2020-2025

Final Determination - Investor summary

United Utilities

Water for the North West

Contents

Highlights

Cutting average bills and supporting vulnerable customers

- 13.8 per cent real (CPIH-stripped) reduction in average customer bills predicted over the 2020-25 period
- Target to help 66,500 customers out of water poverty through financial assistance
- £71 million voluntary funding committed to CommUnity Share to provide financial assistance for customers who need it

Stretching service level targets for customers and the environment

- Targeting 34 per cent reduction in water quality contacts and 58 per cent reduction in supply interruptions
- Targeting 15 per cent reduction in leakage and 20 per cent reduction in pollution
- £100 million of outperformance earned over AMP6 reinvested to target our most challenging ODIs for AMP7, improving performance faster

Continuing to invest across our network whilst delivering savings

- £5.8 billion net totex allowance (including wholesale and residential retail) to maintain and improve our services over the period
- £44.1 million for strategic water resource development to support the delivery of a North-South water trading approach to long-term drought resilience
- Haweswater Aqueduct Resilience Programme proposed to be progressed through Direct Procurement for Customers over AMP7 and AMP8

Dividend policy to grow by CPIH annually over AMP7

- Maintained the UUG dividend as we transition from AMP6 to AMP7
- AMP7 policy to target dividend growth of CPIH each year, consistent with the change to CPIH as the basis for indexing allowed revenues
- Underpinned by expected returns from UUW for AMP7 performance, including the 4 per cent (nominal) base equity return, and accumulated outperformance in prior periods that has been retained by the group after sharing with customers

Committed to sharing success with customers

- Customers will receive matching benefits where outperformance leads to dividends that are much higher than proposed in our business plan
- We will consult with customers and shareholders, overseen by the Customer Challenge Group, YourVoice, to determine the best use for this funding
- Consistent with our responsible approach over the last 10 years, during which we have voluntarily shared over £600 million of our delivered outperformance

Robust capital structure and financial resilience

- Group net debt/RCV gearing range unchanged, targeting 55 to 65 per cent across AMP7
- Robust credit quality, targeting a long-term issuer credit rating of A3 with Moody's, a senior unsecured debt rating of A- with Fitch, and a long-term issuer credit rating of BBB+ with Standard & Poor's (S&P) for UUW

Key financials

United Utilities Water Limited £m[1]	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 total
Wholesale totex (gross)	1,043.8	1,056.5	1,029.4	1,226.9	1,132.2	5,488.8
Wholesale totex (net)	1,020.0	1,031.7	1,005.5	1,180.1	1,085.3	5,322.7
PAYG rate (%)	60.4%	60.5%	62.4%	55.0%	60.5%	59.6%
PAYG	**616.2**	**624.2**	**627.7**	**649.3**	**656.9**	**3,174.3**
RCV – year end	11,117.0	10,998.8	10,858.9	10,868.3	10,776.3	n/a
RCV run-off rate (%)	5.13%	5.08%	5.10%	5.17%	5.17%	5.13%
RCV run-off	**589.7**	**575.7**	**571.5**	**573.7**	**570.3**	**2,881.0**
Return on RCV	272.3	271.2	269.9	270.2	271.2	1,354.8
Fast-track reward	4.8	4.8	4.8	4.8	4.8	23.9
Tax	46.7	45.3	45.2	38.2	37.1	212.4
Other adjustments[2]	66.1	50.8	31.6	(7.2)	(33.9)	107.6
Wholesale allowed revenue	**1,595.7**	**1,572.0**	**1,550.8**	**1,528.9**	**1,506.5**	**7,753.9**
K factor	n/a	(1.5%)	(1.3%)	(1.4%)	(1.5%)	n/a
Residential retail costs	89.3	88.4	87.0	85.9	85.2	435.9
Residential retail margin (1%)	11.9	11.8	11.6	11.5	11.3	58.0
Residential retail allowed revenue	**101.2**	**100.2**	**98.6**	**97.4**	**96.5**	**493.9**
Allowed revenue (wholesale + retail)	**1,697.0**	**1,672.2**	**1,649.4**	**1,626.3**	**1,603.0**	**8,247.8**
Average household bill (£)	£401.23	£393.33	£385.33	£377.39	£369.62	n/a

Allowed return (WACC)[3]	Nominal	CPIH-stripped	RPI-stripped
Risk-free rate	0.58%	(1.39%)	(2.35%)
Equity risk premium	8.05%	7.89%	7.81%
Notional equity beta	0.71	0.71	0.71
Allowed return on equity	**6.27%**	**4.19%**	**3.18%**
Cost of new debt	2.54%	0.53%	(0.45%)
Cost of embedded debt	4.47%	2.42%	1.43%
Ratio of embedded to new debt	20:80	20:80	20:80
Issuance and liquidity costs	0.10%	0.10%	0.10%
Allowed return on debt	**4.18%**	**2.14%**	**1.15%**
Net debt / RCV gearing (notional)	60%	60%	60%
Appointee allowed return on capital (vanilla[4])	**5.02%**	**2.96%**	**1.96%**
Retail net margin deduction	0.04%	0.04%	0.04%
Wholesale allowed return on capital (vanilla[4])	**4.98%**	**2.92%**	**1.92%**

Dividend policy

The board has set a group dividend policy for AMP7 of annual growth by CPIH inflation. This is based on expected returns from UUW for AMP7 performance, including the base dividend return of 4 per cent (nominal) on the equity portion of the shadow RCV, together with accumulated outperformance in prior periods that has been retained by the group after sharing with customers.

[1] All figures are taken from the FD and, unless otherwise stated, are presented in real CPIH-stripped financial year average (FYA) 2017/18 price base

[2] Other adjustments include revenue re-profiling, grants and contributions (after income offset), PR14 reconciliation, innovation competition and deduction of non-price control income

[3] Industry allowed WACC does not reflect the additional 0.11 per cent allowance we receive for being a fast-track company

[4] Vanilla allowed returns exclude tax-related matters as they use the post-tax return on equity and the pre-tax return on debt

Key reconciling items between FD and IFRS

The revenue set out in this document is calculated using regulatory accounting guidelines, which differ from statutory reporting as presented under International Financial Reporting Standards (IFRS). Also, this revenue is for our regulated business, UUW. While this makes up the majority of the United Utilities group, there are some reconciling items between the revenue of UUW and those of UUG. The key reconciling items from FD revenue to IFRS for UUW and UUG are set out below.

- Regulatory accounting recognises higher revenue (and correspondingly higher bad debts) than IFRS due to the rules for revenue recognition, where IFRS allows recognition only where there is a reasonable probability of recovery. To arrive at IFRS revenue, the additional revenue recognition would need to be stripped out, with a corresponding adjustment to costs (this was around £19 million in 2018/19).
- Grants and contributions (received when we build an asset at the request of a third party) are included within revenue in the FD at around £14 million each year, but under IFRS these are capitalised on receipt and amortised through revenue over the forecast life of the asset. To arrive at IFRS revenue, the £14 million in the FD would need to be stripped out but an amount for amortisation of deferred grants and contributions would need to be added back in (this was around £11 million in 2018/19).
- Diversions income is not included in the FD as it sits outside the price control, so would need to be added to arrive at IFRS revenue. This can vary significantly year-on-year (it was around £2 million in 2018/19 but £13 million in 2017/18) and could potentially be higher in AMP7 as a result of HS2.
- Renewable Obligation Credits (ROC) and energy export income are included as a negative cost in the FD but as a positive within revenue for IFRS reporting, so would need to be added to arrive at IFRS revenue (this was around £9 million in 2018/19).
- In order to arrive at UUW IFRS revenue, non-appointed revenue also needs to be added (this was around £9 million in 2018/19).
- In order to arrive at UUG IFRS revenue, non-UUW revenue also needs to be added (this was around £21 million in 2018/19, and the source of this revenue is mainly property with some renewable energy).

Revenues are also presented in real terms so will increase by CPIH inflation each year, and there will be adjustments in any given year for actual versus forecast customer numbers, water supply volumes, solid sludge volumes, and any ODI rewards/penalties.

Transitional investment

Ofwat allows companies to bring forward planned investment from AMP7 into the final year of AMP6, 2019/20, where it is efficient or to enable statutory deadlines to be met early in AMP7. This is referred to as transitional investment.

We have allocated up to £27.8[1] million of AMP7 investment as transitional. This expenditure is incurred in the final year of AMP6, but for the purpose of cost performance incentives it is considered to be incurred in AMP7.

This enables us to make improvements and manage risks as early as possible, and so benefits all stakeholders.

[1] Real CPIH-stripped FYA 2017/18 price base

Haweswater Aqueduct Resilience Project

£18.8 million[1] of expenditure in wholesale water has been allocated as transitional investment. This is in relation to the Haweswater Aqueduct Resilience Project, and it enables the risk related to the scheme to be more effectively managed through early investment.

WINEP schemes

£9.0 million[1] of expenditure in wholesale wastewater has been allocated as transitional investment. This is in relation to environmental obligations set out in the Water Industry National Environment Programme (WINEP), and it allows an early start for schemes with delivery dates early in AMP7.

Key financials continued

Water Resources

Beginning in AMP7, the Water service will comprise two price controls - Water Resources and Water Network Plus. The Water Resources price control covers activities in relation to abstraction licences and raw water abstraction. Our Water RCV is split from the start of AMP7 with 15 per cent allocated to Water Resources. Water Resources allowed revenues are calculated in real terms as set out below, and will be increased by CPIH inflation each year.

£m[1]	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 total
Totex (gross and net)	73.7	76.1	86.4	99.7	94.3	430.1
PAYG rate (%)	83.0%	81.5%	73.3%	67.6%	78.5%	76.2%
PAYG	**61.2**	**62.0**	**63.4**	**67.4**	**74.0**	**327.9**
RCV allocation – year end	589.7	584.5	588.3	600.7	600.8	n/a
RCV run-off rate (%)	3.6%	3.7%	3.7%	3.8%	3.7%	3.7%
RCV run-off and post-2020 depreciation	**22.0**	**22.0**	**22.1**	**22.8**	**23.0**	**111.9**
Return on RCV	14.4	14.3	14.4	14.7	15.0	72.9
Wholesale current taxation	2.2	2.3	2.1	1.6	1.5	9.6
Other adjustments[2]	2.9	1.9	0.7	(2.0)	(4.1)	(0.5)
Allowed revenue	**102.7**	**102.6**	**102.6**	**104.5**	**109.4**	**521.8**
K factor	n/a	(0.06%)	0.13%	1.90%	4.73%	n/a

Water Network Plus

The Water Network Plus price control covers all activities carried out in performance of our functions as a water undertaker that are not designated as Water Resources or Retail activities. Our Water RCV is allocated 85 per cent to Water Network Plus at the start of AMP7. Water Network Plus allowed revenues are calculated in real terms as set out below, and will be increased by CPIH inflation each year.

£m[1]	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 total
Totex (gross)	449.4	436.5	438.4	435.3	412.0	2,171.7
Totex (net)	439.7	426.3	429.0	410.6	386.9	2,092.5
PAYG rate (%)	66.8%	70.1%	69.8%	74.6%	77.3%	71.6%
PAYG	**293.9**	**298.8**	**299.4**	**306.3**	**299.0**	**1,497.5**
RCV allocation – year end	3,356.2	3,313.9	3,275.9	3,209.4	3,125.6	n/a
RCV run-off rate (%)	5.3%	5.4%	5.4%	5.6%	5.7%	5.5%
RCV run-off and post-2020 depreciation	**185.5**	**184.8**	**183.5**	**186.4**	**186.5**	**926.7**
Return on RCV	82.1	81.9	81.5	80.7	79.3	405.5
Fast track award	4.8	4.8	4.8	4.8	4.8	23.9
Wholesale current taxation	15.6	16.0	15.5	14.9	15.4	77.3
Other adjustments[2]	26.0	20.2	12.6	(2.2)	(11.9)	44.7
Allowed revenue	**607.9**	**606.5**	**597.3**	**590.9**	**573.1**	**2,975.6**
K factor	n/a	(0.22%)	(1.47%)	(1.09%)	(3.06%)	n/a

[1] All figures are taken from the FD and, unless otherwise stated, are presented in real CPIH-stripped FYA 2017/18 price base

[2] Other adjustments relate to revenue re-profiling, grants and contributions, innovation competition, deduction of non-price control income, and revenue adjustments for PR14 reconciliations

Wastewater Network Plus

Beginning in AMP7, the Wastewater service will comprise two price controls - Wastewater Network Plus and Bioresources. The Wastewater Network Plus price control covers all activities carried out in performance of our functions as a wastewater undertaker that are not designated as Bioresources activities or Retail activities. Our Wastewater RCV is split from the start of AMP7 with around 94 per cent allocated to Wastewater Network Plus. Wastewater Network Plus allowed revenues are calculated in real terms as set out below, and will be increased by CPIH inflation each year.

£m[1]	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 total
Totex (gross)	446.8	467.7	433.1	625.2	557.1	2,529.9
Totex (net)	432.8	453.2	418.7	603.1	535.2	2,442.9
PAYG rate (%)	51.3%	49.5%	54.0%	39.4%	45.9%	47.3%
PAYG	**221.9**	**224.4**	**226.2**	**237.3**	**245.5**	**1,155.3**
RCV allocation – year end	6,737.1	6,667.5	6,568.5	6,644.8	6,648.7	n/a
RCV run-off rate (%)	4.9%	4.8%	4.8%	4.7%	4.6%	4.8%
RCV run-off and post-2020 depreciation	**343.3**	**328.9**	**324.2**	**321.5**	**316.5**	**1,634.4**
Return on RCV	165.2	164.2	163.1	164.1	166.5	823.0
Wholesale current taxation	25.3	23.5	24.0	18.0	16.6	107.5
Other adjustments[2]	34.6	26.9	18.0	(1.2)	(14.4)	63.9
Allowed revenue	**790.3**	**767.9**	**755.5**	**739.7**	**730.7**	**3,784.1**
K factor	n/a	(2.87%)	(1.58%)	(2.12%)	(1.23%)	n/a

Bioresources

The Bioresources price control covers activities in relation to the transport, treatment and disposal of sludge. Our Wastewater RCV is allocated around 6 per cent to Bioresources at the start of AMP7. Bioresources allowed revenues are calculated in real terms as set out below, and will be increased by CPIH inflation each year. There is no K factor associated with Bioresources - allowed revenues are calculated on the basis of an assumed volume of sludge and allowed revenues will be adjusted for actual sludge volumes on a two-year lag basis.

£m[1]	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 total
Totex (gross and net)	73.8	76.2	71.6	66.8	68.9	357.2
PAYG rate (%)	53.1%	51.2%	54.2%	57.3%	55.6%	54.2%
PAYG	**39.2**	**39.0**	**38.8**	**38.3**	**38.3**	**193.5**
RCV allocation – year end	434.0	433.0	426.1	413.3	401.2	n/a
RCV run-off rate (%)	8.6%	8.8%	9.2%	9.7%	10.3%	9.3%
RCV run-off and post-2020 depreciation	**39.0**	**40.0**	**41.6**	**43.0**	**44.3**	**208.0**
Return on RCV	10.6	10.8	10.8	10.7	10.5	53.4
Wholesale current taxation	3.5	3.5	3.7	3.6	3.7	18.0
Other adjustments[2]	2.6	1.7	0.5	(1.8)	(3.5)	(0.5)
Allowed revenue	**94.9**	**95.0**	**95.4**	**93.8**	**93.3**	**472.4**
Forecast volume (tonnes of dried solid)	195,962	197,394	199,216	201,746	205,079	999,396

[1] All figures are taken from the FD and, unless otherwise stated, are presented in real CPIH-stripped FYA 2017/18 price base

[2] Other adjustments relate to revenue re-profiling, grants and contributions, innovation competition, deduction of non-price control income, and revenue adjustments for PR14 reconciliations

Key financials continued

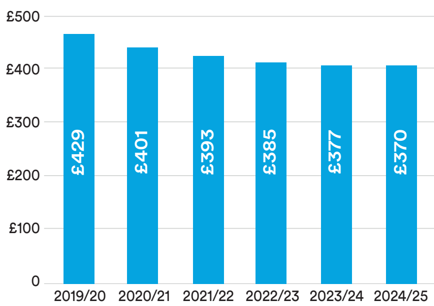
Residential Retail

The Residential Retail price control covers activities as both a water undertaker and a wastewater undertaker in relation to areas such as billing and metering for residential customers (with the business retail market having been opened to competition during AMP6). Residential Retail allowed revenues are calculated in nominal terms as set out below - there is no inflationary increase in retail as there is in wholesale. There is no K factor associated with Residential Retail - it is calculated on the basis of a forecast number of customers and allowed revenues will be adjusted for actual customer numbers each year.

£m[1]	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 total
Total wholesale revenue	1,680.1	1,688.0	1,699.7	1,710.6	1,720.6	8,499.0
Proportion of wholesale revenue allocated to residential (%)	68.9%	69.1%	69.1%	69.3%	69.3%	69.1%
Wholesale revenue allocated to residential	**1,157.2**	**1,165.7**	**1,175.3**	**1,184.6**	**1,192.2**	**5,875.1**
Residential Retail costs	93.5	94.4	94.8	95.5	96.6	474.8
DPC pass-through costs[2]	–	–	–	–	2.4	2.4
Total Residential Retail costs	**1,250.7**	**1,260.1**	**1,270.1**	**1,280.1**	**1,291.3**	**6,352.4**
Retail net margin (1%)	12.6	12.7	12.8	12.9	13.1	64.2
Other adjustments	1.4	1.4	1.5	1.5	1.5	7.3
Allowed revenue	**107.5**	**108.6**	**109.1**	**110.0**	**111.2**	**546.4**
Forecast customer numbers ('000s)	3,042.3	3,065.0	3,088.8	3,113.6	3,139.5	n/a

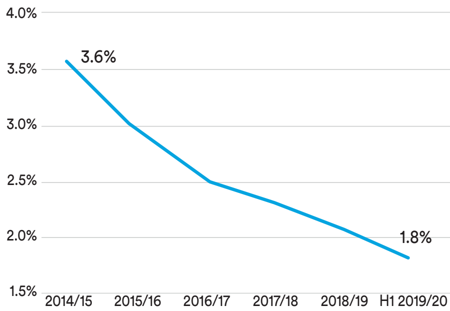
[1] All figures are taken from the FD and, unless otherwise stated, are presented in nominal prices
[2] DPC costs do not form part of allowed revenue. See more on page 11

Average customer bills



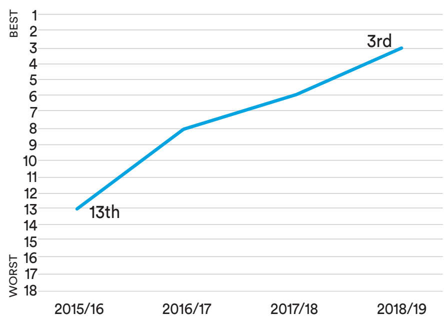
The above chart shows the average bill profile in the FD before inflation, with a 13.8 per cent reduction in bills in real terms over AMP7. The reducing bill profile in real terms drives the movements in allowed revenue set out in the FD. Nominal bills (including inflation) are expected to remain broadly flat across the five-year period. This helps to deliver year-on-year bill stability, which is important to customers.

Household bad debts



Bad debts will remain a key area of focus for us, as we operate in a region with high levels of extreme deprivation. However, we made substantial progress over AMP6, reducing our statutory household bad debt from 3.6 per cent of regulated revenue at the start of the period to 1.8 per cent as we transition into AMP7, as shown in the chart above. We enter this regulatory period as a much more efficient retailer.

Customer satisfaction ranking



We have transformed our customer satisfaction, moving to upper quartile on SIM having been ranked 13th in the industry at the start of AMP6. SIM is being replaced in AMP7 with the Customer Measure of Experience (C-MeX), but our culture of putting customers at the heart of everything we do, which underpinned our SIM improvement, means we will continue to drive improvements in our performance.

Financing requirements

Of the £2.4 billion debt maturing in the 2020-25 period (including amortisations), we anticipate that £2.1 billion will be refinanced and net debt will reduce by £0.3 billion.

Our cost of debt as at 30 September 2019 was:

	RPI-linked debt	CPI-linked debt	Nominal debt
Debt portfolio	c£3.5 billion at an average rate of 1.4 per cent real	c£0.5 billion at an average rate of 0.2 per cent real	c£3.2 billion at an average rate of 2.9 per cent nominal

Compared to the rates we achieved over AMP6, we expect nominal rates already locked in for AMP7 (as at the start of the period) to be around 0.5-1.0 per cent lower. If market rates remain low, this may fall further as we lock in debt not yet fixed. Absent any further action we take to transition from RPI to CPI, we expect rates on our inflation-linked debt to stay at similar levels over AMP7.

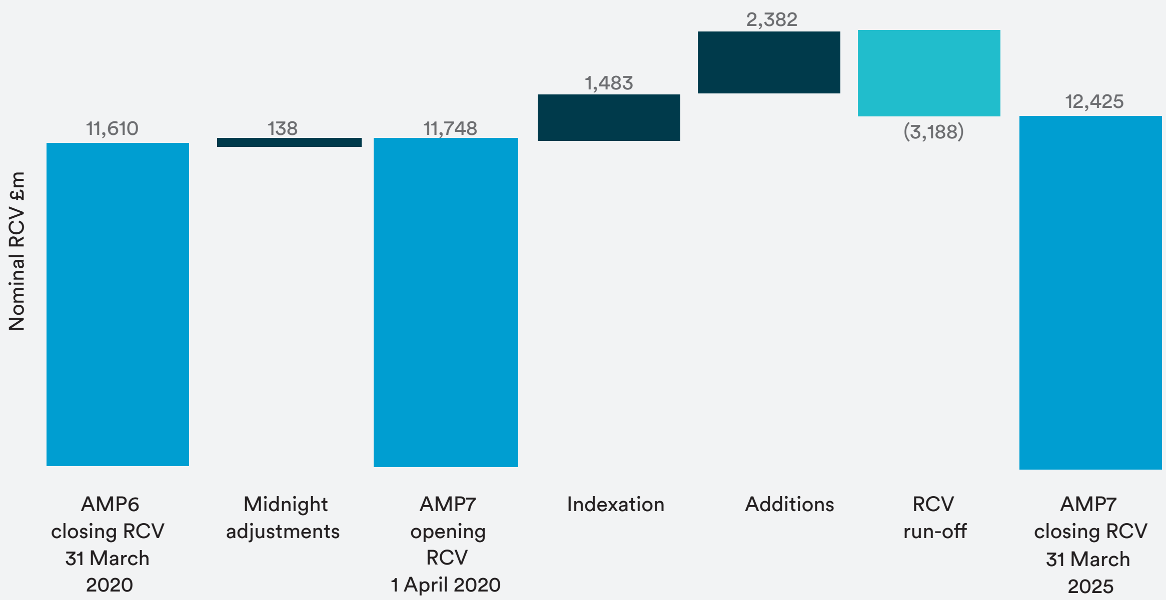
Capital structure and credit ratings

UUG's level of gearing, measured as group net debt to RCV, has remained stable and comfortably within our target range of 55 to 65 per cent for the last 10 years. We believe it is appropriate to retain this target gearing range over AMP7, in order to maintain efficient access to debt capital markets throughout the economic cycle, and this is consistent with Ofwat's notional gearing assumption of 60 per cent.

Assuming no significant changes to existing rating agency methodologies or sector risk assessments, we aim to maintain for United Utilities Water Limited (UUW) a long-term issuer credit rating of at least A3 with Moody's, a senior unsecured debt rating of at least A- with Fitch, and a long-term issuer credit rating of BBB+ with Standard & Poor's (S&P).

Regulatory Capital Value (RCV)

The below chart shows Ofwat's projected RCV for UUW throughout AMP7 as set out in the FD, which assumes our nominal RCV will grow by approximately 6 per cent, excluding midnight adjustments, over the period.



Key financials continued

Advancement of CPIH transition

In its PR19 methodology, Ofwat confirmed that it will be transitioning to CPIH as the primary inflation index from 2020. This impacts revenue and RCV over the period, both of which are inflated each year. Wholesale price controls are set in a real CPIH-stripped financial year average (FYA) price base, and will be inflated each year in accordance with the movements in CPIH inflation with reference to the base year, 2017/18. As at 1 April 2020, RCV will be indexed 50 per cent to RPI inflation with the rest, including totex that is added to the RCV over AMP7, indexed to CPIH.

As part of the PR19 process, we made a proposal to Ofwat to accelerate the full transition to CPIH inflation. This approach was supported by customers in the interest of long-term bill stability as full transition to CPIH in AMP7 helps mitigate against potential future bill increases in AMP8. In the FD, Ofwat accepted our proposal of a full transition to CPIH in AMP7. This has the impact of increasing revenues in AMP7 but will lower RCV growth as a result.

AMP7 uncertainty mechanisms for PR24 reconciliation

The FD includes uncertainty mechanisms for specified costs where there is the potential for material differences to occur compared with forecasts but we have very little control over the cause of such differences. They may result in adjustments at the end of the AMP, as part of the PR24 process.

Water Industry National Environment Programme

The totex allowance for AMP7 includes provisions for meeting environmental obligations set out in the Water Industry National Environment Programme (WINEP). The FD sets out certain WINEP schemes that were included in the totex allowance but had not yet been confirmed (amber schemes), and refers to two schemes that were not included in the WINEP published at the time of setting the FD totex allowance (red schemes) but which have since been confirmed. In the FD, Ofwat sets out a mechanism to adjust totex at PR24 for the amber schemes if they are later confirmed as not required or subject to changes in scope, and for the red schemes if they are delivered during AMP7 having been excluded from the totex allowance.

Tax

The tax allowance in the FD was based on projected taxable profits and the UK corporation tax rates and associated reliefs and allowances as at 30 September 2019. Any changes to tax rates and allowances will be taken account of in the tax reconciliation model at PR24, which will recalculate the tax allowance for each year to reflect changes to either the headline corporation tax rate or to the writing down allowances available on capex. This mechanism will also take into account the impact on the tax charge arising from any changes to the cost of new debt, which is indexed in AMP7.

Developer services

We must allow new connections to our network, with major demand for this resulting from new housing developments, and this can be unpredictable. Where developer volumes are higher or lower than predicted in each of the network plus price controls, there will be a reconciliation resulting in a revenue adjustment at PR24, meaning we will recover more or less (respectively) than in the FD.

Business rates

The Valuation Office Agency will be carrying out revaluation exercises during 2020-25 with potential for material increases or decreases in business rate cost levels. The cost variance compared to our AMP7 allowance for business rates will be shared with customers in the totex reconciliation at PR24, with 75 per cent customer and 25 per cent company share.

Abstraction licence costs

The Environment Agency (EA) expects to consult on changes to its basis for setting abstraction licence fees during 2020, meaning there is material uncertainty about company cost levels in AMP7. The cost variance compared with our AMP7 allowance for EA abstraction licence fees will also be shared with customers in the totex reconciliation at PR24, with 75 per cent customer share and 25 per cent company share.

Debt indexation on new debt

The cost of debt for AMP7 includes a fixed allowance for the 80 per cent assumed to be embedded debt, and an initial allowance for the 20 per cent assumed to be new debt. The initial allowance is set relative to a benchmark index, with an 'outperformance wedge' of 0.15 per cent applied, and this new debt allowance will be subject to reconciliation at PR24.

Innovation

Innovation has been an increasing area of focus for the industry, and Ofwat has introduced an Innovation Fund for AMP7 to encourage an industry-wide approach to innovation. Being a leader when it comes to innovation, we welcome this development and are well placed to compete for a share of the available funding.

Innovation Lab

During AMP6 we developed a revolutionary new procurement framework for the industry (which won the Utility Week award for Supply Chain Excellence) by setting up an Innovation Lab that sought ideas from across the globe that could be nurtured and co-created with, and for, the water industry. These Lab processes proved successful in AMP6 and we will continue to use this as a source of global ideas to keep us at the frontier of innovation in the water industry.

CEO Challenge

We run an annual competition, sponsored by the CEO and directors across the organisation, where our graduates are engaged in solving real business challenges to improve service and improve efficiency. Giving our graduates the opportunity to work on real business challenges, with freedom to make decisions, learn from any mistakes, and change the way we do things, assists in their development and it helps to embed an innovation mindset at all levels of our business.

"Of all the water companies' plans for the future, United Utilities' plan demonstrates the most deeply embedded innovation culture.

The company recognises and accepts that innovation can involve risk, but learns from successes, from failures, and from others to increase its ability to innovate. It also has the right leadership and support to encourage innovation."

Ofwat, Overview of companies' final determinations

Systems Thinking

Our pioneering Systems Thinking approach is one example of how we have successfully applied innovation across our business that has delivered sustainable improvements in our service for customers, efficiency and operational resilience.

We plan to roll out further developments of Systems Thinking across AMP7, improving our capability maturity to maintain and extend our lead ahead of the rest of the industry.

Systems Thinking will continue to be a source of competitive advantage for us in AMP7 and beyond.

What do we do differently?

Traditionally across the water industry, each asset or treatment works was operated, managed and assessed in isolation. For example, if a treatment works had insufficient capacity then additional capacity would be built at significant cost.

Systems Thinking looks at the entire network, using enormous amounts of data from the telemetry backbone we have installed, to consider not just the individual asset but all its linkages, enabling us to find the best overall long-term solution.

In the previous example, we may be able to solve the problem of insufficient capacity by diverting flow to a nearby treatment works with spare capacity, or by managing the rate of flow from higher up the network, significantly reducing costs and minimising disruption for customers and the community.

As well as helping us solve issues more effectively, Systems Thinking and the remote monitoring and control of our network helps us spot potential issues early and resolve them before they materialise, minimising disruption for customers and improving our performance against AMP7 targets.

Totex

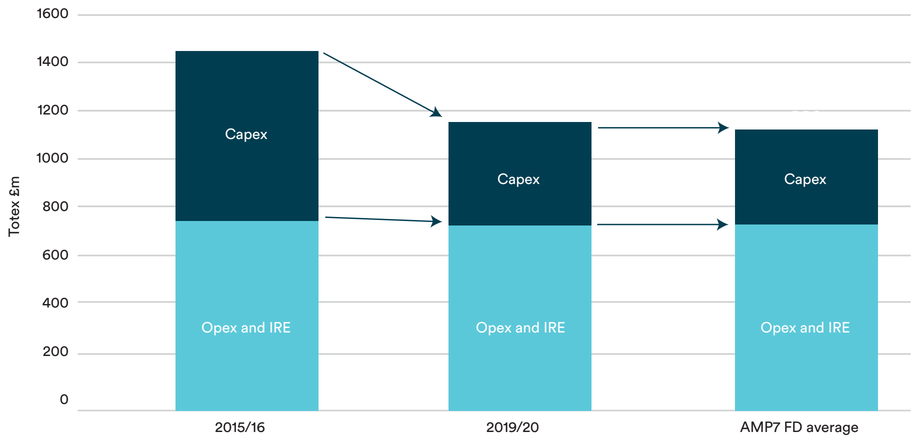
Our totex allowance for AMP7, including Residential Retail, is £5.9 billion gross and £5.8 billion net of grants and contributions.

Totex £m[1]	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 total
Water Resources	73.7	76.1	86.4	99.7	94.3	430.1
Water Network Plus	449.4	436.5	438.4	435.3	412.0	2,171.7
Bioresources	73.8	76.2	71.6	66.8	68.9	357.2
Wastewater Network Plus	446.8	467.7	433.1	625.2	557.1	2,529.9
Residential Retail	88.0	87.1	85.7	84.6	83.8	429.2
Gross totex	**1,131.7**	**1,143.6**	**1,115.2**	**1,311.6**	**1,216.1**	**5,918.1**
Grants and contributions (after income offset)	23.8	24.7	23.7	46.7	46.9	166.1
Net totex	**1,107.9**	**1,118.9**	**1,091.5**	**1,264.9**	**1,169.2**	**5,752.0**

[1] All figures are taken from the FD and, unless otherwise stated, are presented in real CPIH-stripped FYA 2017/18 price base

We significantly improved our operational performance and efficiency over AMP6. Our pioneering Systems Thinking approach and culture of innovation have helped to deliver sustainable savings in our wholesale service, and improvements in bad debt and cash collection performance have helped make our retail services more efficient. This helped us put forward efficient totex proposals in our business plan, which was reflected in Ofwat's assessment in which we were awarded fast-track status and given one of the lowest cost challenges in the sector. Where we out/under-perform our totex allowance for the water resources and both network plus price controls this is shared with customers, and our fast-track status means we benefit from more favourable cost-sharing rates than many of our peers.

The below chart shows how our totex evolved through AMP6 and that our end of period run rate is comparable with our average totex allowance for AMP7. The big reduction from AMP6 to AMP7 is on capex, and this partly reflects delivery of further efficiencies but is mostly a consequence of scope reduction. We have fewer large capital programmes in AMP7 besides the Haweswater Aqueduct Resilience Project, which is proposed to be progressed under DPC as discussed on page 11.



All figures in the chart are presented in real CPIH-stripped FYA 2017/18 price base. AMP6 figures are taken from our PR19 business plan submission in September 2018 and include the £250 million AMP6 additional investment but not the further £100 million announced in May 2019. AMP7 FD average figures are calculated based on annual totex allowances in the FD

50:50 cost-sharing

As a result of our efficient business plan and fast-track status, we have been set symmetrical cost sharing rates in the FD for the majority of our totex, meaning over or under-recovery against our allowance is shared 50:50 between the company and customers.

Main drivers of our lower totex requirements in AMP7

- Innovations applied during AMP6 and further roll outs planned for AMP7
- Application of industry leading market testing framework to 100 per cent of our cost base
- Better challenge of cost needs internally and with quality regulators

While our totex is reducing, the investment in the resilience of our network is not. We are addressing our most significant operational risk over AMP7 and AMP8 through the Haweswater Aqueduct Resilience Project but, as this is proposed to be progressed under DPC, the bulk of the costs do not form part of our totex allowance.

Base/enhancement totex

As set out in the table below, our gross totex allowance of £5.9 billion is mostly base totex (£4.9 billion), which is only marginally lower than our business plan submission. As a result of the improved efficiency we have driven over AMP6, we enter AMP7 at the run-rate required to meet our business plan base totex, and have plans in place to deliver further efficiencies over the period.

One of the main reasons for the reduction in our totex in AMP7 compared with AMP6 is enhancement totex (£837 million), which is considerably lower than in previous regulatory periods as we have fewer environmental drivers that need addressing in AMP7.

Other totex (£150 million) includes £44.1 million for strategic water resource development to support delivery of a North-South water trading approach to long-term drought resilience, £99.7 million for recharges in relation to diversions not requested under section 185 of the Water Industry Act 1991 (which therefore sit outside the price control), and £5.7 million for third party costs and operating lease adjustments.

Totex £m	Base	Enhancement	Other	Gross totex
Water Resources	360.7	25.3	44.1	430.1
Water Network Plus	1,946.2	160.1	65.5	2,171.7
Wastewater Network Plus	1,839.2	650.7	40.0	2,529.9
Bioresources	356.5	0.6	–	357.2
Residential Retail	429.2	–	–	429.2
Total	**4,931.8**	**836.7**	**149.5**	**5,918.1**

All figures are taken from the FD and, unless otherwise stated, are presented in real CPIH-stripped FYA 2017/18 price base

Securing long-term resilience for the Haweswater Aqueduct

The Haweswater Aqueduct Resilience Project (referred to in the FD as the Manchester and Pennines Resilience scheme) relates to the replacement of sections of the Haweswater Aqueduct, a 109 kilometre pipeline from our largest reservoir in Cumbria to Manchester that has served millions of customers for over 60 years.

Until recently it was not possible to inspect its condition from the inside, but the construction of our West-East link main enabled us to shut the aqueduct down in 2013 long enough to carry out an inspection whilst keeping customers on supply. Our engineers identified areas that require attention.

We carried out a further inspection and repairs on the worst affected areas in 2016, and set about consultation and research with customers and stakeholders. This clearly indicated the preferred long-term solution is the replacement of all six tunnel sections along the length of the aqueduct.

We are proposing to progress the project based on the new Direct Procurement for Customers (DPC) approach introduced for AMP7. This means we will work towards the appointment of a third party to design, build and finance the pipeline.

This is a critical asset and we will maintain a significant and important role during construction and into operations of the replacement pipeline. Recognising this, our AMP7 totex allowance includes £57 million for work during AMP7.

Site investigations and other preparatory work commenced in 2019, and consultations and planning permissions will take place during AMP7. Work is expected to commence in 2023, with completion in 2028 (during AMP8).

Outcome Delivery Incentives (ODIs)

We have 39 financial ODIs, comprising 12 common commitments for the industry (including C-MeX and D-MeX) and 27 bespoke commitments that were developed through extensive customer and stakeholder research, meaning we are incentivised against the things that are important to our stakeholders. We also have seven reputational ODIs with no financial incentive attached.

£100 million of the AMP6 outperformance we have reinvested has been targeted at key AMP7 ODI targets with particular focus on supply interruptions, leakage and sewer flooding.

Key performance commitments

Ensuring customers have a reliable supply of great quality water

Supply interruptions

58% reduction by 2024/25

C

AMP6 targeted reinvestment

To proactively identify and fix issues, our remote monitoring and control identifies when pressure is outside of the norm - either a drop in pressure, which may indicate a leak, or much higher pressure than usual, which may indicate risk of a burst - allowing us to respond before customers are impacted.

We are installing smart valves in strategic and rural locations to allow quicker response times and reduce mains failures in target areas.

When we do have a burst, in order to maintain supply to customers while we fix it, we have the largest fleet of alternative supply vehicles (ASVs) in the UK. Historically we would have needed to shut off supply in the event of a burst while our engineers repaired the pipeline, but with our ASVs acting as mobile reservoirs, we can now pump water directly into supply further up the network to keep customers' taps running while we fix the problem.

Other work to improve AMP7 performance

We are using pioneering event recognition with predictive analytics and artificial intelligence, allowing proactive intervention to prevent events and a quicker response when they do occur.

We are also using real time asset, work and customer data to enable intelligent decisions now and for future investment, which will help us resolve customer calls first time.

Leakage

15% reduction from PR14 performance commitment levels by 2024/25

C

We have met our leakage target for over 10 years, but larger reductions are now required across the industry following increased scrutiny and climate-related changes such as the extremely dry summer we experienced in 2018.

AMP6 targeted reinvestment

We are installing 100,000 acoustic leak sensors across the North West and using machine learning to distinguish leaks from other sounds. We are also replacing 100 kilometres of ageing water pipes, and deploying hundreds of sensors to manage pressure in the network and stop damaging surges.

Other work to improve AMP7 performance

We are using event recognition and system localisation to reduce leakage and deliver totex savings.

We also continue to use our dual approach of 'eye in the sky, nose on the ground' for finding leaks, partnering satellite technology with sniffer dogs to pinpoint the exact location.

Water quality contacts due to taste, smell and appearance

34% reduction by 2024/25

B

We have finished testing the world's first UV-LED treatment and are now deploying this at multiple treatment works across the North West to improve water quality for 450,000 customers.

Our online interactive self-serve advice capability for customers also helps improve awareness by providing information and advice on areas such as moving house, how to report a leak, any current known incidents we are working on, additional assistance that is available, and water saving ideas. This helps reduce the need for customers to contact us.

Key: C Common performance commitment B Bespoke performance commitment

Reducing the risk of sewer flooding and protecting the environment in the North West

Internal sewer flooding

73% reduction by 2024/25

C

External sewer flooding

22% reduction by 2024/25

B

Sewer blockages

11% reduction by 2024/25

B

We have high levels of rainfall and combined sewers (taking surface water run-off as well as foul water from homes and businesses) in our region, and this combination contributes to sewer flooding being one our tougher targets for AMP7.

AMP6 targeted reinvestment

We are conducting over 2,000 kilometres of sewer surveys and using the latest modelling technologies to execute prioritised sewer rehabilitations to repair and re-line.

We have worked with partners to design a new drainage monitor device, which is fitted in manholes close to high risk areas. When the sewer starts to fill it sends an alert to our central team so we can proactively investigate.

We are investing to increase sewer capacity and reduce hydraulic flood risk, and using powerful planning software for advanced predictive modelling techniques to manage risk and plan investment.

Other work to improve AMP7 performance

We are building on successful trials to deliver a step change in customer awareness about what not to flush, and using machine learning analytics to target areas in which to run these campaigns across the North West.

Pollution incidents

20% reduction by 2024/25

C

We have for many years delivered strong performance in minimising pollution incidents and in finding and self-reporting to the Environment Agency. This remains an important area of focus in AMP7 to ensure we continue to protect and improve the natural environment in our region.

We are investing in sewer enhancement, requisitions and adoptions, and using improved analytics and digital tools to improve targeting of maintenance investment. We are also investing in our treatments works over AMP7 to mitigate any impact from population increase.

Our Systems Thinking approach to catchment management means we are moving away from individual asset solutions towards an optimised holistic and integrated approach, combining asset and catchment solutions to deliver better outcomes.

Providing financial assistance to vulnerable customers

Customers lifted out of water poverty through financial assistance programmes

20% increase by 2024/25

B

We have been recognised as having an industry-leading approach to affordability and vulnerability, and we have the widest range of payment solutions and affordability schemes in the industry.

This will continue to be an area of focus for us to improve even further, particularly as we operate in a region with high levels of extreme deprivation.

We will provide updates on our performance against our AMP7 regulatory business plan in our Annual Performance Reports, which will be published each July during the 2020-25 period on our website at: https://www.unitedutilities.com/corporate/about-us/performance/annual-performance-reports-2020-25/

Outcome Delivery Incentives (ODIs)

continued

Reward and penalty ranges on ODIs (including C-MeX and D-MeX)

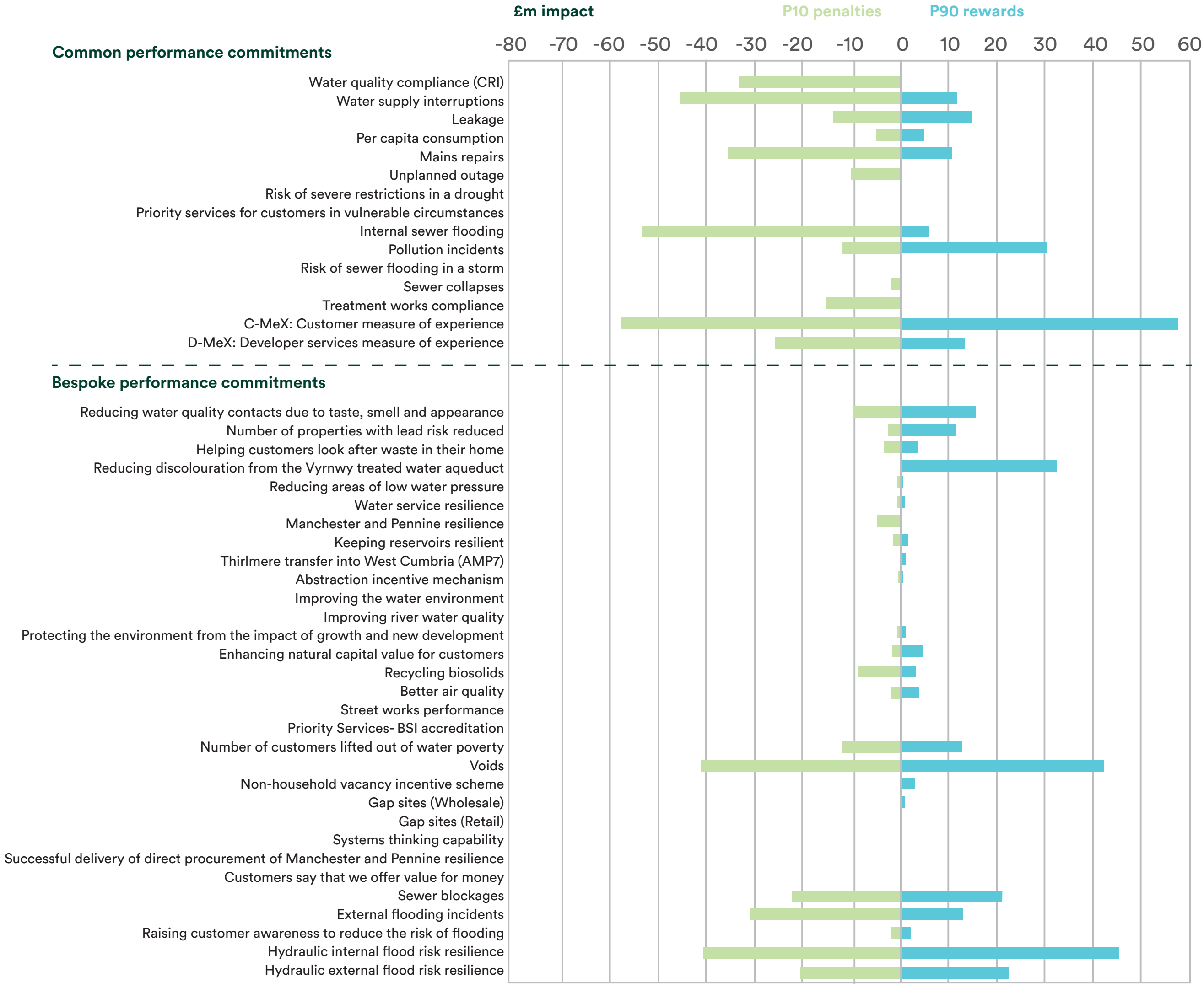
The impact of ODI performance on the RoRE ranges projected in the FD is more balanced than AMP6.

	P10 penalty[1]	P90 reward[1]
% of 5-year regulated equity	(1.8%)	1.5%

[1] These totals, as presented in the FD, reflect a narrower range than the sum total of the P10 and P90 on all individual ODIs shown in the chart, as Ofwat has scaled the total risk range to reflect the very low likelihood that all measures will go to P10 or to P90 at the same time.

The range of outcomes presented by Ofwat in the FD equates to a total over the five-year period of between £337 million reward and £387 million penalty on ODIs, including C-MeX and D-MeX. Our projected performance has been improved by the reinvestment of £100 million of earned outperformance during AMP6, targeted at improving performance against our three most challenging AMP7 performance targets - sewer flooding, leakage and supply interruptions.

Rewards and/or penalties against ODIs in AMP7 will be applied as an adjustment to revenues on a two-year lag basis. The below chart shows Ofwat's assessment of the range of outcomes under our ODIs over AMP7, although our own analysis will differ and this does not include the impact of the £100 million AMP6 reinvestment.



Impact of performance on returns

In order to balance the interests of customers and other stakeholders with those of investors, the FD sets out an allowed cost of capital and retail margin, plus areas through which companies can out/under-perform depending on the level of performance they deliver. Outperformance can be achieved through delivering greater efficiency against allowed totex and financing costs, and/or by beating the target levels set for our performance commitments, giving potential to earn ODI rewards.

The table below shows Ofwat's view of the high and low cases for potential RoRE, although our own analysis will differ.

Return on Regulated Equity (RoRE)[1]	P10	P90
Base return[2]	3.89%	3.89%
Fast track reward	0.11%	0.11%
Adjusted base return for UUW	**4.00%**	**4.00%**
Totex out/(under)-performance	(0.73%)	0.96%
Retail costs	(0.32%)	0.37%
ODI out/(under)-performance (including C-MeX and D-MeX)	(1.76%)	1.53%
Financing out/(under)-performance	(1.16%)	1.23%
Revenues (includes retail)	(0.02%)	0.05%
Out/underperformance potential	**(3.99%)**	**4.14%**
Total RoRE	**0.01%**	**8.14%**

[1] All figures in the table are presented in real CPIH-stripped FYA 2017/18 price base

[2] Base return represents the average over AMP7 after financeability adjustments

Totex

We have made great strides in efficiency in recent years, driving cost reductions in both wholesale and retail. The totex needs projected in our business plan were deemed to be one of the most efficient in the sector, we are performing at the run-rate needed to meet this level of totex, and we have reduced our statutory bad debt charge to around half of what it was at the beginning of AMP6. This gives us a much better starting point, with the opportunity to earn greater returns through outperformance against our totex and/or retail allowances, by delivering further efficiency improvements over AMP7.

Out/under-performance against our totex allowance for the water resources, water network plus and wastewater network plus price controls will be shared 50:50 between customers and the company, excluding limited areas that have different sharing rates set through uncertainty mechanisms (as discussed on page 8). There is no sharing for the bioresources and residential retail price controls.

ODIs

Our performance commitments represent areas that are of interest to customers and stakeholders, as evidenced through comprehensive research undertaken for PR19, and we are targeting stretching levels of performance for customers and the environment. To the extent that we can deliver improvements that go beyond these targets, this will give us the opportunity to increase returns through ODI rewards.

Our ODI risk ranges for AMP7 give a better balance between reward and penalty than we saw in AMP6. No company is leading on all measures, but we have demonstrated a continued focus on operational improvement through AMP6, and our fast-track status through PR19 gave us early clarity on our performance commitments. This enabled us to target £100 million reinvestment in 2019/20 to help improve performance faster against our biggest AMP7 challenges.

The SIM measure of customer satisfaction in AMP6 has been replaced by C-MeX in AMP7 and a new incentive reflecting developer experience, D-MeX, has been introduced. The huge focus we place on customer satisfaction saw significant improvements in SIM over AMP6 (as seen on page 6) and we will continue with this level of focus over AMP7.

Financing

Cost of debt is set with reference to the long-term benchmark indices and average in our industry, and we have locked in a cost of debt on our embedded debt that is better than the industry average. The introduction of indexation on new debt will mean companies neither benefit nor suffer from outturn rates being significantly different from the rates assumed in setting the allowance, but in recent years we have consistently outperformed the benchmark index used for setting the cost of debt by around 0.5-1.0 per cent. Financial risk management is one of our competitive advantages with clearly articulated treasury policies, and we have historically demonstrated our ability to raise debt at very efficient levels compared with the industry average, underpinned by our robust credit quality.

Executive remuneration

Our strong focus on performance improvement is reflected in our executive remuneration policies, which include a long-term plan, measured against RoRE and a basket of customer measures, and a bonus with targets for customer delivery and strong environmental outcomes as well as financial performance. Employees across the business are rewarded through the same bonus measures as the executive, aligning the interests of our people with our drive to improve performance.

Sharing our success with customers

We have a long track record of voluntarily sharing our regulatory outperformance with customers, as we believe this is the fair and responsible thing to do. Over the last 10 years we have voluntarily shared over £600 million from the total outperformance we have earned, using this to improve services further and faster for the benefit of customers and other stakeholders. This also helps to reduce risk within the business by increasing resilience. For AMP7, we have committed up-front to the sharing mechanism we will use, which will achieve a similar outcome to the action we have taken voluntarily in the last two AMPs, as set out below.

AMP5 – voluntarily shared £280 million

We reinvested £280 million in AMP5, comprising around £240 million of capex and financing outperformance and around £40 million tax benefits.

This was targeted for the benefit of customers and the environment, as well as private sewer costs. We used the tax benefits to help customers struggling to pay by giving a one-off customer discount in 2014/15 along with additional contributions into our customer trust fund.

AMP6 – voluntarily shared £350 million

We reinvested £250 million of our outperformance in AMP6 to improve operational resilience, predominantly in our water network where we invested in UV treatment and the installation of automatic shutdown and 'start-up to waste' at our water treatment works.

We reinvested a further £100 million to target our most challenging AMP7 performance targets, driving improvements as early as possible to give us a flying start.

AMP7

Helping those in need of financial assistance

We are an industry leader in helping vulnerable customers, with the widest range of payment solutions and affordability schemes, and have plans to go even further in AMP7.

The FD anticipates our average customer bills reducing by 13.8 per cent before inflation over AMP7. On top of these real bill reductions, we have committed to lift a further 66,500 customers out of water poverty through targeted financial assistance over the period, and to provide £71 million of voluntary funding to our CommUnity Share scheme, which will be used to provide financial assistance for customers in need of support.

CommUnity Share Scheme

If dividends are much higher than proposed in our business plan, through us earning and distributing additional outperformance over AMP7, customers will receive matching benefits. This will be achieved by us making further contributions to the CommUnity Share scheme, in addition to the £71 million voluntary contribution we have already committed to.

Our CommUnity Share Scheme will benefit customers and communities in the North West, with the application of funding being made in consultation with customers and shareholders and overseen by our Customer Challenge Group.

Committed to mechanism for sharing gains from unexpectedly high levels of gearing

For AMP7, Ofwat has set out a mechanism whereby financing gains that water companies achieve as a result of having very high levels of gearing will be shared with customers.

This will be triggered by gearing levels of 74 per cent in 2020/21, reducing on a glidepath to 70 per cent by 2024/25. We do not anticipate our gearing reaching the level that would trigger this sharing, but if it did then we would apply this mechanism to share resulting financing gains with customers.

Glossary

Term	Definition
AMP	Asset Management Plan periods – the five-year regulatory price control periods since privatisation. AMP6 was the sixth asset management plan period since privatisation and ran from 01/04/2015 to 31/03/2020. AMP7 is the seventh asset management plan period since privatisation and runs from 01/04/2020 to 31/03/2025.
C-MeX	Customer measure of experience – measure of customer satisfaction for AMP7.
CPI/CPIH	Consumer Price Index/Consumer Price Index including Housing. CPIH is the UK Government's preferred measure of inflation, and is used by Ofwat as its primary inflation index in AMP7. CPI is the closest proxy for CPIH for which debt and derivatives are available in the financial markets.
D-MeX	Developer measure of experience – measure of developer satisfaction for AMP7.
DPC	Direct Procurement for Customers – new method of bidding for discrete large capital projects for AMP7.
Fast track	Category UUW's business plan was graded in Ofwat's Initial Assessment of Plans, leading to a faster timeline during the price review and rewarded with an additional 0.11 per cent allowed return above the base allowance for non-fast track companies.
FD	Final Determination. The regulatory settlement Ofwat gives each company to deliver for the 5-year regulatory price control period.
IRE	Infrastructure Renewals Expenditure – this is typically reported separately but forms part of operating costs.
K factor	Percentage annual increase or decrease in allowed revenue before inflation.
ODIs	Outcome Delivery Incentives – the rewards and penalties associated with operational performance against agreed regulatory targets.
Ofwat	Independent economic regulator for the water and wastewater sector in England and Wales.
PAYG ratio	Pay-as-you-go ratio – the allocation of expenditure between that recovered through revenues in the current regulatory period and that added to the RCV to be recovered in future periods (see RCV run-off rate), helping to ensure intergenerational equality by sharing the cost of long-term investments.
PCs	Performance Commitments, which can be reputational only or can incur ODI rewards or penalties.
PR19	The Price Review process for AMP7, concluded in December 2019.
Price control	The price and service packages set by Ofwat for companies to deliver in each area of the regulated business.
RCV	Regulatory Capital Value – this represents the value of accumulated investment in the company's asset base, and is used as a building block upon which companies earn a return in each 5-year regulatory price control period.
RCV run-off rate	The rate at which expenditure previously added to the RCV (see PAYG ratio) is recovered through revenues.
RoRE	Return on Regulated Equity – comprises the base return allowance plus/minus any out/under-performance against allowances for totex, ODIs (including C-MeX and D-MeX), and financing.
RPI	Retail Price Index – until recently (see CPIH) this was the UK Government's preferred measure of inflation, and prior to AMP7 RPI was used by Ofwat as its primary inflation index to calculate inflation of revenue and RCV.
Totex	Total expenditure – this comprises operating costs (opex), infrastructure renewals expenditure (IRE) and capital expenditure (capex).
UUG/UUW	United Utilities Group PLC - the listed group company/United Utilities Water Limited - the regulated entity.

Cautionary statement

This document 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 document and the company undertakes no obligation to update these forward-looking statements. Nothing in this document should be construed as a profit forecast.

Certain regulatory performance data contained in this document 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.