

# Corporate governance report

## Letter from the Chairman

Our core values of acting with integrity and focusing on our customers provides the framework for both our business culture and the way in which our employees go about their daily work. 'Acting responsibly' has been part of the United Utilities ethos for a number of years.

### Quick facts



- The Chairman met the independence criteria as set out in the 2014 UK Corporate Code (the Code) when he was appointed as Chairman
- The Code requires that at least half of the board is made up of independent non-executive directors (the test excludes the Chairman). At United Utilities, six out of the remaining eight directors (excluding the Chairman) are independent non-executive directors
- The company secretary attends all board and committee meetings and advises the Chairman on governance matters. The company secretariat team provides administrative support
- All directors are subject to annual election at the Annual general meeting (AGM) held in July. Following the completion of the annual evaluation process all the non-executive directors were considered by the board to be independent and making a valuable and effective contribution to the board. As a result, the board recommends that shareholders vote in favour of those standing for a further term at the forthcoming AGM, as they will be doing in respect of their individual shareholdings

### Quick links

The details of the matters that the board has reserved for its own decision are set out in the 'Schedule of matters reserved for the board'. A copy can be found at: [corporate.unitedutilities.com/corporate-governance](http://corporate.unitedutilities.com/corporate-governance)

A copy of the FRC 2014 UK Corporate Governance Code can be found at: [frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf](http://frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf)

### Dear Shareholder

#### Our year

We have seen strong performance contributing towards achieving our strategic targets during 2016/17 as demonstrated by progress in meeting our customer, environmental and financial targets. The annual investment of around £800 million in building water and wastewater assets has been completed according to our plan.

#### Our approach

As individual directors we are cognisant of our statutory duties. Our role as the board is to set the strategy of the group and ensure that management operates the business in accordance with the strategy in order to safeguard both its long-term success and our customers' interests and to create shareholder value. As a board we have a strong sense of common purpose: our intention is to hand over the business to our successors in a better and more sustainable position for the future. Information on our vision and strategy and the way in which we create value is included in the strategic report on pages 10 to 49.

#### Our governance structure

We held eight scheduled board meetings during the year; in addition there were a number of other board meetings held which directors attended either in person or via telephone conferencing facilities. A diagram showing the inter-relationships of the various board committees can be found on page 59, and reports from each of the committee chairs about their work can be found on the following pages. The diagram also describes some of the group's principal management committees.

#### Our people

You may recall that we reported in our 2016 annual report that Catherine Bell, after nine years' service, was stepping down at the annual general meeting in July 2016, and that Alison Goligher would join the board as an independent non-executive director with effect from 1 August 2016. We recently announced that Paulette Rowe would be appointed as an independent non-executive director joining the board on 1 July 2017. More information about Paulette's appointment can be found in the nomination committee report on page 68.

We have maintained our target of at least 25 per cent of our board comprising women. In terms of diversity of experience, skills and personal attributes, I believe we have great diversity around our board. The directors have many years of experience gained across a variety of industries and regulated businesses. Good board dynamics are vital to the proper interaction and working of a board of directors. Board directors need to work together effectively for the good of the company and, in short, they need to get on with each other; clashes of personality are to be avoided as they do not facilitate constructive debate and challenge or effective communication. I believe we have individuals who will apply their skills and experience to the benefit of our business and speak up if they disagree but, equally, listen to the views of others. Looking ahead, the board considered the forthcoming 2016 Code requirement, that the 'audit committee as a whole shall have competence relevant to the sector



**Pictured:** Dr John McAdam, Chairman

in which the company operates' and concluded that when taking into account the skills, knowledge, experience and professional qualifications of committee members (see the directors' biographies on pages 52 to 54) this 2016 Code requirement was fulfilled. Furthermore, all members of the audit committee are independent non-executive directors.

Although there are time constraints for non-executive directors who also have an executive role, these individuals bring valuable current market experience to our board table. Similarly, we encourage our executive directors to serve as non-executive directors elsewhere to help broaden their experience, although this is normally limited to one other directorship in a company which does not conflict with United Utilities' business.

At the time this report was approved, 38 per cent of our executive team is made up of women. We are keen to develop our female senior managers so that, over time, they can be considered for executive board appointments or as potential candidates for non-executive directorships in other companies. Our current talent programme at a senior level is well embedded and we believe a non-executive appointment provides an excellent opportunity for both personal and career development and it is a way of gaining valuable experience that may be applied at United Utilities so long as no conflicts of interest occur. Our graduate and apprentice programmes are thriving and we are focusing more effectively on middle/junior management succession.

### Our values and culture

Our aim is to act as a responsible business, and our business principles can be found on our website (see page 65). Our core values of acting with integrity and focusing on our customers provides both the framework for our business culture and the way in which our employees go about their daily work. 'Acting responsibly' has been part of the United Utilities ethos for a number of years. One of the key responsibilities of the board is to appoint the CEO. Steve Mogford is a passionate supporter of the company's agenda to act as a responsible business.

In accordance with our aim of acting as a responsible business, the company has complied fully with the main and subsidiary principles and provisions of the 2014 UK Corporate Governance Code, with which we are required to comply by the FCA's Listing Rules for the year ended 31 March 2017.

### Our approach to risk

Our approach toward risk is very much aligned with our culture. We are an organisation that provides a vital service to its customers and we recognise the responsibilities of this, and our intention is to act responsibly towards our stakeholders, in particular our customers, in the provision of our services to them. As a board, on behalf of our business we must take long-term decisions in order that our successors are able to operate the business efficiently for customers in the future and we need to build our assets to meet future demand and circumstances. We are a commercial organisation operating within a regulated framework and accepting some level of risk is a normal consequence of doing business. It is the board and the executive team's role to understand the risks associated with each activity of the business and ensure that actions are taken to mitigate these risks.

### Our investors

We are in regular contact with our large investors through a regular scheduled programme of meetings attended by either our CEO or CFO or both of them. The programme is also supported by the activities of our investor relations team who are readily available to address investors' queries. Mark Clare, senior independent director and myself are also available, and the company secretary and I had the opportunity to meet with several investors during the year.

Ensuring that the directors' remuneration packages align the directors' and senior managers' interests with the long-term interests of the company and its shareholders is always a key area of interest for investors. The directors' remuneration policy, last approved by shareholders at the 2014 AGM, is again on the 2017 annual general meeting agenda. This reflects the Companies Act 2006 requirement that a company's remuneration policy must be approved by shareholders every three years. The new directors' remuneration policy can be found on pages 91 to 97 and is intended to apply until the 2020 AGM. The remuneration committee under Sara Weller's leadership has again engaged with a number of the company's large investors to ensure that we are aligned with their views. Although only advisory, at the AGM in 2014, and the subsequent two AGMs, over 99 per cent of the votes were cast in favour of the directors' remuneration report.

We welcome any feedback you may have on this annual report – please email any comments you may have to [secretariat@uuplc.co.uk](mailto:secretariat@uuplc.co.uk)

**Dr John McAdam**  
Chairman