



**United Utilities Group PLC**  
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Mr Jonson Cox  
Chairman  
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22 October 2013

Dear Jonson

**Board leadership, transparency and governance - principles**

I am responding to your letter, together with its corresponding principles paper dated 19 September 2013.

The board confirms United Utilities' willingness to support those principles and to conform to the self-regulatory approach proposed. Additionally, there are also some points relating to our governance structure worth bringing to your attention and these are set out below.

United Utilities aspires to the highest standards of board leadership, transparency and governance, both at the listed holding company, United Utilities Group PLC and at the regulated company, United Utilities Water PLC. United Utilities fully complies with the UK Corporate Governance Code (the Code) at Group level as set out in the Annual Report. The application of the Code at the regulated company level is explained in the corporate governance report of the regulated company's accounts.

United Utilities believes that its current practices and application of the Code at regulated company level are compatible with the principles proposed. Following the completion of our non-regulated business disposals in 2010, United Utilities agreed a governance structure with Ofwat that allows directors to be members of both regulated and listed holding company boards. We believe that this increases the efficiency and effectiveness of the corporate governance structure.

In respect of group Board Committees, which are not however replicated at the regulated company level, it is worth noting that the work of the Audit & Risk Committee is largely undertaken on behalf of the regulated company and that, for the Remuneration Committee, key elements of the executive directors' remuneration (such as share incentive plans) can only operate at a Group level. Accordingly, it is felt that having separate Committees at regulated company level would be unnecessary and duplicative. Save for the Nomination Committee of which I am chair, the membership of both the Audit & Risk and Remuneration Committees consists entirely of independent non-executive directors who are also members of the United Utilities Water PLC board.

Furthermore, we have no board members who represent investors nor any alternate directors. In addition, subject to my Companies Act duties, I consider myself to be independent of investors and I can confirm that the responsibilities of the chairman and chief executive officer are explicitly divided. Together with our independent non-executive directors, we are satisfied that the boards of both companies comprise high calibre individuals who, as set out in your principles, are best able to balance the needs of customers, the environment, the business and shareholders.

I trust that this structure will remain acceptable.

Please let me know if you require anything further.

Yours sincerely

Dr John McAdam  
Chairman