



United Utilities Group PLC

PR19 business plan submission





Good morning everyone, I'm Steve Mogford, Chief Executive of United Utilities, and I'd like to welcome you all to today's webcast presentation. I'm going to take about 20 minutes to take you through the key headlines from our business plan.

Joining me on the webcast is Russ Houlden, our Chief Financial Officer, Steve Fraser our Chief Operating Officer, James Bullock our Strategy and Regulation Director and Louise Beardmore our Customer Services and People Director. As usual, there will be an opportunity to ask any questions at the end of the presentation. You can register your questions at any time - for those of you joining via the webcast, click on the questions tab at the top of the screen and for those on the audio-only call, dial *1 on your keypads.

Yesterday we submitted our business plan setting out how we plan to meet the needs of customers and other stakeholders from 2020 to 2025 and beyond. We're excited about our plan – it's creative, ambitious and rich in content reflecting unprecedented engagement with customers and other stakeholders to create a strong value for money proposition that targets stretching service levels for customers and the environment. In today's presentation, we will give you an overview of what is contained in our plan.

Overview

A stretching and innovative plan for customers and the environment



Customers

10.5% real reduction in bills
Enhanced services for
vulnerable customers



Resilience

Major water **resilience** scheme to be
directly procured



Service

Stretching service levels for
customers and the environment



Innovation

Forward shift in **technology capability**
– **Systems Thinking**



Expenditure

£1bn cost reduction compared
with AMP5, driven by **innovation**
and **efficiency**



Corporate legitimacy

Responsible **corporate structure**, leading
environmental performance, strong
financial resilience and **benefit sharing**

Here are the headlines.

10.5% reduction in average bills between 2020 and 2025. Bills will be lower in real terms than in 2010 contributing to 250,000 households moving out of water poverty.

Help for those who need it. We will deliver enhanced services for vulnerable customers and increased funding for financial assistance, helping a further 66,500 households out of water poverty.

We are targeting stretching service levels for customers and the environment. Unprecedented customer engagement supports improvements in service standards.

A reduction of over £1 billion in expenditure compared to AMP5. Innovation, efficiency and use of market mechanisms are contributors to lower costs.

Delivering for the long term. We are proposing a major water resilience scheme to be directly procured for customers in Manchester and the Pennines.

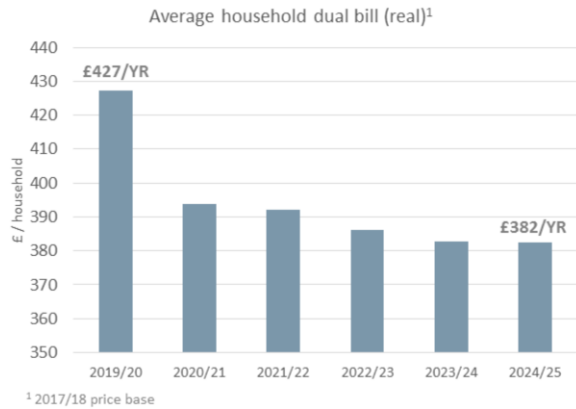
Building on Systems Thinking. Our proposals facilitate investment on a measurable forward shift in technological capability.

High levels of corporate legitimacy. We have a responsible corporate structure aligned with industry leading environmental performance, strong financial resilience and clearly defined benefit sharing mechanism through our CommUnity Share initiative.

Strong value

Customers can expect to see improvement in services across the board whilst average bills are expected to fall by 10.5% in real terms between 2020 and 2025

£382	2024/25 AVERAGE REAL CUSTOMER BILL
£45	AVERAGE REAL BILL REDUCTION
10.5%	REAL REDUCTION FROM 2019/20



Our plan represents a strong value for money proposition, supported by over 80 per cent of customers. The chart on this slide shows how we propose to phase the 10.5 per cent real bill reduction over the five years to 2025.

Average bills for customers will fall in real terms over the 15 years from 2010 to 2025, whilst service standards and environmental quality continue on a path of significant improvement.

Unprecedented engagement

Unprecedented levels of engagement with customers and application of customer insight

BAU customer engagement	Supplementary customer engagement
5,000 pieces of customer information per day	Over 90 bespoke engagement exercises
7,000 customer interactions per week	Behavioural economics and immersive techniques
2,000,000 pieces of customer data	Views of full range of customers captured
9 different customer types	YourVoice ; independent customer challenge group

Our plan reflects unprecedented engagement with customers, regulators and other stakeholders. Over 140,000 people from all walks of life have been involved in informing our plan through over 90 bespoke engagement exercises, innovative behavioural science and immersive research techniques to supplement stated preference approaches. Over 2 million individual data points gained from day to day interaction with customers have been used to create our plan.

Our independent customer challenge group, YourVoice, has continually monitored our performance during AMP6 and they have been deeply involved in challenging our plan for AMP7. We believe that this has and continues to be a very constructive influence we will retain and build on its role over AMP7.

Affordability

Improving affordability for customers overall and targeting additional support where needed most

Significant
focus and
improvement
in AMP6

316,500
customers to
move out of
water
poverty¹

Full roll out of
**lowest bill
guarantee**

Doubling the
uptake of
**Priority
Services** in
AMP7

¹ Defined as 3% of annual household income, after housing costs, on water and wastewater services, aligned to the UK water poverty benchmark. Analysis indicates around 18% of households in the North West are in water poverty. Our proposed bill reduction will help support 250,000 customers to come out of water poverty and will help a further 66,500 out of water poverty through targeted support.

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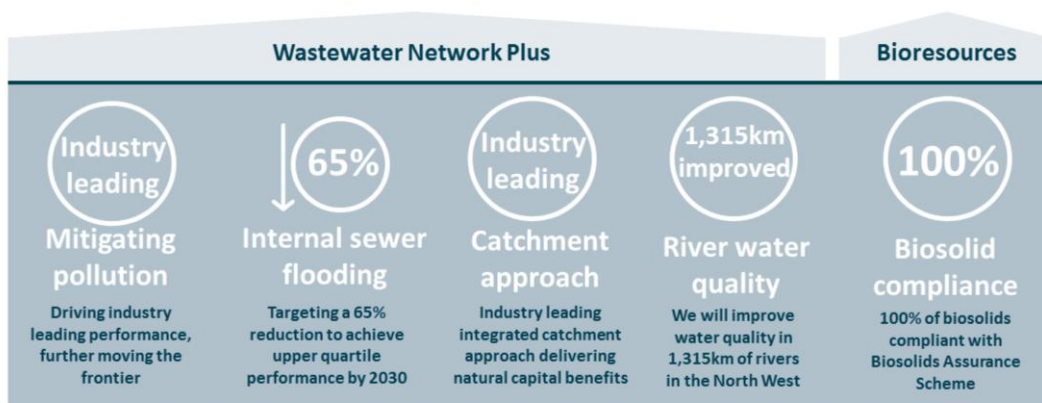
Our region is home to 41 of the 100 most deprived communities in England and Wales and we have worked hard to be at the frontier in delivering affordability schemes and other priority services. We will enter AMP7 with over 115,000 customers on financial assistance schemes – double the commitment we gave at PR14. Our proposed bill reduction will help support 250,000 customers out of water poverty and through targeted support, we will lift a further 66,500 out of water poverty. In AMP7, we will fully roll out innovative affordability schemes piloted during AMP6 such as our unique “lowest bill guarantee” which gives confidence to customers that a meter would save money – as well as water.

Priority Services goes wider than financial support. In AMP6, we have led the delivery of tailored services to customers, reflecting a broad spectrum of potential needs and we have a commitment supported by an ODI to increase take up of Priority Services to 100,000 by 2025 and deliver enhanced offerings including guaranteed proactive contacts to customers following a network event.

Turning now to the service that we provide.

Wastewater service improvements

Commitment to significant improvements in service levels for customers and delivery for the environment



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Many of our facilities both operate in and rely upon environmentally sensitive areas. Our work must meet and improve standards for river quality, bathing waters and biodiversity. The Environment Agency regards our environmental performance as industry leading and in AMP7 we will continue our support for a thriving environment for current and future generations of residents and visitors to enjoy and our plan is designed to deliver all required environmental obligations.

Our comprehensive package of performance commitments, targets and incentives is cost beneficial and reflects customer and other stakeholder priorities. Targeted performance is stretching and has been determined using a range of techniques including comparisons with other companies, cost-benefit analysis and customer feedback. We have adopted the common performance commitments proposed by Ofwat and have developed a comprehensive set of bespoke commitments, reflecting the results of our customer research.

This slide shows some of the key performance commitments in our wastewater business covering both the wastewater network plus and bioresources price controls. I will pick out a couple of examples:

We are currently frontier in mitigating pollution and plan to drive performance further, moving the benchmark for the industry.

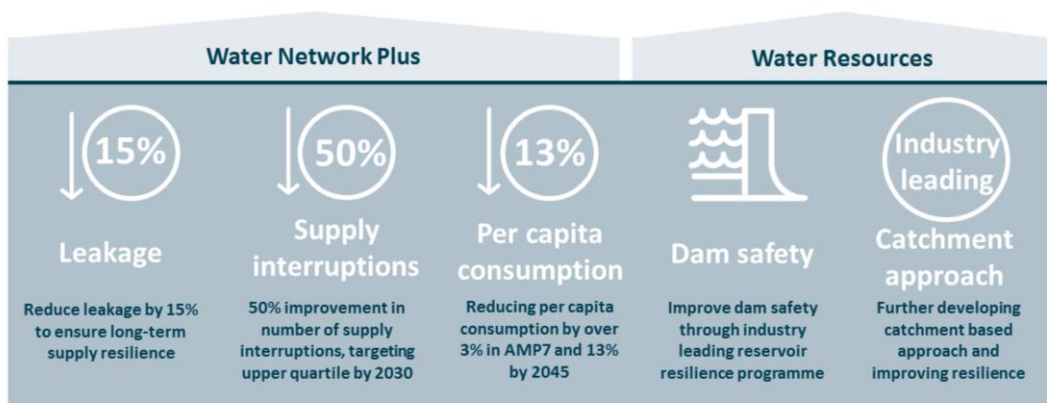
On internal sewer flooding, we have accepted the challenging target of achieving upper quartile performance.

We will continue our industry leading catchment management approach, working with leading academic institutions, customers and stakeholders to design and deliver innovative and sustainable treatment solutions alongside catchment interventions. This will deliver an integrated catchment strategy in 26 catchments across the region and we expect that catchment solutions will be deployed to a population equivalent of 1 million during the 2020-25 period. As an environmentally sustainable, cost effective approach, this will be more significant in AMP7 than ever before and we are extending its boundaries into water quality, resources and flooding initiatives.

Turning now to water.

Water service improvements

Commitment to significant improvements in service levels for customers and delivery for the environment



These include both the water network plus and water resources price controls.

Here in the North West – already home to a population of over 7 million people – our key metropolitan areas are anticipating significant future growth. Our plan reflects our responsibility to support the provision and most efficient use of infrastructure to underpin economic development and population increase.

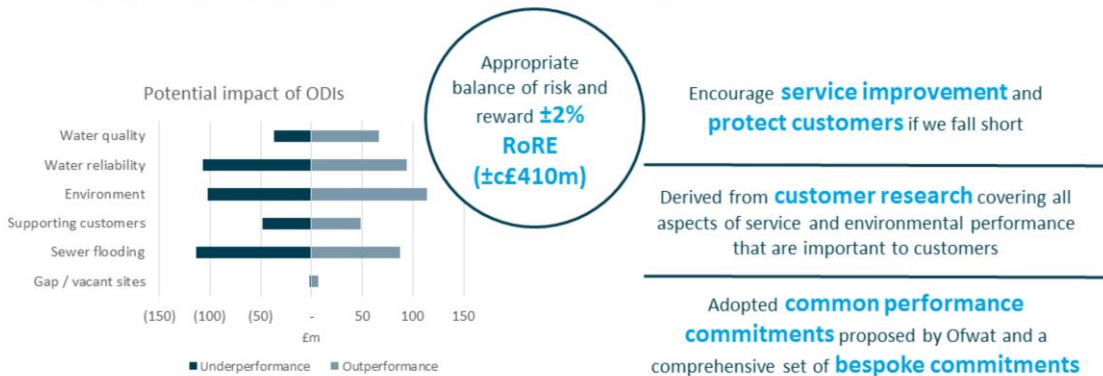
We have significantly reduced leakage over the last 25 years and have met our leakage target for over a decade. Our regional supply-demand surplus has historically meant there has not been a strong water resource driver to reduce leakage beyond the sustainable economic level. However we recognise there are wider benefits to leakage reductions and have therefore set a target to deliver a 15 per cent reduction by the end of AMP7 and over a 40 per cent reduction by 2045.

We have sufficient water resource capacity to meet our current standard for frequency of restrictions on use, and customer research does not support any change in that standard. Our focus therefore is to improve supply reliability, reducing short-term interruptions and reducing the risk of longer-term interruptions and we have included a challenging upper quartile target for water supply interruptions.

We share government’s ambition to reduce per capita consumption and plan to reduce it by over 3 per cent in AMP7 and 13 per cent by 2045.

ODI package balancing risk and reward

Range of performance against proposed ODI package is symmetrical ($\pm 2\%$ RoRE), providing opportunity to outperform for stretching performance



We support the wider application of financial incentives to performance commitments and have applied financial incentives - including both outperformance rewards and underperformance penalties - to almost all of our measures.

Our ODI package delivers an appropriate balance between risk and return. For each ODI we have estimated the potential upside and downside – or the P10 / P90 range – and the chart here shows the overall picture for our ODI package. The total range over the five-year period is roughly plus or minus 2 per cent of return on regulated equity and this equates to roughly plus or minus £410 million across AMP7. To put this into context, our P10 / P90 range at PR14 was in the region of minus 1.7 per cent to plus 0.9 per cent of return on regulated equity, or minus £470 million to plus £140 million. We have performed well against our ODI measures in AMP6, and now forecast to be in an overall reward position across the five years. The package we are proposing for AMP7 is much more balanced, giving us even greater opportunity to outperform for stretching performance.

For clarity, this ODI range excludes the impact of C-MeX and D-MeX which if included would add a further 0.3 per cent to the range.

Leading customer performance

Significant improvement through AMP6 performance creating the right conditions to earn a reward in AMP7

AMP6 performance

ofwat SIM

A **leader** amongst all companies and the **best listed** performer –
1st in wave 4 2017/18 and
3rd for the year overall

Potential for **reward** through AMP6 performance

 The Institute of Customer Service

1st out of the 10 water and wastewater companies

4th in the utilities sector as a whole

Most improved utility

5th most improved company overall (out of 247)

Service mark with **distinction**

AMP7 opportunity

Creating the right conditions to earn a **reward in AMP7**

C-MeX reward / penalty range at **±£62m**

D-MeX reward / penalty range of **+£3m / -£6m**

In addition to our wholesale ODIs, we will be measured against the manner in which we engage with customers.

We have delivered a substantial improvement in customer service levels in AMP6 - we were the leading company in the industry in the final SIM survey of 2017/18 and third for the year overall. This performance is mirrored in the most recent UK Customer Service Index scores in which we are the leading water and wastewater company. The Institute of Customer Service recently awarded us a service mark with distinction. Continuation of this trend should make us eligible for a SIM reward in AMP6.

In AMP7 our plan sees us seeking to achieve standards that are stretching not just for the water sector but for wider service industries. The potential reward and penalty range under C-MeX is symmetrical in AMP7 with the maximum potential reward increased to around £60 million for United Utilities across the five-year period.

Delivering long-term resilience

Leading on operational, corporate and financial resilience

Long-term resilience in the round

Operational

£250m additional investment in AMP6



Systems Thinking
securing services for current and future customers

Manchester and Pennines resilience project

Corporate

Compliant with **UK Corporate Governance Code**

Externally recognised through **awards**



BPTA winners 2015

Self assurance status with Ofwat

Robust and high quality **viability statement**

Financial

Role model company

Responsibly geared with over £5bn of **equity buffer**

60%

Robust **credit ratings**

Responsible approach to **financial risk management**

UK leading approach to **pension risk management**

The last few years of record-breaking extremes of weather has tested the sector and we have performed well. Our learning from these periods means that we have already made significant progress in enhancing our resilience and you will know that we will reinvest £250 million of outperformance during AMP6 to further improve our resilience. Systems Thinking is fundamental to our approach and this has been repeatedly demonstrated during these challenging periods.

In AMP7, we plan to deliver enhanced resilience in our services to customers through our core totex budget, making significant use of new network investment. One area where we must look beyond the core totex budget is to ensure the resilience of potable water supplies in Manchester and the Pennines and I will talk more about this shortly.

From a corporate perspective, we have the benefit of being a listed company with all the rigour, scrutiny and transparency that this brings. We were delighted to retain the top rated 'self-assurance' status under Ofwat's reporting framework reflecting the trust and confidence customers can have in our transparency and integrity. We understand that this will be a factor in Ofwat's risk based review of our plan.

Our financial resilience is underpinned by our clearly articulated financial risk management policies, an appropriate level of gearing and a robust and resilient pension scheme funding position. The strength of our financial resilience is reflected in that we are now the only English water company with a stable A3 credit rating with Moody's.

Manchester and Pennines resilience

Significant resilience scheme for the Haweswater Aqueduct



Background

- Supplies potable water to populations in Manchester and Pennines
- Investigations in AMP5 and AMP6 revealed **deteriorating condition**

Immediate approach

- Commenced delivery of **£35m additional investment** to replace the worst affected parts of the tunnel

Longer term solution

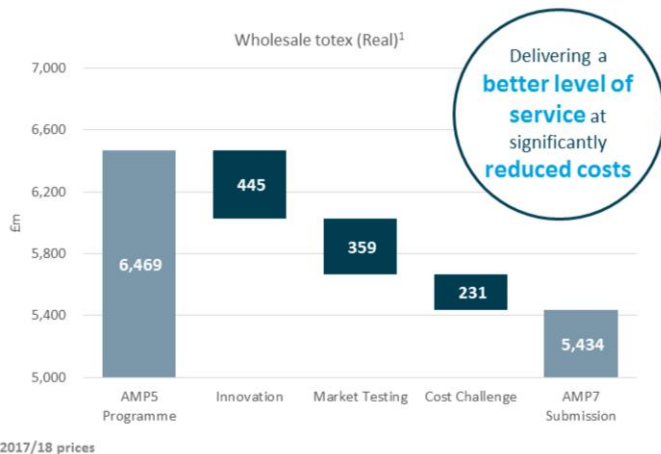
- Significant **optioneering** exercise, covering nearly 400 solutions
- **Customers consulted** on range of approaches to manage the risk
- Propose **direct procurement exercise** to deliver replacement tunnels in AMP7 and AMP8 as best value for customers

Our plan proposes a significant project to ensure the resilience of potable water supplies to populations in Manchester and the Pennines that are served by the Haweswater Aqueduct. Investigations during AMP5 and 6 have highlighted the need for new investment.

We have already commenced delivery of additional investment of £35 million to replace the highest risk section of the tunnel, but a longer term solution is required. We have performed an optioneering exercise covering over 400 different solutions so as to consult customers on a range of approaches to managing the total risk. Our plan proposes a direct procurement for customers to deliver replacement tunnels in AMP7 and 8 which seems likely to be the best value solution.

Efficient cost base - wholesale

Innovation and efficiency driving the lower costs



c£450m savings from **innovations** applied in AMP6 and planned for AMP7

c£360m savings through application of industry leading **market testing** framework to 100% of cost base

c£230m savings through better **challenge of needs** – internally and with quality regulators

¹ 2017/18 prices

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As well as enhanced service, we are exploiting innovation and efficiency to deliver wholesale costs for AMP7 that will be over £1 billion lower than our costs in AMP5. At £5.4 billion, this is the lowest ever wholesale five year cost proposal.

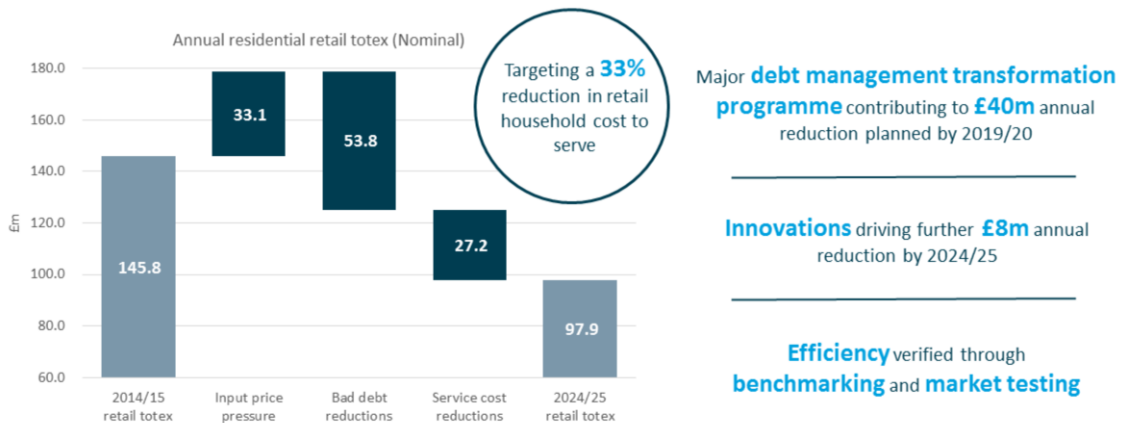
During AMP6, efficiency and innovation is supporting delivery of improved service at significantly lower costs. We estimate that around £450 million of savings in our plan are a result of innovations which will roll into AMP7, and our adoption of Systems Thinking as a long-term strategy has been fundamental to this.

A further saving of around £360 million has been achieved through application of an industry leading market testing framework – developed with Salford University – which has revealed new and better means of procuring products and services from the market. This approach has been applied to our total cost base and in the wastewater network plus price control alone will contribute to savings of over £170 million against our major capital programme and network management contract.

The remaining saving of around £230 million reflects all our other efforts to reduce costs, which includes rigorously challenging need – often in partnership with our quality regulators – to ensure that we only spend on the most efficient and effective solutions. One example of this is the introduction of a risk and value assessment across all of our major projects through which we have achieved over £20 million of savings in the later stages of AMP6. All of our AMP7 requirements have been put through this process, generating around £100 million of savings in our plan.

Efficient cost base - residential retail

Targeting cost reduction of nearly a third in the decade from 2014/15



Turning now to our residential retail business.

Customers are at the heart of everything we do and we have delivered significant service improvements since 2010. As proof that good service costs less, we have substantially reduced our annual cost to serve in AMP6 and are expecting a reduction of around one third – or £48 million per annum – across the 2015 to 2025 period. We have robustly determined an efficient retail cost level for our region and have a strong focus on sector leading debt management, meeting externally benchmarked best practice from other sectors. We have plans to improve customer service further.

Our reduction in annual average residential retail totex is driven by a substantial reduction in bad debt costs and an industry leading position in digital services where we have 43 per cent of customers self-serving through digital channels. By engaging in a major debt management transformation programme we are successfully reducing bad debt and expect it to halve from £75 million in the first year of AMP6 to £35 million at the end of AMP7.

A culture of innovation

Bold innovation strategy to reach beyond the UK water sector

AMP6

- **Systems Thinking** - leading the sector
- Already benefiting from historical investment
 - £10 off customers' bills by 2023
 - 3% reduction in leakage
 - >19% reduction in customer contacts
 - 63% reduction in serious pollution incidents
 - 29% reduction in serious DWI events
- **Innovation Lab** facilitating rapid development and deployment of ideas

AMP7

- Taking **Systems Thinking** further than anyone else in the sector
 - **Capability maturity model** for core capabilities
 - Incentivised through **Systems Thinking Capability ODI**
- Innovative **catchment solutions** deployed to a population equivalent of 1 million
- Innovation in retail through **deeper customer engagement**

Our plan embodies a bold strategy of innovation, drawing on learning and inspiration from a range of different sectors.

We are committed to our long-term strategy to embrace Systems Thinking. This is a competitive differentiator in our sector delivering improved operational efficiency and resilience.

In our plan, we propose incentives through a Systems Thinking ODI for additional innovation and adoption of technology to deliver our next step change in capability. This mechanism provides scope for flexible acceleration in adopting new technology so it can capture service improvement faster.

And as I mentioned earlier, we also plan to extend the boundaries of our innovative catchment management approach, working with key stakeholders and across sectors to explore pioneering methods and funding mechanisms.

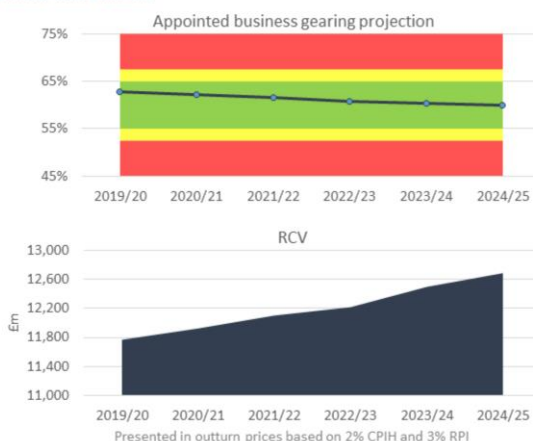
In retail, we have already won cross-sector recognition for our innovative affordability schemes such as 'Town Action Planning' and plan for further innovations in AMP7.

Aligning risk and return

A stretching, ambitious and responsible plan with an appropriate balance and alignment of risk and return between customers and investors

- 2.4% appointee WACC¹ aligned with Ofwat's early view
- Continue with **responsible approach** to financial resilience, gearing and access to debt capital markets
- Upfront guarantee of **sharing outperformance** through **CommUnity Share**
- Accelerating £102m of revenue** through PAYG to address financeability
- Plan is **financeable** on both a notional and an actual basis

¹ RPI stripped



Our plan provides for a fair balance of risk and return, with rewards available for the delivery of stretching performance.

We have based the cost of capital in our plan on the 'early view' position set out by Ofwat in its methodology statement. It is challenging, but we have been able to adopt the industry cost of capital, as part of the risk and return balance in our plan.

Our financial risk management policies have proven robust and resilient over the past several AMPs and have delivered sector leading performance in this area. As you can see from the slide, UU Water's gearing is expected to remain comfortably within our target range of 55 to 65 per cent for the duration of AMP7. This is around the same level as Ofwat's notional company and consistent with our aim of retaining credit ratings of at least A3 with Moody's and BBB+ with Standard & Poor's.

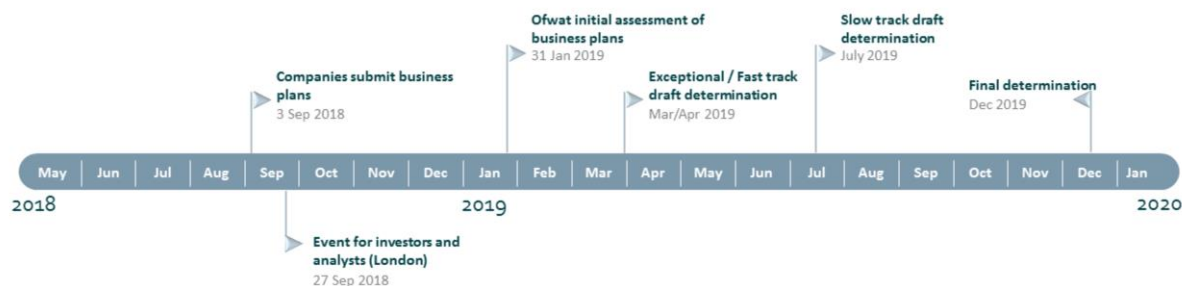
Across AMP5 and 6 we have voluntarily reinvested over half a billion pounds of outperformance, sharing the benefit with customers and have made substantial contributions towards customer affordability schemes. Incremental to any voluntary benefit sharing that might be undertaken in AMP7, we are committing to providing £71 million of company funding toward financial assistance schemes for customers in need. In addition, our new CommUnity Share initiative provides a guarantee of additional funds being made available for customers if dividends or gearing are much higher than forecast in the plan.

We propose to accelerate £102 million of revenue by adjusting the pay-as-you-go ratio having concluded that this represents the most appropriate tool to address financeability constraints in the notional company. This is consistent with the approach we adopted at PR14 although the adjustment required for AMP7 is significantly lower than the amount we advanced in AMP6.

And finally, our plan is financeable on both a notional and an actual basis.

Next steps

Initial assessment of business plans expected January 2019



Today's presentation will be followed by an event on 27 September at which time we will have opportunity to flesh out many of the topics mentioned today. We will provide more detail about the event separately.

In respect of the PR19 programme, Ofwat has stated that it will announce the outcome of its initial assessment of plans on 31 January 2019. Companies will receive their draft determinations in spring or summer next year depending on how their plans have been classified, with exceptional and fast track companies getting early visibility of their draft determination in March or April and slow track companies in July. We would expect all companies to receive their final determinations in December next year.

Summary

A very high quality and ambitious business plan with scope to outperform for stretching performance



Delivering improved **customer service** and **environmental performance**



Continuing market leading **operational, corporate and financial resilience**



Well placed to outperform in AMP7 for stretching performance



Efficient costs delivering **value and affordability** for customers



Exploiting **innovation** to deliver improvements in an efficient way

So to summarise;

We exit AMP6 as a high performing, responsible company and have submitted a plan for AMP7 that delivers for customers, aligned with the key PR19 themes. Our plan represents the next step towards our vision to be the best water and wastewater company in the UK and has benefited from unprecedented levels of engagement with customers and other stakeholders right across the North West. We are excited about what it means for AMP7 and beyond and we are confident it is a very high quality and ambitious plan, rich in content, with a compelling proposition of bill reductions and service improvements.

Thanks for listening, and we would now like to open up to questions. As a reminder you can register a question by clicking on the question tab at the top of your screen if you are joining us via the webcast or by dialling *1 on your keypad for those of you joining the audio-only call.



Any questions?



Cautionary statement

This presentation contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this presentation and the company undertakes no obligation to update these forward-looking statements. Nothing in this presentation should be construed as a profit forecast.

Certain regulatory performance data contained in this presentation is subject to regulatory audit.

This announcement contains inside information, disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016 and for UK Regulatory purposes the person responsible for making the announcement is Simon Gardiner, Company Secretary.