Corporate governance report

Board of directors

Responsibilities: Responsible for the leadership of the board, setting its agenda and ensuring its effectiveness on all aspects of its role.

Qualifications: BEng Civil Engineering, Diploma Securities Institute of Australia, Fellow of the Institute of Civil Engineers and the Royal Academy of Engineering.

Appointment to the board: May 2019; appointed as Chairman in January 2020.

Skills and experience: Sir David has spent his career overseeing high profile infrastructure projects, including: the delivery of the Sydney Olympic Village and Aquatics centre; Bluewater Shopping Centre, Kent; and the delivery of the 2012 London Olympic Infrastructure Project.

Career experience: Sir David was previously chief executive of: Network Rail Limited; The Olympic Delivery Authority; and English Partnerships. He has held non-executive roles as chairman of both High Speed Two Limited and Sirius Minerals plc. In December 2019 he stepped down as non-executive director and chair of the remuneration committee at Commonwealth Bank of Australia.

Current directorships/business interests: Chairman of Gatwick Airport Limited and a member of the Council at the London School of Economics. He is Chairman of United Utilities Water Limited.

Independence: Sir David met the 2018 UK Corporate Governance Code's independence criteria (provision 10) on his appointment as a non-executive director and chairman designate.

Specific contribution to the company's long-term success: Sir David's experience of major infrastructure projects and his knowledge and understanding of the role of regulators will be invaluable in meeting the challenges of the current regulatory period and beyond. As chairman of the nomination committee he is responsible for ensuring the succession plans for the board and senior management identify the right skillsets to face the challenges of the business.

Responsibilities: To manage the group's business and to implement the strategy and policies approved by the board.

Qualifications: BSc (Hons) Astrophysics/Maths/Physics.

Appointment to the board: January 2011.

Skills and experience: Steve's experience of the highly competitive defence market and of complex design, manufacturing and support programmes has driven forwards the board's strategy of improving customer service and operational performance at United Utilities. His perspective of the construction and infrastructure sector provides valuable experience and insight to support United Utilities' capital investment programme.

Career experience: Steve was previously chief executive of SELEX Galileo, the defence electronics company owned by Italian aerospace and defence organisation Finmeccanica, chief operating officer BAE Systems PLC and a member of its PLC board. His early career was spent with British Aerospace PLC. Steve ceased to be a non-executive director of G4S plc following its takeover in April 2021.

Current directorships/business interests: He is Chief Executive Officer of United Utilities Water Limited and a non-executive director of Water Plus, a joint venture with Severn Trent serving business customers.

Specific contribution to the company's long-term success: As the Chief Executive Officer, Steve has driven a step change in the company's operational performance, and has implemented a Systems Thinking approach to underpin future operational activities and improved performance.

Responsibilities: To manage the group's financial affairs, to contribute to the management of the group's business and to the implementation of the strategy and policies approved by the board.

Qualifications: BSc (Hons) Mathematics, Chartered Accountant (ACA), Fellow of the Association of Corporate Treasurers (FCT).

Appointment to the board: July 2020.

Skills and experience: Phil has extensive experience of financial and corporate reporting, having qualified as a chartered accountant with KPMG and more latterly through his role as group controller. He has a comprehensive knowledge of capital markets and corporate finance underpinned through his previous role as group treasurer and his FCT qualification. Having been actively engaged in the last four regulatory price reviews he has a strong understanding of the economic regulatory environment.

Career experience: Phil has over 25 years' experience working for United Utilities. Prior to his appointment as CFO in July 2020, he was group controller with responsibility for the group's financial reporting and prior to that he was group treasurer with responsibility for funding and financial risk management. He has been a member of EFRAG TEG and chaired the EFRAG Rate Regulated Activities Working Group.

Current directorships/business interests: Phil was appointed as a member of the UK Accounting Standards Endorsement Board in March 2021. He is chair of the 100 Group pensions committee and a member of both the 100 Group main committee and the stakeholder communications and reporting committee. He is Chief Financial Officer of United Utilities Water Limited and a non-executive director of Water Plus, a joint venture with Severn Trent serving business customers.

Specific contribution to the company's long-term success: Phil has driven forward the financial performance of the group and delivered the group's competitive advantage in financial risk management and excellence in corporate reporting.

Mark Clare
Senior independent non-executive director

N R

Responsibilities: Responsible, in addition to his role as an independent non-executive director, for discussing any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chairman or Chief Executive Officer.

Qualifications: Chartered Management Accountant (FCMA).

Appointment to the board: November 2013.

Skills and experience: Through his previous roles at British Gas and BAA, Mark has a strong background operating within regulated environments. His extensive knowledge of customer-facing businesses is particularly valuable for United Utilities in the pursuit of our strategy to improve customer service.

Career experience: Mark was previously chief executive of Barratt Developments plc. He is a former trustee of the Building Research Establishment and the UK Green Building Council. Mark held senior executive roles in Centrica plc and British Gas. He is a former non-executive director at BAA plc and Ladbrokes Coral PLC.

Current directorships/business interests: Mark was appointed as a non-executive director and chairman designate at Aggreko plc in October 2020. He was appointed as senior independent non-executive director at Wickes Group plc and as chair of the remuneration committee in April 2021. He is non-executive chairman at Grainger plc and a non-executive director at Premier Marinas Holdings Limited. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: As senior independent non-executive director, Mark applies his own considerable board experience gained during his career to United Utilities and provides a sounding board to the executive in many areas.

Stephen Carter CBE
Independent non-executive director

N A C

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's agenda on acting responsibly as a business.

Qualifications: Bachelor of Laws (Hons).

Appointment to the board: September 2014.

Skills and experience: As the chief executive of a FTSE 100 listed company, Stephen brings current operational experience to the board. His public sector experience provides additional insight in regulation and government relations. His day-to-day experience in the information and technology industries ensures that the board is kept abreast of these areas of the company's operating environment.

Career experience: Stephen previously held senior executive roles at Alcatel Lucent Inc. and a number of public sector/service roles, including serving a term as the founding chief executive of Ofcom. He stepped down as a non-executive director at the Department for Business Energy and Industrial Strategy in December 2020. Former chairman Ashridge Business School. A Life Peer since 2008.

Current directorships/business interests: Group chief executive Informa plc. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Stephen's experience as a current chief executive and his previous work in the public sector and government provides valuable insight for board discussions on regulatory matters.

Board role

- Chairman
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- N Nomination committee
- C Corporate responsibility committee
- T Treasury committee
- R Remuneration committee
- A Audit committee
- Chair of the committee

Changes to board directors:

Russ Houlden (CFO) and **Sara Weller** (independent non-executive director) both left the board at the end of the company's AGM in July 2020. Furthermore, they both ceased to be directors of United Utilities Water Limited at that time.

Brian May will not be seeking reappointment at the AGM in July 2021, having served on the board for almost nine years. At the same time he will cease to be a director of United Utilities Water Limited.

Corporate governance report

Board of directors

Kath Cates
Independent non-executive director

N R

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: Solicitor of England and Wales.

Appointment to the board: September 2020.

Skills and experience: Kath has spent most of her career working in a regulated environment in the financial services industry. Since 2014, she has focused on her non-executive roles, chairing all the main board committees and undertaking the role of senior independent director.

Career experience: Kath previously was chief operating officer at Standard Chartered plc before which she held a number of roles at UBS Limited over a 22-year period, prior to which she qualified as a solicitor. She stepped down as a non-executive director at Brewin Dolphin Holdings plc in February 2021.

Current directorships/business interests: Kath is a non-executive director at RSA Insurance Group plc and chair of the remuneration committee. She is a non-executive director at Columbia Threadneedle Investments where she chairs the TPEN audit committee and a non-executive director of TP ICAP Group Plc. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Kath's broad board experience enables her to contribute to board governance and risk management at United Utilities.

Alison Goligher
Independent non-executive director

N R C

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's activities concerning directors' remuneration.

Qualifications: BSc (Hons) Mathematical Physics, MEng Petroleum Engineering.

Appointment to the board: August 2016.

Skills and experience: Alison has strong technical and capital project management skills, having been involved in large projects and the production side of Royal Dutch Shell's business. This experience of engineering and industrial sectors provides the board with additional insight into delivering United Utilities' capital investment programme.

Career experience: Royal Dutch Shell (2006 to 2015), where Alison's most recent executive role was Executive Vice President Upstream International Unconventionals. Prior to that she spent 17 years with Schlumberger, an international supplier of technology, integrated project management and information solutions to the oil and gas industry.

Current directorships/business interests: Alison is a non-executive director and chair of the remuneration committee at Meggitt PLC and a part-time executive chair at Silixa Ltd. In February 2021 she was appointed as a non-executive director of Technip Energies NV. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Alison's understanding of the operational challenges of large capital projects and the benefits of deploying technology provides valuable insight into addressing the longer-term strategic risks faced by the business. Her role as the designated non-executive director for workforce engagement will provide the board with a better understanding of the views of employees and greater clarity on the culture of the company.

Brian May
Independent non-executive director

N A T R

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the audit committee.

Qualifications: BSc (Hons) Actuarial Science, Chartered Accountant (FCA).

Appointment to the board: September 2012.

Skills and experience: Brian's background in finance and accounting and the various roles that he has held are major assets to the board. He has been chair of the audit committee since September 2013 and has considerable knowledge of the company and the specifics of the utilities sector.

Career experience: Brian was appointed group finance director of Bunzl plc in January 2006 and he retired from the board of Bunzl plc on 31 December 2019.

Current directorships/business interests: Brian was appointed as a non-executive director and member of the audit committee of Ferguson plc in January 2021. He is a non-executive director of ConvaTec Group Plc and a member of its audit and risk committee and chair of its remuneration committee. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Brian contributes his considerable expertise in finance to the company primarily through the important roles as chair of both the audit committee and the treasury committee, which are important in overseeing the risk management of the group. The industry knowledge he has gained over the eight years he has been a board member enabled him to focus on, and contribute to, key risk areas during the regulatory price review process for the 2020–25 regulatory period.

Paulette Rowe
Independent non-executive director

N A

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: MEng + Man (Hons), MBA.

Appointment to the board: July 2017.

Skills and experience: Paulette has spent most of her career in the regulated finance industry and so provides the board with additional perspective and first-hand regulatory experience. Her experience of technology-driven transformation will contribute to United Utilities' customer experience programme and its Systems Thinking approach.

Career experience: Previously held senior executive roles in banking and technology at Facebook, Barclays and the Royal Bank of Scotland/NatWest. Former trustee and chair of children's charity The Mayor's Fund for London.

Current directorships/business interests: CEO of Integrated and Ecommerce Solutions and member of the Paysafe Group executive since January 2020. Paysafe, a former FTSE 250 company, is now privately owned by PE firms CVC and Blackstone. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Paulette's wide-ranging experience in regulated sectors, profit and loss management, technology and innovation enables her to provide a first-hand contribution to many board topics of discussion. In her current executive role she often faces many of the same issues, and has been able to provide support to senior management at United Utilities.

Doug Webb
Independent non-executive director

N A

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: MA Geography and Management Science, Chartered Accountant (FCA).

Appointment to the board: September 2020.

Skills and experience: Doug has extensive career experience in finance from qualifying as a chartered accountant with Price Waterhouse, his executive roles as CFO of major listed companies and more recently through his non-executive positions and focus on audit committee activities.

Career experience: Doug was previously chief financial officer at Meggitt PLC from 2013 to 2018 and prior to that, he was chief financial officer at both the London Stock Exchange Group plc and QinetiQ Group plc. He is a former non-executive director and audit committee chair at SEGRO plc, having stepped down in 2019.

Current directorships/business interests: Doug currently serves as a non-executive director and audit committee chair at Johnson Matthey plc, BMT Group Ltd and the Manufacturing Technology Centre Ltd. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Doug's financial capabilities and his experience as an audit committee chair strengthen the board's financial expertise.

Board role

- Chairman
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- N Nomination committee
- C Corporate responsibility committee
- T Treasury committee
- R Remuneration committee
- A Audit committee
- Chair of the committee

Corporate governance report

Letter from the Chairman

The board has responsibility for the health of the company and needs to take a long-term view, managing the conflict between short-term interests and the long-term impacts of its decisions.

Sir David Higgins
Chairman

Dear Shareholder

Over the past year the board's focus has been has been dominated by the group's response to the pandemic and ensuring the safety and support for our employees while maintaining the delivery of services to customers across our region. As a regulated monopoly supplier, with a population of 7.3 million in our region, we need to work hard to meet the high expectations customers have for us, both in terms of the services we provide but also in behaving as a responsible business in the way in which we provide them. To do so is crucial to the long-term success of United Utilities.

During the period May to November 2020, the board reviewed the impact of the pandemic on the financial performance of the group, including understanding the ability of some customers facing financial hardship to pay for our services. As a consequence, an extension of UUW's social tariff arrangements were approved, to apply until the end of the 2021/22 financial year. At the same time, the board did not want to jeopardise the great progress made over the last five years in improved operational performance, led by Steve Mogford and his team. Throughout this report you will see examples of our improved operational performance as recognised against the benchmarks set by our regulators. These improvements have given the board greater confidence of achieving regulatory outperformance during AMP7, and support our longer-term plans for the next asset management period.

Governance

The past year has challenged the normal interaction of both the board and management. The board were kept fully apprised of management's actions and changes to normal business practices in the early stages of the pandemic. A combination of physical meetings where possible, in conjunction with virtual board and committee meetings, have been held to maintain the integrity of our governance structure. Induction programmes for Kath and Doug were undertaken virtually, I know, in due course, Kath and Doug will welcome the opportunity to visit some of the company's principal operational sites and important capital projects, as will all board members. Informal virtual meetings have been held the evening before board meetings, as a substitute for our usual informal pre-board dinners. The annual board evaluation was externally facilitated this year, by virtual means by Independent Audit Limited (see page 135).

Additionally, we have held a number of virtual workshops on key topics, including: leakage; digital strategy; diversity and inclusion and, as a direct consequence of the pandemic, considering the options for new ways of working for employees across appropriate parts of our business. These in-depth sessions have provided board members with a greater understanding of these particular challenges and initiatives, and how they are being addressed by management. We held a strategy day in November 2020, enabling the board to spend time debating a number of strategic and long-term business priorities, an action which was identified in the 2019/20 board evaluation. A particular focus for the day, was understanding the plans for the Haweswater Aqueduct Resilience Programme and Ofwat's 'direct procurement for customers' approach, through which the programme will be delivered.

Historically, the company's annual general meeting held in July each year has welcomed a number of shareholders who have been regular attendees, last year of course being the exception. We are hoping that this will be an event in the corporate calendar that can be reinstated in the years to come. We are however, proposing to

QUICK FACTS

- Sir David Higgins met the independence criteria as set out in provision 10 of the 2018 UK Corporate Governance Code (the code) when he was appointed.
- The code requires that at least half of the board, excluding the chair, should be non-executive directors whom the board considers to be independent. At United Utilities, seven out of the remaining nine directors are independent non-executive directors.
- The company secretary attends all board and committee meetings and advises the Chairman on governance matters. The company secretariat team provides administrative support.
- The directors' biographies (see pages 112 to 115) include specific reasons why each director's contribution is, and continues to be, important to the company's long-term sustainable success.
- All directors are subject to annual election at the annual general meeting (AGM) held in July. The board concluded, following the completion of the evaluation of the effectiveness of the board, that each director continues to contribute effectively.
- The board recommends that shareholders vote in favour of those directors standing for a further term at the forthcoming AGM, as they will be doing in respect of their individual shareholdings.

Quick link

Schedule of matters reserved for the board
unitedutilities.com/corporate-governance

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at **frc.org.uk** adopt new articles of association at the forthcoming 2021 annual general meeting, including the power to be able to hold fully hybrid meetings should the need arise, in line with market best practice.

In the following pages of this corporate governance report we have set out how we have applied the principles and reported against the provisions of the 2018 UK Corporate Governance Code (the code). On page 167 we have explained our proposals in relation to code provision 38.

Risk

The board has an agreed framework for managing strategic and operational risks in accordance with the agreed risk appetite. The board regularly reviews the position to ensure that management are managing and mitigating risk in accordance with the board's agreed risk appetite. These risks include succession planning for senior management and asset resilience, with particular consideration for the impacts of climate change. The board is directly supported in this by the internal audit and risk management team and indirectly by KPMG during the course of their audit of the financial statements.

People

I would like to thank Brian May for his excellent work and support during my first full year as Chairman. It was announced in May 2021, that after nearly nine years' on the board, Brian would be stepping down at the conclusion of the AGM in July 2021. Doug Webb, whom we welcomed to the board in September 2020, was recruited as an independent non-executive director, to chair both the audit and treasury committees on Brian's departure. Doug brings to the role, as required by the code, 'recent and relevant financial experience'. Given the complexities of the work of both the audit committee, and the treasury committee particularly in terms of the regulatory operating model, it was felt that a handover period between Brian and Doug covering a full audit cycle would be particularly beneficial. Doug will also become a member of the remuneration committee when Brian steps down from the board.

In September 2020, along with Doug, we welcomed Kath Cates, as a new independent non-executive director. Kath brings a wealth of experience of regulated businesses from her executive career in financial services. Alison Goligher, who has served as a member of the remuneration committee since 2016, accepted the role as chair of the remuneration committee on Sara Weller's departure from the board at the conclusion of the 2020 AGM.

A combination of physical meetings where possible, in conjunction with virtual board and committee meetings, have been held to maintain the integrity of our governance structure.

2021 is the first annual report presented by the board under the tenure of Phil Aspin as CFO. As demonstrated by his biography, Phil has many years' experience in different financial roles within the business, which has undoubtedly facilitated a smooth transition in a challenging year. Phil succeeded Russ Houlden, who retired from his executive responsibilities in July 2020.

Investors

We are in regular contact with our large investors through a regular scheduled programme of meetings attended by either our CEO or CFO, or both. The programme is supported by the activities of our investor relations team who are readily available to address investors' queries. I, too, have had the opportunity to engage with a number of our major investors during the year, their feedback was shared with my board colleagues. ESG, and specifically our progress in terms of diversity and inclusion were areas of particular interest. We have sought to respond by better articulation of our ESG activities throughout this annual report, including our efforts toward improving diversity and inclusion both at board level and across the business, and more information can be found on pages 132 and pages 138 respectively.

Sir David Higgins
Chairman

UK CORPORATE GOVERNANCE CODE

Reporting on the application of principles and against the provisions of the 2018 UK Corporate Governance Code

Corporate governance report

1 Board leadership and company purpose

Principle A:
A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

We set out our application of principle A and provision 1 on pages 118 and 119, our reporting against risk as part of provision 1 on pages 100 to 109. The S172(1) Statement is on page 28.

Principle B:
The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The board is satisfied it has applied principle B - see page 2. See pages 125 to 126 and 172 for our reporting against provisions 2 and 5.

Principle C:
The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Application of principle C to identify the resource within the business is delegated to management, but monitored by the board through the measurement of performance. See page 137 regarding our succession pipeline, and page 141 for the board's approach to risk management and internal control.

Principle D:
In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Engagement of stakeholders fulfilling the application of principle D, and our reporting against provision 3 is set out on pages 127 to 128 in relation to our engagement with shareholders and stakeholders.

Principle E:
The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Our application of principle E can be demonstrated by our approach to ensuring the safety of our employees during the pandemic (see page 45) and our reporting against provision 6. The board recognises the importance of a two-way flow of communication and the importance of employees having the facilities to raise matters of concern. See page 126 to 127 in relation to engagement with employees for our reporting against provisions 5 and 6.

OVERVIEW OF THE BOARD'S RESPONSIBILITIES

- Sets the strategy of the group, ensuring the long-term success of the group for customers, investors and wider stakeholders.
- Is responsible for challenging and encouraging the executive team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set.
- Has responsibility for ensuring the company's internal control systems (including financial, operational and compliance) and processes are sound and fit for purpose (see pages 154 to 155).
- Must ensure that the company has the necessary financial resources and people with the necessary skills to achieve its objectives. It reviews managerial performance annually.
- Approves appointments to and removal from the board and membership of the committees.
- Applies the principles of the code and reports against the provisions.
- Has oversight of major capital expenditure projects within UUW that exceed £150 million, and any project which materially increases the group's risk profile or is not in the ordinary course of the group's business.

Quick link

Terms of reference – unitedutilities.com/corporate-governance

Providing great water and more for the North West

Thinking about the 'more'

Board members, individually and collectively, are cognisant of their statutory duties as set out in the Companies Act 2006 (the Act). In accordance with section 172 of the Act, directors are individually required to act in the way they consider, in good faith, would most likely be to promote the success of the company for the benefit of its members as a whole. In doing so, the directors must have regard to the likely consequences of any decision in the long term and the interests of, among other matters, employees, customers, suppliers, the community and the environment, and on the company's reputation. By virtue of the long-term nature of the water and wastewater industry, thinking about our stakeholders is an integral part of our decision-making process and underpinned by our regulatory contract. The board's 2020/21 S172(1) Statement can be found on page 28.

Incorporating sustainability in our stewardship

Historically, a board's success criteria has primarily been judged on the company's financial performance and while this is still fundamental, boards of companies are now encouraged to adopt a more holistic approach to their stewardship. It is the responsibility of the directors to exercise their judgement, balancing the use of the company's resources to ensure its sustainable long-term success, and at times, the requirements and criteria for assessing our success by our different stakeholder groups will be in competition. Sustainability is a key component of the way in which we manage our business. We set out on page 32 how we create value for our shareholders and other stakeholders. Our board governance ethos, our culture and the way we operate as a business is to behave responsibly towards all our stakeholders.

Consideration of our AMP7 dividend policy

During the year, the board took the time to review the AMP7 Dividend Policy. In light of the extraordinary circumstances, we wanted to ensure we had a better understanding of the impact of COVID-19 on the financial and operational performance of the business and on the impact of the macroeconomic environment. The board consulted investors and advisers to fully understand their expectations and likely market reactions to different scenarios and indeed the implication of the board taking the extra time to formulate its decisions. Taking all factors into account and with a view to the promotion of the long-term sustainable success of the company, the board confirmed the AMP7 dividend policy in the half-year results in November 2020.

Being a guardian for future generations

Environmental issues are high on the list of matters considered by the board. The corporate responsibility committee takes the lead in overseeing management's development of our climate change mitigation strategy, and reports regularly to the board on the matter. Plans are progressing to drive the group's transition to a low carbon future by minimising our contribution to global warming through a reduction in our carbon emissions. Carbon has been incorporated as a factor to be considered in:

- our investment appraisal and decision-making processes;
- our land management practices to enhance/improve natural capital
- the innovation that we encourage both within our operations and through working with our partners and suppliers; and
- our implementation of a 'circular' mindset.

The board is kept fully informed by management on the impacts of climate change from an operational perspective. Extreme weather events impacting our region and our operations in recent years are increasingly common. When such incidents occur, the CEO keeps board members fully apprised of the impact on operations via conference call and other forms of communication. The board would be informed of any material points of learning identified in the post-incident review process, and progress with the implementation of material actions. Our reporting against TCFD can be found on pages 86 to 99.

Working with our regulators – responding responsibly to the 'green recovery' in our region

As a business, we are aware of the importance of our financial contribution to the north west economy. The board was keen to respond to the Government's green recovery challenge and play our part, by putting forward a programme of work that we believe is achievable and which will not generate an unnecessary risk for the company. Consideration of our green recovery proposal is included in the statement by the directors in performance of their statutory duties in accordance with S172(1) of the Act set out on page 28.

Diversity and inclusion

We recognise that we need fantastic people to enable us to deliver a great service now and to ensure the long-term sustainable success of the business. We have to reach and recruit from every part of our community and to support our employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background. We acknowledge that it will be a challenge to make significant step changes quickly in the workforce with low levels of attrition, regional variations in demographics and difficulties in recruiting females to STEM roles.

Working with a specialist inclusion partner we have updated our employee diversity and inclusion plan to drive our changes. We plan to set targets for the next 12 months based on the implementation of enabling activities before moving to comprehensive representation targets once we have understood our employee data and we will assess our progress with a further maturity audit.

Delivering against our regulatory contract

Under the current regulatory model, we are a monopoly supplier of water and wastewater services to our domestic customers. Simplistically, the opportunities for improving our financial performance are based on outperforming our five-year contract. Underlying this is a complex set of regulatory key performance indicators, including total expenditure (totex) outperformance, the outcome delivery incentive mechanism (ODI), customer measure of experience (C-MeX) and financing expenditure (see pages 50 to 73) which are managed and monitored by the business.

Corporate governance report

Governance structure for our board and our committees

The board has responsibility for establishing the strategy, which is broken down into the three strategic themes. The governance structure encompassing the board, its principal committees and the principal management committees (and set out in the diagram below) contributes to ensuring that the group focuses on its strategic themes.

In line with the code, the board delegates certain roles and responsibilities to its principal board committees. While the board retains overall responsibility, a sub-committee structure allows these committees to probe the subject matters more deeply and gain a greater understanding of the detail. The committees then report back to the board on the matters discussed, decisions taken, and, where appropriate, make recommendations to the board on matters requiring its approval. The reports of the principal board committees required by the code can be found on the subsequent pages. Minutes of the board and principal board committee meetings (with the exception of the remuneration committee) are tabled at board meetings and the chairs of each of the board committees report verbally to the board on their activities. The Chairman chairs the nomination committee; all other principal board committees are chaired by independent non-executive directors who have particular skills or interests in the activities of those committees.

The executive team is chaired by the CEO, and its members are the senior managers who have a direct reporting line to the CEO. Our executive team meets monthly; it is responsible for the day-to-day running of the business and other operational matters and implementing the strategies that the board has set. Short biographies of the executive team can be found on our website at unitedutilities.com/executive-team. The diagram below shows the principal management committees and a brief description of their roles. These committees are vital to the implementation of the group's strategic themes. These committees enable senior management to meet to understand, delegate the implementation of appropriate actions, and monitor progress and provide challenge as needs be. The board received reports from the CEO and CFO at every scheduled meeting, providing an updated overview of the business, and its financial and operational performance.

Governance structure of the board and its principal committees and the principal management committees

Key to strategic themes:

- The best service to customers
- At the lowest sustainable cost
- In a responsible manner

Group board
Chair: Sir David Higgins

Chief Executive Officer
Steve Mogford

Principal board committees

Audit committee
Chair: Brian May

Read more on pages 144 to 155

Remuneration committee
Chair: Alison Goligher

Read more on pages 160 to 189

Nomination committee
Chair: Sir David Higgins

Read more on pages 130 to 140

Corporate responsibility committee
Chair: Stephen Carter

Read more on pages 156 to 159

Treasury committee
Chair: Brian May

The committee considers and approves borrowing, leasing, bonding and other banking facilities within limits set by the board. The CFO and treasurer are also members. Some powers are sub-delegated, within certain limits, to the CFO and treasurer.

Read more on page 125

Principal management committees

Executive team
Chair: Steve Mogford, CEO

This forum is responsible for implementing the board's strategy and the day-to-day operation of running the business and the CEO will cascade decisions made by the board to the business via this forum.

Group audit and risk board
Chair: Steve Mogford, CEO

Read more on page 101

Quarterly business review
Chair: Steve Mogford, CEO

This forum is responsible for the quarterly review of operational, financial and health and safety performance.

Political and regulatory group
Chair: Gaynor Kenyon, corporate affairs director

This forum is responsible for discussing political and regulatory issues affecting the company, where any 'horizon scanning' issues are raised and business responses to consultations are agreed.

Capital investment committee
Chair: Steve Mogford, CEO

The committee is responsible for authorising expenditure relating to the capital investment programme.

Summary of board activity in 2020/21

Actions	Outcomes	Cross reference	Link to strategic themes
Leadership and employees			
Review of health, safety and wellbeing activities and consideration of health and safety incidents of employees and contractors.	Continued focus on the 'home safe and well' programme embedding a health and safety culture within the business. Further development and implementation of employee wellbeing policies and activities has been a major focus throughout the year.	See pages 24 and 32	
Review of board succession plans.	Succession plans for the appointment of two non-executive directors were implemented during the year.	See page 132	
Reviewed progress with our aspiration for a diverse and inclusive workforce.	Board kept apprised of programme of work to increase diversity of the workforce and improve inclusivity.	See pages 138 to 140	
Reviewed and discussed the results of the annual employee engagement survey and received updates on employee voice workforce engagement mechanisms including the Employee Voice panel chaired by Alison Goligher, the non-executive director designated for engagement with the workforce.	Board kept informed of the activities and insight provided by the Employee Voice panel and links to employee network groups including its contribution to the work on diversity and inclusion and the next ways of working project.	See page 126	
Reviewed the company's dashboard of culture metrics and associated analysis.	Monitored and assessed culture and agreed it was aligned with the company's purpose, values and strategy.	See page 125	
Strategy			
Discussed and reviewed the climate change mitigation strategy and the proposals to set Scope 3 carbon emissions targets.	Approved the setting of Scope 3 carbon emissions targets as part of the group's commitment to reducing carbon emissions and in accordance with our Climate Change Mitigation Policy.	See page 28	
Reviewed the financial implications of the COVID-19 pandemic on the business and the impact on the company's dividend policy for the 2020–25 asset management period.	Re-affirmed the company's dividend policy for the 2020–25 asset management period.	See page 28	
Received regular updates at each meeting of items with a strategic component, such as emerging changes to regulation, major capital expenditure and business structuring decisions.	Facilitated more informed board discussion and planning.	–	
Considered the non-appointed business strategy for the bioresources market for sewage sludge and development of a northern hub and strategy for green energy services.	Agreed an action plan to progress initial steps to develop a northern hub for sewage sludge treatment and reviewed the strategy for green energy services.	–	
Held a full day meeting to consider the strategic development of the group and its long term priorities.	In-depth review of the Haweswater Aqueduct Resilience Programme and direct procurement for customers approach, water and wastewater strategy and the 2025–30 price review.	–	
Governance			
Reviewed and debated the overall risk profile of the group, and in particular the principal risks, emerging risks and risk appetite, including a review of the most significant operational risks.	Endorsed the nature, extent and management of key business risks and endorsed the view that the risk appetite approach and framework remained fit for purpose.	See page 100	
Reviewed the risk management systems, including financial, operational and compliance controls and reviewed the effectiveness of the internal control systems.	The risk management and internal control systems were considered to be effective.	See page 141	

Corporate governance report

Actions	Outcomes	Cross reference	Link to strategic themes
Reviewed and discussed developments in cyber crime.	Approved the activities undertaken to enhance the effectiveness of the group's security controls.	See page 106	
Reviewed the terms of reference for the audit, remuneration, treasury and corporate responsibility committees and received post-meeting reports from the chairs of each committee summarising discussions and actions.	Approved amendments to the terms of reference of the company's committees as recommended particularly relating to the 2018 code.	–	
Reviewed biannual updates on changes and developments in corporate governance.	Matters implemented as considered appropriate.	–	
Reviewed and discussed the external evaluation of the board, its committees and individual directors and conflicts of interest.	Identified action points and any ongoing training needs.	See page 135	
Reviewed the performance of the statutory auditor and recommendation for reappointment at the 2021 AGM.	Accepted the recommendation from the audit committee that KPMG be reappointed at the 2021 AGM.	See page 151	
Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain.	Approved the 2021/22 slavery and human trafficking statement.	See page 195	
Reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud.	Concluded that the whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud.	See pages 127 and 155	
Considered a reduction in the base remuneration of the Chairman and the executive directors in light of the COVID-19 pandemic.	Agreed to apply a 20 per cent reduction to base fee/salary for the Chairman and executive directors for a 3 month period, with funds to be donated to FareShare.	See page 161	
United Utilities Water Limited (UUW) regulated business and its stakeholders			
Regular review of the progress of the direct procurement approach and readiness ahead of the expected tender issue date of 2021/22 to replace sections of the Haweswater Aqueduct.	Noted the successful completion in November 2020 of the replacement of the Hallbank section of the Haweswater Aqueduct, as a preliminary stage of the programme.	See page 190	
Reviewed customer service performance measures.	In-year customer performance measures monitored against regulatory targets.	See page 57	
Considered an approach from Defra to propose to accelerate investment to deliver 'green' initiatives that would both benefit the environment and support the economic recovery from the COVID-19 pandemic.	Approved and proposed a plan of work to Ofwat.	See page 28	

Actions	Outcomes	Cross reference	Link to strategic themes
Other group business			
Considered the offer from the City of Tallinn to dispose of the group's 35.3 per cent shareholding in AS Tallinna Vesi, the water and wastewater services company serving customers in Tallinn, Estonia.	Approved the disposal of the group's 35.3 per cent shareholding in AS Tallinna Vesi.	See page 153	
Regular review of progress of Water Plus, the group's joint venture with Severn Trent serving commercial customers.	Approved the restructuring and increase in working capital facilities, aligning with those provided by Severn Trent the joint venture partner, reflecting the challenges to the business relating to the COVID-19 pandemic.	See page 153	
Shareholder relations			
Received and discussed a presentation by Rothschild Investor Advisory on investors' views and perceptions of the group in relation to, among other things: strategy; the group's unique selling proposition; dividend policy; and how the company compares with other listed water and wastewater companies.	Provided the board with an indirect view of investor perceptions.	See page 127	
Regularly received and discussed feedback from roadshows, presentations and face-to-face meetings between investors and the Chairman, CEO and/or the CFO and other communications received from large investors.	Provided the board with a direct view of investor perceptions and provided a point of comparison with the indirect approach.	See page 127	
Financial			
Reviewed the AMP7 dividend policy in light of the uncertainty associated with the COVID-19 pandemic.	After consideration, the board reaffirmed the AMP7 dividend policy, targeting a growth rate of CPIH inflation each year through to 2025 as announced in November 2020.	See page 28	
Reviewed the 2020–25 business plan and the 2021/22 budget.	Noted the 2020–25 business plan and approved the 2021/22 budget.	–	
Reviewed and approved the half and full-year results and associated announcements and applicable dividend payments.	Approved the half and full-year results and associated announcements and considered and approved the interim and final dividend payments to be paid to shareholders.	–	
Reviewed management's proposed going concern and long-term viability statement.	Approved the going concern and long-term viability statement.	See pages 142 to 143	
Reviewed tax policies and objectives proposed by management for 2020/21.	Approved tax policies and objectives for 2020/21.	See page 190	
Reviewed the annual pensions update.	Pensions strategy affirmed and endorsed the preferred methodology for Guaranteed Minimum Pension equalisation.	See page 230	
Reviewed the annual treasury update.	Approved the treasury policies; the group's funding requirements for the year and the potential sources to meeting these funding requirements; and managing the group's interest rate and other market risk exposure.	See pages 79 and 125	
Reviewed the annual insurance programme for 2021/22.	Approved the annual insurance programme for 2021/22.	–	
Reviewed progress with material litigation involving the group.	Strategy to defend claims robustly affirmed.	See page 109	

Corporate governance report

Attendance at board and committee meetings

Eight scheduled board meetings were planned and held during the year (2020: eight). A number of other board meetings and telephone conferences were held during the year, as the need arose. The table below shows the number of scheduled meetings attended and the maximum number of scheduled meetings that the directors could have attended. Only in exceptional circumstances would directors not attend board and committee meetings. Similarly, every effort is made to attend ad hoc meetings either in person or via the use of video or telephone conferencing facilities if needs be. None of our non-executive directors has raised concerns over the time commitment required of them to fulfil their duties. Scheduled meetings are normally held face- to-face, but due to the COVID-19 restrictions, meetings were held remotely via audio or video conference.

On the evening before most scheduled board meetings all the non-executive directors meet either by themselves, or together with just the CEO, or with the entire board and the company secretary, and this time is usefully spent enabling board colleagues to share views and consider issues impacting the company. This year, these informal pre-board meeting sessions have been held virtually, and were felt to be particularly useful for Kath and Doug as part of their familiarisation with the company and provide time for board members to build relationships on a personal level, contributing to better board dynamics and decision-making.

	Board meetings[1]	Audit committee	Remuneration committee	Nomination committee	Corporate responsibility committee	Treasury committee
Sir David Higgins	8 8			5 5		
Steve Mogford	8 8				4 4	
Phil Aspin	4 4					2 2
Mark Clare	8 8		5 5	5 5		
Stephen Carter	8 8	4 4		5 5	4 4	
Kath Cates	4(2) 4		3 3	1 1		
Alison Goligher	8 8		5 5	5 5	4 4	
Brian May	8 8	4 4	5 5	5 5		3 3
Paulette Rowe	8 8	4 4		4(3) 5		
Doug Webb	4(4) 4	4 4		1 1		
Russ Houlden	4(5) 4					1(5) 1
Sara Weller	4(6) 4		2(6) 2	4(6) 4		

● Meetings attended ● Possible meetings

(1) Actual number of meetings attended/maximum number of scheduled meetings which the directors could have attended during the financial year ended 31 March 2021.

(2) Kath Cates was appointed to the Board on 1 September 2020.

(3) Paulette Rowe was unable to attend one nomination committee meeting due to other commitments.

(4) Doug Webb was appointed to the Board on 1 September 2020.

(5) Russ Houlden stepped down from the board at the AGM in July 2020.

(6) Sara Weller stepped down from the board at the AGM in July 2020.

Treasury committee

Treasury management is fundamental to the group's operating model. In the first instance, the group's treasury activities are overseen by the treasury committee, which operates under terms of reference and delegated authorities approved by the board.

The chairman of the audit committee, always an independent non-executive director, has historically chaired the treasury committee, given the synergies with the work of the audit committee and the need for financial expertise. Brian May chairs the committee, the other members of the committee are the CFO and the group treasurer, with the company secretary in attendance at committee meetings. Since his appointment, Doug Webb has attended meetings of the committee, with a view to him taking over as chair when Brian steps down from the board in July 2021.

The committee's work relates to:

- review of the group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; currency and electricity hedging); financial counterparty credit risk; credit ratings and capital structure;
- execution of the financing plan and evaluation of funding opportunities;
- liquidity management and review of forecasts;
- execution of hedging transactions and programmes in relation to the management of market risks in accordance with treasury policy parameters;
- developments in relation to the credit ratings agencies;
- creditor investor relations;
- banking relationships;
- treasury delegated authorities, internal controls and governance; and
- reporting to the board on matters relating to the group's treasury activities, including board approval of the annual treasury update and associated financing plan and board delegated authorities.

During the year, with the board's endorsement, the committee oversaw the successful execution of a funding programme which raised approximately £900 million of new term funding, with financial market conditions being closely monitored as policymakers responded to prevailing COVID-19 pandemic related uncertainties. This funding programme has positioned the group well with regard to its circa £2.4 billion financing requirement across the AMP7 regulatory period. The committee evaluated the group's long-term financing strategy beyond the current regulatory period.

The committee reviewed the group's preparations with regard to the transition of benchmark reference rates from GBP LIBOR to replacement 'risk free rates' (with SONIA replacing GBP LIBOR with effect from the end of 2021), and oversaw the group's management of its interest rate and inflation hedging programmes, including further transitioning the mix of the group's inflation hedging to CPI and CPIH from RPI-linked.

Following approval by the treasury committee, the group launched its sustainable finance framework in November 2020, and issued its debut sustainable bond in January 2021 (see page 70). Details of the group's engagement with banks and credit investors can be found on page 128.

Alongside the other committees, the members of the treasury committee undertook a self-evaluation in December 2020. The responses, which were reviewed by Independent Audit Limited, indicated that the committee was effective, and its members had appropriate skills and experience.

Purpose, values and strategy

Our purpose is to provide great water and more for the North West. Our vision is to be the best UK water and wastewater company through providing the best service to customers, at the lowest sustainable cost and in a responsible manner. In setting the company's purpose, the board took into account information and views from stakeholders, utilising much of the research and engagement that contributed to our 2020–25 business plan submission and feedback obtained from customers as part of the company's brand refresh undertaken during 2019/20. For the year ended 31 March 2021, the board is satisfied that the formulation of our aspirations in terms of our purpose, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all.

Our values demonstrate how we behave individually and collectively as the board and how we ask our employees to behave. Our employees are fundamental to delivering our strategy and achieving our purpose. Our values of being customer focused, trustworthy and innovative underpin our culture of behaving as a responsible business in the way we interact with all the stakeholders we serve. We must continually reinforce these values so that the right behaviours cascade throughout the organisation, ensuring our culture of behaving responsibly drives what we do. Key to this is taking action to address any issues where there is

1	**Dashboard of culture metrics**	In addition to the existing reporting, management has developed a dashboard of culture metrics in accordance with the Denison Culture Model, providing a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The dashboard comprises relevant metrics derived from: the annual employee engagement survey; human resources policies in relation to diversity and associated training; whistleblowing reporting; health, safety and wellbeing policies and practices; and other key performance indicators relating to how we behave as a responsible business.
2	**Existing reporting structures for discussion**	There are a number of existing reporting structures that allow these cultural indicators to be measured, discussed and challenged by the board and its committees.
3	**Alignment with purpose, values and strategic themes**	The board was satisfied that policies, practices and behaviours within the business were aligned with the company's purpose, values and strategic themes.

Corporate governance report

EMPLOYEE VOICE PANEL

Outcomes from the work since the panel was established to strengthen the 'employee voice' in the boardroom include:

- the transfer of the governance of the annual employee survey to the Employee Voice panel. The panel enhanced the underlying anonymity of the survey for employees and provided more opportunities to provide free text comments. Survey questions were updated to reflect key topics, including: wellbeing; inclusivity; and working differently;
- additional administrative and communications resource made available for network groups and executive sponsors identified; and
- panel members sought colleagues' views to contribute to the 'next ways of working' project, the 'home safe and well' project and the 'diversity and inclusion' audit.

misalignment with the company's culture. As well as our engagement survey we run regular employee barometers to ask employees what they are seeing, hearing and feeling. This approach allows us to act quickly if there are any areas of misalignment and take immediate action.

Culture and employee engagement

Our employees are at the heart of the culture of our business and further insight and evidence, as part of the board's assessment and monitoring of culture, has been gathered, and fed back to the board by Alison Goligher, the current designated non-executive director for engagement with the workforce.

Alison chairs the Employee Voice panel (the panel) formed from representatives of a number of employee groups and employee networks from within the business and with representatives drawn from across the geographical region. Alison has met the panel virtually four times throughout the year, it was recognised that the panel needed to meet more frequently during such a challenging period.

Employee Voice panel

The board

Employee Voice panel
Chair: Alison Goligher (non-executive director)

Employee networks groups:	Employee champion groups:	Early careers and managers:	Union partners:
• Multicultural • GENEq • Armed Forces • LGBT Identity+ • Ability	• Health, safety and wellbeing champions • Engagement champions • Colleague engagement group • Career development forums	• The Early Careers Board • Aspiring managers • Apprentices • Graduates • Bands 3 and 4 managers	• UNISON • Unite • GMB • Prospect

Members of the panel rotate approximately every two years. There is an open invitation to all board members to attend meetings of the panel. When the panel was established, the intention was to hold physical meetings, rotating around different operational and office locations, in order to encourage participation and enable colleagues to get a different perspective on working for the company; and enabling Alison to have first-hand experience of different company sites and gain a view of the company at 'grass-roots' level. However, due to the pandemic, all four meetings were held virtually. This did prove to be particularly beneficial to colleagues in operational roles, who found it much easier to attend panel meetings. Terms of reference were agreed when the panel was established along with the way in which the panel would operate. Such mechanisms will be reviewed in due course, particularly in relation to whether meetings will be held virtually.

Sub-groups, made up of panel members, have focused on specific aspects of the business, including cross-networks, culture and the employee engagement survey, providing updates at each meeting. The culture sub-group has focused its energies on obtaining a grass-roots view of changes to ways of working during the pandemic and contributing to the 'next ways of working' project and on the discussion of topical issues relating to culture, such as the focus on racial inequality. As part of the two-way communication, Alison provides updates to the panel from the perspective of the board and the corporate responsibility committee and she similarly provides feedback to the board and the committee on the work of the panel.

Listening to our employees

Employees' views are measured annually through the employee engagement survey with the objective of taking any required action to improve how permanent employees feel about the company and understand its direction. Employees are provided with information through briefings and access to online materials, to enable them to understand the financial and economic factors affecting the group's performance. Along with our employee relations team, our CEO holds regular face-to-face meetings with senior trade union representatives to facilitate two-way communication and engagement with the views of employees' representatives.

The group has a commercial arrangement with a third party for the provision of agency staff and contractors. Engagement and communication in relation to their work with the group for these members of the wider workforce is managed directly by the third party via a dedicated third party account manager who liaises directly with the company's human resources team. If there is any significant change activity, a representative of the third party joins the project team, thereby ensuring consistency when communicating key information to employees, agency staff and contractors.

During the year, a virtual all employee engagement day was held which was very well received by those who attended.

Set out on page 34 is the company's approach to our engagement with and creating value for employees, with health, safety and well-being a priority. Furthermore, an explanation of the company's approach to rewarding the workforce can be found in the report of the remuneration committee on page 172.

Whistleblowing policy

The following sets out the company's compliance with code provision 6.

As part of our two-way communication the board has responsibility for reviewing the group's arrangements for individuals to raise matters of concern and the arrangements for the investigation of such matters. The group's whistleblowing policy (the policy) supports the culture within the group where genuine concerns may be reported and investigated without reprisals for whistleblowers. A confidential telephone helpline and a web portal are available to enable employees (including agency workers and contractors) to raise matters of concern in relation to possible incidents of fraud, dishonesty, corruption, theft, security and bribery. Furthermore, employees are encouraged to raise any matters relating to health and safety and any activities of the business that have caused or may cause damage to the environment, such as pollution or other contamination. Both the helpline and web portal are operated by a third party, enabling any concerns to be reported anonymously. The policy states that no employee will be victimised for raising a matter in accordance with the policy. Matters raised with the helpline/portal are in the first instance raised with the relevant director and investigated by senior managers independent of any involvement of the issues being considered. Details of the findings of the investigation and proposed solution are considered by the whistleblowing committee (whose membership comprises the company secretary, customer services and people director, head of internal audit and commercial director) and which meets quarterly. The board routinely reviews matters considered by the whistleblowing committee, the outcome of the investigation and the ways in which the matters were brought to a conclusion, thus ensuring that the core value of integrity is upheld and fostering an environment where employees feel it is 'safe to speak up' and to do so without fear of reprisal.

Board engagement with shareholders and other stakeholders

The board as a whole accepts its responsibility for engaging with shareholders and is kept fully informed about information in the marketplace through the following channels:

- The investor relations adviser produces an annual survey of investors' views and perceptions about United Utilities, the results of which are presented and discussed by the board;
- The board receives regular updates and feedback on investor meetings involving the CEO, CFO and/or investor relations team and reports from sector analysts to ensure that the board maintains an understanding of investors' priorities; and
- The executive and non-executive directors are available to meet with major shareholders and institutional investors. When revising the directors' remuneration policy, the chair of the remuneration committee invited engagement from the company's major shareholders. Feedback from any such engagement would be shared with all board members.

Institutional investors

As well as current investors, we engage actively with institutional investors who do not currently hold shares in United Utilities, as we are keen to ensure our business is well understood across the investment community, and to hear and discuss the views of all investors.

We have an active investor relations programme, which includes:

- An invitation to major shareholders to meet with the Chairman;
- A regular schedule of meetings between the CEO and CFO and representatives from our major shareholders, supplemented with meetings hosted by our investor relations team;
- Presentations by the CEO and CFO to groups of institutional investors, both on an ad hoc basis and linked to our half and full-year results announcements and at our 'Capital Markets Days';
- The programme covers a range of major global financial centres, typically including the UK, Europe, North America and the Asia Pacific region;
- Regular feedback is provided to the board on the views of our institutional investors following these meetings; and
- Close contact is maintained between the investor relations team and a range of City analysts that conduct research on United Utilities.

In 2020/21, all our investor relations activities were conducted virtually. We met or offered to meet with 81 per cent (2019/20: 82 per cent), by value, of the active targetable institutional shareholder base (after adjusting for shareholders who do not typically meet with companies, such as indexed funds).

Frequent areas of common interest arising in meetings with investors include operational and environmental performance, customer service, capital investment, efficiency initiatives, regulatory performance, regulatory changes and ESG matters. Investors are always keen to observe financial stability and are interested in: the level of gearing versus regulatory assumptions; cost of finance; our debt portfolio and debt maturity profile; future financing requirements; and dividends. Investors are keen to understand how the company is performing relative to the price review allowances and targets each year, along with the potential implications of regulatory change.

INVESTOR DIALOGUE WITH THE CHAIRMAN

During the year the Chairman met virtually with representatives from a number of institutional investors. Common themes from these discussions were as follows:

- encouraged by the group's early adoption of TCFD disclosures, updates sought on the outcome of science-based target setting to deliver carbon pledges to net zero by 2030;
- making progress on diversity and inclusion within the business
- board succession; and
- comparisons with the group's listed peers.

Corporate governance report

Retail shareholders
Despite the privatisation process being around 30 years ago, we have retained a large number of individual shareholders with registered addresses in the North West – in fact, over 50 per cent of registered shareholdings on the share register. We have historically held our AGM in our region in Manchester, which enables our more local shareholders, many of whom are customers, to attend the meeting. A resolution is being proposed to shareholders at the 2021 AGM to amend the articles of association to allow for 'hybrid' general meetings to be held. There is a considerable amount of information on our website, which provides information on our key social and environmental impacts and performance during the year. Together with the annual and half-yearly results announcements, our annual report and financial statements are also available on our website; these are the principal ways by which we communicate with our retail shareholders. Our company secretariat and investor relations teams, along with our registrar, Equiniti, are on hand to help our retail shareholders with any queries. Information for shareholders can also be found on the inside back cover of this document, with a number of useful website addresses.

Other stakeholders
The board has direct contact with other stakeholder representatives, including: Ofwat and YourVoice (the independent customer challenge group). The chair of YourVoice regularly attends parts of UUW board meetings to provide an opportunity for discussion, in-depth customer insight and the sharing of views.

Prior to the AGM in 2019, Sara Weller, the then chair of the remuneration committee, consulted with shareholders, in relation to the revised directors' remuneration policy, which was proposed to shareholders for approval at the 2019 AGM and which was approved by 99.41 per cent of the votes cast.

Engagement with representatives of all our stakeholder groups occurs widely across many aspects of the business, and more information can be found on pages 24 to 26.

Further information on stakeholder engagement can be found in the report of the corporate responsibility committee on page 156 and in the measures reported on pages 52 to 76.

Outcome of 2020 AGM
At the 2020 AGM, votes were cast in relation to approximately 69 per cent of the issued share capital (2019: 67 per cent; 2018: 65 per cent). All 18 resolutions proposed by the board were passed by the required majority; there were no significant votes cast against the board's recommendations.

Votes cast in favour of the reappointment of the board directors were as follows:

Sir David Higgins	98.64%	Alison Goligher	98.90%
Steve Mogford	99.84%	Brian May	99.03%
Mark Clare	99.03%	Paulette Rowe	99.23%
Stephen Carter	99.09%		

Relations with banks and credit investors
Running a water and wastewater business, by its very nature, requires a long-term outlook. Our regulatory cycle is based on five-year periods, and we raise funding to build and improve our water and wastewater treatment works and associated network of pipes for each five-year cycle and beyond. We are heavily reliant on successfully raising long-term funding from banks and credit investors to fund our capital investment programme and refinance upcoming debt maturities.

This requires long-term support from our credit investors who invest in the company by making term funding available in return for receiving interest on their investment and repayment of principal on maturity of the loans or bonds. We arrange term debt finance in the debt capital markets (with maturities typically ranging from seven years to up to 50 years at issue). Debt finance is primarily raised via the group's London listed multi-issuer Euro Medium Term Note Programme, which gives us access to the sterling and euro public bond markets and privately arranged note issues. Committed credit facilities are arranged with our relationship banks on a bilateral basis. Additionally, the European Investment Bank (EIB), which is the financing arm of the European Union (EU), remains a significant lender to United Utilities Water, currently providing around £1.1 billion of loan funding supporting past capital investment programmes.

Given that the UK left the EU on 31 January 2020, we are unlikely to obtain future funding from the EIB under its existing mandate, with our existing loan portfolio with the EIB entering into 'run-off' in line with the scheduled maturities of each loan. A greater proportion of the group's term finance is therefore likely to come from the debt capital markets, and during the year the group raised a total of £725 million of term funding in the sterling public bond market, including our first sustainable bond of £300 million with a maturity date of October 2029, and paying a coupon of 0.875 per cent. The bond was issued under the group's sustainable finance framework established in November 2020.

The group currently has gross borrowings of circa £8,452 million. Given the importance of debt funding to our group, we have an active credit investor programme coordinated by our group treasury team, which provides a first point of contact for credit investors' queries and maintains a dedicated area of the company's website. One-to-one meetings are held with credit investors through a programme aimed at the major European fund managers known to invest in corporate bonds that may be existing holders of the group's debt or potential holders. Regular mailings of company information are sent to keep credit investors informed of significant events. The treasury team has regular dialogue with the group's relationship banks and the EIB and the credit rating agencies. More information can be found on our website at unitedutilities.com/corporate/investors/credit-investors

Rating agency services continue to be provided to the group by Moody's Investors Service Limited, Fitch Ratings Ltd and S&P Ratings UK Limited under contracts signed at the beginning of 2020 for an initial three-year term. Debt capital markets issuance by the group has therefore been made on a solicited basis by all three rating agencies during the 2020/21 financial year.

2 Division of responsibilities

Principle F:

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensure that directors receive accurate, timely and clear information.

The external board evaluation (see page 135) tested and confirmed the Chairman's application of principle F. Sir David was independent on appointment when assessed against the circumstances set out in provision 10, his biography is on page 112.

Principle G:

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

The external board evaluation (see page 135) tested and confirmed the application of principle G, concluding that the skills and experience of executive and independent non-executives were appropriate with the board working together as a cohesive unit, but maintaining the clear division of responsibility between the board and the executive management team. See pages 112 to 115 for our reporting against provision 10; and the governance structure of the board and its principal committees on page 120.

Principle H:

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

As part of the annual review of conflicts of interest, the board was satisfied that, after taking into account the other commitments of directors, board members have sufficient time to meet their board responsibilities and principle H had been applied (see page 129). The board demonstrated constructive challenge and offered strategic guidance and advice to management in relation to the review of the AMP7 dividend policy (see page 28), and the appropriate time period applicable to the company's long-term viability statement (see page 142).

Principle I:

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

The external board evaluation tested and confirmed the application of principle I, the views of board members was sought on whether the necessary support and information was provided effectively and efficiently, see page 135.

Chairman of the board

The role and behaviour of the Chairman is fundamental to the effective operation and decision-making of the board and in creating an atmosphere where open and frank discussion is facilitated and encouraged. The roles and responsibilities of the Chairman are set out as part of the company's governance framework. Sir David was independent on appointment when assessed against the circumstances set out in provision 10 of the code.

It is the role of the Chairman, supported by the company secretary, to drive forward the business agenda of board meetings to ensure that the board is kept abreast of the regulatory drivers and strategic needs of the business.

It is the role of the Chairman, supported by the company secretary, to ensure that the directors receive accurate, timely and clear information. The Chairman and company secretary hold regular meetings to discuss agenda items and board materials. Board packs are distributed electronically five days before the meeting. Ensuring board materials are of an appropriate length, on what can be particularly complex and technical issues, is a constant challenge.

Conflicts of interest and time commitment

The following section sets out the company's compliance with provision 7.

The company's articles of association contain provisions which permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chairman of any potential conflict or potential new appointment or directorship. Additionally, the board reviews the position of each director annually. No changes were recorded that would impact the independence of any of the directors. No conflicts of interest had arisen during the year.

The board does not specify the precise time commitment it requires from its non-executive directors in taking on the role as they are expected to fulfil it and manage their diaries accordingly. The board is content that none of its directors is overcommitted and unable to fulfil their responsibilities as a board director for United Utilities. Each individual's circumstances are different, as is their ability to take on the responsibilities of a non-executive directorship role. Should a director be unable to attend meetings on a regular basis, not be preparing appropriately or not contributing appropriately to board discussions, the Chairman would be responsible for discussing the matter with them and agreeing a course of action.

During the year, permission was sought from the board to take on additional non-executive responsibilities by: Brian May appointed as a non-executive director at Ferguson plc; Mark Clare appointed as a non-executive director and chairman designate at Aggreko plc and as a non-executive director of Wickes Group plc; Alison Goligher as a non-executive director of Technip Energies NV and Kath Cates as a non-executive director of TP ICAP Group Plc.

Executive directors are not normally allowed to take on more than one non-executive position, a non-executive role is considered to be beneficial from a developmental perspective. In March 2021, although not a statutory directorship, Phil Aspin accepted a position on the UK Accounting Standards Endorsement Board (UKEB).

Corporate governance report

Nomination committee

The committee's board recruitment process is continuous and proactive, it takes into account the factors affecting the long-term success of the group and its strategic priorities.

Sir David Higgins
Chair of the nomination committee

Dear Shareholder

Board changes during the year are summarised on page 117, suffice to say it has been a year of considerable change around the board table. We endeavoured to ensure a smooth induction (see page 134), albeit virtually, for our new independent non-executive colleagues Kath Cates and Doug Webb, both of whom joined the board in September 2020.

The nomination committee has undertaken a comprehensive review of the board succession plan, which addresses both contingency planning needs and requirements in the short to medium term, and incorporates a reasonable degree of certainty on timescales for key board positions. The committee's role is to ensure that the board and senior management have the appropriate balance of skills and experience to support the group's strategic objectives and that any developmental needs are met. Board members and senior managers need to be in tune with the culture of the company and be supportive of the company's ESG credentials which are embedded in the way the business is operated and will be ever more important.

Historically, independent non-executive directors at United Utilities have served a term of between seven and nine years; a pattern that has facilitated the refreshing of the board in recent years almost on an annual basis, along with ensuring a high degree of continuity. Notwithstanding this, the specifics of each of the non-executive directors' time of departure have been driven by their own personal circumstances. Serving beyond a nine-year term is identified in the code as being one of the reasons that could affect a non-executive director's independence. For this reason, we say a fond farewell to Brian May, the chair of audit committee, at the annual general meeting. In accordance with our succession plans, Brian will be succeeded in this important board position by Doug Webb, whom the board is satisfied as having recent and relevant financial expertise. Two-thirds of board members are independent non-executive directors, fulfilling provisions 10 and 11 of the code. Biographies of board directors can be found on pages 112 to 115.

Diversity and inclusion is high on the board agenda with the board's focus on the matter both across the entire workforce, and in terms of the board's own members. The board diversity policy (see page 133) is taken into account during every candidate selection process. Ultimately, we do strive to appoint the person we believe is best matched to the role in terms of what they have to offer the company and to make a positive contribution to the board conversation and board dynamics. Diversity in its broadest sense and in terms of outlook and interest is essential to ensuring we have a variety of views to contribute to discussions and the decision-making process. The board is committed to ethnic diversity, and its membership is in line with the board diversity policy, reflecting the recommendations of the Parker Review Committee, that there should be at least one director of non-white ethnicity by 2021.

The annual board and committee evaluation (see page 135) was externally facilitated in December 2020/January 2021 by Independent Audit Limited.

QUICK FACTS

- All members of the committee are independent, thus fulfilling the code requirement that a 'majority of members of the nomination committee should be independent non-executive directors'. On joining the board, all independent non-executive directors become members of the nomination committee.
- The role of the committee is to lead the process for appointments to the board and ensure plans are in place for orderly succession to both the board and senior management positions and oversee a diverse pipeline for succession.
- The company secretary attends all meetings of the committee.
- The customer services and people director has responsibility for human resources, she regularly attends meetings and is responsible for engaging with executive search recruitment advisers.
- The CEO is not a member of the committee, but from time to time is invited to attend. Neither the Chairman nor the CEO would participate in the recruitment of their own successor.

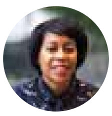
Quick link

Terms of reference – unitedutilities.com/corporate-governance

Nomination committee members

Sir David Higgins (chair)

Brian May



Paulette Rowe

Stephen Carter

Mark Clare

Alison Goligher

Kath Cates

Doug Webb

MAIN RESPONSIBILITIES

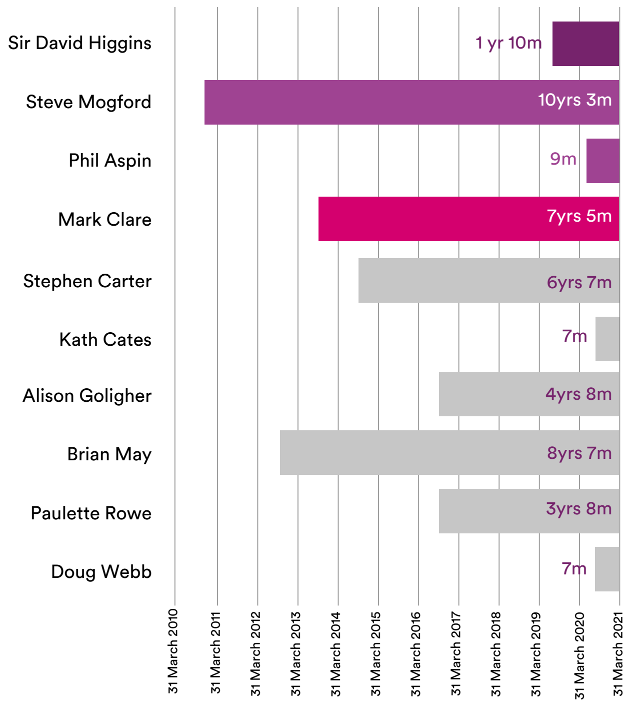
- Lead the process for board appointments and make recommendations to the board about filling vacancies on the board, including the company secretary;
- Consider the succession planning of directors and members of the executive team;
- Make recommendations to the board on refreshing the membership of the board's principal committees;
- Review directors' conflict authorisations;
- Consider the request from executive directors for election to the boards of other companies and make a recommendation to the board; and
- Consider requests from non-executive directors for election to the boards of other companies; this role has been delegated to the Chairman (other than in respect of his own requests).

During the year, Steve has re-shaped his executive management team to better reflect the needs of the business going forward and to provide key senior managers with new opportunities for challenge and development. The board is satisfied that this will contribute to the strength and quality of the senior management succession pipeline, as has management's response to the pandemic, quickly evolving from the 'new normal' to 'business as usual'. The board has good visibility and communication links with senior management, indeed this is one of the contributing factors to the board's confidence in its management team. Excluding the CEO and CFO, there are now eight members of the executive team (2020:13) of which 50 per cent are women. Short biographies can be found on our website at unitedutilities.com/executive-team. While the executive team reflects strong gender diversity, there is a way to go to achieve our aspirations for ethnic diversity.

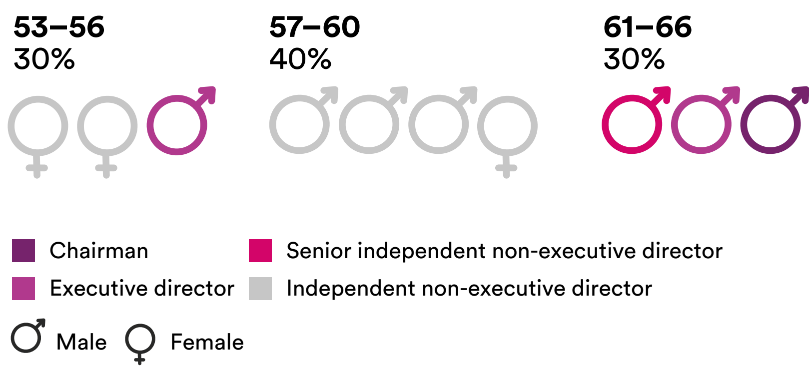
Sir David Higgins
Chair of the nomination committee

Diversity and inclusion is high on the board agenda, with the board's focus on the matter both across the entire workforce, and in terms of the board's own members.

Directors' tenure as at 31 March 2021



Age and gender profile at 31 March 2021



Corporate governance report

Nomination committee

3
Composition, succession and evaluation

Principle J:
Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The board is satisfied it has applied principle J. An explanation of the board appointment and succession planning activities can be found on page 132 and forms our disclosure as part of provision 23. Our disclosure against provision 20 is on page 132. In relation to provision 23, our policy on board diversity is on page 133 and details of the gender balance of senior management on page 137. Information on the company's approach to diversity and inclusion is set out on pages 138 to 140.

Principle K:
The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

The board is satisfied it has applied principle K. Biographies of the board can be found on pages 112 to 115. An overview of directors' areas of expertise is set out in the skills matrix on page 133 and the length of service of board members on page 131. Board biographies include our reporting against provision 18.

Principle L:
Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The board is satisfied it has applied principle L. Details of the board evaluation and disclosure against provision 23 can be found on pages 116 and 135.

What has been on the committee's agenda during the year?

Board succession

In line with the board succession plan, and the approximate timescales therein, the process of the appointment of Kath Cates was undertaken to fill the vacancy when Sara Weller stepped down from the board at the end of the 2020 AGM. Doug Webb was recruited with the knowledge that Brian May was approaching nine years' service on the board. The committee is supported during any recruitment process by the customer services and people director, Louise Beardmore, as part of her human resources responsibilities. The executive search firm Lygon Group were engaged as part of the recruitment process.

The succession planning matrix tool and skills matrix (see opposite) for board directors is used to support the planning process for board appointments. The succession planning matrix highlights the code governance requirements; existing directors' terms of appointment and a forecast/anticipated time frame when an individual might leave the business; the projected strategic needs of the business and resulting preferred experience of any potential new board member; existing potential internal successors to a role (where identified) and those who could act as an interim should the need arise. A candidate suitable for the role of CEO would need to demonstrate that their management approach would fit with the company's culture of behaving responsibly.

The committee would seek to consult with the incumbent CEO, given his unique knowledge and perspective of the group, on his view of the needs of the business going forward. Neither the Chairman nor the CEO would be involved in the appointment process of their successor.

Other than providing executive search services on previous occasions Lygon Group have no other connection with the company.

Membership of the principal board committees

Alison Goligher took over the role as chair of the remuneration committee when Sara Weller left the board in July 2020, Alison had served as a member of the committee since 2016 and chairs the remuneration committee at Meggitt plc. On appointment, Kath Cates joined the remuneration committee, bringing her experience from her existing non-executive appointments. Doug Webb was appointed with a view to taking over as chair of the audit committee and treasury committee when Brian steps down at the conclusion of the 2021 AGM, at which point Doug will also replace Brian on the remuneration committee.

The board is satisfied that the membership of the audit committee is in accordance with provision 24, and that the membership of the remuneration committee is in accordance with provision 32.

Board diversity

The board diversity policy is to 'ensure the selection process for board appointments provides access to a range of candidates. Any appointments will be made on the basis of merit and objective criteria, and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, but with due regard for the benefits of diversity on the board, including gender diversity.' The objective of the policy is for new directors to bring something different to the board table, be it in terms of experience, skills, perspective, interests or other attributes. As referred to above, our board diversity policy would be brought to the attention of any executive search firm used as part of the selection and appointment process for a board position. Feedback would be sought from the search firm in terms of their success in attracting potential candidates in terms of their diversity of attributes. Feedback would also be gathered first hand through the interview process with candidates conducted by other board members and taken into consideration in identifying those suitable for the role in question. As a board, the benefits of diversity and associated benefits to the decision-making process is widely recognised and has been the subject of discussion with major investors. When Brian May steps down from the board at the annual general meeting, the measurable targets of 33 per cent female representation on the board and one director of non-white ethnicity will be met. On the board at 31 March 2021, female representation was 30 per cent and BAME was representation 10 per cent. Amongst the workforce BAME representation was 2.5 per cent (15 per cent choose not to disclose) and 9.2 per cent* (*Office for National Statistics, Regional Ethnic Diversity, August 2020) as a comparator, across our region. We recognise the benefits of diversity across our business with initiatives in place to support women in the workplace and tackle the ethnic imbalance of our workforce, thereby aligning with our strategic theme of operating our business in a responsible manner (see page 17).

SUMMARY

Summary of board diversity policy

- Ensure the selection process for board appointments provides access to a range of candidates. Any such appointments will be made on the basis of merit and objective criteria, and within this context should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- Ensure that the policies adopted by the group will promote diversity in the broadest sense among senior managers who will in turn aspire to a board position.
- In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms as recommended by the Davies Report.
- Adopt measurable objectives from time to time for achieving gender diversity at board level, which shall be to maintain at least 25 per cent, and aspire to 33 per cent, female representation by 2020, and to have at least one director of non-white ethnicity by 2021.

Skills matrix of board directors

	Sir David Higgins	Steve Mogford	Phil Aspin	Mark Clare	Stephen Carter	Kath Cates	Alison Goligher	Brian May	Paulette Rowe	Doug Webb
Finance/accounting			●	●		●		●		●
Utilities		●	●	●	●					
Regulation	●	●	●	●	●	●			●	●
Government	●		●	●	●					
Construction/ engineering	●	●		●			●			
Industrial							●	●		●
Customer-facing		●	●	●	●	●		●	●	
FTSE companies		●	●	●	●	●	●	●	●	●
Digital/Technology		●		●	●	●		●	●	
ESG		●	●	●	●	●	●			●
Current CEO/CFO of FTSE 350 *					●					
Former CEO/CFO of FTSE 350	●			●				●		●

* Excludes UU

Corporate governance report

Nomination committee

Non-executive directors' induction programme

Since joining the board in September 2020, Kath Cates and Doug Webb have spent time (both virtually and face-to-face as was permitted from time to time) with members of the executive team and met with representatives from the company's advisers as follows:

- The CFO and members of the finance function and gained external perspective from the group's statutory auditor, KPMG. Met representatives from JPM Cazenove and Deutsche Bank, the group's corporate brokers;
- The water, wastewater and digital services director to gain an understanding of the company's operations and digital monitoring and control of the group's water and wastewater network and assets and insight into the group's IT systems;
- The company secretary to gain an understanding of the group's corporate structure, governance arrangements and associated processes and met with Slaughter and May, the group's legal adviser, to receive an external perspective on governance and best practice;
- The commercial, engineering and capital delivery director to gain an understanding of the group's capital delivery programme and insight into the Haweswater Aqueduct Resilience Programme;
- The customer services and people director to discuss the actions undertaken by the business to improve service to customers and the group's employee agenda and the director of health, safety and wellbeing;
- The strategy and regulation director and the director of environment, planning and innovation to discuss the requirements of the economic and quality regulators; and
- The corporate affairs director to gain an understanding of the group's engagement with political stakeholders.

CFO transition programme

Phil Aspin had extensive finance experience within the group prior to his appointment as CFO, having previously been both group controller and group treasurer. To support his transition to his new role he has taken part in a programme of activities, including:

- Investor relations: met with Rothschild & Co the group's investor relations adviser and received a briefing on equity investor themes and perceptions;
- Corporate brokers: met with JPM Cazenove and Deutsche Bank and received a briefing on equity markets:
- Legal advisers: met with Slaughter and May and received an in-depth review of directors' responsibilities and corporate governance requirements;
- Media and communications advisers: received media training provided by Tulchan Communications; and
- Participated in a CFO transition programme provided by Deloitte.

Evaluation of the effectiveness of the board, board committees and individual directors

Our board evaluation was conducted by Independent Audit Limited (IAL) who were engaged after a competitive tender process; this was the first review undertaken by IAL. Bids were received from six bidders. The tender process was conducted by the company secretary, head of legal and deputy secretary. Prior to this, an external evaluation was last conducted in 2018. In the intervening years the evaluation was facilitated by the company secretary and his team. IAL does not have any other connection with the group. IAL reviewed the accuracy of the content set out in relation to their work.

A summary of IAL's 2020/21 review of responses to the board self-assessment questionnaire is set out below:

2020/21 areas of assessment	Commentary and actions
Overview	IAL found the responses to be, on the whole, very positive. They recommended that the board should continually challenge itself to ensure it maintained consistency in the areas that were felt to be working particularly well. The review of responses identified a broad mix of skills, experience, personalities and diversity in the board composition which should continue to be an aspiration for future board appointments.
Board fundamentals	The review of responses indicated board members felt there was an appropriate mix of skills and experience with members drawn from a diverse range of backgrounds. The mix of personalities helped to encourage diversity of thinking. There was a constructive relationship between the non-executive directors and the executive directors and management team, of which there was good visibility at board level.
Strategy	Responses indicated there was a clear understanding of the strategic goals for the core business and with good visibility of both short and long-term strategy, although it was felt that a better understanding of the sustainable aspects of strategy was needed. Oversight of the financial performance of the business was felt to be good. Greater visibility of the people skills, characteristics and diversity for the future needs of the business was an area to be addressed along with that of enhancing the oversight of culture.
Managing risk	Responses indicated that risk was considered to be well managed and the board had a clear overview of the principal risks. More opportunity for the discussion of IT risk was cited along with other emerging risks.
Support and information	Respondents felt meetings were well chaired and the board arrangements and administration provided by the company secretary and his team were effective. On the whole, papers were considered to be well structured, although better signposting of key issues on more complex topics would be helpful.
Committees	• Overview: responses suggest that committees were well chaired and supported. Agendas were focused and members were provided with appropriate information. Members had the right skills to debate issues and provide challenge to management. • Audit committee: questionnaire responses indicated that members agreed that the reporting environment was satisfactory and oversight of internal and external audit was appropriate. Some respondents indicated the need for better insight on how the key risk and control functions operated together. • Remuneration committee: questionnaire responses indicated that the committee was working well and the focus of the committee's agenda was appropriate. The committee should consider the employee's perspective on how remuneration and wider policies align with the values and impact on culture. • Nomination committee: respondents agreed there to be a good level of debate and discussion. A revised skills planning matrix was developed during the year which would aid future non-executive succession planning. It was suggested that the executive succession pipeline would benefit from a more structured approach. • Corporate responsibility committee: given the broad range of ESG activities, respondents felt the committee should focus on the areas where it could add greater value to the debate and more feedback should be sought from the board on the committee's activities.
Individual directors	IAL reviewed the responses from the questionnaires completed by each director assessing their own effectiveness and that of the evaluation of the Chairman. The meeting witnessed by IAL observed good interaction and participation by directors, supporting the view from directors and the board that each director continues to contribute effectively.

Corporate governance report
Nomination committee

2019/20 evaluation recommendations	Actions taken during 2020/21
More focus was needed on longer term business priorities such as climate change, technology and innovation, resilience and people development.	In addition to the strategy day held in November 2020, the board have received a number of 'deep dive' sessions on topics including: leakage, digital strategy, people, diversity and inclusion and 'next ways of working'.
Nomination committee: continuing the focus on succession planning for executive and non-executive board positions.	During the year nomination committee conducted selection processes for two new non-executive directors, appointing Kath Cates and Doug Webb.
Audit committee: the authors of committee papers to focus on the key issues to be brought to the attention of the committee, particularly in relation to the risk management systems and controls.	Audit committee papers have focused on key issues, with greater use of appendices for the explanation of detail.
Corporate responsibility committee: the priorities over the next 18 months should be identified.	The corporate responsibility committee has reviewed and focused the matters within its remit.

EXTERNALLY FACILITATED SELF-ASSESSMENT EVALUATION PROCESS

Part 1

A brief for the board effectiveness evaluation was first discussed between the Chairman and the company secretary. Thereafter a further session was held with IAL who drafted self-assessment questionnaires, which were then shared with the Chairman, committee chairs and company secretary for feedback. Final versions were then issued to board members and the regular committee attendees via IAL's bespoke online platform, Thinking Board®, in December 2020. The respondents' views were analysed and the reports shared with the Chairman, committee chairs and company secretary and then formally presented at the February 2021 board meeting and respective committee meetings. IAL attended the board strategy day held virtually in November 2020 to observe the board in action. They reviewed the papers for the strategy day along with a more standard set of board papers to assess the quality of materials being provided to the board.

Part 2

The evaluation of the effectiveness of individual directors followed in January 2021. Following discussion with the Chairman and company secretary, IAL drafted questionnaires to enable individual director self-assessment. The senior independent director (SID) agreed the form of the questionnaire to assess the effectiveness of the Chairman and a copy of the questionnaire was shared with the Chairman. Questionnaires were again distributed via IAL's online platform, Thinking Board®, and the results analysed by IAL. A report based on responses to the questionnaire on the effectiveness of the Chairman was sent to the SID, who then discussed the outcome with the other non-executive directors and provided feedback to the Chairman. IAL's report based on the responses from the individual directors was provided to the Chairman who subsequently provided feedback to each of the individual directors.

Ongoing board development and training

Board directors regularly receive updates to improve their understanding and knowledge about the business and, in particular, its regulatory environment. As part of the individual director's element of the board evaluation exercise, directors are asked to identify any skills or knowledge gaps they would like to address. Directors made a number of suggestions, as set out above.

Consideration of ESG issues are fundamental to the way in which we operate as a responsible business at United Utilities; such matters are central to board discussions (see the summary of board activity on pages 121 to 123 and the report of the corporate responsibility committee on pages 156 to 159). The board's approach to these matters is reflected in our strategic themes, and our corporate culture of behaving in a responsible manner as reflected throughout the strategic report. Through presentations and discussions with representatives of YourVoice, the independent customer challenge group, whose role is predicated on protecting customer interests in how the group goes about its business, the board is kept informed of customer, in-region environmental affairs and social matters.

In addition to this less formal approach to board development, during the year the board received briefings from both Slaughter and May (legal and governance matters) and KPMG (governance changes relating to reporting requirements), along with a number of other advisers. Non-executive directors completed in-house online training courses on the Competition Act and the Bribery Act. A number of board members attended events organised by Ofwat for non-executive directors.

Our non-executive directors are conscious of the need to keep themselves properly briefed and informed about current issues and to deepen their understanding of the business. During the year, Alison Goligher has again chaired the Employee Voice panel as part of the ongoing work to ensure the board has a direct link to understand the views of employees (see page 126) of the business. Paulette Rowe has contributed to the work on diversity and inclusion (see page 138).

Induction of new non-executive directors

An induction programme is arranged for new non-executive directors. The programme for Kath Cates and Doug Webb is set out on page 134. In addition, virtual one-to-one meetings with the Chairman and each of the existing non-executive directors were held. Furthermore, one-to-one meetings were held with the CEO. Ordinarily, on joining the board, non-executive directors would meet members of the operational teams and visit some of the key operational sites and capital projects to ensure they get a first-hand understanding of the water and wastewater business. New directors receive a briefing on the key duties of being a director of a regulated water company, including the role of the regulated company's holding company. They are required to meet with representatives of Ofwat prior to appointment.

Wider succession pipeline and talent management

For a number of years, we have had a written succession plan for our executive directors and other members of the executive team, which includes outline timescales. The plan identifies an interim internal successor to fill a role in the short term should the need arise, and the longer-term development needs of potential successors to be able to fulfil a role on a more permanent basis. As with all our board appointments, we would always aim to appoint the best person to fulfil a role. It would be common, when recruiting for a senior role, for an external search to be conducted alongside an internal candidate recruitment process.

Any changes that are required to the profile of the management team to reflect the changing needs of the business are considered by the board in the executive succession plan. Succession and development initiatives for senior executives include executive mentoring and coaching and/or participating in an executive business school programme, as appropriate. Leadership development centres have been delivered to identify and validate potential for future director and senior leader positions and develop a number of role-ready diverse candidates to provide the group with leadership capacity in an increasingly complex environment. Senior managers are encouraged to take on a non-executive directorship role as part of their personal development, but it is recognised that this is very much a personal commitment for each individual. Along with the wider employee population, we continue to work towards improving the diversity of our succession pipeline as part of our ongoing diversity and inclusion plans.

Fifty per cent of our executive team (excluding the CEO and CFO) is made up of women, and as yet there is no ethnic diversity among the team. The gender balance of the direct reports of the executive team is 65 per cent male and 35 per cent female, BAME representation is 1.5 per cent. We are keen to develop our succession pipeline of female senior managers so that, over time, they can be considered for executive board appointments or as potential candidates for non-executive directorships in other companies. Our current talent programme at a senior level is well embedded and we believe a non-executive appointment for senior managers provides an excellent opportunity for both personal and career development. It is a way of gaining valuable experience that may be applied at United Utilities so long as no conflicts of interest occur. Our graduate and apprentice programmes are thriving and we are focusing more effectively on middle/junior management succession. Our gender pay data can be found on page 139. Historically, our industry has been male dominated, but we have measures in place to increase diversity in broad terms, including gender among our employees. During the year, board directors have a number of opportunities to meet with members of the executive team, both formally when senior managers are required to present at board meetings on matters related to their responsibilities, and on more informal occasions. From time to time, board members have the opportunity to attend events and meet with members of the apprentice and graduate population and other employees identified as potential talent within the business.

Corporate governance report

Nomination committee

Diversity and inclusion in 2020/21

What have we done to improve diversity and inclusion in 2020/21

We are committed to providing a diverse and inclusive workforce that is representative of the communities we serve. Our stakeholders would expect this and it is more relevant than ever before. We need fantastic people to enable us to deliver a great public service now and into the future, so we are determined to make sure we are reaching and recruiting from every community and supporting employees to achieve their full potential and feel valued and included.

Our inclusion plan

Working with a specialist inclusion partner, The Clear Company, we have focused our approach in 2020/21 on five key programmes:

- Leadership development, ensuring managers understand and embrace our inclusion strategy;
- Encouraging openness to enable us to understand more about our employees to improve the support and services we offer to them;
- Enhancing our processes and policies to attract and develop diverse talent and remove bias throughout our employee population;
- Increasing awareness of diversity and inclusion through education, debate and discussion; and
- Facilitating inclusion through encouraging and supporting our active employee networks.

Louise Beardmore, our customer services and people director, sponsors the overall diversity and inclusion plan and tracks its progress against activity-based targets with the executive team. A further maturity audit will be completed in the next 12 months to independently assess progress and inform representation targets.

In 2021 we were the highest placed water company for our diversity efforts in the Diversity Leaders ranking.

Ethnicity

With 2.5 per cent of our workforce identifying as BAME (15 per cent choose not to disclose ethnicity), attracting a future pipeline of talent from across multi-cultural backgrounds remains a priority.

In the North West where we operate, BAME representation is 9.2 per cent* (*Office for National Statistics, Regional Ethnic Diversity, August 2020) and there is considerable variability area by area. Fifty-five per cent of permanent roles recruited during 2020/21 were at our biggest employment hub in Warrington in Cheshire, where BAME representation in the area is 2.7 per cent.

In 2020, we trialled a bespoke approach as part of our apprentice campaign with a specialist diversity recruitment provider. By ring fencing a number of the roles, we were able to target under-represented groups and successfully increase the 2020 intake to include 18 per cent ethnic minority, a 12 per cent increase since the 2019 programme. We adapted our selection processes for this year's graduate programme and increased ethnic minority representation to 21 per cent, a 15 per cent increase since 2019.

We have become a patron member of the BAME Apprentice Alliance and have an active Multicultural Network which supports colleagues and educates the wider workforce on cultural differences by providing insight and stories from a range of cultural backgrounds.

Gender

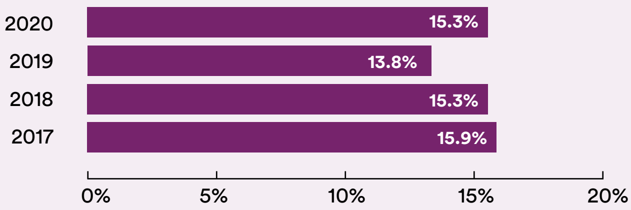
Throughout 2020/21, our workforce profile remained quite static at 66 per cent male and 34 per cent female. This is primarily driven by the limited number of females with the relevant skills available in the market and the legacy of a traditional male-orientated bias in science, technology, engineering and maths (STEM) careers. Women made up circa 24 per cent of the UK workforce employed in core STEM-related jobs in 2020 (WISE campaign summary of Office for National Statistics Labour Force Survey Data).

We have focused on creating a strong pipeline of female candidates for future roles, forming strategic recruitment partnerships to source external talent alongside a range of internal programmes. A new Female Pipeline Talent programme was launched in 2020, supporting progression through cross-company mentoring schemes and targeted future progression. We actively encourage all employees to join our award-winning GENEq gender equality network which continues to provide insight, education and support for female colleagues.

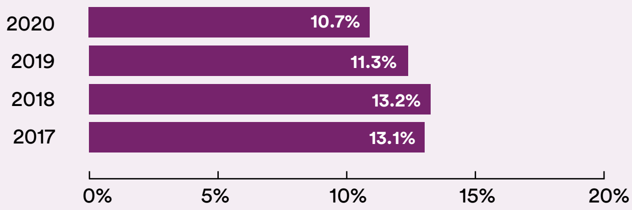
Against a backdrop of low attrition levels, variable geographical demographics and male-orientated STEM roles, we have seen progress with our targeted diversity and inclusion approach:

- In the last year around 42 per cent of all promotions were achieved by women and 60 per cent of our senior leader external hires were female.
- Our Aspiring Manager Programme continues to support female progression with 71 per cent of female participants being promoted or moved to a new role.

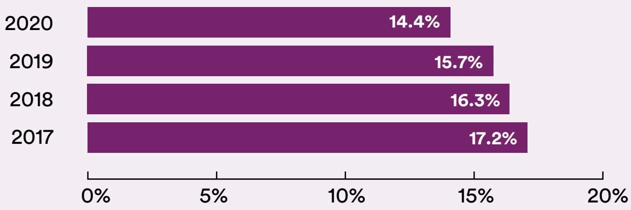
Our median gender pay gap over time



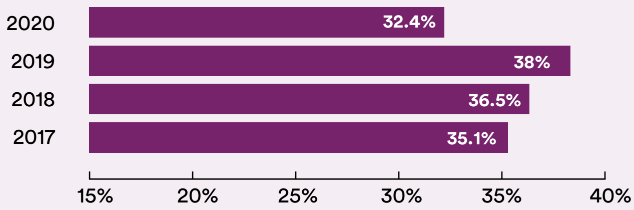
Our mean gender pay gap over time



Our median gender bonus gap over time



Our mean gender bonus gap over time



Proportion of women and men receiving a bonus

Female
94.7%

Male
93.2%

Note: To be eligible for our bonus scheme, employees need to have completed a minimum level of service. This means that some people who start working for us during the year may not be eligible.

- Our graduate intake for 2020 was 64 per cent female, a 25 per cent increase since 2019.
- Our apprentice programme has seen 31 per cent females joining us, an 18 per cent increase compared to 2019. This is against a backdrop of females accounting for only 7 per cent of apprentices in the UK engineering, manufacturing and technology sector (Institute for Apprenticeships and Technical Education).

We have been recognised externally and named on Bloomberg's 2021 Gender Quality Index, an accepted standard for gender quality transparency. In 2020, United Utilities was named as finalists in both the Northern Power Women Awards and in the 'Women in Water' category at the Water Industry Awards.

Gender pay reporting

Since our reporting began in 2017, our median gender pay gap is lower than the national average. In 2020, the national median gender pay gap was 15.5 per cent (ONS, November 2020). Our median gender pay gap has increased slightly since our last report in 2019. This is mainly because we needed to recruit people for a number of operational roles that receive extra payments due to the nature of their working patterns and, at the moment, it is mainly men working in these roles.

We are pleased to report that our mean gender pay gap has reduced. This is partly due to changes in the organisation, which have meant we have had more women progressing into senior roles and more men in lower-paid roles.

Having challenged our thinking and assessed ourselves against external practices, we are confident that action we are already taking or have planned should result in us being able to reduce our gender pay gap in a way that can be maintained.

LGBT+

Our LGBT+ network, Identity+ with over 350 members provides a social and support network for LGBT+ staff and those who are LGBT+ friendly. Its work has continued throughout the pandemic to support virtual events both in the company and externally, including celebrating Pride Month in June 2020.

We are pleased to have partnered with The Proud Trust, a north west-based LGBT+ youth charity. We have sponsored a group youth workers to work with LGBT+ young people in Oldham, a 'cold spot' as defined by the social mobility index. We have funded LGBT+ inclusive educational resources, linked to the English national curriculum.

In 2020, over 200 people participated in Pride in the Workplace training, to help break down barriers and improve confidence to talk about LGBT+ in the workplace. We remain committed to being a Stonewall Diversity Champion. Stonewall are supporting us with a review of our people policies to ensure they are progressive and reflective of societal changes.

Disability

Our ability network with over 100 members aims to support employees with, or those who support people with, a disability or long-term health conditions. Having gained Disability Confident status, we have

Corporate governance report
Nomination committee

continued to offer guaranteed interviews and make reasonable adjustments for people who are registered with a disability and we are seeing the positive impact of this with 4 per cent of our 2020 apprentice group having a long-term health condition or a disability.

We have continued to deliver disability awareness training to our people managers and were proud to be finalists at the 2020 Recruitment Industry Disability Initiative awards.

Young people
Research indicates that there continues to be significantly fewer females than males studying STEM subjects in secondary schools and universities, which means that females continue to be under-represented in jobs requiring such skills.

In 2020, we sponsored the first STEM Centre of Excellence of its kind at one of our partner schools in Warrington. We provide a range of activities at schools and in our communities to inspire girls to study STEM subjects. Our 50 STEM ambassadors have together volunteered over 100 hours this year. We are working in partnership with Northern Power Futures, supporting school students across our region, with a specific focus on women.

We have committed to supporting the Government's Kickstart Scheme by providing 250 placements to young unemployed people in 2021. We have welcomed our first cohort of new recruits into their placements and our supply chain partners are supporting us in our aim to provide opportunities for young people.

Read more about **Kickstarting careers in the North West** on page 54.

Social mobility
In 2020, we hosted our first Social Mobility Summit with over 150 employers from the North West. We are keen to play our part, alongside other north west businesses, organisations and agencies, in tackling the challenge of social mobility, contributing to boosting opportunities and social mobility as part of our national recovery.

We invited Rt Hon Justine Greening, founder of the Social Mobility Pledge, to co-host a live virtual event with Louise Beardmore, which officially launched our Opportunity Action Plan – the first of its kind in the North West.

We continue to play our part in driving improvements sector-wide, with partners and external stakeholders. We are active members of the Energy and Utility skills diversity and inclusion forum and have signed the sector pledge. As a member of Water UK, we have led on the creation of a water sector apprenticeship scheme that aims to raise awareness of the sector as an employer and are leading in raising awareness of the importance of social mobility inside and outside of the industry. In 2020, our targeted approach for increasing diversity resulted in 49 per cent of our apprentices coming from areas of low social mobility.

Financial oversight responsibilities of the board

4

Audit, risk and internal control

Principle M:

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Our application of principle M is formalised in our non-audit services policy and terms of engagement with the auditor as agreed by the committee. The head of internal audit and risk reports to the committee and to the CFO but only on a functional basis, thereby ensuring a direct line of communication between internal audit and the committee. In accordance with provision 25, an explanation of the independence and effectiveness of the external audit process can be found on pages 149 to 150, and the reappointment of the statutory auditor on page 151. The board considered and was satisfied on the integrity of the financial and narrative statements, as advised by the audit committee in accordance with DTR 7.1.3(5).

Principle N:

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

We have applied principle N, as confirmed by our disclosure against provision 27, which can be found on page 196 and is supported by our disclosure against provision 25 on page 149.

Principle O:

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Our risk management framework and principal risks are on pages 100 to 107. Further information on the company's internal audit function and controls can be found on pages 154 to 155 and together set out our application of principle O.

Board's responsibility for financial oversight

One of the fundamental roles of the board is to oversee the financial performance of the business. The board is supported in this role by the audit committee whose activities are described on pages 144 to 154. The board reviews the financial performance of the company at every scheduled board meeting, receiving a report from the CFO which provides the board with the up-to-date position of the consolidated financial statements, interpretative analysis and other key performance indicators, metrics and ratios. The board takes into account the review by the audit committee of the financial and narrative statements, and the auditor's views on the key risks and judgements identified and given particular focus in their audit work and set out in their report (see page 200), and the information and explanations provided by management in relation to their key judgements and adjustments to APMs. The board considered the review and assurance process undertaken by management, and considered by the audit committee to support the application of principle N. The board concluded that in the 2020/21 annual report and financial statements it has presented a fair, balanced and understandable assessment of the company's position and prospects, and the board was satisfied on the integrity of the financial and narrative statements. Furthermore, the board approved the accounts and provision of the directors' responsibility statement at its meeting on 26 May 2021, see page 196.

Oversight of financial aspects of ESG

ESG, and behaving responsibly, has been a long-term commitment and part of the board ethos for many years and is embedded in everything we do. It naturally flows through into our approach to the integrity of our financial reporting. Recognising that climate change is a key risk to our provision of water and wastewater services (see page 104), 2020/21 is the second year that we have reported against TCFD. As part of the processes supporting the provision of the 'fair, balanced and understandable' statement, we took into account the existing processes of review and assurance of our TCFD and wider narrative reporting (see above). We intend to further review the assurance processes of ESG matters, particularly those relating to TCFD reporting, ahead of the mandatory reporting requirement which will apply to our 31 March 2022 annual report.

Board's approach to risk management and internal control

The board discharges its responsibility for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives through the risk appetite framework. As a key part of the risk management framework, risk appetite captures the board's desire to take and manage risk relative to the company's obligations, stakeholder interests and the capacity and capability of our key resources.

The board is responsible for ensuring that the company's risk management and internal control systems are effectively managed across the business and that they receive an appropriate level of scrutiny and board time.

The group's risks predominantly reflect those of all regulated water and wastewater companies. These generally relate to the failing of regulatory performance targets or failing to fulfil our obligations in any five-year planning cycle, potentially leading to the imposition of fines and penalties, in addition to reputational damage. Climate change is a risk that underpins our core operations and provision of water and wastewater services to customers (see page 104).

Review of the effectiveness of the risk management and internal control systems

During the year, the board reviewed the effectiveness of the risk management systems and internal control systems, including financial, operational and compliance controls. Taking into account the principal risks and uncertainties set out on pages 100 to 107, the ongoing work of the audit committee in monitoring the risk management and internal control systems (see pages 154 and 155) on behalf of the board, (and to whom the committee provides regular updates), the board:

- is satisfied that it has carried out a robust assessment of the emerging and principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; and
- has reviewed the effectiveness of the risk management and internal control systems, including all material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

After review, the board concluded that through a combination of the work of the audit committee, the audit committee and the UUW board (which has particular responsibility for operational and compliance controls), the company's risk management and internal controls were indeed effectively monitored throughout the year.

Corporate governance report

Financial oversight responsibilities of the board

The board's review of the effectiveness of risk management and internal control systems took into account the:

- biannual review of significant risks and emerging risks (see pages 104 to 107 and 109);
- assurance (both internal and external) of the most significant business and operational risks of the group;
- review of matters correlating to specific event based operational risks (see page 108);
- outcome of the biannual business unit risk assessment process (see page 154);
- activities and review of the effectiveness of the internal audit function (see page 154);
- opinion provided by internal audit in relation to their work, that 'the governance, risk management and internal control framework was suitably designed and effectively applied within the areas under review';
- self-assessment provided by management confirmed compliance with a range of key internal policies, processes and controls (see page 155);
- review of reports from the group audit and risk board (see page 101);
- oversight of treasury matters, in particular debt financing and interest rate management (see page 125); and
- review of the business risk management framework and management's approach and tolerance towards risk (see page 100).

Going concern and long-term viability

The following section sets out the company's compliance with part of provisions 30 and 31.

The board, following the review by the audit committee, concluded that it was appropriate to adopt the going concern basis of accounting (see page 214). Similarly, in accordance with the principles of the code, the board concluded, following the recommendation from the audit committee, that it was appropriate to provide the long-term viability statement based on an assessment period of seven years. Assurance supporting these statements was provided by the review of: the group's key financial measures and contingent liabilities; the key credit financial ratios; and the group's liquidity and ongoing ability to meet its financial covenants. As part of the assurance process, the board also took into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks, and include emerging and more topical risks.

These principal risks and uncertainties are detailed on pages 104 to 107, as are the risk management processes and structures used to monitor and manage them. Biannually, the board receives a report detailing management's assessment of the most significant risks facing the company. The report gives an indication of the level of exposure, subject to the mitigating controls in place, for the risk profile of the group, while also highlighting the reputational and customer service impact. This provides the board with information in two categories: group-wide business risks; and wholesale operational risks. The board also receives information during the year from the treasury committee (to which the board has delegated matters of a treasury nature see page 125) including such matters as liquidity policy, the group's capital funding requirements and interest rate management.

Long-term viability statement

The directors have assessed the viability of the group, taking account of the group's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of the group's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the seven year period to March 2028.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework does not substantively change. The long-term planning detailed on page 48 assesses the group's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the group's strategic planning process, and is key to achieving the group's aim of providing the best service to customers at the lowest sustainable price and in a responsible manner over the longer term, underpinning our business model set out on pages 30 to 46.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the group. Specifically, risks associated with the possible ongoing impact of the COVID-19 pandemic and climate change have been incorporated into the baseline position and factored into the various scenarios modelled as part of the group's assessment. An overview of our risk management approach that supports the group's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 104 to 107.

Within the context of this long-term planning and management of risks, the group's principal business operates within five year regulatory price control cycles. Medium-term planning considers the current price control period, over which there is typically a high degree of certainty, and looks beyond this in order to facilitate smooth transitions between price control periods. This results in the board concluding a recurring period of seven years to be an appropriate period over which to perform a robust assessment of the group's long-term viability.

Viability assessment: resilience of the group

The viability assessment is based upon the group's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- The group's current liquidity position – with £1.3 billion of available liquidity at March 2021 providing a significant buffer to absorb short-term cash flow impacts;
- The group's robust capital solvency and credit rating positions – with a debt to regulatory capital value (RCV) ratio of circa 62 per cent, a robust pension position and current credit ratings of A3/BBB+/A- with Moody's, S&P and Fitch respectively, this provides considerable headroom supporting access to medium-term liquidity where required;
- The group's expected performance, underpinned by its historical track-record; and
- The current regulatory framework within which the group operates – which provides a high degree of cash flow certainty over the regulatory period and the broader regulatory protections outlined below.

The group has a proven track-record of being able to raise new finance in most market conditions, and expects to continue to do so into the future. This is despite the group no longer having access to future EIB funding following the UK's exit from the EU.

From a regulatory perspective, the group benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing

reasonable returns on capital; and secure that water and wastewater supply systems have long term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

Viability assessment: resilience to principal risks facing the business

The directors have assessed the group's viability based on the resilience of the group and its ability to absorb a number of 'severe but reasonable' scenarios, derived from the principal risks facing the group, as set out on pages 104 to 107. The baseline plan against which the viability assessment has been performed incorporates the estimated ongoing impact COVID-19 based on experience to date. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of group's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the group's TCFD disclosures on pages 86 to 99; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; longer term economic impacts resulting from COVID-19, including unemployment and corporate failures affecting debt collection and lower inflation affecting revenues, financing costs and RCV; and the potential for a restriction to the availability of financing resulting from a capital markets crisis. The UK's withdrawal from the EU and the ending of the transition period has not had a material adverse operational or financial impact on the group to date, and is not considered to represent a significant risk to the group's ongoing viability.

The scenarios considered are underpinned by the group's established risk management processes, taking into account those risks with a greater than 10 per cent (1 in 10) cumulative likelihood of occurrence. The risks associated with COVID-19 are reflected within the baseline position, with further potential downside risks (most notably in relation to bad debt and low inflation) covered by the individual scenarios modelled, and collectively within a combined scenario.

The assessment has considered the impact of these scenarios on the group's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the group's ability to absorb the impact of all severe but reasonable scenarios modelled, without the need to rely on the key mitigating actions detailed below.

As part of the assessment, reverse stress testing of two extreme theoretical scenarios focusing on totex overspend and persisting low inflation have been performed to understand the extent to which the group could further absorb financial stress before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but reasonable' scenarios before the group's long-term viability would be at risk.

Viability assessment: key mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the group, the effectiveness of which are underpinned by the strength of the group's capital solvency position.

As well as the protections that exist from the regulatory environment within which the group operates, a number of actions are available to mitigate more severe scenarios, which include: the raising of new finance, including hybrid debt; capital programme deferral; reduction in other discretionary totex spend; the close-out of derivative asset positions; the restriction of dividend payments; and access to additional equity.

Governance

The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the group's external auditor, KPMG, as part of their normal audit procedures.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation note to the accounts.

Corporate governance report

Audit committee

The audit committee is responsible for discharging governance responsibilities in respect of audit, risk and internal control, and reports to the board on these matters.

Brian May
Chair of the audit committee

Dear Shareholder

In my report this year I have sought to provide shareholders with an understanding of the work we have done as the audit committee to provide assurance on the integrity of the annual report and financial statements for the year ended 31 March 2021. Much of the work of the committee is necessarily targeted at the regulated activities of UUW, which represent over 98 per cent of group revenues and is a reflection of our commitment to safeguarding the interests of our stakeholders, particularly our shareholders and customers.

The timing of the pandemic has meant that both the 2020 and 2021 year end audits have been conducted under lockdown rules. Working practices of the group's financial reporting team and those of KPMG audit team have been adapted, reflecting the lessons learnt from the 2020 audit which was undertaken in the early stages of the pandemic. In addition, through the last year certain changes to internal controls were necessary, reflecting the move to home working, due to the practical difficulties of obtaining wet signatures as the usual evidence of approval. Changes were implemented by the treasury, commercial and property teams. Such changes, and the effectiveness thereof, were reviewed by, and agreed with, the internal audit team.

Management made a number of changes to its alternative performance measures (APMs) to better enable comparability with other companies, rather than reflect the nuances of the regulatory model. The committee concurred with the changes, and in particular that there should be no adjustments to underlying profit relating to COVID-19 at 31 March 2021, recognising that, for the group, operating in the COVID-19 environment had become business as usual. A guide to APMs can be found on page 82.

The group's purpose is to 'provide great water and more for the North West'. The committee's contribution to achieving the purpose is to ensure that the interests of shareholders and other stakeholders are properly protected by overseeing the group's financial reporting and internal control arrangements. The committee uses its collective expertise, with input from the auditor, to provide challenge to the approach and judgements made by management in the treatment of financial matters and the resulting disclosures within the company's financial statements. Transparency and openness are fundamental to the relationship between management and the committee, something which is reinforced through the cultural framework within which the business operates, with being trustworthy one of our core values.

As articulated in the code, 'the board should present a fair, balanced and understandable assessment of the company's position and prospects'. The board asks the audit committee to advise on whether in fact 'the annual report and accounts, taken as a whole, is fair balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy'.

The committee chose to retain KPMG as auditor following the competitive tender process conducted in December 2019, as reported in the 2019/20 report. The primary factor for the committee in retaining the services of KPMG, was that, in the committee's view, it offered a more compelling case for the provision of a high-quality audit than the other candidates participating in the tender. As set out on page 151, the group has tendered and changed the auditor on a number of occasions since the

QUICK FACTS

- Brian May has chaired the committee since July 2013. He is a chartered accountant and is considered by the board to have recent and relevant financial experience, having served as finance director of a FTSE 100 company, from which he retired in February 2020.
- All members of the committee are independent non-executive directors and the board is satisfied that the committee as a whole has competence relevant to the sector. Attendance at audit committee meetings is set out on page 124, and the relevant directors' biographies can be found on pages 112 to 115.
- Other regular attendees at meetings at the invitation of the committee include the CEO, the CFO, the company secretary, the head of audit and risk, the group controller, and representatives from the statutory auditor, KPMG LLP (KPMG). None of these attendees are members of the committee.
- The representatives from KPMG and the head of audit and risk each have time with the committee and the company secretary to raise freely any concerns they may have without management being present.
- The committee is authorised to seek outside legal or other independent professional advice as it sees fit, but has not done so during the year.

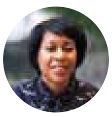
Quick link

Terms of reference – unitedutilities.com/corporate-governance

Audit committee members

Brian May (chair)

Stephen Carter



Paulette Rowe

Doug Webb

Transparency and openness are fundamental to the relationship between management and the committee, something which is reinforced through the cultural framework within which the business operates

MAIN RESPONSIBILITIES

- Make a recommendation to the board for the appointment or reappointment of the auditor, and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor.
- Establish policies for the provision of any non-audit services by the auditor.
- Review the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- Review the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues considered by the committee in relation to the financial statements and how these were addressed.
- Review the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems.
- Review the group's procedures for reporting fraud and other inappropriate behaviour and to receive reports relating thereto.
- Report to the board on how it has discharged its responsibilities.
- Apply the principles of the code and report against the provisions.

group was originally formed in 1989. 2020/21 has been KPMG's tenth year in office. Ian Griffiths was appointed as the new audit engagement partner for the 2020/21 audit.

As part of the committee's review of the performance and recommendation on reappointment of auditor, it took into account the annual review published in July 2020 by the Financial Reporting Council's (FRC's) Audit Quality Review Team. The findings, based on a sample of 88 audits from across the seven largest UK firms, reported that 'firms are still not consistently achieving the necessary level of audit quality'. The committee challenged KPMG on the FRC's findings and also reviewed whether the quality improvement proposals outlined to the committee had indeed been implemented in the 2019/20 audit. Following the committee's review of the effectiveness of the 2019/20 audit process, additional proposals were put forward as part of the 2020/21 audit scope (see page 149).

Auditor independence is a key principle, and contributing factor to audit quality. It is reviewed as part of the audit scope and re-examined prior to the accounts being approved and signed by the board. The auditor must be independent of the company. It is the committee's responsibility to ensure that the three-way relationship between the committee, the auditor and the company's management is appropriate and there is no undue influence by any of the parties on the other, thereby ensuring the integrity of the audit process and the annual report and financial statements. Independence is a key focus for the auditor, whose staff must comply with their firm's own ethics and independence criteria which must be consistent with the FRC's Revised Ethical Standard (2019). Information on how the committee assesses the independence of the auditor can be found on page 150. The statutory auditor presents its audit findings to the shareholders as the owners of the business (see page 200).

The committee has responsibility for ensuring that the group's policy on non-audit services reflects the FRC's Revised Ethical Standard (2019) whereby the only non-audit services that a statutory auditor is permitted to provide to a public interest entity are those required by law or regulation, loan covenant reporting, other assurance services closely linked to the audit and/or reporting accountant services. Assurance on this matter is provided by the auditor.

In summary, the committee concluded that the statutory audit process and services provided by KPMG for 2019/20 were satisfactory and effective.

We continue to be committed to providing meaningful disclosure of the committee's activities and ensuring the committee's agenda is kept abreast of relevant developments. The committee will await the outcome of the BEIS consultation on 'Restoring trust in audit and corporate governance' and we expect to contribute to the consultation process. We are fully committed to ensuring that the group's audit and governance arrangements reflect best practice and address any new requirements within the expected time frames.

Following review of our 31 March 2020 accounts by the FRC (see page 152), we have enhanced a number of disclosures in our financial statements.

There is an element of overlap between our statutory and regulatory reporting. Engaging the same auditor improves efficiency. It contributes to the integrity of the narrative reporting statements, with the auditor reviewing them in accordance with ISA720 (see page 149). Furthermore, the committee has been provided with greater visibility of the assurance of the non-financial information in the annual report.

The details of the external evaluation of the committee's performance can be found on page 135.

I would like to extend my thanks to my committee colleagues for their work and support during my last year as chair of the committee. Doug Webb will take over the role at the conclusion of the annual general meeting in July 2021. Doug joined the committee on his appointment in September 2020, and at the beginning of the 2021 financial reporting cycle. He has considerable recent and relevant financial experience both as a former FTSE 100 CFO and through his other non-executive appointments. The skills matrix on page 133 summarises the experience of the committee's members.

This report was approved by the committee at its meeting held on 19 May 2021.

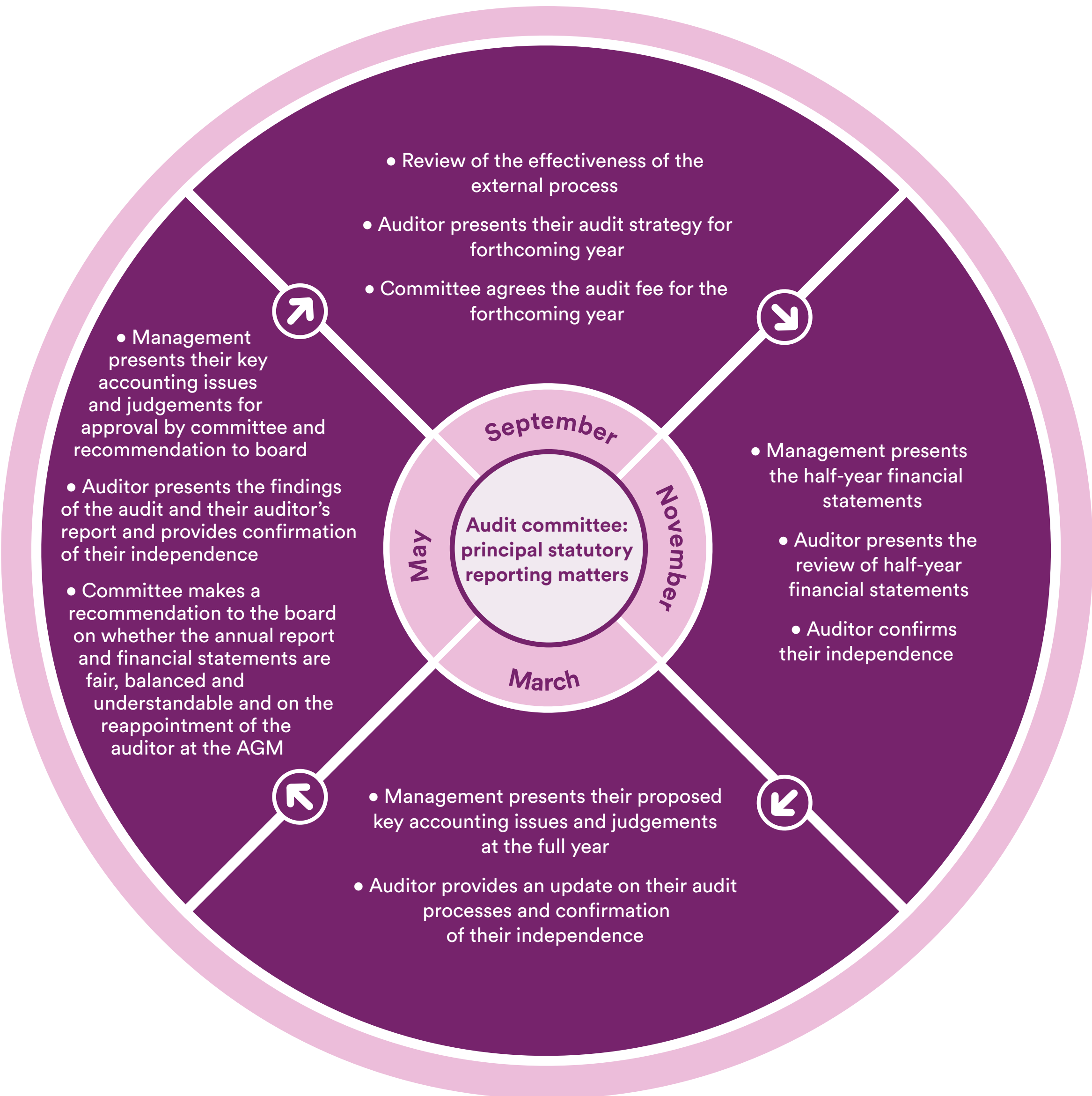
Brian May
Chairman of the audit committee

Corporate governance report
Audit committee

What has been on the committee's agenda during the year?

The committee has an extensive agenda of items of business focusing on the audit, assurance and risk processes within the business which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team. The committee's role is to ensure that management's disclosures reflect the supporting detail provided to the committee or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The committee reports its findings and makes recommendations to the board accordingly. The committee is supported in this role by using the expertise of the statutory auditor, who, in the course of the audit, considers whether the financial statements have been prepared in accordance with IFRS and whether adequate accounting records have been kept. In doing so it ensures that high standards of financial governance, in line with the regulatory framework as well as market practice for audit committees going forward, are maintained. Furthermore, the company's own internal audit team contributes to the assurance process by reviewing compliance with internal processes. The committee's financial reporting cycle, which starts each year in September, is shown below. There were four meetings of the committee held during the year. Items of business considered by the committee are set out on pages 147 to 148.

Audit committee financial reporting cycle



Actions	Outcomes	Cross reference
Annual and half-year reporting		
Reviewed and discussed the reports from the financial reporting team on the financial statements, considered management's significant accounting judgements, and the policies being applied both at the full and half year and how the statutory audit contributed to the integrity of the year end financial reporting.	The committee challenged management on a number of its judgements and sought detailed explanations of its interpretation. The committee was satisfied with the explanations provided by management. Recommendations were made to the board, supporting the approval of the half and full-year accounts and financial statements.	See pages 152 to 153
Reviewed the regulatory reporting process relating to the annual performance report for UUW as required to be submitted to Ofwat and noted the differences between the regulatory and statutory accounts.	Contribution to the assurance of the regulatory reporting to the UUW board.	–
Assessed management's revision of APMs to better enable comparability with other companies rather than reflecting the nuances of the regulatory model and adjustments to underlying profit.	Concurred with management's revised approach, and the recognition that, for the group, operational and financial performance in the COVID-19 environment had become business as usual.	See page 82
Reviewed the proposed audit strategy for the 2020/21 statutory audit, including the level of materiality applied by KPMG, audit reports from KPMG on the financial statements and the areas of particular focus for the 2020/21 audit.	Monitoring progress made by the statutory audit team against the agreed plan, and considered issues as they arose.	See page 200
Reviewed the basis of preparation of the financial statements as a going concern as set out in the accounting policies.	Recommendation made to the board to support the going concern statement.	See page 214
Reviewed the long-term viability statement proposed by management and reasons for retaining a seven-year period.	The committee challenged management on the length of the period, particularly in light of time periods provided by peer companies, but were satisfied with management's preference to provide a statement with greater certainty over a shorter period of time.	See page 142
Reviewed the accounting treatment of the refinancing of Water Plus, the group's joint venture with Severn Trent.	Considered KPMG's view and concurred with management's approach.	See page 153
Reviewed the results of the committee's assessment of the effectiveness of the 2019/20 audit.	The committee concluded that the audit was effective and a recommendation was made to the board on the reappointment of KPMG as the auditor for the year ending 31 March 2022 at the forthcoming annual general meeting.	See page 149
Reviewed whether the company's position and prospects as presented in the 31 March 2021 annual report and financial statements were considered to be a fair, balanced and understandable assessment of the company's position and prospects.	Recommendation made to the board that the 31 March 2021 annual report and financial statements was a fair, balanced and understandable assessment of the company's position and prospects.	See pages 141 and 149
Reviewed the non-audit services and related fees provided by the auditor for 2020/21 and the policy on non-audit services provided by the auditor for 2021/22.	Approved the non-audit services and related fees provided by KPMG for 2020/21 and concluded that no changes were required to the policy for non-audit services provided by the auditor.	See page 150
Negotiated and agreed the statutory audit fee for the year ended 31 March 2021 and agreed additional fee for 2019/20 reflecting increased audit work due to COVID-19.	2019/20 statutory audit fee paid as agreed by the committee. The committee approved the fees for the 2020/21 audit, including an additional fee in respect of the 2019/20 audit relating to COVID-19 audit work that are reported as part of the 2020/21 fee.	See pages 150 to 151
Reviewed the assurance processes supporting certain aspects of the TCFD and ESG sections in the narrative reporting in the 2020/21 annual report.	The committee concluded that the assurance processes supporting the narrative reporting in the annual report were satisfactory.	See page 149

Corporate governance report

Audit committee

Actions	Outcomes	Cross reference
Risk management and internal control		
Received a deep dive into the risk management process and reviewed the effectiveness of the risk management and internal control systems.	Recommendation made to the board that the risk management and internal control systems were effective.	See pages 154 to 155
Considered changes to internal control arrangements brought to the attention of the committee by KPMG	Tasked management to resolve any issues relating to internal controls and risk management systems.	See page 200
Monitored fraud reporting.	Reviewed the company's anti-fraud policies and processes and alleged incidents of fraud and the outcome of their investigation.	See page 155
Biannual oversight and monitoring of the group's compliance with the Bribery Act.	Reviewed compliance with the company's ongoing anti-bribery programme.	See page 155
Approved the strategic internal audit planning approach and reviewed reports on the work of the internal audit function from the head of audit and risk.	Monitored the implementation of the 2020/21 internal audit plan. Reviewed findings of specific internal audit and implementation of any resulting actions by management.	See page 154
Considered the issues and findings brought to the committee's attention by the internal audit team.	The committee was satisfied that management had resolved or was in the process of resolving any outstanding issues or concerns in relation to matters scrutinised by the internal audit team.	See page 154
Reviewed the quality and effectiveness of internal audit and the effectiveness of the current co-source arrangements.	The committee reviewed the process of assessment of internal audit and made recommendations for enhancement, notwithstanding the recommendations it was concluded that the internal audit team, supported by the PwC co-source resource was effective.	See page 154
Reviewed the strategic internal audit planning approach and internal audit plan for 2021/22.	Approved the internal audit plan for 2021/22.	See page 154
Undertook a competitive tender process for the internal audit co-source resource.	After analysis of the results of the competitive tender process PwC were reappointed to provide additional resource to the internal audit team.	See page 155
Governance		
Review of the committee's terms of reference	No changes were made to the committee's terms of reference during the year.	
Considered the Brydon and Kingman Reviews and established processes to consider the BEIS consultation report 'Restoring trust in audit and corporate governance'.	Process in place to consider our draft response and next steps in relation to the BEIS consultation.	
Reviewed the conclusions of the committee's annual evaluation. The evaluation was externally facilitated by Independent Audit Limited (IAL). The review explored the effectiveness of: the fundamental reporting environment; the work of the auditor and their audit approach; and the work of internal audit along with the level of understanding of the risk management process.	All elements of the self-assessment reviewed by IAL indicated the committee was working well. The board considered the results of the review of the committee and concluded that the committee continued to be effective.	See page 135

AUDIT QUALITY

Additional audit quality processes for the 2020/21 audit

With a view to further enhancing audit quality, and in response to lessons learnt during the 2019/20 audit, KPMG proposed the following action plan for the 2020/21 audit, including:

- Providing sight of their interim control findings to the committee early in the audit process and sharing their knowledge and best practice recommendations;
- Improving the two-way communication and sharing of information and insight between the external and internal audit teams by implementing regular discussion sessions prior to the scheduled committee meetings;
- Raising audit points in a more timely manner with the financial reporting team during the audit process by holding regular discussions with the external audit team and financial reporting team; and
- Using a project manager to assist with the delivery of the year end audit cycle.

As part of its review of the 2020/21 audit in July 2021, the committee will review the effectiveness of the above processes.

How we assessed whether 'the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy'

The following section sets out the company's compliance with part of provision 25. The directors' responsibility for preparing the annual report and financial statements is set out on page 196.

The board delegates to the committee, in the first instance, the review of the annual report and financial statements with the intention of providing advice to the board on whether, as required by the code, 'the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy'.

To make this assessment, the committee received copies of the annual report and financial statements to review during the drafting process to ensure that the key messages being followed in the annual report were aligned with the company's position, performance and strategy being pursued and that the narrative sections of the annual report were consistent with the financial statements. The significant issues considered by the committee in relation to the financial statements include those identified by the auditor in their report on pages 152 to 153.

The committee received regular updates on the calculation of underlying operating profit measures as one of the principal alternative performance measures (APMs). A guide to APMs can be found on page 82.

Management enhanced the review processes to provide support to the board in forming its view on whether the accounts and financial statements were fair, balanced and understandable, as it concluded they were and set out on page 141.

Many of our regulatory performance commitments are used by management as key performance indicators and are monitored by our regulators, who set the methodology against which we report. As part of their role as auditor of UUW's annual performance, KPMG provides assurance on many of these performance commitments along with Jacobs, the technical auditor.

KPMG is required (under ISA720) to consider whether there are any material inconsistencies between the other information presented in the annual report (e.g. the strategic report), and the financial statements, taking into account the auditor's knowledge obtained in the audit, or the auditor's understanding of the legal and regulatory requirements applicable to the other statutory information. The assurance of our greenhouse gas emissions and TCFD disclosures (see pages 88 to 99), is undertaken both by third parties and our internal audit team. Our disclosures against the code are reviewed by the internal audit team and reported to the committee.

Additionally, the committee was satisfied that all the key events and issues which had been reported to the board in the executive team's monthly board reports during the year, both good and bad, had been adequately referenced or reflected within the annual report.

How we assessed the effectiveness of the statutory audit process

The committee, on behalf of the board, is responsible for the relationship with the auditor, and part of that role is to examine the effectiveness of the statutory audit process. Audit quality is regarded by the committee as the principal requirement of the annual audit process.

KPMG presented the strategy and scope of the audit for the forthcoming financial year at the meeting of the committee held in September, highlighting any areas which would be given special consideration (these key audit matters are included in the auditor's report on page 200). KPMG reported against their audit scope at subsequent committee meetings, providing an opportunity for the committee to monitor progress and raise questions, and challenge both KPMG and management.

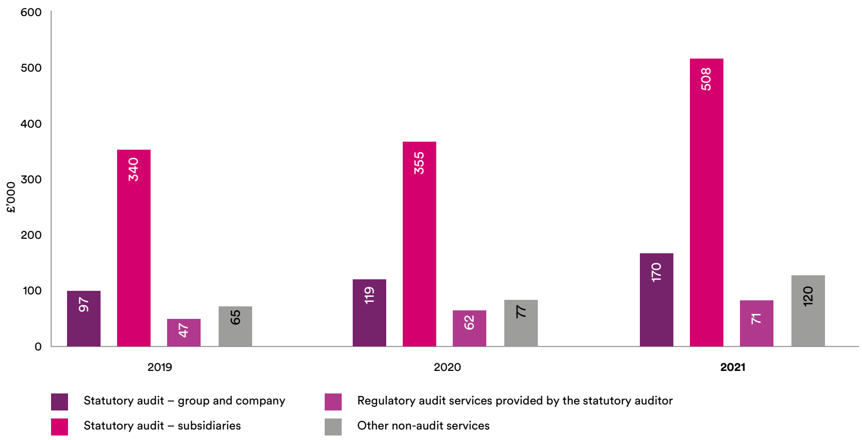
Throughout the year, management presents their up-to-date view of the key accounting issues and their resulting judgements. KPMG responds informing the committee whether, in their professional view, the judgements management propose, or have taken, are appropriate. A number of these issues manifest themselves as the significant issues considered by the committee in relation to the financial statements. For 2020/21 these are set out on pages 152 to 153, in exercising their professional scepticism, as required by auditors' professional standards, KPMG did not identify any areas of disagreement with management's judgements.

Private meetings are held at each committee meeting between the committee and representatives of the auditor without management being present to encourage open and transparent feedback by both parties. KPMG meets with management at regular intervals during the annual audit process.

Prior to the board's approval of the year end financial statements, the committee provides its view to the board

Corporate governance report
Audit committee

Statutory auditor's fees



on the outcome of the statutory audit, explaining: management's key accounting issues and judgements; the outcome of the auditor's assessment of key audit matters; other areas of audit focus and control deficiencies (if any), and how the statutory audit contributed to the integrity of the financial reporting process. The independent nature and financial expertise of committee members further contributes to the integrity of the process.

KPMG updated the committee on its ongoing Audit Quality Transformation Plan (AQTP). KPMG's AQTP includes: a more standardised audit approach; holding companies to account for the quality of the information provided in the audit process; providing more feedback to companies on the findings of their audit and providing additional senior-level support to the KPMG audit teams during the audit; all of which are well embedded in the audit process. In planning for the 2020/21 audit, KPMG provided a report to the committee on the quality interventions that they had implemented during the 2019/20 audit. Each year the committee has challenged KPMG to ensure continuous improvement.

On completion of the annual audit process the views of those involved in the audit on how well KPMG performed the audit are sought. All members of the committee, key members of the senior management team and those who regularly provide input into the audit committee or have regular contact with the auditor, complete a feedback questionnaire, thereby ensuring a wide range of views are taken into account. The questionnaire, reviewing the 2020 audit process was issued in July 2020.

Views of the respondents were sought in terms of:

- The robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity;
- Whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit;
- The quality of the delivery of the audit and whether planned quality improvements had been delivered;
- The expertise of the audit team conducting the audit;
- That the degree of professional scepticism applied by the auditor was appropriate;
- The appropriateness of the communication between the committee and the auditor in terms of technical issues;
- The quality of the service provided by the auditor;
- Their views on the quality of the interaction between the audit engagement partner, the audit senior manager and the company;
- Whether the audit process had been kept on schedule, despite the remote working due to COVID-19 restrictions of both the audit and management teams; and
- Whether the statutory audit contributed to the integrity of the group's financial reporting.

The feedback was collated and presented to the committee's meeting in September 2020. The committee noted KPMG's quality interventions as part of its AQTP to improve audit quality, including: the additional oversight provided by senior KPMG personnel during the 2019/20 audit; and the enhanced consultation to ensure consistency and challenge management's view of COVID-19. The committee concluded that the statutory audit process and services provided by KPMG were satisfactory and effective, although areas for further enhancement were agreed (see page 149).

How we assessed the independence of the statutory auditor

The following section sets out the company's compliance with part of provision 26.

There are two aspects to auditor independence that the committee monitors to ensure that the auditor remains independent of the company.

First, in assessing the independence of the auditor from the company, the committee takes into account the information and assurances provided by the auditor confirming that all its partners and staff involved with the audit are independent of any links to United Utilities. KPMG confirmed that all its partners and staff complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standard, including that none of its employees working on our audit hold any shares in United Utilities Group PLC. KPMG is required to provide written disclosure at the planning stage of the audit in the form of an independence confirmation letter. Their letter discloses matters relating to their independence and objectivity, including any relationships that may reasonably be thought to have an impact on its independence and the integrity and objectivity of the audit engagement partner and the audit staff. The audit engagement partner must change every five years and other senior audit staff rotate at regular intervals.

Secondly, the committee develops and recommends to the board the company's policy on non-audit services and associated fees that are paid to KPMG. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (i.e. United Utilities Group PLC) that are closely linked to the audit itself or that are required by law or regulation, as such services could impede their independence. Permitted non-audit services fees paid to the statutory auditor are subject to a fee cap of no more than 70 per cent of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period in which the cap applies.

The 70 per cent non-audit services fee cap has been applied to the group for the year ended 31 March 2021. The average of audit fees is £430,000 (calculated as the average of the audit fees for the three preceding financial years (2020: £474,000; 2019: £437,000; 2018: £379,000). Non-audit services fees during the year were £119,500, (2020: £77,000; 2019: £65,000) so well below the cap of £301,000 (70 per cent of £430,000). In 2021, fees for non-audit services represent 27.8 per cent of the average audit fees on which the cap is based. The committee revised the non-audit services policy incorporating the 70 per cent fee cap as described above with effect from 1 April 2017. The company's non-audit services policy reflects the FRC's Revised Ethical Standard (2019). Permitted services (which remain subject to the 70 per cent cap, apart from the regulatory audit) can be approved by the CFO subject to a cap of £10,000 applied for individual items. Individual items in excess of £10,000 require the approval of the committee. Auditor-provided permitted services include the non-audit fees paid to the statutory auditor for: the interim review; the regulatory audit; agreed-upon procedures for regulatory reporting and the Euro Medium Term Note Programme and Law Debenture Trust compliance work.

Fees for non-audit services paid to KPMG include the cost of the UUW regulatory assurance work they undertake, which is separate to the regulatory audit. While this work could be performed by a different firm, the information is in fact more granular breakdowns of data that form part of the statutory audit, and by KPMG undertaking the work it reduces duplication and saves considerable cost.

During the year, the committee agreed additional fees of £100,000 in relation to the additional audit work impacted by COVID-19 as part of the 2019/20 audit. These fees were agreed subsequent to the finalisation of the 2019/20 accounts are therefore included in the audit fees disclosed for 2020/21.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee was satisfied that KPMG continues to be independent, and free from any conflicting interest with the group.

Statutory auditor reappointment for the year ending 31 March 2022

The following section sets out the company's compliance with part of provision 26.

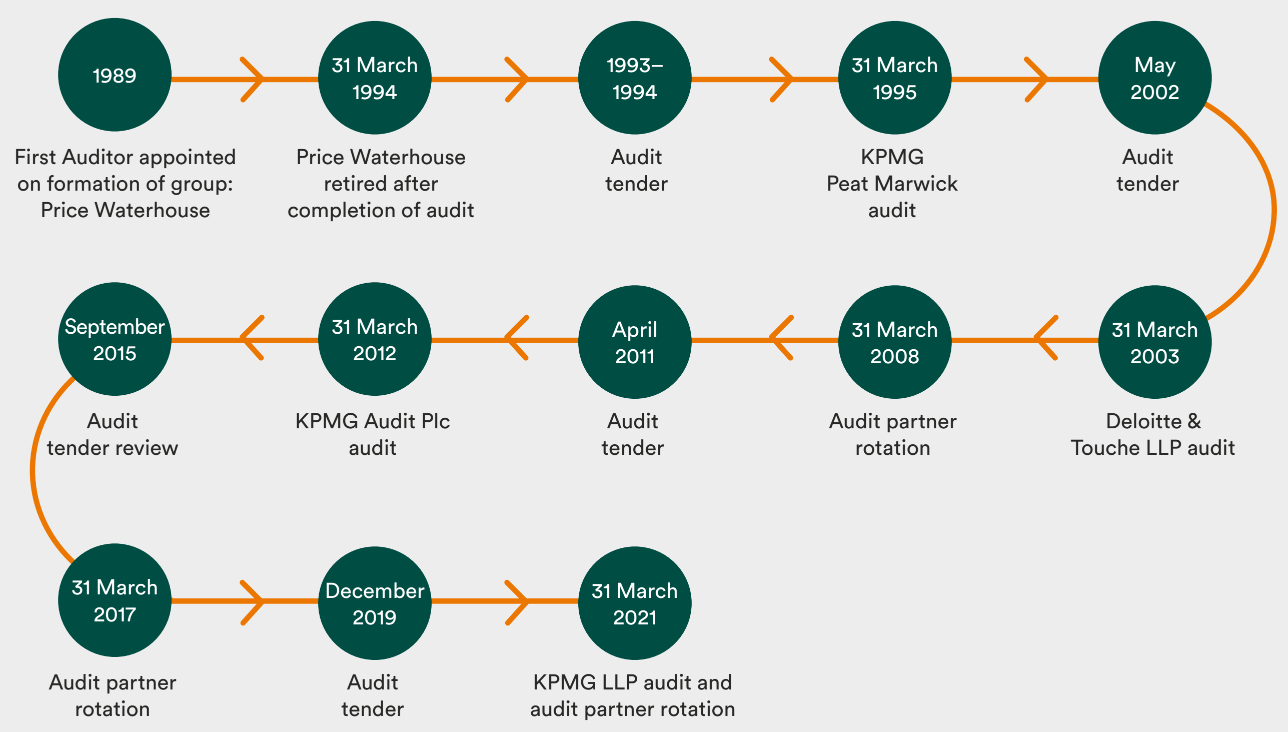
The 2020/21 year-end audit has been KPMG's tenth consecutive year in office as auditor; they were reappointed after the committee conducted a formal tender process in December 2019 and as reported by the committee in 2020. Prior to this, a formal tender was last undertaken in 2011, and resulted in the appointment of KPMG who thereafter presented their report to shareholders for the year ended 31 March 2012. An audit tender review was held in September 2015. The diagram shown below shows the historical tendering and rotation of the role of statutory auditor. The company, as a public interest entity, is required to conduct a competitive tender process every ten years, and rotate auditors after 20 years at most. As a matter of good practice, the committee continually keeps under review the performance of the auditor.

The 2020/21 audit has been the first year for Ian Griffiths as audit engagement partner. The audit engagement partner changes at least every five years.

United Utilities has complied fully with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 March 2021.

At its meeting on 19 May 2021, the committee recommended to the board that KPMG be proposed for reappointment for the year ending 31 March 2022 at the forthcoming AGM in July 2021. There are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

ROTATION OF EXTERNAL AUDITOR TO THE GROUP



Corporate governance report
Audit committee

Interactions with the Financial Reporting Council (FRC)

During the year, the FRC undertook a review of the company's annual report and accounts for the year ended 31 March 2020, which resulted principally in queries relating to disclosures associated with the consolidated statement of cash flows (see page 212). These queries were quickly resolved to the FRC's satisfaction and their review was closed. To provide greater clarity, the group has provided enhanced, voluntary disclosure on these and other matters in this year's financial statements. In their correspondence, the FRC states that their review provides no assurance that the company's accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC last reviewed and corresponded with the company in relation to the 31 March 2016 accounts.

Going concern and long-term viability

The committee challenged and scrutinised management's detailed assessment of the group's long-term viability and its ability to continue as a going concern. In doing this the committee took into account the risks facing the business, and its ability to withstand a number of severe but reasonable scenarios. Having considered management's assessment, the committee approved the long-term viability statement set out on page 142.

Significant issues considered by the committee in relation to the financial statements

Significant issues considered	How these were addressed by the committee
Impact of COVID-19 – the impact of the COVID-19 pandemic resulted in higher levels of estimation uncertainty and considerably more judgement being required in preparing the financial statements for the year ended 31 March 2020. During the year ended 31 March 2021, the committee has considered how the situation has developed in order to revisit these significant estimates and judgements.	The impacts of the pandemic on the issues considered are outlined below, where applicable. Broadly, with the passage of time and as more data relating to the key areas impacted by the pandemic has become available, the level of estimation uncertainty has fallen compared with the prior year when the pandemic was still in its early stages.
Capitalisation of fixed assets (see pages 201, 216 and 225 to 226 and 256) – fixed assets represents a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.	The committee assessed the reasonableness of the group's capitalisation policy and the basis on which expenditure is determined to relate to enhancement or maintenance of assets and, having considered the work performed by KPMG in this area, deemed both to be appropriate; The committee challenged the controls around ensuring the accuracy of capital accruals making up part of the total amount of fixed assets capitalised during the year, and satisfied itself that controls in this area were adequate; and The committee reviewed the recovery of the capital overhead rates that it had approved in the year ended 31 March 2020 for the five-year regulatory period ending 31 March 2025. The committee concluded that the rates remain appropriate, noting that it is early in this period and therefore the continuing appropriateness of the rates used will be kept under review.
Revenue recognition and allowance for doubtful receivables (see pages 201, 215 to 216, 227 to 228 and 255) – due to the nature of the group's business, the extent to which revenue is recognised and doubtful customer debts are provided against is an area of considerable judgement and estimation. This has particularly been the case in the current and prior year, where the economic impacts of COVID-19 have been highly uncertain, though compared with the prior year these judgements and estimates have been increasingly informed by the availability of more data in relation to consumption of services and customer payment patterns under the conditions brought about by the pandemic.	The committee reviewed the approach taken by management in estimating the impact of changing consumption patterns for both household and non-household customers during periods of lockdown, and the implications this has for estimating the amount of unbilled revenue to recognise for customers with water meters. The committee noted that the level of estimation required has reduced throughout the year, as more meter reads covering periods of changing consumption patterns have been performed. The committee satisfied itself that management's approach to estimating the level of revenue to recognise has been robust and has been appropriately adapted as more data has become available; and The committee reviewed management's assessment of the impact the pandemic appears to have had on the level of doubtful debt and credit note provisioning, recognising that the situation remains uncertain as government support schemes are set to unwind in future periods. The committee challenged management's judgement around the appropriate period over which to consider cash collection history in assessing the level of expected future credit losses, and concurred that the judgement around the period chosen was appropriate.
Retirement benefits (see pages 202, 230 to 231, 248 to 253 and 258) – the group's defined benefit retirement schemes are an area of considerable judgement, the performance and position of which is sensitive to the assumptions made. The group employs the services of an external actuary to determine the calculation of the net retirement benefit surplus and determine the appropriate assumptions to make.	The committee sought from management an understanding of changes to the methodology and assumptions used in calculating the defined benefit scheme surplus, including an expansion of the corporate bond population used in deriving the discount rate, the application of an inflation risk premium in determining the RPI inflation assumption, and a reduction in the long-term rate of improvement assumed in the mortality assumptions adopted. Having challenged the rationale for making these changes and considered how they compare with market practice and the requirements of the relevant accounting standards, the committee concluded that the resulting assumptions were appropriate and balanced in estimating the level of defined benefit obligations and therefore the net retirement benefit surplus.

Significant issues considered	How these were addressed by the committee
Accounting for loans to the Water Plus joint venture (see pages 216 to 217, 226 to 227 and 253 to 254) – during the year ended 31 March 2020 the carrying value of the group's long-term interest in Water Plus, comprising its equity investment and zero coupon loan notes extended to the joint venture, was reduced to £nil as a result of significant losses recorded by Water Plus due to the COVID-19 pandemic. During the year ended 31 March 2021, the group and its joint venture partner, Severn Trent, each agreed to refinance £32.5 million of revolving credit facilities extended to Water Plus by replacing it with additional long-term capital, which took the form of equity shares issued in April 2021. This resulted in an increase in the group's long-term interest as at the reporting date and the £32.5 million facility was included in the statement of financial position in the form of a non-current receivable. Accordingly the previously unrecognised brought forward Water Plus losses, were set against this additional long-term interest.	Having satisfied itself as to the rationale for refinancing part of the loans extended to Water Plus, the committee considered whether the conditions existed as at the reporting date to account for the £32.5 million revolving credit facility as part of the group's long-term interest in Water Plus, and therefore the appropriateness of the recognition of current and prior year losses against this balance. Having sought to understand alternative accounting approaches that were considered, the committee concluded that the nature of the balance and the conditions extant at 31 March 2021 were such that it formed part of the group's long-term interest at the reporting date and that it was satisfied with how this is presented in the financial statements; and The committee reviewed and challenged management's updated assessment of expected credit losses in relation to loans to Water Plus, concluding that the assumptions and judgements underpinning the assessment remain reasonable, and noting that the reduction in the required allowance was primarily driven by a reduction in the level of exposure to future credit losses resulting from the refinancing of the £32.5 million facility with new equity.
Accounting for the disposal of the group's stake in its joint venture, AS Tallinna Vesi (Tallinn Water) (pages 226 to 227) – during the year the group disposed of its 35.3 per cent stake in AS Tallinna Vesi, which gave rise to a profit on disposal of £36.8 million.	The committee noted the proposed accounting approach for the disposal of the Tallinn Water JV and after taking account of the specific circumstances and the views of management and KPMG, concluded that the approach and presentation in the financial statements was appropriate.
Derivative financial instruments (see pages 240 to 247 and 257 to 258) – the group has a significant value of swap instruments, the valuation of which is based upon models which require certain judgements and assumptions to be made. Management performs periodic checks to ensure that the model-derived valuations agree back to third-party valuations and KPMG check a sample against their own valuation models.	The committee noted that the periodic checks performed by management had been completed at the year end reporting date, and that KPMG had undertaken their testing with no significant issues identified.
Provisions and contingent liabilities (see pages 232, 234 and 258) – the group provides for contractual, legal and environmental claims brought against it based on management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant legal claims. Judgement is also required in determining when contingent liabilities exist that require disclosure in the financial statements.	The committee assessed and challenged the appropriateness of the basis on which provisions are recognised, and management's estimate of the value applied to individual claims, focusing particularly on instances where new provisions were required or where the likelihood of financial outflow was deemed to have diminished such that provisions were no longer needed and were therefore released. The committee concluded that the approach to provisioning was appropriate and that management's best estimates were reasonable; and The committee considered the reasonableness of disclosures made in respect of contingent liabilities, challenging management as to whether any provision should be recognised in the financial statements and concluding that the recognition criteria had not been met and therefore that disclosure as contingent liabilities was the most appropriate approach.
Taxation (see pages 222 to 223, 231 and 255 to 256) – judgement is required in assessing provisions for potential tax liabilities and in considering the recoverability of deferred tax assets.	The committee considered the tax risks that the group faces and the key judgements made by management underpinning the provisions for potential tax liabilities and deferred tax assets. In addition, the committee took account of KPMG's assessment of these provisions. Based on the above, the committee was satisfied with the judgements made by management.
Alternative performance measures (APMs) (see pages 82 to 83) – during the year the group revisited the adjustments made in arriving at the underlying profit measures reported in its APMs. This resulted in the removal of adjustments for: restructuring costs in arriving at underlying operating profit as a matter of course, unless highly material; net pension interest and capitalised borrowing costs in arriving at underlying net finance expense; and agreement of prior years' tax matters relating to annual tax rebates received as a result of the group's approach to paying tax.	The committee also considered the implications of these changes for the group's measure of effective interest rate which, while not an alternative to a GAAP measure of financial performance, expresses the underlying interest cost as an effective interest rate on the nominal value debt and therefore provides a useful comparison against the Ofwat's allowed cost of debt to illustrate financing outperformance during the period versus the regulatory determination. The committee concurred with management's view that it is appropriate to include effective interest rate as a measure alongside other APMs in order to increase transparency, and that in reaching this rate it is appropriate to adjust for capitalised borrowing costs and net pension interest to be consistent with the regulatory economics; and In considering management's judgements around adjusting items, the committee satisfied itself that as operating under the conditions brought about by the COVID-19 pandemic has become part of normal business practice, adjusting for COVID-19 related items becomes more subjective and therefore APMs could become less reliable. The committee therefore endorsed management's approach of not adjusting for such items in the current year.
Net debt disclosure in the financial statements (see pages 236 to 237) – following the alignment of rating agency approaches to defining net debt, the group has amended its definition of net debt reported in the financial statements as set out in note A2 (pages 236 to 237) to now exclude the fair value of derivatives hedging future interest rates, power derivatives, and the fair value of inflation swaps (excluding the principal accretion element).	The committee challenged management as to why the updated definition, which excludes the fair value of derivatives hedging future interest rates, power derivatives, and the fair value of inflation swaps (excluding the principal accretion element), gives a more useful view of the group's net debt, ultimately satisfying itself that the updated definition more closely aligns to definitions used by credit rating agencies and the approach taken by industry peers, as well as giving a better reflection of the regulatory economics associated with the group's borrowings and treasury management.

Corporate governance report

Audit committee

Internal controls and risk management systems

The main features of the group's internal controls and risk management systems are summarised below:

Internal audit function

The internal audit function is a key element of the group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the audit committee, the board and to senior management. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of risk management systems, business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by employees in the areas under review. Once any recommendations are agreed with management, the internal audit function monitors their implementation and reports to the committee on progress made at every meeting.

A five-year strategic audit planning approach is applied. This facilitates an efficient deployment of internal audit resource in providing assurance coverage over time across the whole business, as well as greater variation in the nature, depth and breadth of audit activities. This strategic approach supports the annual audit plan, which is then endorsed by management, and which the committee reviews, challenges and approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the development of the plan considers risk assessments, issues raised by management, areas of business and regulatory change, prior audit findings and the cyclical review programme. The purpose, scope and authority of internal audit is defined within its charter which is approved annually by the audit committee. As set out in the charter, internal audit perform their work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors; and with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

Internal audit, led by the head of audit and risk, covers the group's principal activities and reports to the committee and functionally to the CFO. The head of audit and risk attends all scheduled meetings of the audit committee, and has the opportunity to raise any matters with the members of the committee at these meetings without the presence of management. He is also in regular contact with the chair of the committee outside of committee meetings.

The in-house team is expanded as and when required with additional resource and skills co-sourced from external providers. The committee keeps the relationship with co-source providers under review to ensure the independence of the internal audit function is maintained and there is a documented process to manage possible conflicts of interest with the co-sourced resource. Ensuring that any co-source resource remain independent in the course of its work is crucial to the integrity of its work. During the year, PwC was re-appointed as co-source resource provider following a competitive tender process (see page 155).

The internal audit function liaises with the statutory auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the audit committee and board. During the year, the committee reviewed the current operating model, in particular the balance of in-house versus co-sourced resource, and concluded that, while minor improvements were identified, the current approach was satisfactory.

Assessing the effectiveness of the internal audit function

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs, including the ongoing audit reports received, the audit committee's interaction with the head of audit and risk, an annual review of the department's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each committee meeting as well as any other periodic quality reporting requested.

An annual stakeholder survey in the form of a feedback questionnaire is circulated to committee members, senior management and other managers who have regular contact with the internal audit function, including representatives from the auditor KPMG and the co-source audit provider PwC. The responses were anonymous to encourage open and honest feedback, and were consistently favourable, as were previous surveys.

Periodically, the quality and effectiveness of the internal audit function is also assessed externally, with the most recent review being undertaken in early 2019. The committee has received regular updates during the year from the head of audit and risk on the impact of the pandemic on the schedule of work of the internal audit team, due to remote working and social distancing measures. Some re-phasing of the original work was undertaken, with the team keeping on track with re-planned work. Only one audit, which required access to a third party's site, was deferred, with agreement by the committee, to the 2021/22 audit plan.

Taking all these elements into account, the committee concluded that the internal audit function was an effective provider of assurance over the organisation's risks and controls and appropriate resources were available as required.

Risk management systems

The committee receives updates and reports from the head of audit and risk on key activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. The group designs its risk management activities to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

Supplementing the more detailed ongoing risk management activities within each business area, the biannual business unit risk assessment process (BURA) seeks to identify how well risk management is embedded across the different teams in the business. The BURA involves a high-level review of the effectiveness of the controls that each business unit has in place to mitigate risks relating to activities in their business area, while identifying new and emerging risks and generally to facilitate improvements in the way risks are managed. The outcome of the BURA process is communicated to the executive team and the board. This then forms the basis of the determination of the most significant risks that the company faces which are then reviewed by the board. The group utilises risk management software to underpin the company's risk management process. The maturity of the risk management framework and its application across the business is assessed on an annual basis against a defined maturity model. This assessment provides an objective appraisal of the degree of maturity in how the risk management system is being applied and the quality of each risk in terms of quantification and management. The results of the maturity assessment are reported to the GARB, and actions agreed with business units.

An external assessment of the risk management process last took place in 2017/18.

The committee received a 'deep dive' session on the risk management process. This provided an explanation of the process of identification and assessment of risk along with the governance mechanisms in place prior to the reporting of the risk profile to the board.

Internal controls

The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our 'business as usual' activities and are documented in the company's internal control manual which covers financial, operational and compliance controls and processes. Internal control systems are the responsibility of the CFO, with the support of the GARB, the financial control team and the internal audit team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work which the committee approves each year as well as aspects being tested by other internal assurance providers. Compliance with the internal control system is monitored annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited on a sample basis by the internal audit team and reported to the committee.

Anti-fraud and anti-bribery

The audit committee is responsible for reviewing the group's procedures for detecting fraud, and the systems and controls for preventing other inappropriate behaviour. In the first instance of an incident being reported, a summary of the allegations is passed to the fraud and whistleblowing committee (consisting of the company secretary, customer services and people director, commercial director and head of internal audit and risk) to decide on the appropriate course of action and investigation and by whom.

INTERNAL AUDIT CO-SOURCE COMPETITIVE TENDER

During the year, the committee led and supervised a formal tender process for the internal audit co-source resource. The contract with the incumbent, PwC, was due to expire on 31 March 2021. The request for proposal was issued in December 2020. Five proposals were received, which were evaluated on a weighting of 85 per cent technical and 15 per cent commercial. After initial analysis, three proposals progressed to the presentation stage in front of the tender review panel made up of audit committee members and senior members of the finance team. Taking into account both technical and commercial scores, PwC achieved the highest score and was re-appointed.

During the year, the audit committee was kept fully apprised in regular updates on the progress and findings of investigations of cases of alleged fraud and any remedial actions taken. A number of employees have been selected and received specialist training in order to conduct investigations of cases of alleged fraud.

In line with the group's anti-fraud culture and zero-tolerance attitude towards fraud, a fraud incident forum has been established to identify and understand potential threats, and optimise the group's response and mitigation and ensure consistency across the business.

The company has an anti-bribery policy to prevent bribery being committed on its behalf, which all employees must follow, and processes in place to monitor compliance with the policy. Employees in certain roles are required to complete anti-bribery training materials. As part of the anti-bribery programme, employees must comply with the group's hospitality policy. The hospitality policy permits employees to accept proportionate and reasonable hospitality for legitimate business purposes only. Our employees and representatives of our suppliers must comply with the group's sustainable supply chain charter which explains that we will not tolerate corruption, bribery and anti-competitive actions and we expect our suppliers to comply with applicable laws and regulations, and in particular never to offer or accept any undue payment or other consideration, directly or indirectly, for the purposes of inducing any person or entity to act contrary to their prescribed duties.

As part of the internal control self-assessment checklist (part of the group's internal control processes), senior managers in consultation with their teams are required to confirm, among other things, that they have complied with the group's anti-bribery and hospitality policies. The anti-bribery programme is monitored and reviewed biannually by the committee. Our United Supply chain approach sets out that we do not tolerate corruption, bribery and unfair anti-competitive actions on our own behalf or that of our suppliers.

The anti-bribery policy is available at **unitedutilities.com/corporate/about-us/governance**

The United Supply chain approach is available at **unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supply-chain**

Corporate governance report

Corporate responsibility committee

In what has been a challenging year, it has mattered more than ever that the company has engaged with its stakeholders on topics relevant to them.

Stephen Carter
Chair of the corporate responsibility committee

Dear Shareholder

I am pleased to introduce the report on the activities of the corporate responsibility committee in 2020/21.

The committee has discussed the COVID-19 pandemic at every meeting this year to assess the actions taken by the company from a responsible business perspective. It considers the approach to be comprehensive and thoughtful, ranging from enhanced support for vulnerable customers through extension of the company's social tariff and the prominent promotion of its payment break scheme, to the help offered to suppliers through accelerated payment terms and the unrelenting focus on employee health and wellbeing.

It has been encouraging to see that the company is already well advanced in its thinking about working patterns in a post-pandemic environment, positioning it as the 'next ways of working'. The committee recognises there are many implications associated with changed working patterns and it looks forward to the opportunity to comment on plans as they develop. The committee debated the broader impact of COVID-19 for the company's approach to responsible business, concluding that it was premature to draw lasting conclusions as the pandemic was still with us.

As a result of the lockdown, there has been a marked increase in the number of visitors to United Utilities' recreation sites which, regrettably, has resulted in an increase in anti-social behaviour. The committee welcomed a paper on the company's approach to land management which set out clearly the risks and opportunities that come with being custodians of land in some of the most highly valued parts of the North West, such as the Lake District.

In response to growing investor interest in ESG – environmental, social and governance – the committee was pleased to comment on the company's sustainable finance framework ahead of its first successful sustainable bond issuance. The fact that the bond was three times over-subscribed reveals the level of investor focus on ESG. To help this community better understand the company's approach, an investor guide to ESG at United Utilities was published in 2020 to provide a helpful summary of the material issues the company is managing. It is also the fifth consecutive year that my report to shareholders has been structured under ESG headings.

The creation of the sustainable finance framework was a further example of the company's long-standing commitment to responsible business. While the committee is clear, on behalf of the board, that the company is making real progress, we believe that judgement is best left to others. It is both pleasing and reassuring that the company continues to perform well across a broad range of ESG indices. In the Dow Jones Sustainability Index, in which the company has participated almost longer than any other, it was again ranked world class – for the 14th consecutive year.

Over the past twelve months, the sector has transitioned from AMP6 to AMP7, and the company took the opportunity to review its approach to responsible business. As it exited AMP6, it reported that over 75 per cent of the stretching targets first set in 2015 to measure responsible business progress had been achieved. With AMP7 underway, the committee supported an evolution in its approach to frame the company's responsible business efforts around its purpose 'to provide great water and more for the North West', with particular emphasis on the value the company creates for its stakeholders.

The committee endorsed a new set of measures and targets out to 2025 that are aligned to each stakeholder the company

QUICK FACTS

- The corporate responsibility committee has existed for over thirteen years.
- The committee comprises three directors appointed by the board, two of whom are independent non-executive directors.
- The company secretary, corporate affairs director and customer services and people director attend all meetings of the committee.
- Senior operational directors attend the committee to report on the environmental, social and governance aspects of particular topics and initiatives.

Quick link

Terms of reference – unitedutilities.com/corporate-governance

Corporate responsibility committee members

Stephen Carter (chair)

Alison Goligher

Steve Mogford

It has been encouraging to see that the company is already well advanced in its thinking about working patterns in a post-pandemic world.

MAIN RESPONSIBILITIES

The terms of reference remained unchanged for the committee. Its main duties are to:

- consider and recommend to the board the broad corporate responsibility (CR) policy, taking into account the company's desired CR positioning;
- keep under review the group's approach to CR and ensure it is aligned with the group strategy;
- review CR issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- monitor and review the status of the company's reputation and examine the contribution the group's CR activities make towards protecting and enhancing this;
- monitor and review compliance with the board's CR policy and scrutinise the effectiveness of the delivery of the CR policy requirements;
- develop and recommend to the board CR targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators;
- monitor and review the steps taken by the company to support customers in vulnerable circumstances; and
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually.

creates value for and reflects what matters to them. We welcomed the intention to include these measures in a revised section of the annual report (see pages 50 to 73), reporting openly and transparently on them to help stakeholders to determine if the company is purpose led. This means that a 'golden thread' from purpose, through to vision and strategy, and then to measurement, will be clearly evident.

In what has been a challenging year, it has mattered more than ever that the company has engaged with its stakeholders on topics relevant to them. At every meeting, the committee discusses the company's approach to stakeholder engagement, ranging from national political and regulatory stakeholders through to the devolved administrations in the North West and regional NGOs. For example, it was good to hear of the favourable response to the company's first virtual caseworker event from the staff in regional MP offices.

The pandemic has drawn attention to many issues, with three of particular interest to the committee. First, it is evident that the pandemic has had a disproportionate impact on socially and economically deprived communities, of which there is a greater proportion in the North West than the rest of the country. The committee focused on the affordability and vulnerability support offered by the company.

Second, inequality in society has been brought into sharp focus, whether that is through the Black Lives Matter movement or increasing youth unemployment. In response, the company presented its refreshed diversity and inclusion strategy, marking a step change in its efforts to address the issue, and the committee welcomed United Utilities' first social mobility summit, hosted virtually, where it convened over 150 regional businesses to debate how best to tackle inequality, setting out its own intentions in its Opportunity on Tap plan.

The third issue has been the climate and nature emergencies. The committee reviewed the company's progress on its climate change adaptation plan and how its stewardship of 56,000 hectares of land will pay a critical role in both mitigating climate change (for example through planting trees and restoring peatland) and adapting to the impacts that are already occurring, such as slowing the flow of water to reduce flood risk.

Changes to the Corporate Governance Code in 2018 means that the committee now examines some additional responsible business topics on behalf of the board, in particular in relation to employees. Two papers were presented to the committee on progress in relation to work of the Employee Voice panel and how it has established an important role in contributing to the company's plans.

As the contribution that businesses make to society is examined ever more closely, especially as we think about a post-pandemic world, I am confident that the company, with its long-standing commitment to corporate responsibility and its determination to fulfil its purpose, will continue to build legitimacy amongst the opinions of customers, regulators, government and other stakeholders.

As a listed company, United Utilities complies with the UK Corporate Governance Code and continues to drive for the highest standards of board leadership, transparency and governance.

Stephen Carter
Chair of the corporate responsibility committee

Corporate governance report

Corporate responsibility committee

The committee's agenda during the year:

Environmental

Climate change adaptation strategy

A comprehensive overview of the company's approach was presented to the committee, which included: meeting government requirements for climate change adaptation reporting; embedding climate risk into the corporate risk framework; using UK Climate Projections 2018 in future planning; an independent review of climate change preparedness and the interaction climate change adaptation will have with PR24; and plans for the company's involvement in COP26.

Land management update

The committee debated the company's approach to land management. As a result of excess visitor numbers due to COVID-19 lockdowns, efforts were underway to stabilise the current situation and reduce the impact of visitor behaviour. Alongside this, the company had begun a comprehensive review of its strategy, including: overall ambition and direction; processes; governance; funding; partnerships; stakeholder engagement; communications and culture.

Waste and circular economy

The committee discussed conclusions reached by the company that business benefits could be gained through circular economy thinking. This will involve engagement across the company and with partners and suppliers in four areas: water and wastewater; energy; materials; and restoration of natural systems. As an example, the committee heard about scope to work more closely with housebuilding companies on water efficiency. A pilot will be undertaken in the Carlisle area with government agencies, customers and other stakeholders to explore opportunities.

Social

Next ways of working

Two updates were provided to the committee on plans for employee working patterns post-pandemic. The first phase of work will develop a 'flexibility framework' and common principles to optimise and hardcode the benefits of the current ways of working. The second phase considers the medium-term workforce strategy, assessing the impact from disruptors such as technology and automation, changing demographics and changing employee expectations. The committee debated the impact on line management, measuring productivity, and the development of skills, and observed how other factors such as diversity and inclusion were shaping working patterns.

Diversity and inclusion

A refreshed and updated strategy was discussed by the committee. It agreed that to attract great people to deliver a great public service, the company had to reach out and recruit from every part of society and support employees to achieve their full potential and feel valued and included. Five key work streams had been identified: leadership development; encouraging openness; people policies and processes; increasing awareness; and enabling inclusion. The committee welcomed the company's strong performance in the FT Diversity Index, indicating efforts to engage on diversity and inclusion were being recognised.

Gender pay report

The committee commented on the draft gender pay report for 2020 and welcomed that employee feedback had been sought in shaping the report. Progress against the action plan and commitments would continue to be monitored as part of the wider diversity and inclusion strategy.

Affordability and vulnerability: lower income groups

As a standing item, the committee was provided with an update on the company's performance in assisting customers on low incomes, focusing on free meter options and how the company is responding through planned initiatives.

Human rights policy

The committee approved an updated Human Rights policy. Analysis by the company's working group on its risk assessment showed movement in the likelihood and severity of some risks but this did not change the most salient issues: forced/child labour (modern slavery); health and safety; data protection and privacy; and access to clean water and sanitation. Material updates to the policy included the addition of a clause concerning the company's expectations of personnel, business partners and other relevant parties and a statement that the company has a mechanism by which to report concerns safely and in confidence.

Governance

CR committee terms of reference

Following review, the committee concluded that no further changes were needed to its terms of reference at the current time. The emergence of recent trends, such as the greater emphasis on purpose, were accommodated by the existing terms.

CR committee evaluation

The committee reviewed the external evaluation results and, in particular, points raised about the visibility of ESG and how its elements are brought together. It noted that ESG was already represented in the committee's section of the annual report and, through the standing item on reputation, it reviewed company efforts to promote its ESG credentials and encouraged it to do more.

Employee Voice

Twice a year the committee reviews progress on employee and board engagement. During lockdown, the company adopted a 'virtual' Employee Voice panel which covered key topics such as reward strategy and the scope of the 'next ways of working' programme, with members providing feedback on the company's response to COVID-19. The committee heard of the work of the Employee Voice networks and sub-groups, discussions on the employee opinion survey, and feedback on the culture in United Utilities. The committee considered further opportunities for the employee voice to be heard and was advised that the management conference was to be replaced with an all-employee conference. The committee noted that the company was satisfied that activities and progress enabled it to demonstrate compliance with the code.

Stakeholder engagement and reputation

Engagement and reputation remained a standing agenda item allowing time to examine the relationship between responsible business and reputation. Each paper provided an update on national and regional political and regulatory engagement, and interaction with people and organisations representing regulatory, social and environmental interests. The committee was keen to understand the company's stakeholder approach during COVID-19 and discussed the virtual consultation approach for the Haweswater Aqueduct Resilience Programme. It welcomed the favourable response to the company's first virtual MP caseworker event. The committee was presented with an update on current reputational risks under active management.

Measuring and reporting CR performance against the business principles measures was reviewed for the final time as the targets were aligned to the end of AMP6. The committee welcomed the outcome that the company had met over 75 per cent of the targets it had set in 2015.

Cross cutting

United Supply Chain

The committee was updated on the company's new approach to suppliers in AMP7, called United Supply Chain (USC), with its aim to embed responsible sourcing principles. This had taken into account best practice in other sectors, with the aim of providing a consistent approach to suppliers, with customers positioned as a common theme. Adherence will be monitored through the company's established supplier relationship management mechanism.

Sustainable finance framework

A paper setting out the design for the company's sustainable finance framework was presented to the committee. It included: categories of green/sustainable projects eligible for funding; the governance around identifying and selecting projects; tracking the net proceeds to eligible projects and pre-allocation investment; and publishing reports annually until full allocation, with external verification. The committee endorsed the approach, concluding that it aligned well with the company's responsible business and ESG credentials.

Value framework – multi-capitals

An update was provided to the committee on a project related to embedding the company's purpose into business processes. Aligned with the six capitals of integrated reporting, the work will determine what level of maturity the company wants for each capital (manufactured, financial, natural, social, human and intellectual).

LOOKING TO THE NEXT YEAR, THE COMMITTEE WILL:

- examine new and emerging issues, such as how the company deals with the impact of COVID-19 and its legacy;
- review new or updated responsible business strategies, such as the company's community strategy, how it delivers its purpose objectives through its capital programme and its approach to talent and young people;
- consider the responsible business themes emerging for PR24;
- return to several issues to review progress, including digital and responsible business, approach to air quality, waste and circular economy, land management, carbon strategy, climate change adaptation and an update on surface water management;
- review performance, specifically the new measures and targets that will evidence how the company is fulfilling its purpose, ESG rating performance and the dashboard tracking the company's efforts to support customers on low incomes;
- on behalf of board, review progress and issues arising from the Employee Voice panel and the company's approach to culture;
- continue to examine the interaction between purpose, ESG and reputation and review the approach to stakeholder engagement and the management of reputational risks;
- oversee matters of general governance, such as reviewing the gender pay report; and
- undertake matters of committee governance, such as reviewing its rolling calendar of agenda items, the annual committee evaluation and examination of the committee's terms of reference.