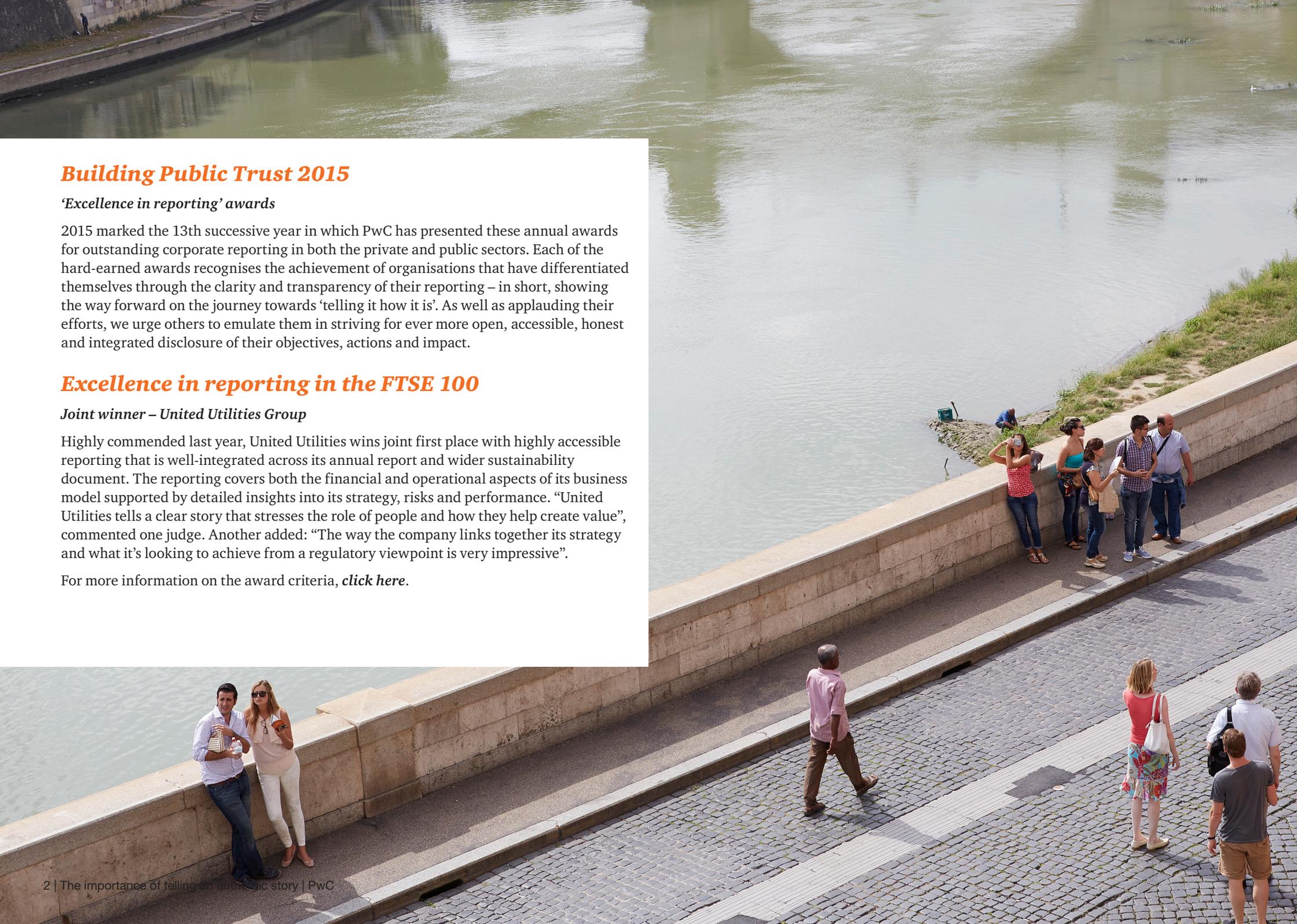


The importance of telling an authentic story

Q&A with Russ Houlden,
CFO of United Utilities



A scenic view of a river with a stone walkway and people walking along the bank. The river is calm and reflects the sky. The walkway is made of cobblestones and has a low stone wall on the river side. Several people are walking along the path, some looking at their phones, others talking. The background shows a grassy bank and a clear sky.

Building Public Trust 2015

‘Excellence in reporting’ awards

2015 marked the 13th successive year in which PwC has presented these annual awards for outstanding corporate reporting in both the private and public sectors. Each of the hard-earned awards recognises the achievement of organisations that have differentiated themselves through the clarity and transparency of their reporting – in short, showing the way forward on the journey towards ‘telling it how it is’. As well as applauding their efforts, we urge others to emulate them in striving for ever more open, accessible, honest and integrated disclosure of their objectives, actions and impact.

Excellence in reporting in the FTSE 100

Joint winner – United Utilities Group

Highly commended last year, United Utilities wins joint first place with highly accessible reporting that is well-integrated across its annual report and wider sustainability document. The reporting covers both the financial and operational aspects of its business model supported by detailed insights into its strategy, risks and performance. “United Utilities tells a clear story that stresses the role of people and how they help create value”, commented one judge. Another added: “The way the company links together its strategy and what it’s looking to achieve from a regulatory viewpoint is very impressive”.

For more information on the award criteria, [click here](#).

As one of the joint winners of our Building Public Trust Award for Excellence in Reporting in the FTSE 100, we caught up with Russ Houlden, CFO of United Utilities to better understand why they think reporting matters and what they do to stand out with their annual report.



Q

What was the catalyst for the company to embrace more transparent and holistic reporting?

Upon reflection there was no one catalyst that led us to improve the depth, breadth and quality of our reporting. Instead a combination of our delisting from the NYSE, non-regulated disposals, management change and the initiation of a turnaround strategy that provided more clarity over our vision, values, strategic priorities and KPIs created the foundation to improve the quality of our external reporting.

With this backdrop we recognised the importance of high quality reporting to communicate our turnaround. With the introduction of the Strategic Report and the concept of Integrated Reporting, as well as the upcoming governance changes on viability, we saw the annual report and financial statements (ARFS) as being a key component.

Q

What, if anything, did you need to do to instigate such a change in your reporting?

To make a step change in our reporting we had to focus on both the content of, and process behind, the ARFS. From a content perspective I don't believe you can report a holistic picture of your business if this is not being replicated internally – something the International Integrated Reporting Council (IIRC) refer to as 'integrated thinking'. Internally, as part of our turnaround and improvement journey, we had taken a more long-term and holistic approach to the development of strategic planning and performance management. This included understanding the longer-term impact of external factors on our strategic direction and considering and measuring the impact of our operations on our key resources and relationships which include our employees

and customers, the environment and wider communities. These key aspects of our business model and strategy had been under-represented in our reporting in the past but with the increased focus internally we were able to draw on our work and data to broaden the information we reported externally.

From a process perspective we focused on changing the mindset towards the ARFS from one that saw this as an annual, year-end 'chore' to one that aimed to deliver a high quality document that was part of a year-round process. We created a smaller, cross-functional, editorial team that drew on individuals from finance, investor relations, company secretariat, public relations and

sustainability, working closely with our key business leaders, to reflect the key building blocks of our strategic messaging and allow us to develop a more joined up approach. Finally we benefited from a more hands on approach from our CEO and me, which emphasised the importance placed on the document, a clear timetable and production meetings that commence ahead of pen to paper, and sufficient time set aside for senior executive and board reviews.

Q

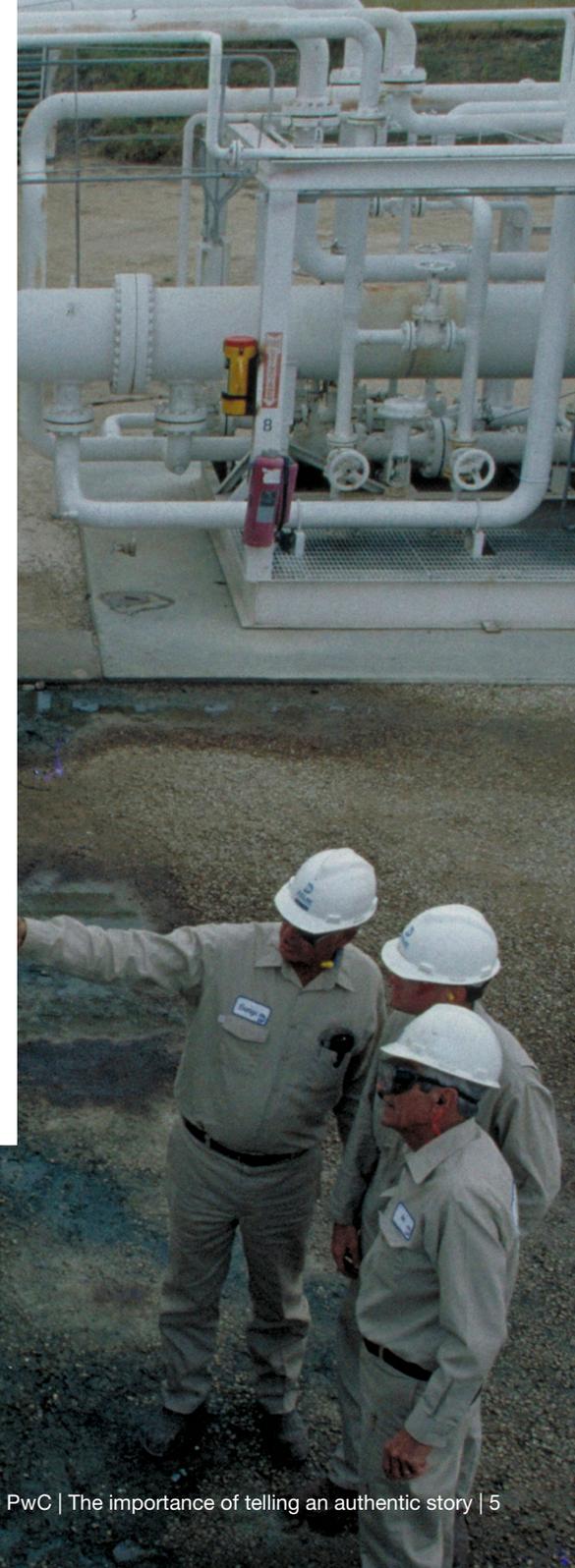
What have been the challenges to improving your report?

We have, and continue to, face a number of challenges in improving the depth, breadth and quality of our reporting. Not least the challenge, I am sure many companies face, of overcoming a compliance-led approach. This is particularly challenging for a heavily regulated business like ours where it can be easier to look first at what has to be done to 'tick the box'. However we don't feel that is the right approach for us because it prevents us from owning our own story.

Another challenge our regulatory model presents us is in trying to explain simply, and in 'plain English', our business model. At face value our regulatory framework, where our economic model (how we make money) is so inextricably linked to our operating model, encourages a broader perspective of performance that encompasses both financial and operational performance. Yet its complexity makes explaining this in a clear and transparent way a real challenge.

Like most busy organisations, it is also a challenge to ensure we have the right amount, and level, of resource available earlier in the process to focus on the ARFS. This is where I hope my involvement and that of our CEO can help but there is always something else that is more urgent and we have to constantly remind ourselves of the importance we place on a high quality ARFS.

Finally I believe a key challenge for us remains in how we ensure our report really focuses on what matters, what is most material, whilst remaining compliant. This is a tough balancing act that I don't think we have yet properly achieved. And if the growth in, and length of, other Annual Reports is anything to go by nor has anyone else!





Q

What are you most proud of?

I am proud that we have been able to produce a much more engaging document for investors and other key stakeholders that has been able to demonstrate radical improvement in the business and continuous improvement in the information reported – and which now does a much better job of incorporating responsible business/sustainability as part of our integrated story. This shows that it has been worth the effort the team puts in each year.

I am also proud of the positive feedback we have received externally. This has come from investors and key stakeholders as well as external recognition from awards such as your Building Public Trust Awards, ICSA's reporting awards, and the Strategic Reporting Accolades. I am also proud of how we have been recognised by the International Integrated Reporting Council (IIRC) as an exemplar of integrated reporting given the work we have been doing to embrace and implement the IIRC's reporting framework.

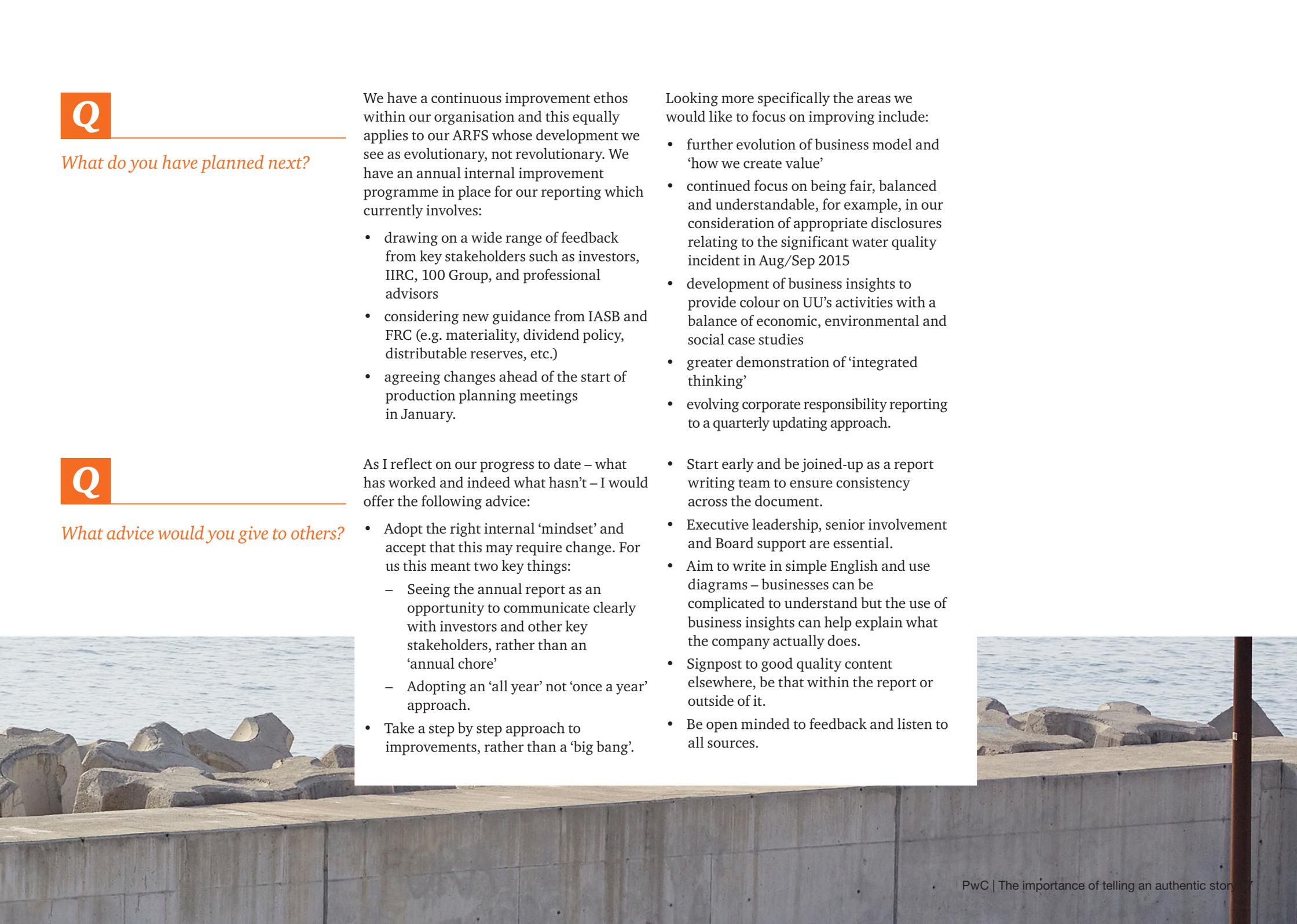
Q

What have been the benefits?

I believe that there have been a number of benefits – both internal and external – resulting from the changes we have made to our reporting.

Internally, I believe that our more transparent and engaging reporting enables more of our people to really engage with our business strategy. This in turn promotes wider understanding of what we stand for as a business, for example by highlighting our strong governance and corporate responsibility credentials we have found it easier to demonstrate that responsible business is part of what we do.

Externally, our investors and analysts find our Group annual report and financial statements to be an increasingly useful source of information on our business and we've had positive feedback on our remuneration report which we feel has helped us to achieve high percentages voting in favour at our AGM. In addition, we have used the improvements in our Group report to drive improvements in our United Utilities Water annual report and financial statements which has been favourably received by our regulators.

A background image showing a concrete wall in the foreground, with a body of water and a rocky breakwater in the distance under a clear sky.

Q

What do you have planned next?

We have a continuous improvement ethos within our organisation and this equally applies to our ARFS whose development we see as evolutionary, not revolutionary. We have an annual internal improvement programme in place for our reporting which currently involves:

- drawing on a wide range of feedback from key stakeholders such as investors, IIRC, 100 Group, and professional advisors
- considering new guidance from IASB and FRC (e.g. materiality, dividend policy, distributable reserves, etc.)
- agreeing changes ahead of the start of production planning meetings in January.

Looking more specifically the areas we would like to focus on improving include:

- further evolution of business model and 'how we create value'
- continued focus on being fair, balanced and understandable, for example, in our consideration of appropriate disclosures relating to the significant water quality incident in Aug/Sep 2015
- development of business insights to provide colour on UU's activities with a balance of economic, environmental and social case studies
- greater demonstration of 'integrated thinking'
- evolving corporate responsibility reporting to a quarterly updating approach.

Q

What advice would you give to others?

As I reflect on our progress to date – what has worked and indeed what hasn't – I would offer the following advice:

- Adopt the right internal 'mindset' and accept that this may require change. For us this meant two key things:
 - Seeing the annual report as an opportunity to communicate clearly with investors and other key stakeholders, rather than an 'annual chore'
 - Adopting an 'all year' not 'once a year' approach.
- Take a step by step approach to improvements, rather than a 'big bang'.
- Start early and be joined-up as a report writing team to ensure consistency across the document.
- Executive leadership, senior involvement and Board support are essential.
- Aim to write in simple English and use diagrams – businesses can be complicated to understand but the use of business insights can help explain what the company actually does.
- Signpost to good quality content elsewhere, be that within the report or outside of it.
- Be open minded to feedback and listen to all sources.

Contacts



Mark O'Sullivan

Head of Corporate Reporting

T: +44 (0)20 7804 3459

E: mark.j.osullivan@uk.pwc.com



Elaine Forrest

Corporate Reporting Specialist

T: +44 (0)20 7804 2402

E: elaine.j.forrest@uk.pwc.com



Sarah Allen

Corporate Reporting Specialist

T: +44 (0)113 289 4697

E: sarah.l.allen@uk.pwc.com



Gurpreet Kaur

Corporate Reporting Specialist

T: +44 (0)20 7804 6625

E: gurpreet.kaur@uk.pwc.com

For more on how you can tell an authentic story in your reporting, download our corporate reporting survey below or visit our website

Searching for buried treasure

A review of 2015 strategic reporting practices in the FTSE 350



This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2016 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.