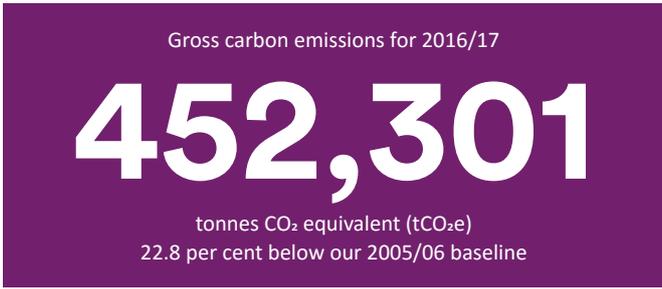


Directors' report

Statutory and other information



Our directors present their management report including the strategic report on pages 10 to 49 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 2017.

Business model

A description of the company's business model can be found within the strategic report on pages 14 to 30.

Greenhouse gas emissions

We measure our emissions over the financial reporting year against a footprint covering all our operational activities in the UK. All figures stated are in line with the latest UK Government carbon reporting guidance. Our reporting is compliant with the international carbon reporting standard (ISO 14064, Part 1) and assured by the Certified Emissions Measurement and Reduction Scheme (CEMARS)

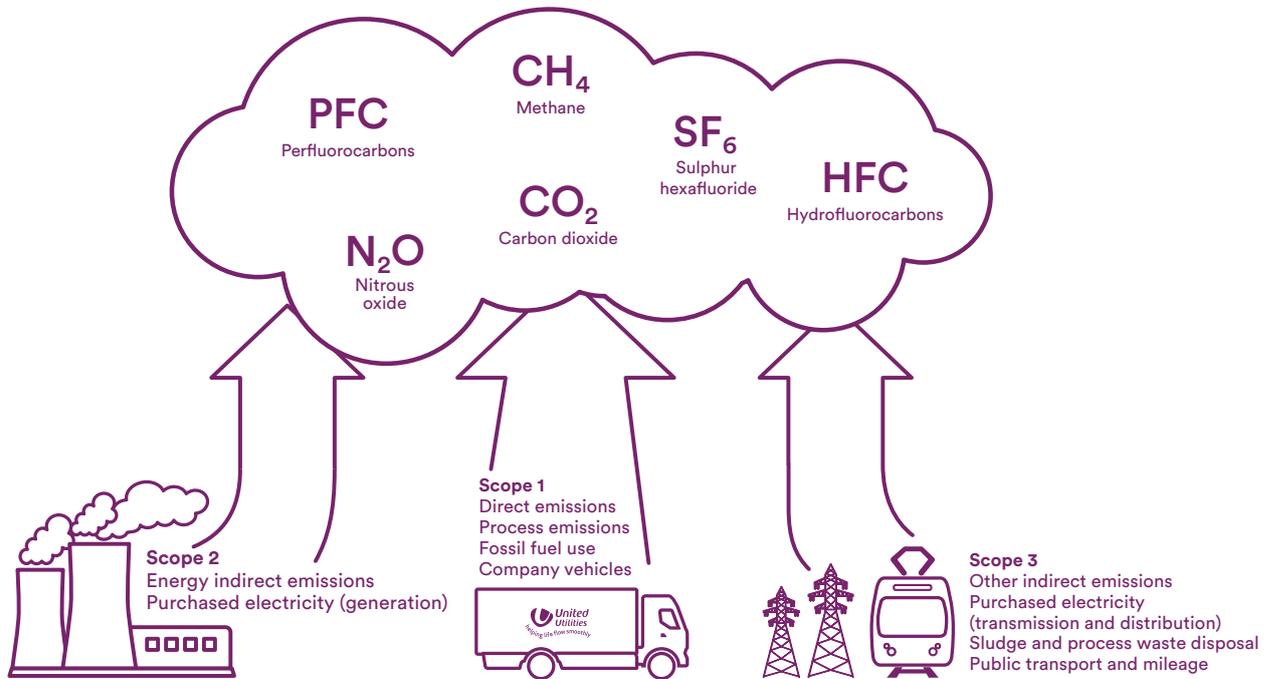
Our emissions account for all six Kyoto Protocol gases – converted to carbon dioxide equivalents. There are no material omissions.

Carbon

The boundary of our carbon footprint includes both direct and indirect emissions resulting from our operations.

Direct emissions are those from activities we own or control including those from our treatment processes, company vehicles and burning of fossil fuels for heating or incineration of sewage sludge.

Indirect emissions result from operational activities we do not own or control. These include indirect energy emissions produced as a consequence of electricity we purchase to power our treatment plants and other indirect emissions as a consequence of our activities, e.g. from travel on company business and sludge and process waste disposal emissions.

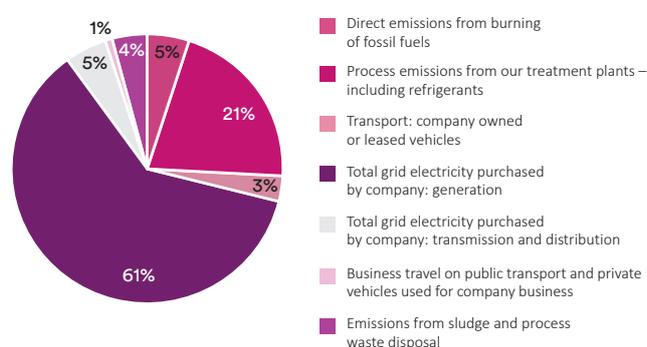


Directors' report

Statutory and other information

We monitor our operational carbon emissions against a target, which is aligned to our investment cycle. In 2020 (end of AMP6) we will aim to reduce our emissions by 50 per cent on the 2005/06 baseline and continue to reduce emissions to achieve 60 per cent by 2035 (end of AMP9).

Our performance in 2016/17 was 452,301 tCO₂e which is 22.8 per cent below the 2005/06 baseline. The trend in our overall emissions continues to be downwards although both the level and proportion of each component fluctuates year by year as they are affected by weather, operational conditions and the carbon content of the UK's electricity supply.

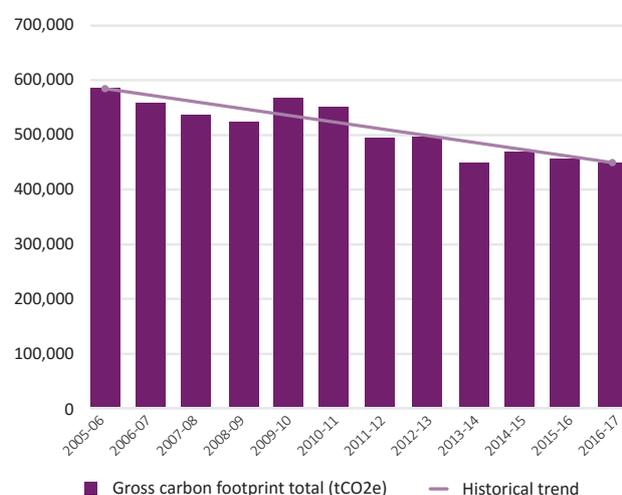


We expect the overall trend in our emissions to remain downwards reflecting our continued efforts to use less energy and increase renewable energy generation, alongside projected decreases in the carbon content of the UK's energy supply.

The majority of our emissions are as a result of our use of grid electricity. In 2016/17 we purchased more grid electricity than the previous year but emissions reduced due to a 10.8 per cent reduction in the carbon intensity of the UK grid emissions factor.

The company generated the equivalent of 149GWh of electricity from renewable sources. This is an increase of 8GWh compared to last year and is a result of our investment in energy recovery and generation from wind and solar photovoltaics.

Our carbon footprint since 2005/06 – our baseline year



Greenhouse gas emissions Scope	Source	2014/15 (tCO ₂ e)	2015/16 (tCO ₂ e)	2016/17 (tCO ₂ e)	
Scope 1 Direct emissions	Direct emissions from burning of fossil fuels	9,575	12,283	20,848	
	Process emissions from our treatment plants -including refrigerants	83,762	87,004	96,019	128,649
	Transport: company owned or leased vehicles	10,704	11,246	11,783	
Scope 2 Energy indirect emissions	Total grid electricity purchased by the company: generation	321,185	302,791	277,727	277,727
Scope 3 Other indirect emissions	Total grid electricity purchased by the company: transmission and distribution	28,086	25,006	25,120	
	Business travel on public transport and private vehicles used for company business	2,971	2,783	2,889	45,924
	Emissions from sludge and process waste disposal	17,425	13,744	17,915	
Gross carbon footprint total		473,708	454,857	452,301	
	Emission reductions from exported renewable electricity	(6,155)	(4,209)	(4,417)	
	Emission reductions from exported biomethane	–	–	(3,240)	
Net carbon footprint total		467,553	450,648	444,644	
Emissions per £million turnover		275.44	262.92	265.43	

Dividends	Our directors are recommending a final dividend of 25.92 pence per ordinary share for the year ended 31 March 2017, which, together with the interim dividend of 12.95 pence, gives a total dividend for the year of 38.87 pence per ordinary share (the interim and final dividends we paid in respect of the 2015/16 financial year were 12.81 pence and 25.64 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, our final dividend will be paid on 4 August 2017 to shareholders on the register at the close of business on 23 June 2017.
Directors	The names of our directors who served during the financial year ended 31 March 2017 can be found on pages 52 and 54.
Reappointment	Our articles of association provide that our directors must retire at the third annual general meeting following their last election or reappointment by our shareholders. However, our board, being mindful of the recommendation contained within the UK Corporate Governance Code published in 2014 ('the Code') that all directors should be subject to annual election by shareholders, has decided that all of our directors will retire at AGMs and offer themselves for election/reappointment, as has happened at all the AGMs since 2011. Information regarding the appointment of our directors is included in our corporate governance report on pages 66 to 70.
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 86 to 109 which is hereby incorporated by reference into this directors' report.
Corporate governance statement	The corporate governance report on pages 52 to 110 is hereby incorporated by reference into this directors' report and includes details of our compliance with the Code. Our statement includes a description of the main features of our internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the 2014 Code, as applicable to the company for the year ended 31 March 2017, 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	<p>At 31 March 2017, 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 22 to the financial statements on page 147. 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 2017.</p> <p>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.</p> <p>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 2017 AGM. Our directors' powers are conferred on them by UK legislation and by the company's articles. At the AGM of the company on 22 July 2016, 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.</p>
Voting	Electronic and paper proxy appointment and voting instructions must be received by our registrars (Equiniti) not 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.

Directors' report

Statutory and other information

Transfers	<p>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.</p> <p>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.</p>						
Major shareholdings	<p>At 24 May 2017, 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:</p> <table border="1" data-bbox="399 660 1422 728"> <thead> <tr> <th></th> <th>Per cent of issued share capital</th> <th>Direct or indirect nature of holding</th> </tr> </thead> <tbody> <tr> <td>BlackRock Inc</td> <td>5.13</td> <td>Indirect</td> </tr> </tbody> </table>		Per cent of issued share capital	Direct or indirect nature of holding	BlackRock Inc	5.13	Indirect
	Per cent of issued share capital	Direct or indirect nature of holding					
BlackRock Inc	5.13	Indirect					
Purchase of own shares	<p>At our last AGM held on 22 July 2016, 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 2017 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 2018.</p>						
Change of control	<p>As at 31 March 2017, Equiniti Trust (Jersey) 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.</p> <p>In the event of a change of control, the participants in our share incentive plan (ShareBuy) would be able to direct the trustee of the share incentive plan, Equiniti Share Plan Trustees Limited, how to act on their behalf.</p>						
Information required by UK Listing Rule 9.8.4	<p>Details of the amount of interest capitalised by the group during the financial year can be found in note 5 to the financial statements on page 137. 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.</p> <p>There are no other disclosures to be made under Listing Rule 9.8.4.</p>						
Directors' indemnities and insurance	<p>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 also maintains an appropriate level of directors' and officers' liability insurance.</p>						
Political donations	<p>We do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the group and our political stakeholders. This includes promoting United Utilities' activities at the main political parties' annual conferences, and occasional stakeholder engagement in Westminster.</p> <p>The group incurred expenditure of £11,298 (2016: £5,360) as part of this process. At the 2016 AGM, an authority was taken to cover such expenditure. A similar resolution will be put to our shareholders at the 2017 AGM to authorise the company and its subsidiaries to make such expenditure.</p>						

Trade associations	We are members of a small number of trade associations. Some of these have a national focus, such as Water UK, the representative body of the UK water industry, which considers industry-wide priorities such as development of markets, customer trust, resilience, and legislation and regulation, and the Confederation of British Industry, which provides a policy making voice for firms at a regional, national and international level. Others, such as the North West Business Leadership Team and Atlantic Gateway, focus solely on North West England and encourage engagement across the public and private sectors to promote the sustainable economic development and long-term well-being of the region. Our contribution to these associations in 2016/17 was £393,000.
Employees	<p>Our policies on employee consultation and on equal opportunities for our disabled employees can be found in the 'People' section on page 16. The company's business principles make clear how the company and all our employees must seek to act with integrity and fairness and observe legal requirements. Anyone with serious concerns that the company may not be adhering to these principles is encouraged to speak up via their line manager or through a confidential telephone line.</p> <p>Importance is placed on strengthening employees' engagement, measuring their views annually, then taking action to improve how they feel about the company and understand its direction. Employees are provided with regular information to enable them to understand the financial and economic factors affecting the company's performance. The board encourages employees to own shares in the company through the all employee share incentive plan (ShareBuy). For further information on our average number of employees during the year, go to note 2 on page 135.</p>
Environmental, social and community matters	Details of our approach to corporate responsibility, relating to the environment and social and community issues, can be found on pages 82 to 84.
Essential contractual relationships	Certain suppliers we use contribute key goods or services, the loss of which could cause disruption to our services. However, none are so vital that their loss would affect our viability as a group as a whole nor are we overly dependent on any one individual customer.
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 also 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 to the financial statements.
Events occurring after the reporting period	Details of events after the reporting period are included in note 25 to the consolidated financial statements on page 148.
Slavery and Human Trafficking Statement	Our statement can be found on our website at: corporate.unitedutilities.com/slavery-human-trafficking

Directors' report

Statutory and other information



Annual general meeting

Our 2017 annual general meeting (AGM) will be held on 28 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.



Read more online at corporate.unitedutilities.com/annual-general-meeting-2017

At our 2017 AGM, resolutions will be proposed, amongst 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 reappoint KPMG LLP as auditor;
- › 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; and to enable the company to continue to hold general meetings on not less than 14 working days' notice; and
- › to adopt new articles of association and to extend the life of the share incentive plan.

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 he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
- › he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 24 May 2017 and signed on its behalf by:

Simon Gardiner
Company Secretary