

Corporate governance report

Annual report on remuneration

Executive directors' remuneration for the year ended 31 March 2018

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

Year ended 31 March	Fixed pay						Variable pay					
	Base salary £'000		Pension £'000		Benefits £'000		Annual bonus £'000		Long-term incentives £'000		Total £'000	
	2018	2017	2018	2017	2018	2017	2018	2017	2018 ⁽¹⁾	2017 ⁽²⁾	2018	2017
Steve Mogford	737	721	162	159	29	28	718	785	429	451	2,075	2,144
Russ Houlden	466	455	102	100	25	26	450	492	271	285	1,314	1,358
Steve Fraser ⁽³⁾	278	n/a	61	n/a	15	n/a	277 ⁽⁴⁾	n/a	102	n/a	733	n/a

(1) The long-term incentive amount is in respect of the Long Term Plan award which was granted in July 2015 and which will vest based on performance over the three-year period 1 April 2015 to 31 March 2018. 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 2018, and the award for Steve Mogford and Russ Houlden will not vest until the end of an additional two-year holding period. See page 102 for further details.

(2) The long-term incentive amount for the year ended 31 March 2017 is in respect of the Long Term Plan award which was granted in July 2014 and whose performance period ended on 31 March 2017. The final vesting outcome was confirmed by the committee in July 2017 as 54.5 per cent, having been estimated at 59.1 per cent and included at that level in last year's single total figure of remuneration table. This takes account of the final outcome of the customer service excellence measure which had previously been estimated (the company ranked 8th out of 18 water companies). The figure has been restated to reflect this outcome. The restated amount also reflects the additional dividend equivalents accrued to 31 March 2018. The award is not due to vest until April 2019 following an additional two-year holding period and for the purposes of this table has been valued on the basis of the average share price over the three-month period 1 January 2018 to 31 March 2018 of 715.8 pence per share.

(3) Salary, benefits, pension and annual bonus figures for Steve Fraser reflect part-year earnings and are for the period from 1 August 2017, when he was first appointed to the board.

(4) A bonus of around £74,000 was earned by Steve Fraser in respect of the period 1 April 2017 to 31 July 2017 prior to him joining the board. This is not included in the table.

Base salary

Executive director	Base salary £'000	
	Current Salary	1 September 2016
Steve Mogford ⁽¹⁾	745.0	727.0
Russ Houlden ⁽¹⁾	470.5	459.0
Steve Fraser ⁽²⁾	435.0	n/a

(1) Salaries for the CEO and CFO were increased by 2.5 per cent with effect from 1 September 2017, 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.

(2) On his appointment as COO on 1 August 2017, Steve Fraser's salary was set at £405,000 in consideration of the organisational structure and the level of responsibilities he assumed at that time, and also took account of internal and external market benchmarks. On 1 January 2018 there was a material change in the size and scope of the COO role as a result of a reorganisation, and his salary was increased to £435,000 from the same date in recognition of this. It is expected that future salary increases for Steve Fraser will be in line with the normal policy (i.e. broadly in line with increases applied across the wider workforce in normal circumstances).

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 2018.

Benefits

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

No material changes are expected to benefits during the year commencing 1 April 2018.

External appointments

Steve Mogford is the senior independent director of G4S PLC for which he received and retained an annual fee of £78,000. Russ Houlden is an independent member of the supervisory board, and audit committee chairman, of Orange Polska SA for which he receives and retains annual fees estimated at around £80,000.

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Annual bonus

Annual bonus in respect of financial year ended 31 March 2018 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2018 are set out below. The table on page 98 summarises how these performance measures are linked to our business strategy.

Measure	Threshold (25% vesting)	Target	Stretch (100% vesting)	Vesting as a % of maximum	Steve Mogford weighting (% of award) Outcome	Russ Houlden weighting (% of award) Outcome	Steve Fraser weighting (% of award) Outcome	
Underlying operating profit⁽¹⁾								
	£744.4m	£769.4m	£794.4m	81%	30.0%	30.0%	30.0%	
	Actual: £788.1m				24.3%	24.3%	26.2%	
Customer service in year								
Service incentive mechanism – qualitative	4.37	4.40	4.43	100%	12.0%	12.0%	12.0%	
	Actual: 4.49				12.0%	12.0%	12.0%	
Service incentive mechanism – quantitative	79	76	74	100%	4.0%	4.0%	4.0%	
	Actual: 71.3				4.0%	4.0%	4.0%	
Maintaining and enhancing services for customers								
Wholesale outcome delivery incentive (ODI) composite	(£22.6m)	(£6.5m)	£19.7m	49%	24.0%	24.0%	24.0%	
	Actual: (£7.0m)				11.8%	11.8%	11.8%	
Time, cost and quality of capital programme (TCQi) ⁽²⁾	85%	90%	98%	69%	20.0%	20.0%	20.0%	
	Actual: 93.1%				13.8%	13.8%	13.8%	
Personal objectives (see page 101 for further detail)								
Steve Mogford				90%	10.0%			
	Actual: 90%				9.0%			
Russ Houlden				85%		10.0%		
	Actual: 85%					8.5%		
Steve Fraser				90%			10.0%	
	Actual: 90%						9.0%	
Total:								
Actual award (% of maximum)						74.9%	74.4%	76.8%
Maximum award (% of salary)						130%	130%	130%
Actual award (% of salary)⁽³⁾						97.3%	96.7%	99.8%
Actual award (£'000 – shown in single figure table)⁽³⁾						718	450	277⁽⁴⁾

(1) The underlying operating profit figure for bonus purposes is based on the underlying operating profit on page 53 and excludes infrastructure renewals expenditure and property trading. Recognising the performance of Water Plus during the year, of which Steve Mogford and Russ Houlden are directors, the committee used its discretion to reduce the underlying operating profit outcome used for assessing their bonus outcomes by £3.2 million from £788.1 million to £784.9 million. The vesting percentage shown in the table above is the figure after this adjustment.

(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.

(4) This is the bonus earned by Steve Fraser since his appointment as COO on 1 August 2017. A bonus of around £74,000 was earned by Steve Fraser in respect of the period 1 April 2017 to 31 July 2017 prior to him joining the board. This is not included in the table above.

Further detail of achievement against personal objectives

Personal objectives represent 10 per cent of the total bonus opportunity. Assessment of outcomes against personal objectives are summarised in the table below:

Steve Mogford

Personal objectives related to:	Performance summary
<ul style="list-style-type: none"> › Continued improvements in customer service; › Strengthening of relationships with key stakeholders and effective preparations for the start of the new regulatory period 2020–25; and › Continued development of the talent management process for senior roles. 	<p>The Committee assessed that Steve's performance warranted an outcome of 90 per cent in respect of the personal objective element of his bonus, including:</p> <ul style="list-style-type: none"> › Customer service comparing favourably to other water companies using Ofwat's service incentive mechanism and other sectoral and cross-sector measures of customer satisfaction; › Strengthening of relationships with key stakeholders; crucial leading up to the start of the new regulatory period in 2020; and › Succession planning at the senior executive level and at the tier below.

Russ Houlden

Personal objectives related to:	Performance summary
<ul style="list-style-type: none"> › Financial preparations for the new regulatory period 2020–25; › Debt financing activities; › Strengthening investor relationships; and › IT security. 	<p>The Committee assessed that Russ' performance warranted an outcome of 85 per cent in respect of the personal objective element of his bonus, including:</p> <ul style="list-style-type: none"> › Engagement with Ofwat on finance-related areas of methodology for the next price review; › Establishing agile processes enabling the company to raise low-cost debt; › Building relationships with key shareholders and analysts; and › Creating a future roadmap for IT security.

Steve Fraser

Personal objectives related to:	Performance summary
<ul style="list-style-type: none"> › Continued improvements in customer service and operational performance; › Strengthening of relationships with key stakeholders; and › Operational preparations for the new regulatory period 2020–25. 	<p>The Committee assessed that Steve's performance warranted an outcome of 90 per cent in respect of the personal objective element of his bonus, including:</p> <ul style="list-style-type: none"> › Sustained improvements in customer service; › Environment Agency and the Drinking Water Inspectorate placing the company as one of the leading companies in the sector; and › Building the business plan for the new regulatory period starting in 2020, including work on the outcome delivery incentives.

Deferred Bonus Plan awards made in year ended 31 March 2018 (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 to executive directors in 2017/18.

Executive Director	Type of award	Basis of award	Face value of award ⁽¹⁾ (£'000)	End of deferral period
Steve Mogford	Conditional shares	50% of bonus	£392	16/06/2020
Russ Houlden	Conditional shares	50% of bonus	£246	16/06/2020

(1) The face value has been calculated using the closing share price on 15 June 2017 (the dealing day prior to the date of grant) which was 961 pence per share.

Annual bonus in respect of financial year commencing 1 April 2018

The maximum bonus opportunity for the year commencing 1 April 2018 will remain unchanged at 130 per cent of base salary.

The annual bonus will operate in the same way as that for the year 2017/18.

The table below summarises the measures, weighting and targets for the 2018/19 bonus. Please note that the majority of targets are considered commercially sensitive, and consequently they will be disclosed in the 2018/19 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%	91.5%	98%	20.0%
Personal objectives	Commercially sensitive			10.0%
Total				100%

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

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

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Long-term incentives

Performance for Long Term Plan awards

2015 Long Term Plan (LTP) awards with a performance period ended 31 March 2018 (audited information)

The 2015 LTP awards were granted in June 2015 and performance was measured over the three-year period 1 April 2015 to 31 March 2018. The awards for Steve Mogford and Russ Houlden will normally vest in April 2020, following an additional two-year holding period and these unvested shares will remain subject to withholding provisions over this period. A holding period will apply to LTP awards made to Steve Fraser after he became an executive director.

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 2018). The values of the 2015 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 2015 LTP was calculated:

Measure	Threshold (25% vesting)	Intermediate	Stretch (100% vesting)	Vesting as a % of maximum	Steve	Russ	Steve
					Mogford weighting (% of award) Outcome	Houlden weighting (% of award) Outcome	Fraser weighting (% of award) 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	Straight-line between threshold and stretch	Median TSR × 1.15	0.0%	33.3%	33.3%	33.3%
	Actual: Less than median TSR				0.0%	0.0%	0.0%
	Company TSR of (14.8%) was below threshold TSR of 8.6%						
Sustainable dividends (50% vesting)							
Average underlying dividend cover over the three-year performance period	1.05	1.10	1.15	100.0%	33.3%	33.3%	33.3%
	Actual: 1.18				33.3%	33.3%	33.3%
Underpin: Dividend growth of at least RPI in each of the years 2015/16, 2016/17 and 2017/18 ⁽²⁾	✓ Met						
Customer service excellence (80% vesting)							
Ranking for the year ended 31 March 2018 versus 17 other water companies using Ofwat's service incentive mechanism (SIM) combined score ⁽³⁾	Median rank	Upper quartile rank	Upper decile rank	66.3%	33.3%	33.3%	33.3%
	Estimate: 6th out of 18				22.1%	22.1%	22.1%
Overall underpin							
Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance	✓ Assumed met. The committee will make a final assessment of the company's performance once the combined SIM score is known.						
Estimated vesting (% of award)					55.4%	55.4%	55.4%
Number of shares granted					98,184	61,987	23,257
Number of dividend equivalent shares					10,116	6,386	2,394
Number of shares before performance conditions applied					108,300	68,373	25,651
Estimated number of shares after performance conditions applied					59,998	37,878	14,210
Three-month average share price at end of performance period (pence)⁽⁴⁾					715.8	715.8	715.8
Estimated value at end of performance period (£'000 – shown in single figure table)					429	271	102

(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 2018 AGM.

(3) This is an estimate as the final outcome will not be known until the combined scores are published later in 2018.

(4) Average share price over the three-month period 1 January 2018 to 31 March 2018.

Long Term Plan awards granted in the year

2017 LTP awards with a performance period ending 31 March 2020 (audited information)

The table below provides details of share awards made to executive directors during the year in respect of the 2017 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	£945	103,572	25%	31/03/2020
Russ Houlden	Conditional shares	130% of salary	£597	65,391	25%	31/03/2020
Steve Fraser	Conditional shares	70% of salary ⁽³⁾	£224	24,547	25%	31/03/2020

(1) The face value has been calculated using the closing share price on 26 June 2017 (the dealing day prior to the date of grant) which was 912.5 pence per share.

(2) An additional two-year holding period applies after the end of the three-year performance period for Steve Mogford and Russ Houlden.

(3) Steve Fraser's LTP award was granted before he was appointed as an executive director.

Details about the 2017 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2017 to 31 March 2020. The table on page 98 summarises how these performance measures are linked to our business strategy.

Measure	Targets		Weighting
	Threshold (25% vesting)	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	Median TSR × 1.15	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 vesting		33.3%
Underpin:	Dividend growth of at least RPI in each of the years 2017/18, 2018/19 and 2019/20		
Customer service excellence			
Ranking for the year ending 31 March 2020 versus nine other water and wastewater companies using Ofwat's Service Incentive Mechanism (SIM) combined score	Median rank	Upper quartile 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 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

2018 LTP awards with a performance period ending 31 March 2021

There will be broad consistency in the approach to how the 2018 Long-Term Plan (LTP) awards will operate. The award level for executive directors will remain unchanged at 130 per cent of base salary.

The performance targets for the total shareholder return and customer service measure are expected to be as for the 2017 LTP award, but the committee retains the discretion to adjust the customer service measure and targets once Ofwat's approach to assessing customer service for the regulatory period 2020–25 is agreed. The targets for the sustainable dividends measure will reflect the fact that the performance period starting in 2018 will cross two regulatory periods.

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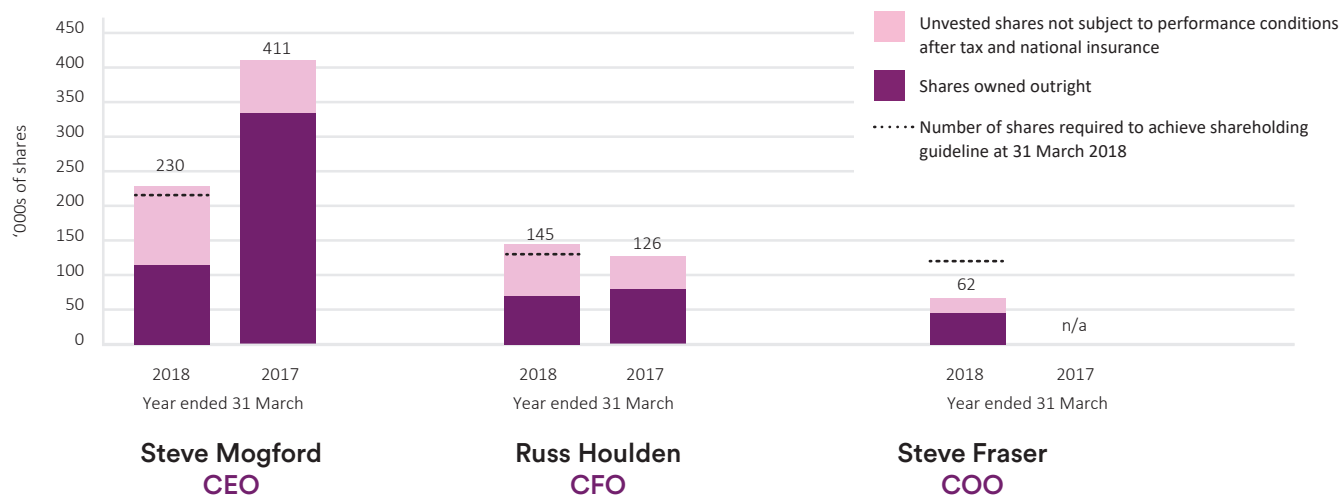
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Executive directors' interests in shares

Executive directors' shareholding (audited information)

Executive directors are expected to reach a shareholding guideline of 200 per cent of salary, normally within five years of appointment.

Details of beneficial interests in the company's ordinary shares as at 31 March 2018 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding guideline level. Steve Mogford reduced his shareholding during 2017/18, but his holding remains above the guideline level of 200 per cent of salary. Russ Houlden's shareholding is also above the 200 per cent of salary guideline level. Steve Fraser is expected to reach his shareholding guideline of 200 per cent of salary within five years of his appointment to the board.



Further details of the executive directors' shareholdings and their share plan interests are given in the table below and in the appendix on page 115.

Director	Share-holding 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⁾		Share-holding as % of base salary at 31 March 2018 ⁽¹⁾	Share-holding guideline met at 31 March 2018	Unvested shares subject to performance conditions ⁽⁴⁾	
			2018	2017	2018	2017	2018	2017	2018	2018	2018	2017
Steve Mogford ^{(5) (6)}	200%	208,159	110,119	327,287	225,615	157,289	229,713	410,668	221%	Yes	318,589	314,125
Russ Houlden ^{(5) (6)}	200%	131,461	69,435	73,500	142,088	99,127	144,760	126,056	220%	Yes	201,117	198,286
Steve Fraser ⁽⁵⁾	200%	121,542	46,905	n/a	29,027	n/a	62,310	n/a	103%	No	75,479	n/a

(1) Share price used is the average share price over the three months from 1 January 2018 to 31 March 2018 (715.8 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 2018 to 23 May 2018, additional shares were acquired by Steve Mogford (41 ordinary shares), Russ Houlden (41 ordinary shares) and Steve Fraser (41 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.

(6) On 3 April 2018 shares granted on 29 July 2013 under the Long Term Plan vested for Steve Mogford and Russ Houlden following their additional two-year holding period. Steve Mogford had 48,700 shares vesting, of which 22,947 shares were sold to cover tax and national insurance. Steve retained the remaining balance 25,753 shares. Russ Houlden had 30,733 shares vesting, of which 14,481 shares were sold to cover tax and national insurance. Russ retained the remaining balance of 16,252 shares.

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 employs 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.

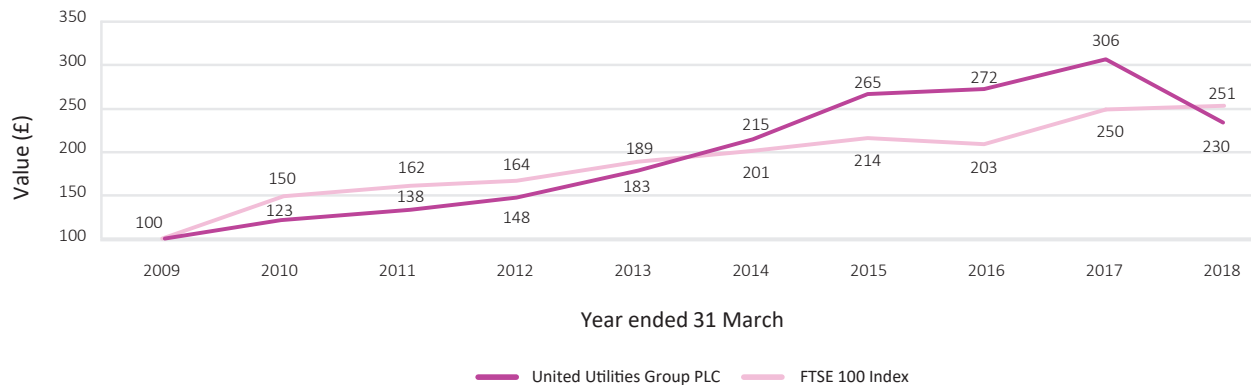
Should the company's method of satisfying share plan vestings change (i.e. issuing new shares) then the company would monitor the number of shares issued and their impact on dilution limits set by The Investment Association in respect of all share plans (10 per cent in any rolling 10-year period) and executive share plans (five per cent in any rolling 10-year period).

No treasury shares were held or utilised in the year ended 31 March 2018.

Other information

Performance and CEO remuneration comparison

This graph illustrates the company's performance against the FTSE 100 over the past nine 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 nine-year period as the TSR chart.



Year ended 31 March		2010	2011	2012	2013	2014	2015	2016	2017	2018
CEO single figure of remuneration (£000)	Steve Mogford	n/a	377	1,421	1,549	2,378	2,884	2,760 ⁽¹⁾	2,144 ⁽²⁾	2,075
	Philip Green	1,992	3,073	n/a	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	74.9
	Philip Green	89.2	90.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTP vesting (% of maximum) ⁽³⁾	Steve Mogford	n/a	n/a ⁽⁴⁾	n/a ⁽⁴⁾	n/a ⁽⁴⁾	93.5	97.5	33.6 ⁽⁵⁾	54.5	55.4⁽⁷⁾
	Philip Green	0 ⁽⁸⁾	28.1 ⁽¹⁰⁾	n/a	n/a	n/a	n/a	100 ⁽⁶⁾	n/a	n/a
		12.5 ⁽⁹⁾	100 ⁽¹¹⁾							

(1) This includes the 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 pay-out from the 2013 LTP, which vested on 3 April 2018 after the end of a two-year holding period, has been updated to reflect the additional dividends accruing on these awards and the closing share price on the date of vesting of 703.2 pence per share.

(2) The pay-out from the 2014 LTP has been restated to reflect the additional dividend equivalents accruing on these awards, final vesting outcome and updated share price. See page 99 for further details.

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

(4) 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.

(5) 2013 LTP.

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

(7) The 2015 Long Term Plan amount vesting percentage is estimated. See page 102 for further details.

(8) 2007 Performance Share Plan (PSP).

(9) 2007 Matching Share Award Plan (MSAP).

(10) 2008 PSP and MSAP.

(11) 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
Steve Fraser ⁽¹⁾	1.8.17

(1) Steve Fraser joined the company on 23 May 2005.

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Relative importance of spend on pay

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



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

Alignment of wider workforce pay

Consideration of employee views

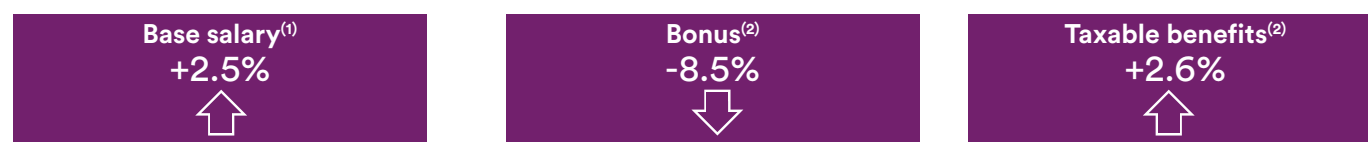
Although employees are not consulted directly on executive remuneration policy, employee engagement surveys are carried out annually and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements. The committee takes into account the general base salary increases and remuneration arrangements for the wider employee population when determining remuneration policy for the executive directors.

In line with developing best practice, the company will be building its plans for further engagement between the remuneration committee and the wider workforce.

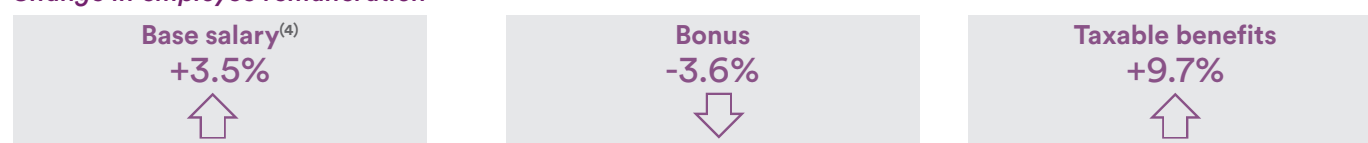
Percentage change in CEO's remuneration versus the wider workforce

The figures below show how the percentage change in the CEO's salary, benefits and bonus earned in 2016/17 and 2017/18 compares with the percentage change in the average of each of those components for a group of employees.

Change in CEO remuneration



Change in employee remuneration⁽³⁾



(1) On 1 September 2017, Steve Mogford received a base salary increase of 2.5 per cent.

(2) See page 99 for further details.

(3) 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.

(4) Includes promotional increases. The headline salary increase for employees was 2.5 per cent.

Cascade of remuneration through the organisation

	Executive directors	Executive committee	Senior leaders	Management	Wider workforce	Graduates	Apprentices
Base salary	✓	✓	✓	✓	✓	✓	✓
Annual bonus – cash	✓	✓	✓	✓	✓	✓	✓
Annual bonus – deferred shares	✓	✓	✗	✗	✗	✗	✗
Long Term Plan ⁽¹⁾	✓	✓	✓	✗	✗	✗	✗
Pension	✓	✓	✓	✓	✓	✓	✓
Life cover and ill health benefits	✓	✓	✓	✓	✓	✓	✓
Company funded healthcare	✓	✓	✓	✓	✓	✓	✓
ShareBuy	✓	✓	✓	✓	✓	✓	✓
Other benefits	✓	✓	✓	✓	✓	✓	✓

(1) LTP grants for senior leaders are made annually on a selective basis.

Non-executive directors

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

Year ended 31 March	Salary/fees £'000		Taxable benefits £'000		Total £'000	
	2018	2017	2018	2017	2018	2017
Dr John McAdam	300	294	2	1	302	295
Dr Catherine Bell ⁽¹⁾	n/a	22	n/a	1	n/a	23
Stephen Carter	76	70	0	1	76	71
Mark Clare	78	76	2	1	80	77
Alison Goligher ⁽²⁾	65	43	0	0	65	43
Brian May	81	78	2	1	83	79
Paulette Rowe ⁽³⁾	49	n/a	0	n/a	49	n/a
Sara Weller	78	76	0	0	78	76

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

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

(3) Paulette Rowe joined the board on 1 July 2017.

Fees

Non-executive director annual fee rates were reviewed and increased with effect from 1 September 2017 as shown below. Base fees were increased in line with the wider workforce. Additional fees for the senior independent non-executive director and the chairs of committees were increased, taking into account market data for companies of a broadly similar size and complexity, and reflecting the relative time commitment of the roles.

Role	Fees £'000	
	1 Sept 2017	1 Sept 2016
Base fees: Chairman ⁽¹⁾	303.0	296.0
Base fees: other non-executive directors ⁽²⁾	65.6	64.0
Senior independent non-executive director ⁽²⁾	13.5	12.5
Chair of audit and treasury committees ⁽²⁾	16.0	15.0
Chair of remuneration committee ⁽²⁾	13.5	12.5
Chair of corporate responsibility committee ⁽²⁾	12.0	10.0

(1) Approved by the remuneration committee.

(2) Approved by a separate committee of the board.

Non-executive directors' shareholding (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2018 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
		2018 ⁽¹⁾
Dr John McAdam	4.2.08	1,837
Stephen Carter	1.9.14	3,075
Mark Clare	1.11.13	7,628
Alison Goligher	1.8.16	3,000
Brian May	1.9.12	3,000
Paulette Rowe	1.7.17	3,000
Sara Weller	1.3.12	11,000

(1) From 1 April 2018 to 23 May 2018 there have been no movements in the shareholdings of the non-executive directors.

Corporate governance report

Annual report on remuneration

The remuneration committee

Summary terms of reference

The committee's terms of reference were last reviewed in November 2017 and are available on our website:

unitedutilities.com/corporate-governance

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.

Composition of the remuneration committee

Member	Member since	Member to
Sara Weller (chair since 27.7.12)	1.3.12	To date
Mark Clare	1.9.14	To date
Alison Goligher	1.8.16	To date
Brian May	16.5.17	To date

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.

Support to the remuneration committee

By invitation of the committee, meetings are also attended by the Chairman of the company, the CEO, the company secretary (who acts as secretary to the committee), the customer services and people director and the head of reward and pensions, 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 adviser:

Advisor	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2018	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	£76,000 on a 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 advisers is objective and independent.

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

Key activities of the remuneration committee over the past year

The committee met four times in the year ended 31 March 2018.

Regular activities

- › Approved the 2016/17 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 2016/17 annual bonus scheme, reviewed progress against the targets for the 2017/18 annual bonus scheme, and set the targets for the 2018/19 annual bonus scheme;
- › Assessed the achievement of targets for the Long-Term Plan (LTP) awards made in 2014 and set the targets for LTP awards made in 2017;
- › 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;
- › Agreed leaver terms for executives;
- › 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; and
- › Noted progress on the company’s gender pay gap reporting.

Other activities

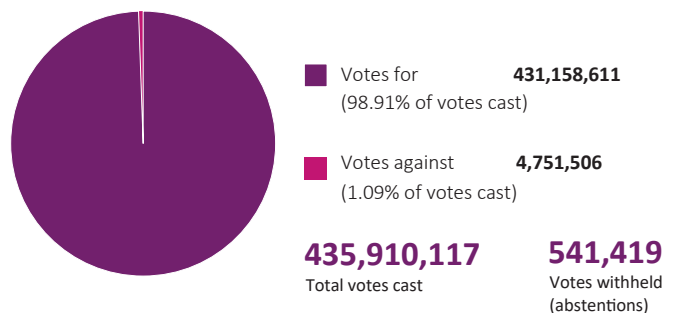
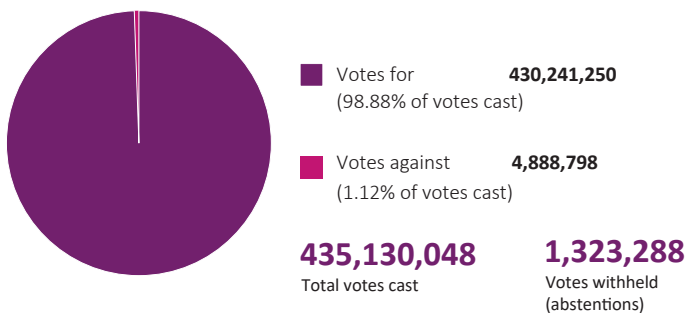
- › Agreed the appointment terms for Steve Fraser as Chief Operating Officer.
- › Reviewed the shareholding guidelines.

2017 AGM: Statement of voting

At the last Annual General Meeting on 28 July 2017, votes on the remuneration-related resolutions were cast as follows:

Approval of the directors’ remuneration policy

Approval of the directors’ remuneration report
(other than the part containing the directors’ remuneration policy)



The directors’ remuneration report was approved by the board of directors on 23 May 2018 and signed on its behalf by:

Sara Weller
Chair of the remuneration committee