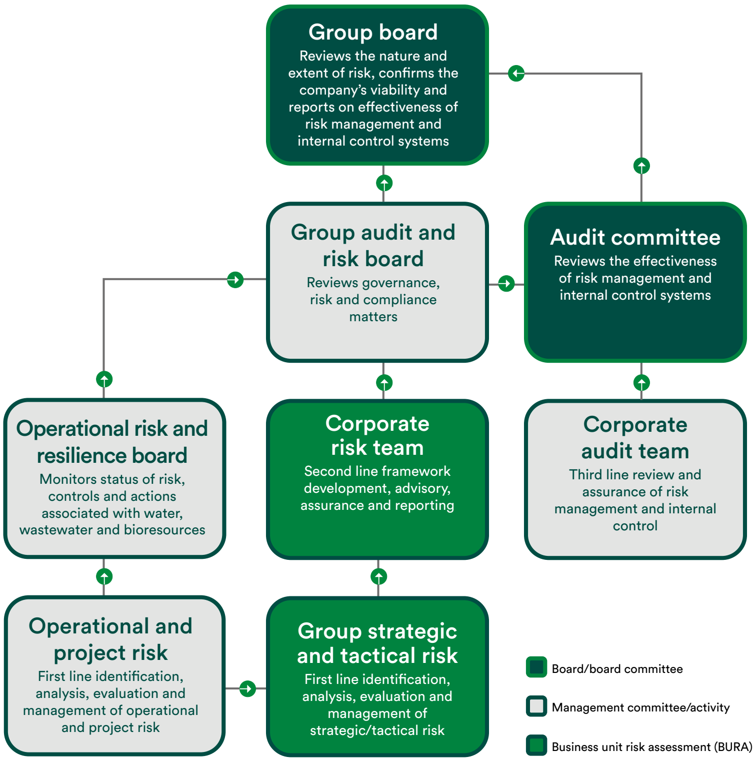
The governance and reporting process



Risk-specific governance and steering groups manage ongoing individual risks. The operational risk and resilience board provides oversight of asset and operational process risk and resilience capability, escalates risks and issues to the group audit and risk board (GARB) and contributes to the BURA process.

The executive-led GARB focuses on: the adequacy, effectiveness and performance of governance processes; risk management and internal control; monitoring compliance and assurance activities; identification of emerging themes and trends; and resilience across the group.

The audit committee is also a fundamental component of the governance structure. Supported by company secretariat and the corporate audit teams, the audit committee reviews the effectiveness of risk management and internal controls before these are agreed by the board.

Risk profile

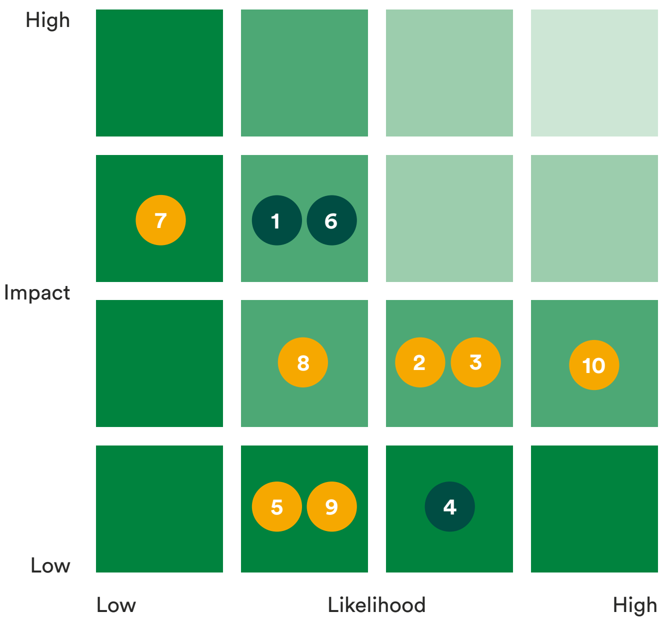
The business risk profile consists of approximately 100 event-based risks, each of which relates to one of ten inherent risk areas, which we regard as our principal risks due to their potential to affect the performance, future prospects or reputation of the company. The allocation of event-based risks to principal risks enables the company to consider risks in the context of systems and production lines, in line with our Systems Thinking approach.

Principal risk heat map

The heat map provides an indicative view of the current risk exposure (likelihood of occurrence and most likely impact) of each of the principal risks relative to each other.

Seven of the ten principal risks have remained relatively stable in the last 12 months. Water service, Supply chain and programme delivery and Finance have reduced due to the replacement of a section of the Haweswater Aqueduct, the trade deal with the EU and improvement in the economic outlook, respectively.

See pages 104 to 107 for further details of the principal risks.



Principal risks

1. Water service
2. Wastewater service
3. Retail and commercial
4. Supply chain and programme delivery
5. Resource
6. Finance
7. Health, safety and environmental
8. Security
9. Conduct and compliance
10. Political and regulatory

RISK EXPOSURE

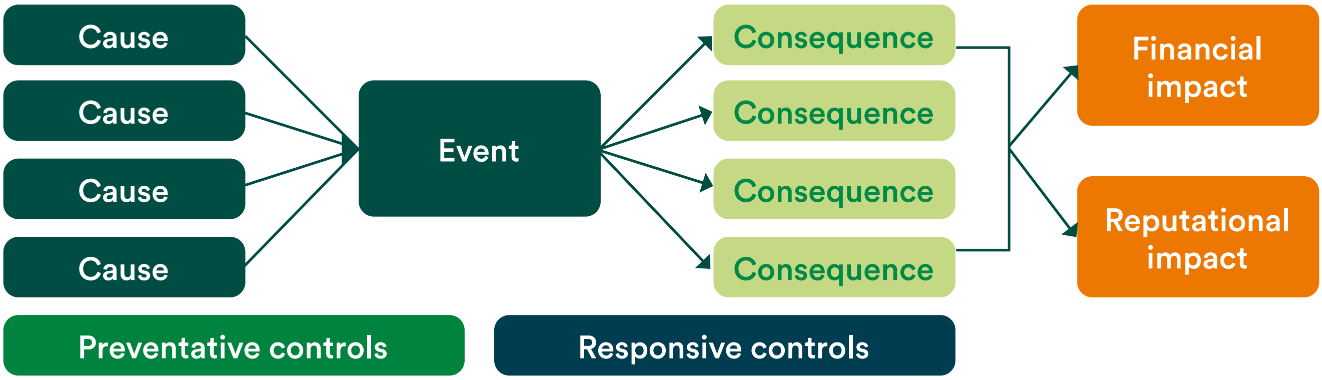
An indication of the current exposure of each principal risk relative to the prior year.

- Decreased
- Stable
- Increased

Principal risks and uncertainties

Common themes

As illustrated in the bow-tie diagram below, each of the event-based risks has multiple causes and consequences which in turn lead to financial and/or reputational impact. Preventative and responsive controls are applied to reduce the likelihood of the event occurring and limit the impact if the event were to materialise. New and emerging circumstances in respect of causes, consequences and controls make the profile multifaceted and dynamic. Analysis of the profile highlights common themes, notably associated with the causes and consequences. These common themes can then be considered more holistically to enable a more integrated, Systems Thinking approach to risk mitigation. Analysis of the control environment indicates the strengths, weaknesses and gaps in the mitigation of risk, as well as the interdependencies across the business to manage risk as part of the integrated approach.



Common causal themes

The event-based risks include multiple causal factors which individually or in combination could trigger the risk event to occur. Categorisation illustrates six common causal themes:

- **Extreme weather/climate change:** In the majority of cases our water resources, asset base and operations can cope with extreme weather conditions, although these can become overwhelmed in intense situations. Climate change projections highlight increased temperatures, rainfall, wind and more frequent extreme variations in weather patterns. This means that climate change remains a key focus for us, because of its impact on our capacity and capability for service delivery, and because of the effect on the environment that we strive to protect and enhance. We are committed to the principles set by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) – see pages 86 to 99.
- **Demographic changes:** Demographic changes, including population growth and evolving age profiles, can impact the capacity and capability of water and wastewater treatment and network assets; can affect demand on water resources; and increase uncertainty in relation to pension obligations.
- **Legislative and regulatory change:** Changes in legislation and/or regulation can have implications for the business model, asset base and ways of working. For example: the anticipated post-Brexit changes in law bring an element of uncertainty; and the introduction of competition, whilst positive to customers and markets, can affect ongoing revenue and the asset base.
- **Economic conditions:** Macro events, such as the financial crisis in 2008 and more recently COVID-19, can have multiple financial implications, including: lower revenue; increased bad debt; increased operational cost; increased cost of borrowing; and a reduction in the Regulatory Capital Value. The events can also impact the wider supply chain with knock-on effects to our service delivery and cost to serve.
- **Asset health:** General use, exposure to natural hazards, pressure and load all contribute to the deterioration of assets. In addition, other factors such as technological obsolescence and operating assets beyond their optimal capacity to cope with increased demand (population growth and/or climate change) also affect asset health. Ageing assets therefore provide an underlying and cross-business risk and uncertainty both to efficiency and for the long-term resilience of asset integrity and the associated service capability.
- **Culture:** Embedded through processes, reward mechanisms, values and behaviours, corporate culture is important to maintain high performance and cuts across the majority of risks in the profile. In an increasingly challenging business environment, our focus is to continue to embed a culture of innovation, customer service and behaving in a responsible manner at the same time as being open and transparent.

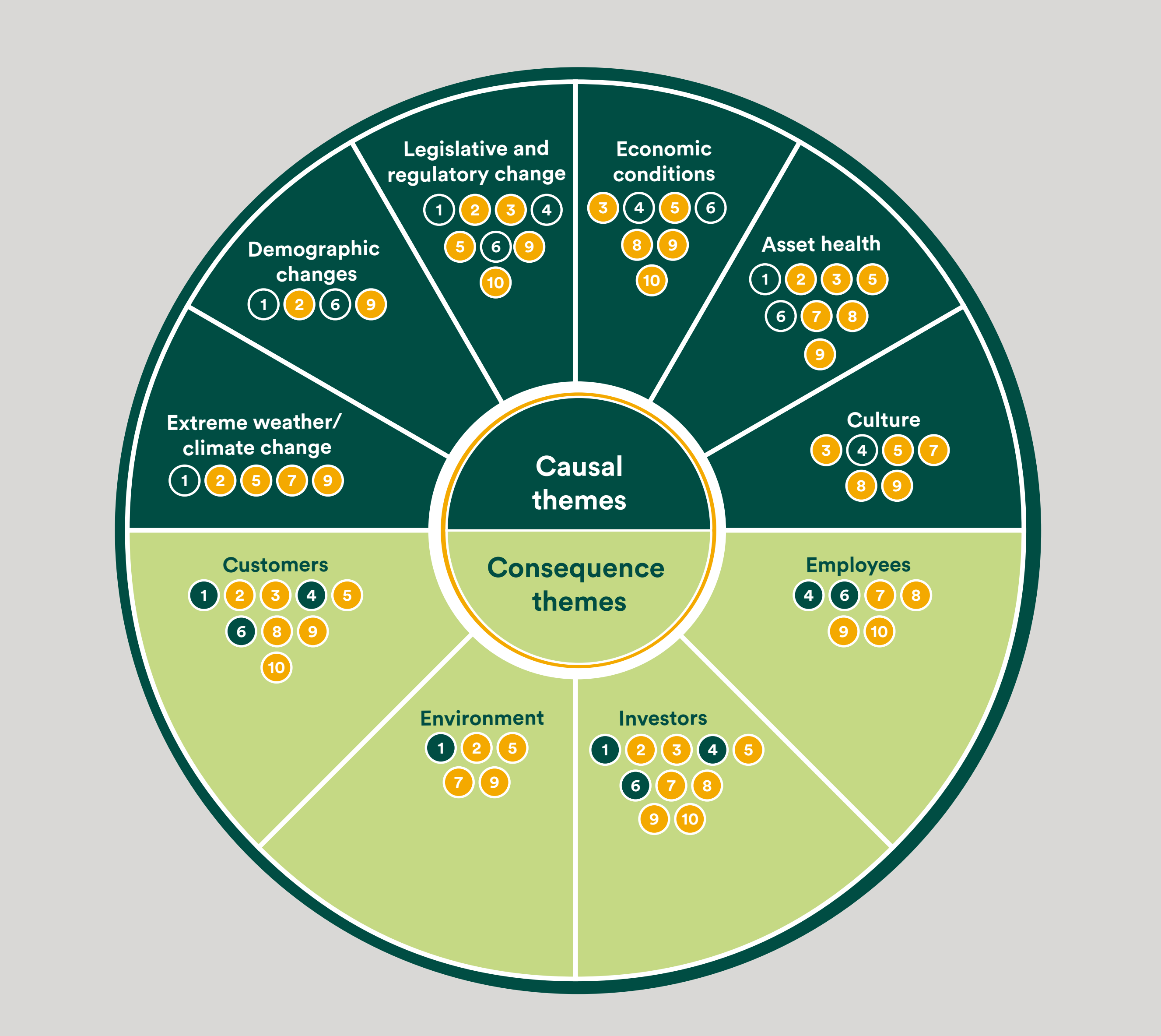
Common consequence themes

Each consequence is analysed for the financial and reputational implications relative to multiple stakeholders. Categorisation of the consequences illustrates four common impact themes:

- **Customer:** Customers are impacted through our service offering, the quality of their experience when dealing with us, and how our operational and capital schemes affect them in the community.
- **Environment:** Our assets, operations and capital programmes can have a significant impact on the environment in both rural and urban settings. As a major land owner and operator of a large fleet of vehicles, the way we manage these also has environmental implications.
- **Investors:** The vast majority of risks in the profile have financial implications that could affect shareholder investment in the short and long term. Reputational impact associated with ethics, environmental protection and efficiency is also relevant for investors' interest in the company.
- **Employees:** Our employees are fundamental to delivering our service requirements as well as our strategic objectives. Equally, our employees can be affected by multiple risks across the business, but primarily in relation to employment and health, safety and wellbeing risks.

Mapping of common themes to the principal risks

The diagram below illustrates how the common themes (causal and consequence) relate to the principal risks (see pages 104 to 107).



Principal risks

1 Water service
2 Wastewater service
3 Retail and commercial
4 Supply chain and programme delivery
5 Resource
6 Finance
7 Health, safety and environmental
8 Security
9 Conduct and compliance
10 Political and regulatory

RISK EXPOSURE

An indication of the current exposure of each principal risk relative to the prior year.

- Decreased
- Stable
- Increased

Principal risks and uncertainties

Our principal risks

Pages 104 to 107 provide details of our principal risks, including a description of the risk, a summary of the risk exposure, control mitigation actions and references to performance indicators and related event-based risks.

RISK EXPOSURE

An indication of the current exposure of each principal risk relative to the prior year.

- Decreased
- Stable
- Increased

OUR STRATEGIC THEMES

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

MOST SIGNIFICANT RISKS

Indicates a significant event-based risk reported to the board (see pages 108 and 109).

CORE OPERATIONS AND SERVICE PROVISION

1 Water service

A failure to provide a secure supply of clean, safe drinking water and the potential for a negative impact on public confidence in water supply.

Main strategic theme

Risk exposure

Covering the entire water system from source to customers' taps, threats include: extreme weather which not only affects supply and demand through reduced rainfall, but can also affect raw water quality through fire or flooding; demographic changes affecting demand; asset health contributes to the frequency and magnitude of failure; and legal and regulatory change potentially increases the quality standards which will require time and investment in order to maintain compliance.

Potential impacts include: regulatory non-compliance; interruptions to water supply; or, in extreme cases, a danger to public health caused by poor water quality.

Control and mitigation

Strict quality controls supplement the physical and chemical treatment including a rigorous sampling regime, alarm systems and 'shut down and start up to waste' processes. Asset inspections, regular maintenance and cleaning are undertaken across our water assets, supported by a prioritised replacement regime. Water resources management, production planning, pressure/flow management and leak detection are undertaken to maintain supply and minimise interruptions. The integrated network, alternative supply vehicles and maintenance crews provide a response capability.

Performance indicators

- C-MeX
- Leakage
- Interruptions to supply
- Water quality compliance (CRI)

Most significant event-based risks

- Failure of significant water supply systems
- Failure of the distribution system (leakage)
- Dam failure
- Water sufficiency (dry weather)
- Water network failure

2 Wastewater service

The failure to remove, treat and return water to the environment and recycle sludge to land.

Main strategic theme

Risk exposure

Covering the entire wastewater and bioresource systems from customer properties to land, river or the sea, the key factors are: the capacity and capability of assets and operational processes; and the availability of sludge recycling outlets. Compounding issues include unauthorised third party discharges into the sewer network, changing demographics and extreme weather. Whilst generally designed to cope with the vast majority of storms, high intensity rainfall can overwhelm the system. Legal and regulatory change potentially increases standards or imposes restrictions which will require time and investment to maintain compliance.

Potential impacts include: regulatory non-compliance; interruptions to drainage services; pollution incidents (including odour nuisance and sewer flooding); and inability to dispose of sludge to land.

Control and mitigation

The sewer network is managed through a combination of the drainage and wastewater management plans and the wastewater network operating model which include asset condition surveys to identify defects, sewer rehabilitation projects, customer campaigns and sewer cleaning programmes. Integrated drainage area studies and the adoption of a pollution incident reduction plan aim to make further enhancements. Proactive maintenance, operative training, sampling, compliance audits and odour management systems supplement the treatment processes across our wastewater and biosolids systems.

Performance indicators

- C-MeX
- EA performance assessment
- Internal flooding incidents
- Pollution incidents

Most significant event-based risks

- Failure of wastewater network (sewer flooding)
- Failure to treat wastewater
- Failure of wastewater assets (serious pollution)
- Recycling of biosolids to agriculture

FUNCTIONAL SERVICE AND SUPPORT

3

Retail and commercial

Failing to provide good and fair service to domestic customers and third-party retailers or a failure of or issue in relation to non-United Utilities Water operations or businesses.

Main strategic theme

Risk exposure

Key factors include the social deprivation across the North West, the macroeconomic environment, and the experience and perception of customers towards our operations and service. Commercial contractual terms and conditions and the structure, positioning and efficiency of joint ventures, subsidiaries and undertakings are also factors.

Potential impacts include financial losses and an impact on profitability associated with poor cash flow and an increase in bad debt. Poor service and associated decreased customer satisfaction could result in regulatory penalties and reputational harm.

Control and mitigation

Our customer-focused initiatives aim to drive excellent service and enhance the experience of all our customers. We have an award-winning Priority Services scheme for vulnerable customers and those needing help to pay, which has driven up our success in recovering charges. Bad debt risk is managed through best practice collection techniques, segmentation of customers and the use of data sharing to determine the most effective and collaborative collection and support activities.

The wholesale business maintains processes, systems and data to deal fairly with market participants and the central market operator in the business retail market in order to generate and collect revenue. Similarly strong governance applies to non-United Utilities Water operations and businesses.

Performance indicators

- C-MeX
- Customer complaints
- D-MeX

Most significant event-based risks

- Billing accuracy
- Customer experience

4

Supply chain and programme delivery

The potential ineffective delivery of capital, operational and change programmes/ processes.

Main strategic theme

Risk exposure

As the supplier of essential water and wastewater services with a significant asset base, key factors include the consistent supply of critical goods and services and the ongoing development of operational facilities, distribution networks and systems. Disruption and delay can occur through macroeconomic conditions, political issues or natural disasters in the country of origin. Contractual issues, technical or engineering complications, natural hazards such as extreme weather or legal aspects such as planning permission or access rights are also factors.

Potential impacts include: implications to cash flow; failure to take opportunities and competitive advantage; and ultimately failure to meet our obligations and customer outcomes.

Control and mitigation

Category management and supplier relationship management are key areas of control underpinned by contract management across our extensive supply chain. Capital, change and operational programmes are undertaken in order of priority following approval. Within the capital programme we have created better alignment and integration between our capital delivery partners, engineering service providers and our operating model. Our programmes and project management include risk and issue management.

Performance indicators

- Percentage of invoices paid within 60 days
- Time, cost and quality index

Most significant event-based risks

- Unfunded developer-led projects
- Dispute with supplier

5

Resource

The potential failure to provide appropriate resources (human, technological or physical) required to support business activity.

Main strategic theme

Risk exposure

The nature and scale of our operations warrants a highly efficient, effective and competent set of resources that is adaptable to a constantly changing business environment. Key factors include: the recruitment and selection of talent, employee engagement, skill-set and knowledge; obsolescent systems due to innovative new ways of working and advances in technology; the quality of tools, equipment and vehicles; and ongoing deterioration of property, land and other assets.

Potential impacts include the inability to maintain efficiency, optimise opportunity and competitive advantage, or meet our obligations and customer outcomes.

Control and mitigation

We develop our people with the right skills and knowledge and deliver effective technology to support the business in meeting its objectives. Employees are kept informed regarding business strategy and progress through various communication channels. Training and personal development programmes exist for all employees in addition to talent management programmes and apprentice and graduate schemes. We focus on change programmes and innovative ways of working to deliver better, more resilient and more cost-effective operations. Resources are closely monitored because of COVID-19, with home working and safe site working practices being adopted. People with multiple skill sets are able to add resilience across the business.

Performance indicators

- Employee engagement

Most significant event-based risks

- Land management
- Business critical data

Principal risks and uncertainties

Our principal risks

FUNCTIONAL SERVICE AND SUPPORT

6

Finance

The potential inability to finance the business appropriately.

Main strategic theme

Risk exposure

The extent of our capital programme and the scale of our operations means that it is important that we are able to raise finance when needed to preserve adequate liquidity. Key factors include unexpected and/or higher costs associated with an operational incident, fluctuations in commodity prices and our exposure to movements in interest rates and inflation. A reduction in credit ratings, the over payment of tax and a worsening of the pension scheme funding position are also factors. Contributing factors include the macroeconomy, the political and regulatory environments relative to the water sector, and our internal financial structure.

Potential impacts include cash flow implications, reduced profit and ultimately the solvency of the company in extreme cases.

Control and mitigation

We arrange long-term refinancing with staggered maturity dates and maintain significant liquidity to minimise the effect of short-term downturns. Counterparty credit exposure and settlement limits exist to reduce any potential future impacts. These are based on a number of factors, including the credit rating and the size of the asset base of the individual counterparty. The group employs hedging strategies to manage the impact of market fluctuations for inflation, interest rates and energy prices. Sensitivity analysis is carried out as part of the business planning process, influencing the various financial limits employed. Continuous monitoring of the markets takes place, including movements in credit default swap prices and movements in equity levels.

Performance indicators

- Return on Regulated Equity (RoRE)
- Underlying operating profit
- Gearing (net debt : RCV)

Most significant event-based risks

- Financial outperformance*
- Credit ratings*
- Pension deficit*
- Fair payment of tax*

HAZARD-BASED

7

Health, safety and environmental

The potential harm to employees, contractors, the public or the environment.

Main strategic theme

Risk exposure

The nature and scale of our operations presents multiple hazards to employees, contractors, the public and the environment. These include confined spaces, excavations, explosive atmospheres or high volume asset failures (e.g. dams or aqueducts), and polluting sewage and chemicals if accidentally or uncontrollably released.

Potential impacts include: serious injury or loss of life; catastrophic damage to property/infrastructure; and damage to, or destruction of, wildlife, fish or natural habitats. Environmental hazards, notably extreme weather, can affect our operational assets and service delivery.

Control and mitigation

We have a strong health, safety and environmental culture supported by strong governance and management systems certified to OHSAS 18001 and ISO 14001 respectively. We actively seek to improve health, safety and wellbeing across the group through targeted improvements and benchmarking against our peers and seek to protect and improve the environment through the responsible delivery of our services. This includes helping to support rare species and habitats through targeted engagement and activity, as well as our commitment to reducing our carbon emissions by designing out waste from our operations, generating our own energy and looking at ways to reduce our use of raw materials. Due to the impact the environment can have on our services, extreme weather and climate change is being integrated into our risk, planning and decision-making processes.

Performance indicators

- EA performance assessment
- Accident frequency rates

Most significant event-based risks

- Disease pandemic*
- Process safety*
- Personal safety
- Carbon commitments
- Failure of above-ground assets (flooding)

8

Security

The potential for malicious activity (physical or technological) against people, assets or operations.

Main strategic theme

Risk exposure

As the supplier of essential services and the owner and operator of critical national infrastructure, security is of paramount importance against an ever evolving and increasingly sophisticated threat through physical, technological, chemical or biological means. This could originate from rogue independent actors, nation states, organised crime, disgruntled employees, or as a result of commercial espionage.

Potential impacts include the loss or compromise of commercially sensitive data, the disruption of business activity and/or damage or destruction of systems, assets or infrastructure with a knock-on impact to service delivery and community infrastructure.

Control and mitigation

Security measures and awareness training combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. We work closely with our industry peers, the Centre for the Protection of National Infrastructure (CPNI), the National Cyber Security Centre (NCSC), the Drinking Water Inspectorate and Defra. We liaise with these organisations to shape the sector approach to security, understand how to better protect our business, and be compliant with the Network and Information Systems (NIS) Directive. Ongoing system and network integration improves operational resilience and we maintain robust incident response, business continuity and disaster recovery procedures. We maintain insurance cover for loss and liability, and the instrument of appointment (licence) of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse in the event of a catastrophic incident.

Performance indicators

- Cyber incidents

Most significant event-based risks

- Cybercrime*
- Terrorism*

REGULATORY AND LEGAL

9

Conduct and compliance

The failure to adopt or apply ethical standards, or to comply with legal and regulatory obligations and responsibilities.

Main strategic theme

Risk exposure

Our business extends to multiple stakeholders and is subject to a significant amount of legislation and regulation. Long-term sustainability, resilience and reputation rely on responsible conduct and compliance across our business and extended supply chain.

Failure to comply with legal obligations could lead to financial penalties, reputational harm and loss of customer and investor confidence. Fines of up to 10 per cent of group turnover could be imposed, particularly in the areas of environmental, health and safety, competition, and information and data security. Ultimately sanctions could include, in extreme circumstances, revocation of the instrument of appointment (licence) and the imposition of a special administration regime.

Control and mitigation

We place high importance and focus on corporate responsibility. Our well-established internal forums and engagement activities with communities, landowners, environmental groups and other stakeholders allow us to be aware of current issues and concerns. These include ethical supply chains, modern slavery risks, the needs of vulnerable customers and diversity and equality within our own employee population.

Performance indicators

- Community investment
- EA performance assessment
- C-MeX

Most significant event-based risks

- Non-compliance with the Bribery Act
- Digital Service licensing

10

Political and regulatory

Developments connected with the political, regulatory and legislative environment.

Main strategic theme

Risk exposure

As a regulated business, the political and regulatory environment shapes how we operate as a business. Factors include the public perception of the water industry and its legitimacy to provide value, increased challenges on efficiency and the imposition of increased levels of competition across the sector.

There is the potential for increased costs of administration and for sources of income and funding to be impacted. There is also the potential for reduced Regulatory Capital Value (RCV) and for greater uncertainty of returns.

Control and mitigation

We continue to take part in government and regulatory consultations to influence outcomes in respect of policy and legislation. We routinely communicate with customers so that their needs and expectations can be factored into our thinking and plans.

Performance indicators

- Return on Regulated Equity (RoRE)
- Underlying operating profit

Most significant event-based risks

- Reduced revenue at the next price review*
- Upstream competition (bioresources)*
- DPC – Haweswater Aqueduct Replacement Programme (HARP)

RISK EXPOSURE

An indication of the current exposure of each principal risk relative to the prior year.

- Decreased
- Stable
- Increased

OUR STRATEGIC THEMES

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

MOST SIGNIFICANT RISKS

* Indicates a significant event-based risk reported to the board (see pages 108 and 109).

Principal risks and uncertainties

The company's most significant event-based risks

The most significant event-based risks represent the ten highest-ranked risks by exposure (likelihood of occurrence of the event multiplied by the most likely financial impact) and those risks which have been assessed as having a significantly high impact, but low likelihood. Depending on the circumstances, financial impacts will include loss of revenue, additional or extra cost, fines, regulatory penalties and compensation. Reputational impact relative to our multiple stakeholders is also assessed, reported and considered as part of the mitigation.

1 Failure of significant water supply systems

Risk exposure: The Haweswater Aqueduct (HA) is a key asset with current low resilience due to deterioration, potentially resulting in water quality issues and/or supply interruptions to a large proportion of our customer base.

Control/mitigation: Capital projects for asset replacement (including HARP), as well as extensive programmes of asset monitoring, surveys and maintenance.

2 Failure of wastewater network (sewer flooding)

Risk exposure: Equipment failure, collapses/bursts or inadequate hydraulic/operational capacity to cope with extreme weather and population growth, resulting in sewer flooding.

Control/mitigation: Preventative maintenance and inspection regimes, customer campaigns and sewer rehabilitation programmes.

3 Cybercrime

Risk exposure: Data and technology assets compromised due to malicious or accidental activity, leading to a major impact to key business processes and operations.

Control/mitigation: Multiple layers of control, including a secure perimeter, segmented internal network zones, access controls, constant monitoring and forensic response capability.

5 Failure to treat wastewater

Risk exposure: Inadequate capacity and capability of wastewater treatment works, leading to environmental permit breaches.

Control/mitigation: Improved Effective Operations and Maintenance (EO&M) programme and operating procedures including proactive maintenance, operative training and compliance audits.

6 Financial outperformance

Risk exposure: Failure to achieve financial outperformance due to macro economic conditions and efficiency challenges, impacting the cost of debt and delivery of the company business plan.

Control/mitigation: Interest rate and inflation management, ongoing monitoring of markets and regulatory developments, and company business planning.

7 Credit ratings

Risk exposure: Credit ratings below internal targets, due to deterioration in financial and/or operational performance and/or external factors (such as inflation) resulting in more expensive funding.

Control/mitigation: Continuous monitoring of markets, and the management of key financial risks within defined policy parameters.

9 Upstream competition (bioresources)

Risk exposure: Competition in the bioresources market leading to a loss of business and reduced operational efficiency.

Control/mitigation: Delivering operational efficiency, continued engagement with Ofwat and a strategic review of the bioresources business.

10 Failure of the distribution system (leakage)

Risk exposure: Network characteristics, asset condition, extreme weather or third-party damage resulting in the loss of treated water and failure of the leakage target.

Control/mitigation: Management of pressure and flow combined with traditional and innovative leakage detection techniques.

A Pension deficit

Risk exposure: The potential for the pension scheme funding deficit to increase because of life expectancy rates leading to additional contributions.

Control/mitigation: Constant monitoring combined with hedging against interest rates, inflation and growth asset risk.

C Dam failure

Risk exposure: Uncontrolled release of a significant volume of water from reservoirs due to flood damage, overtopping, earthquake or erosion leading to catastrophic impacts downstream.

Control/mitigation: Each reservoir is regularly inspected by engineers. Where appropriate, risk reduction interventions are implemented through a prioritised investment programme.

D Disease pandemic

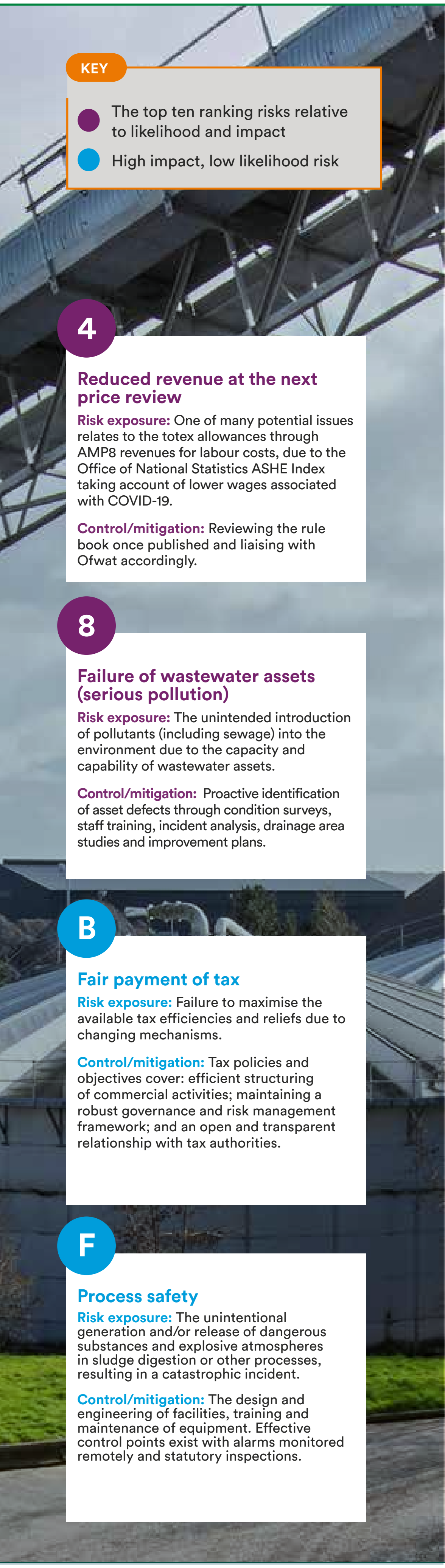
Risk exposure: Serious illness in a large proportion of the UK population and consequences to our workforce, the wider supply chain and macroeconomy.

Control/mitigation: The incident management process would be invoked, supported by the Pandemic Response Plan. This includes the implementation of multi-channel communication with non-pharmaceutical interventions as per government guidance.

E Terrorism

Risk exposure: A significant asset to be compromised by terrorist activity leading to loss of supply, contamination and/or pollution.

Control/mitigation: A risk-based protection of assets in line with the Security and Emergency Measures Direction (SEMD) and close liaison with the Centre for the Protection of National Infrastructure (CPNI), regional counter terrorist units, local agencies and emergency services.



KEY

- The top ten ranking risks relative to likelihood and impact
- High impact, low likelihood risk

4

Reduced revenue at the next price review

Risk exposure: One of many potential issues relates to the totex allowances through AMP8 revenues for labour costs, due to the Office of National Statistics ASHE Index taking account of lower wages associated with COVID-19.

Control/mitigation: Reviewing the rule book once published and liaising with Ofwat accordingly.

8

Failure of wastewater assets (serious pollution)

Risk exposure: The unintended introduction of pollutants (including sewage) into the environment due to the capacity and capability of wastewater assets.

Control/mitigation: Proactive identification of asset defects through condition surveys, staff training, incident analysis, drainage area studies and improvement plans.

B

Fair payment of tax

Risk exposure: Failure to maximise the available tax efficiencies and reliefs due to changing mechanisms.

Control/mitigation: Tax policies and objectives cover: efficient structuring of commercial activities; maintaining a robust governance and risk management framework; and an open and transparent relationship with tax authorities.

F

Process safety

Risk exposure: The unintentional generation and/or release of dangerous substances and explosive atmospheres in sludge digestion or other processes, resulting in a catastrophic incident.

Control/mitigation: The design and engineering of facilities, training and maintenance of equipment. Effective control points exist with alarms monitored remotely and statutory inspections.

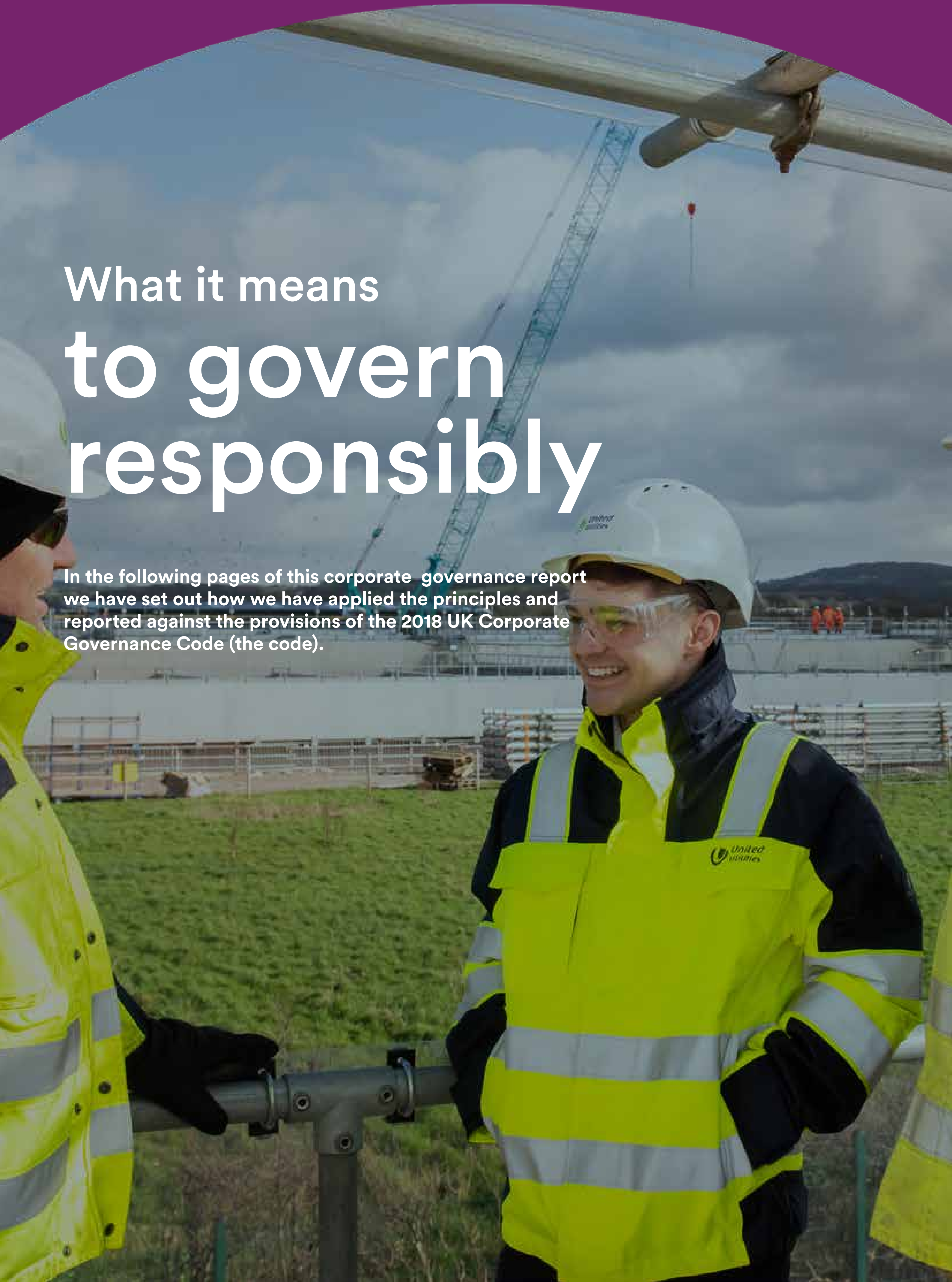
New and emerging risks

We continue to review and monitor external and internal business environments to establish and understand risks and issues that are new, developing, growing or becoming more prominent. We do this through a combination of business unit risk assessments, a specific new and emerging risk forum and other horizon scanning forums such as a compliance working group. This enables us to plan our strategy and operations to minimise threats of this nature. Notable new and emerging risks and some possible impacts are set out below.

- **Post-Brexit supply chain:** Despite the agreement of a trade deal with the EU, there remains some uncertainty in relation to the supply of goods and services. We manage the supply chain through category management, with chemicals and critical spares being two categories which are fundamental to the delivery of our service provision. We will continue to monitor how the supply chain emerges and will adapt accordingly through category management and supplier relationship management.
- **Post-Brexit legislative change:** Post-Brexit uncertainty remains in relation to how European legislation will transition into UK law, for example, data protection laws governing the flow of data and information between the EU and UK. Changes in UK law, such as the Environment Bill, Sewage (Inland Waters) Bill and changes to Public Procurement will all have implications for the water sector.
- **Regulatory change:** The political landscape remains challenging for the water sector. There remains uncertainty regarding the introduction of further competition and therefore the associated implications for revenue and the asset base. Looking ahead to Price Review 2024 (PR24), the methodology remains uncertain, particularly in light of the outcome of other water companies' PR19 CMA appeals.
- **Plastics:** The current attention on single use plastics and microplastic pollution in water, wastewater effluent discharge and sludge disposal (see biosolids recycling to agriculture) could have implications for our assets and operations.
- **Biosolids recycling to agriculture:** The practice of disposing of biosolids to agriculture could be banned (partially or in full) in the UK based on similar actions within Europe.
- **Water scarcity and water trading:** Water scarcity is an emerging issue within the UK, which has knock-on implications for us in relation to the proposed strategic transfer of water from the North West to the South East of England, and the associated service, commercial and reputational impacts.
- **COVID-19:** To a large degree, COVID-19 has become business as usual, however, the longer-term implications of the economic downturn, with potential corporate failures and high unemployment, could affect cash collection. Continued lower inflation will affect revenues, financing costs and RCV, however, rising inflation will have an upside over the longer term.

Material litigation

The group robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible. Litigation of a material nature is regularly reported to the group board. Beyond that reported in previous years on the Argentina multiparty 'class action' and the Manchester Ship Canal Company matters (to which there have been no material developments), there is nothing specific to report on material litigation.



What it means
to govern responsibly

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).

Governance

Corporate governance report

Board of directors

Sir David Higgins
Chairman

N

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.

Steve Mogford
Chief Executive Officer (CEO)

C

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.

Phil Aspin
Chief Financial Officer (CFO)

T

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.

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.

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.

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.

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:
- Multicultural
- GENEq
- Armed Forces
- LGBT Identity+
- Ability

Employee champion groups:
- Health, safety and wellbeing champions
- Engagement champions
- Colleague engagement group
- Career development forums

Early careers and managers:
- The Early Careers Board
- Aspiring managers
- Apprentices
- Graduates
- Bands 3 and 4 managers

Union partners:
- 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.

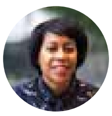
Quick link

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

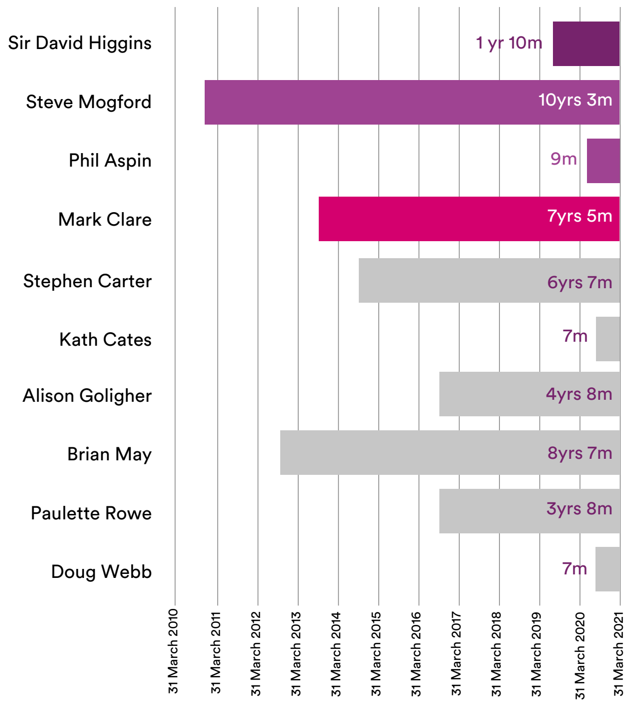
- Lead the process for board appointments and make recommendations to the board about filling vacancies on the board, including the company secretary;
- Consider the succession planning of directors and members of the executive team;
- Make recommendations to the board on refreshing the membership of 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.

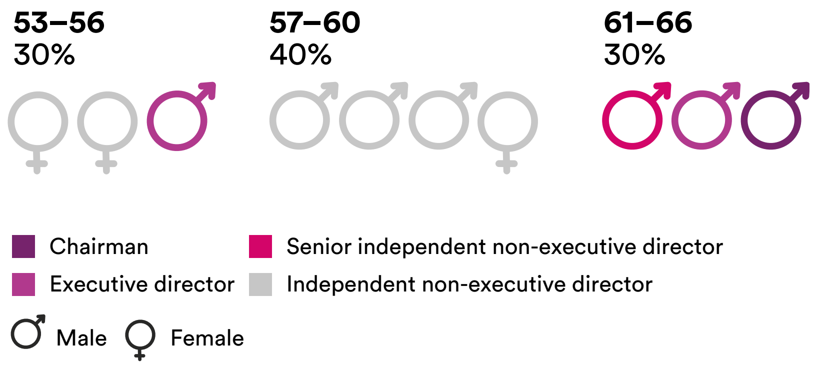
Sir David Higgins
Chair of the nomination committee

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

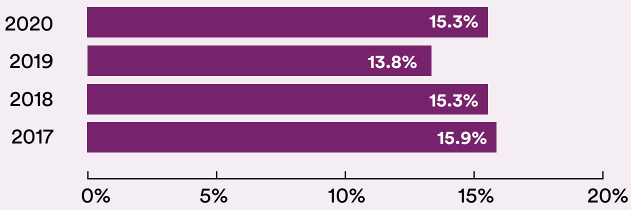
Throughout 2020/21, our workforce profile remained quite static at 66 per cent male and 34 per cent female. This is primarily driven by the limited number of females with the relevant skills available in the market and the legacy of a traditional male-orientated bias in science, technology, engineering 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.

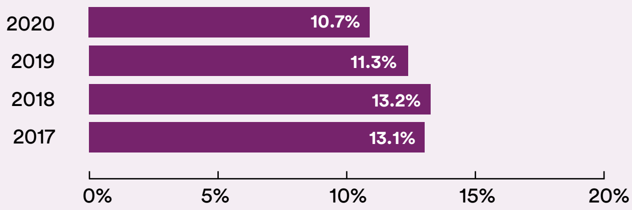
Against a backdrop of low attrition levels, variable geographical demographics and male-orientated STEM roles, we have seen progress with our targeted diversity and inclusion approach:

- 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.

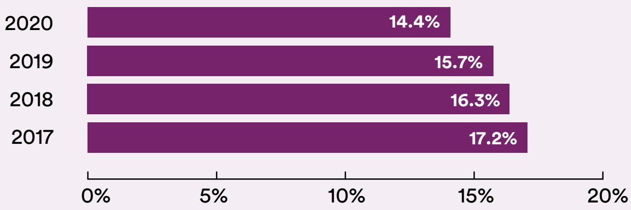
Our median gender pay gap over time



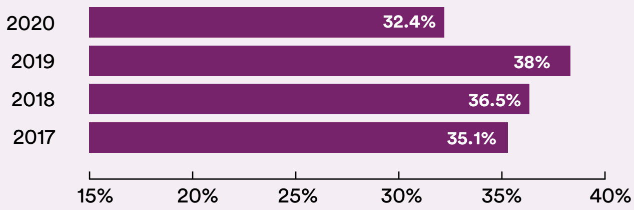
Our mean gender pay gap over time



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 board, 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.

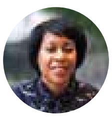
Quick link

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.

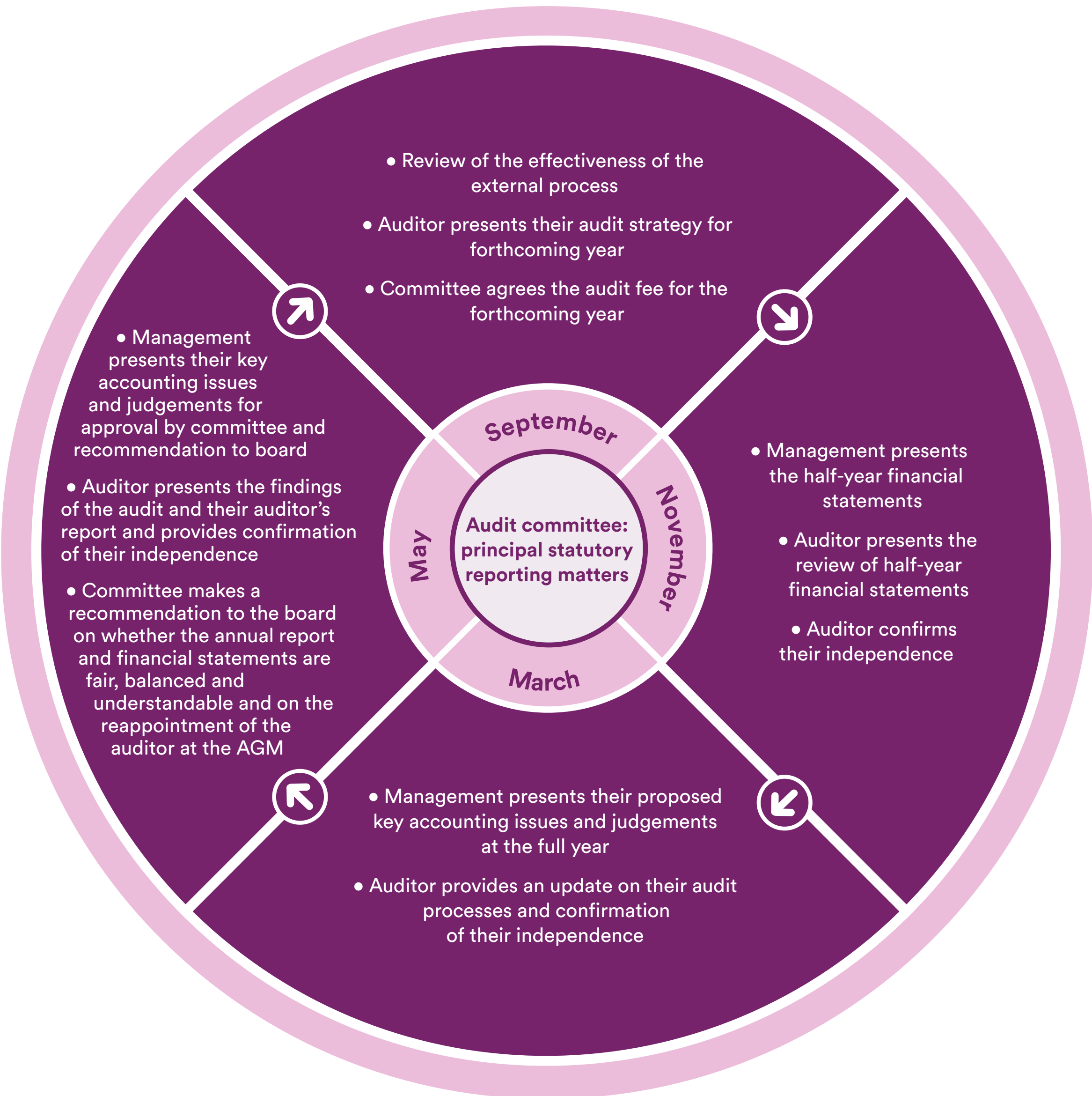
Brian May
Chairman of the audit committee

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.

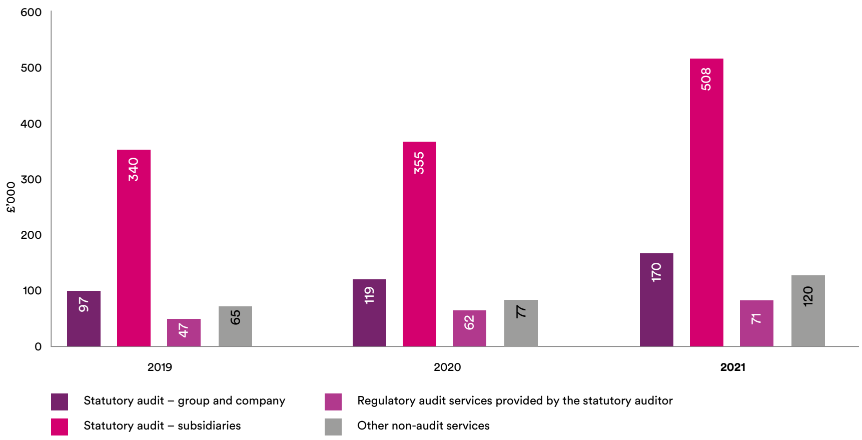
Throughout the year, management presents their up-to-date view of the key accounting issues and their resulting judgements. KPMG responds informing the committee whether, in their professional view, the judgements management propose, or have taken, are appropriate. A number of these issues manifest themselves 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.

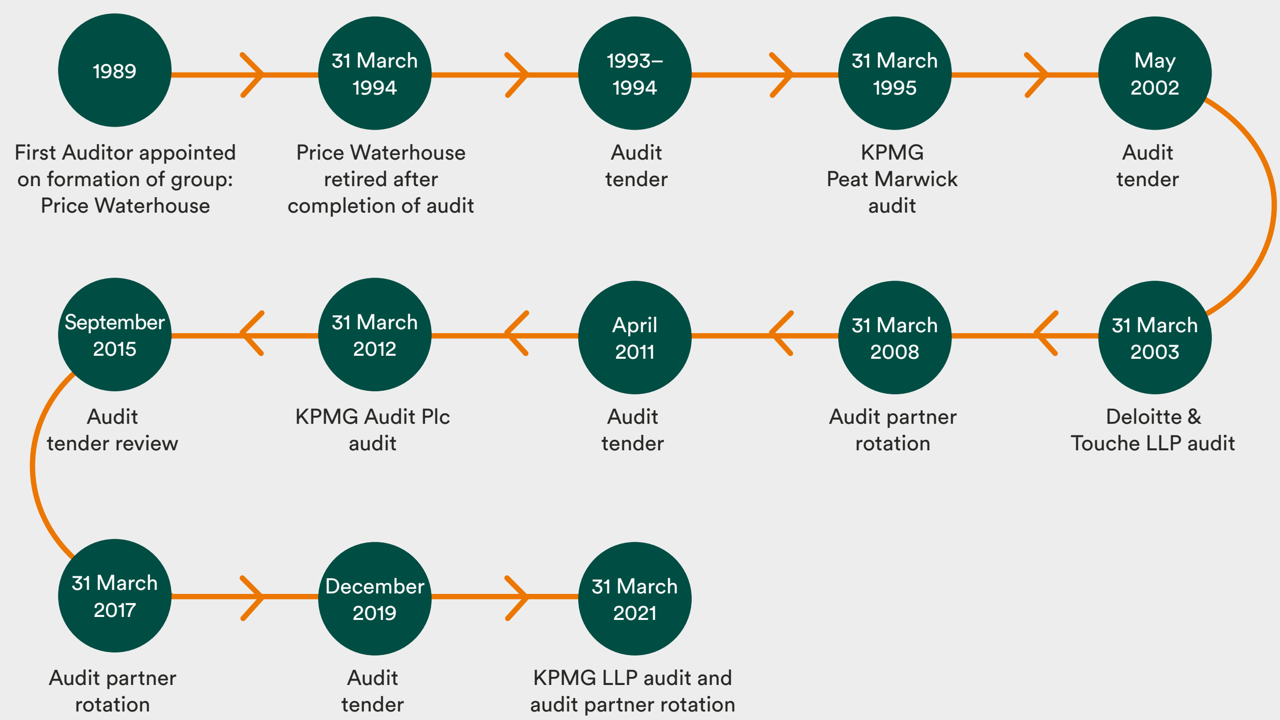
The 2020/21 year-end audit has been KPMG's tenth consecutive year in office as auditor; they were reappointed after the committee conducted a formal tender process in December 2019 and as reported by the committee in 2020. Prior to this, a formal tender was last undertaken in 2011, and resulted in the 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

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.

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

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.

Corporate governance report

Annual statement from the remuneration committee chair

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

Alison Goligher
Chair of the remuneration committee

Dear Shareholder

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

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

The year in focus

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

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

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

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

QUICK FACTS

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

Quick link

Terms of reference – **unitedutilities.com/corporate-governance**

Index

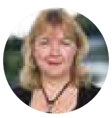
Read about how **our remuneration approach complies with the UK Corporate Governance Code** on page 162

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

Read our **Annual report on remuneration** on pages 167 to 181

Read our **Directors' remuneration policy** on pages 182 to 188

Remuneration committee members



Alison Goligher (chair)

Kath Cates

Mark Clare

Brian May

Implementation of the directors' remuneration policy during 2020/21

Salary

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

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

Annual bonus

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

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

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

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

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

Long-term incentives

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

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

Executive director changes

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

Agenda for 2021/22

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

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

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

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

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

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

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

Alison Goligher
Chair of the remuneration committee

Corporate governance report
Code principle – remuneration

5
Remuneration

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

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

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

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

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

The shareholder approved directors' remuneration policy outlines the ways in which the committee may exercise discretion.

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

CLARITY

The committee is committed to providing transparent disclosures to shareholders and the workforce about executive remuneration arrangements and, to this end, the directors' remuneration report sets out the remuneration arrangements for the executive directors in a clear and transparent way. Our AGM allows shareholders to ask any questions on the remuneration arrangements, and we welcome any queries on remuneration practices from shareholders throughout the year.

SIMPLICITY

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

PREDICTABILITY

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

RISK

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

PROPORTIONALITY

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

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

ALIGNMENT TO CULTURE

Performance measures used in our variable incentive schemes are selected to be consistent with the company's purpose, values and strategy. The use of annual bonus deferral, LTP holding periods and our shareholding requirements provide a clear link to the ongoing performance of the group and ensure alignment with shareholders, which continues after employment.

REMUNERATION APPROACH

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

1

Align
to our purpose, vision and strategy

2

Incentivise
great customer service

3

Create long-term value
for all of our stakeholders

Corporate governance report

At a glance summary: executive directors' remuneration

ALIGNING OUR REMUNERATION APPROACH TO BUSINESS STRATEGY

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

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

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

KEY

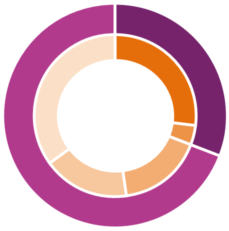
- The best service to customers
- At the lowest sustainable cost
- In a responsible manner
- Communities
- Customers
- Environment
- Investors
- Suppliers

EXECUTIVE DIRECTORS' REMUNERATION POLICY

Elements of executive directors' pay

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

Fixed vs performance-linked (%)(1)



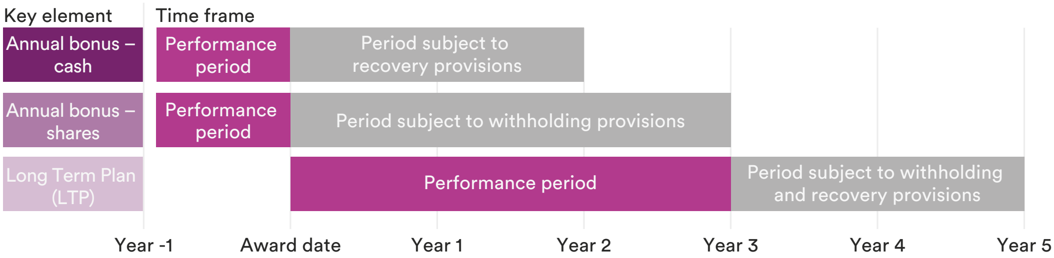
Fixed	**31%**	**Performance-linked**	**69%**
Base salary	27%	Annual bonus – cash	17%
Pension and other benefits	4%	Annual bonus – shares	17%
		Long Term Plan (LTP)	35%

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

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

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

Pay at risk



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

Implementation of directors' remuneration policy in 2020/21

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

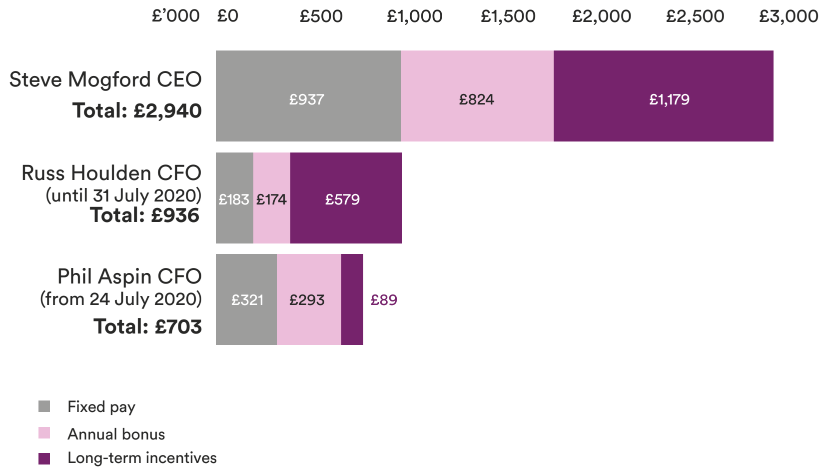
Key element	Implementation of policy in 2020/21
Base salary	• No salary increase for Steve Mogford in 2020. Phil Aspin's salary was set at £400,000 on his appointment as Chief Financial Officer from 24 July 2020. See page 167 for further details.
Benefits and pension	• Market competitive benefits package.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

Corporate governance report

At a glance summary: executive directors' remuneration

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

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



ALIGNING PAY WITH PERFORMANCE

ANNUAL BONUS – YEAR ENDED 31 MARCH 2021

Underlying operating profit(1)
£763.0m

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

Written complaints
16.51

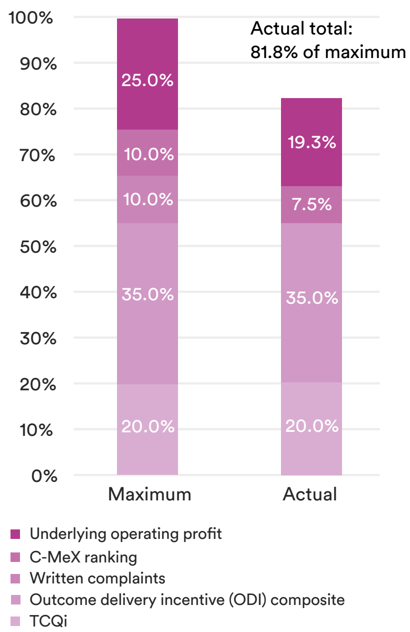
Outcome delivery incentive (ODI) composite
£18.1m

Time, Cost and Quality index (TCQi)
95.3%

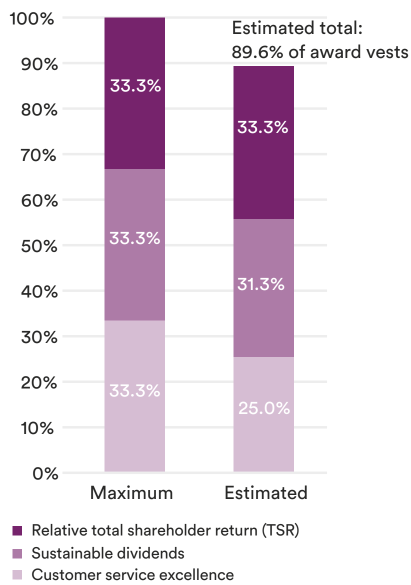
ANNUAL BONUS AND LONG TERM PLAN (LTP) OUTCOMES

The charts below show the results of the performance against targets for the annual bonus and LTP. Further information about the annual bonus is shown on page 168 and about the LTP on page 169.

2020/21 Annual bonus outcome



Estimated 2018 Long Term Plan (LTP) outcome



LONG TERM PLAN – THREE YEARS ENDED 31 MARCH 2021

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

Sustainable dividends(3)
1.35

Customer service excellence(4)
4th out of 11

Key:

- At or above stretch target
- Between threshold and stretch targets
- Below threshold target

(1) For the purpose of annual bonus, underlying operating profit excludes infrastructure renewals expenditure and property trading.

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

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

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

EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 MARCH 2021

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

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

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

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

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

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

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

Base salary

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

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

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

Pensions

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

Benefits

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

External appointments

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

Corporate governance report

Annual report on remuneration

ANNUAL BONUS

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

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

The table below provides details of share awards made on 16 June 2020 to the executive directors as at that date in respect of deferred share bonus payments for the 2019/20 financial year.

Executive director	Type of award	Basis of award	Number of shares	Face value of award[1] (£'000)	End of deferral period
Steve Mogford	Conditional shares	50% of bonus	38,742	£353	16.6.2023
Russ Houlden	Conditional shares	50% of bonus	24,469	£223	16.6.2023

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

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

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

Measure	% weighting of measure	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Vesting as a % of maximum	Outcome
Underlying operating profit[1]	25.0%	£643.0m	£729.2m	£791.0m	77.3%	**19.3%**
		Actual: £763.0m				
Customer service in year						
C-MeX ranking out of the 17 water companies	10.0%	8th position	6th position	4th position	75.0%	**7.5%**
		Actual: 5th position				
Written complaints	10.0%	14.63	14.49	14.36	0%	**0%**
	16.51					
Maintaining and enhancing services for customers						
Outcome delivery incentive (ODI) composite	35.0%	(£25.3m)	(£14.3m)	£0m	100%	**35.0%**
		Actual: £18.1m				
Time, cost and quality of capital programme (TCQi)[2]	20.0%	80.0%	87.5%	95.0%	100%	**20.0%**
		Actual: 95.3%				
Total:						
Actual award (% of maximum)						**81.8%**
Maximum award (% of salary)						130%
Actual award (% of salary)[3]						**106.3%**

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

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

(2) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

(3) Bonuses have been calculated using contractual salary.

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

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

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

LONG-TERM INCENTIVES

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

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

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

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

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

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

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

Corporate governance report

Annual report on remuneration

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

The table below provides details of share awards made to executive directors on 30 November 2020 in respect of the 2020 LTP:

Executive director	Type of award	Basis of award	Face value of award (£'000)[1]	Number of shares under award	% vesting at threshold	End of performance period[2]
Steve Mogford	Conditional shares	130% of salary	£1,008	112,097	25%	31.3.2023
Phil Aspin	Conditional shares	130% of salary	£520	57,842	25%	31.3.2023

(1) The face value has been calculated using the closing share price 27 November 2020 (the dealing day prior to the date of grant) which was 899.2 pence per share.
(2) An additional holding period applies after the end of the performance period such that the overall vesting period is five years from the grant date.

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

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

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

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

Measure	Targets[1] Threshold (25% vesting)	Stretch (100% vesting)	Weighting
Return on Regulated Equity (RoRE)			
Company RoRE	Equal to the average of Ofwat's allowed RoRE over the three financial years of the performance period	1.0% (or more) above the average of Ofwat's allowed RoRE over the three financial years of the performance period	50.0%
Customer basket of measures[2]			
C-MeX ranking out of all the other water and wastewater companies[3]	Ranked 9th	Ranked 6th or better	5.0%
Water poverty[3]	62,100 customers have been lifted out of water poverty	83,000 (or more) customers have been lifted out of water poverty	5.0%
Priority services[3]	N/A	5.5% or more of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents[3]	A combined total of 1,161 sewer flooding incidents per 10,000km of our wastewater network	A combined total of less than or equal to 990 sewer flooding incidents per 10,000km of our wastewater network	5.0%
Pollution incidents[4]	23.00 pollution incidents per 10,000km of our wastewater network	≤21.54 pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance[4]	97.9% compliance	≥99.0% compliance	5.0%
Water quality contacts[4]	14.7 customer contacts per 10,000 customers	≤13.8 customer contacts per 10,000 customers	5.0%
Leakage[3]	A three-year average of 101.6 megalitres of leakage per 10,000km of our water network per day	A three-year average of less than or equal to 97.6 megalitres of leakage per 10,000km of our water network per day	5.0%
Compliance risk index (CRI)[4]	CRI score of 3.27	CRI score of ≤2.00	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating[5]	3 star rating	4 star rating	5.0%

Overall underpin

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

(1) Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance
(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination
(3) Outcome based on performance in respect of the financial year ending 31 March 2023 as published in our own and/or the other water companies' Annual Performance Reports for 2022/23
(4) Outcome based on performance in respect of the calendar year ending 31 December 2022 as published in our own and/or the other water companies' Annual Performance Reports for 2022/23
(5) Outcome based on performance in respect of the calendar year ending 31 December 2022 as published in the Environment Agency's published report in 2023

INCENTIVES IN 2021/22

Ensuring alignment with our business plan

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

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

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

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

The table below summarises the measures, weighting and targets for the 2021/22 bonus. Targets that are considered commercially sensitive will be disclosed retrospectively in the 2021/22 annual report on remuneration.

	Targets			
Measure	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Weighting (% of award)
Underlying operating profit[1]		Commercially sensitive		25.0%
Customer service in year				
C-MeX ranking out of the 17 water companies	8th position	6th position	4th position	10.0%
Written complaints (per 10,000 connected properties)	20.50	20.25	20.00	10.0%
Maintaining and enhancing services for customers				
Outcome delivery incentive (ODI) composite		Commercially sensitive		35.0%
Time, cost and quality of capital programme (TCQi)[2]	85.0%	90.0%	95.0%	20.0%
Total				100%

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

(2) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

2021 LTP awards with a performance period ending 31 March 2024

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

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

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

Corporate governance report

Annual report on remuneration

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

The committee is always mindful of the alignment of executive pay arrangements with those of the wider workforce and, as is demonstrated in the table on page 173, there is a high level of alignment and consistency of approach.

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

The committee has mechanisms through which it hears from and engages with the workforce on executive pay. As chair of the committee, insights related to remuneration that arise via Alison Goligher in her role as designated non-executive director for workforce engagement can be quickly and appropriately considered, and a formal report is presented to the committee at least annually in this respect. Alison hosts sessions with the Employee Voice panel which cover topics including the alignment of our executive pay approach with that of the wider workforce, providing valuable opportunities for open discussions and feedback. See pages 126 and 127 for further details.

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

Change in CEO remuneration

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

Change in employee remuneration[4]

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

Change in other board member remuneration

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

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

CASCADE OF REMUNERATION THROUGH THE ORGANISATION

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

Employee group (number of employees covered)	Element of pay	Description
Employees at all levels (around 5,700)	Salary	We want to attract and retain employees of the experience and quality required to deliver the company's strategy. Salaries are reviewed annually, with executive directors normally receiving a salary increase broadly in line with the increase awarded to the general workforce. As a Living Wage accredited employer all our employees (except those on a training scheme such as apprentices) receive at least the voluntary living wage rate. In 2020 the base salary increase for employees was 2.3 per cent (the executive directors did not receive an increase).
	Health and wellbeing benefits	All employees are eligible for company-funded healthcare and an enhanced company sick pay scheme. Employees have access to a medical advice and information service (Best Doctors) service for them and their families. All employees have free 24/7 access to our employee assistance programme which provides counselling and support to employees and their households. We have over 150 trained mental health first aiders who can listen to and signpost employees to relevant support services, and a similar number of wellbeing champions who help promote our wellbeing campaigns. Financial wellbeing is a key focus, with financial education tools and awareness courses available for all employees covering a broad range of money management topics such as financial planning, managing debt and pensions.
	Flexible benefits	All employees have access to a variety of additional voluntary benefits to suit their lifestyle, and can choose from a range of deals and discounts all year round. Employees can donate to their chosen charities directly from their pay if they want to. Around 50 per cent of employees take up at least one of these flexible options.
	Pension	Employees at all levels can participate in our award-winning pension arrangements and almost all of our employees choose to do so. The company doubles any contributions that employees make up to a maximum of 14 per cent of salary. As part of the pension scheme employees receive company-funded life assurance and income protection.
	ShareBuy	Any employee can become a shareholder in our company and share in our success by participating in our ShareBuy scheme. For every five shares an employee buys the company gives another one free. Just over half of the workforce participate in our ShareBuy scheme.
	Annual bonus – cash	Employees at all levels participate in the annual bonus scheme, receiving financial rewards based on the performance of the company and their personal contribution. Specific weightings and award levels vary by grade. There is strong alignment to strategy throughout the organisation, with the same scorecard applying at all levels.
CEO, CFO and executives (10)	Annual bonus – deferred shares	Each of the executive directors and executives is required to defer a proportion of their bonus into shares for three years.
CEO, CFO, executives and other senior leaders (around 60)	Long Term Plan (LTP)	Executives and other senior leaders may be invited to participate in the LTP. Performance conditions are the same for all participants but award sizes vary.
CEO, CFO and executives (10)	Shareholding guidelines	All executives are subject to shareholding guidelines, aligning their interests with those of shareholders.

Corporate governance report
Annual report on remuneration

CEO PAY RATIOS

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

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

- We identified all employees who received base salary during the year ended 31 March 2021 and who were still employed on that date.
- The calculations were carried out using their total pay and benefits received in respect of the year ended 31 March 2021, including bonuses earned by reference to performance in the financial year and paid in June following the end of the financial year.
- For employees who were employed on a part-time basis, or who were not employed for the full year, their remuneration has been annualised to reflect the full-time equivalent.
- No other estimates or adjustments have been used in the calculations and no other remuneration items have been omitted.

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

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

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

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

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

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

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

COVID-19 IMPACT ON WORKFORCE REMUNERATION

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

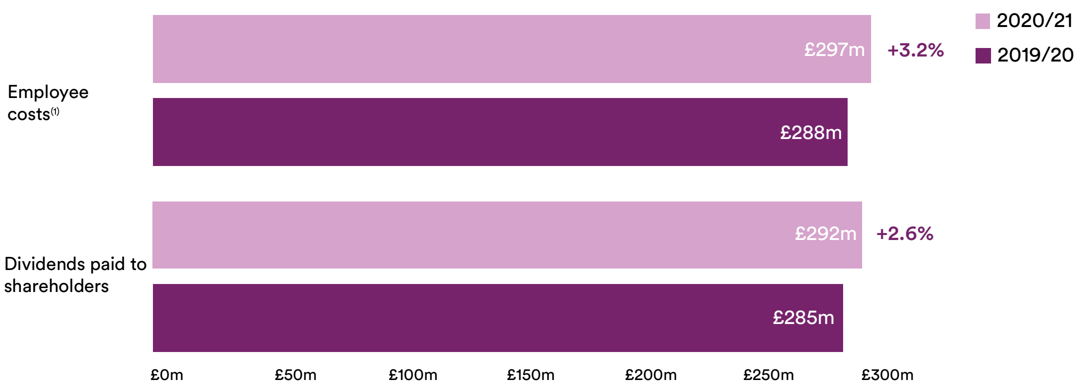
In relation to workforce remuneration, we have not furloughed any employees and no employee has had their pay or benefits reduced. In recognition that some faced financial challenges as a result of their overall household income being affected, the company set up a staff outreach scheme to enable such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

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

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

RELATIVE IMPORTANCE OF SPEND ON PAY

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



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

Corporate governance report

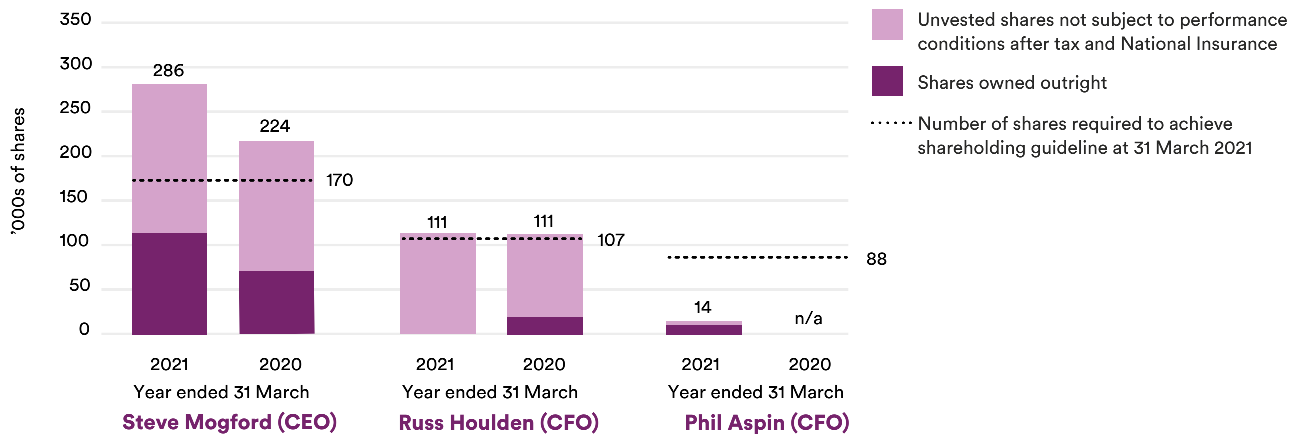
Annual report on remuneration

EXECUTIVE DIRECTORS’ INTERESTS IN SHARES

Executive directors’ shareholding (audited information)

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

Details of beneficial interests in the company’s ordinary shares as at 31 March 2021 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding guideline level. Steve Mogford continues to exceed the target shareholding guideline level of 200 per cent of salary. Phil Aspin is expected to reach the minimum guideline by 24 July 2025 (within five years of his appointment to the board).



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

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

(1) Share price used is the average share price over the three months from 1 January 2021 to 31 March 2021 (913.3 pence per share).

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

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

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

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

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

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

OTHER INFORMATION

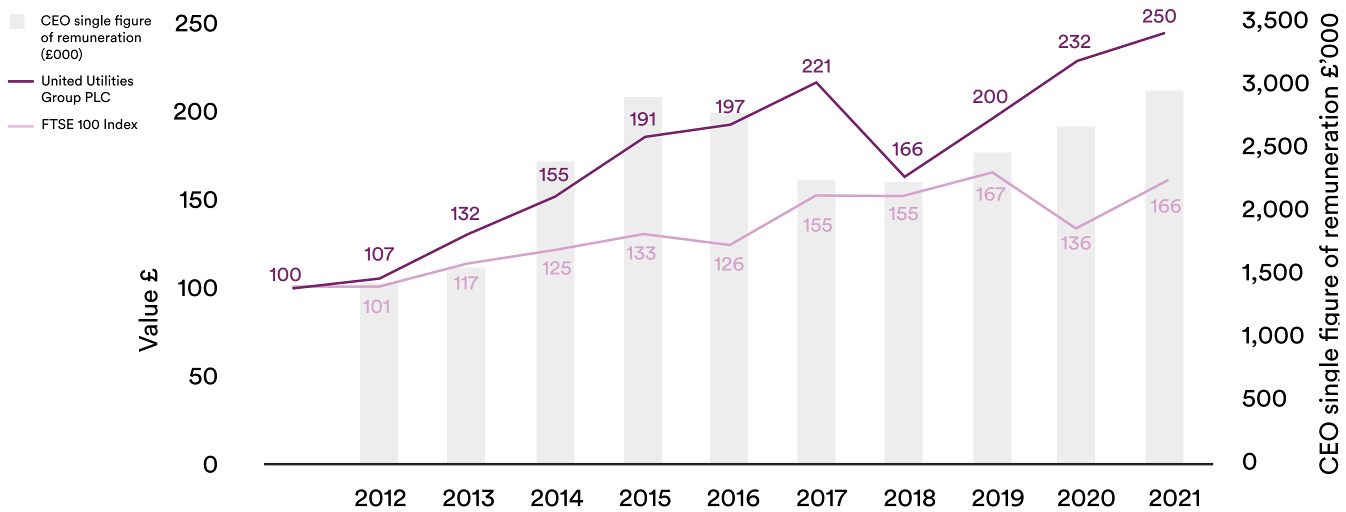
Dilution limits

Awards granted under the company's share plans are satisfied by market purchased shares bought on behalf of the company by United Utilities Employee Share Trust immediately prior to the vesting of a share plan. The company does not make regular purchases of shares into the Trust nor employ a share purchase hedging strategy, and shares are bought to satisfy the vesting of share plans. The rules of the Deferred Bonus Plan do not permit awards to be satisfied by newly issued shares and must be satisfied by market purchased shares. The rules of the Long Term Plan permit the awards to be satisfied by newly issued shares but the company has decided to satisfy awards by market purchased shares.

Should the company's method of satisfying share plan vestings change (i.e. issuing new shares) then the company would monitor the number of shares issued and their impact on dilution limits set by the Investment Association in respect of all share plans (10 per cent in any rolling ten-year period) and executive share plans (5 per cent in any rolling ten-year period). No treasury shares were held or utilised in the year ended 31 March 2021.

Company performance and CEO remuneration comparison

The total shareholder return (TSR) chart below illustrates the company's performance against the FTSE 100 over the past ten years. The FTSE 100 is an appropriate comparator as the company is a member of the FTSE 100 and it is a widely published benchmark for this purpose. The chart shows the growth in the value of a hypothetical £100 holding invested in the company over the ten-year period. The chart also shows the CEO's single total figure remuneration over the ten years ended 31 December 2021 for comparison. The table below the TSR chart shows the remuneration data for the CEO over the same period. Steve Mogford was the CEO over the whole period.



Year ended 31 March	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
CEO single figure of remuneration (£'000)	1,421	1,549	2,378	2,884	2,760[(1)]	2,233	2,221	2,448[(2)]	2,654[(3)]	**2,940**
Annual bonus payment (% of maximum)	72.0	84.4	78.2	77.4	54.5	83.7	74.9	79.0	70.7	**81.8**
LTP vesting (% of maximum)[(4)]	n/a[(5)]	n/a[(5)]	93.5	97.5	33.6	54.5	55.4	64.4	87.3[(3)]	**89.6**[(6)]

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

(2) The payout from the 2016 LTP, which vested on 1 April 2021 after the end of a two-year holding period, has been updated to reflect the additional dividends accruing on this award and the closing share price on the date of vesting of 928.4 pence per share.

(3) The payout and vesting percentage for the 2017 LTP have been restated to reflect the additional dividend equivalents accruing on the award, the final vesting outcome and updated share price. See page 167 for further details.

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

(5) Steve Mogford was not a participant in any long-term incentive plans that had performance periods ending during 2012 and 2013. For those who did participate in those plans, the vesting as a percentage of maximum was 37.5 per cent for those vesting in 2012 and 35.3 per cent for those vesting in 2013.

(6) The 2018 Long Term Plan amount vesting percentage is estimated. See page 169 for further details.

Date of service contracts

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

Corporate governance report

Annual report on remuneration

NON-EXECUTIVE DIRECTORS

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

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

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

Fees

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

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

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

Non-executive directors' shareholdings (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2021 held by each of the non-executive directors and their connected persons are set out in the table below.

Non-executive directors	Date first appointed to the board	Number of shares owned outright (including connected persons) at 31 March 2021[1]
Sir David Higgins	13.5.19	3,000
Stephen Carter	1.9.14	3,075
Kath Cates	1.9.20	2,135
Mark Clare	1.11.13	7,628
Alison Goligher	1.8.16	3,000
Brian May	1.9.12	3,000
Paulette Rowe	1.7.17	3,000
Doug Webb	1.9.20	5,700
Sara Weller[2]	1.3.12	11,000

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

THE REMUNERATION COMMITTEE

Summary terms of reference

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

The committee's main responsibilities include:

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

Composition of the remuneration committee as at 31 March 2021

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

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

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

Activities of the remuneration committee over the past year

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

- Approved the 2019/20 directors' remuneration report;
- Considered and agreed the executive remuneration related actions arising from the COVID-19 pandemic as outlined on page 175.
- Reviewed the pay comparator group;
- Reviewed the base salaries of executive directors and other members of the executive team;
- Reviewed the base fee for the Chairman;
- Assessed the achievement of targets for the 2019/20 annual bonus scheme, reviewed progress against the targets for the 2020/21 annual bonus scheme, and considered the targets for the 2021/22 annual bonus;
- Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2017, reviewed progress against the targets for the 2018 and 2019 LTP awards, and set the measures and targets for the 2020 LTP awards;
- Reviewed and approved awards made under the annual bonus, Deferred Bonus Plan (DBP) and LTP;
- Monitored progress against shareholding guidelines for executive directors and other members of the executive team;
- Reviewed the committee's performance during the period;
- Considered the remuneration arrangements of the wider workforce and their alignment with those of the executives, alongside feedback received from the workforce via Alison Goligher in her role as the non-executive director for workforce engagement;
- Considered governance developments and market trends in executive remuneration, including in the wider utilities sector; and
- Noted progress on the company's gender pay gap reporting.

Corporate governance report

Annual report on remuneration

Support to the remuneration committee

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

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

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

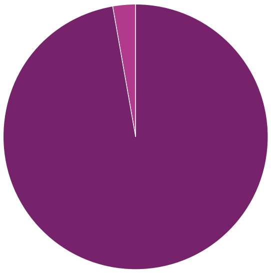
Adviser	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2021	Additional services provided in year ended 31 March 2021	Fees paid by company for these services in respect of year and basis of charge
Mercer/Kepler, a brand of Mercer (and part of the MMC group) (to 31 December 2020)	Committee	Appointed following a tender process in 2019	General advice on remuneration matters including analysis of the remuneration policy and regular market and best practice updates.	Advice and benchmarking on non-executive director and senior leader remuneration. Mercer supplied unrelated services to the Group in relation to IAS 19.	£56,000 on a time/ cost basis as set out in accordance with the terms and conditions in the relevant engagement letter
Ellason LLP (from 1 January 2021)	Committee	Appointed following the lead adviser moving to Ellason LLP	General advice on remuneration matters including analysis of the remuneration policy and regular market and best practice updates.	Advice and benchmarking on non-executive director and senior leader remuneration.	£8,000 on a time/ cost basis as set out in accordance with the terms and conditions in the relevant engagement letter

Mercer and Ellason are both signatories to the Remuneration Consultant Group's Code of Conduct which sets out guidelines to ensure that any advice is independent and free of undue influence (which can be found at www.remunerationconsultantsgroup.com). None of the individual directors have a personal connection with Mercer or Ellason. The committee is satisfied that the advice it receives is objective and independent and confirms that neither Mercer|Kepler nor Ellason have any connection with the company that may impair their independence.

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

2020 AGM: STATEMENT OF VOTING

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



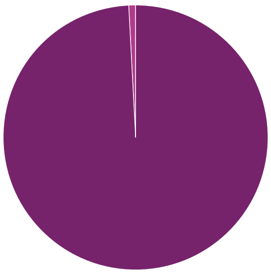
Votes for **460,435,984**
(97.41% of votes cast)

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

472,679,675
Total votes cast

2,389,096
Votes withheld (abstentions)

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



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

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

460,885,082
Total votes cast

667,337
Votes withheld (abstentions)

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

Alison Goligher
Chair of the remuneration committee

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

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

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

OVERVIEW OF REMUNERATION POLICY

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

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

The committee understands that listening to the views of the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged.

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

POLICY TABLE FOR DIRECTORS

Base salary

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

Operation	Maximum opportunity
Normally reviewed annually, typically effective 1 September. Significant increases in salary should only take place infrequently, for example where there has been a material increase in: • the size of the individual's role; • the size of the company (through mergers and acquisitions); or • the pay market for directly comparable companies (for example, companies of a similar size and complexity). On recruitment or promotion to executive director, the committee will take into account previous remuneration, and pay levels for comparable companies, when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Current salary levels are shown in the annual report on remuneration. Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce, unless one or more of the conditions outlined under 'Operation' is met. Where the committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance. **Performance measures** None

Pension

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

Operation	Maximum opportunity
Executive directors are offered the choice of: • a company contribution into a defined contribution pension scheme; • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance.	The maximum opportunity is aligned to the approach available to the wider workforce, currently: • up to 14 per cent of salary into a defined contribution scheme; • cash allowance of broadly equivalent cost to the company (up to 14 per cent of salary less employer National Insurance contributions at the prevailing rate, i.e. up to 12 per cent of base salary for 2019/20); or • a combination of both such that the cost to the company is broadly the same. For executive directors appointed to role before 26 July 2019 a cash allowance of 22 per cent of salary is payable. Their pension arrangements will be aligned to the wider workforce as part of the next policy review. **Performance measures** None

Benefits

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

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

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

Annual bonus

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

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

Long Term Plan (LTP)

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

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

Non-executive directors' fees and benefits

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

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

Notes to the policy table - selection of measures and targets

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

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

The current Long Term Plan (LTP) measures were selected by the committee following an extensive review and shareholder consultation in 2018/19. These measures are considered to align with the company's key strategic goals and be closely linked to the creation of long-term shareholder value. LTP targets are set taking into account a number of factors, including reference to market practice, the company business plan and analysts' forecasts where relevant. The LTP will only vest in full if stretching business performance is achieved.

ANNUAL BONUS AND LONG-TERM INCENTIVES – FLEXIBILITY, DISCRETION AND JUDGEMENT

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

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

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

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

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

ALIGNMENT OF EXECUTIVE DIRECTOR REMUNERATION WITH THE WIDER WORKFORCE

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

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

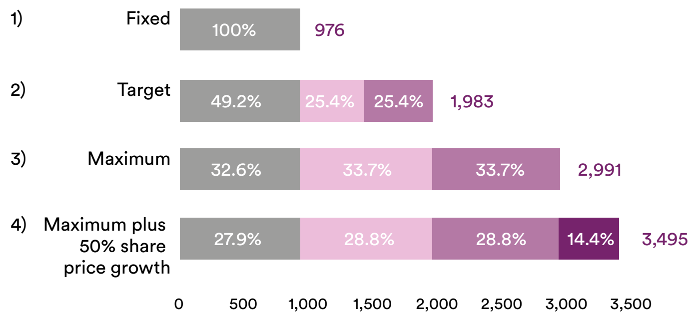
At senior levels, remuneration is increasingly long-term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

SCENARIOS FOR TOTAL REMUNERATION

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

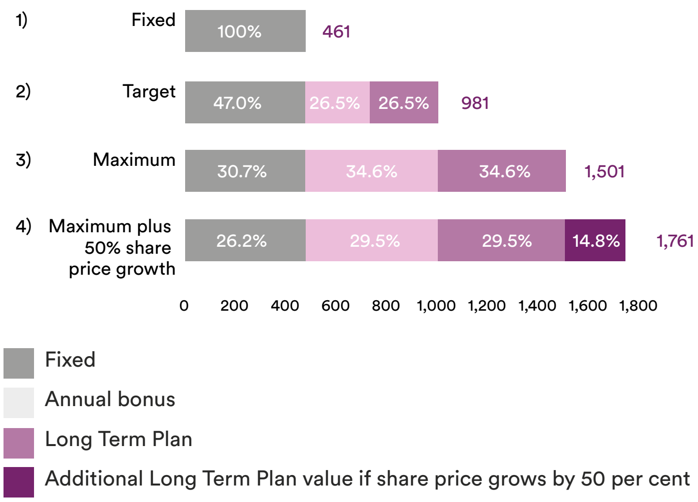
Steve Mogford CEO

£'000s



Phil Aspin CFO

£'000s



Notes on the scenario methodology:

- 'Fixed' is base salary effective 31 March 2021 plus the applicable cash allowance in lieu of pension and the value of benefits as shown in the single total figure of remuneration table for 2020/21;
- 'Target' performance is the level of performance required for the annual bonus and Long Term Plan to pay out at 50 per cent of maximum;
- 'Maximum' performance would result in 100 per cent vesting of the annual bonus and Long Term Plan (i.e. 260 per cent of salary in total);
- 'Maximum performance plus 50 per cent share price growth' shows maximum performance plus the impact on the Long Term Plan of a hypothetical 50 per cent increase in the share price;
- Annual bonus includes amounts compulsorily deferred into shares;
- Long Term Plan is measured at face value, i.e. no assumption for dividends or changes in share price (except in the fourth scenario); and
- Amounts relating to all-employee share schemes have, for simplicity, been excluded from the charts.

SHAREHOLDING GUIDELINES

The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests. Shareholding guidelines are therefore operated and the details of how these are currently applied are provided in the annual report on remuneration. With effect from 19 May 2020 the guidelines were updated to include post-employment shareholding requirements as outlined on page 176.

EXTERNAL DIRECTORSHIPS

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

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Executive directors' service contracts are subject to up to one year's notice period when terminated by the company and at least six months' notice when terminated by the director.

The policy on payments for loss of office is set out on the next page.

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

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

APPROACH TO RECRUITMENT REMUNERATION

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved remuneration policy in force at the time of appointment.

Buy-out awards

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

Maximum level of variable pay

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

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

Base salary and relocation expenses

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

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

Annual bonus performance conditions

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

Appointment of non-executive directors

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

Corporate governance report

Appendix 1: Directors' remuneration policy (abridged)

PAYMENT FOR LOSS OF OFFICE

The circumstances of the termination, including the individual's performance and an individual's duty and opportunity to mitigate losses, are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing employees may be phased to mitigate loss. Our policy is shown in the table below:

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

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

Change of control

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

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

Corporate governance report

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

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

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

(2) See page 168 for further details.

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

(4) See page 170 for further details.

Corporate governance report

UK tax policies and objectives

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

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

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

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

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

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

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

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

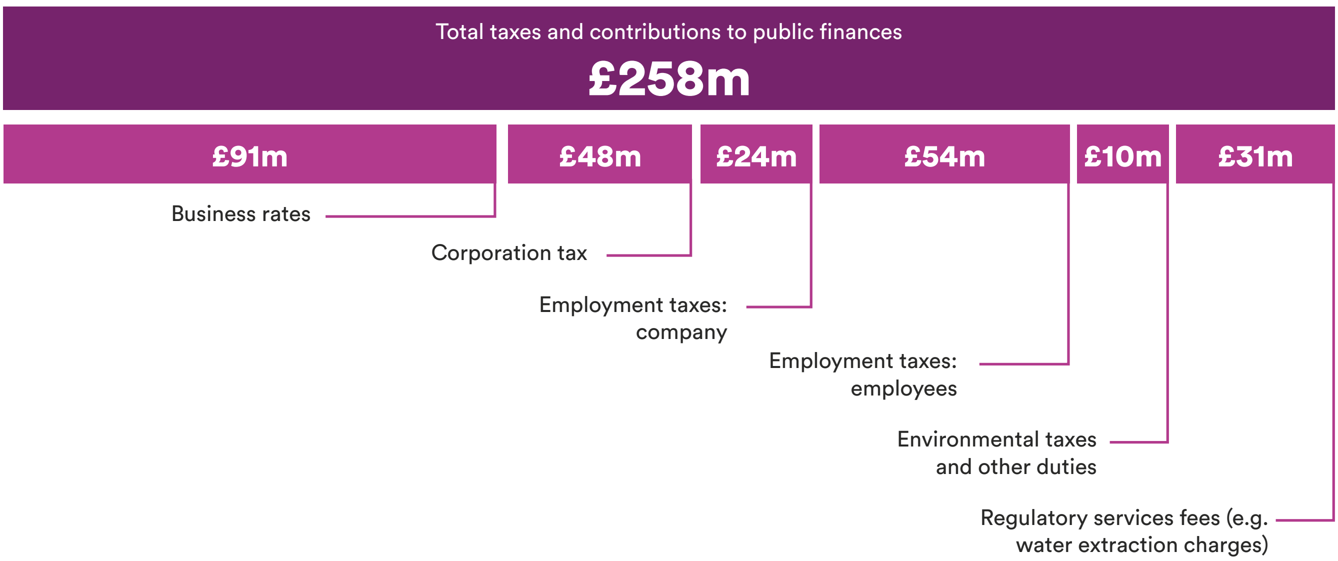
Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers; reducing their bills. For 2020/21, the impact of tax deductions on capital investment alone reduced average household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

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

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

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

Taxes/contributions to public finances for 2021



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

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

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

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

Fair Tax

Directors' report

Statutory and other information

Our directors present their management report, including the strategic report, on pages 16 to 109 and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2021.

Business model	A description of the company's business model can be found within the strategic report on pages 30 to 49.
Dividends	Our directors are recommending a final dividend of 28.83 pence per ordinary share for the year ended 31 March 2021, which, together with the interim dividend of 14.41 pence, gives a total dividend for the year of 43.24 pence per ordinary share (the interim and final dividends paid in respect of the 2019/20 financial year were 14.20 pence and 28.40 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, the final dividend will be paid on 2 August 2021 to shareholders on the register at the close of business on 25 June 2021.
Directors	The names of our directors who served during the financial year ended 31 March 2021 can be found on pages 112 to 115 and on page 124.
Reappointment	Our articles of association provide that our directors must retire at every annual general meeting following their last election or reappointment by our shareholders which is consistent with the recommendation contained within the 2018 UK Corporate Governance Code (the code) that all directors should be subject to annual election by shareholders. This has been the case at all the AGMs since 2011. Information regarding the appointment of our directors is included in our corporate governance report on pages 130 to 137.
Interests	Details of the interests in the company's shares held by our directors and persons connected with them are set out in our directors' remuneration report on pages 160 to 189 which is hereby incorporated by reference into this directors' report.
Corporate governance statement	The corporate governance report on pages 112 to 189 is hereby incorporated by reference into this directors' report and includes details of our compliance with the code. Our statement includes a description of the main features of our internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the 2018 version of the code, as applicable to the company for the year ended 31 March 2021, can be found at the Financial Reporting Council's website frc.org.uk. Copies of the matters reserved for the board and the terms of reference for each of the main board committees can be found on our website.
Share capital	At 31 March 2021, the issued share capital of the company was £499,819,926 divided into 681,888,418 ordinary shares of 5 pence each and 273,956,180 deferred shares of 170 pence each. Details of our share capital and movements in our issued share capital are shown in note 23 to the financial statements on page 234. The ordinary shares represented 71.3 per cent and the deferred shares represented 28.7 per cent respectively of the shares in issue as at 31 March 2021. All our ordinary shares have the same rights, including the rights to one vote at any of our general meetings, to an equal proportion of any dividends we declare and pay, and to an equal amount of any surplus assets which are distributed in the event of a winding-up. Our deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding-up. The rights attaching to our shares in the company are provided by our articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company renews annually its power to issue and buy back shares at our AGM and such resolutions will be proposed at our 2021 AGM. Our directors' powers are conferred on them by UK legislation and by the company's articles. At the AGM of the company held on 24 July 2020, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £11,364,806 and were empowered to allot equity securities for cash on a non-pre-emptive basis to an aggregate nominal amount of £1,704,721.
Voting	Electronic and paper proxy appointment and voting instructions must be received by our registrars (Equiniti) no less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day.

Transfers	There are no restrictions on the transfer of our ordinary shares in the company, nor any limitations on the holding of our shares in the company, save: (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers. There are no agreements known to us between holders of securities that may result in restrictions on the transfer of securities or on voting rights. All our issued shares are fully paid.
Major shareholdings	At 26 May 2021, our directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority:

	Per cent of issued share capital	Direct or indirect nature of holding
Lazard Asset Management LLC	9.93	Indirect
BlackRock Inc.	5.13	Indirect
Norges Bank	2.97	Direct

Purchase of own shares	At our AGM held on 24 July 2020, our shareholders authorised the company to purchase, in the market, up to 68,188,841 of our ordinary shares of 5 pence each. We did not purchase any shares under this authority during the year. We normally seek such an authority from our shareholders annually. At our 2021 AGM, we will again seek authority from our shareholders to purchase up to 68,188,841 of our ordinary shares of 5 pence each with such authority expiring at the end of our AGM held in 2022.
Change of control	As at 31 March 2021, Ocorian Corporate Services (UK) Limited was the trustee that administered our executive share plans and had the ability to exercise voting rights at its discretion which related to shares that it held under the trust deed constituting the trust. In the event of a takeover offer which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust. In the event of a change of control, the participants in our all-employee share incentive plan (ShareBuy) would be able to direct the trustee of ShareBuy, Equiniti Share Plan Trustees Limited, how to act on their behalf.
Information required by UK Listing Rule 9.8.4	Details of the amount of interest capitalised by the group during the financial year can be found in note 6 to the financial statements on page 221. In line with current UK tax legislation, the amount is fully deductible against the group's corporation tax liability, resulting in tax relief of £5.8 million. There are no other disclosures to be made under Listing Rule 9.8.4.
Directors' indemnities and insurance	We have in place contractual entitlements for the directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third-party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006 and have been in force throughout the financial year. They include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries. The company maintains an appropriate level of directors' and officers' liability insurance.

Directors' report

Statutory and other information

Political donations	It is the company's policy position that we do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the group and our political stakeholders. This can include promoting United Utilities' activities at the main political parties' annual conferences, and occasional stakeholder engagement in Westminster. The group incurred expenditure during the year of £5,801 (2020: £23,627; 2019: £9,388) as part of this process. At the 2020 AGM, an authority was taken to cover such expenditure. A similar resolution will be put to our shareholders at the 2021 AGM to authorise the company and its subsidiaries to make such expenditure. As the provider of services to 7 million people across the North West, customers can sometimes contact their constituency MP and ask that they raise an issue with the company on their behalf. In 2020/21, we received 379 contacts from MPs offices covering topics such as flooding and planning. As part of our work to build constructive relationships with all our stakeholders, we encourage MPs and members of their offices to work closely with us to address constituency concerns and arrange case worker events to discuss such issues in detail. In 2020, this was a virtual event in which over 40 MP representatives accepted to join us. For those unable to participate in the live event, a link was sent so it could be viewed when convenient. There are two devolved administrations in the North West – the Greater Manchester Combined Authority and the Liverpool City Region (LCR) – we engage regularly with both, as well as the region's local authorities, on a range of topics of shared interest, such as tackling flooding risk and enhancing the North West's natural capital. Our sponsorship of the All Party Political Groups for Greater Manchester and LCR helps bring MPs and peers of all parties together with key leaders to help maximise future investment in these areas for the benefit of local communities. In addition, the company's activities to engage with political stakeholders on matters relevant to the water industry and its operating footprint in the North West extend to its membership of trade associations. This is described in the section below.
Trade associations	We are members of a small number of trade associations. Some of these have a national focus, such as Water UK, the representative body of the UK water industry, which considers industry-wide priorities such as development of markets, customer trust, resilience, and legislation and regulation, and the Confederation of British Industry, which provides a policy-making voice for firms at a regional, national and international level. Others focus on specific professions such as the 100 Group representing the views of the finance directors of FTSE 100 and large UK private companies and the GC 100, the voice of general counsel and company secretaries in FTSE 100 companies. The company is a member of regional bodies, such as the North West Business Leadership Team which encourages engagement across the public and private sectors to promote the sustainable economic development and long-term wellbeing of the North West. Our total contribution to these associations in 2020/21 was £420,403 (2019/20: £400,916). In the past 12 months, the company has been involved in several engagements with political stakeholders through its membership of trade associations. Through Water UK, the company has supported efforts to interact with parliamentary bodies, such as select committees and chairs of other specific committees, to provide information on topics such as water efficiency labelling for white goods and the performance of combined sewer overflows in relation to river water quality. The company has supported Water UK in its effort to encourage the Government to ensure its forthcoming Environment Bill supports the sector's objectives to deliver resilient water services now and into the future. Through our membership with both the CBI, in particular as a member of its North West regional council, and the North West Business Leadership Team, we have engaged with regional political stakeholders, such as local authorities and metro mayors, to explore how the business community can work more effectively with the public sector to drive economic growth in the region and tackle some of the North West's pressing social issues. For example, we have participated in consultations and discussions as part of the unlocking regional growth/levelling up agenda, bringing together views of industry and regional government on opportunities and barriers.
Employees	Our policies on employee consultation and on equal opportunities for all employees can be found on pages 32 and 34. Applicants with disabilities are given equal consideration in our application process, and disabled colleagues have equipment and working practices modified for them as far as possible and where it is safe and practical to do so. Importance is placed on strengthening employees' engagement (see page 24). The effect of our regard towards employees in relation to the decisions taken during the financial year is included in our S172(1) Statement on page 28. Employees are encouraged to own shares in the company through the operation of an all employee share incentive plan (ShareBuy). Information on our average number of employees during the year, can be found in note 3 on page 219.

Environmental, social and community matters	Details of our approach, as a responsible business, is set out in the Strategic Report, in particular where we describe our approach to purpose and stakeholder value on pages 16 to 17 and 32. Further information is available on our website at www.unitedutilities.com/corporate/responsibility/. Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on pages 22 to 27. The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our S172(1) Statement on page 28.
Customers and suppliers and key stakeholders	Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on pages 22 to 27. The effect of our regard towards customers, suppliers, regulators and other key stakeholders in relation to the decisions taken during the financial year is included in our S172(1) Statement on page 28. Our United Supply Chain approach sets out how we work with our suppliers, which can be found on our website at: unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supply-chain/, we are a signatory to the Prompt Payment Code. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for Business, Energy & Industrial Strategy's website. Information is published on a six-monthly basis. For the six months to 31 March 2021, our average time taken to pay invoices was 14 days; in the previous six months it was 14 days.
Energy and carbon report	Our TCFD reporting includes our energy and carbon report on pages 86 to 99 and is hereby incorporated by reference into this directors' report.
Approach to technology development	We are committed to using innovative, cost-effective and practical solutions for providing high-quality services and we recognise the importance of ensuring that we focus our investment on the development of technology and that we have the right skills to apply technology to achieve sustainable competitive advantage and that we continue to be alert to emerging technological opportunities.
Financial instruments	Our risk management objectives and policies in relation to the use of financial instruments can be found in note A4 on page 240.
Events occurring after the reporting period	Details of events after the reporting period are included in note 25 on page 234.
Slavery and human trafficking statement	Our statement can be found on our website at: unitedutilities.com/human-rights

Annual General Meeting

Our 2021 annual general meeting (AGM) will be held on 23 July. Full details of the resolutions to be proposed to our shareholders, and explanatory notes in respect of these resolutions, can be found in our notice of AGM. A copy can be found on our website.

At our 2021 AGM, resolutions will be proposed, among other matters:

- to receive the annual report and financial statements; to approve the directors' remuneration report; to declare a final dividend; and to reappoint KPMG LLP as auditor; and
- to approve the directors' general authority to allot shares; to grant the authority to issue shares without first applying statutory rights of pre-emption; to authorise the company to make market purchases of its own shares; to authorise the making of limited political donations by the company and its subsidiaries; to adopt new articles of association; and to enable the company to continue to hold general meetings on not less than 14 clear days' notice.

Information given to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given, and should be interpreted, in accordance with the provisions of s418 of the Companies Act 2006.

Reappointment of the auditor

Our board is proposing that our shareholders reappoint KPMG LLP as our auditor at the forthcoming AGM and authorises the audit committee of the board to set the auditor's remuneration.

Approved by the board on 26 May 2021 and signed on its behalf by:

Simon Gardiner
Company Secretary

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent company financial statements on the same basis. In addition the group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Approved by the board on 26 May 2021 and signed on its behalf by:

Sir David Higgins
Chairman

Phil Aspin
Chief Financial Officer