Promoting a diverse and inclusive culture

We are committed to promoting diversity, inclusion and equality right across our business. We recruit from all areas of our community to help ensure our business reflects the customers we serve, and we strive to make sure all our people feel valued regardless of their gender, age, race, disability, sexuality or social background.

Governance

Corporate governance report
Board of directors

Board role
- Chair
- 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

Sir David Higgins
Chair

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 Chair 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 chair 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 the Commonwealth Bank of Australia.

Current directorships/business interests: Chair of Gatwick Airport Limited and a member of the Council at the London School of Economics. He is Chair 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 chair 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 chair 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)

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 of BAE Systems PLC and a member of its PLC board. His early career was spent with British Aerospace PLC. He is a former non-executive director of G4S plc.

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. With effect from 1 August 2022, he will join the board of QinetiQ Group plc as a non-executive director.

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)

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.

Louise Beardmore
Chief Executive Officer designate (CEO designate)

Responsibilities: To work with, and support, the Chief Executive Officer in managing the group's business and to lead the creation of UUW's PR24 business plan, covering the next five-year regulatory period.

Qualifications: BSc (Hons) Business Management, Fellow of the Chartered Institute of Personnel Development, Vice-President of the Institute of Customer Services.

Appointment to the board: May 2022

Skills and experience: Louise has extensive experience working in utility companies both in the UK and internationally and she consistently demonstrates the ability to successfully design, drive and implement organisational strategy in different operating environments. She has a strong strategic mind set and a track record of delivering major transformational change within regulated utility and service structures, improving performance for all stakeholders.

Career experience: Louise joined United Utilities on its graduate programme and has comprehensive experience of the company, its customers and its regulators. She was appointed as customer service and people director in 2016, prior to which she held a number of senior positions across the United Utilities group. She has led teams in business transformation, water operations, electricity and telecoms as well as customer service and people capabilities both in the UK and internationally. She has recently completed the corporate director programme at Harvard Business School.

Current directorships/business interests: Louise is Chief Executive Officer designate of United Utilities Water Limited. She is a non-executive director of Engage for Success and named on the Northern Power Women's 'Power List' in recognition of her contribution to diversity, inclusion and talent, paving the way for female leaders in business.

Specific contribution to the company's long-term success: Louise's strategic vision and constant customer focus will continue to build on the group's significant performance and delivery for customers, communities and the environment.

Mark Clare
Senior independent non-executive director

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 Chair 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, Ladbrokes Coral PLC and Aggreko plc.

Current directorships/business interests: Mark 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 chair 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.

Liam Butterworth
Independent non-executive director

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: MBA Business Administration and Management, CIM Marketing, HND Mechanical Production Engineering.

Appointment to the board: January 2022

Skills and experience: As a serving CEO, Liam brings strong engineering and industrial technology experience to the board, with a track record of managing performance and enhancing corporate culture.

Career experience: Liam has over 30 years' experience in the automotive industry. He started his career at Lucas Industries as an apprentice toolmaker, before moving into marketing, sales and purchasing at FCI Automotive. Joining Delphi Technologies plc in 2012, he became CEO in December 2017. He joined GKN Automotive Limited, owned by Melrose plc, as CEO in 2018.

Current directorships/business interests: Liam is CEO of GKN Automotive Limited. He is also a non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Liam's operational experience contributes to the board's continuing focus on the performance of the business via the Systems Thinking approach.

N A C

Stephen Carter CBE
Independent non-executive director

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. He is a former chair of Ashridge Business School. A Life Peer since 2008.

Current directorships/business interests: Stephen is group chief executive of 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.

N R

Kath Cates
Independent non-executive director

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 is a former non-executive director at Brewin Dolphin Holdings plc and RSA Insurance Group plc, where she chaired the remuneration committee.

Current directorships/business interests: Kath is a non-executive director at Columbia Threadneedle Investments where she chairs the TPEN audit committee. She is non-executive director of TP ICAP Group Plc and Brown Shipley. 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 and knowledge of different regulated sectors enables her to contribute to board governance and risk management at United Utilities.

N R C

Alison Goligher
Independent non-executive director

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 provides the board with a better understanding of the views of employees and greater clarity on the culture of the company.

N A

Paulette Rowe
Independent non-executive director

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 contributes 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.

N A T

Doug Webb
Independent non-executive director

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 and treasury committees.

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 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 applies his financial capabilities and his technical knowledge and experience covering audit and treasury matters in his role as chair of both the audit and the treasury committee strengthen the board's financial expertise.

Board role
- Chair
- 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 the board
Brian May left the board at the end of the company's AGM in July 2021, he ceased to be a director of United Utilities Water Limited at that time.

Neither **Mark Clare** nor **Stephen Carter** are seeking reappointment at the AGM in July 2022 having served on the board for nearly nine and nearly eight years respectively. As a result, at that time both will cease to be directors of United Utilities Water Limited.

Louise Beardmore was appointed after the year-end as a director and CEO designate on 1 May 2022 and, at that time, as a director of United Utilities Water Limited.

Corporate governance report
Letter from the Chair

Sir David Higgins
Chair

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 31 March 2022, seven out of the remaining nine directors were independent non-executive directors.
- The company secretary attends all board and committee meetings and advises the Chair 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 links

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**

The board is proud to serve customers in the North West and keen to work with organisations operating in our region that share our values.

Dear shareholder

As I write, and cast my thoughts back to the early part of the year, our way of life and world of work was still very much dominated by restrictions associated with the pandemic. By the end of our financial year, we have transitioned at pace in some respects to the normality of our working lives before COVID-19. Virtual board meetings became a necessity during the pandemic, and, notwithstanding the usual electronic hiccups that we are all now so familiar with, provided an efficient alternative enabling us to ensure the usual governance mechanisms were adhered to. Still, it is good now to be again sitting alongside colleagues in meetings – and to be joined by Liam Butterworth, who was appointed as an independent non-executive director in January 2022. More detail on his appointment can be found on page 133.

Listening to our employees

Our Employee Voice panel (the panel) is chaired by Alison Goligher. The panel's work has been insightful in helping the board understand how management was responding to employees' needs and wellbeing during the pandemic. Having myself attended a meeting of the panel during the year, as did Kath Cates and Paulette Rowe, I saw first-hand that Alison's style as chair encourages open and interactive debate and meetings are very well attended. Panel meetings provide a rich source of employee-derived information for Alison to bring back to contribute to board discussions, and a view on whether there is any misalignment between the culture that the board sees and hears about from interactions and reporting by management, and the culture at grassroots level within the business.

The panel was involved in the planning and implementation of the hybrid working model which has now been applied to suitable roles across the organisation, a move undoubtedly accelerated as an outcome of the pandemic and now very much an important element for prospective employees in the employment market.

Proving our purpose

Throughout last year our employees were unstinting in their efforts to support our purpose to provide great water and more for the North West. The board extends its gratitude for their considerable commitment in serving customers, particularly during the additional challenges of the pandemic. We experienced unprecedented household consumption of water, putting immense pressure on water stocks, particularly in the Lake District during the summer of 2021, adding to the impact on our operational teams.

Diversity, equality and inclusion

As a board we are mindful of the benefits across the organisation of being a diverse, equitable and inclusive employer, and seek to bring about change to the demographics of our employees so that they better represent the traditionally overlooked groups within the communities we serve. The progress against our plans that has been achieved during the year is set out on pages 44 to 45. There are a number of limiting factors to the pace of change, particularly given the locations of our major hubs of employment, the large number of traditionally male-dominated STEM roles in the business and our low rate of employee churn, but we are working hard to make the group an attractive employer across the gender and ethnic spectrum.

We have recently updated our board diversity policy (see page 133), explicitly setting out my role, as Chair of the board, of collectively fostering an inclusive and belonging environment in the boardroom, enabling open and frank contributions from all board members. The policy was further amended: increasing the target for female representation on the board to at least 40 per cent and by including a target for the appointment of a female to one of the senior board positions.

Environmental, social and governance (ESG)

On pages 86 to 94 of this annual report we have included climate-related financial disclosures consistent with the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures (TCFD). For a number of years we have reported against the TCFD, and for the first time at the forthcoming 2022 annual general meeting in July, the notice of meeting includes a resolution seeking an advisory vote on our climate-related financial reporting. Our stakeholders and other interested parties are increasingly seeking more reassurance on our environmental credentials. Proposing a resolution to shareholders at the annual general meeting, on an advisory basis, seems a logical next step as part of our strategy to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner. Furthermore, as part of the remuneration committee's review of the directors' remuneration policy, opportunities were sought to better reflect environmental matters in our executive remuneration arrangements. From 2022, our long-term incentives will include carbon measures, and in the new policy that will be put to shareholders for approval at the AGM there is an increased focus on environmental outcomes. See pages 163 and pages 169 to 176 for details about the policy review and the proposed new policy.

As a regionally-based company we are keen to develop strong collaborative working relationships with organisations that share our values and work in our geographic region, such as the joint initiative recently announced with The Rivers Trust, as part of our plan for Better Rivers: Better North West. Along with ensuring our operations progressively reduce impact to river health, our plan includes creating more opportunities for everyone to enjoy rivers and waterways. More information on our plan can be found on page 67.

In the following pages of this corporate governance report we have set out how the board has applied the principles and reported against the provisions of the 2018 UK Corporate Governance Code (the code). On page 177 we have explained our proposals in relation to code provision 38.

Looking ahead

With the second year of the 2020–25 asset management period behind us, the board is beginning to focus on the early stages of the next price review process for the 2025–30 asset management period. Louise Beardmore will take the lead in the creation of the company's PR24 business plan, following her appointment as CEO designate with effect from 1 May 2022. Further information on the CEO designate appointment process can be found on page 130.

After 12 years, and leading the transformation of the group into one of the top performing water and wastewater businesses, Steve Mogford has expressed his wish to step down from the board and retire in early 2023. Until that time, he will continue to lead the business and in doing so provide a transition period for the leadership to pass to Louise.

In my time as Chair, I have found Steve to be a remarkable individual, and I look forward to continue working with him over the coming months.

Both Mark Clare and Stephen Carter will step down at the conclusion of the 2022 AGM, on behalf of the board I wish to thank them both for their valuable support and wish them well for the future.

Sir David Higgins
Chair

Read more about **working in partnerships** on page 55

Read more about **investing £765 million to deliver customer and environmental outcomes** on page 71

UK Corporate Governance Code

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

"We have included climate-related financial disclosures consistent with the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures."

Board leadership and company purpose

1

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 40.

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 16. See pages 125 to 126 and 183 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 139 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.

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 pages 30, 60 and 126 to 127 in relation to engagement with employees for our reporting against provisions 5 and 6.

Providing great water and more for the North West

Embedding our purpose
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 be most likely 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 2021/22 S172(1) Statement can be found on page 40, and provides examples of how our purpose is embedded in board decisions.

Incorporating sustainability in our stewardship along side creating value
Long-term sustainability is a key component of the way in which the board manages the business. With many parts of the water and wastewater network across the North West built over 100 years ago, the board continues to apply the ethos of sustainability and building assets that last, and, crucially, operate efficiently and effectively to serve customers' needs. The group's planning horizons can be found on pages 46 to 49. During the year, the board held deep-dive sessions to consider the group's Water Resources Management Plan and its Drainage and Wastewater Management Plan. Sustainability and environmental protection drivers underpin both these plans.

Set out on page 22, as part of our business model, is how value is created for our shareholders and other stakeholders in a sustainable manner. The board's governance approach, its culture and the way it operates the business is to behave responsibly towards all of the group's stakeholders.

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 virtual meetings 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 94.

Improving river health and recreation
During the year, the board has been fully engaged in considering the criticism aimed at the group for its part in the health of some of the rivers in our region. This criticism has also been widely made in relation to a number of other companies operating in the wastewater sector. The sewerage network in the North West carries sewage and rainwater. Storm overflows are incorporated into the wastewater network to help to prevent the flooding of streets, homes and businesses during periods of heavy rainfall. When sewers and treatment plants are operating at full capacity they can spill storm water (including diluted sewage) into rivers via the storm overflow. The board has committed to £230m in environmental improvements, supporting at least a one third sustainable reduction in the number of spills recorded from our storm overflows by 2025 compared to the 2020 baseline.

Working with our regulators
Ofwat has introduced a new approach for major capital construction projects, namely Direct Procurement for Customers (DPC). The group's first project that has been approved for procurement via the DPC method is the Haweswater Aqueduct Resilience Programme (HARP), which the board considered during the year. The information currently available suggests that the DPC route has the potential to offer the best value for customers and therefore supports the position that this should be tested by progressing HARP through a DPC procurement process. Given the importance of this asset to the business, this decision is included in the statement by the directors in performance of their statutory duties in accordance with S172(1) of the Act and set out on page 40.

Diversity, equality and inclusion
The board recognises the need to recruit and retain fantastic people to enable the delivery of a great service as part of the long-term sustainable success of the business. Good progress has been made on the journey to drive forward diversity, equality and inclusion within the business, as evidenced by the findings of the specialist inclusion partner who conducted a progress review during the year, observing that there was now much greater recognition of the strategic importance of diversity, equality and inclusion within the business with 'great progress in all audited areas', since their initial engagement in October 2020. Further information on diversity, equality and inclusion can be found on pages 44 to 45. Furthermore, as part of the board diversity policy (see page 133) the 'tone from the top' by the Chair has been set, by including the requirement for an inclusive and belonging environment being fostered in the boardroom encouraging open and frank contributions from all board members.

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

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 removals 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

Corporate governance report

a complex set of regulatory key performance indicators, including total expenditure (totex) outperformance, the outcome delivery incentive (ODI) mechanism, customer measure of experience (C-MeX) and financing expenditure (see pages 50 to 83) which are managed and monitored by the business.

Governance structure for the board and its 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 Chair 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. The 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. 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, enabling senior management to meet together to discuss the needs of the business, raise issues, identify and delegate appropriate actions, and monitor progress. The board receives reports providing an updated overview of the business, and its financial and operational performance at every scheduled meeting,

Short biographies of the executive team can be found on the company's website at **unitedutilities.com/executive-team**

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

Group board
Chair – Sir David Higgins

Chief Executive Officer – Steve Mogford

Principal board committees

Audit committee
Chair: Doug Webb
Contribution to our strategy:
See pages 143 to 154

Remuneration committee
Chair: Alison Goligher
Contribution to our strategy:
See pages 160 to 194

Nomination committee
Chair: Sir David Higgins
Contribution to our strategy:
See pages 130 to 138

Corporate responsibility committee
Chair: Stephen Carter
Contribution to our strategy:
See pages 156 to 159

Treasury committee
Chair: Doug Webb
Contribution to our strategy:
See page 155

Principal management committees

Executive team
Chair: Steve Mogford, CEO
Contribution to our strategy:
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
Contribution to our strategy:
See page 101

Quarterly business review
Chair: Steve Mogford, CEO
Contribution to our strategy:
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
Contribution to our strategy:
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
Contribution to our strategy:
The committee is responsible for authorising expenditure relating to the capital investment programme.

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

Summary of board activity in 2021/22

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, with added focus being placed on process safety improvements at operational sites.	See pages 60 to 62	
Review of board succession plans.	Succession plans for the appointment of a CEO designate and a non-executive director during the year and approved changes to the membership of the board committees.	See pages 130 to 134	
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, with progress independently assessed.	See pages 44 to 45	
People deep-dive session.	Provide the board with an in-depth view of the group's comprehensive people plan focusing on optimising next ways of working; accelerating digital capability; rewarding for outcomes; improving change and leadership capability; talent management and the effective employee experience.	See pages 60 to 62	
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 its links to the employee network groups, and the panel's 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			
Reviewed and monitored the progress against the climate change mitigation/carbon reduction strategy.	Board apprised of the maturing governance structures and options being considered to reduce the group's carbon footprint.	See pages 86 to 97	
Price Review 2024 (PR24) deep-dive session – developing strategy for PR24 relating to customers, stakeholders and financial matters. Discussed the timeline for PR24 and the overlap with related price review submissions, including the Drainage and Wastewater Management Plan, the Water Resources Management Plan and the Water Industry National Environment Plan.	Provided the board with an in-depth view on the price review process to facilitate the provision of strategic guidance.	See pages 48 to 49	
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.	–	
Bioresource, energy and carbon deep dive session.	Provided an in-depth review of progress to develop a northern hub for sewage sludge treatment and consideration of the non-appointed business strategy for the bioresources market and reviewed the bioresources asset strategy.	See pages 95 to 97	
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.	See page 40	

Corporate governance report

Actions	Outcomes	Cross reference	Link to strategic themes
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 139	
Reviewed and discussed developments in cyber crime.	Approved the activities undertaken to enhance the effectiveness of the group's security controls.	See page 107	
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 appropriate.	–	
Reviewed biannual updates on changes and developments in corporate governance.	Matters implemented as considered appropriate.	–	
Reviewed and discussed the internal evaluation of the board, its committees and individual directors and conflicts of interest.	Identified action points and any ongoing training needs.	See page 136	
Reviewed the performance of the statutory auditor and recommendation for reappointment at the 2022 AGM.	Accepted the recommendation from the audit committee that KPMG be reappointed at the 2022 AGM.	See page 150	
Reviewed the resolutions and notice of meeting for the 2022 AGM.	Approved the resolutions to be proposed at the AGM, and convened the AGM.	See page 197	
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 2022/23 slavery and human trafficking statement.	See page 197	
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 154	
Reviewed the BEIS consultation on 'Restoring trust in audit and corporate governance'.	Approved the submission of the group's response to the BEIS consultation.	See page 151	
Considered the impact of the Russian invasion of Ukraine on the supply chain.	Sought to mitigate the impact on the supply chain and source alternative suppliers where possible.	See page 109	
Regulated business and its stakeholders			
Regular review of the progress of the Direct Procurement for Customers (DPC) approach and readiness of UUW as part of the project to replace sections of the Haweswater Aqueduct.	Board kept fully apprised of progress at key stages of the project through regular presentations at board meetings, deep-dive sessions and as part of strategy discussions. The UUW board approved the submission of the Outline Business Case to Ofwat under DPC.	See page 40	
Water resources deep dive.	Provided an in-depth view of the strategy for managing water resources and consideration of the opportunities to deliver new sources along with the planning process for the Water Resource Management Plan.	See page 48	
Reviewed customer service performance measures.	In-year customer performance measures monitored against regulatory targets.	See page 58	
Drainage and Wastewater Management Plan deep dive.	Provided an in-depth review of the submission and the opportunity for the board to challenge management's approach and provide strategic guidance prior to submission of the plan in June 2022.	See page 48	
Considered the final capital sanction to close out the West Cumbria supplies project to provide a long-term sustainable water supply to customers on the west coast of Cumbria.	Approved the final capital sanction.	See page 33	

Actions	Outcomes	Cross reference	Link to strategic themes
Other group business			
Considered the opportunities to dispose of United Utilities Renewable Energy Limited (UURE) and its non-regulated renewable asset portfolio.	Endorsed the marketing of UURE for sale.	See page 152	
Considered the consolidation of credit support in the form of guarantees to Water Plus to comply with the requirements of the Wholesale-Retail Code.	Approved the consolidation of credit support facilities, aligning with those provided by Severn Trent, the joint venture partner.	See page 256	
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; performance; 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 Chair, 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 2020–25 business plan and the 2022/23 budget.	Noted the 2020–25 business plan and approved the 2022/23 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 140 to 142	
Reviewed tax policies and objectives proposed by management for 2021/22.	Approved tax policies and objectives for 2021/22.	See page 192	
Reviewed the annual pensions update.	Pensions strategy affirmed and endorsed the preferred methodology for Guaranteed Minimum Pension equalisation.	See page 232	
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 page 155	
Reviewed the annual insurance programme for 2022/23.	Approved the annual insurance programme for 2022/23.	–	
Reviewed progress with material litigation involving the group.	Strategy to defend claims robustly affirmed.	See page 109	

Key

The best service to customers

At the lowest sustainable cost

In a responsible manner

Attendance at board and committee meetings

Eight scheduled board meetings were planned and held during the year (2021: 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 the 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 impacting the early part of the year, meetings were held virtually.

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. This time is usefully spent enabling board members to build a rapport with each other and a relationship on a personal level, share views and consider issues impacting the company, resulting in better board dynamics and decision-making. In the early part of the year, due to the COVID-19 restrictions, these informal pre-board meeting sessions were held virtually.

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

● 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 2022.
(2) Liam Butterworth was appointed to the board and as a member of the audit committee and the nomination committee on 1 January 2022.
(3) Stephen Carter was unable to attend one meeting of the audit committee and two meetings of the nomination committee due to other commitments.
(4) Brian May stepped down from the board at the AGM held in July 2021.
(5) Paulette Rowe was appointed as a member of the corporate responsibility committee with effect from 26 October 2021.
(6) Doug Webb was appointed as chair of the audit committee, as a member and chair of the treasury committee and as a member of the remuneration committee on Brian May stepping down from the board in July 2021.

Purpose, vision, values and culture

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 2022, 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.

Monitoring our culture

Throughout the organisation, our culture is monitored to ensure behaving responsibly drives what we do. Key to this is taking action to address any issues where there is misalignment with the company's culture.

We are pleased to have received external validation of our approach to monitoring culture, featuring as a best practice case study with the Financial Reporting Council 'Creating Positive Culture Opportunities and Challenges Report', December 2021. A recent independent audit found our approach to be a "pragmatic and effective model" for supporting the board in their role of monitoring and assessing culture and a "useful framework for driving improvements and interventions" (PwC, February 2021).

01 Dashboard of cultural metrics

In addition to the existing reporting, management has developed a dashboard of cultural metrics, 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, equality and inclusion along with 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. During the year, the United Utilities culture model was developed as set out below.

02 Existing reporting structures for discussion

There are a number of existing reporting structures that allow these cultural metrics to be measured, discussed and challenged by the board and its committees, many of which are regularly provided to the board at its scheduled board meetings.

03 Alignment with purpose, values and strategy

The board was satisfied that policies, practices and behaviours within the business were aligned with the company's purpose, values and strategy.

United Utilities culture model

- We have agreed four categories which are key for setting our culture – people, values, strategy and purpose.
- There is a supporting dashboard of cultural metrics, many of which are presented and considered by the board and its committees throughout the year.
- We have separate board updates on our Employee Voice panel to share the 'lived experience' of employees, together with an update on our annual employee opinion survey.

Corporate governance report

Read more about **our employees** on pages 60 to 63

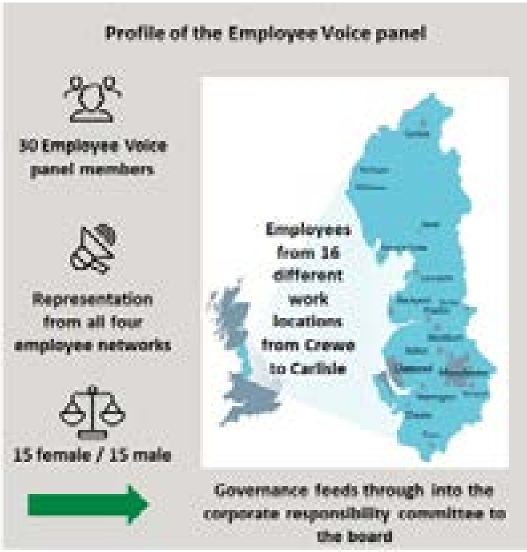
Read more about **diversity, equality and inclusion** on pages 44 to 45

Listening to our employees

Our employees are at the heart of the culture of our business and their 'lived experience', is a key part of the board's assessment and monitoring of culture. Alison Goligher, the current designated non-executive director for engagement with the workforce, facilitates two-way dialogue between the board and employees. There is an open invite to all board members to attend meetings of the panel and during this year, Sir David and Kath Cates have participated and answered questions from panel members on board strategy.

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. In order to ensure two-way communication, Alison provides updates to the panel from the perspective of the board and its committees, and similarly she provides feedback to the board on the work of the panel. Alison also has regular meetings with senior trade union representatives as part of the agreed panel approach.

The panel has adapted its approach during the pandemic and moved from face-to-face and site meetings to



virtual meetings. These have proved popular with panel members, particularly field-based operational staff who find it much easier to attend virtually than travel from their operational sites. There are 30 members of the panel and membership rotates approximately every two years.

The panel has been provided with business updates and information sessions to broaden their knowledge of the board and corporate governance. The three key sub-groups have focused on the continual improvement of the employee opinion survey, supporting our employee networks to promote diversity and inclusion across the company, and to explore in more detail the drivers and measures of organisation culture. The culture sub-group has focused its energies on obtaining a grass-roots view of the changes to the ways of working during the pandemic and contributed to the 'next ways of working' project. It also contributed to discussions on topical issues relating to culture, such as the focus on racial inequality.

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 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.

Set out on page 30 is the company's approach to our engagement with and creating value for employees, with health, safety and wellbeing 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 183.

The board

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

Employee networks groups:
- Multicultural
- GENEq
- Armed Forces
- LGBT+
- Ability

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

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

Union partners
- UNISON
- Unite
- GMB
- Prospect

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 was made available for network groups and executive sponsors identified; and
- Panel members' views were sought on the 'next ways of working' project, the 'home safe and well' project and the 'diversity and inclusion' audit.

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, the customer services and people director, the strategy, policy and regulation director, the head of internal audit and the commercial, engineering and capital delivery 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 Chair;
- 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' and an event focusing on ESG matters;
- The programme covers a range of major global financial centres, typically including the UK, Europe, North America and the Asia Pacific region;
- Regular feedback provided to the board on the views of our institutional investors following these meetings; and
- Close contact maintained between the investor relations team and a range of City analysts that conduct research on United Utilities.

In 2021/22, our investor relations activities were conducted through a combination of virtual and face-to-face meetings. We met or offered to meet with 80 per cent (2020/21: 81 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.

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. The 2022 AGM will be held in a hybrid format. There is a considerable amount of information on our website, which provides information on our key social and

Investor dialogue with the Chair

During the year, the Chair offered to meet with 13 institutional investors, and nine meetings were held. Common themes from these discussions were:

- our corporate reporting of ESG matters;
- board governance topics;
- board succession; and
- the recent Ofwat/Environment Agency investigation into the operation of storm overflows.

Corporate governance report

Read more about **engaging with our stakeholders** on pages 30 to 32

Read more about our **treasury committee** on page 155

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 attends a UUW board meeting to provide an opportunity for discussion, in-depth customer insight and the sharing of views.

The remuneration committee regularly engages with stakeholders, including employees. During the year, a consultation exercise was undertaken to gather stakeholders' views on the proposed directors' remuneration policy and the intention to introduce carbon measures in to the long-term incentive arrangements, with supportive feedback being received.

Engagement with representatives of all our stakeholder groups occurs widely across many aspects of the business, and more information can be found on pages 30 to 32.

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 74.

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 (the programme limit was increased and redenominated from EUR7 billion to £10 billion in November 2021), 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, with our existing EIB loan portfolio expected to '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, including funding raised under the group's sustainable finance framework that was established in November 2020. In July 2021, the group published its inaugural sustainable finance framework allocation and impact report, which provides credit investors with details on the use of proceeds of our debut sustainable bond issue, along with the selected case studies on eligible projects funded.

The group currently has gross borrowings of circa £7,979.8 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, 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 2021/22 financial year.

Outcome of 2021 AGM

At the 2021 AGM, votes were cast in relation to approximately 70 per cent of the issued share capital (2020: 69 per cent; 2019: 67 per cent). All 21 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 election/reappointment of the board directors were as follows:

Sir David Higgins	99.72%	Kath Cates	99.91%
Steve Mogford	99.96%	Alison Goligher	99.74%
Phil Aspin	99.91%	Paulette Rowe	99.74%
Mark Clare	91.59%	Doug Webb	99.91%
Stephen Carter	99.74%		

Division of responsibilities 2

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 internally facilitated board evaluation (see pages 135 to 137) tested and confirmed the Chair'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 internal board evaluation (see pages 135 to 137) 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 had 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 delivery of the Haweswater Aqueduct Resilience Programme using the Direct Procurement for Customers approach (see page 40).

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 internally facilitated board evaluation tested and confirmed the application of principle I, the views of board members were sought on whether the necessary support and information was provided effectively and efficiently, see page 136.

Chair of the board

The role and behaviour of the Chair 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 Chair 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 Chair, 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, and to ensure that the directors receive accurate, timely and clear information. The Chair 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, and progress has been made during the year by the introduction of a revised board paper template.

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 Chair 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 Chair 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: Kath Cates as a non-executive director of Brown Shipley, and by Steve Mogford who will join the board of QinetiQ Group plc as a non-executive director with effect from 1 August 2022.

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.

Sir David Higgins
Chair of the nomination committee

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 Chair nor the CEO would participate in the recruitment of their own successor.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

The appointment of a new chief executive officer for any company is an important decision, and a responsibility that the nomination committee must think long and hard about to ensure it appoints the best person to fit the role, the company and its culture, and meet the expected challenges ahead.

Dear shareholder

During the year, the committee has spent considerable time on improving and developing a more structured approach to executive succession planning, a need highlighted during the 2020/21 evaluation of the committee's performance. We announced on 27 April 2022 that Steve Mogford had expressed his wish to step down as CEO in early 2023, and that Louise Beardmore, customer service and people director, would be appointed as a director and CEO designate with effect from 1 May 2022. The committee engaged Lygon Group to undertake the CEO succession process, further information on the process can be found on page 133.

During his tenure as CEO, Steve has led the transformation of the group to become one of the top performers in the water and wastewater sector. Steve has championed the company's ethos of behaving as a responsible business for so many years. The committee was acutely aware that Steve's successor would need to demonstrate the same passion and commitment to ensuring the continued implementation of the group's strategic themes; providing the best service to customers; at the lowest sustainable cost and in a responsible manner. Since her appointment in 2016 as customer service and people director, Louise has spearheaded the customer initiatives on affordability and looking after the needs of vulnerable customers. She has a strong strategic mind set, and a track record of leading teams that have delivered major transformational change within regulated utility and service structures, improving profitability and delivering enhanced outcomes for multiple stakeholders. Louise is a passionate advocate of United Utilities. Suffice to say, the company and its ethos are in her DNA and she was a natural fit to succeed Steve.

Furthermore, the committee was particularly pleased that Louise will have the opportunity to work alongside Steve prior to his retirement next year.

In making the appointment, the committee took into account the importance of the CEO:CFO dynamic, concluding that Louise and Phil Aspin, with their combined skills and experience, would be a strong team, having extensive knowledge of the group, its culture and an in-depth understanding of the water sector and the regulatory framework it operates within. As was the case with Phil's appointment in 2021, Louise has been a core part of Steve's team in implementing the group's transformational journey over the last 11 years. After the rigorous external and internal appointment process, identifying Louise as the outstanding candidate, the committee was particularly pleased to promote an internal candidate to the CEO designate role, and it demonstrates the strength in the senior management team that Steve, as CEO, has developed and fostered.

The committee, as part of the planned board succession, conducted a search during the year for the appointment of a new independent non-executive director to replace Mark Clare who is approaching nine years' service on the board. Serving beyond a nine-year term for a non-executive director 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 Mark, our senior independent director since 2014, at the annual general meeting in July 2022. Furthermore, Stephen Carter, chair of the corporate responsibility committee, informed the board that he would not be seeking re-election at the annual general meeting after nearly an eight-year term. We express our thanks and gratitude to both Mark and Stephen for their considerable contribution to the group. The committee's search concluded in the appointment of Liam Butterworth as an independent non-executive director in January 2022. As a serving CEO, Liam brings strong engineering and industrial technology experience to the board and his experience of managing performance will provide additional commercial focus as we embark on the 2025–30 regulatory price review process. Having grown up in the North West, he has a close affinity with our region.

As a consequence of the various board changes, the committee reviewed the membership and diversity of the board committees (more information can be found on page 133).

With Mark Clare stepping down, the committee needed to consider who among its members was best placed to succeed Mark as the senior independent director (SID). Alison Goligher was felt to be best placed to fulfil this important role. Her board colleagues recognise that she is an outstanding leader and her communication style, approach and values fit well with the ethos of the company. Furthermore, with this as her first SID role, it would provide a new challenge for Alison.

At 31 March 2022, 30 per cent of the board were female. At the conclusion of the annual general meeting in July 2022, subject to all board directors receiving the required number of votes, our board diversity policy targets will be met, namely that: at least 40 per cent of the board be female, at least one of the senior board positions be held by a female and that at least one member of the board is from a minority ethnic background.

As a collective, and with some relatively new board members among us, we are working hard to prepare for the forthcoming price review process.

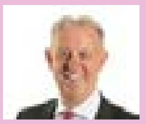
Sir David Higgins
Chair of the nomination committee

Read more about our approach as a responsible business on page 12

Read more about diversity, equality and inclusion on pages 44 to 45

Nomination committee members:


Sir David Higgins
Chair of the nomination committee

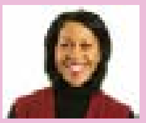

Mark Clare


Liam Butterworth


Stephen Carter


Kath Cates


Alison Goligher


Paulette Rowe

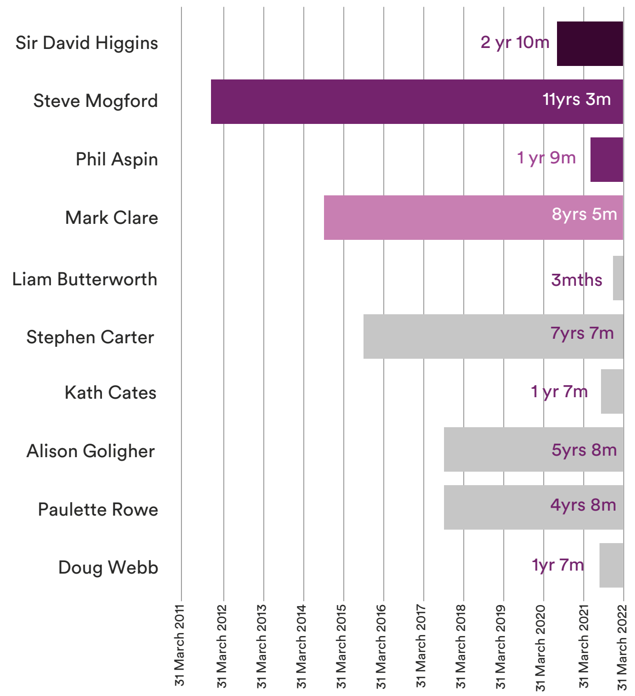

Doug Webb

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 requests from executive directors for election to the boards of other companies and make a recommendation to the board.
- Consider requests from non-executive directors for election to the boards of other companies; this role has been delegated to the Chair (other than in respect of his own requests).

"Steve has championed the company's ethos of behaving as a responsible business for so many years."

Directors' tenure as at 31 March 2022



Age and gender profile as at 31 March 2022

Composition, success and evaluation

3

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 pages 133 to 134 and forms our disclosure as part of provision 23, our policy on board diversity is on set out below and details of the gender balance of senior management on page 134. Information on the company's approach to diversity, equality and inclusion is set out on pages 44 to 45. Our disclosure against provision 20 is on page 133.

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 134 and the length of service of board members on page 132. 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 135 to 137.

Summary of the 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.
- Ensure that the board, led by the Chair, collectively fosters an inclusive and belonging environment in the boardroom, enabling open and frank contributions from all board members.
- 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.
- Adopt measurable objectives from time to time for achieving diversity on the board, which shall be to maintain at least 40 per cent female representation, to have at least one director from a minority ethnic background*, and to have at least one of the positions of: chair, CEO, senior independent director or CFO held by a female.

* Defined by reference to categories recommended by the Office for National Statistics (ONS) excluding those listed by ONS as coming from a white ethnic background.

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

Board succession
The succession planning matrix tool and skills matrix (see page 134) for board directors is used to support the planning process for board appointments. The skills matrix captures the skills and experience board directors' need as a collective, to be able to deliver the company's purpose and strategic themes. The succession planning matrix tool 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 Chair nor the CEO would be involved in the appointment process of their successor.

Board succession – non-executive
In line with the board succession plan, and the approximate timescales therein, the process of the appointment of Liam Butterworth as an independent non-executive director was undertaken during the year with a view to replacing Mark Clare as he approached almost nine years on the board. The committee is supported during any non-executive director 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.

Board succession – executive
As stated above, the committee sought the views of Steve Mogford on the attributes of the candidate best placed to succeed him in the CEO role, but he was not involved in the final decision. The Chair, supported by the company secretary, led the process to identify suitable candidates for the CEO role and the executive search firm Lygon Group were engaged as part of the recruitment process, having demonstrated, of the executive search firms considered, that they had the best understanding and knowledge of the group and its culture. Against the brief for the role, Lygon Group undertook the internal appraisal process for a number of internal candidates and identified a number of potential external candidates for the committee to consider. Louise Beardmore, in relation to her human resources responsibilities, had no involvement in the process other than being an internal candidate.

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

Membership of the principal board committees

Doug Webb took over the role as chair of the audit committee and of the treasury committee when Brian May left the board in July 2021. Doug had served as a member of the audit committee since his appointment in September 2020 and chairs the audit committee at Johnson Matthey plc. Prior to his appointment as chair of the treasury committee, Doug had attended a meeting of the committee. Doug also replaced Brian as a member of the remuneration committee. On his appointment, Liam Butterworth was appointed as a member of the audit committee.

Paulette Rowe, having being appointed as a member of the corporate responsibility committee during the year, will succeed Stephen Carter as the committee's chair at the conclusion of the annual general meeting. Having been a significant contributor to the work on diversity, equality and inclusion, and with an interest in social matters, and as a former trustee and chair of a children's charity, Paulette is well placed to lead the committee.

On Alison Goligher's appointment as SID at the conclusion of the AGM she will step aside as chair of the remuneration committee, although remaining as a member of the committee, to be succeeded by Kath Cates. Kath has considerable experience as a remuneration committee chair, having held the role for three years at RSA Insurance Group plc.

The board has applied the board diversity policy to the board committees, thereby ensuring female representation on each committee. Furthermore, it 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. The selection process and application of the board diversity policy aims to attract board members whose values reflect those of the company and that of our strategic theme of behaving in a responsible manner. 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 inclusion and associated benefits to the decision-making process are widely recognised and is a topic regularly discussed with major investors. When Mark Clare and Stephen Carter step down from the board at the annual general meeting, the measurable targets of at least 40 per cent female representation on the board and one director from an minority ethnic background will be met. On the board at 31 March 2022, female representation was 30 per cent and there was 10 per cent representation by a director from a minority ethnic background. Amongst the workforce, employees from a minority ethnic background represented 2.7 per cent (9 per cent of employees choose not to disclose). 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 12).

Skills matrix of board directors

	Sir David Higgins	Steve Mogford	Phil Aspin	Louise Beardmore	Mark Clare	Liam Butterworth	Stephen Carter	Kath Cates	Alison Goligher	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

Non-executive director's induction programme

Since joining the board in January 2022, Liam Butterworth has spent 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 representatives of the group's statutory auditor, KPMG;
- 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 advisers, to receive an external perspective on governance best practice;
- The commercial, engineering and capital delivery director to gain an understanding of the group's capital delivery programme and, in particular, insight into the Haweswater Aqueduct Resilience Programme;
- The customer services and people director to discuss the actions undertaken by the business to improve services to customers, and along with the director of health, safety, wellbeing and estates, a number of topics in relation to the group's employee agenda were discussed;
- The strategy, policy 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.

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

An annual evaluation of the board, its committees, the Chair and the individual directors is conducted as recommended by the code. This year the evaluation was facilitated internally by the company secretary, in consultation with the Chair and the board committee chairs. The most recent external evaluation was conducted by Independent Audit Limited during 2020/21. The process of how the evaluation was conducted is set out below.

Overall, the self assessment evaluation completed by the directors and others attending and supporting the board committees, concluded that the board and its committees functioned well, were well chaired and the position was positive. Members of the committees had the appropriate skills, experience and a particular interest in the work of the committee to debate issues and provide challenge to management. All of the individual directors demonstrated the expected level of commitment to the role and contributed effectively during board discussions.

Internally facilitated self-assessment evaluation process

1 Questionnaires

The evaluation was based on the completion of questionnaires (including questions to be scored and free text questions) by board members assessing both the performance of the board and each of its principal committees, as well as that of the Chair. Each director also completed a self-assessment questionnaire assessing their own performance.

Board members were also asked to provide a view on how well the actions identified in the 2020/21 evaluation had been addressed.

In addition to board members, other members of the executive team and representatives of external advisers who regularly attend and support the committee meetings were asked to participate in the evaluation process.

2 Appraisal

The results were collated by the company secretary.

3 Consultation

The results were then shared and reviewed with the Chair and each of the chairs of the relevant committees and presented at a meeting of the relevant committee and discussed. The results of the board evaluation were presented to the board for discussion.

The Chair reviewed the performance of the individual directors.

Mark Clare, as the senior independent non-executive director (SID) led the review of the Chair. He held a discussion with the non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair.

4 Evaluation and actions

The conclusions of the evaluation were reached and actions identified as set out on page 136.

A summary of the review of the responses of the self-assessment questionnaire process is set out below:

2021/22 areas of assessment	Commentary and actions
Strategic oversight	Responses indicated the need for the board to be kept aligned with progress and developments on the PR24 plan; and ensuring board members understood the strategic drivers of the group's various regulators and focused on climate change and improving asset resilience.
Board composition, dynamics and expertise	It was felt there was an appropriate mix of skills and experience with members drawn from a range of backgrounds. The diversity among the personalities provided a good mix, and there was a good dynamic between members. Meetings were generally conducted in a way that encouraged open communication and the proper resolution of issues.
Board agenda	Responses indicated there was a good coverage of the items of strategic importance, but board time must be made sufficiently available to consider strategic matters where non-executive directors could add most value.
Managing risk	Risk was considered to be well managed and the board had a clear overview of the principal risks. Deep dives on risk topics (see pages 121 to 123) provided during the year had been particularly well received.
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. Views were sought on the use of virtual meetings, with the consensus being that, whenever possible, board members and key contributors should be present either all virtually or all face to face. From time to time, it would be satisfactory for guests attending for just a short section of the meeting to attend virtually.
Committees	• **Audit committee:** there was a good balance in meetings over in-depth discussions and time management. More focus on risk management, processes and controls would be beneficial and on the growing importance of non-financial/ESG reporting. • **Remuneration committee:** the committee worked well with all views being heard and debates focused and inclusive. The committee should ensure any future ESG metrics were understood and incorporated in a meaningful way into the new directors' remuneration policy and long-term plan. • **Nomination committee:** there was a good level of debate and discussion, and it would be helpful to expand discussion on all aspects of diversity of any potential candidates. Improved focus on long-term succession planning was needed along with ensuring talent management and retention of senior management was debated. • **Corporate responsibility committee:** given the broad range of ESG activities within the committee's remit, respondents felt the committee should focus on the areas where it could add greater value and link in with the PR24 process. • **Treasury committee:** respondents felt the committee should continue to test the existing policies to ensure they remained relevant and consider the treasury-related challenges of PR24.
Individual directors	The responses from the questionnaires completed by each director assessing their own effectiveness were reviewed by the Chair. Individual directors were asked, among other things, to identify how they could improve their overall contribution to the board and its committees and if they had any skill or knowledge gaps that could be addressed. The following were identified: to attend more site visits and interactions with specific areas of the business and more interaction and engagement opportunities with the senior management team and employees. The review supported the view that all the directors were considered to be contributing effectively to the board and all demonstrated the expected level of commitment to their roles.
Chair	The responses from the questionnaires completed by each director assessing the Chair's performance were reviewed by the senior independent director (SID) and discussed at a session with the non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair. It was concluded that the Chair had fulfilled the expected commitment to the role and was an effective leader of the board.

2020/21 evaluation recommendations	Actions taken during 2021/22
Greater visibility of the people skills, characteristics and diversity for the future needs of the business along with enhancing the oversight of culture.	Resourcing strategies, where appropriate, are being adapted to address emerging risks around resourcing and skills particularly in entry level and digital and technology roles and in building robust early careers talent pools.
Provide more opportunities to consider IT security and other emerging risks.	The board received two specific updates on information technology and operational technology security activities and matters concerning cyber security regulation and legislative compliance.
Nomination committee: develop a more structured approach towards the executive succession pipeline.	The committee has spent considerable time on improving and developing a more structured approach to executive succession planning.
Remuneration committee: consider the employee's perspective on how remuneration and wider policies align with the group's values and impact culture.	Through its engagement with the employee voice panel, including when consulting with stakeholders on the proposed remuneration policy, the committee was able to consider how the executive remuneration approach was perceived by employees, and the extent to which the principles cascaded through the company. See page 183 for details on the cascade of remuneration through the organisation.
Audit committee: provide better insight on how the key risk and control functions operated together.	Progress made in this area in particular in relation to the joint project between the risk and control functions to update the RADAR system and the fraud risk management review (see page 154).
Corporate responsibility committee: ensure the focus on areas where the committee could add greatest value to the ESG debate and seek more feedback from the board on its activities.	The committee concluded that its role was to ensure that the PR24 submission was aligned with the group's purpose and that its contents focused on, for example, carbon, resilience and affordability.

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 on page 136.

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 an in-house online training course on water quality awareness. 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 understanding the views of employees (see page 126) of the business. Paulette Rowe has contributed to the work on diversity, equality and inclusion (see pages 44 to 45).

Induction of new non-executive directors

An induction programme is arranged for new non-executive directors. The programme for Liam Butterworth is set out on page 135. 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 information on the key duties of being a director of a regulated water company. They are required to meet with representatives of Ofwat prior to appointment.

Wider succession pipeline and talent management

For a number of years, the group has had a written succession plan for the executive directors and other members of the executive team, which includes outline timescales. The plan was developed further during the year and a more structured approach adopted towards the executive succession pipeline. 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 board appointments, in aiming 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

Read more about **our apprenticeship schemes** on page 63

Read more about **our employees** on pages 60 to 62

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. The 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, and is a way of gaining valuable experience that may be applied at United Utilities so long as no conflicts of interest occur.

During the year, board directors had a number of opportunities to meet with members of the executive team, both formally when senior managers were required to present at board meetings on matters related to their responsibilities, and on more informal occasions.

Our graduate and apprentice programmes are thriving and from time to time, board members have the opportunity to attend events and meet with members of these programmes and other employees identified as potential talent within the business.

Historically, our industry has been male dominated, but measures are in place to increase diversity in broad terms among our employees (see pages 44 to 45). At present fifty per cent of our executive team (excluding the CEO and CFO) is female, 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, representation of ethnic minorities is 3 per cent. Gender pay data can be found on page 44.

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.

Financial oversight responsibilities of the board

Audit, risk and internal control 4

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 148 to 149, and the reappointment of the statutory auditor on page 150. 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 198 and is supported by our disclosure against provision 25 on pages 147 to 148.

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 109. Further information on the company's internal audit function and controls can be found on pages 153 to 154 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 143 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 pages 202 to 209), and the information and explanations provided by management in relation to their key judgements and adjustments to APMs (see page 82). 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 2021/22 annual report and financial statements it had 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 25 May 2022, see page 198.

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 throughout the business. It naturally flows through into the board's approach to the integrity of the group's financial reporting. Recognising that climate change is a key risk to the group's provision of water and wastewater services (see page 102), 2021/22 is the third year that the group has reported against the TCFD recommendations. As part of the processes supporting the provision of the 'fair, balanced and understandable' statement, the board took into account the existing processes of review and assurance of the TCFD and wider narrative reporting. Management reviewed the assurance processes relating to narrative reporting and ESG matters, particularly those relating to TCFD reporting, and determined that the levels of assurance provided by the combination of the work by internal audit and of the various third parties was satisfactory at this time – a stance endorsed by the audit committee. The TCFD report addresses the TCFD recommendations and includes, for the second year, scenario analysis (see page 92). Inclusion of climate-related information in accordance with the TCFD is mandatory for the company in its 31 March 2023 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 (see page 100) 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 risk profile is reviewed in conjunction with the full and half-year reporting cycle alongside deep dives and routine performance reviews.

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 causal risk theme that underpins our core operations and provision of water and wastewater services to customers (see page 102).

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 109, the ongoing work of the audit committee in monitoring the risk management and internal control systems (see pages 153 and 154) on behalf of the board, (and to whom the committee provides regular updates), the board:

- was satisfied that it had 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

- had 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.

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 100 to 109);
- the assurance (both internal and external) of the most significant business and operational risks of the group;
- the review of matters correlating to specific event based operational risks (see pages 106 to 107);
- the outcome of the biannual business unit risk assessment process (see page 100);
- the activities and review of the effectiveness of the internal audit function (see page 153);
- the 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";
- the self-assessment provided by management confirmed compliance with a range of key internal policies, processes and controls (see page 154);
- the review of reports from the group audit and risk board (see page 101);
- the oversight of treasury matters, in particular debt financing and interest rate management (see page 155); and
- the 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 217). 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 100 to 109, 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 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 155), 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 2029.

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 46 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 cost and in a responsible manner over the longer term, underpinning our business model set out on pages 20 to 83.

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 current levels of economic uncertainty 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 100 to 109. This approach considers the full range of categories of risk that could impact the company, such as financial, operational and regulatory risks. In addition, consideration is given to the adequacy of workforce policies and practices, all liabilities including pension liabilities, any exposure to revenue variations, and expectations of future performance taking account of past performance in delivering for customers.

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 £1.1 billion of available liquidity at March 2022 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 60 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 100 to 109. The baseline plan against which the viability assessment has been performed incorporates the estimated impact of current high levels of inflation which are expected to endure in the near term before falling to more normal levels. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of the 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 94; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; current economic uncertainties including high levels of inflation and a squeeze on the cost of living impacting the group's customer base; and the potential for a restriction to the availability of financing resulting from a capital markets crisis.

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. Risks associated with current economic conditions 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.

Read more about significant issues on pages 151 to 152

Read more about relations with banks and credit investors on page 128

Read more about **our principal risks** on pages 104 to 109

Read more about **going concern basis of accounting** on page 217

Based on these risks, the following six largest impacting scenarios were identified and applied as downside stress scenarios to the group's baseline plan:

Scenario modelled	Link to risk factors
Scenario 1: Totex £500m one-off impact in 2022/23	Broadly representing the largest 'severe but reasonable' risk which is a critical asset failure, all assumed to be operating costs
Scenario 2: Totex underperformance of 10% (c£120m–c£140m) per annum for 2022/23–2028/29	Representing more than the cumulative total expected NPV totex impact of the remaining top 10 'severe but reasonable' risks (including environmental, cyber security and network failure risks)
Scenario 3: CPIH inflation of 2.0% below baseline plan for 2022/23 and 2023/24, and 1.0% below baseline plan for 2024/25–2028/29	Consistent with quantum of inflation impacts modelled within top 10 severe but reasonable risks
Scenario 4: An increase in bad debt of £15m per annum from 2022/23 to 2028/29	Aligned to internal risk factor on debt collection.
Scenario 5: Additional ODI penalty of c£50m per annum	Assumes mid-point of UUW's baseline and final determination P90 ODI position
Scenario 6: Combined scenario – 50% of scenarios 2-5	50% of scenarios 2-5

Example mitigations (of which none are required to remain viable under the scenarios modelled):

- Issuing of new finance
- Reduction in discretionary totex spend
- Capital programme deferral
- Closing out of derivative asset position
- Restriction of dividend
- Raising of new equity

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.

The most extreme of the severe but reasonable scenarios modelled, without any mitigating action, resulted in: the group comfortably retaining investment grade credit ratings; liquidity of more than one year; and no projected breaches of financial debt covenants.

Viability assessment: reverse stress testing

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

Doug Webb
Chair of the audit committee

Quick facts

- Doug Webb has chaired the committee since July 2021. He is a chartered accountant and is considered by the board to have recent and relevant financial experience, having served as chief financial officer of a number of listed FTSE companies. He retired from his most recent executive role at Meggitt PLC in 2018.
- 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 quality has again been high on the committee's list of priorities, in particular, its scrutiny of the findings of the Financial Reporting Council's 2021 audit quality review which, as applicable to the group, it challenged the auditor to address.

Dear shareholder

This is my first report to you as chair of the audit committee, having succeeded Brian May who stepped down at the AGM in July 2021. I joined the board as a non-executive director and as a member of the committee in September 2020, which enabled me, prior to taking over as chair, to experience a year in the group's audit cycle (see the diagram on page 145). My background is in finance, having qualified as a chartered accountant with Price Waterhouse. I currently serve as chair of the audit committee at Johnson Matthey plc and I previously chaired the audit committee at SEGRO plc, until stepping down as a non-executive director in 2019. I was chief financial officer at Meggitt PLC from 2013 to 2018, I believe my financial experience has prepared me well to lead the committee in providing challenge both to management and to the external auditor.

This is a time of considerable change and evolution in the role of the audit committee – with the increasing demands for greater assurance in areas of narrative and non-financial reporting which have not traditionally been part of the committee's role. This is the third year the company has reported against the TCFD's recommendations (see pages 86 to 94), and ahead of the mandatory climate-related financial disclosure for the company for the year ending 31 March 2023. The statement, as required by Listing Rule 9.8, can be found on page 86. In readiness for next year, the committee asked management to further enhance the assurance processes (see page 148) underpinning the provision of the TCFD report along with other elements of the narrative reporting, further contributing to the assessment of 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".

Audit committee members:

Doug Webb
Chair of the audit committee

Paulette Rowe

Stephen Carter

Liam Butterworth

Read more about **accounting policies** on page 219

Read more about **the impact of climate change** on page 206

The increasing focus of investors on the impact of climate change has again been reflected in the viability assessment underpinning the long-term viability statement (see page 140) which the committee endorses prior to approval by the board.

Following the publication of the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance', to which the company formally responded in July 2021, management reviewed the group's internal control environment in preparation to address the likely evolution of the UK regulatory landscape as it relates to financial reporting. Management was supported in this review by an independent third party who commented that the current maturity of the group's capabilities, governance and operating model pertaining to internal controls over financial reporting was higher that was typically seen currently within other UK listed businesses. However, further enhancements could be made to address the evolving landscape. The committee was reassured by this review and its contribution to enhancing the group's audit and assurance processes, and to steps taken during the year towards the formulation of an audit and assurance policy (see page 151). Management has also discussed with the committee the group's preparedness toward the provision of a resilience statement, if required, in future years (see page 147). Based on assessments of the group's viability, resilience and long-term prospects that are currently formed, the group is well positioned to address developments in this area.

Audit quality has again been high on the committee's list of priorities, in particular its scrutiny of the findings of the FRC's 2021 audit quality review (AQR) published in July 2021 (and available on the FRC's website). The committee's challenge to KPMG was to address the lessons of the 2021 AQR's findings as they were applicable to the group, as well as enhancing the quality and transparency of the services provided as auditor. Ian Griffiths, KPMG's lead audit partner, responded to the committee's challenge by committing to provide to the committee the details of the independent partner's review of the audit, as part of the 2022 year-end sign-off processes. Other audit quality processes (see page 148) included a technical review and a second-line of defence review by another team independent of the audit team.

In its assessment of the effectiveness of the statutory audit process relating to the year ended 31 March 2021, the committee committed to assessing whether the additional audit quality processes that had been proposed for the 31 March 2021 audit such as: improving the communication between the KPMG audit team and the internal audit team through regular discussion sessions; raising audit points in a timely manner and improved project management of the year-end process, had been effectively implemented. The findings of the assessment (see page 149) were presented to the committee in September 2021, which concluded that the additional processes had been effectively implemented, and would be retained for the 31 March 2022 year-end audit.

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. The committee has time set aside during its meetings to meet with the auditor without management in order that they can speak freely and raise any concerns.

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 149. The statutory auditor presents its audit findings to the shareholders as the owners of the business (see pages 202 to 209).

The evaluation of the committee's performance for 2021/22 was facilitated internally by the company secretary and his team, which has provided some useful feedback and points for action (see page 136) and reiteration of the need for the committee to stay abreast of developments, particularly the work of the International Sustainability Standards Board as it develops reporting standards for sustainability topics encompassing many aspects of ESG.

I am pleased to welcome Liam Butterworth, who joined the board on 1 January 2022, as a member of the committee. The membership of the committee will be revised after the forthcoming AGM in July 2022 (details can be found on page 133).

This report was approved by the committee at its meeting held on 17 May 2022.

Doug Webb
Chair of the audit committee

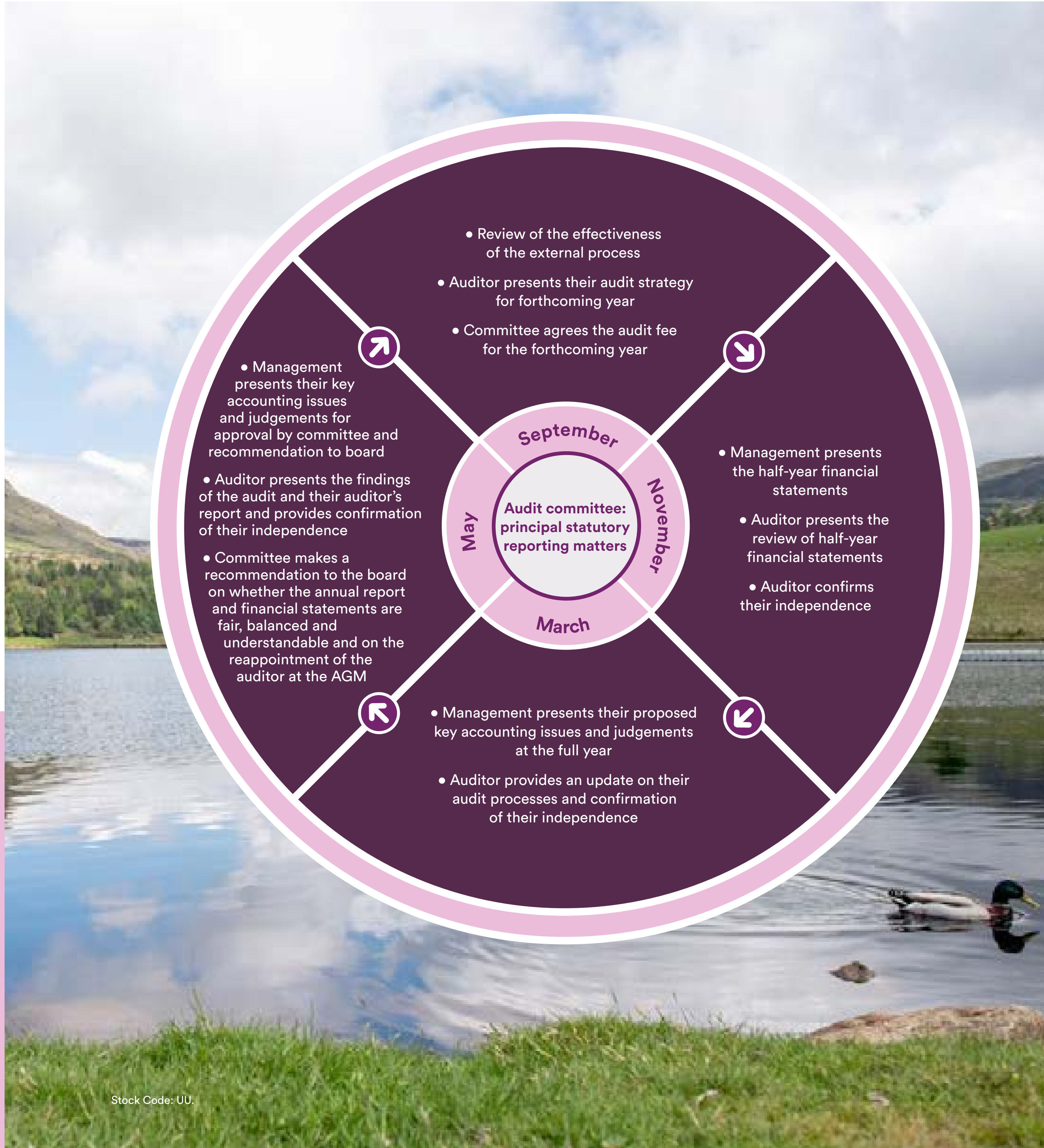
Main responsibilities

- 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.
- Challenge the auditor on 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 proposed by management and in particular those challenged by the committee in relation to the financial statements and how these were addressed.
- Approve 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.

Business 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 along with 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, the committee intends to continue to hold the two meetings in September and March virtually. Items of business considered by the committee are set out on pages 146 to 147.

Audit committee financial reporting cycle



Actions	Outcomes	Cross reference
Annual and half-year reporting		
Reviewed, discussed and challenged the financial reporting team's reports on the financial statements, management's significant accounting judgements, 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 financial statements.	See pages 151 to 152
Reviewed and challenged the regulatory reporting process relating to the annual performance report (APR) for UUW, including the assurance provided by the technical auditor, as required to be submitted to Ofwat, and noted the differences between the regulatory and statutory accounts.	The committee met with the technical auditor to provide an opportunity for challenge by the committee whose overview contributes to the assurance process of the regulatory reporting prior to the approval of the APR by the UUW board.	–
Assessed management's presentation of APMs to enable comparability with other companies.	Concurred with management's approach that the APMs as defined were satisfactory enabling comparability with other companies.	See page 82
Reviewed and challenged the proposed audit strategy for the 2021/22 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 2021/22 audit.	The committee monitored progress made by the statutory audit team against the agreed plan, and challenged the auditor in the resolution of any issues as they arose.	See page 202
Reviewed and challenged 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 217
Reviewed and challenged the long-term viability statement proposed by management and reasons why a seven-year assessment period was appropriate.	The committee challenged management that the length of the period was appropriate, particularly in light of assessment timeframes used by peer companies, but were satisfied with management's preference to continue to provide a statement with greater certainty over a shorter period of time.	See page 140
Reviewed the results of the committee's assessment of the effectiveness of the 2020/21 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 2023 at the forthcoming annual general meeting.	See page 148
Reviewed whether the company's position and prospects as presented in the 31 March 2022 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 2022 annual report and financial statements was a fair, balanced and understandable assessment of the company's position and prospects.	See pages 139 and 147
Reviewed the non-audit services and related fees provided by the auditor for 2021/22 and the policy on non-audit services provided by the auditor for 2022/23.	Approved the non-audit services and related fees provided by KPMG for 2021/22 and concluded that no changes were required to the policy for non-audit services provided by the auditor.	See page 149
Negotiated and agreed the statutory audit fee for the year ended 31 March 2022.	The committee approved the fee for the 2021/22 audit, including a small additional fee in respect of the limited assurance work relating to the group's sustainable financing framework.	See pages 149 to 150
Challenged management to enhance the assurance processes supporting certain aspects of the TCFD, SECR and wider ESG sections in the narrative reporting in the 2021/22 annual report.	The committee concluded that the enhanced assurance processes supporting the narrative reporting in the annual report were satisfactory.	See page 148

Actions	Outcomes	Cross reference
Risk management and internal control		
Reviewed the effectiveness of the risk management and internal control systems including an overview of the output from the independent third party review of internal controls around financial reporting.	Recommendation made to the board that the risk management and internal control systems were effective.	See pages 153 to 154
Considered changes to internal control weaknesses brought to the attention of the committee by KPMG.	Challenged management to resolve any issues relating to internal controls and risk management systems.	See page 202
Considered the third party review of the group's fraud risk management framework and challenged management to implement a fraud risk management action plan.	A number of enhancements were recommended and a fraud risk management action plan was implemented and updates provided to monitor progress.	See page 154
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 154
Biannual oversight and monitoring of compliance with the group's anti-bribery policy.	Reviewed compliance with the company's ongoing anti-bribery programme.	See page 154
Approved the strategic internal audit planning approach on the work of the internal audit function from the head of audit and risk.	Monitored the implementation of the 2021/22 internal audit plan. Reviewed findings of specific internal audit and implementation of any resulting actions by management.	See page 153
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 153
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 153
Reviewed and challenged the strategic internal audit planning approach and internal audit plan for 2022/23.	Approved the internal audit plan for 2022/23.	See page 153
Governance		
Review of the committee's terms of reference	No changes were made to the committee's terms of reference during the year.	-
As a consequence of the Brydon and Kingman Reviews and the BEIS consultation report 'Restoring trust in audit and corporate governance', management undertook to develop: an audit and assurance policy following a review of the existing approach to audit and assurance, and a review of internal controls that impact the group's financial reporting.	The committee reviewed the existing approach to audit and assurance and the outcome of the review of the maturity of the internal control framework over financial reporting undertaken by PwC. While awaiting the publication of the outcome of the BEIS consultation, key matters under development include the audit and assurance policy, a resilience statement and fraud risk management.	See page 151
Reviewed the conclusions of the committee's annual evaluation. The evaluation was internally facilitated by the company secretary. The review explored the effectiveness of: the committee's composition, meetings and time management; committee processes and support, the areas of work of the committee and priorities for change.	All elements of the self-assessment reviewed 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 136

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 198.

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 committee also considered whether the significant issues considered by the committee in relation to the financial statements include those identified by the auditor in their report on pages 202 to 209.

Management has again considered and sought to enhance 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 198. In particular, a member of the executive team not involved in the drafting process was appropriately briefed to review and challenge the content to ensure that the activities and issues faced by the business were reported in a fair and balanced manner.

The committee received updates on the calculation of underlying operating profit measures as one of the principal alternative performance measures (APMs) used by management, a full guide to APMs can be found on page 82.

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. During the year, the committee met with representatives from Jacobs, providing an opportunity for the committee to understand the specifics of Jacobs' role as technical auditor of the UUW regulatory annual performance report.

KPMG is required (under ISA(UK) 720) to consider whether there are any material inconsistencies between the 'other information' and 'statutory other information' presented in the annual report (i.e. in the strategic report, the directors' report and the corporate governance statement), 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 information' and 'statutory other information'. The TCFD and Streamlined Energy and Carbon Reporting (SECR) disclosures are deemed to be 'other information' as they are included in the company's strategic report, as they are important to the company. Other assurance of the TCFD and SECR disclosures (see pages 86 to 97) 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 pages 202 to 209). 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 its up-to-date view of the key accounting issues and its resulting judgements to the committee. In response, KPMG informs the committee whether, in its professional view, the judgements management proposes, or has taken, are appropriate. A number of these issues manifest themselves as the significant issues considered by the committee in relation to the financial statements, which are set on pages 151 to 152 in respect of 2021/22. As required by auditors' professional standards, KPMG exercise their professional scepticism in their audit of these significant issues.

Private meetings are held at committee meetings between the committee and representatives of the auditor without management being present to encourage open and transparent feedback by both parties on any matters they wish to raise, and provide the committee with an opportunity to obtain from the auditor greater insight on the extent to which the auditor has challenged management's analysis and presentation of information.

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

Audit quality

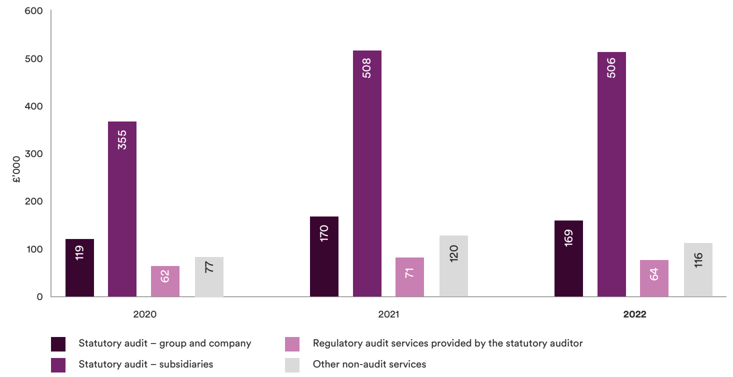
Additional audit quality processes and interactions

KPMG introduced a number of additional elements as part of its action plan to enhance audit quality for the 2020/21 audit. The effectiveness of these enhancements were reviewed and agreed to have had a positive contribution to the audit, and so were retained and further enhanced for the 2021/22 audit. As part of its review of the 2021/22 audit in July 2022, the committee will seek to review the effectiveness of these processes and interactions.

The processes and interactions included:

- providing sight of their interim control findings to the committee early in the audit process and sharing their knowledge and best practice recommendations;
- improving 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;
- using a project manager to assist with the delivery of the year-end audit cycle; and
- enhanced visibility of the key challenges and findings of the second-line of defence review performed by another team independent of the audit team, and of the independent KPMG partner's review of the audit.

Statutory auditor's fees



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 2021/22 audit, KPMG provided a report to the committee on the quality interventions that they had implemented during the 2020/21 audit. Each year the committee considers the annual review by the FRC's Audit Quality Review Team and challenges 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 2021 audit process was issued in July 2021.

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 and whether the committee had insight into the auditor's internal quality procedures;
- the expertise of the audit team conducting the audit and their understanding of the company's business risks to assess if there was an impact on the audit;
- whether the auditor made appropriate use of the work of the internal audit team;
- 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 2021. 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 2020/21 audit. The committee concluded that the statutory audit process and services provided by KPMG were satisfactory and effective, with additional measures for further enhancement encouraged.

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 2022. The average of audit fees is £447,000 (calculated as the average of the audit fees for the three preceding financial years (2021: £430,000; 2020: £474,000; 2019: £437,000). Non-audit services fees during the year were £130,500, (2021: £119,500; 2020: £77,000; 2019: £66,000) so well below the cap of £313,900 (70 per cent of £447,000). In 2022, fees for non-audit services represent 19.3 per cent of the average audit fees on which the cap is based. 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; limited assurance work relating to the group's sustainable financing framework; the Euro Medium Term Note Programme and Law Debenture Trust compliance work.

Read more about our annual performance report on page 51

Read more about our treasury committee on page 155

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 a small additional fee in respect of the limited assurance work relating to the group's sustainable financing framework.

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 2023

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

The 2021/22 year-end audit has been KPMG's eleventh 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 the 2020 annual report. 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 2013. 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 the performance of the auditor under review.

The 2021/22 audit has been the second 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 2022.

At its meeting on 17 May 2022, the committee recommended to the board that KPMG be proposed for reappointment for the year ending 31 March 2023 at the forthcoming AGM in July 2022. 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

Audit and assurance policy

During the year, management took steps, prompted by the BEIS consultation and with a view to providing a more standardised approach, to begin to develop an audit and assurance policy as a means of tailoring proportionate assurance relating to the narrative disclosures in the annual report and referencing the assurance of the regulatory reporting relating to UUW. Feedback from the committee was incorporated into the drafting process.

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 140. Management apprised the committee of its preparedness to provide a resilience statement in future years, which would encompass the going concern and long-term viability statement should this be a recommendation of the BEIS Consultation on 'Restoring trust in audit and corporate governance'.

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

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Revenue recognition and allowance for doubtful receivables (see pages 218, 220, 229 to 230, 257 and 259) – due to the nature of the group's business, the extent to which revenue is recognised and expected credit losses are recognised in relation to doubtful customer debts is an area of considerable judgement and estimation. This has particularly been the case in the current year as the cost of living has increased and is forecast to increase further into the next year. The future economic situation is highly uncertain, but it is expected that this could impact the ability of some customers to pay their bills as they become due.	• The committee reviewed the approach taken by management in estimating the impact that increases in the cost of living could have on future cash collection under a range of scenarios, recognising that the situation is highly uncertain. Having challenged management's approach, the committee concluded that while cash collection rates during the year have been good, the rate at which expected credit losses are accounted for needs to consider future cash collection risk and that the rates proposed by management are reasonable given the scenario analysis undertaken; and • 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.
Capitalisation of fixed assets (see pages 203, 218 to 219, 226 to 228 and 258 to 259) – 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 also considered the work performed by KPMG in this area, deemed both to be appropriate; and • The committee also 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.
Retirement benefits (see pages 204, 219, 232 to 244, 250 to 255 and 260) – the group's defined benefit retirement schemes is 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 assumptions used in calculating the defined benefit scheme surplus and how data from the latest triennial valuation that concluded during the year is incorporated into the final analysis. This included an assessment of the appropriateness of the inclusion of a 'w2021' parameter in the demographic assumptions adopted to take account of the expected impact of the COVID-19 pandemic on life expectancy in the medium term given the indirect impacts of the pandemic on the likes of waiting lists and delays in diagnoses of conditions. • Having challenged the rationale for making these changes and considered how it compares 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. The committee was also satisfied that data from the latest triennial valuation had been appropriately factored into the valuation.
Derivative financial instruments (see pages 219, 242 to 249 and 260) – 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. This process has been complicated slightly during the year by the rebooking of financial instruments that were linked to LIBOR following the cessation of LIBOR as an interest rate benchmark after 31 December 2022.	• The committee noted that the periodic checks performed by management had been completed at the year-end reporting date and, having also noted that KPMG had undertaken their testing in this area, was satisfied that no significant issues were identified. • The committee also considered management's update on the controls in place around the rebooking of financial instruments and was satisfied that these were appropriate and that the impact of the cessation of LIBOR had been appropriately accounted for.

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Provisions and contingent liabilities (see pages 234, 236 and 260) – 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; • The committee also 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 224 to 225, 233 and 257) – 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, and noted that KPMG have also assessed these provisions. Based on the above, the committee was satisfied with the judgements made by management. • The committee also considered the nature of significant refunds of tax paid in prior years that were recognised in the financial statements in the current year, and concluded that it is appropriate for these to be treated as part of the underlying tax expense in the year in arriving at the group's alternative performance measures.
Other topical areas	
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 years ended 31 March 2020 and 31 March 2021. During the year ended 31 March 2022 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 were considerably lower for the year ended 31 March 2022 compared with previous years, and judgements and estimates were subject to what are now well-established processes. With the passage of time and as more data relating to the key areas impacted by the pandemic has become available, together with an increasing return towards pre-pandemic norms during the year, the committee satisfied itself that the level of estimation uncertainty has fallen compared with previous and that, going forward and subject to any further developments, there may be less of a requirement for the impact of COVID-19 to be considered as a discrete item, having been superseded by other developments such as increases in the cost of living.
Impact of increases in the cost of living – while the level of judgement and estimation uncertainty associated with the COVID-19 pandemic has receded during the year, this has been superseded by economic circumstances that have resulted in increases in the cost of living for much of the group's customer base. As there is a high degree of uncertainty around how the economic situation may develop, this gives rise to a higher level of judgement and estimation uncertainty in this area.	• The committee concurred with management's assessment that the impact of increases in the cost of living on the group's significant accounting judgements and areas of uncertainty is felt most acutely in relation to revenue recognition and allowances for expected credit losses in relation to doubtful receivables. Considerations in this area are therefore set out more fully above.
Impact of the war in Ukraine – Russia's invasion of Ukraine in the early part of 2022 has had profound geopolitical and economic consequences, which the committee has considered in determining whether the group's accounting for the year ended 31 March 2022 is materially affected.	• The committee considered management's assessment of the impact of the war in Ukraine, and was satisfied that neither the operations nor the assets of the group are directly impacted, notwithstanding some exposure to the conflict's broader effects such as cost increases due to supply chain risk relating to certain materials and chemicals sourced from the region.
Accounting for the proposed sale of United Utilities Renewable Energy Limited (UURE) (see pages 236 and 259) – during the year ended 31 March 2022 the board approved the commencement of a process to sell the group's renewable energy business, UURE.	• The committee considered the stage of the sales process as at the year-end reporting date along with management's assessment of the application of the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' in terms of the assets and liabilities of UURE, and challenged management's view that criteria for presenting these as 'Held for sale' had not been met as at the reporting date; and • After due consideration, the committee agreed with management's assessment that as at 31 March 2022 the sale could not be considered "highly probable", and that this hurdle was met subsequently. The committee therefore reviewed the draft disclosure relating to the sale as an event after the reporting period and endorsed the wording included on page 236 of the financial statements.
Accounting for 'Software as a Service' (SaaS) arrangements (see pages 222 and 258) – following the publication of IFRIC agenda decisions relating to SaaS arrangements, management has considered the extent to which these affect the way in which such arrangement are accounted for by the group.	• The committee reviewed the processes undertaken by management to determine the level of SaaS arrangements that may be affected by recent IFRIC agenda decisions and the conclusions reached, focusing on the extent of customisation and configuration costs incurred in implementing SaaS solutions and whether these could be considered to give rise to intangible software assets. Having sought to understand management's thought processes, together with the challenge applied by KPMG as part of their audit procedures, the committee was satisfied that the majority of such costs should be treated as operating expenditure rather than be capitalised; and • Having satisfied itself over the accounting for SaaS arrangements, the committee also reviewed management's assessment of the extent to which costs incurred in prior periods may also be affected, and concluded that prior year costs were not material and therefore that there was no change in accounting policy in relation to these costs that would require any prior year restatement.

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, both of whom approve the head of audit's annual personal objectives. 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 ensuring that the internal audit function has sufficient resources and expertise to deliver the annual audit plan. 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 remains independent in the course of its work is crucial to the integrity of its work. Following a competitive tender process, PwC was last re-appointed as co-source resource provider during 2020/21.

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.

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.

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 group designs its risk management activities to manage rather than eliminate the risk of failure to achieve its strategic objectives.

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. A diagram and explanation of the risk management governance and reporting process can be found on page 101. 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

Read more about financial oversight responsibilities of the board on pages 139 to 140

Read more about our risk and resilience framework on pages 100 to 102

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 in order to maintain an up to date view of the assessment of risk. 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 against the key elements of ISO 31000:2018 Risk Management Standard. The results of the maturity assessment are reported to the GARB, and actions agreed with business units.

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

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.

During the year, the committee asked management to commission an independent review of the maturity of the group's internal control framework over financial reporting in light of the recent BEIS consultation, and the likely evolution of the UK internal control requirements, in general terms but also more specifically in relation to controls over financial reporting. The key findings of the independent review were that: there was a high level of coverage of the financial statement line items in both the consolidated income statement and the balance sheet; risk and control matrices were in operation; and the fundamental building blocks underpinning an internal control framework over financial reporting were in place which would contribute to an audit and assurance policy (see page 151).

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, the customer services and people director, the strategy, policy and regulation director, the commercial, engineering and capital delivery director and the head of internal audit and risk) to decide on the appropriate course of action and investigation and by whom.

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.

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 and all hospitality (and gifts) offered and accepted has to be logged, and approved when accepted. Employees and representatives of the group's suppliers must comply with the group's responsible sourcing principles and United Supply Chain approach. The group will not tolerate corruption, bribery and anti-competitive actions and suppliers are expected 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.

Independent review of the fraud risk management structure

During the year, the committee asked management to commission an independent review of the group's fraud risk management framework to assess its maturity and identify any enhancements required given the evolving nature of business processes and the working environment. This was felt to be timely, particularly in light of the need for remote working during the pandemic and the subsequent move to hybrid working in some areas of the business. An action plan to strengthen the approach to fraud risk assessment has been implemented, overseen in the first instance by the security steering group forum and with the final report presented to the committee.

Doug Webb
Chair of the treasury committee

Quick facts

- The committee meets three times a year.
- The committee operates under terms of reference and delegated authorities approved by the board.
- The company secretary attends all meetings of the committee.
- The treasurer is a member of the committee.
- The members of the committee undertook a self evaluation in February 2022 facilitated internally by the company secretary. The review of the responses indicated that the committee was effective and its members had the appropriate skills and experience to fulfil the committee's responsibilities.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Treasury management is fundamental to the group's business model ensuring that sufficient funding is available to meet the group's foreseeable needs, while managing the liquidity market and capital risks.

Dear shareholder

During the year, with the board's delegated authority, the committee oversaw the successful execution of the group's funding programme. Approximately £425 million of new term funding was raised, with financial market conditions being closely monitored as central banks began tightening monetary policy in response to surging inflation, amidst heightened geopolitical tensions.

The continuation of our funding programme, on top of the £900 million of term funding raised in 2020/21, has positioned the group well with regard to its circa £2.7 billion financing requirement across the AMP7 regulatory period. The committee also completed a 'deep dive' review of the group's inflation and interest rate hedging policies.

The committee oversaw the group's successful implementation of the transition of benchmark reference rates used in the group's financial derivatives and loan and credit facilities, from GBP LIBOR to replacement 'risk free rates', with SONIA replacing GBP LIBOR effective from the end of 2021.

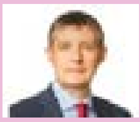
In November 2021, we increased the size, and redenominated the group's multi-issuer, London listed, Euro Medium Term Note Programme from EUR7 billion to £10 billion to facilitate future debt issuance. This programme, in conjunction with our sustainable finance framework launched in November 2020, is expected to continue to be the primary vehicle for the group accessing funding in the debt capital markets. In July 2021, the group published its inaugural sustainable finance framework allocations and impact report. Details of the group's engagement with banks and credit investors can be found on page 128.

Doug Webb
Chair of the treasury committee

Treasury committee members:

Doug Webb
Chair of the treasury committee

Phil Aspin
CFO



Brendan Murphy
Treasurer

Main responsibilities

- 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.
- Credit investor relations.
- Banking relationships.
- Treasury delegated authorities, internal controls and governance.
- 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.

Stephen Carter
Chair of the corporate responsibility committee

Quick facts

- The committee comprises four directors appointed by the Board, three 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.
- The corporate responsibility committee has existed for over fourteen years.

Quick links

Terms of reference
unitedutilities.com/corporate-governance

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**

The long standing commitment to clear and transparent disclosure has ensured the company's performance in ESG has remained strong.

Dear shareholder

I am pleased to introduce the report on the activities of the corporate responsibility committee in 2021/22.

The company's approach to carbon emission mitigation and adaptation to a changing climate was a topic of particular focus, with the CRC encouraged to see it is making good progress in delivering its carbon pledges including the incorporation of carbon into long-term performance incentives. The committee supported steps to strengthen internal carbon governance, recognising the company has a clear plan to 2030. It welcomed the increased regulatory focus on climate change.

The committee commented on the company's third adaptation report ahead of its publication in December 2021 with particular attention on how the company is improving the management of climate change risk and raising its profile within the organisation and with external stakeholders. The committee noted how the report addressed the expected impact of global warming at around 2ºC and that a more extreme scenario of up to 4ºC is being considered for PR24 and beyond to stress test the plan.

River water quality and storm overflows have been prominent political and societal issues this year, embodied by an amendment to the Environment Act that requires water companies to progressively reduce the impact from overflows. The committee considered how the management team was handling this important reputational matter and supported its approach, in particular the emphasis on developing partnership opportunities alongside actions to be taken by the company. It was clear to committee members that the water sector alone cannot deliver good ecological status in rivers and that collaboration with regional stakeholders is a vital part of any approach.

Over the course of the COVID-19 pandemic, the committee discussed the public's changing attitude to the environment as more people connect to green spaces and nature. The growing visitor pressure at the company's recreational sites, coupled with an increase in anti-social behaviour, have led to local stakeholder concerns. The committee was presented with an update on the company's land management approach, appreciating the challenge of balancing the sometimes competing demands of water, wildlife and access.

While the majority of COVID-19 measures eased over the year, the committee considered the company's response to social issues amplified by the pandemic. Support provided to customers as part of the company's affordability and vulnerability response is monitored through regular review of the lower income dashboard. Given the North West's high levels of social and economic deprivation, the committee welcomed the company's support for the Consumer Council for Water's recommendation that a national social tariff is introduced.

It was pleasing to see the results of the Employee Opinion Survey 2021, in particular the high levels of employee engagement. Efforts to bring the employee voice to the boardroom and to provide a two-way flow of communication have played their part alongside the additional support provided during the pandemic.

In recent years, there has been greater investor interest in Environmental, Social and Governance (ESG) matters. The committee discussed investor views of ESG and performance in ESG indices. The long standing commitment to clear and transparent disclosure has ensured the company's performance in ESG has remained strong. The committee endorsed a targeted approach to engage with the most relevant independently assessed indices so that the company can demonstrate to investors that its strong responsible business credentials are externally evaluated.

The committee reviewed performance against the suite of measures and targets adopted by the company to provide evidence to its stakeholders that it is fulfilling its purpose to provide great water and more for the North West. These form part of the performance section of this report on pages 52 to 75. Publishing a set of performance measures and targets in this way enables stakeholders to judge for themselves whether or not the company is delivering on its purpose.

In addition, specific papers on gender pay and community investment expenditure were presented to the committee.

The committee sought insight on how the company's approach to purpose and responsible business is integrated. It received reports on how digital/data and the AMP7 investment programme are embracing a purpose-led approach. The committee supported plans to launch a digital academy and the digital contribution to major transformation activities such as the wastewater Dynamic Network Management programme. It praised progress in implementing sustainability in all aspects of capital delivery activities and the contribution to the company's net zero carbon commitment.

From a committee governance perspective, members agreed to a minor amendment to its terms of reference to refer to 'purpose' and 'values' in a clause under Policy Direction. As part of its annual evaluation of performance the committee sought a discussion to ensure it focuses its efforts on the right topics given the rapidly evolving interest in ESG.

On behalf of the board, it has been a real privilege to oversee the company's responsible business agenda for the past six years. I am confident that the company has built the right foundations so it can deliver on its purpose and to create value for all of its stakeholders. As I prepare to hand over chair of the corporate responsibility committee to Paulette Rowe, I know that she will ensure it continues to champion corporate responsibility on behalf of the board. I wish Paulette, and the company, every success.

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

Read more about **our approach as a responsible business** on pages 12 to 13

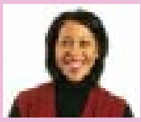
Read more about **Dynamic Network Management** on page 43

Corporate responsibility committee members:

Stephen Carter
Chair of the corporate responsibility committee

Steve Mogford

Alison Goligher



Paulette Rowe

Main responsibilities

The committee approved a slightly modified set of terms of reference in February 2022. 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 including the company purpose and values;
- 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 corporate responsibility 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.

Corporate governance report
Corporate responsibility committee

Read more about our approach to climate change on pages 86 to 97

Read more about Employee Voice on page 126

The committee's agenda during the year:
Environmental

Climate change mitigation
The committee discussed progress against the company's carbon pledges and related matters such as the outcomes from COP26 and the impact to the business, strengthening internal governance, incorporating carbon into long-term performance incentives and the potential introduction of performance commitments for operational and embedded emissions.

Climate change adaptation
Ahead of the publication of the company's third adaptation report the committee reviewed progress on climate resilience. The committee welcomed steps to capture key climate change risks in the corporate risk framework and the use of the latest UK Climate Projections (2018) in developing the Water Resources Management Plan (WRMP24). It supported strengthening the Task Force on Climate-related Financial Disclosures in the 2021 Annual Report through the inclusion of an assessment of the financial impact of climate risk.

Land management update
The committee was updated on the strategic review of the group's land management approach, reflecting on the challenge to balance changing expectations of stakeholders and the behaviour of some visitors with the drivers of water quality and quantity. The committee discussed applying strategies such as adopting an asset management approach, exploring opportunities to invest in the estate and connecting customers to the company's land ownership.

Approach to clean air
An overview of the company's approach to clean air was discussed by the committee. It noted plans to undertake further research to understand the scope of the risk posed by poor air quality, to baseline activity to capture the total extent of the company's emissions and the opportunity to engage with government and regulators on the topic.

Social

National social tariff
The committee discussed the recommendation by the Consumer Council for Water to introduce a national social tariff for customers struggling to pay their water bills. It noted plans by Defra to consult on this in 2022 and commented that similarities could be drawn with the implementation of a national social tariff in the electricity sector and how lessons could be learnt. The committee requested an update in September 2022.

Affordability and vulnerability: lower income groups
Two updates were provided to the committee on the company's performance in assisting customers on low incomes. The committee noted the positive performance across many measures.

Next ways of working
As pandemic restrictions eased, the committee discussed the 'next ways of working' project and welcomed the return to office for hybrid roles. The potential disadvantages of hybrid working for those in the early stages of their careers and maintaining engagement for those not in hybrid roles were debated alongside methods for meeting these challenges.

Gender pay report
The committee commented on the draft gender pay report and commended the work undertaken to attract more women to the company to address, in particular, middle and upper senior manager roles. It welcomed the use of leading indicators and the success of the company's aspiring manager programme to nurture a pipeline of talent for senior roles.

Community investment expenditure 2020/21
The annual update on community giving expenditure was presented to the committee. It noted that total expenditure was lower than usual due to restrictions on community activity arising from COVID-19 lockdown measures. Lessons to be learnt from other companies were discussed.

Governance

Employee Voice
Twice a year the committee reviews progress on employee and board engagement. It noted how the Employee Voice panel had met virtually while COVID-19 restrictions were in place, providing a valuable mechanism for employees to give feedback, particularly on how they had been supported throughout the pandemic. Topics presented to the panel included the company's reward strategy, HR support for people managers and progress updates from each sub-group: employee opinion survey; employee networks; and culture. The committee noted that the company was satisfied that activities and progress enabled it to demonstrate compliance with the UK Corporate Governance Code.

Employee opinion survey 2021
The committee welcomed the results of the annual employee opinion survey and the high levels of engagement. It noted that the values of the organisation, the approach to health and safety and reward had a direct correlation to the employment relationship and support for employees during the pandemic. Committee members were updated on plans by the company to ensure high levels of engagement were retained through local action planning.

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. In particular, the committee sought to understand the role of environmental NGOs and the media in driving awareness of storm overflows and it welcomed the company's first investor ESG webinar.

Progress against demonstrating purpose
The committee endorsed a set of stakeholder value measures and targets through which the company will demonstrate how it is fulfilling its purpose. Performance updates were provided on two occasions and members asked that consideration be given to how improvements over AMP7 are made evident and to ensure that the measures stay relevant.

CR committee terms of reference
The committee approved a minor amendment to its terms of reference to refer explicitly to 'purpose' and 'values' as part of its duty to ensure alignment with the group's overall approach to corporate responsibility. This reflected the increasing interest from ESG stakeholders that companies demonstrate they are 'purpose-led' and generate public value. The amended terms of reference were recommended for approval to the group board.

CR committee evaluation
The committee reviewed the external evaluation results, in particular points about ensuring papers were succinct and future topics for committee discussion given the rapidly evolving ESG landscape. The committee discussed its membership in this context and it was agreed that it would be reviewed by the nomination committee for approval by the board.

Cross cutting

Responsible business digital and data framework
An update on the company's approach to digital and its alignment with purpose and responsible business was presented to the committee. This included the 'next ways of working' project, shaped by the company's pandemic response, and updates on major transformation projects such as the wastewater Dynamic Network Management programme and the West Cumbria Operating Strategy. The committee discussed issues such as seeking user consent in relation to their data, plans to baseline digital skills and the launch of a digital skills academy.

Investors and ESG
The committee was updated on investors' views of ESG and agreed with the company's approach to demonstrate its responsible business credentials through continued transparency and engagement with selected investor ESG indices and ratings. Members discussed investor interest in diversity and inclusion and nature and endorsed early disclosure on these topics.

Brexit and regulatory convergence – environmental and employment legislation
Following conclusion of the Brexit transition period, an overview of UK environmental and employment legislation was discussed. It focused in particular on the Environment Act and statutory targets on air quality, biodiversity, water and waste; new duties for water companies; the Office for Environmental Protection which will hold public bodies including UUW to account on their environmental obligations; and governance mechanisms such as regional water groups and internal drainage boards. The committee agreed that no further updates in relation to Brexit are required.

Capital programme: delivery of sustainability objectives
How the company's purpose, and ESG in general, is being implemented across its capital programme was presented to the committee. It welcomed progress in implementing sustainability in all aspects of the capital programme, especially on the West Cumbria project, and the contribution to the company's net zero carbon commitment. The committee discussed whether, looking ahead to PR24, there was scope to be more ambitious in realising ESG objectives.

Looking to the next year, the committee will:
- review new or updated responsible business strategies including the company's approach to education, its community strategy and approach to smart metering;
- consider the responsible business themes emerging for PR24;
- return to several issues to review progress including land management, air quality, waste and circular economy including plastics, embedding multi-capital thinking, diversity and inclusion and talent and young people;
- review performance on 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 the 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.

Annual statement from the remuneration committee chair

Alison Goligher
Chair of the remuneration committee

Quick facts

- The code requires that "the board should establish a remuneration committee of at least three independent non-executive directors".
- The role of the committee is to set remuneration terms for all executive directors, other senior executives and the Chair.
- By invitation of the committee, meetings are attended by the Chair, the CEO, the company secretary, the customer services and people director, the head of reward and the external adviser to the committee.
- Our current remuneration policy was approved by shareholders at the 2019 AGM.
- Our proposed remuneration policy will be put to shareholders for approval at the 2022 AGM and is intended to apply until the 2025 AGM.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Index

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.

Dear shareholder

I am pleased to introduce the directors' remuneration report for the year ended 31 March 2022, which includes the annual report on remuneration and a revised director's remuneration policy which is intended to take effect from the date of our 2022 AGM (subject to shareholder approval).

Remuneration policy review

Our current remuneration policy was approved by shareholders at our AGM in 2019 following a comprehensive stakeholder consultation process, and sought to make sure that the executives' remuneration arrangements (and the incentive elements in particular) would be well-aligned with the business plan for the regulatory period from 2020–25, and the expectations of investors and Ofwat.

We are required to submit a new policy for shareholder approval at our AGM in 2022, and so in the summer of 2021 we started a review to identify aspects of our overall approach to executive remuneration which should be addressed in the new policy. Being less than two years into the regulatory period, the committee was satisfied that, overall, our current approach remained appropriate for at least the next three years and that there was no need to make material changes to the current policy. A key area of focus however, was how the committee might strengthen the extent to which environmental, social and governance matters are reflected in executive remuneration arrangements, and the incentive plans in particular. Additionally, with only one year remaining before the current mechanism for delivering long-term incentives (our Long Term Plan 2013) would require renewal or replacement, there was an opportunity for us to make sure that the rules of any revised plan reflected contemporary corporate governance best practice and the expectations of shareholders.

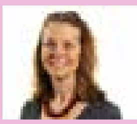
Between January and March 2022, we consulted directly with major shareholders and other key stakeholders, including our employees via our employee voice panel, about our proposals on these and a number of other matters. That process was valuable, confirming stakeholder support for the changes and enhancements we proposed, and in particular supporting our intention to introduce carbon measures into our long-term incentive arrangements. Having considered the feedback received through the consultation process we were able to finalise our proposed new policy, and further information about the policy review, along with full details of the proposed policy, are shown on page 163 and pages 169 to 176.

We will also use our AGM to ask shareholders to approve a revised version of our Long Term Plan that will operate on a similar basis to the current plan. Details of the new plan will be included in our Notice of AGM 2022.

Remuneration committee members:

Alison Goligher
Chair of the remuneration committee

Mark Clare



Kath Cates

Doug Webb

Improving transparency and clarity

In February 2022, I received David Black's (Ofwat interim Chief Executive) letter concerning performance related executive pay for 2021/22, a copy of which was sent to the remuneration committee chairs of all regulated water and wastewater and water-only companies and which was published on Ofwat's website.

The committee recognises the scrutiny and concern that has been focussed on the water sector during the year, and agrees that incentive outcomes for executives should be aligned with performance across the range of stakeholder groups – including customers and the environment – to demonstrate legitimacy. We also agree that companies should provide clear and accessible explanations about their executive remuneration arrangements so that customers and other stakeholders can understand how they operate and how incentive outcomes are determined. This is something we have consistently sought to do in our annual remuneration reports, evolving and improving our reporting wherever possible. We aspire to be a leader in the development, application and transparency of our approach to executive remuneration and to help drive strong standards both within the water sector and the FTSE100 more broadly.

In my response to Ofwat's letter I set out the ways in which the committee could demonstrate that it took its responsibilities seriously, including in regard to the concerns raised. Making sure that our incentive arrangements are aligned with the interests of all of our stakeholders is fundamental to our approach, and this is summarised on page 166. Our incentive arrangements are based on measures which are heavily weighted to the delivery of stretching performance outcomes for customers and the environment, and our plan to introduce carbon measures into our long-term incentive from 2022 will enhance this further. Our remuneration policy enables the committee to override formulaic outcomes and to exercise discretion on incentive outcomes if deemed necessary. Indeed, the committee has exercised and disclosed the use of such discretion in recent years by applying downward adjustments to the executive directors' bonuses on two occasions, recognising performance issues that became apparent during the year. Noting that performance or other issues might become known after incentives have already been paid, the remuneration policy includes withholding and recovery provisions (malus and clawback) so that the committee is able to respond appropriately in certain circumstances. These provisions have been reviewed during the year and the circumstances in which they can be used will be extended for future incentive awards, as detailed on page 163, and on page 171. This will provide all stakeholders with greater clarity over such key matters.

Alignment with stakeholder interests

As a committee we continue to be mindful of the extent to which the remuneration of the executives aligns with the experience of our customers, the environment, and other stakeholder groups.

As outlined above and on page 166 the outcomes of our executive incentive arrangements are materially influenced by our performance for customers and the environment.

With regards to employees, my role as the designated non-executive director for workforce engagement enables me to gain direct feedback across a wide range of topics, including pay and conditions. It is also helpful that the committee has a well-established practice of receiving updates on relevant matters affecting the workforce from our customer services and people director and head of reward at each meeting. Insights received from the workforce are of real value to the committee and can certainly influence our decision-making processes. Indeed, when engaging with the employee voice panel as part of our consultation on the new directors' remuneration policy it was clear that, in particular, the workforce was supportive of the proposal to introduce carbon measures to our long-term incentive arrangement.

Implementation of the director's remuneration policy during 2021/22

Salary

Board members did not receive salary increases in September 2020 in recognition of the COVID-19 pandemic but in 2021 the committee judged that the personal performance and contributions of Steve Mogford and Phil Aspin justified each receiving a base salary increase of 2 per cent with effect from 1 September 2021, which was the same as the headline increase applied across the wider workforce.

Annual bonus

The same bonus scorecard applies throughout the company, to ensure a shared focus on the business plan at all levels. As outlined in the strategic report, we have seen another good year of performance, maintaining high levels of customer satisfaction, improving operational performance, and long-term financial resilience.

Our customer performance has been strong across the board, achieving or exceeding over 80 per cent of our performance commitments and earning our highest ever one-year outcome delivery incentives (ODIs). Strong performance on customer service this year has helped drive a 14 per cent reduction in written complaints, achieving our lowest ever volume.

Underlying operating profit was up compared to last year, and the good start to the delivery of our AMP7 programme has continued, with our Time, Cost and Quality index (TCQi) score of 95.6 per cent demonstrating that we are managing our capital programmes effectively.

Overall company results have led to an annual bonus scorecard out-turn of 86 per cent compared to around 82 per cent last year, and has resulted in a company-wide bonus pool totalling around £20 million (it was c£18 million in the prior year). Prior to the committee determining the individual bonus outcomes for the executive directors, Steve Mogford informed us of his wish to unconditionally waive £150,000 of his bonus, and this is reflected in the details shown on page 178. The company has decided to use the funds to support students from the North West to pursue STEM subjects at university.

Long-term incentives

The Long Term Plan (LTP) awards granted in 2019 were the last awards to be based on three equally-weighted measures, namely relative total shareholder return, return on regulated equity (RoRE), and customer service excellence. The outcome will be confirmed in the summer of 2022 and the awards are estimated to vest in full, reflecting performance above the stretch level on each of the three measures.

Relative total shareholder return over the three-year performance period was 48.1 per cent, compared to the stretch target of 39.3 per cent. RoRE performance has been strong, with the company's average RoRE exceeding the average allowed return set by Ofwat by around 1.6 per cent. The customer service excellence measure is based on Ofwat's C-MeX (contacts) 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 2022 and the overall vesting level can be confirmed, but we estimate that we will be ranked 2nd out of the water and wastewater companies, which is one position better than the stretch target of 3rd position. The award for Steve Mogford will vest only after the completion of a holding period taking the overall vesting period to five years from the grant date, during which the shares will remain subject to withholding provisions. Phil Aspin was granted his award prior to his appointment as an executive director and so in line with the policy his award will be treated according to its original terms, with no holding period applying. In line with the shareholding guidelines, Phil will be required to hold the shares upon vesting (net of tax) and they will vest into a nominee account.

Remuneration committee oversight
In addition to reviewing performance against the specific targets set under the annual bonus and LTP, the committee carefully consider the outcomes to be delivered in the context of the wider performance of the business and the experience of our stakeholders. Taking account of performance in areas such as those outlined on pages 52 to 75, the committee was satisfied that the overall results reflected the exceptional efforts and high levels of performance of the company and therefore no discretion was used to adjust the formulaic outcome under the bonus or provisional LTP vesting. As stated above, Steve Mogford's request to waive part of his bonus was actioned.

Chief executive officer succession
In April 2022, the company announced that Steve Mogford had expressed his wish to retire in early 2023, and that following a comprehensive internal and external evaluation process, Louise Beardmore would be appointed as his successor. As a committee, we are delighted at Louise's appointment, and have particularly valued her excellent contributions to the work of the committee in her role as customer services and people director.

To enable a smooth transition Louise was appointed to the board on 1 May 2022 as CEO designate, leading the creation of the company's PR24 business plan covering the next five-year regulatory period. The committee determined that on her appointment to the board her salary should be set at £425,000 and her other remuneration arrangements would be set in line with the current remuneration policy, including pension arrangements in line with those available to the wider workforce. However, in anticipation that the proposed policy will be approved at the forthcoming AGM, Louise agreed that her notice period would be 12 months for each party (rather than the differing periods stipulated under the existing policy).

Later in the year, the committee will consider the salary and remuneration arrangements that should apply on Louise's appointment as CEO in 2023. Full details about her remuneration during 2022/23 and her package as CEO will be provided in next year's report.

Agenda for 2022/23
We are confident that the annual bonus measures used in 2021/22 will continue to support the business strategy in 2022/23, but that it is also the right time to supplement the bonus scorecard with some new performance measures. We have introduced two new measures for the year, one focusing on improving the appearance of drinking water, and the other on delivering our Better Rivers commitments. We have also revised our existing TCQi measure to place renewed emphasis on the efficiency of our capital programme delivery, and also to take account of the carbon impact of enhancement projects. Further information about these measures and the overall bonus scorecard is shown on page 181.

The 2022 LTP awards will operate similarly to those granted in 2021, with four new carbon measures being included in the customer basket. We have accelerated the target-setting process compared to previous years so that the measures and targets that are expected to apply to the awards can be included in this report, with full details being shown on pages 181 to 182. As referred to earlier in this letter, we are seeking approval of the new Long Term Plan 2022 at the AGM, and so we will wait until late July to grant the LTP awards in order that they might be granted under this new plan if it is approved. If it is not approved, the awards will again be granted under the existing LTP 2013.

In March, the company announced that after nearly nine years on the board Mark Clare will not seek reappointment at the 2022 AGM. I would like to thank Mark for all of his contributions to the committee over the years. Having reviewed the membership of board committees we have confirmed that I will succeed Mark in the role of senior independent non-executive director, and so I will step down as chair of the remuneration committee, although I will remain a member of the committee. I am delighted that Kath Cates, who has been a member of the committee since September 2020, will take over as committee chair when these changes take effect from 22 July 2022.

We hope we will continue to receive your support again this year for the remuneration resolutions at the forthcoming AGM.

Alison Goligher
Chair of the remuneration committee

"Our policy review focused on how we might strengthen the extent to which environmental, social and governance matters are reflected in our executive remuneration arrangements."

Around seven million people in the North West of England rely on United Utilities to provide reliable and affordable year-round water supplies to their homes, businesses and recreational spaces.

Over the five-year regulatory period from 2020 to 2025, our business plan commits us to delivering affordable bills and excellent service to customers, alongside a programme of careful investment to sustain the region's water quality, reduce leakage and ensure reliability of water supply. At the same time, the company is laying foundations for longer-term resilience and the provision of water in an environmentally sensitive and sustainable way.

When setting the remuneration arrangements for executive directors, the committee has always adopted a prudent and responsible approach, which aligns to company strategy. We received significant shareholder support in 2019 for our current remuneration policy, having carefully considered how we should align our pay arrangements (and the incentive elements in particular) with the agreed business plan for the current five-year regulatory period. At the time, we undertook a comprehensive consultation process to make sure that the policy introduced would reflect the expectations of investors, the regulator and other stakeholders.

We are required to submit a new remuneration policy at our 2022 AGM. Being less than two years into the regulatory period, and having taken account of views that were sought during a consultation exercise between January and March 2022 involving major shareholders and other stakeholders, including our employee voice panel, we are satisfied that, overall, our current approach remains appropriate and that there is no need to make material changes to the current policy. The committee has sought to make sure that our executive pay arrangements remain well-aligned to providing high standards of customer service, and protecting and enhancing the environment, and are in line with best practice corporate governance standards and the expectations of shareholders.

A summary of the key elements of the policy review and its outcome are shown in the table below, with full details of the proposed policy shown on pages 169 to 176. If approved by shareholders, the new policy will take effect from the July 2022 AGM.

Element of policy	Focus/rationale for review	Position following consultation
Updating our mechanism for delivery of long-term incentives	Our current long-term incentive arrangement is the 'Long Term Plan 2013' (the LTP). It was adopted by shareholders on 26 July 2013 so in line with shareholder expectations and in recognition of the Investment Association's Principles of Remuneration, the LTP will expire on 25 July 2023. The committee is mindful that corporate governance best practice and the expectations of shareholders have evolved significantly since 2013. As such, we propose to replace the current LTP with a new plan whose rules better reflect those contemporary practices and expectations, and provide shareholders and participants with further clarity over key matters, including withholding and recovery, and change of control provisions.	We intend to seek shareholder approval of the new Long Term Plan 2022 at our 2022 AGM, and our notice of AGM will provide further details. If approved, the 2022 LTP awards will be issued under this new plan. The committee recognises that providing dividend sustainability to shareholders remains important, and so when granting awards under the new plan we will retain our practice of making delivery of our dividend policy an overall underpin, alongside the existing underpin of the committee being satisfied that the company's performance on these measures is consistent with underlying business performance.
Inclusion of carbon measures in our long-term incentives	The committee proposes to keep the overall structure of the LTP the same, but to evolve the customer basket to include new measures that are based on our relevant, publicly disclosed and measurable climate change related targets. For the 2022 LTP awards we propose to use our carbon pledges to define delivery targets for the end of the three-year performance period, and this approach could be extended and expanded in future years with the ultimate aspiration being an LTP measure that is directly aligned to our Science Based Targets initiative (SBTs) for 2030.	Shareholders and other stakeholders, including employees, were supportive of the inclusion of carbon measures in the LTP and so they will be included in the 2022 LTP awards as part of the customer basket. See page 182 for details. Our intention is to dedicate 10 per cent of the total LTP to these new carbon measures. Stretching targets will be set, and the inclusion of these measures will mean that the whole of the customer basket component of the LTP is focused on areas of performance that are in the interests of customers, and have an environmental or social impact.
Withholding and recovery provisions	Our current incentive plan rules already include provisions that enable the committee to withhold or recover payments from participants in certain circumstances. The withholding provisions can be applied in a wider range of circumstances than the recovery provisions. We have considered the Financial Reporting Council's Guidance on Board Effectiveness and taken note of the Business, Energy and Industrial Strategy's (BEIS) consultation on 'Restoring trust in audit and corporate governance' and propose to extend the circumstances in which our provisions might be applied.	Going forward, the circumstances in which the withholding and recovery provisions can be applied will be aligned and will include: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine. The extended provisions will first apply to Deferred Bonus Plan awards granted in 2022 and annual bonuses paid in 2023. If the new Long Term Plan 2022 is approved by shareholders at the 2022 AGM the extended provisions will first apply to Long Term Plan awards granted in 2022.
Notice periods	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.	For executive directors appointed on or after 1 May 2022 the notice period will be one year whether terminated by the company or the director.
Benefits	The current policy provides for executive directors to receive a car or car allowance as part of their benefits package.	The committee supports the use of sustainable methods of travel, such as public transport or the company's new all-employee electric car scheme, so in the new policy this benefit will be replaced by a green travel allowance. There is no change to the underlying value of this benefit.

Remuneration

5

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 166.

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. At least annually the committee chair engages with the employee voice panel about our executive remuneration approach. Our AGM allows shareholders to ask any questions on the remuneration arrangements, and we welcome any queries on remuneration practices from shareholders throughout the year.

Predictability

Payouts under the annual bonus and 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.

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.

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).

Risk

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

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 director's 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 2021/22 aligned with our business strategy and the results that it delivers for each of our stakeholder groups, including customers and the environment. 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 183 to 184.

Element	Why it's important to our remuneration approach	Link to strategic themes	Alignment to purpose reflecting views of different stakeholders
Annual bonus			
Underlying operating profit	Underlying operating profit is a key measure of shareholder value.		
Customer service in year • C-MeX ranking • Written complaints	By using Ofwat's measure of customer experience alongside a measure which focuses on reducing the number of complaints made by customers, executive directors are incentivised to deliver the best service to customers. Ofwat can apply financial incentives or penalties depending on our customer service performance.		
Maintaining and enhancing services for customers • Outcome delivery incentive (ODI) composite • Time, cost and quality of the capital programme (TCQi)	The ODI composite measure is calculated by summing the outperformance payments earned and financial penalties incurred by the company based on its delivery of the performance targets embedded in the AMP7 final determination. The performance targets and the financial incentives associated with them are determined by Ofwat in the expectation that achieving them means that stretching outcomes have been delivered for customers and the environment. Bonus awards to executives are only made where the value of these payments exceeds a predetermined level which the committee sets relative to the AMP7 determination. Non-delivery of our performance commitments can result in financial penalties being applied and therefore reduces the likelihood of this target being achieved. The TCQi measure incentivises the executive directors to keep tight control of our capital programmes to ensure we can provide a reliable and environmentally conscious service to our customers at the lowest sustainable cost.		
Compulsory deferral of bonus	Requiring executive directors to defer part of their bonus into shares provides reassurance that the company is being run in the longer-term interests of shareholders and customers, including beyond the annual bonus period. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the deferral period this is deemed necessary.		
Long Term Plan (LTP)			
Return on Regulated Equity (RoRE)	RoRE is a key regulatory measure of performance against the final determination. Outperformance will result in an increase to RoRE which should translate into higher returns for shareholders through share price performance. Outperformance also benefits customers through strong delivery against stretching performance commitments, efficiencies in the capital investment programme and lower long-term financing costs.		
Customer basket of measures	The customer basket is made up of specific performance commitments embedded in the AMP7 final determination, focusing on areas which customers have identified via our research as being most important to them. Strong delivery of the commitments benefits our customers, communities and the environment, and can result in outperformance payments from Ofwat which is positive for shareholders.		
Additional holding period (at least two years)	Requiring the executive directors to wait a further period after the performance outcome of their award is known ensures continued longer-term alignment with shareholder interests and delivery for stakeholders, including customers and the environment. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the holding period this is deemed necessary.		
Shareholding guidelines	It is important that each executive director builds and maintains a significant shareholding in shares of the company to provide alignment with shareholder interests (during and after employment) and as a demonstration that the company is being run for the long-term benefit of all its stakeholders, including customers and the environment.		

Key:

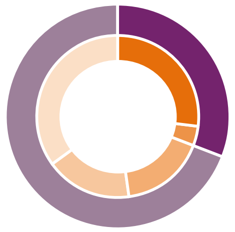
The best service to customers
At the lowest sustainable cost
In a responsible manner
Communities
Customers
Environment
Investors
Suppliers

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):

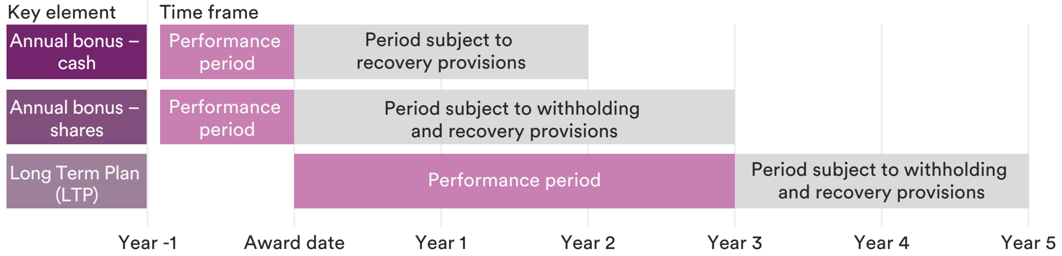
Fixed vs performance-linked (%)[(1)]



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

(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 171.

Implementation of directors' remuneration policy in 2021/22

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2021/22. For further details see the annual report on remuneration on pages 177 to 190.

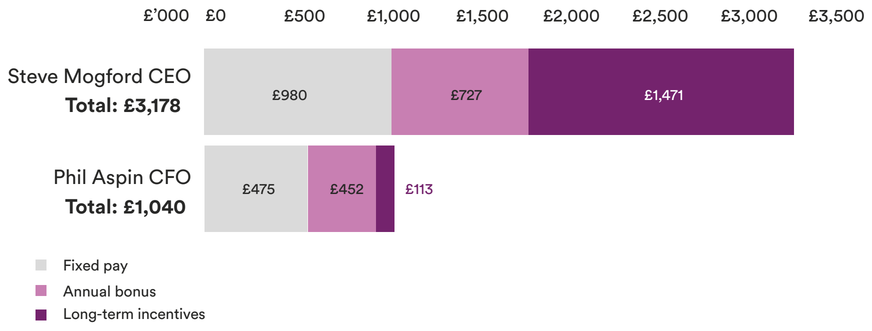
Key element	Implementation of policy in 2021/22
Base salary	• Salary increase of 2.0 per cent from 1 September 2021 in line with the headline increase for the wider workforce.
Benefits and pension	• Market competitive benefits package. • Steve Mogford has a cash pension allowance of 22 per cent of base salary. His pension arrangements will be aligned to those of the wider workforce with effect from 1 January 2023. See page 177 for further details. Phil Aspin has a cash pension allowance of 12 per cent of base salary in line with the arrangement in place for the wider workforce.
Annual bonus	• Maximum opportunity of 130 per cent of base salary. • 2021/22 annual bonus scorecard outcome of 86.0 per cent. • 50 per cent of 2021/22 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 100 per cent for the performance period 1 April 2019 to 31 March 2022. These awards will vest after an additional holding period which ends no earlier than five years from the date of grant. • 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 building his shareholding and is expected to reach the minimum guideline within five years of his appointment to the board. Post-employment shareholding requirements apply. See page 186 for further details.

Corporate governance report

At a glance summary: executive director's remuneration

Single total figure of remuneration for executive directors for 2021/22

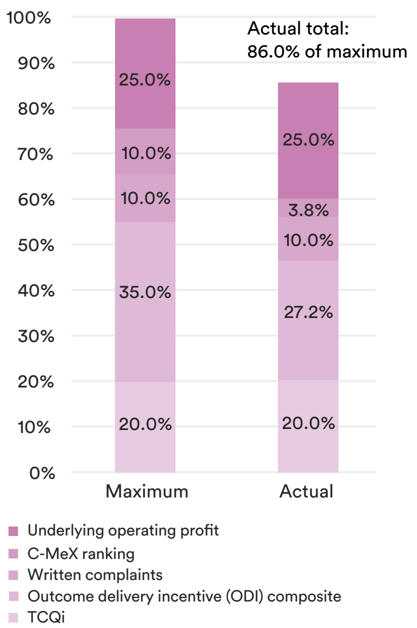
Fixed pay comprises base salary, benefits and pension. Further information on the single figure of remuneration can be seen on page 177.



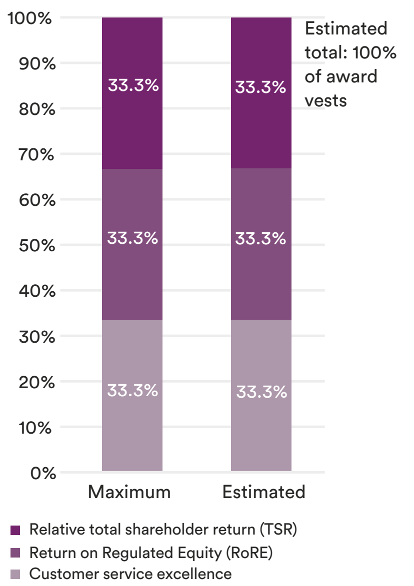
Annual bonus and long term plan (LTP) outcomes

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 178 and about the LTP on page 179.

2021/22 Annual bonus outcome



Estimated 2019 Long Term Plan (LTP) outcome



Aligning pay with performance. See pages 178 and 179 for details.

Annual bonus – year ended 31 March 2022.

Underlying operating profit(1)

£768.2m

C-MeX ranking versus the other water companies

7th out of 17

Written complaints (per 10,000 customers)

17.65

Outcome delivery incentive (ODI) composite

£23.1m

Time, Cost and Quality index (TCQi)

95.6%

Long term plan – three years ended 31 March 2022

Relative total shareholder return(2)

48.1%

Return on regulated equity (RoRE)(3)

+1.64%

Customer service excellence(4)

2nd 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.

(3) Average RoRE compared to average allowed RoRE over 2019/20, 2020/21 and 2021/22.

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

Directors' remuneration policy

This part of the directors' remuneration report sets out the remuneration policy for the company and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy in this report will be put to a binding shareholder vote at the AGM on 22 July 2022 and will take formal effect from that date, subject to shareholder approval. It is intended that the policy will apply for three years beginning on the date of approval.

Overview of remuneration policy

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

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

The committee also understands that listening to the views of the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged. Account is taken of employee views when consulting on the policy, typically via the employee voice panel. Additionally, the company carries out annual employee engagement surveys and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements, all of which can provide insight which is of value to the committee. The general base salary increase and broader remuneration arrangements, including pension provision, for the wider employee population are considered by the committee when determining remuneration policy for the executive directors. As outlined on page 184 processes are in place for the committee to regularly review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the 'employee voice'.

Future policy for directors

Base salary

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

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

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 2022/23); 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 until 31 December 2022. From 1 January 2023 arrangements for such executive directors will be aligned to the approach available to the wider workforce. **Performance measures** None

Benefits

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

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

Annual bonus

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

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

Long Term Plan (LTP)

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

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

Shareholding requirements

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

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

Non-executive directors' fees and benefits

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

Operation	Maximum opportunity
The remuneration policy for the non-executive directors (with the exception of the Chair) is set by a separate committee of the board. The policy for the Chair is determined by the remuneration committee (of which the Chair is not a member). Fees are reviewed annually taking into account the salary increase for the general workforce and the levels of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 September. Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain board sub-committees, and to the senior independent non-executive director. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the board may pay extra fees on a pro rata basis to recognise the additional workload. No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or 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 performance measures and targets

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

Only modest rewards are available for delivering threshold performance levels, with rewards at stretch normally requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus 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, to align with the company's key strategic goals for the five-year regulatory period which began in 2020, and be closely linked to the creation of long-term shareholder value as follows:

Measure	What is it?	Key reasons for selection
Return on Regulated Equity (RoRE)	RoRE is the return that the company is expected to earn relative to the equity portion of its Regulatory Capital Value. The return is comprehensive in that it is composed of the company's performance on expenditure, investment and financing decisions, and operational and customer initiatives undertaken over the regulatory period. Outperformance (or underperformance) in these areas will result in an increase (or reduction) to RoRE which should translate into higher (or lower) returns for shareholders through share price performance.	• Increasingly used by investors and analysts as it is a good proxy for value (i.e. premium to Regulatory Capital Value) in the sector. • Directly linked to the allowable return set by the regulator, and is comparable across the sector. • Captures financial, operational and customer performance. • Motivates management as they have strong line of sight to the outcome, for which stretching but achievable targets can be set. • Outperformance will result in an increase to RoRE which should translate into higher returns for investors through share price performance. • Outperformance also benefits customers through strong delivery against stretching performance commitments, efficiencies in the capital investment programme and lower long-term financing costs.
Customer basket	A basket of customer measures comprising operational, service, resilience and carbon measures to capture the delivery of performance for customers and the environment. Customer priorities are reflected in the measures selected.	• Investors will be impacted by financial rewards resulting from delivery on service commitments, and through investments made to ensure the long-term health and sustainability of our assets. • Customers will benefit from improvements in key performance areas of importance to them, and from long-term reliability in the quality of their water supplies, and ways of working that protect and improve the environment.

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

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

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

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

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

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

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.

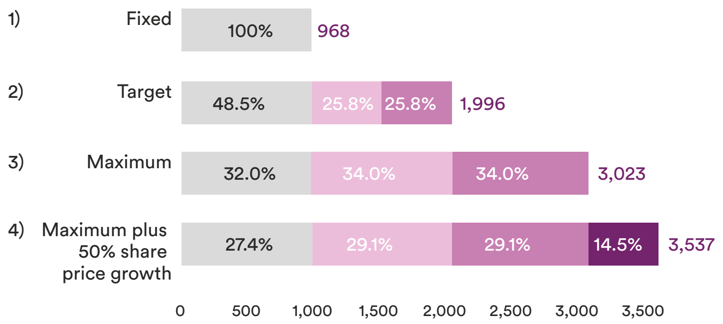
At senior levels, remuneration is increasingly long term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

Scenarios for total remuneration

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

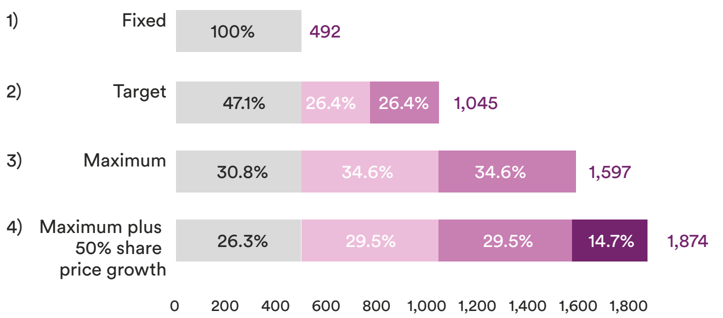
Steve Mogford CEO

£'000s



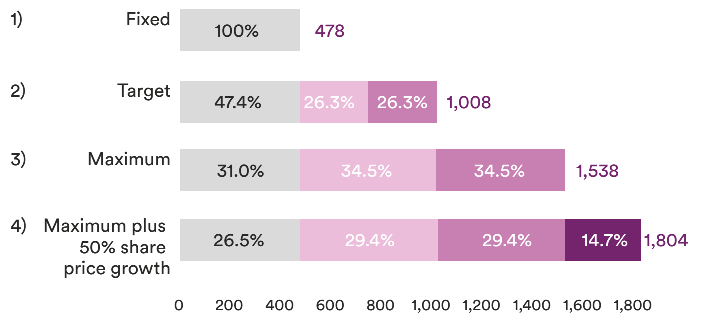
Louise Beardmore CEO designate

£'000s



Phil Aspin CFO

£'000s



Notes on the scenario methodology:

- 'Fixed' is base salary effective 31 March 2022 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 2021/22;
- '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.

Fixed
Annual bonus
Long Term Plan
Additional Long Term Plan value if share price grows by 50 per cent

External directorships

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

Service contracts and letters of appointment

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

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

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

Date of service contracts

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

Approach to recruitment remuneration

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved 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. 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). 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 and the market rate for the role. 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 Chair 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 Chair's fees are set by the remuneration committee.

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 green travel 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 green travel allowance earned in new paid employment in that period.
Treatment of annual bonus on termination	• Normally, eligibility for any bonus payment will be forfeited where the annual performance period has not yet been completed. However, in certain circumstances, such as death, disability, mutually agreed retirement or other circumstances at the discretion of the committee, a time prorated bonus may be payable for the period of active service. There is no automatic entitlement to payments under the bonus scheme. Any payment is at the discretion of the committee and is subject to withholding and recovery provisions as detailed in the policy table. • Performance targets would apply in all circumstances. • If it is not possible for legal reasons to grant a deferred share award (for example, if the director is no longer employed by the company at the point of payment), the committee will seek to effect the normal deferred element in the form of a deferred cash award, but may ultimately use its discretion to pay the bonus wholly in cash.
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. • The default treatment is that any outstanding awards will vest in full on the originally intended vesting date with no time prorating applying. • Deferred bonuses are subject to withholding and recovery provisions as detailed in the policy table.
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 where the performance period has not yet been completed will lapse on date of cessation of employment (awards which are in a holding period following the completion of the performance period will not lapse). • 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 typically be prorated to reflect the same period. Any such payments would normally be paid entirely in cash.
- Deferred bonuses will generally vest on the date of a change of control. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.
- Long Term Plan awards will generally vest on the date of a change of control taking into account the extent to which the committee assesses that any performance condition has been satisfied at that point. Time prorating will normally apply unless the committee determines otherwise. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.

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

Year ended 31 March	Fixed pay: Base salary £'000 2022	Base salary £'000 2021	Pension £'000 2022	Pension £'000 2021	Benefits £'000 2022	Benefits £'000 2021	Subtotal £'000 2022	Subtotal £'000 2021	Variable pay: Annual bonus £'000 2022	Annual bonus £'000 2021	Long-term incentives £'000 2022(1)	Long-term incentives £'000 2021(2)	Subtotal £'000 2022	Subtotal £'000 2021	Total £'000 2022	Total £'000 2021
Steve Mogford	**784**	736(3)	**173**	171	**23**	30	**980**	937	**727**(4)	824	**1,471**	1,562	**2,198**	2,386	**3,178**	3,323
Phil Aspin(5)	**405**	275	**49**	33	**21**	13	**475**	321	**452**	293	**113**	108	**565**	401	**1,040**	722

(1) The long-term incentive is in respect of the Long Term Plan (LTP) award which was granted in June 2019 for which the outcome is based on performance over the three-year period from 1 April 2019 to 31 March 2022. 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 2022, and the award for Steve Mogford will not vest until the end of an additional holding period. Phil Aspin's award was granted prior to his appointment to the board and so no holding period applies. For the purpose of this table the value of LTP awards has been calculated using an average share price over the three-month period from 1 January 2022 to 31 March 2022 of 1,064.4 pence per share. This is greater 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 179 for further details.

(2) The long-term incentive amount for the year ended 31 March 2021 is in respect of the LTP award that was granted in June 2018 and whose performance period ended on 31 March 2021. 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 89.6 per cent. The final confirmed outcome for the measure was better than the LBE which meant the actual overall vesting outcome was 97.9 per cent. The figures for 2021 have been updated to reflect this. The award for Steve Mogford is not due to vest until the end of an additional holding period, and for the purpose of this table dividend equivalents accrued to 31 March 2022 have been added, and the value of the award has been calculated using an average share price over the three-month period from 1 January 2022 to 31 March 2022 of 1,064.4 pence per share. Phil Aspin's award was granted prior to his appointment to the board so no holding period applied, and for the purpose of this table the value of the award has been calculated using the share price on the vesting date of 1,037.0 pence per share.

(3) In the context of the COVID-19 pandemic, in the year ended 31 March 2021 Steve Mogford took a salary reduction of 20 per cent of salary for three months, which was donated to charity.

(4) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This is reflected in the details shown.

(5) Salary, benefits, pension and annual bonus figures in 2021 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

Executive director salaries were increased by 2.0 per cent with effect from 1 September 2021, in line with the headline increase applied across the wider workforce. The committee judged that the increase was supported by very good individual and business performance.

Executive director	Base salary £'000 1 September 2021	Base salary £'000 1 September 2020
Steve Mogford	**790.7**	775.2
Phil Aspin	**408.0**	400.0

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 with effect from 1 January 2023 and will reduce to 12 percent of base salary from that date. 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 included: a car allowance of £14,000; health, life cover and income protection insurance; travel costs; and communication costs. Aside from the transition from a car allowance to a green travel allowance under the proposed policy no material changes are expected to benefits during the year commencing 1 April 2022.

External appointments

Phil Aspin was a member of the UK Endorsement Board during the year ended 31 March 2022 for which he received and retained an annual fee of £14,000.

Annual bonus

Deferred Bonus Plan awards made in the year ended 31 March 2022 (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 2021 to the executive directors as at that date in respect of deferred share bonus payments for the 2020/21 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	39,987	£412	17.6.2023
Phil Aspin	Conditional shares	50% of bonus[2]	16,246	£167	17.6.2023

(1) The face value has been calculated using the closing share price on 15 June 2021 (the dealing day prior to the date of grant), which was 1,030.8 pence per share.

(2) As stated in last year's report, a bonus of around £293,000 was earned by Phil Aspin in respect of the period 24 July 2020 to 31 March 2021 (following his appointment to the board), along with a bonus of around £53,000 in respect of the period 1 April 2020 to 23 July 2020 (prior to his appointment to the board). He received one overall Deferred Bonus Plan award in respect of both bonus payments, where the overall award value was based on 50 per cent of the bonus earned since his appointment to the board plus 40 per cent of the bonus earned prior to his appointment.

Annual bonus in respect of financial year ended 31 March 2022 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2022 are set out below. The table on page 166 summarises how the performance measures are linked to our business strategy, including delivery for customers and the environment. As disclosed in last year's report, the annual bonus for 2021/22 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 takes into account the personal contributions of each individual. The committee was satisfied that the bonus scorecard outcome was reflective of overall company performance during the year and was aligned with the delivery of outcomes for our stakeholders (including those detailed on pages 52 to 75) and, as such, it would not seek to exercise its discretion over the bonuses for the executive directors. As outlined on page 161, prior to the committee determining the individual bonus outcomes for the executive directors, Steve Mogford expressed his wish to unconditionally waive £150,000 of any bonus that would otherwise have been due, and so this is reflected in the details shown in the table below.

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%	£708.8m	£738.8m	£758.8m	100%	25.0.%
				Actual: £768.2m		
Customer service in year						
C-MeX ranking out of the 17 water companies	10.0%	8th position	6th position	4th position	37.5%	3.8%
		Actual: 7th position				
Written complaints (per 10,000 customers)	10.0%	20.50	20.25	20.00	100%	10.0%
				Actual: 17.65		
Maintaining and enhancing services for customers						
Outcome delivery incentive (ODI) composite[2]	35.0%	£10.0m	£18.4m	£26.9m	77.6%	27.2%
			Actual: £23.1m			
Time, cost and quality of capital programme (TCQi)[3]	20.0%	85.0%	90.0%	95.0%	100%	20.0%
				Actual: 95.6%		
Total scorecard outcome						86.0.%

	Steve Mogford[4]	Phil Aspin
Actual award (% of maximum)	**71.3%**	**86.0%**
Maximum award (% of salary)	130%	130%
Actual award (% of salary)	**92.7%**	**111.7%**
Actual award (£'000 – shown in single figure table)[5]	727	452

(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) The outcome of the ODI composite measure has been subject to independent external assurance.

(3) 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.

(4) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This is reflected in the details shown.

(5) Under the Deferred Bonus Plan, 50 per cent of the annual bonus will be deferred in shares for three years.

Long-term incentives

2019 Long Term Plan (LTP) awards with a performance period ended 31 March 2022 (audited information)

The 2019 LTP awards were granted in June 2019 and performance was measured over the three-year period from 1 April 2019 to 31 March 2022. As Steve Mogford was an executive director when his award was granted in 2019 it will normally vest following an additional holding period so that the overall vesting period is at least five years from the grant date, and the unvested shares will remain subject to withholding provisions during this 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 (on a net of tax basis).

Performance against each of the three measures applicable to the 2019 LTP has been very strong as shown in the table below. 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 2022. The values of the 2019 LTP awards in the single total figure of remuneration table are therefore estimated and will be restated if necessary in next year's report.

Once the final outcome of the customer service excellence measure is known, before approving the final vesting outcome for the awards the committee will determine whether the underpins have been met and will also consider whether there should be any discretion applied.

		Achieved				
Measure	% weighting of measure	Threshold (25% vesting)	Intermediate	Stretch (100% vesting)	Vesting as a % of maximum	**Outcome**
Relative total shareholder return (TSR)						
TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies)[1]	33.3%	Median TSR	Straight-line between threshold and stretch	Median TSR × 1.15	100%	33.3%
		Actual: TSR above stretch Company TSR of 48.1% was above stretch TSR of 39.3%				
Return on Regulated Equity (RoRE)			(50% vesting)			
Average RoRE compared to the average allowed return set by the regulator across the three-year performance period	33.3%	Average RoRE of -0.50% below the average allowed return	Average RoRE equal to the average allowed return set by the regulator	Average RoRE of 1.00% above the average allowed return	100%	33.3%
		Actual: Average RoRE of 6.10% was 1.64% above the average allowed return				
Customer service excellence						
Ranking for the year ended 31 March 2022 out of the 11 water and wastewater companies using a combined customer service measure comprising C-MeX performance and customer complaints	33.3%	Median rank (6th position)	Straight-line between threshold and stretch	Upper quartile rank (3rd position)	100%	33.3%
		Estimate: 2nd position[2]				
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		✓ 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)						**100%**

	Steve Mogford	Phil Aspin
Number of shares granted	125,126	9,595
Number of dividend equivalent shares	13,096	1,002
Number of shares before performance conditions applied	138,222	10,597
Estimated number of shares after performance conditions applied	138,222	10,597
Three-month average share price at end of performance period (pence)[3]	1,064.4	1,064.4
Estimated value at end of performance period (£'000 – shown in single figure table)[4]	1,471	113

(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) 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 2022.

(3) Average share price over the three-month period from 1 January 2022 to 31 March 2022.

(4) 25.8 per cent of the value vesting is attributable to share price appreciation which equates to £380,000 for Steve Mogford and £29,000 for Phil Aspin.

2021 LTP awards with a performance period ending 31 March 2024 (audited information)

The table below provides details of share awards made to executive directors on 30 June 2021 in respect of the 2021 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	102,539	25%	31.3.2024
Phil Aspin	Conditional shares	130% of salary	£520	52,910	25%	31.3.2024

(1) The face value has been calculated using the closing share price on 29 June 2021 (the dealing day prior to the date of grant) which was 982.8 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.

LTP awards made during the year were based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures.

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 into 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 2021 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2021 to 31 March 2024. The table on page 166 summarises how these performance measures are linked to our business strategy, including delivery for customers and the environment.

	Targets(1)		
Measure	**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	1.5% (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 8th	Ranked 4th (or better)	5.0%
Water poverty(3)	64,300 customers have been lifted out of water poverty	83,900 (or more) customers have been lifted out of water poverty	5.0%
Priority services(3)	No threshold target. Stretch target must be achieved for any vesting on this measure	6.3% (or more) of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents(3)	A combined total of 26.38 sewer flooding incidents per 10,000 connected properties	A combined total of 19.89 (or fewer) sewer flooding incidents per 10,000 connected properties	5.0%
Pollution incidents(4)	22.40 pollution incidents per 10,000km of our wastewater network	12.21 (or fewer) pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance(4)	97.9% compliance	99.0% (or greater) compliance	5.0%
Water quality contacts(4)	13.5 customer contacts per 10,000 customers	12.0 (or fewer) customer contacts per 10,000 customers	5.0%
Leakage(3)	A three-year average of 97.7 megalitres of leakage per 10,000km of our water network per day	A three-year average of 94.3 megalitres (or less) 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 (or less)	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating(5)	3 star rating	4 star rating	5.0%
Total			100%

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 2024 as published in our own and/or the other water companies' Annual Performance Reports for 2023/24

(4) Outcome based on performance in respect of the calendar year ending 31 December 2023 as published in our own and/or the other water companies' Annual Performance Reports for 2023/24

(5) Outcome based on performance in respect of the calendar year ending 31 December 2023 as published in the Environment Agency's published report in 2024

Incentives in 2022/23

Ensuring alignment with our business plan

The performance measures used in our incentive schemes during 2022/23 will remain aligned directly with the business plan, with a material weighting on measures that are linked to delivery for customers and the environment.

Annual bonus in respect of the financial year commencing 1 April 2022

The maximum bonus opportunity for the year commencing 1 April 2022 will remain unchanged at 130 per cent of base salary.

As is outlined on page 166, the measures used in our annual bonus arrangements for executive directors demonstrate significant alignment to stakeholder interests, including customers and the environment. In 2022/23 we will retain many of those measures but have also decided to introduce a number of new measures which further demonstrate our intention to incentivise stretching performance delivery for customers, including on our environmental commitments and obligations.

New annual bonus measures for 2022/23

Measure	Why it's being introduced
Water quality contacts (appearance)	Customers expect the water that comes out of their tap to be clear, and when it is discoloured it can affect public confidence in the water supply. This new measure will drive improvements in our performance in this aspect of our service, as we know it is a priority for our customers.
Better Rivers commitments	Improving river health and recreation in the North West is a priority for the company. We have published a four-part plan setting out how we will achieve this for the benefit of customers, the environment and other stakeholders, and details are shown on page 67. This new measure will focus on the delivery of our programme milestones.
Capital programme delivery incentive (CPDi)	The new CPDi measure is an evolution of the Time, Cost and Quality (TCQi) measure we have used in recent years, in which the time, cost and quality of our capital programme delivery remains important, but with an increased emphasis on efficiency. CPDi also takes account of the carbon impact of our enhancement projects, providing a further environmental element to the annual bonus arrangements.

The table below summarises the measures, weightings and targets for the 2022/23 bonus. Targets that are considered commercially sensitive will be disclosed retrospectively in the 2022/23 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	7th position	5th position	10.0%
Written complaints (per 10,000 customers)	17.50	17.10	16.80	5.0%
Water quality contacts (appearance)	7,604	6,974	6,344	10.0%
Maintaining and improving services for customers and the environment				
Better Rivers commitments (% of 2022/23 programme milestones delivered)	90.0%	95.0%	100%	10.0%
Outcome delivery incentive (ODI) composite		Commercially sensitive		25.0%
Capital programme delivery incentive (CPDi)	80.0%	85.0%	95.0%	15.0%
Total				100%

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

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

2022 LTP awards with a performance period ending 31 March 2025

The 2022 LTP award level for executive directors will remain unchanged at 130 per cent of base salary. As outlined on page 163 the committee is seeking approval of the new Long Term Plan 2022 at the 2022 AGM, and so we will wait until late July to grant the LTP awards in order that they might be granted under this new plan if it is approved. If it is not approved, the awards will again be granted under the existing LTP 2013.

While awards will not be granted until after the AGM, the committee has accelerated the target-setting process compared to previous years so that the measures and targets that are expected to apply to the awards are available to shareholders in this directors' remuneration report.

Consistent with the approach in 2020 and 2021 the awards will be based on Return on Regulated Equity and a customer basket of measures, with each component being equally weighted at 50 per cent.

Stretching targets have been 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 approach used to date means that award outcomes are directly attributable to clearly identified customer, environmental and social measures, including those which are within scope of our key regulators.

As outlined on page 163 the committee has decided to introduce carbon measures in the LTP from 2022, linked to the company's efforts to continually strengthen the way we govern the resilience and sustainability of our business and public services. This runs to the heart of living our purpose to provide great water and more for the North West.

Climate change is a priority risk to the company and its stakeholders because the affordability and resilience of our operations and services fundamentally rely on a stable climate and a healthy natural environment. You can find out more about our long-standing approach to both carbon reduction (mitigation) and climate resilience (adaptation) as detailed in our TCFD on pages 86 to 99.

We have recently enhanced our carbon commitments and governance after achieving previous goals to further grow our renewable energy generation capabilities and purchase only certified green electricity. We made six new carbon pledges in 2020, and in 2021 we became the first UK water company to independently verify that we have international best practice Science-Based Targets (SBTs). This means that our targets have been assessed to ensure they follow a reduction trajectory sufficient to help prevent the most damaging effects of climate change by limiting average global warming to no more than 1.5°C.

In our 2022 LTP we will introduce four measures covering four priority areas of our carbon agenda, each with an equal weighting of 2.5 per cent, so that 10 per cent of the overall LTP outcome is directly related to carbon-related performance. In the longer term, as we further mature our carbon plan, we aspire to introducing one or two holistic carbon measures that are directly aligned to our SBTs for 2030.

To create space for the new carbon measures we have removed the C-MeX and water quality contacts measures used in previous LTP awards on the basis that they are both covered under the 2022/23 annual bonus. With these new carbon measures, the whole of the customer basket now focuses executives on areas of performance that are in the interests of customers and have an environmental or social impact.

	Targets[1]		
Measure	**Threshold (25% vesting)**	**Stretch (100% vesting)**	**Weighting**
Return on Regulated Equity (RoRE)			
Company RoRE	0.25% above the average of Ofwat's allowed RoRE over the three financial years of the performance period	2.00% (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]			
Carbon – green fleet	170 electric or other low carbon vehicles will be deployed in our fleet by 31 March 2025	200 (or more) electric or other low carbon vehicles will be deployed in our fleet by 31 March 2025	2.5%
Carbon – peatland restoration	527 hectares of peatland will be restored and certified to the Peatland Carbon Code (or equivalent standard) by 31 March 2025	644 hectares (or more) of peatland will be restored and certified to the Peatland Carbon Code (or equivalent standard) by 31 March 2025	2.5%
Carbon – woodland creation	77 hectares of woodland will be created and certified to the Woodland Carbon Code (or equivalent standard) by 31 March 2025	94 hectares (or more) of woodland will be created and certified to the Woodland Carbon Code (or equivalent standard) by 31 March 2025.	2.5%
Carbon – supply chain engagement	No threshold target. Stretch target must be achieved for any vesting on this measure	66% (or more) of suppliers, by emissions within scope 3 capital goods, will have science-based targets by 31 March 2025	2.5%
Water poverty[3]	66,500 customers have been lifted out of water poverty	83,900 (or more) customers have been lifted out of water poverty	5.0%
Priority services[3]	No threshold target. Stretch target must be achieved for any vesting on this measure	7.0% (or more) of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents[3]	A combined total of 26.38 sewer flooding incidents per 10,000 connected properties	A combined total of 18.85 (or fewer) sewer flooding incidents per 10,000 connected properties	5.0%
Pollution incidents[4]	19.50 pollution incidents per 10,000km of our wastewater network	11.80 (or fewer) pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance[4]	97.9% compliance	99.0% (or greater) compliance	5.0%
Compliance risk index (CRI)[4]	CRI score of 2.75	CRI score of 2.00 (or less)	5.0%
Leakage[3]	A three-year average of 93.1 megalitres of leakage per 10,000km of our water network per day	A three-year average of 90.5 megalitres (or less) of leakage per 10,000km of our water network per day	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating[5]	3 star rating	4 star rating	5.0%
Total			**100%**

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) Unless indicated otherwise, 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 2025 as published in our own and/or the other water companies' Annual Performance Reports for 2024/25
(4) Outcome based on performance in respect of the calendar year ending 31 December 2024 as published in our own and/or the other water companies' Annual Performance Reports for 2024/25
(5) Outcome based on performance in respect of the calendar year ending 31 December 2024 as published in the Environment Agency's published report in 2025

In line with policy, any LTP outcome for executive directors will only become available following the end of a holding period such that the total vesting period is at least five years from the date of grant. This provides the committee with time to consider and respond appropriately to any matters that were not known at the end of the relevant performance period but become apparent during the holding period.

Cascade of remuneration through the organisation

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

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

Employee group (number of employees covered)	Element of pay	Policy	Implementation
Employees at all levels (around 6,000)	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 generally no greater than the increase awarded to the general workforce.	In 2021 the base salary increase for employees was 2.0 per cent. 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.
	Health and wellbeing benefits	We want to create an environment that promotes healthy behaviours and ensure that employees have access to early and effective treatment, advice and information to improve their health and wellbeing.	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 around 250 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.	Around half of the workforce participate in our ShareBuy scheme.
	Annual bonus – cash	This provides a strong alignment to strategy throughout the organisation, with the same scorecard applying at all levels.	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.
CEO, CFO and executives (10)	Annual bonus – deferred shares	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.	Each of the executive directors and executives is required to defer a proportion of their bonus into shares for three years.
CEO, CFO, executives and other senior leaders (around 55)	Long Term Plan (LTP)	To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.	Executives and other senior leaders may be invited to participate in the LTP. Performance conditions are the same for all participants but award sizes vary.
CEO, CFO and executives (10)	Shareholding guidelines	The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests.	All executives are subject to shareholding guidelines, aligning their interests with those of shareholders.

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 183 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 page 126 for further details. During the year, the committee sought views from the Employee Voice panel as part of the consultation on the proposed directors' remuneration policy.

The figures below show how the percentage change in the CEO's salary, benefits and bonus earned in 2020/21 and 2021/22 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)
+6.5%	-11.8%	-23.9%

Change in employee remuneration(4)

Base salary(5)	Bonus	Benefits
+3.7	+11.6%	+5.0%

Change in other board member remuneration

	Salary/Total Fees(1)		Benefits(6)		Bonus	
Year ended 31 March	2022 versus 2021	2021 versus 2020	2022 versus 2021	2021 versus 2020	2022 versus 2021	2021 versus 2020
Executive directors						
Steve Mogford	**6.5%**	-4.2%	**-23.9%**	-14.1%	**-11.8%**	16.7%
Phil Aspin(7)	**1.2%**	n/a	**61.6%**	n/a	**7.6%**	n/a
Non-executive directors(8)						
Sir David Higgins	**6.5%**	111.1%	**1,555.9%**	-96.6%	**n/a**	n/a
Liam Butterworth(9)	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Stephen Carter	**6.3%**	-4.4%	**1,556.3%**	-93.0%	**n/a**	n/a
Kath Cates(9)	**6.5%**	n/a	**1,555.9%**	n/a	**n/a**	n/a
Mark Clare	**6.3%**	-4.4%	**1,555.9%**	-96.6%	**n/a**	n/a
Alison Goligher(10)	**11.5%**	9.4%	**708.6%**	-81.0%	**n/a**	n/a
Brian May(7)	**6.5%**	-4.4%	**5,076.4%**	-96.6%	**n/a**	n/a
Paulette Rowe	**6.5%**	-4.2%	**782.1%**	-95.2%	**n/a**	n/a
Doug Webb(9) (11)	**23.6%**	n/a	**1,418.0%**	n/a	**n/a**	n/a

(1) In 2020/21 Steve Mogford and the non-executive directors in role at that time received no salary/fee increases and the salary/fees they received reflected a voluntary reduction of 20 per cent for three months which was donated to charity. The actual salary/fee increase in 2021/22 was 2 per cent in line with the headline increase for employees. The annual percentage changes shown are therefore greater than they would have been had their 2020/21 salary/fees not been reduced.
(2) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This has resulted in a material reduction in bonus value compared to 2020/21.
(3) During the year Steve Mogford ceased to be eligible for group income protection and so the value of his benefits reduced compared to 2020/21.
(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 2.0 per cent.
(6) For non-executive directors, taxable benefits relate primarily to certain travel expenses and accommodation which, given the relatively small numbers involved, can produce sizeable percentage changes from year to year. The significant change for 2021/22 versus 2020/21 primarily reflects the fact that as a result of the COVID-19 pandemic, in 2020/21 the value of benefits received (typically less than £100) were materially less than normal. Face-to-face meetings resumed during 2021/22, with travel related expenses increasing towards their normal levels.
(7) Phil Aspin was appointed to the board on 24 July 2020. Brian May stepped down from the board on 23 July 2021. To enable a meaningful year-on-year comparison their salary/fees and bonus (for Phil Aspin) reflect hypothetical full-year earnings in 2020/21 and 2021/22 respectively.
(8) Calculated using the fees and taxable benefits shown in the table on page 188.
(9) Kath Cates and Doug Webb were appointed to the board on 1 September 2020. To enable a meaningful year-on-year comparison their salary/fees for 2020/21 reflect hypothetical full-year earnings. Liam Butterworth was appointed to the board on 1 January 2022 so no year-on-year comparison is possible.
(10) The fee increases for Alison Goligher reflects her appointment as remuneration committee chair with the associated fee effective from 24 July 2020.
(11) The fee increase for Doug Webb reflects his appointment as audit and treasury committee chair with the associated fee effective from 23 July 2021.

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 177.

- We identified all employees who received base salary during the year ended 31 March 2022 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 2022, 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.

	Financial year		
	2021/22	2020/21	2019/20
Methodology used	**A**	A	A
Average number of employees	**5,866**	5,570	5,461
Ratio of CEO single figure total remuneration:(1)			
– To employee at the 25th percentile	**92:1**	97:1	87:1
– To employee at the 50th percentile	**69:1**	72:1	66:1
– To employee at the 75th percentile	**54:1**	57:1	53:1
Ratio of CEO base salary plus annual bonus:			
– To employee at the 25th percentile	**44:1**	52:1	47:1
– To employee at the 50th percentile	**37:1**	38:1	37:1
– To employee at the 75th percentile	**30:1**	30:1	31:1
Ratio of CEO base salary:			
– To employee at the 25th percentile	**24:1**	26:1	26:1
– To employee at the 50th percentile	**20:1**	19:1	20:1
– To employee at the 75th percentile	**17:1**	15:1	17:1
Additional details			
CEO total single figure (£'000)	**3,178**	3,323	2,925
CEO base salary plus annual bonus (£'000)	**1,511**	1,560	1,476
CEO base salary (£'000)	**784**	736	769
Employees total pay and benefits (£'000)			
– at the 25th percentile	**35**	34	33
– at the 50th percentile	**46**	46	44
– at the 75th percentile	**59**	58	56
Employees base salary plus annual bonus (£'000)			
– at the 25th percentile	**34**	30	32
– at the 50th percentile	**41**	42	40
– at the 75th percentile	**51**	52	48
Employees base salary (£'000)			
– at the 25th percentile	**32**	29	30
– at the 50th percentile	**39**	39	38
– at the 75th percentile	**47**	50	44

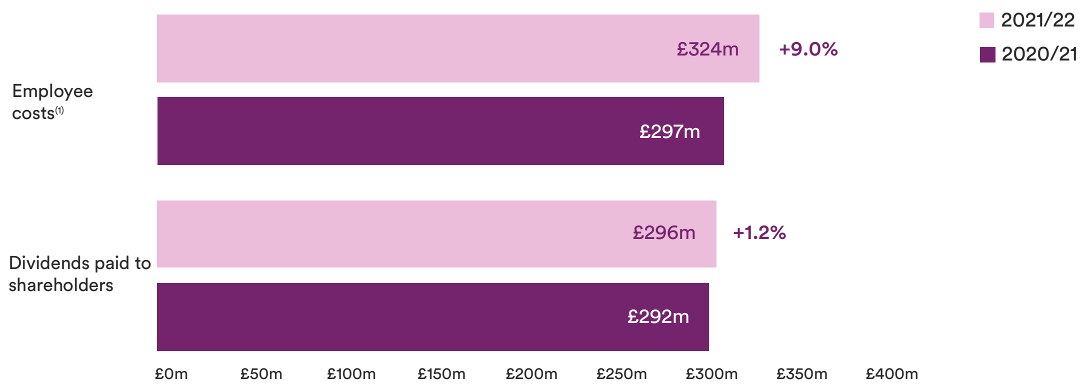
(1) The figures for 2020/21 have been restated to reflect the final vesting outcome, additional dividend equivalents and updated share price for Steve Mogford's 2018 LTP as shown in the single figure table on page 177. The figures for 2019/20 have also been restated to reflect additional dividend equivalents and closing share price on the date of vesting for Steve Mogford's 2017 LTP.

Along with the ratios comparing total remuneration, the committee keeps under review the ratios for salary and salary plus annual bonus, and tracks how these change over time. With a significant proportion of the remuneration of the CEO linked to company performance and share price movements over the longer term, it is expected that the headline ratios will depend primarily on the Long Term Plan (LTP) outcome, and, accordingly, may fluctuate from year to year. Participation in the LTP is currently limited to around 55 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.

This year the pay ratio of CEO single figure total remuneration to the median employee (P50) has reduced slightly compared to last year at 69:1, with a reduction also being noticeable at P25 and P75. The committee observes a similar picture across the other reported ratios, which is to be expected given our approach to cascading the annual bonus and having aligned executive director salary increases with the broader workforce. 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.

Relative importance of spend on pay

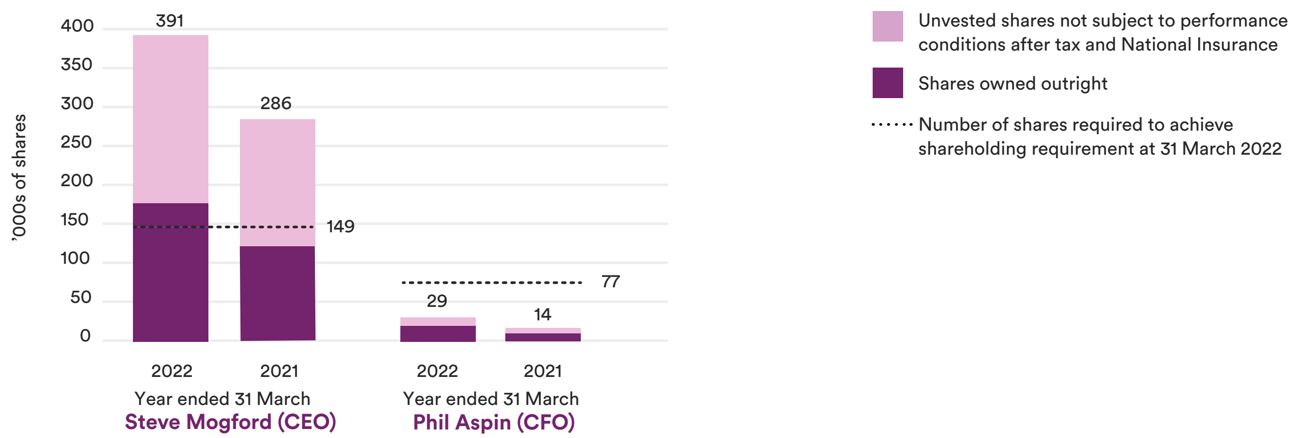
The table below shows the relative importance of spend on pay compared to distributions to shareholders.



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

Executive directors' shareholding (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2022 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding requirement level. Steve Mogford continues to exceed the target shareholding requirement 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 191.

Director	Shareholding requirement (% of salary)	Number of shares required to meet shareholding requirement[1]	Number of shares owned outright (including connected persons) 2022	2021	Unvested shares not subject to performance conditions[2] 2022	2021	Total shares counting towards shareholding requirements[3] 2022	2021	Shareholding as % of base salary at 31 March 2022[1]	Shareholding requirement met at 31 March 2022	Unvested shares subject to performance conditions[4] 2022	2021
Steve Mogford[5][6]	200%	148,572	**181,144**	110,630	**395,160**	331,476	**390,595**	286,331	**526%**	**Yes**	**363,303**	390,702
Phil Aspin[5]	200%	76,663	**17,440**	11,439	**21,367**	4,299	**28,781**	13,736	**75%**	**No**	**126,738**	79,794

(1) Share price used is the average share price over the three months from 1 January 2022 to 31 March 2022 (1,064.4 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 notional 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 2022 to 22 May 2022, additional shares were acquired by Steve Mogford (27 ordinary shares) and Phil Aspin (27 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 2022, shares granted on 27 June 2017 under the Long Term Plan vested for Steve Mogford following an additional two-year holding period. Steve Mogford had 110,948 shares vesting, of which 52,277 shares were sold to cover tax and National Insurance. Steve retained the remaining balance of 58,671 shares.

Other information

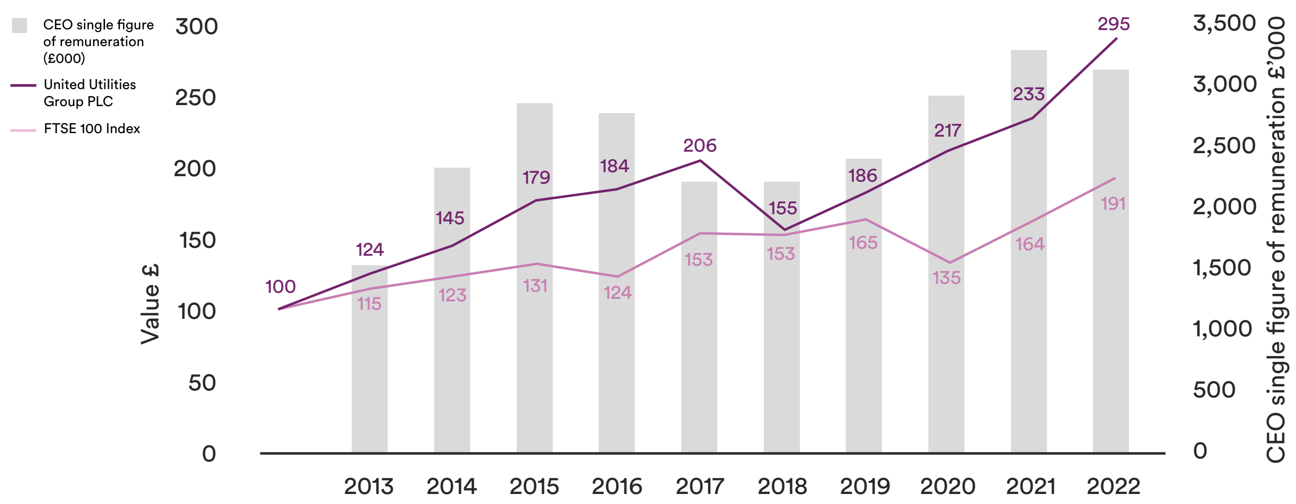
Dilution limits

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 2022.

Company performance and CEO remuneration comparison

The total shareholder return (TSR) chart below illustrates the company's performance against the FTSE 100 over the past ten years. The FTSE 100 is an appropriate comparator as the company is a member of the FTSE 100 and it is a widely published benchmark for this purpose. The chart shows the growth in the value of a hypothetical £100 holding invested in the company over the ten-year period. The chart also shows the CEO's single total figure remuneration over the ten years ended 31 March 2022 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Steve Mogford										
CEO single figure of remuneration (£'000)	1,549	2,378	2,884	2,760[1]	2,233	2,221	2,448	2,925[2]	3,323[3]	**3,178**
Annual bonus payment (% of maximum)	84.4	78.2	77.4	54.5	83.7	74.9	79.0	70.7	81.8	**71.3**[4]
LTP vesting (% of maximum)[5]	n/a[6]	93.5	97.5	33.6	54.5	55.4	64.4	87.3	97.9[3]	**100**[7]

(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 2017 LTP, which vested on 1 April 2022 after the end of a two-year holding period, has been updated to reflect the additional dividends accruing on this award and the closing share price on the date of vesting of 1,122.2 pence per share.

(3) The payout and vesting percentage for the 2018 LTP have been restated to reflect the additional dividend equivalents accruing on the award, the final vesting outcome and updated share price. See page 177 for further details.

(4) Steve Mogford unconditionally waived part of his 2021/22 bonus. The actual bonus scorecard outcome was 86.0 per cent.

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

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

(7) The 2019 Long Term Plan amount vesting percentage is estimated. See page 179 for further details.

Exit payments and payments to former directors made in the year

There have been no exit payments or payments to former directors in respect of their roles as directors during the year ended 31 March 2022 other than the vesting of legacy share awards. See page 191.

Corporate governance report
Annual report on remuneration

Non-executive directors

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

	Salary/fees £'000		Taxable benefits £'000		Total £'000	
Year ended 31 March	2022	2021[1]	2022	2021	2022	2021
Sir David Higgins	304	285	2	0	306	285
Liam Butterworth[2]	17	n/a	0	n/a	17	n/a
Stephen Carter	81	76	2	0	83	76
Kath Cates[3]	69	40	2	0	71	40
Mark Clare	83	78	2	0	85	78
Alison Goligher	83	74	1	0	84	74
Brian May[4]	26	80	5	0	31	80
Paulette Rowe	69	65	1	0	70	65
Doug Webb[3] [5]	80	40	1	0	81	40

(1) In the context of the COVID-19 pandemic it was determined that fees should not increase in the year ended 31 March 2021. 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.

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

(3) The fees for Kath Cates and Doug Webb in respect of year ending 31 March 2021 reflect part-year earnings as they both joined the board on 1 September 2020.

(4) Brian May stepped down from the board on 23 July 2021. The benefits value shown for 2022 includes the cost of a retirement gift he received, alongside other expenses.

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

Fees

Non-executive director base fees were reviewed and increased with effect from 1 September 2021 as shown below. Base fees were increased by 2.0 per cent which is the same as the increase applying to the general workforce in 2021. Additional fees for the senior independent non-executive director and the chairs of committees were not increased.

	Fees £'000	
Role	1 Sept 2021	1 Sept 2020
Base fee: Chair[1]	306.0	300.0
Base fee: other non-executive directors[2]	69.6	68.2
Senior independent non-executive director[2]	13.5	13.5
Chair of audit and treasury committees[2]	16.0	16.0
Chair of remuneration committee[2]	13.5	13.5
Chair of corporate responsibility committee[2]	12.0	12.0

(1) Approved by the remuneration committee.

(2) 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 2022 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 2022[1]
Sir David Higgins	13.5.19	3,000
Liam Butterworth	1.1.22	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[2]	1.9.12	3,000
Paulette Rowe	1.7.17	3,000
Doug Webb	1.9.20	5,700

(1) From 1 April 2022 to 24 May 2022 there have been no movements in the shareholdings of the non-executive directors.

(2) Brian May had 3,000 shares when he stepped down from the board with effect from 23 July 2021.

The remuneration committee

Summary terms of reference

The committee's terms of reference were last reviewed in November 2021 and are available on our website at: corporate.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 Chair of the company;
- Proposing all new long-term incentive schemes for approval of the board, and for recommendation by the board to shareholders; and
- Assisting the board in reporting to shareholders and undertaking appropriate discussions as necessary with institutional shareholders on aspects of executive remuneration.

Composition of the remuneration committee as at 31 March 2022

Member	Member since
Alison Goligher (chair since 24.7.20)	1.8.16
Kath Cates	1.9.20
Mark Clare	1.9.14
Doug Webb	23.7.21

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

Activities of the remuneration committee over the past year

The committee met five times in the year ended 31 March 2022 and carried out a number of key activities:

- Approved the 2020/21 directors' remuneration report;
- 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 Chair;
- Assessed the achievement of targets for the 2020/21 annual bonus scheme, reviewed progress against the targets for the 2021/22 annual bonus scheme, and considered the targets for the 2022/23 annual bonus;
- Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2018, reviewed progress against the targets for the 2019 and 2020 LTP awards, and set the measures and targets for the 2021 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;
- Noted progress on the company's gender pay gap reporting;
- Reviewed the executive pay arrangements and consulted with shareholders and other stakeholders on the proposed remuneration policy; and
- Reviewed the rules of the executive incentive plans.

Support to the remuneration committee

By invitation of the committee, meetings are attended by the Chair, 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:

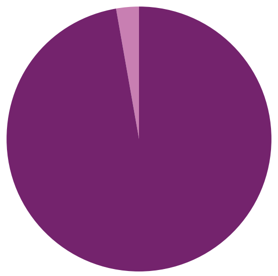
Adviser	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2022	Additional services provided in year ended 31 March 2022	Fees paid by company for these services in respect of year and basis of charge
Ellason LLP	Committee	Appointed January 2021; services retained during the financial year	General advice on remuneration matters including analysis of the remuneration policy and regular market and best practice updates	Advice and benchmarking on non-executive director and senior leader remuneration	£54,000 on a time/cost basis as set out in terms and conditions in the relevant engagement letter

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

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

2021 AGM: statement of voting

At the last annual general meeting on 23 July 2021, votes on the 2021/22 directors' remuneration report (other than the part containing the directors' remuneration policy) were cast as follows:



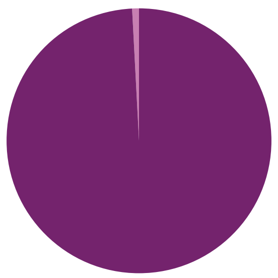
Votes for 466,214,257
(97.32% of votes cast)

Votes against 12,828,512
(2.68% of votes cast)

479,042,769 Total votes cast

2,205,642 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 24 May 2022 and signed on its behalf by:

Alison Goligher
Chair of the remuneration committee

Appendix 1: Executive directors' share plan interests 1 April 2021 to 31 March 2022

	Award date	Awards held at 1 April 2021	Granted in year	Vested in year	Lapsed/ forfeited in year	Notional dividends accrued in year(1)	Awards held at 31 March 2022(1)
Steve Mogford							
Shares not subject to performance conditions at 31 March 2022							
DBP	18.6.18	54,457	–	54,457	–	–	–
DBP	17.6.19	51,576	–	–	–	2,083	53,659
DBP	17.6.20	40,561	–	–	–	1,638	42,199
DBP(2)	16.6.21	–	39,987	–	–	1,614	41,601
LTP	28.6.16	78,203	–	78,203	–	–	–
LTP	27.6.17	106,640	–	–	–	4,308	110,948
LTP	25.6.18	144,046	–	–	3,106	5,778	146,718
ShareBuy matching shares(3)	1.4.21 to 31.3.22	39	35	39	–	–	35
Subtotal		475,522	40,022	132,699	3,106	15,421	395,160
Shares subject to performance conditions at 31 March 2022							
LTP	28.6.19	132,854	–	–	–	5,368	138,222
LTP	30.11.20	113,802	–	–	–	4,597	118,399
LTP(4)	30.6.21	–	102,539	–	–	4,143	106,682
Subtotal		246,656	102,539	–	–	14,108	363,303
TOTAL		722,178	142,561	132,699	3,106	29,529	758,463
Phil Aspin							
Shares not subject to performance conditions at 31 March 2022							
DBP	17.6.20	4,259	–	–	–	171	4,430
DBP(2)	16.6.21	–	16,246	–	–	656	16,902
LTP	25.6.18	10,886	–	10,408	768	290	–
ShareBuy matching shares(3)	1.4.21 to 31.3.22	40	35	40	–	–	35
Subtotal		15,185	16,281	10,448	768	1,117	21,367
Shares subject to performance conditions at 31 March 2022							
LTP	28.6.19	10,186	–	–	–	411	10,597
LTP	30.11.20	58,722	–	–	–	2,372	61,094
LTP(4)	30.6.21	–	52,910	–	–	2,137	55,047
Subtotal		68,908	52,910	–	–	4,920	126,738
TOTAL		84,093	69,191	10,448	768	6,037	148,105

(1) Note that these are subject to performance conditions where applicable.
(2) See page 178 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 173 partnership shares and was awarded 35 matching shares (at an average share price of 1,038.5 pence per share). Phil Aspin purchased 173 partnership shares and was awarded 35 matching shares (at an average share price of 1,038.8 pence per share).
(4) See page 180 for further details

Vesting of legacy share awards for former directors

Russ Houlden retired from the board and left the company in July 2020. In line with policy he retained a number of awards under the DBP and, as a 'good leaver', the LTP. On 1 April 2021, 49,356 shares arising from his 2016 LTP vested. On 18 June 2021, 34,157 shares arising from his 2018 DBP vested.

Steve Fraser left the board and company in August 2019. In line with policy he retained a number of awards under the DBP, and his outstanding LTP awards lapsed. On 18 June 2021, 25,509 shares arising from his 2018 DBP vested.

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 including not taking advantage of any related secrecy rules which can apply to tax havens;
- 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 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.

Taxes/contributions to public finances for 2022

Total taxes and contributions to public finances

£230m

- £92m – Business rates
- £9m – Corporation tax*
- £27m – Employment taxes: company
- £59m – Employment taxes: employees
- £12m – Environmental taxes and other duties
- £31m – Regulatory services fees (e.g. water extraction charges)

* The corporation tax paid for 2022 and 2023 will be lower due to benefits accruing from the temporary capital allowances super deductions rules introduced in 2021.

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 2021/22, 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 and the group's one remaining overseas subsidiary, a non-trading former holding company in the Netherlands, is currently in liquidation.

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 2022 of around £230 million are set out opposite.

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 2022.

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 third year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

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 2022.

Business model	A description of the company's business model can be found within the strategic report on pages 20 to 51.
Dividends	Our directors are recommending a final dividend of 29.0 pence per ordinary share for the year ended 31 March 2022, which, together with the interim dividend of 14.50 pence, gives a total dividend for the year of 43.50 pence per ordinary share (the interim and final dividends paid in respect of the 2020/21 financial year were 14.41 pence and 28.83 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, the final dividend will be paid on 1 August 2022 to shareholders on the register at the close of business on 24 June 2022.
Directors	The names of our directors who served during the financial year ended 31 March 2022 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 191 which is hereby incorporated by reference into this directors' report.
Corporate governance statement	The corporate governance report on pages 112 to 191 is hereby incorporated by reference into this directors' report and includes details of our application of the principles and reporting against the provisions of 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 2022, 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 2022, 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 235. 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 2022. 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 2022 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 21 July 2021, 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 (EQ) 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 25 May 2022, 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.	10.03	Indirect
Norges Bank	2.95	Direct

Purchase of own shares	At our AGM held on 21 July 2021, 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 2022 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 2023.
Change of control	As at 31 March 2022, 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 223. 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. The wide definition of donations in the Political Parties, Elections and Referendums Act 2000, however, 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, as well as occasional stakeholder engagement in Westminster. The group incurred expenditure of £15,834 (2021: £5,801; 2020: £23,627) as part of this process. At the 2021 AGM, an authority was taken to cover such expenditure. A similar resolution will be put to shareholders at the 2022 AGM to authorise the company and its subsidiaries to make such expenditure. As the provider of services to seven 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 2021/22, we received 378 such MP contacts covering a wide variety of topics, including flooding, water supply and land management. 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 work events to discuss such issues in detail. Throughout the year, when COVID-19 guidelines allowed, we held face-to-face meetings with key MPs to discuss a number of topics, including river water quality, storm overflows and recreational land management. We engage regularly with the two devolved administrations in the North West – the Greater Manchester Combined Authority (GMCA) and the Liverpool City Region (LCR) – 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 GMCA and LCR helps bring MPs and peers of all parties together with key leaders to help maximise future investment in these area 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 of North West England 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 have a national focus, such as Water UK, the representative body of the UK water industry, and the Confederation of British Industry. 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. Our total contribution to these associations in 2021/22 was £408,441 (2020/21:£420,403; 2019/20: £400,916). Through Water UK, the company has supported efforts to interact with parliamentary bodies, such as Select Committees and Chairs of specific committees, to provide information on topics such as the performance of storm overflows in relation to river water quality. The company supported Water UK in its effort to engage the Government as the Environment Bill passed through its parliamentary stages, including preparation of the 21st century rivers report. 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 MPs and 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 discussions as part of the unlocking regional growth/levelling up agenda, and employee resilience and wellbeing.
Employees	Our policies on employee consultation and on equal opportunities for all employees can be found on pages 22 and 24. 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 30). 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 pages 40 to 41. 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 221.

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 22. Further information is available on our website at unitedutilities.com/corporate/responsibility Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on pages 29 to 35. 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 pages 40 to 41.
Customers and suppliers and key stakeholders	Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on pages 29 to 35. 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 pages 40 to 41. 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 2022, our average time taken to pay invoices was 13 days; in the previous six months it was 13 days.
Energy and carbon report	Our TCFD reporting includes our energy and carbon report on pages 86 to 97 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 242.
Events occurring after the reporting period	Details of events after the reporting period are included in note 25 on page 236.
Slavery and human trafficking statement	Our statement can be found on our website at unitedutilities.com/human-rights

Annual General Meeting

Our 2022 annual general meeting (AGM) will be held on 22 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 2022 AGM, resolutions will be proposed, among other matters:

- to receive the annual report and financial statements; to approve the directors' remuneration report; to approve the directors' remuneration policy; to declare a final dividend; and
- to approve the company's climate-related financial disclosures; 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 approve a new directors' long-term plan; 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 25 May 2022 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 UK-adopted international accounting standards and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 the group's 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 UK-adopted international accounting standards;
- 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 complies 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.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

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/directors' 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 25 May 2022 and signed on its behalf by:

Sir David Higgins
Chair

Phil Aspin
Chief Financial Officer