics such as the gender pay gap and employee engagement levels.

COVID-19 IMPACT ON WORKFORCE REMUNERATION

Our main focus during the pandemic has been to ensure the health, safety and wellbeing of our employees, and the company has taken comprehensive action in this respect as outlined on pages 44 and 45.

In relation to workforce remuneration, we have not furloughed any employees and no employee has had their pay or benefits reduced. In recognition that some faced financial challenges as a result of their overall household income being affected, the company set up a staff outreach scheme to enable such employees to confidentially claim up to £5,000 in financial support which does not require repayment. To date, around 90 employees have accessed the scheme. We also introduced a winter payment allowance, where employees could apply for a smaller value award if their utility costs when working from home during the pandemic were greater than the savings they were making from not travelling to their workplace. Whilst employees would normally have received a company contribution towards a Christmas celebration with their team, we instead arranged for all employees to receive a digital voucher which they could put towards their own festive celebrations. Alternatively, employees could opt to donate this to the FareShare initiative and around 1,500 employees opted to do so.

In relation to executive pay the following table summarises the key decisions made by the committee.

Element of remuneration	Committee decision	Rationale
Board member salaries and fees	Each board member volunteered to donate 20 per cent of their salary/fees during the three-month period to August 2020. The values that would otherwise have been paid were donated to FareShare.	The committee considered it appropriate to apply this temporary reduction to demonstrate solidarity with company's customers and communities.
2020 salary review	No salary/fee increases for board members in 2020/21. The general employee base pay increase in 2020 was 2.3 per cent.	The committee considered it appropriate for salaries/fees to remain unchanged for 2020.
2017 Long Term Plan (LTP) award outcome	Outcome agreed according to normal timeline in summer 2020.	Noting that the company had not accessed any of the government-backed support schemes and that the pay and benefits for the workforce had not been reduced the committee deemed that there was no reason to delay the approval of the outcome of the awards.
2020 LTP award grants	Grant of awards delayed to November 2020.	In consideration of the uncertainty created by the pandemic the committee deemed it appropriate to delay award grants to allow more time to settle the targets.
2020/21 annual bonus outcome	Performance assessed based on the targets set at the start of the year with no adjustments. Resultant bonuses (including the deferred share element) to be award on the normal timescales.	The company's performance has been strong across all aspects of the scorecard. The same scorecard applies across the business and so outcomes for executives will be aligned with those for employees.
2021/22 annual bonus target-setting	Targets set according to usual timeline based on the latest information available.	The potential impacts of the ongoing pandemic are now better understood and so the committee did not deem it necessary to delay the target-setting process.

RELATIVE IMPORTANCE OF SPEND ON PAY

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

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

Corporate governance report

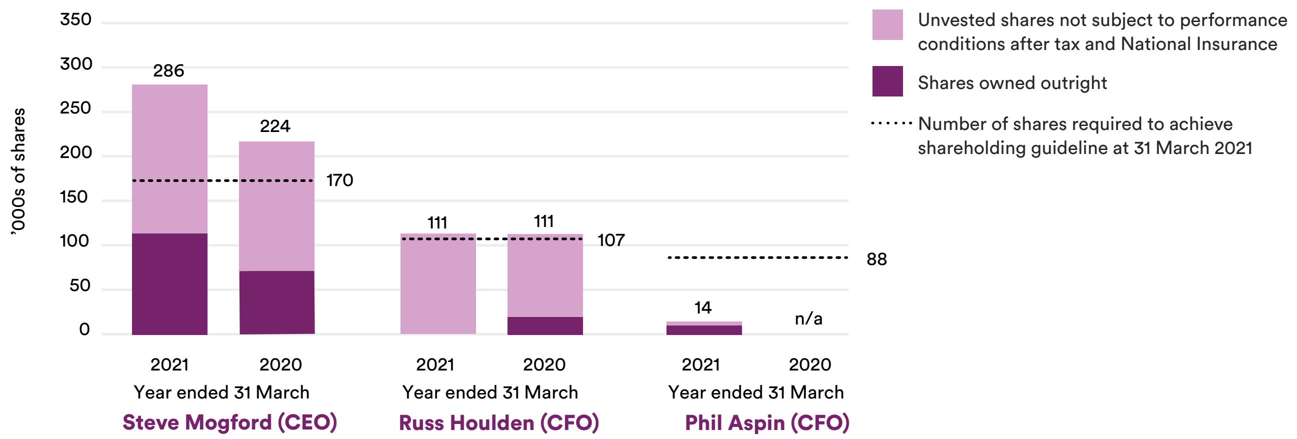
Annual report on remuneration

EXECUTIVE DIRECTORS' INTERESTS IN SHARES

Executive directors' shareholding (audited information)

Executive directors are expected to reach a shareholding guideline of 200 per cent of salary, normally within five years of appointment. The shareholding guideline includes a post-employment shareholding requirement, under which executive directors must continue to hold the lower of 200 per cent of salary in shares or their shareholding on departure, for two years after ceasing employment with the group. As the only current executive director in role before 19 May 2020, Steve Mogford must retain shares vesting from share awards relating to performance periods beginning on or after 1 April 2020 if not doing so would take his shareholding below the guideline. Phil Aspin (and future executive directors) must retain shares vesting from all share awards (including in-flight awards) if not doing so would take his shareholding below the guideline. The committee has put in place nominee arrangements for relevant vesting share awards to enable the post-employment shareholding requirements to be enforced.

Details of beneficial interests in the company's ordinary shares as at 31 March 2021 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 guideline level. Steve Mogford continues to exceed the target shareholding guideline level of 200 per cent of salary. Phil Aspin is expected to reach the minimum guideline by 24 July 2025 (within five years of his appointment to the board).



Further details of the executive directors' shareholdings and share plan interests are given in the table below and in the appendix on page 189.

Director	Shareholding guideline (% of salary)	Number of shares required to meet shareholding guideline[1]	Number of shares owned outright (including connected persons) 2021	2020	Unvested shares not subject to performance conditions[2] 2021	2020	Total shares counting towards shareholding guidelines[3] 2021	2020	Shareholding as % of base salary at 31 March 2021[1]	Shareholding guideline met at 31 March 2021	Unvested shares subject to performance conditions[4] 2021	2020
Steve Mogford[5][6]	200%	169,758	110,630	70,178	331,476	289,524	286,331	223,646	337%	Yes	390,702	381,010
Russ Houlden[6][7]	200%	107,216	0	14,195	208,838	182,219	110,684	110,791	206%	n/a	108,160	240,605
Phil Aspin[5]	200%	87,594	11,439	n/a	4,299	n/a	13,736	n/a	31%	No	79,794	n/a

(1) Share price used is the average share price over the three months from 1 January 2021 to 31 March 2021 (913.3 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 (on a net of tax and National Insurance basis), plus the number of shares owned outright.

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

(5) In the period 1 April 2021 to 26 May 2021, additional shares were acquired by Steve Mogford (30 ordinary shares) and Phil Aspin (31 ordinary shares) in respect of their regular monthly contributions to the all-employee ShareBuy scheme. These will be matched by the company on a one-for-five basis. Under the scheme, matching shares vest one year after grant provided the employee remains employed by the company.

(6) On 1 April 2021, shares granted on 28 June 2016 under the Long Term Plan vested for Steve Mogford and Russ Houlden following their additional two-year holding period. Steve Mogford had 78,203 shares vesting, of which 36,848 shares were sold to cover tax and National Insurance. Steve retained the remaining balance of 41,355 shares. Russ Houlden had 49,356 shares vesting, of which 23,070 shares were sold to cover tax and National Insurance.

(7) Russ Houlden left the company on 31 July 2020. Whilst due to the timing of his retirement Russ was not subject to the new formal post-exit shareholding policy, under existing provisions he will continue to retain an interest in shares vesting through the incentive schemes until 2023, three years after his retirement from the company.

OTHER INFORMATION

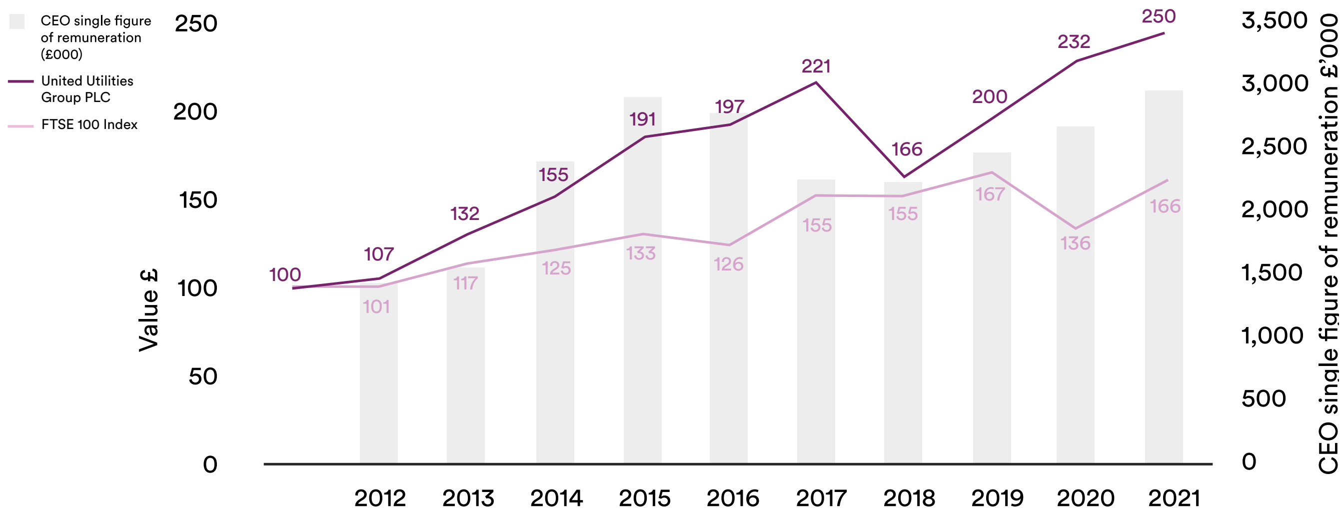
Dilution limits

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 2021.

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 December 2021 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
CEO single figure of remuneration (£'000)	1,421	1,549	2,378	2,884	2,760(1)	2,233	2,221	2,448(2)	2,654(3)	**2,940**
Annual bonus payment (% of maximum)	72.0	84.4	78.2	77.4	54.5	83.7	74.9	79.0	70.7	**81.8**
LTP vesting (% of maximum)(4)	n/a(5)	n/a(5)	93.5	97.5	33.6	54.5	55.4	64.4	87.3(3)	**89.6(6)**

(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 2016 LTP, which vested on 1 April 2021 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 928.4 pence per share.
(3) The payout and vesting percentage for the 2017 LTP have been restated to reflect the additional dividend equivalents accruing on the award, the final vesting outcome and updated share price. See page 167 for further details.
(4) For performance periods ended on 31 March, unless otherwise stated.
(5) Steve Mogford was not a participant in any long-term incentive plans that had performance periods ending during 2012 and 2013. For those who did participate in those plans, the vesting as a percentage of maximum was 37.5 per cent for those vesting in 2012 and 35.3 per cent for those vesting in 2013.
(6) The 2018 Long Term Plan amount vesting percentage is estimated. See page 169 for further details.

Date of service contracts

Executive directors	Date of service contract
Steve Mogford	5.1.11
Phil Aspin	24.7.20

Corporate governance report

Annual report on remuneration

NON-EXECUTIVE DIRECTORS

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

	Salary/fees £'000 [1]		Taxable benefits £'000		Total £'000	
	2021	2020	2021	2020	2021	2020
Sir David Higgins[2]	285	126	0	3	285	129
Stephen Carter	76	80	0	1	76	81
Kath Cates[3]	40	n/a	0	n/a	40	n/a
Mark Clare	78	81	0	3	78	84
Alison Goligher	74	68	0	0	74	68
Brian May	80	84	0	3	80	87
Paulette Rowe	65	68	0	2	65	70
Doug Webb[3]	40	n/a	0	n/a	40	n/a
Sara Weller[4]	22	81	1	1	23	82

(1) In the context of the COVID-19 pandemic it was determined that fees should not increase in 2020. The fees received by the non-executive directors reflect a voluntary reduction of 20 per cent for three months, the total value of which was donated to charity. The general workforce base salary increase in 2020 was 2.3 per cent.
(2) Sir David Higgins joined the board as a non-executive director and chairman designate with effect from 13 May 2019, receiving annual fees of £80,000. On his appointment as Chairman effective 1 January 2020, his annual fees increased to £300,000.
(3) Kath Cates and Doug Webb joined the board on 1 September 2020.
(4) Sara Weller stepped down from the board on 24 July 2020. The benefits value shown for 2021 reflects the cost of a retirement gift she received.

Fees

Non-executive director base fees and the additional fees for the senior independent non-executive director and the chairs of committees are reviewed annually, but were not increased in 2020/21.

	Fees £'000	
Role	1 Sept 2020	1 Sept 2019
Base fee: Chairman[1][2]	300.0	315.0
Base fee: other non-executive directors[3]	68.2	68.2
Senior independent non-executive director[3]	13.5	13.5
Chair of audit and treasury committees[3]	16.0	16.0
Chair of remuneration committee[3]	13.5	13.5
Chair of corporate responsibility committee[3]	12.0	12.0

(1) Approved by the remuneration committee.
(2) With effect from the appointment of Sir David Higgins on 1 January 2020 the base fee for the Chairman was set at £300,000.
(3) Approved by a separate committee of the board.

Non-executive directors' shareholdings (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2021 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 2021[1]
Sir David Higgins	13.5.19	3,000
Stephen Carter	1.9.14	3,075
Kath Cates	1.9.20	2,135
Mark Clare	1.11.13	7,628
Alison Goligher	1.8.16	3,000
Brian May	1.9.12	3,000
Paulette Rowe	1.7.17	3,000
Doug Webb	1.9.20	5,700
Sara Weller[2]	1.3.12	11,000

(1) From 1 April 2021 to 26 May 2021 there have been no movements in the shareholdings of the non-executive directors.
(2) Sara Weller had 11,000 shares when she stepped down from the board with effect from 24 July 2020.

THE REMUNERATION COMMITTEE

Summary terms of reference

The committee's terms of reference were last reviewed in November 2020 and are available on our website: unitedutilities.com/corporate-governance

The committee's main responsibilities 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 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;
- Approving the general employment and remuneration terms for selected senior employees;
- Setting the remuneration of the Chairman 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.

Composition of the remuneration committee as at 31 March 2021

Member	Member since
Alison Goligher (chair since 24.7.20)	1.8.16
Kath Cates	1.9.20
Mark Clare	1.9.14
Brian May	16.5.17

Sara Weller was chair of the remuneration committee until 24 July 2020 when she stepped down from the board.

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 five times in the year ended 31 March 2021 and carried out a number of key activities:

- Approved the 2019/20 directors' remuneration report;
- Considered and agreed the executive remuneration related actions arising from the COVID-19 pandemic as outlined on page 175.
- Reviewed the pay comparator group;
- Reviewed the base salaries of executive directors and other members of the executive team;
- Reviewed the base fee for the Chairman;
- Assessed the achievement of targets for the 2019/20 annual bonus scheme, reviewed progress against the targets for the 2020/21 annual bonus scheme, and considered the targets for the 2021/22 annual bonus;
- Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2017, reviewed progress against the targets for the 2018 and 2019 LTP awards, and set the measures and targets for the 2020 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.

Corporate governance report

Annual report on remuneration

Support to the remuneration committee

By invitation of the committee, meetings are attended by the Chairman of the company, the chief executive officer, the company secretary (who acts as secretary to the committee), the customer services and 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 employees 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:

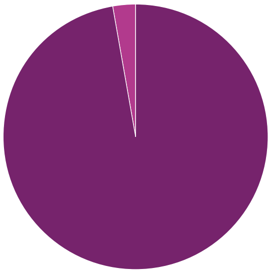
Adviser	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2021	Additional services provided in year ended 31 March 2021	Fees paid by company for these services in respect of year and basis of charge
Mercer/Kepler, a brand of Mercer (and part of the MMC group) (to 31 December 2020)	Committee	Appointed following a tender process in 2019	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. Mercer supplied unrelated services to the Group in relation to IAS 19.	£56,000 on a time/cost basis as set out in accordance with the terms and conditions in the relevant engagement letter
Ellason LLP (from 1 January 2021)	Committee	Appointed following the lead adviser moving to Ellason LLP	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.	£8,000 on a time/cost basis as set out in accordance with the terms and conditions in the relevant engagement letter

Mercer and Ellason are both 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 www.remunerationconsultantsgroup.com). None of the individual directors have a personal connection with Mercer or Ellason. The committee is satisfied that the advice it receives is objective and independent and confirms that neither Mercer|Kepler nor Ellason 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.

2020 AGM: STATEMENT OF VOTING

At the last annual general meeting on 24 July 2020, votes on the 2020/21 directors' remuneration report (other than the part containing the directors' remuneration policy) were cast as follows:



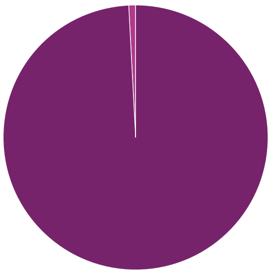
Votes for **460,435,984**
(97.41% of votes cast)

Votes against **12,243,691**
(2.59% of votes cast)

472,679,675
Total votes cast

2,389,096
Votes withheld (abstentions)

At the annual general meeting on 26 July 2019, votes on the directors' remuneration policy were cast as follows:



Votes for **458,175,960**
(99.41% of votes cast)

Votes against **2,709,122**
(0.59% of votes cast)

460,885,082
Total votes cast

667,337
Votes withheld (abstentions)

The directors' remuneration report was approved by the board of directors on 26 May 2021 and signed on its behalf by:

Alison Goligher
Chair of the remuneration committee

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

This appendix to the directors' remuneration report sets out an abridged version of the remuneration policy for the company which was approved by shareholders at the AGM on 26 July 2019. The policy took effect from the data of approval and is intended to apply until the 2022 AGM.

In the interests of clarity, the report includes some minor annotations to additionally show, where appropriate, how the policy will be implemented in 2021/22. A full version of the shareholder approved policy can be found in the annual report and financial statements for the year ended 31 March 2019.

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 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.

Although employees are not consulted directly on executive remuneration policy, employee engagement surveys are carried out annually and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements. The committee takes into account the general base salary increase and remuneration arrangements, including pension provision, for the wider employee population when determining remuneration policy for the executive directors. Processes are in place for the committee to review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the 'employee 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.

<table>
<tr><th>Operation</th><th>Maximum opportunity</th></tr>
<tr><td rowspan="3">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.</td><td>Current salary levels are shown in the annual report on remuneration.

Executive directors will normally receive a salary increase broadly in line with 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.</td></tr>
<tr><td>Performance measures</td></tr>
<tr><td>None</td></tr>
</table>

GOVERNANCE

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 2019/20); 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 is payable. Their pension arrangements will be aligned to the wider workforce as part of the next policy review. **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; • car or car 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

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

Annual bonus

Purpose and link to strategy: To incentivise performance against personal objectives and 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. DBP shares accrue dividend equivalents. Not pensionable. Bonuses and DBP shares are subject to recovery provisions in certain negative circumstances including: material misstatement of audited financial results; an error in the calculation; or gross misconduct. Additionally, withholding provisions can apply to DBP shares in cases of: serious reputational damage; serious failure of risk management; 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. 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. Vested shares accrue dividend equivalents. Shares under the LTP are subject to recovery and withholding provisions in certain negative circumstances, including: material misstatement of audited financial results; an error in the calculation; or gross misconduct. Additionally, withholding provisions can apply in cases of: serious reputational damage; serious failure of risk management; 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 anticipated that awards above the normal level will be made to current 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 during 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 retains discretion to set alternative performance measures for future awards but will consult with major shareholders before making any changes to the currently applied measures. 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.

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 Chairman) is set by a separate committee of the board. The policy for the Chairman is determined by the remuneration committee (of which the Chairman 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 employee 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 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 and operational performance. '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 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 requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus are given in the annual report on remuneration.

The current Long Term Plan (LTP) measures were selected by the committee following an extensive review and shareholder consultation in 2018/19. These measures are considered to align with the company's key strategic goals and be closely linked to the creation of long-term shareholder value. 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 plan, 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 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 share schemes operated by the company and remain outstanding remain eligible to vest based on their original award terms.

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

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 employees;
- employees at all levels participate in a bonus scheme with the same corporate performance measures as for executive directors; and
- all employees have the opportunity to participate in the HMRC-approved share incentive plan, ShareBuy.

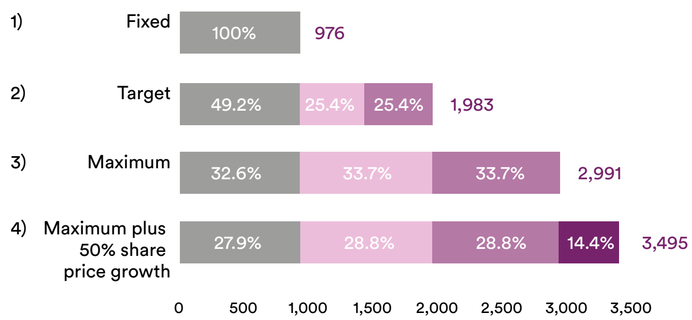
At senior levels, remuneration is increasingly long-term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

SCENARIOS FOR TOTAL REMUNERATION

The charts below show the payout under the remuneration policy for each executive director under four different scenarios.

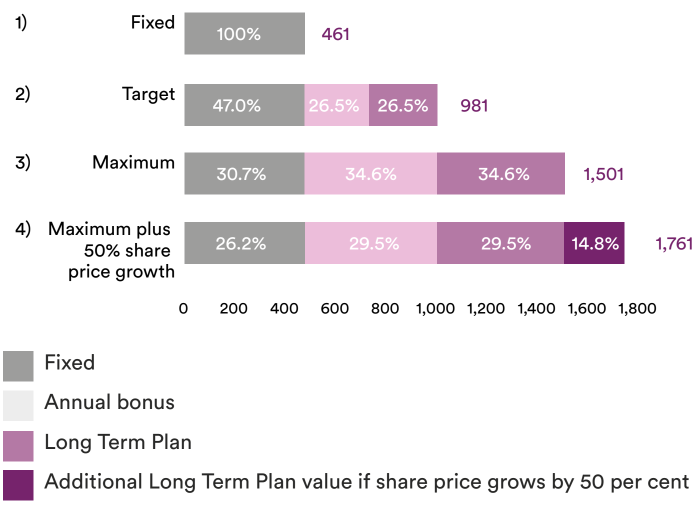
Steve Mogford CEO

£'000s



Phil Aspin CFO

£'000s



Notes on the scenario methodology:

- 'Fixed' is base salary effective 31 March 2021 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 2020/21;
- '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-employee share schemes have, for simplicity, been excluded from the charts.

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. Shareholding guidelines are therefore operated and the details of how these are currently applied are provided in the annual report on remuneration. With effect from 19 May 2020 the guidelines were updated to include post-employment shareholding requirements as outlined on page 176.

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

Executive directors' service contracts are subject to up to one year's notice period 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 on the next page.

The Chairman 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.

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 be viewed on the company's website.

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 remuneration policy in force at the time of appointment.

Buy-out awards

The committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the company (and therefore shareholders). Any such payments would be limited to a reasonable estimate of value of remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash and/or share-based), time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

Maximum level of variable pay

The maximum level of long-term incentives that may be awarded to a new executive director will be limited to the maximum Long Term Plan limit of 200 per cent of salary per annum on an ongoing basis. Therefore, the maximum level of overall variable pay that may be offered will be 330 per cent of salary (i.e. 130 per cent annual bonus plus 200 per cent Long Term Plan) per annum on an ongoing basis. These limits are in addition to the value of any buyout arrangements which are governed by the policy above.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next annual report on remuneration.

Base salary and relocation expenses

Base salary levels for new executive directors will be set in accordance with the policy, taking into account the experience of the individual recruited. The committee has the flexibility to set the salary of a new appointee at a discount to the market level initially, with a series of planned increases implemented over the following years to bring the salary to the appropriate market position, subject to individual performance in the role.

The committee may agree that the company will meet certain relocation and/or incidental expenses as appropriate.

Annual bonus performance conditions

Where a new executive director is appointed part way through a financial year, the committee may set different annual bonus measures and targets for the new executive director from those used for other executive directors (for the initial part-year only).

Appointment of non-executive directors

For the appointment of a new Chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. Non-executive directors' fees are set by a separate committee of the board; the Chairman's fees are set by the remuneration committee.

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

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 employees may be phased to mitigate loss. Our policy is shown in the table below:

Provision	Summary terms
Compensation for loss of office	• An executive director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain contractually specified events such as gross misconduct. • No termination payment if full notice is worked. • Otherwise, a payment in respect of the period of notice not worked of basic salary, plus pension and car allowance for that period. • Half of the termination payment will be paid within 14 days of date of termination. • The other half will be paid in monthly instalments over what would have been the second half of the notice period. This will be reduced by the value of any salary, pension contribution and car allowance earned in new paid employment in that period.
Treatment of annual bonus on termination	• A time prorated bonus may be payable for the period of active service; however, there is no automatic entitlement to payments under the bonus scheme. Any payment is at the discretion of the committee and is subject to recovery and withholding provisions as detailed in the policy table. • Performance targets would apply in all circumstances.
Treatment of deferred bonus on termination	• Determined on the basis of the relevant plan rules. Full details can be found on the company's website. • Deferred bonuses are subject to recovery and withholding provisions as detailed in the policy table. • The default treatment is that any outstanding awards will vest in full on the normal vesting date with no time prorating applying.
Treatment of unvested long-term incentives on termination	• Determined on the basis of the relevant plan rules. Full details can be found on the company's website. • Normally, any outstanding awards will lapse on date of cessation of employment (if that occurs during the performance period). • However, under the rules of the plans, in certain prescribed circumstances, such as death, disability, mutually agreed retirement or other circumstances at the discretion of the committee, 'good leaver' status can be applied. In these circumstances, a participant's awards vest on a time prorated basis subject to the satisfaction of relevant performance criteria, with the balance of awards lapsing. The committee retains the discretion not to time prorate if it is inappropriate to do so in particular circumstances. The committee will take into account the individual's performance and the reasons for their departure when determining whether 'good leaver' status can be applied.
Treatment of pensions on termination	• On redundancy, an augmentation may apply in relation to benefits accrued under a United Utilities defined benefit pension scheme, in line with the trust deed and rules of the appropriate section.

Outplacement services, reimbursement of legal costs and any other incidental expenses may be provided where appropriate. Any statutory entitlements or compromise claims in connection with a termination of employment would be paid as necessary. Outstanding savings/shares under all-employee share plans would be transferred in accordance with the terms of the plans as approved by HMRC.

Change of control

On a change of control, executive directors' incentive awards will be treated in accordance with the rules of the applicable plans. In summary:

- Bonus payments will take into account the extent to which the performance measures have been satisfied between the start of the performance period and the date of the change of control, and the value will be prorated to reflect the same period.
- Deferred bonuses will generally vest on the date of a change of control, unless the committee permits (or requires) awards to roll over into equivalent shares in the acquirer.
- Long Term Plan awards will generally vest on the date of a change of control taking into account the extent to which any performance condition has been satisfied at that point. Time prorating will normally apply unless the committee determines otherwise.

Corporate governance report

Appendix 2: Executive directors' share plan interests 1 April 2020 to 31 March 2021

	Award date	Awards held at 1 April 2020	Granted in year	Vested in year	Lapsed/ forfeited in year	Notional dividends accrued in year(1)	Awards held at 31 March 2021(1)
Steve Mogford							
Shares not subject to performance conditions at 31 March 2021							
DBP	16.6.17	47,238	–	47,238	–	–	–
DBP	18.6.18	52,014	–	–	–	2,443	54,457
DBP	17.6.19	49,262	–	–	–	2,314	51,576
DBP(2)	17.6.20	–	38,742	–	–	1,819	40,561
LTP	30.6.15	66,320	–	66,320	–	–	–
LTP	28.6.16	74,647	–	–	–	3,556	78,203
LTP	27.6.17	116,535	–	–	15,282	5,387	106,640
ShareBuy matching shares(3)	1.4.20 to 31.3.21	43	39	43	–	–	39
Subtotal		406,059	38,781	113,601	15,282	15,519	331,476
Shares subject to performance conditions at 31 March 2021							
LTP	25.6.18	137,582	–	–	–	6,464	144,046
LTP	28.6.19	126,893	–	–	–	5,961	132,854
LTP(4)	30.11.20	–	112,097	–	–	1,705	113,802
Subtotal		264,475	112,097	–	–	14,130	390,702
TOTAL		670,534	150,878	113,601	15,282	29,649	722,178
Russ Houlden							
Shares not subject to performance conditions at 31 March 2021							
DBP	16.6.17	29,640	–	29,640	–	–	–
DBP	18.6.18	32,626	–	–	–	1,531	34,157
DBP	17.6.19	30,929	–	–	–	1,452	32,381
DBP(2)	17.6.20	–	24,469	–	–	1,148	25,617
LTP	30.6.15	41,869	–	41,869	–	–	–
LTP	28.6.16	47,112	–	–	–	2,244	49,356
LTP	27.6.17	73,574	–	–	9,648	3,401	67,327
ShareBuy matching shares(3)	1.4.20 to 31.3.21	43	13	56	–	–	–
Subtotal		255,793	24,482	71,565	9,648	9,776	208,838
Shares subject to performance conditions at 31 March 2021							
LTP	25.6.18	86,888	–	–	19,264	3,177	70,801
LTP	28.6.19	80,143	–	–	44,459	1,675	37,359
Subtotal		167,031	–	–	63,723	4,852	108,160
TOTAL		422,824	24,482	71,565	73,371	14,628	316,998
Phil Aspin							
Shares not subject to performance conditions at 31 March 2021							
DBP	17.6.20	–	4,069	–	–	190	4,259
LTP	27.6.17	8,762	–	8,524	1,241	1,003	–
ShareBuy matching shares(3)	1.4.20 to 31.3.21	43	40	43	–	–	40
Subtotal		8,805	4,109	8,567	1,241	1,193	4,299
Shares subject to performance conditions at 31 March 2021							
LTP	25.6.18	10,398	–	–	–	488	10,886
LTP	28.6.19	9,730	–	–	–	456	10,186
LTP(4)	30.11.20	–	57,842	–	–	880	58,722
Subtotal		20,128	57,842	–	–	1,824	79,794
TOTAL		28,933	61,951	8,567	1,241	3,017	84,093

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

(2) See page 168 for further details.

(3) Under ShareBuy, matching shares vest provided the employee remains employed by the company one year after grant. During the year Steve Mogford purchased 200 partnership shares and was awarded 39 matching shares (at an average share price of 904.9 pence per share). Russ Houlden purchased 67 partnership shares and was awarded 13 matching shares (at an average share price of 893.2 pence per share). Phil Aspin purchased 199 partnership shares and was awarded 40 matching shares (at an average share price of 904.9 pence per share).

(4) See page 170 for further details.

Corporate governance report

UK tax policies and objectives

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in marketed, aggressive or abusive tax avoidance;
- do not use tax havens for tax avoidance purposes and always seek to declare profits in the place where their economic substance arises;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

We expect to fully adhere to the HMRC framework for co-operative compliance.

Our Chief Financial Officer (CFO) has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the Head of Tax.

The Head of Tax has day-to-day responsibility for managing the group's tax affairs and engages regularly with key stakeholders from around the group in ensuring that tax risk is proactively managed. Where appropriate, he will engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the group's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the group and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The group is committed to actively engaging with relevant authorities to actively manage any such risk.

In any given year, the group's effective cash tax rate on underlying profits may fluctuate from the standard UK rate mainly due to the available tax deductions on capital investment. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.

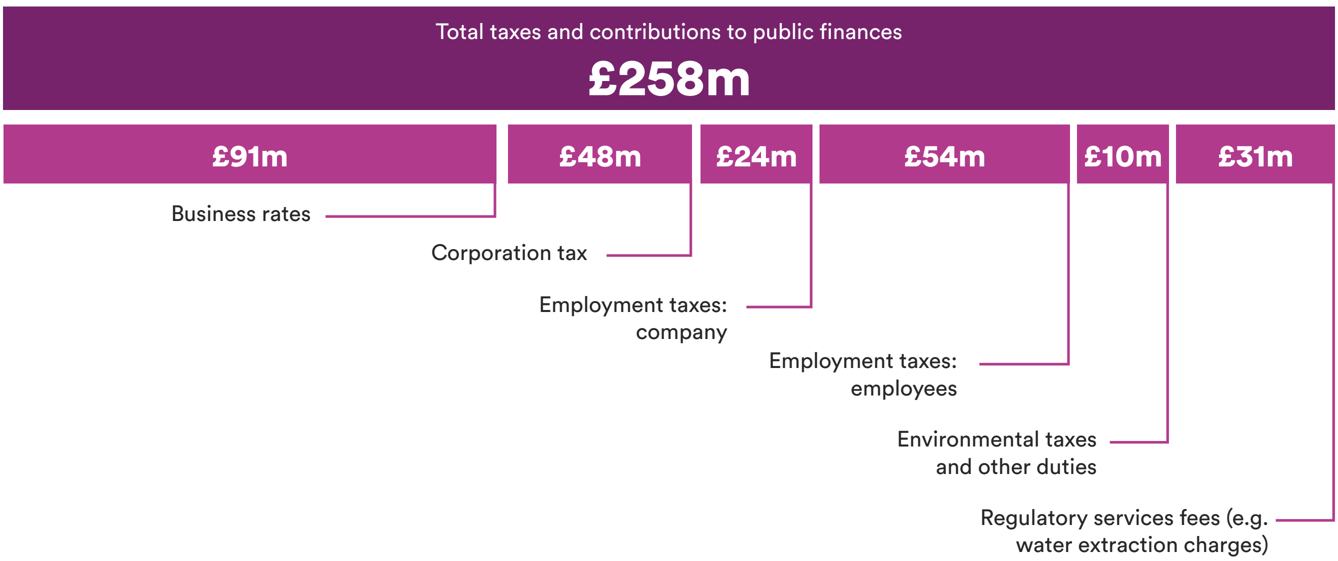
Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers; reducing their bills. For 2020/21, the impact of tax deductions on capital investment alone reduced average household bills by around £20.

The group's principal subsidiary, United Utilities Water Limited (UUW), operates solely in the UK and its customers are based here. All of the group's profits are taxable in the UK (other than profits relating to the group's 35 per cent holding in Tallinn Water which are fully taxable in Estonia on distribution).

We completed the sale of our investment in Tallinn Water in March this year. In addition, the group's other remaining overseas subsidiary company, a dormant company resident in Thailand, where the group had historic trading operations, was formally dissolved in February this year.

Every year, the group pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2021 of around £258 million are set out below.

Taxes/contributions to public finances for 2021



The above tax policy disclosure meets the group's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2021.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- How much tax we pay;
- How we ensure that we pay the right tax at the right time; and
- How we ensure that our tax affairs are transparent for all our stakeholders.

Recognising the group's ongoing commitment to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs, we were delighted to have retained the Fair Tax Mark independent certification for a second year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

Fair Tax