

Corporate governance report

Annual report on remuneration

Executive directors' remuneration for the year ended 31 March 2017

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

| Year ended 31 March | Fixed pay | | | | | | Variable pay | | | | Total £'000 | |
|---------------------|----------------------|------|------------------|------|-------------------|------|--------------------------|------|----------------------------------|---------------------|----------------|-------|
| | Base salary £'000 | | Pension £'000 | | Benefits £'000 | | Annual bonus £'000 | | Long-term incentives £'000 | | | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 ⁽¹⁾ | 2016 ⁽²⁾ | 2017 | 2016 |
| Steve Mogford | 721 | 707 | 159 | 156 | 28 | 26 | 785 | 501 | 617 | 1,468 | 2,310 | 2,858 |
| Russ Houlden | 455 | 446 | 100 | 98 | 26 | 23 | 492 | 313 | 390 | 705 | 1,463 | 1,585 |

(1) The long-term incentive amount is in respect of the Long Term Plan award which was granted in July 2014 (and which will vest based on performance over the three-year period 1 April 2014 to 31 March 2017). The Long Term Plan amount is estimated as the vesting percentage for the one-third relating to customer service excellence will not be known until later in 2017, and the award will not vest until the end of an additional two-year holding period. See page 101 for further detail.

(2) The long-term incentive amount for the year ended 31 March 2016 is in respect of the Long Term Plan award which was granted in July 2013 and the executive directors' one-off Matched Share Investment Scheme awards which were granted as part of their terms of appointment and vested during the year. The long-term incentive amount has been restated in respect of the 2013 Long Term Plan whose performance period ended on 31 March 2016, but which will not vest until the end of an additional two-year holding period. The final vesting outcome was confirmed by the committee in July 2016 as 33.6 per cent. The restated amount reflects the additional dividend equivalents accruing on these awards and is based on the average share price over the three-month period 1 January 2017 to 31 March 2017 of 945.6 pence per share.

Base salary

Executive director salaries were increased by 2.0 per cent with effect from 1 September 2016, 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 Sept 2016 | 1 Sept 2015 |
| Steve Mogford | 727.0 | 713.0 |
| Russ Houlden | 459.0 | 450.0 |

Pensions

The executive directors receive a cash allowance of 22 per cent of base salary in lieu of pension. No changes are expected to the pensions cash allowance percentage during the year commencing 1 April 2017.

Benefits

For executive directors, benefits include a car allowance of £14,000; health, life and income protection insurance; travel costs; and communication costs.

No changes are expected to benefits during the year commencing 1 April 2017 (see page 92 in the policy report).

Annual bonus

Annual bonus in respect of financial year ended 31 March 2017 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2017 are set out below. The table on page 90 summarises how these performance measures are linked to our business strategy.

| Measure | Achieved | | | Payout as a % of maximum | Steve Mogford weighting (% of award) Outcome | Russ Houlden weighting (% of award) Outcome |
|--|-------------------------|---------|------------------------|--------------------------|---|--|
| | Threshold (25% vesting) | Target | Stretch (100% vesting) | | | |
| Underlying operating profit⁽¹⁾ | £724.6m | £749.6m | £774.6m | 82% | 30.0% | 30.0% |
| | | | £765.4m | | 24.4% | 24.4% |
| Customer service in year | | | | | | |
| Service incentive mechanism – qualitative | 4.33 | 4.36 | 4.41 | 100% | 12.0% | 12.0% |
| | | | 4.42 | | 12.0% | 12.0% |
| Service incentive mechanism – quantitative | 84 | 81 | 78 | 100% | 4.0% | 4.0% |
| | | | 77 | | 4.0% | 4.0% |
| Maintaining and enhancing services for customers | | | | | | |
| Wholesale outcome delivery incentive (ODI) composite | (£35.2m) | (£8.8m) | £14.0m | 84% | 20.0% | 20.0% |
| | | | £6.7m | | 16.7% | 16.7% |
| Time, cost and quality of capital programme (TCQi) ⁽²⁾ | 82% | 90% | 98% | 68% | 20.0% | 20.0% |
| | | 92.9% | | | 13.6% | 13.6% |
| Corporate responsibility | | | | | | |
| Dow Jones Sustainability Index rating | | | World Class | 100% | 4.0% | 4.0% |
| | | | 100% | | 4.0% | 4.0% |
| Personal objectives (see page 100 for further detail) | | | | | | |
| Steve Mogford | | | | 90% | 10.0% | |
| | | | | | 9.0% | |
| Russ Houlden | | | | 85% | | 10.0% |
| | | | | | | 8.5% |
| Total: | | | | | | |
| Actual award (% of maximum) | | | | | 83.7% | 83.2% |
| Maximum award (% of salary) | | | | | 130% | 130% |
| Actual award (% of salary) (£'000 – shown in single figure table)⁽³⁾ | | | | | 108.8% | 108.2% |
| | | | | | £785k | £492k |

(1) The underlying operating profit figure for bonus purposes is based on the underlying operating profit on page 45 and is subject to further adjustments in respect of infrastructure renewals expenditure and property trading. To take into account changes in the scope of business operations from the creation of a joint venture with Severn Trent in June 2016 to provide non-household services (Water Plus), the committee used its discretion to exclude any profits or loss arising from non-household services in the underlying operating profit figure used for assessing the bonus targets and outcome. An underpin applied to this measure based on the prior year figure (adjusted for non-household services) and was aimed at ensuring year-on-year growth in profit.

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

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

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Further detail of achievement against personal objectives

Personal objectives represent 10 per cent of the total bonus opportunity.

The committee's view is that Steve has performed very strongly against his personal objectives, warranting an outcome of 90 per cent. Key achievements in the year include a step change improvement in customer service, strengthening of relationships with key stakeholders, successful preparation for the opening of the non-household market to competition (including the creation of a joint venture with Severn Trent) and continued development of the talent management process for senior roles.

Russ Houlden has also performed very well against the majority of his personal objectives, warranting an outcome of 85 per cent. Key achievements in the year include outperformance against financing targets, development of relationships with key shareholders and analysts, good progress on emerging areas of regulatory focus and further enhancements to the company's risk management approach.

Deferred Bonus Plan awards made in year ended 31 March 2017 (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 during the year in respect of bonus payments made in 2016/17. The face value of each award reflects half of the value shown for 2015/16 in the single figure table.

| Executive Director | Type of award | Basis of award | Face value of awards ⁽¹⁾ (£'000) | End of deferral period |
|--------------------|--------------------|----------------|---|------------------------|
| Steve Mogford | Conditional shares | 50% of bonus | £250 | 16/06/2019 |
| Russ Houlden | Conditional shares | 50% of bonus | £157 | 16/06/2019 |

(1) The face value has been calculated using the closing share price on 15 June 2016 (the dealing day prior to the date of grant) which was 924 pence per share.

Annual bonus in respect of financial year commencing 1 April 2017

The maximum bonus opportunity for the year commencing 1 April 2017 will remain unchanged at 130 per cent of base salary.

The annual bonus will operate in a broadly similar way as that for the year 2016/17, with the exception that the Dow Jones measure (currently representing a maximum of four per cent of executive directors' bonuses) will be removed from the bonus scorecard and the weighting redistributed to the outcome delivery incentive (ODI) measure. The ODI targets, introduced in 2015, cover a broad range of customer priorities which closely link to the sustainable delivery of company performance, such as water quality, reliability of supply and wastewater network performance. The ODI targets also have a direct financial impact on shareholder value, and so on a going forward basis will, in the committee's view, form a stronger measure of performance for customers and shareholders than the Dow Jones measure.

In addition, in line with the revised policy, recovery and withholding provisions for the annual bonus will be made more robust on an ongoing basis.

The table below summarises the measures, weighting and targets for the 2017/18 bonus. Please note that the majority of targets are considered commercially sensitive, and consequently these will be disclosed in the 2017/18 annual report on remuneration.

| Measure | Targets | | | Weighting (% of award) |
|---|-------------------------|----------------------|------------------------|------------------------|
| | Threshold (25% vesting) | Target (50% vesting) | Stretch (100% vesting) | |
| Underlying operating profit⁽¹⁾ | Commercially sensitive | | | 30.0% |
| Customer service in year | | | | |
| Service incentive mechanism – qualitative | Commercially sensitive | | | 12.0% |
| Service incentive mechanism – quantitative | Commercially sensitive | | | 4.0% |
| Maintaining and enhancing services for customers | | | | |
| Wholesale outcome delivery incentive (ODI) composite | Commercially sensitive | | | 24.0% |
| Time, cost and quality of capital programme (TCQi) ⁽²⁾ | 85% | 90% | 98% | 20.0% |
| Personal objectives | Commercially sensitive | | | 10.0% |
| Total: | | | | 100% |

(1) Underlying operating profit for bonus purposes is subject to a number of adjustments, principally in regard to infrastructure renewals expenditure and property trading.

(2) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance. For 2017/18 there will be some changes to the way the cost element of TCQi is measured.

Long-term incentives

Performance for Long Term Plan awards

2014 Long Term Plan (LTP) awards with a performance period ended 31 March 2017 (audited information)

The 2014 LTP awards were granted in July 2014 and performance was measured over the three-year period 1 April 2014 to 31 March 2017. Executive directors' awards will normally vest in April 2019, following an additional two-year holding period. The unvested shares will remain subject to withholding provisions over this two-year holding period.

Note that the final outcome for the customer service excellence measure (which forms one-third of the award) will not be known until Ofwat publishes the combined service incentive mechanism scores for the company and its comparator water companies (expected to be published in late summer 2017). The values of the 2014 LTP awards in the single total figure of remuneration table are therefore estimated and will be restated in next year's report once the final outcome is known.

The table below shows how the long-term incentive amount in respect of the 2014 LTP was calculated:

| Measure | Achieved | | | Payout as a % of maximum | Steve Mogford weighting (% of award) | Russ Houlden weighting (% of award) |
|---|---|--|------------------------------|--------------------------------|--|---|
| | Threshold (25% vesting) | Intermediate (80% vesting) | Stretch (100% vesting) | | Outcome | Outcome |
| Relative total shareholder return (TSR) | | | | | | |
| TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies) ⁽¹⁾ | Median TSR | – | Median TSR × 1.15 | 100.0% | 33.3% | 33.3% |
| | Greater than median TSR x1.15 | | | | 33.3% | 33.3% |
| | Company TSR of 43.8% was above stretch TSR of 42.2% | | | | | |
| Sustainable dividends | | | | | | |
| Dividend growth in years ended 31 March 2016 and 31 March 2017 | RPI+0% | – | RPI+2% | 25.0% | 33.3% | 33.3% |
| | RPI +0% ⁽²⁾ | | | | 8.3% | 8.3% |
| Underpin 1: | ✓ Met | At least RPI+2% growth in year ended 31 March 2015 | | | | |
| Underpin 2: | ✓ Met | Average underlying dividend cover of at least 1.1 over the three-year performance period | | | | |
| Customer service excellence | | | | | | |
| Ranking for the year ended 31 March 2017 versus 17 other water companies using Ofwat's service incentive mechanism (SIM) combined score | Median rank | Upper quartile rank | Upper decile rank | 52.5% | 33.3% | 33.3% |
| | Estimate: Rank 7th out of 18 | | | | 17.5% | 17.5% |
| | Note that this is an estimate as the final outcome will not be known until the combined scores are published later in 2017. | | | | | |
| Overall underpin | | | | | | |
| Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance | ✓ Assumed met. Note that the committee will make a final assessment of the company's performance once the combined SIM score is known. | | | | | |
| Estimated vesting (% of award) | | | | | 59.1% | 59.1% |
| Number of shares granted | | | | | 100,692 | 63,560 |
| Number of dividend equivalent shares | | | | | 9,793 | 6,181 |
| Number of shares before performance conditions applied | | | | | 110,485 | 69,741 |
| Estimated number of shares after performance conditions applied | | | | | 65,296 | 41,216 |
| Three-month average share price at end of performance period⁽³⁾ | | | | | 9.46 | 9.46 |
| Estimated value at end of performance period (£'000 – shown in single figure table) | | | | | 617 | 390 |

(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 New Bridge Street.

(2) Subject to approval of the final dividend by shareholders at the 2017 AGM.

(3) Average share price over the three-month period 1 January 2017 to 31 March 2017.

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Long Term Plan awards granted in the year

2016 LTP awards with a performance period ending 31 March 2019 (audited information)

The table below provides details of share awards made during the year in respect of the 2016 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 | £927 | 98,763 | 25% | 31/03/2019 |
| Russ Houlden | Conditional shares | 130% of salary | £585 | 62,333 | 25% | 31/03/2019 |

(1) The face value has been calculated using the closing share price on 27 June 2016 (the dealing day prior to the date of grant) which was 938.5 pence per share.

(2) An additional two-year holding period applies after the end of the three-year performance period.

Details about the 2016 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2016 to 31 March 2019. The table on page 90 summarises how these performance measures are linked to our business strategy.

| Measure | Targets | | | Weighting |
|---|---|---|------------------------|-----------|
| | Threshold (25% vesting) | Intermediate | Stretch (100% vesting) | |
| Relative total shareholder return (TSR) | | | | |
| TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies). ⁽¹⁾ Measured over the three-year performance period | Median TSR | Straight-line between threshold and stretch | Median TSR x1.15 | 33.3% |
| Sustainable dividends | | | | |
| Average underlying dividend cover over the three-year performance period | The targets are considered commercially sensitive and so are not disclosed in this report. However, actual targets, performance achieved and awards made will be published retrospectively so that shareholders can fully understand the basis for any pay-outs | | | 33.3% |
| Underpin | Dividend growth of at least RPI in each of the years ending 31 March 2017, 31 March 2018 and 31 March 2019 | | | |
| Customer service excellence | | | | |
| Ranking for the year ending 31 March 2019 versus 17 other water companies using Ofwat's Service Incentive Mechanism (SIM) combined score | Median rank | Upper quartile rank (80% vesting) | Upper decile rank | 33.3% |
| 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 | | | | |

(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 New Bridge Street.

Straight-line vesting applies between the threshold, intermediate and stretch targets, with nil vesting below threshold performance. The committee will have the flexibility to make appropriate adjustments to the performance targets in exceptional circumstances, to ensure that the award achieves its original purpose.

Performance targets for future Long Term Plan awards

2017 LTP awards with a performance period ending 31 March 2020

There will be broad consistency in the approach to how the 2017 Long Term Plan (LTP) awards will operate.

The performance targets for the total shareholder return measure are expected to be as for the 2016 LTP awards; the targets for the sustainable dividends measure will be reviewed to ensure that they are appropriate for the performance period 1 April 2017 to 31 March 2020; and the customer service excellence targets will change such that: (i) Ofwat's SIM will be measured against a smaller group of the nine other companies providing both water and sewerage services; and (ii) 25 per cent will vest at median and 100 per cent at upper quartile, with straight-line vesting between these points. The change to the customer service excellence SIM targets, which was subject to consultation with major shareholders during the year, is aimed at ensuring that performance is compared to companies whose service provision is most similar to United Utilities and at setting an appropriate level of stretch (the committee considers upper quartile performance to be a sufficiently challenging target to merit a full payout and, further, historically there has not been any additional economic reward for achieving above upper quartile SIM performance). Back-testing since 2010/11, when SIM was first introduced as a measure, demonstrates that below threshold performance (i.e. nil vesting) would have been achieved under both the current and new customer service excellence targets, except for in 2013/14 when the threshold level of vesting (25 per cent) would have been achieved under the new measure.

External appointments

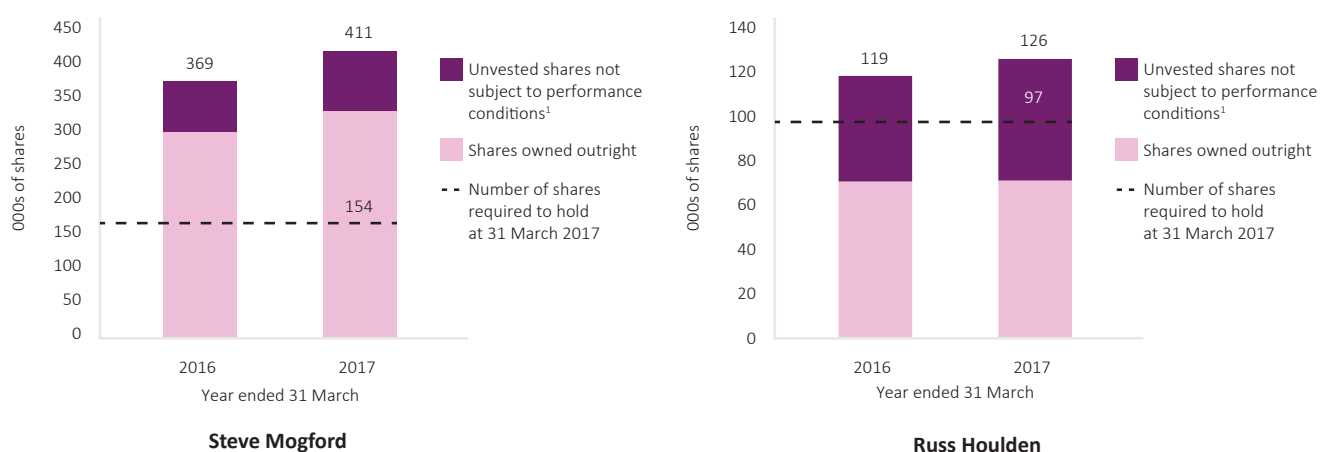
Steve Mogford was appointed as a senior independent director of G4S PLC in May 2016 for which he received and retained a fee of £46,000 for 2016. Russ Houlden is an independent member of the supervisory board, and audit committee chairman, of Orange Polska SA for which he receives and retains fees estimated annually at around £77,000.

Executive directors' interests in shares

Executive directors' shareholdings (audited information)

Executive directors are normally expected to reach a shareholding guideline of 200 per cent of salary within five years of appointment. There is also an expectation that they will continue to build a shareholding throughout their period of employment with the company after the guideline is reached.

Details of beneficial interests in the company's ordinary shares as at 31 March 2017 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding guideline level. The charts below show that both Steve Mogford and Russ Houlden have exceeded the target shareholding.



(1) After tax and national insurance.

Further detail of the executive directors' shareholdings is given in the table below and in the appendix on page 109.

| Director | Shareholding guideline (% of salary) | Number of shares required to meet shareholding guideline ⁽¹⁾ | Number of shares owned outright (including connected persons) | | Unvested shares not subject to performance conditions ⁽²⁾ | | Total shares counting towards shareholding guidelines ⁽³⁾ | | Shareholding as % of base salary at 31 March 2017 ⁽⁴⁾ | Shareholding guideline met at 31 March 2017 | Unvested shares subject to performance conditions ⁽⁴⁾ | |
|------------------------------|--------------------------------------|---|---|---------|--|---------|--|---------|--|---|--|---------|
| | | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | | | 2017 | 2016 |
| Steve Mogford ⁽⁵⁾ | 200% | 153,759 | 327,287 | 297,164 | 157,289 | 135,813 | 410,668 | 369,163 | 534% | Yes | 314,125 | 338,869 |
| Russ Houlden ⁽⁵⁾ | 200% | 97,077 | 73,500 | 73,196 | 99,127 | 85,726 | 126,056 | 118,649 | 260% | Yes | 198,286 | 213,897 |

(1) Share price used is the average share price over the three months from 1 January 2017 to 31 March 2017 (945.6 pence per share).

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

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

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

(5) In the period 1 April 2017 to 24 May 2017, additional shares were acquired by Steve Mogford (30 ordinary shares) and Russ Houlden (29 ordinary shares) in respect of their regular monthly contributions to the ShareBuy scheme. These will be matched by the company on a one-for-five basis. Under the scheme, matching shares vest provided the employee remains employed by the company one year after grant.

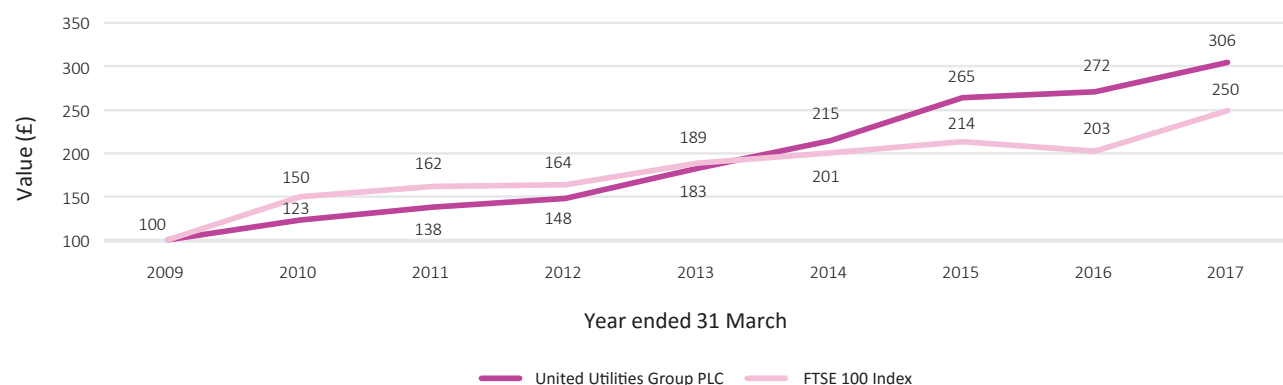
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Other information

Performance and CEO remuneration comparison

This graph illustrates the company's performance against the FTSE 100 over the past eight years. The FTSE 100 has been chosen as the appropriate comparator as the company is a member of the FTSE 100 and it is considered to be the most widely published benchmark for this purpose. The table below the TSR chart shows the remuneration data for the CEO over the same eight-year period as the TSR chart.



| Year ended 31 March | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---------------|--------------------|----------------------|--------------------|--------------------|-------|-------|----------------------|---------------------------|
| CEO single figure of remuneration (£000) | Steve Mogford | n/a | 377 | 1,421 | 1,549 | 2,378 | 2,884 | 2,858 ⁽¹⁾ | 2,310 |
| | Philip Green | 1,992 | 3,073 | n/a | n/a | n/a | n/a | n/a | n/a |
| Annual bonus payment (% of maximum) | Steve Mogford | n/a | 90.6 | 72.0 | 84.4 | 78.2 | 77.4 | 54.5 | 83.7 |
| | Philip Green | 89.2 | 90.8 | n/a | n/a | n/a | n/a | n/a | n/a |
| LTP vesting (% of maximum) ⁽²⁾ | Steve Mogford | n/a | n/a ⁽³⁾ | n/a ⁽³⁾ | n/a ⁽³⁾ | 93.5 | 97.5 | 33.6 ⁽⁴⁾ | 59.1⁽⁶⁾ |
| | | | | | | | | 100 ⁽⁵⁾ | |
| | Philip Green | 0 ⁽⁷⁾ | 28.1 ⁽⁹⁾ | n/a | n/a | n/a | n/a | n/a | n/a |
| | | 100 ⁽⁸⁾ | 12.5 ⁽¹⁰⁾ | | | | | | |

(1) This includes the estimated pay-out 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 which ended on 5 January 2016. The estimated pay-out from the 2013 LTP has been restated to reflect the additional dividend equivalents accruing on these awards and updated share price – see page 101 for further details.

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

(3) Steve Mogford was not a participant in any long-term incentive plans that had performance periods ending during 2011 to 2013. For those who did participate in those plans, the vesting as a percentage of maximum was 37.5 per cent for those vesting in 2012 and 35.3 per cent for those vesting in 2013.

(4) 2013 LTP.

(5) The retention period applicable to Steve Mogford's Share Investment Scheme ended on 5 January 2016.

(6) The 2014 Long Term Plan amount vesting percentage is estimated (see page 101 for further details).

(7) 2007 Performance Share Plan (PSP).

(8) 2007 Matching Share Award Plan (MSAP).

(9) 2008 PSP and MSAP.

(10) The retention period applicable to Philip Green's Matched Share Investment Scheme ended on 12 February 2011.

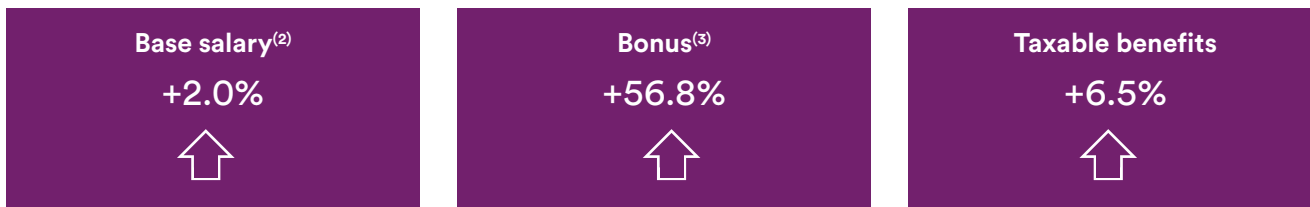
Date of service contracts

| Executive directors | Date of service contract |
|---------------------|--------------------------|
| Steve Mogford | 5.1.11 |
| Russ Houlden | 1.10.10 |

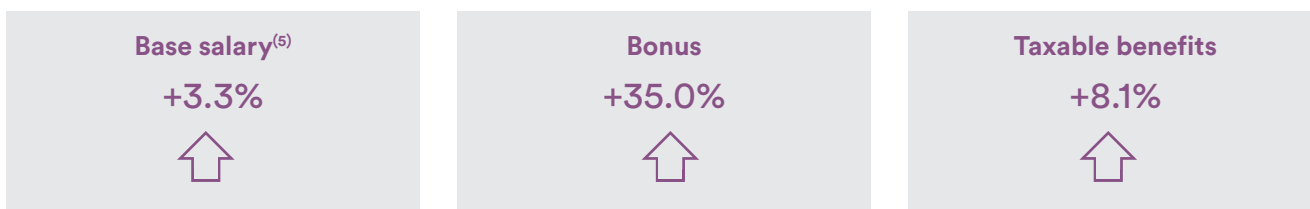
Percentage change in CEO's remuneration versus the wider workforce

The figures below show how the percentage change in the CEO's salary, benefits and bonus earned in 2015/16 and 2016/17 compares with the percentage change in the average of each of those components for a group of employees.

Change in CEO remuneration⁽¹⁾



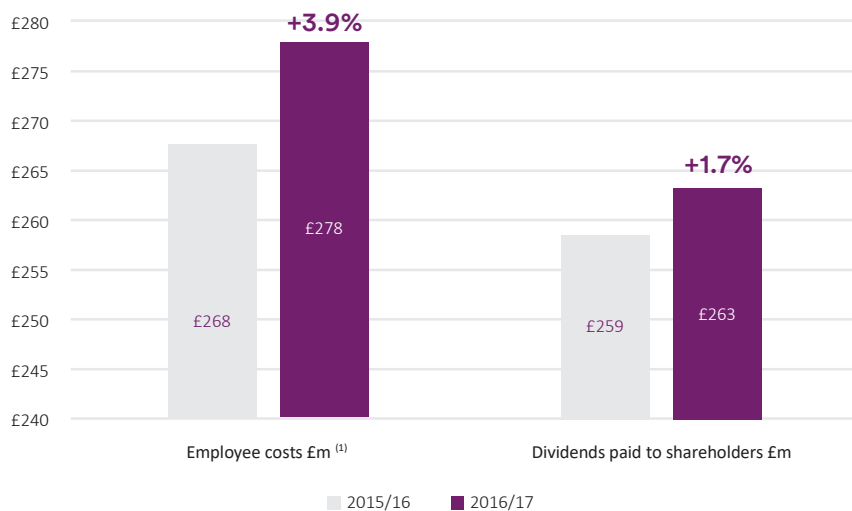
Change in employee remuneration⁽⁴⁾



- (1) See single total figure of remuneration table on page 98 for more information.
- (2) On 1 September 2016, Steve Mogford received a base salary increase of 2.0 per cent.
- (3) As disclosed in last year's directors' remuneration report the committee had used its discretion to reduce the 2015/16 bonus outcome for the executive directors in relation to the water quality incident in Lancashire. This reduction was not applied to the wider workforce.
- (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. Headline salary increase for employees was 2.0 per cent.

Relative importance of spend on pay

The chart below shows the relative importance of spend on pay compared to distributions to shareholder.



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

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Non-executive directors

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

| | Salary/fees £'000 | | Taxable benefits £'000 | | Total £'000 | |
|----------------------------------|----------------------|------|---------------------------|------|----------------|------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Dr John McAdam | 294 | 287 | 1 | 1 | 295 | 288 |
| Dr Catherine Bell ⁽¹⁾ | 22 | 71 | 1 | 1 | 23 | 72 |
| Stephen Carter | 70 | 62 | 1 | 0 | 71 | 62 |
| Mark Clare | 76 | 75 | 1 | 0 | 77 | 75 |
| Alison Goligher ⁽²⁾ | 43 | n/a | 0 | n/a | 43 | n/a |
| Brian May | 78 | 77 | 1 | 0 | 79 | 77 |
| Sara Weller | 76 | 75 | 0 | 0 | 76 | 75 |

(1) Catherine Bell retired from the board on 22 July 2016

(2) Alison Goligher joined the board on 1 August 2016

Fees

Non-executive director annual fee rates were reviewed and increased with effect from 1 September 2016 as shown below:

| Role | Fees £'000 | |
|--|---------------|-------------|
| | 1 Sept 2016 | 1 Sept 2015 |
| Base fees: Chairman ⁽¹⁾ | 296.0 | 290.0 |
| Base fees: other non-executive directors ⁽²⁾ | 64.0 | 62.6 |
| Senior independent non-executive director ⁽²⁾ | 12.5 | 12.5 |
| Chair of audit and treasury committees ⁽²⁾ | 15.0 | 15.0 |
| Chair of remuneration committee ⁽²⁾ | 12.5 | 12.5 |
| Chair of corporate responsibility committee ⁽²⁾ | 10.0 | 10.0 |

(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 2017 held by each of the non-executive directors and their connected persons are set out in the table below:

| | Number of shares owned outright (including connected persons) at 31 March 2017 ⁽¹⁾ |
|-----------------|---|
| Dr John McAdam | 1,837 |
| Stephen Carter | 3,075 |
| Mark Clare | 7,628 |
| Alison Goligher | 3,000 |
| Brian May | 3,000 |
| Sara Weller | 11,000 |

(1) From 1 April 2017 to 24 May 2017 there have been no movements in the shareholdings of the non-executive directors.

| Non-executive directors | Date first appointed to the board |
|-------------------------|--------------------------------------|
| Dr John McAdam | 4.2.08 |
| Stephen Carter | 1.9.14 |
| Mark Clare | 1.11.13 |
| Alison Goligher | 1.8.16 |
| Brian May | 1.9.12 |
| Sara Weller | 1.3.12 |

The remuneration committee

Summary terms of reference

The committee's terms of reference were last reviewed in November 2016 and are available on our website:

corporate.unitedutilities.com/corporate-governance

Composition of the remuneration committee

The committee's main responsibilities include:

- › making recommendations to the board on the company's framework of executive remuneration and its cost;
- › approving 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;
- › approving the remuneration of the Chairman;
- › 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.

| Role | Member since | Member to |
|-----------------------------------|--------------|-----------|
| Sara Weller (chair since 27.7.12) | 1.3.12 | To date |
| Dr Catherine Bell ⁽¹⁾ | 1.3.11 | 22.7.16 |
| Mark Clare | 1.9.14 | To date |
| Alison Goligher | 1.8.16 | To date |
| Brian May | 16.5.17 | To date |

(1) Catherine Bell retired from the board on 22 July 2016.

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.

Advisors to the remuneration committee

By invitation of the committee, meetings are also attended by the Chairman of the company (Dr John McAdam), the CEO (Steve Mogford), the company secretary (Simon Gardiner, who acts as secretary to the committee), the business services director (Sally Cabrini) and the head of reward and pensions (Ruth Henshaw), 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 advisors.

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

| Advisor | Appointed by | How appointed | Services provided to the committee in year ended 31 March 2017 | Fees paid by company for these services in respect of year and basis of charge |
|-------------------|--------------|--|--|--|
| New Bridge Street | Committee | Reappointed following committee review in 2013 | General advice on remuneration matters | £148,000 Time/cost basis |

Other services provided to the company

— Benchmarking of roles not under the committee's remit and advice on non-executive director remuneration

The independent consultants New Bridge Street (a trading name of Aon Hewitt Limited, an Aon PLC company) are members of the Remuneration Consultants Group and, as such, voluntarily operate under the Code of Conduct in relation to executive remuneration consulting in the UK. The committee is satisfied that the advice they received from external advisors is objective and independent.

In addition, during the year the law firms Eversheds Sutherland and Slaughter and May provided advice on the company's share schemes to the company.

Corporate governance report

Annual report on remuneration

Key activities of the remuneration committee over the past year

The committee met six times in the year ended 31 March 2017.

Regular activities

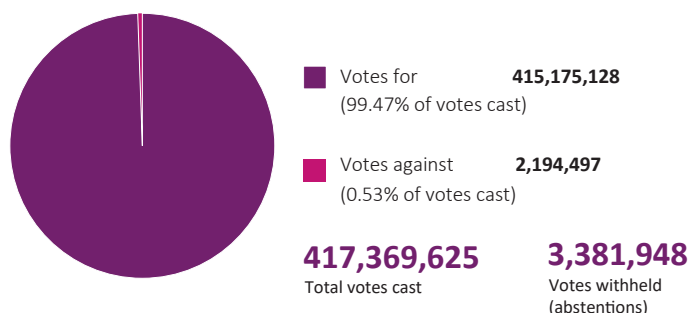
- › Approved the 2015/16 directors' remuneration report
- › Reviewed the pay comparator group
- › Reviewed the base salaries of executive directors and other members of the executive team
- › Reviewed the base fee for the Chairman
- › Assessed the achievement of targets for the 2015/16 annual bonus scheme, reviewed progress against the targets for the 2016/17 annual bonus scheme, and set the targets for the 2017/18 annual bonus scheme
- › Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2013 and set the targets for LTP awards made in 2016
- › Reviewed and approved awards made under the annual bonus scheme, 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
- › Reviewed the committee's terms of reference
- › Considered governance developments and market trends in executive remuneration, including in the wider utilities sector.

Other activities

- › Reviewed the executive pay arrangements and consulted with shareholders on the proposed remuneration policy
- › Considered level playing field requirements for incentives following the opening of the non-household market to full competition from 1 April 2017

2016 AGM: Statement of voting

At the last Annual General Meeting on 22 July 2016, votes on the 2015/16 directors' remuneration report (other than the part containing the directors' remuneration policy) were cast as follows:



The directors' remuneration report was approved by the board of directors on 24 May 2017 and signed on its behalf by:

Sara Weller

Chair of the remuneration committee

Appendix: Executive directors' share plan interests 1 April 2016 to 31 March 2017

| | Award date | Awards held at 1 April 2016 | Granted in year | Notional dividends accrued in year ⁽¹⁾ | Vested in year | Lapsed/ forfeited in year | Awards held at 31 March 2017 |
|--|------------|--------------------------------|--------------------|--|----------------|---------------------------------|------------------------------------|
| Steve Mogford | | | | | | | |
| Shares not subject to performance conditions at 31 March 2017 | | | | | | | |
| DBP | 17.6.13 | 56,389 | – | – | 56,389 | – | – |
| DBP | 30.6.14 | 41,145 | – | 1,644 | – | – | 42,789 |
| DBP | 16.6.15 | 38,240 | – | 1,528 | – | – | 39,768 |
| DBP ⁽²⁾ | 16.6.16 | – | 27,087 | 1,082 | – | – | 28,169 |
| LTP | 29.7.13 | 133,148 | – | 1,788 | – | 88,411 | 46,525 |
| ShareBuy matching shares ⁽³⁾ to 31.3.17 | 1.4.16 | 39 | 38 | – | 39 | – | 38 |
| Subtotal | | 268,961 | 27,125 | 6,042 | 56,428 | 88,411 | 157,289 |
| Shares subject to performance conditions at 31 March 2017 | | | | | | | |
| LTP | 30.6.14 | 106,237 | – | 4,248 | – | – | 110,485 |
| LTP | 30.6.15 | 99,484 | – | 3,977 | – | – | 103,461 |
| LTP ⁽⁴⁾ | 28.6.16 | – | 98,763 | 1,416 | – | – | 100,179 |
| Subtotal | | 205,721 | 98,763 | 9,641 | 0 | 0 | 314,125 |
| TOTAL | | 474,682 | 125,888 | 15,683 | 56,428 | 88,411 | 471,414 |
| Russ Houlden | | | | | | | |
| Shares not subject to performance conditions at 31 March 2017 | | | | | | | |
| DBP | 17.6.13 | 35,578 | – | – | 35,578 | – | – |
| DBP | 30.6.14 | 25,969 | – | 1,037 | – | – | 27,006 |
| DBP | 16.6.15 | 24,140 | – | 964 | – | – | 25,104 |
| DBP ⁽²⁾ | 16.6.16 | – | 16,940 | 677 | – | – | 17,617 |
| LTP | 29.7.13 | 84,029 | – | 1,128 | – | 55,796 | 29,361 |
| ShareBuy matching shares ⁽³⁾ to 31.3.17 | 1.4.16 | 39 | 39 | – | 39 | – | 39 |
| Subtotal | | 169,755 | 16,979 | 3,806 | 35,617 | 55,796 | 99,127 |
| Shares subject to performance conditions | | | | | | | |
| LTP | 30.6.14 | 67,060 | – | 2,681 | – | – | 69,741 |
| LTP | 30.6.15 | 62,808 | – | 2,511 | – | – | 65,319 |
| LTP ⁽⁴⁾ | 28.6.16 | – | 62,333 | 893 | – | – | 63,226 |
| Subtotal | | 129,868 | 62,333 | 6,085 | 0 | 0 | 198,286 |
| TOTAL | | 299,623 | 79,312 | 9,891 | 35,617 | 55,796 | 297,413 |

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

(2) See page 100 for further information.

(3) Under ShareBuy, matching shares vest provided the employee remains employed by the company one year after grant. During the year Steve Mogford purchased 191 partnership shares and was awarded 38 matching shares (at an average share price of 944 pence per share). Russ Houlden purchased 191 partnership shares and was awarded 39 matching shares (at an average share price of 943 pence per share).

(4) See page 102 for further 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 issues 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 10-year period) and executive share plans (5 per cent in any rolling 10-year period).

No treasury shares were held or utilised in the year ended 31 March 2017.