

Investor presentation

United Utilities

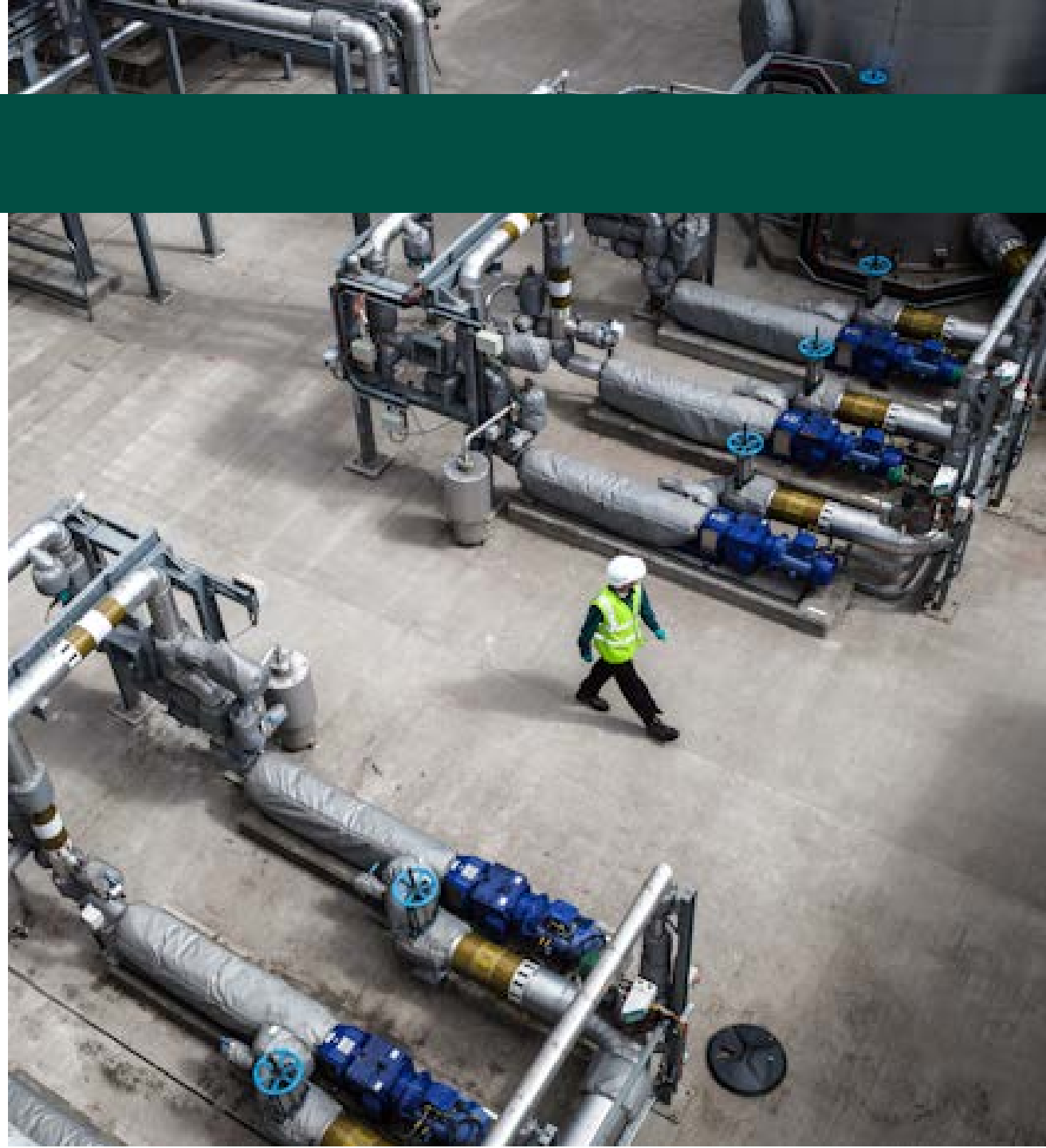
Summer 2023



Manchester Bioresource Centre

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Background



Manchester Bioresource Centre

Where we operate

Regulated UK water and wastewater business

Around
**3m households
and 200,000
business
customer premises**

Regional population of
around
7.3m people
In the North West of
England

**Serving the North West since
privatisation in 1989**



Our Board

Breadth and depth of experience



Sir David Higgins, Chair
Nomination Committee

Sir David has spent his career overseeing high profile infrastructure projects. Chair of Gatwick Airport Limited and a member of the Council at the London School of Economics. Former chief executive of Network Rail, The Olympic Delivery Authority, and English Partnerships



Louise Beardmore, Chief Executive Officer
ESG Committee

Joined United Utilities on its graduate programme and has comprehensive experience of the company, its customers and its regulators. She was appointed as customer service and people director in 2016, prior to which she held a number of senior positions across the group. She is a non-executive director of Water UK and the UK Engage for Success Foundation



Phil Aspin, Chief Financial Officer
Treasury committee

Over 25 years' experience at United Utilities. Prior to his appointment as CFO, Phil was group controller having previously been group treasurer. He was appointed as a member of the UK Accounting Standards Endorsement Board in March 2021. He is chair of the pensions committee of the 100 Group a member of both the 100 Group main committee and the stakeholder communications and reporting committee



Alison Goligher, NED
Nomination, remuneration and ESG committees

Non-executive director at Technip Energies NV and part-time executive chair Silixa Ltd. Former roles at Royal Dutch Shell, most recently Executive Vice President Upstream International Unconventionals



Liam Butterworth, NED
Nomination, audit and ESG committees

Joined GKN Automotive Limited, owned by Melrose plc, as CEO in 2018. During the year, following a demerger, the Dowlais Group plc was listed on the London Stock Exchange, with Liam appointed as CEO. Over 30 years' experience in the automotive industry and was the former CEO of Delphi Technologies plc.



Kath Cates, NED
Nomination, audit and remuneration committees

Non-executive director at Columbia Threadneedle Investments, TP ICAP Group Plc and Brown Shipley. Former chief operating officer at Standard Chartered plc and a number of roles at UBS, prior to which she qualified as a solicitor. Former non-executive director at Brewin Dolphin Holdings plc and RSA Insurance Group plc



Michael Lewis, NED
Nomination and ESG committees

CEO of Uniper SE, and a Member of Council the Natural Environment Research Council. Started his career at Wessex Water plc, prior to joining PowerGen plc, which was subsequently acquired by E.ON SE. Appointed as CEO of E.ON UK in 2017, where he led the company's transformation into a leading supplier of zero carbon energy solutions. became CEO of Uniper SE in June 2023



Paulette Rowe, NED
Nomination and ESG committees

During the year, joined private equity firm Greater Sum Ventures and was appointed as a non-executive director of Thredd. She has held senior executive roles in banking and technology at Meta, Barclays, the Royal Bank of Scotland/NatWest and at Paysafe Group. She is a former trustee and chair of children's charity The Mayor's Fund for London



Doug Webb, NED
Nomination, audit, remuneration and treasury committees

NED and audit committee chair at Johnson Matthey plc. Former CFO roles at Meggitt plc, London Stock Exchange, and QinetiQ Group plc, and NED and audit committee chair at SEGRO plc, BMT Group Ltd, and the Manufacturing Technology Group Ltd

Our regulation

Strong performance in early part of AMP7

We operate in **5-year** regulatory cycles called Asset Management Periods (AMPs)

We recently entered the seventh five-year period since privatisation (**AMP7** – running from April 2020 to March 2025)

Our economic regulator, Ofwat, sets the price, service and incentive package we must deliver in each of these five-year periods

There are four main areas in which companies can outperform by delivering a superior level of performance and/or doing so at a lower cost:

Total expenditure (**totex**)

Financing performance

Outcome Delivery Incentives (**ODIs**)

Customer satisfaction (measured using Ofwat's **C-MeX** assessment in AMP7)

We have **transformed** our performance in recent years and we exited AMP6 operating at the **upper quartile** across a range of metrics

We were **fast-tracked** through the most recent price review (PR19) and given one of the lowest cost challenges in the sector by Ofwat

We reinvested **£130 million** of AMP6 outperformance, targeting key performance areas giving us a **flying start** to AMP7

Strategic purpose

Water makes the North West

Stronger

Greener

Healthier



Why invest in United Utilities

Regulatory outperformance

Sustainable performance improvements and track record of outperformance in AMP5 and AMP6

Use of technology and data

Use of technology, data and machine intelligence, which provides us with a competitive advantage

Strong management team

Extensive commercial, operational and regulatory experience across the business

Best in class treasury management

Low cost of debt locked in, stable A3 credit rating, robust capital structure with target 55%-65% RCV gearing range

Low dependency pension schemes

IAS19 pension surplus, and low dependency funding position in line with TPR recommendations

Clarity on allowed returns to 2025

Wholesale revenue and asset base linked to CPIH inflation through to at least 2025

ESG credentials

Strong record of high ESG standards with external recognition of our approach to ESG

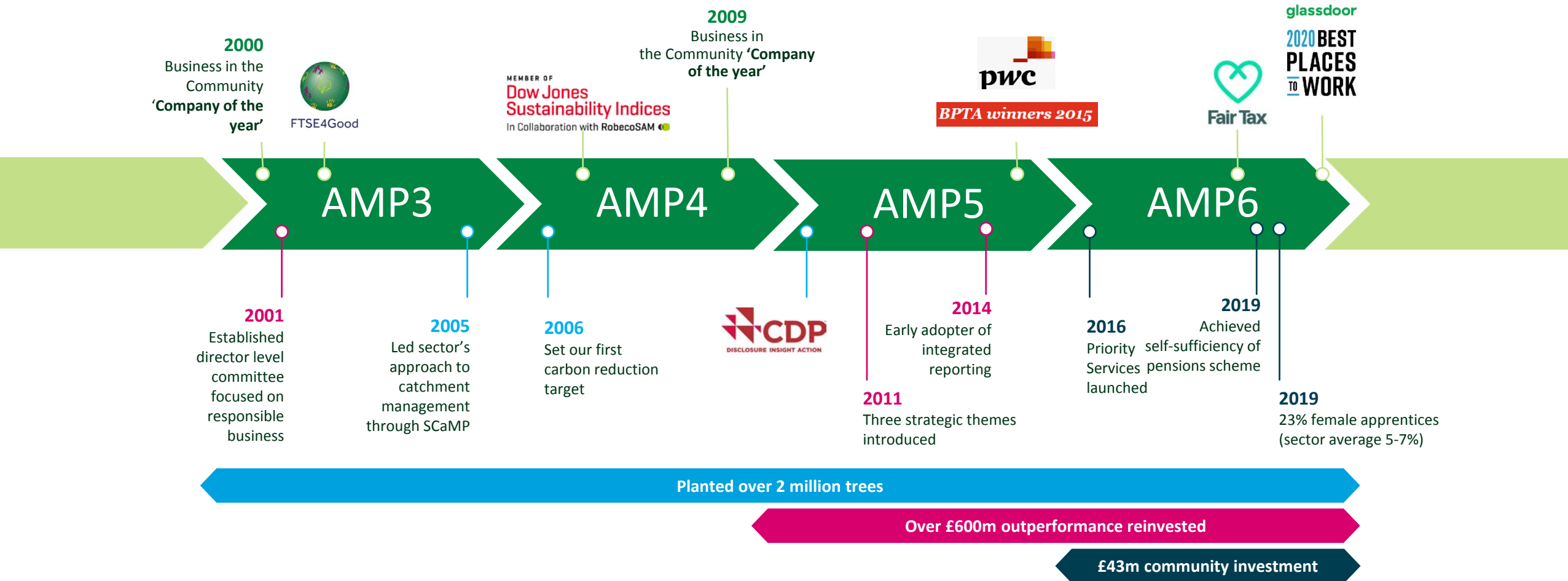
Environmental, Social and Governance (ESG)



Manchester Bioresource Centre

Strong track record of leading on ESG

Significant achievements against environment, social and governance



Behaving responsibly

Delivering for customers and the community



Behaving responsibly

Supporting customers



Debt affordability schemes building social capital

£280m customer support over AMP7

330,000 customers helped so far this AMP



Driving innovation to enhance experience and reduce cost

Use of Open Banking and other digital technologies

Void app secured £28m ODI reward

Behaving responsibly

Investing in colleagues

1

82% engagement,
above UK and Utilities
Norms

3

Technical Training
Academy

5

Only UK Utility
to be ranked in top
100 in FT inclusive
leaders index 2023

2

UK Apprentice of the
year

4

Record graduate and
apprentice
recruitment



Behaving responsibly

Delivering for the environment

Top performer on EPA

Leading performance in minimising pollution with zero serious incidents in AMP6

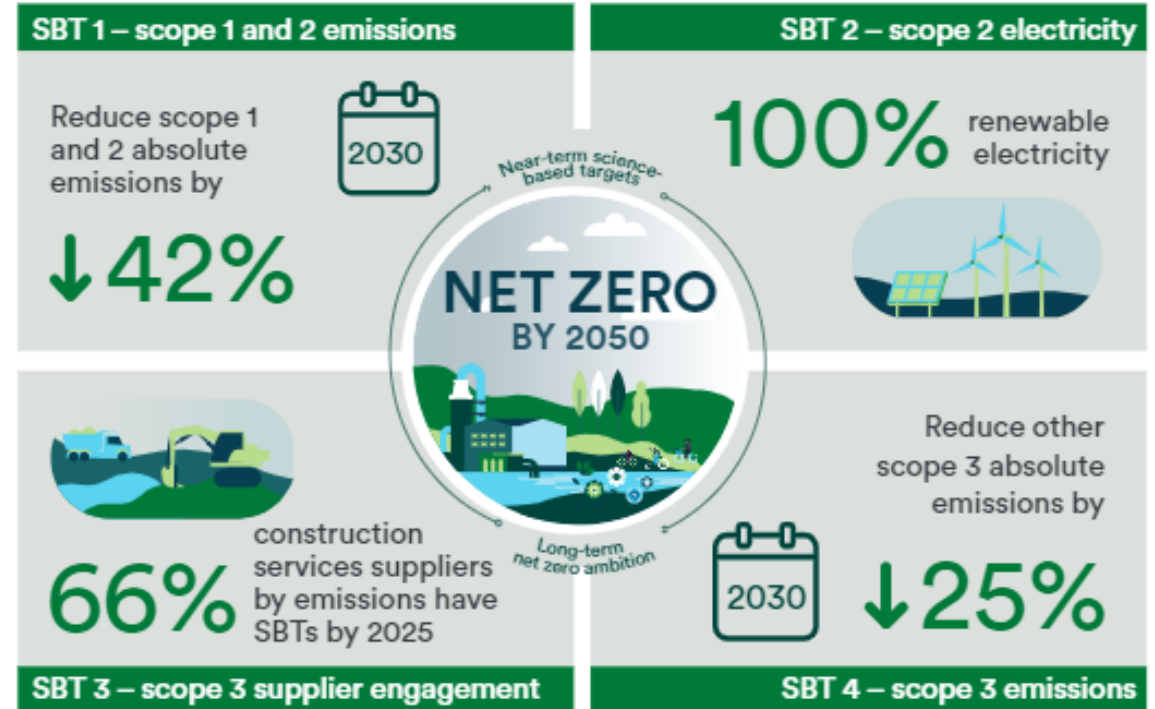
Achieved 4* industry leading status on the Environment Agency's environmental performance assessment

for 2021 –
5 times in 7 years

Sector leading catchment management

Led sector's approach to catchment management through SCaMP

Catchment Systems Thinking (CaST) delivers an optimised integrated approach



Carbon footprint significantly reduced since 2005/06 baseline

100% electricity usage from renewable sources from October 2021

Behaving responsibly

Recognised for best practice corporate governance

Consistently recognised as going above and beyond the minimum and early adopters of best practice



Economic regulation



Manchester Bioresource Centre

Ofwat's legal duties

1

Primary

Ensure companies properly
carry out their functions

Ensure companies can finance
their functions

Protect interests of consumers, wherever
appropriate by promoting effective competition

Secure the long-term resilience
of water and sewerage systems¹

2

Secondary

Promoting economy and efficiency

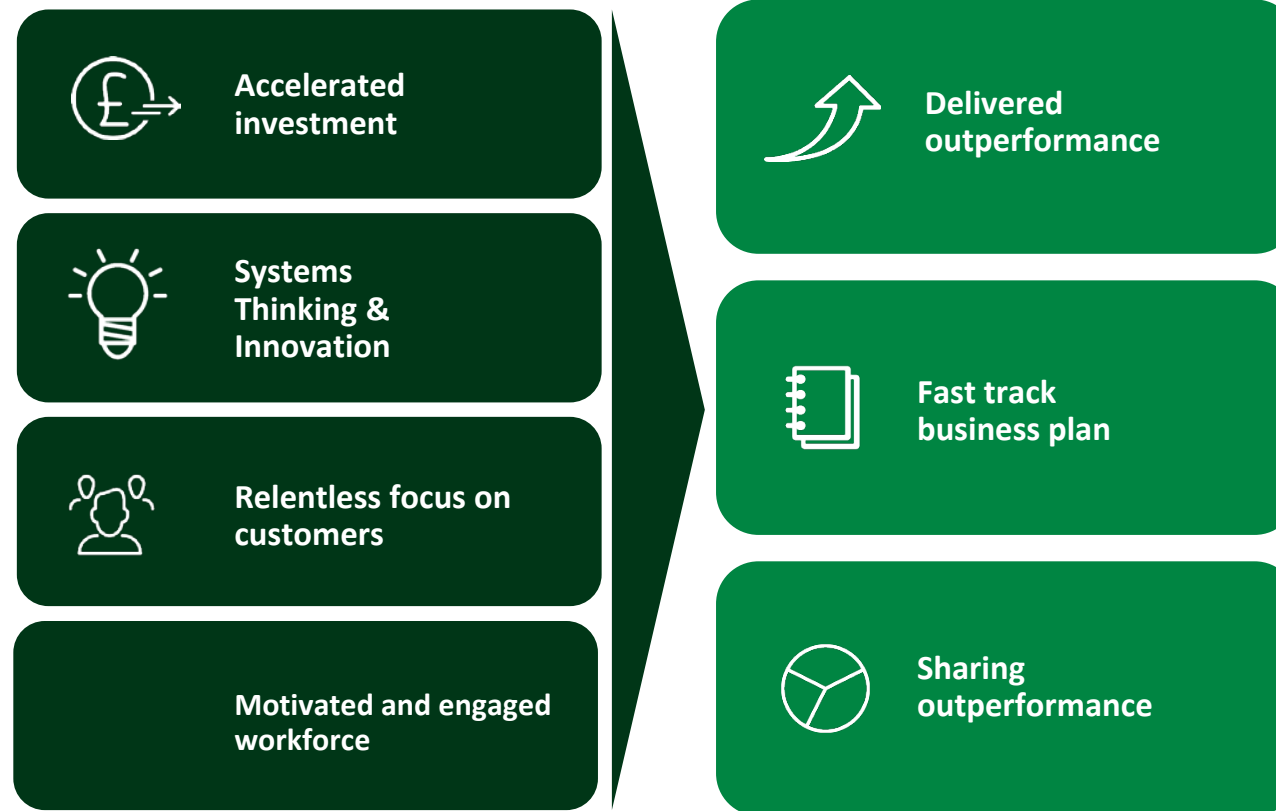
Contributing to the achievement
of sustainable development

Ensure Ofwat gives
no undue preference¹

¹ Added as part of the Water Act 2014

Exceeded our targets in AMP6

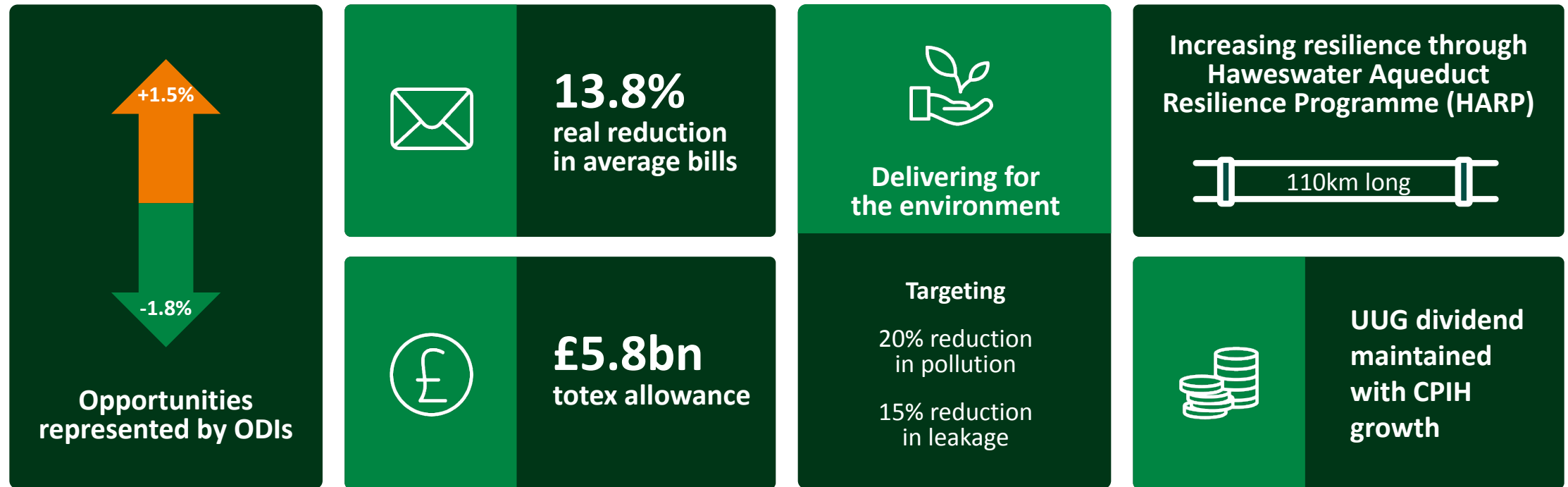
Executed and delivered our purpose



To provide great water for a stronger, greener, healthier North West

Summary of UUW's AMP7 final determination

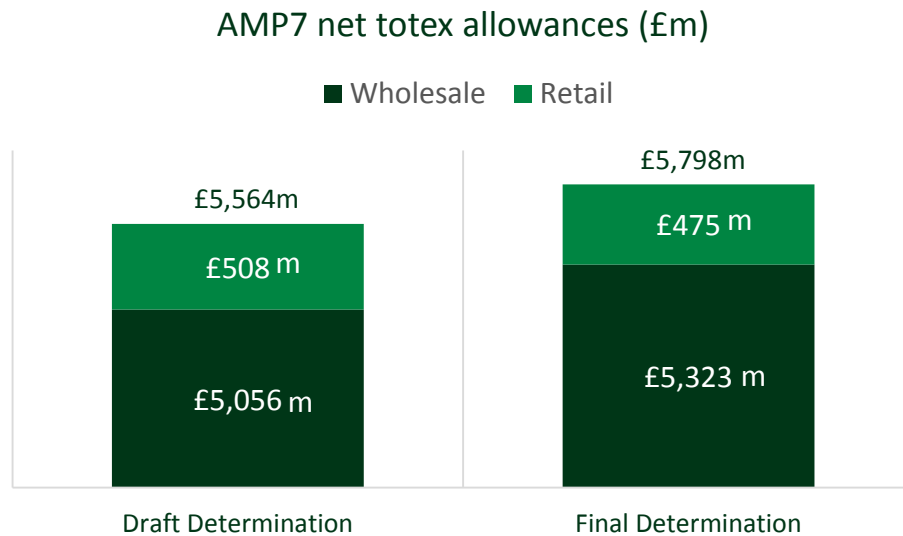
A balanced settlement overall



A purpose led company, recognising the needs of all of our stakeholders

AMP7 totex allowance increased from draft determination

£5.8bn AMP7 totex allowance



Final determination allowance was **£234m higher** than draft determination



50:50 customer sharing ratio



Weighted average **PAYG** of **59.6%**
- aligned to the natural rate



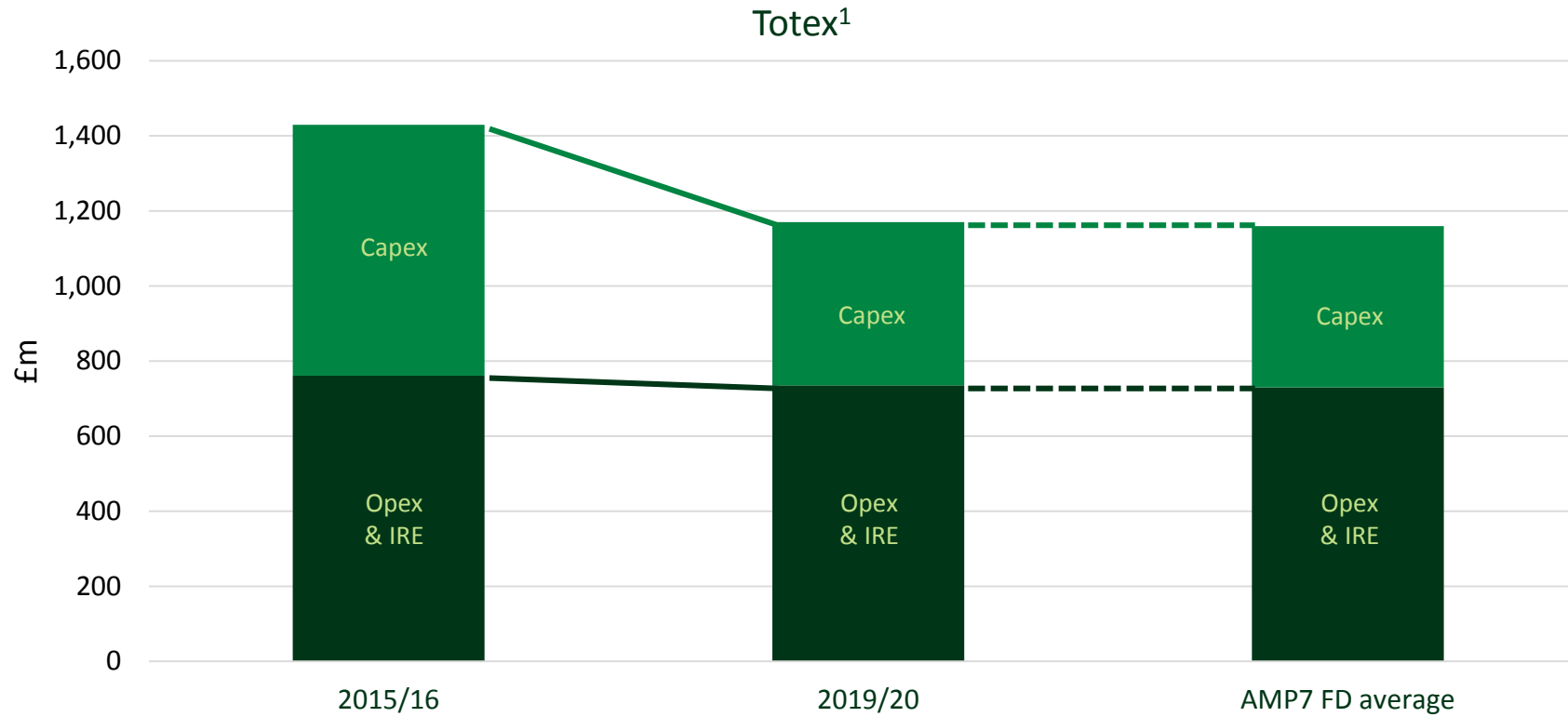
£57m HARP allowance and **£44m** for strategic water resource development



Exiting AMP6 at the required totex run rate

Totex run rate on target

AMP6 investment delivering efficiencies to be sustained into AMP7



Source: Company PR19 business plan submission, September 2018 and Final Determination

¹ 2017/18 prices, including £250m AMP6 additional investment but not the further £100m announced in May 2019.

Delivering efficiencies

AMP6 focus on innovation, market testing and cost challenge delivered efficiencies required for AMP7



Innovation

Identified as having the **most embedded culture of innovation**

Systems Thinking

delivering efficiencies and better service for customers

Innovation Lab a source of global ideas to keep us at the **frontier** of new ideas



Market testing

Market Engagement Methodology to procure as efficiently as possible

Appointed two capital delivery partners as preferred bidders for **over £300m** of AMP7 capital programme achieving **£40m savings** versus the traditional delivery route



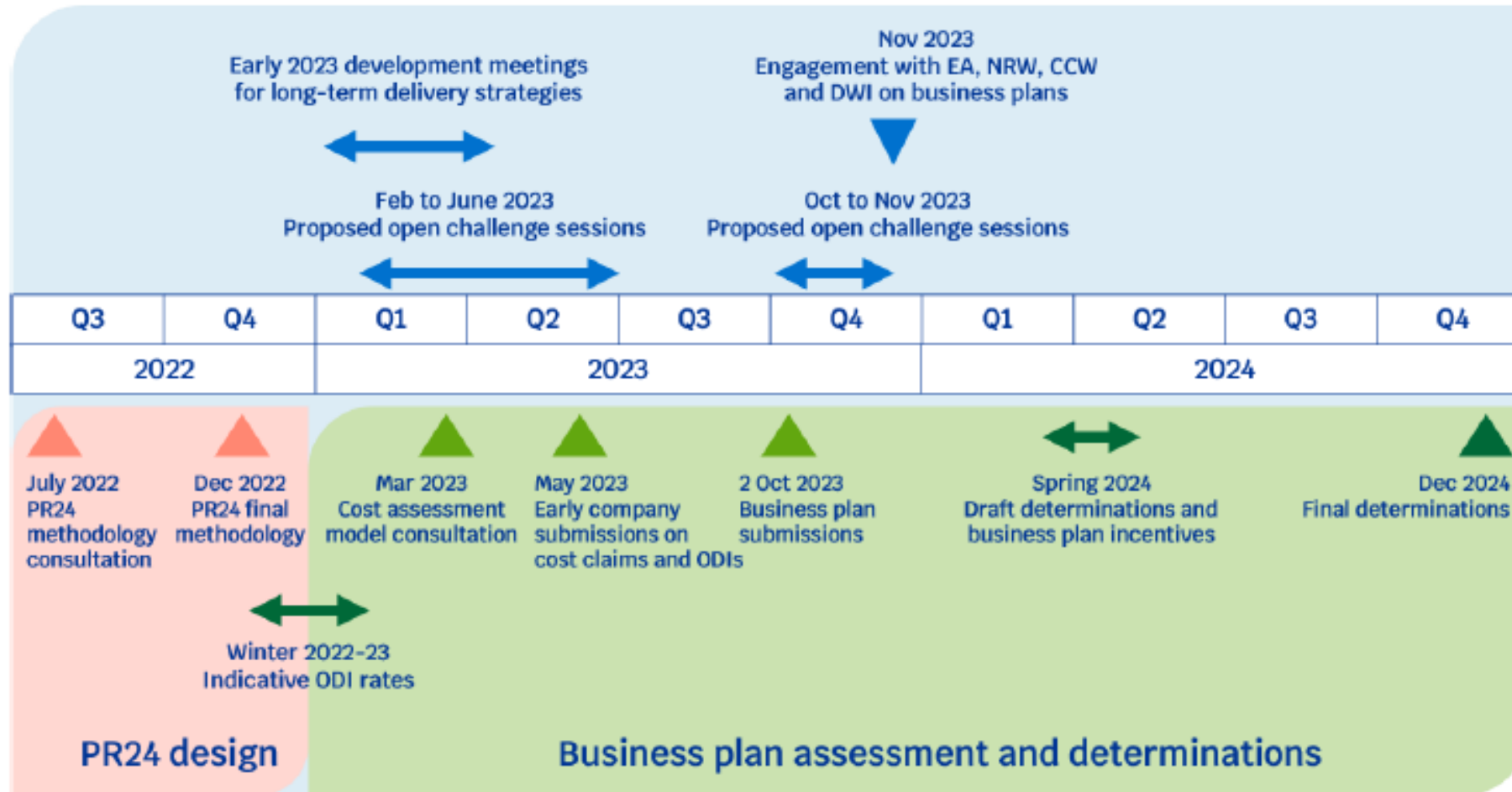
Cost challenge

Risk and value assessment across all major projects expected to deliver **£100m savings** in our plan

£110m reduction in scope of wastewater environment programme through **working proactively** with the Environment Agency

PR24 Timetable

Business plan submission 2 October 2023



Source: Ofwat's draft methodology published 7 July 2022

Outcome Delivery Incentives (ODIs)

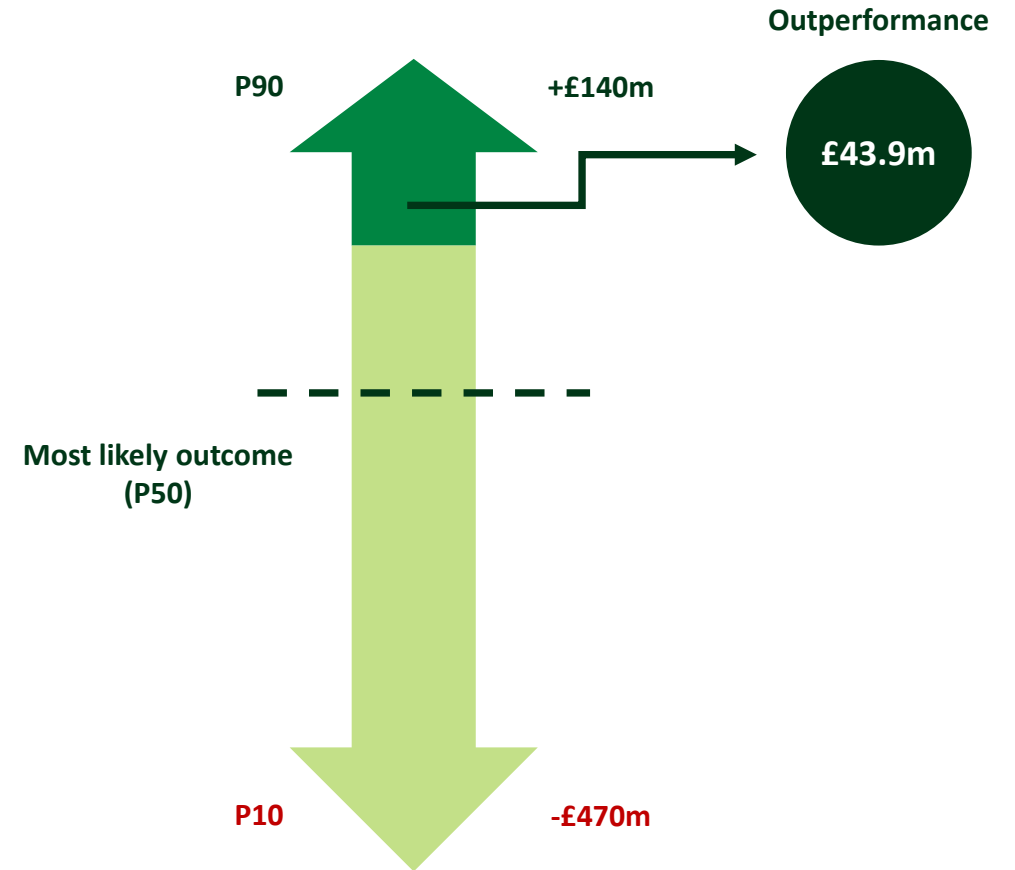


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ODI reset

Lessons learned from AMP6

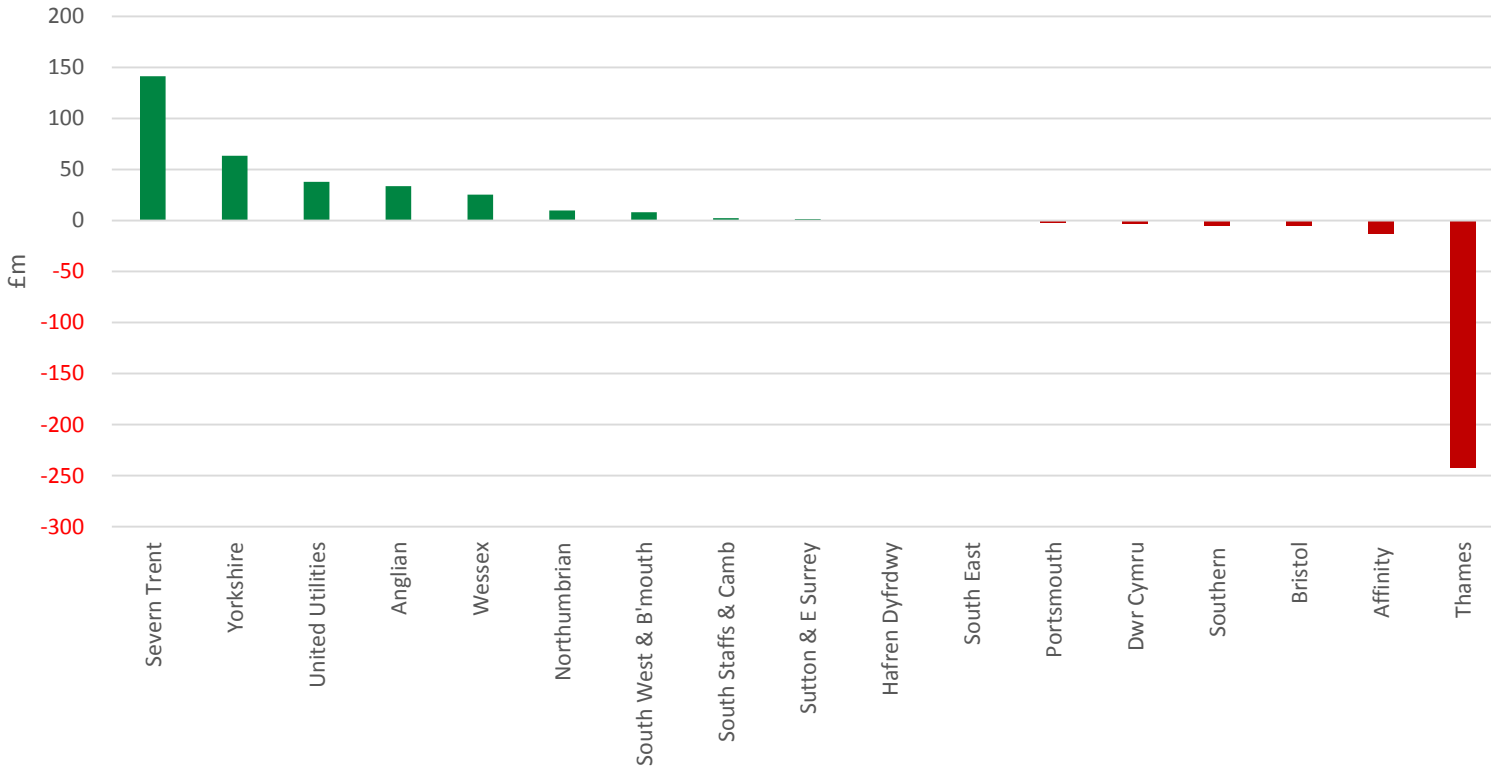
	Reward / (Penalty) in 5 years 2015-20 (£m)
Private sewers service index	36.9
Wastewater category 3 pollution incidents	16.4
Sewer flooding index	(9.3)
Thirlmere transfer to West Cumbria	21.6
Total leakage at or below target	13.1
Reliable water service index	(31.9)
Average minutes supply lost per property	12.5
Water quality service index	(14.2)
Other 11 wholesale ODIs	(1.2)
Total wholesale ODIs	43.9



ODI reset

Lessons learned from AMP6

Cumulative ODI incentives over AMP6



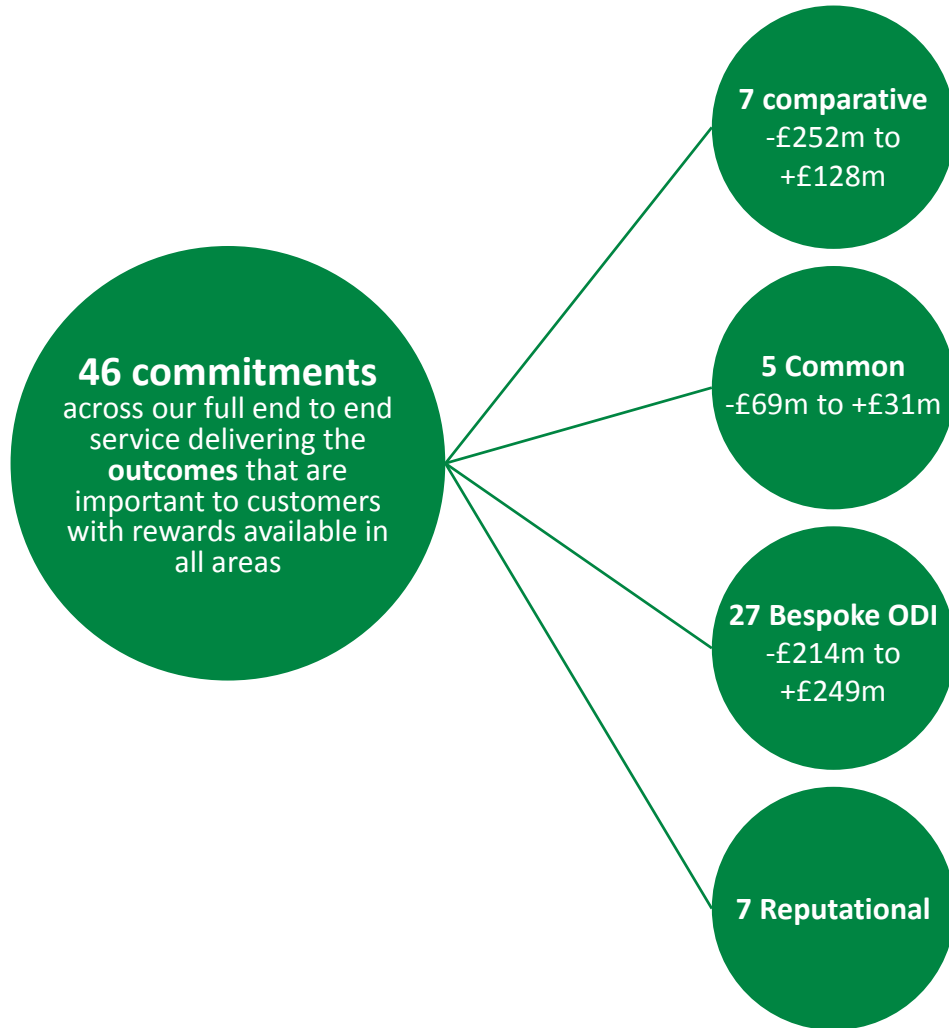
ODIs have incentivised company behaviour

Incentives to be reset with greater consistency required

Cross sector comparison requires harmonised performance measurement methodologies

ODIs are not a proxy for operational efficiency

AMP7: Customer commitments: Outcome Delivery Incentives (ODIs)



Measuring against the sector with **comparative targets**

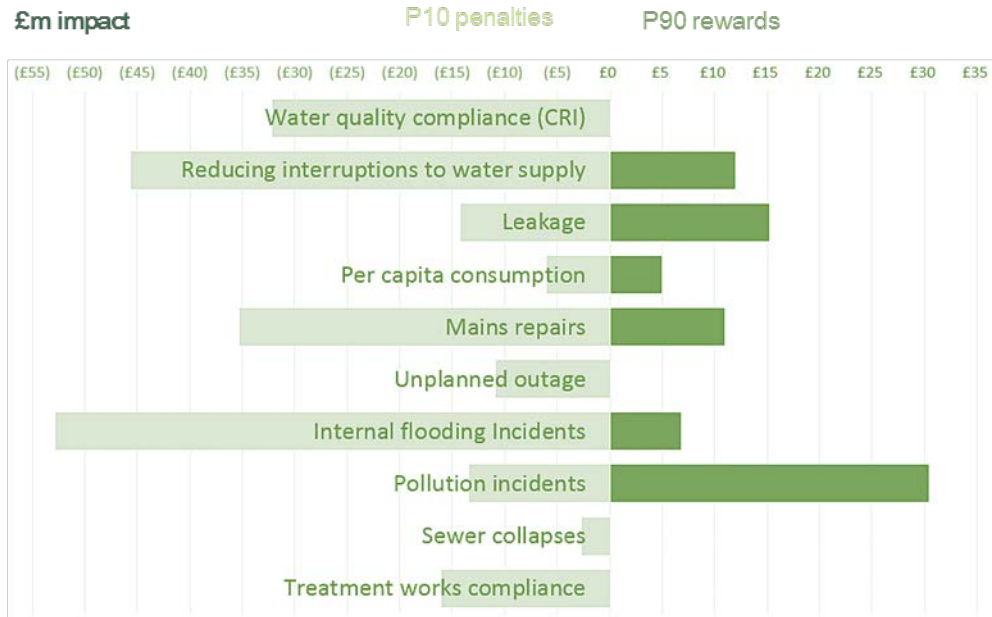
Measuring against the sector with rewards based on **company specific targets**

Unique to us offering **outperformance opportunities** where we truly deliver **what matters to our customers**

No financial incentive

Robust plans across common AMP7 ODIs

£100m flying start investment targeted improved performance in key areas



Accelerated investment with a flying start



Smarter networks, increased visualisation and predictability

Systems Thinking & Innovation



Central planning and decision making capability

Leading Capability in our people and ways of working



Embedded innovative technologies with AMP7 trials already underway

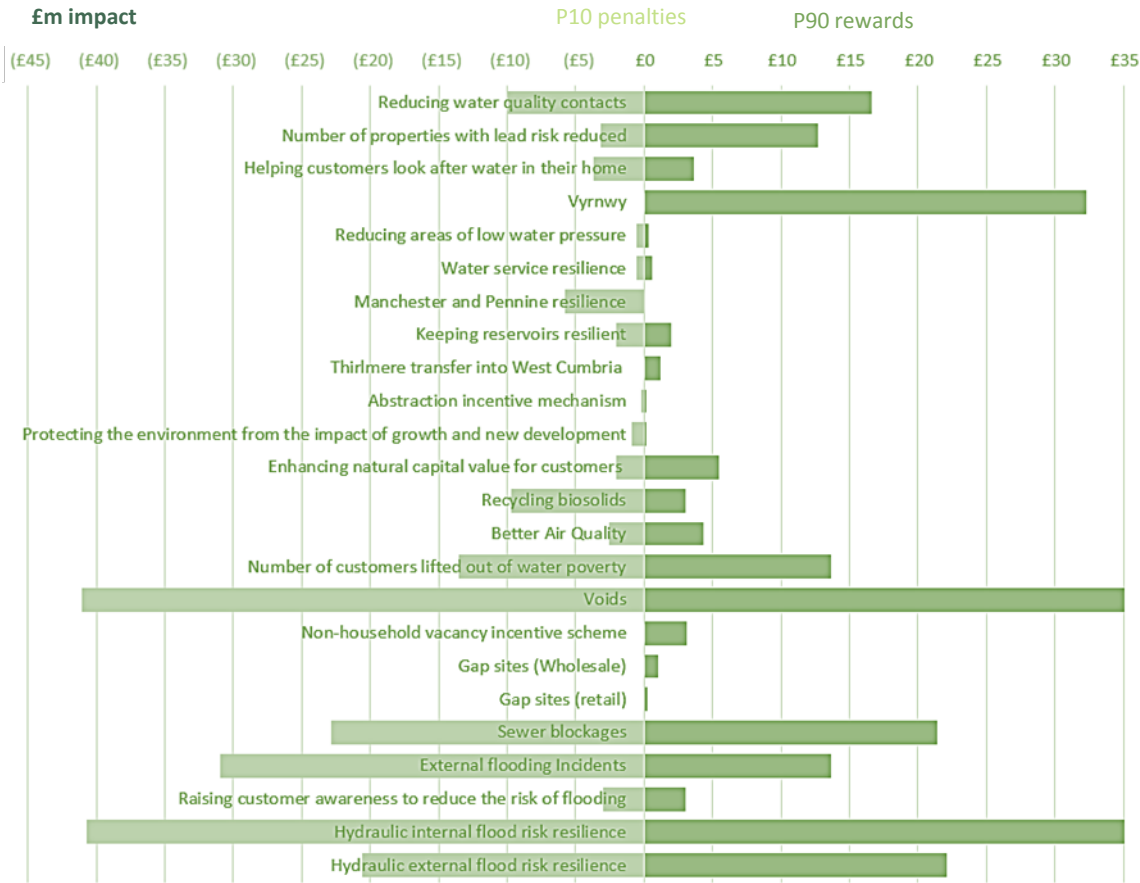


Integration, optimisation and collaboration across all our asset plans

Projected P10 underperformance payments and P90 outperformance payments for United Utilities' common and comparative performance commitments over 2020-25 excluding C-MeX and D-MeX.
Source: Ofwat Final Determination, December 2019

Opportunities across bespoke AMP7 ODIs

Opportunities to unlock outperformance across bespoke ODI measures



Optimised investment plan for multiple benefit



Industry leading technologies backed by industry leading innovation culture



Data driven proactive approach

Projected P10 underperformance payments and P90 outperformance payments for United Utilities' bespoke performance commitments over 2020-25
 Source: Ofwat Final Determination, December 2019

Ambition and innovation across our performance commitments (PCs)

We co-developed with our customers some really innovative PCs that are important to them, they are industry leading and with incentives that provide good opportunities for outperformance

First in the industry to commit to tackling the issues of **air quality** by incentivising a reduction of emissions from our energy generation activities through an ODI.



£4.3m reward
£2.6m penalty

Reducing the number of properties with **water quality risk from lead**. The **most stretching target** of any other company, with equally leading outperformance opportunities.



£12.7m reward
£3.1m penalty

Reducing the **hydraulic risk of flooding** using innovative advanced modelling techniques for risk and investment planning. Exploring more scenarios in minutes than you could do manually in months.



£68.0m reward
£61.2m penalty

Delivering additional **natural capital** value. **First in the industry** to unlock opportunities for outperformance by generating value for communities across the North West from ecosystems services.



£5.5m reward
£2.0m penalty

Engaging with customers to change their behaviour. Using an innovative methodology to **raise customer awareness to reduce the risk of flooding**.



£3.0m reward
£3.0m penalty

New contingency plans increase the **resilience in our water service**. The **first forward looking measure in the industry** to incentivise long term resilience.



£9.3m reward
£5.5m penalty

All figures are reflective of Ofwat's view of our P10 and P90 positions in United Utilities Final Determination: December 2019, with the exception of Water Service Resilience which has been adjusted to reflect the variability in this measure

Customer service performance commitments

12 of United Utilities' performance commitments are focused on customer services, delivering the outcomes that are important to customers with rewards available for outperformance on specific performance commitments.

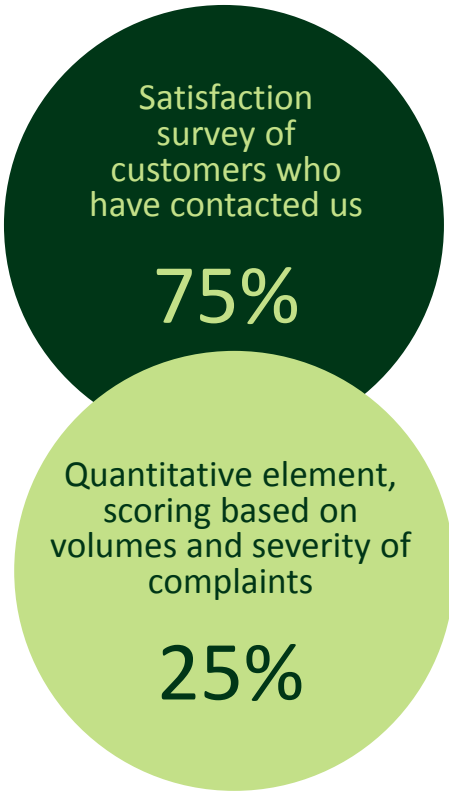
4	Common	Measuring against sector, with rewards based on company specific targets
8	Bespoke	Unique to us, offering outperformance opportunities where we fully deliver what matters to customers
9	Financially incentivised	Of the 12 performance commitments, rewards are available across 9 of the performance commitments
3	Reputational	No financial incentive

Reward range
£132m

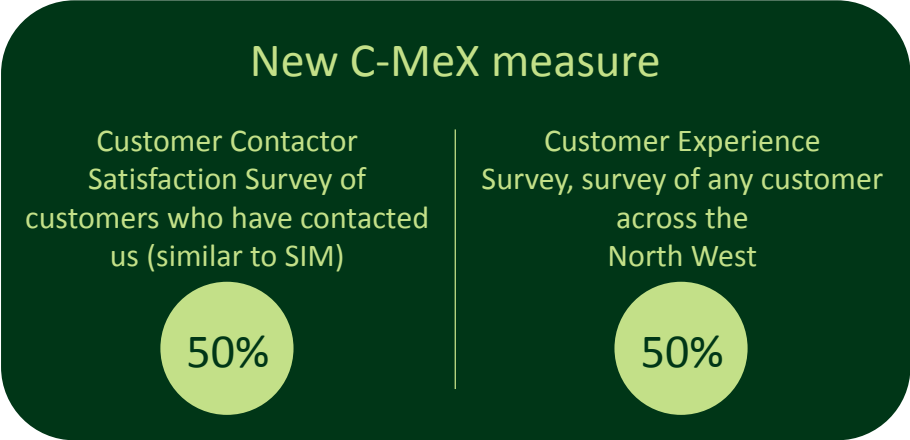
Penalty range
-£163m

Transition from SIM to C-MeX and D-MeX

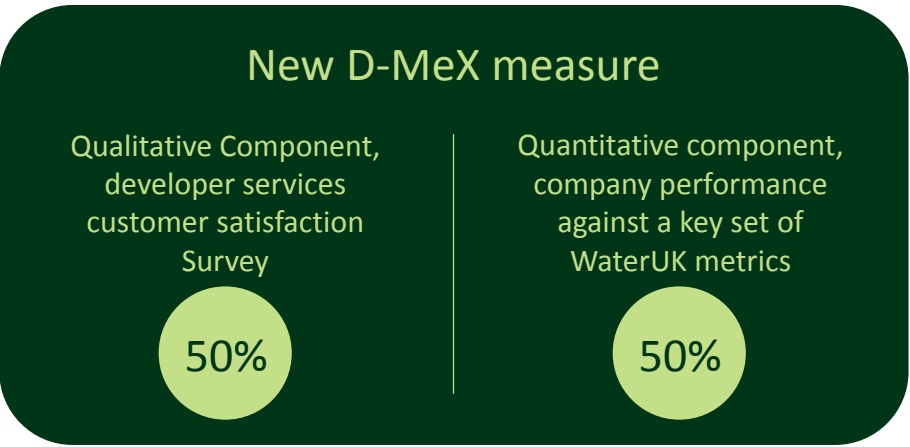
Old SIM measure



Reward/penalty range = +£36m - £72m



Reward/penalty range = +/-£66



Reward/penalty range = +£13m to -£26m

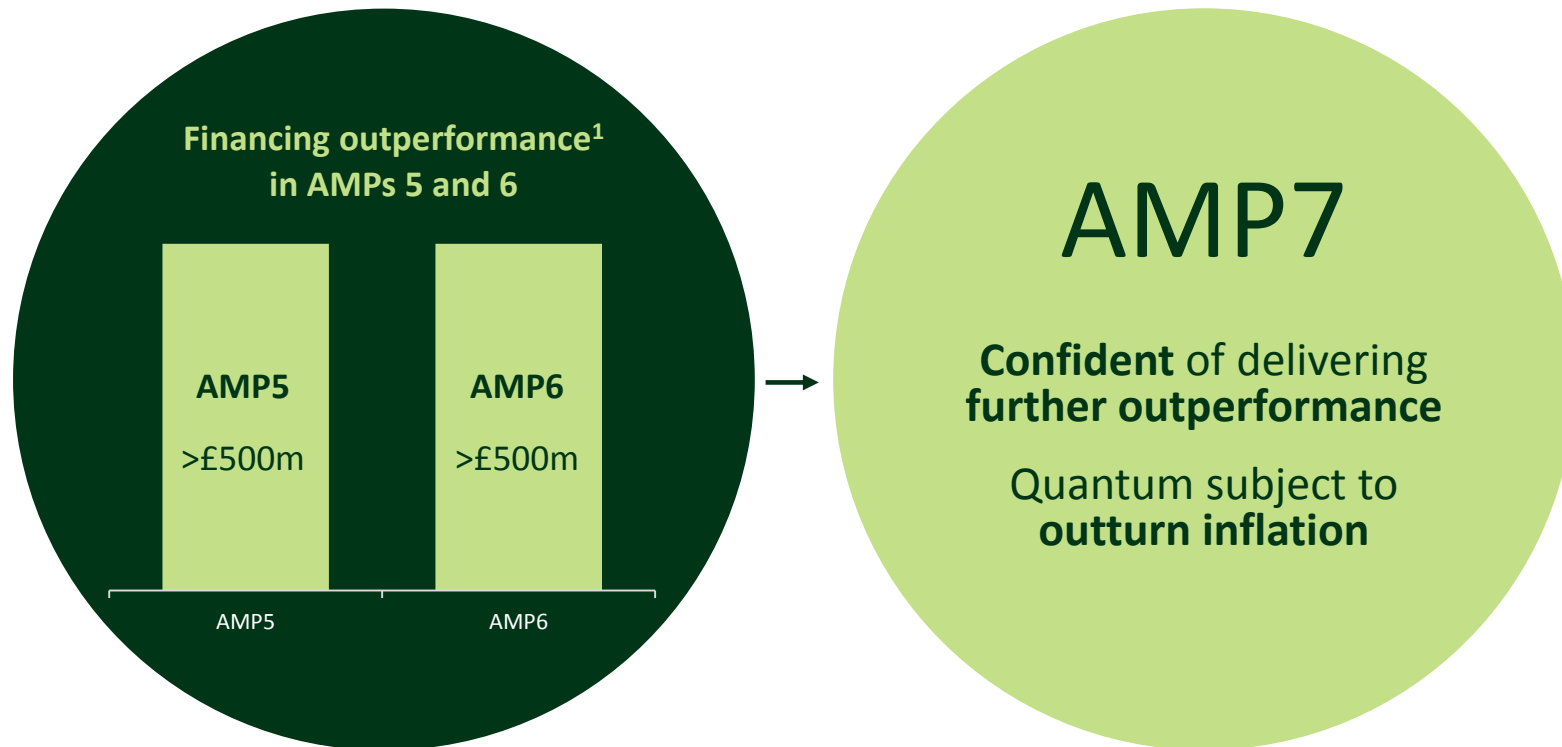
Financial summary



Manchester Bioresource Centre

Best in class treasury management

Track record of delivering significant financing outperformance



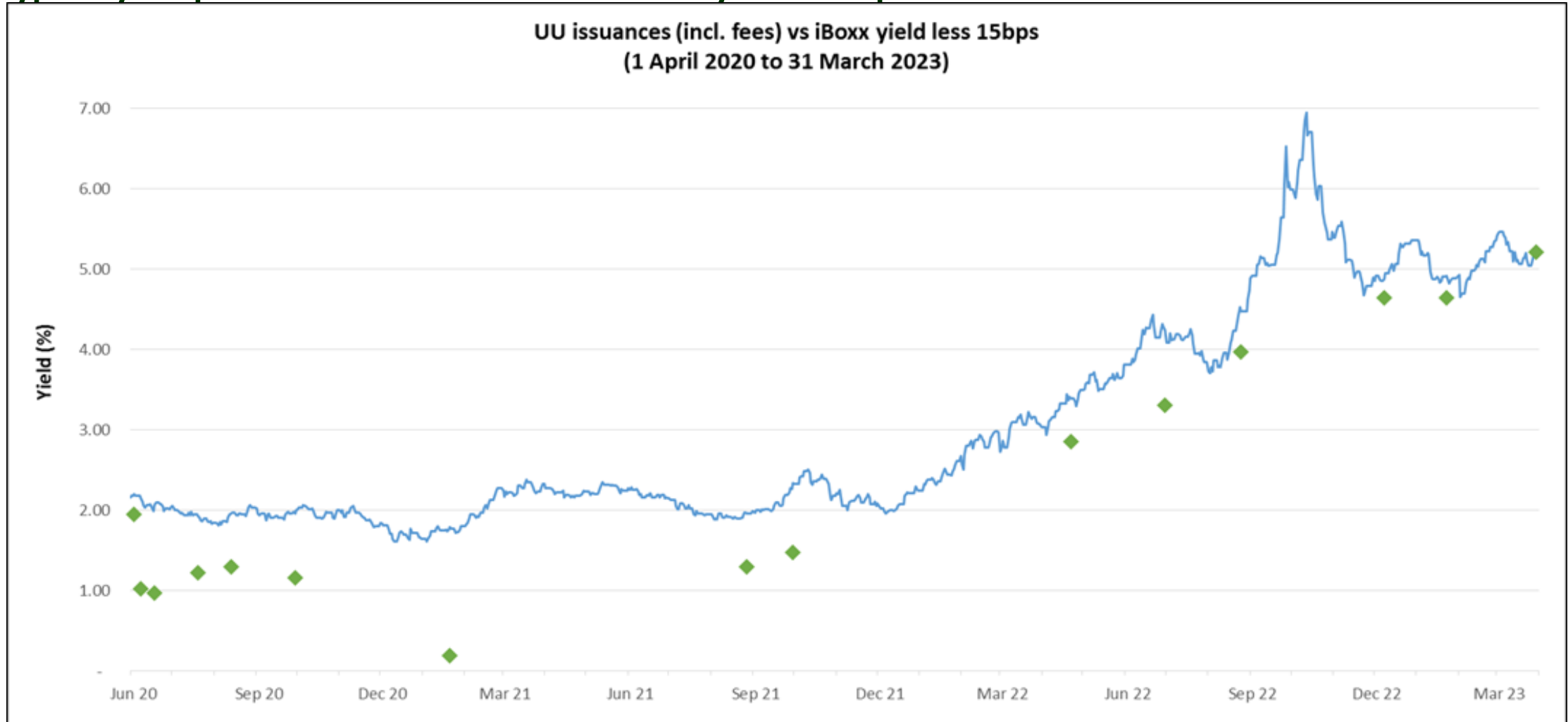
¹ Pre-tax on an actual company basis

Flexibility to **reinvest** over **£600m** across AMPs 5 and 6

Financial resilience to withstand credit crises

Benefit of our treasury policies and excellence

We typically outperform the index for new debt by 50-100 bps



Credit rating summary

Aim to at least retain U UW credit ratings to support efficient access to debt capital markets



Moody's

U UW¹ rated A3

UU PLC rated Baa1

A3 threshold: net debt to
RCV ratio <65%

A3 threshold: adjusted
interest cover >1.7x



Fitch

U UW¹ rated² A-

UU PLC rated² A-

A- threshold: net debt to RCV
ratio <67%

A- threshold: PMICR³ >1.6x



S&P

U UW¹ rated BBB+

UU PLC rated BBB-

BBB+ threshold: adjusted
FFO to debt >9%

BBB+ threshold: net debt/EBITDA 9x

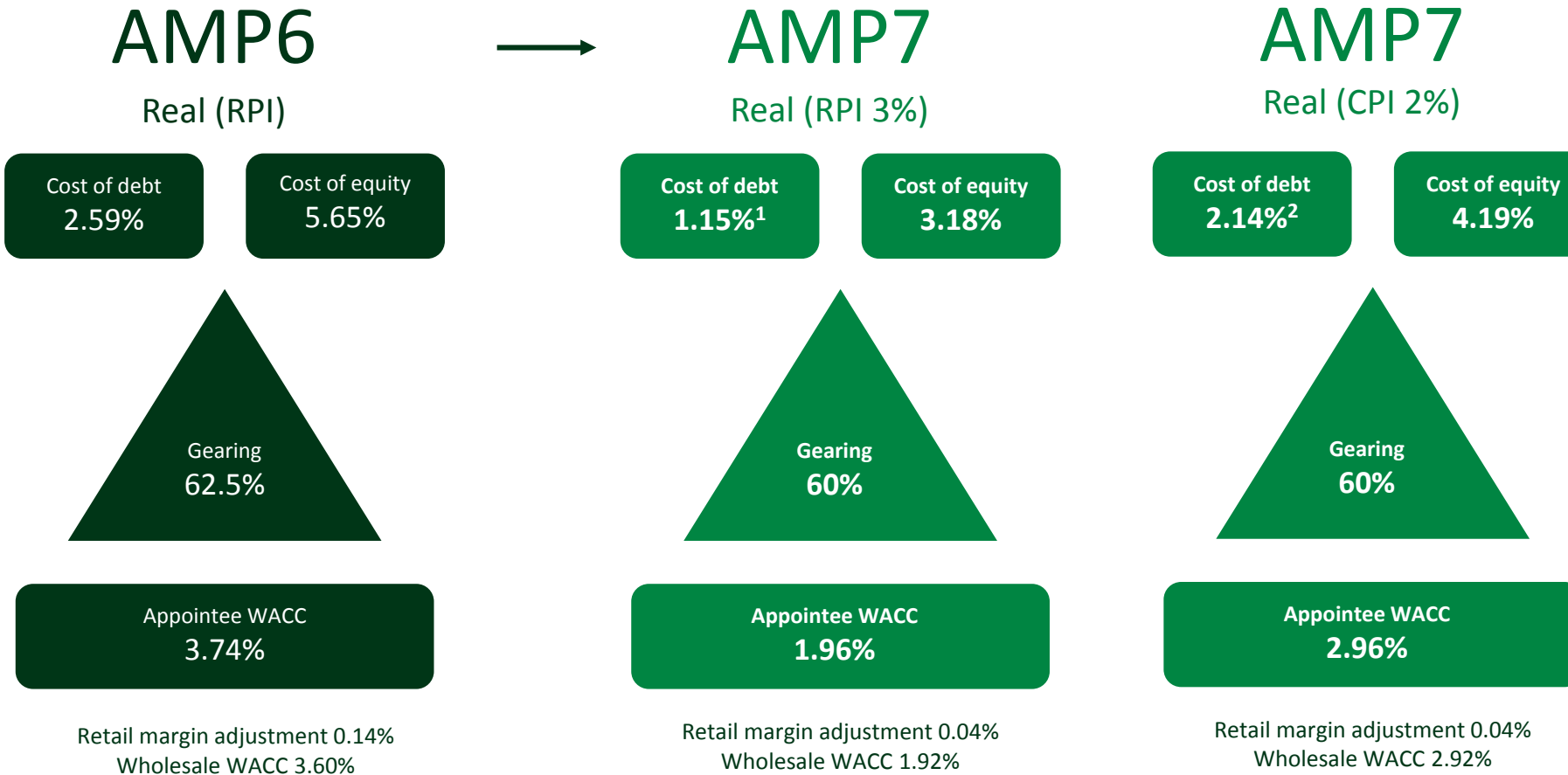
¹ Any notes issued by U UW's financing subsidiary United Utilities Water Finance PLC (U W WF) are expected to be rated in line with U UW's credit rating

² Rating for senior unsecured debt, issuer default rating is one notch lower

³ Post maintenance interest cover ratio

Weighted average cost of capital (WACC)

Aim to at least retain UUW credit ratings to support efficient access to debt capital markets



- Industry average WACC based on notional company with 60% gearing
- Debt indexation to apply for new debt assumed to be 20% of total debt
- CPIH to be adopted for the indexation of future price controls

¹ Cost of debt split: 1.43% embedded debt (assumed to be 80% of total); -0.45% new debt (assumed to be 20% of total)

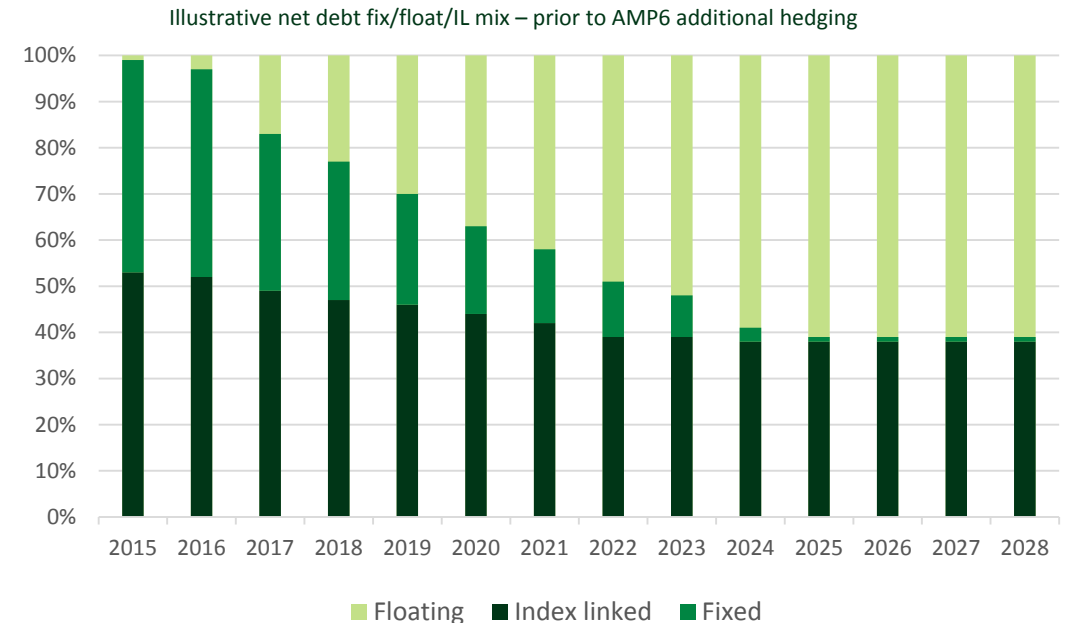
² Cost of debt split: 2.42% embedded debt (assumed to be 80% of total); -0.53% new debt (assumed to be 20% of total)

Risk reduction – Interest rate hedging policy

Aims to minimise regulatory risk

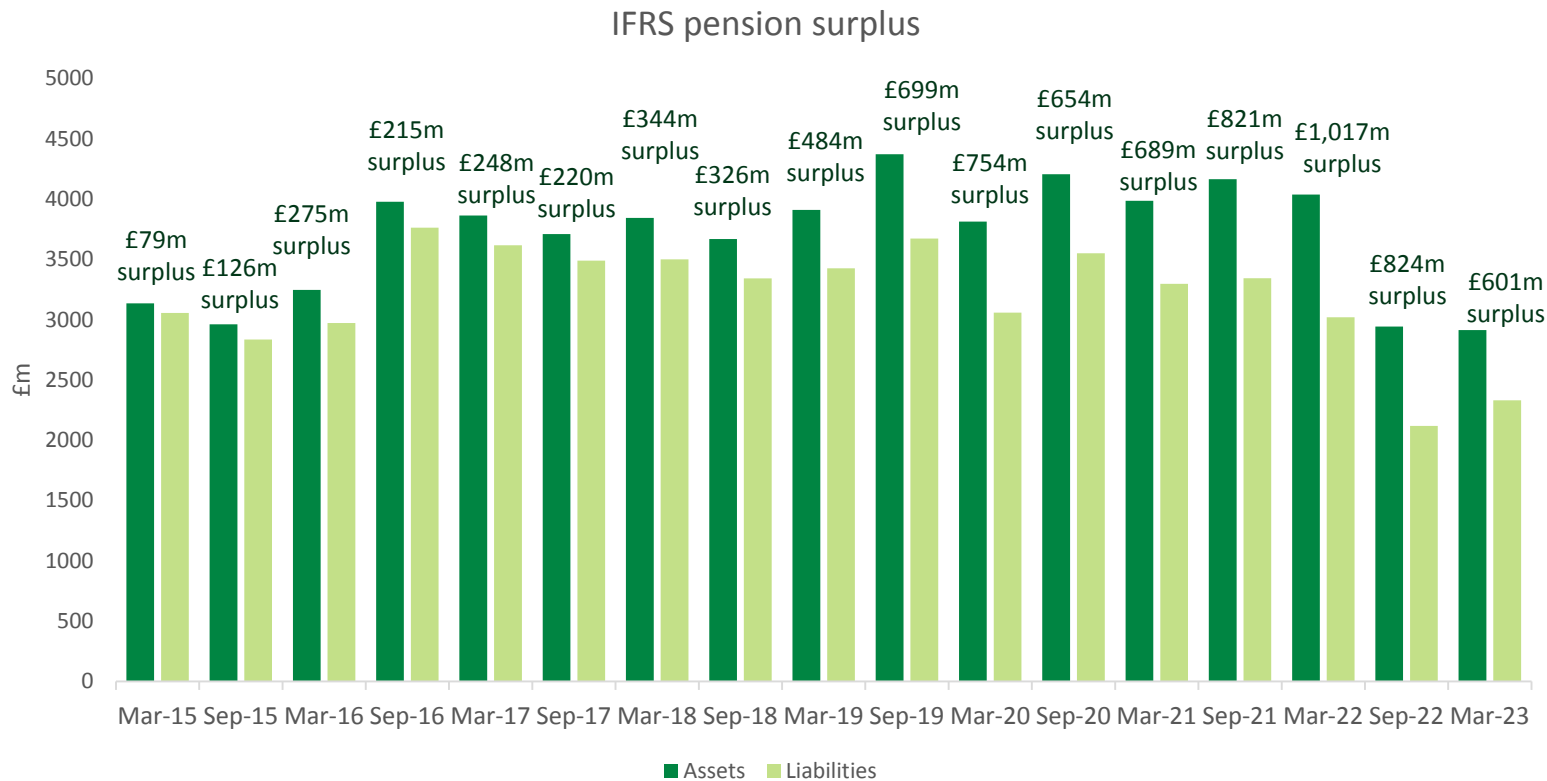
- AMP7 cost of debt set through PR19 process
- We target around half of our debt to be in index-linked form, and we keep index-linked debt un-swapped as a good match for the RCV, which is 50% RPI-linked and 50% CPIH-linked as at 1 April 2020 with post-2020 new additions linked to CPIH
- We fix underlying rates on the remaining nominal floating rate debt on a 10-year reducing balance basis
- This helps to manage uncertainty regarding Ofwat's approach to setting the cost of debt at future price reviews

10-year rolling interest rate profile Lock in rolling 10-year average interest rate on nominal debt



Pensions

United Utilities' pensions are fully funded on a low dependency basis



- IAS19 surplus, no funding deficit
- Low risk assets, hedged for inflation and interest rate risk
- No deficit on a low dependency basis
- Future contributions are ongoing service costs only

Impact of inflation

Short term timing differences – for 2023/24 year end

Regulated revenue

Price limits are based on the movement in CPIH³ inflation between November 2021 and November 2022 (i.e. 9.3%)

Dividends

Dividends are linked to the same inflation as regulated revenue in order to mirror the inflationary uplift in price limits

Regulatory capital value (RCV)

Opening RCV is inflated by the movement in inflation between March 2023 and March 2024, 50% linked to RPI¹ inflation and 50% linked to CPIH³ inflation

Plus RCV additions (from totex) during the year, gives 31 March 2024 RCV (which is used as part of year-end gearing calculation)

Index-linked debt⁴

RPI 3 month lag:
Adjustment to principal is based on the movement in RPI¹ inflation between January 2023 and January 2024

RPI 8 month lag:
Adjustment to principal is based on the movement in RPI¹ inflation between July 2022 and July 2023

CPI 3 month lag:
Adjustment to principal is based on the movement in CPI² inflation between January 2023 and January 2024

¹ Retail Prices Index (RPI)

² Consumer Price Index (CPI)

³ Consumer Price Index adjusted for Housing (CPIH)

⁴ Indexation of principal is calculated based on monthly movements in RPI / CPI

Glossary

Term	Description
AMP6 / AMP7	Asset Management Plan periods. The five-year regulatory price control periods since privatisation. AMP6 runs from 01/04/2015 to 31/03/2020. AMP7 runs from 01/04/2020 to 31/03/2025.
APR	Annual Performance Report. Separate from the statutory financial statements, this provides detailed regulatory performance information.
C-MeX / D-MeX	C-MeX: measure of customer satisfaction for AMP7. Similar to qualitative SIM assessment in AMP6. D-MeX: measure of developer satisfaction for AMP7.
CPI / CPI-H	Consumer Price Index / Consumer Price Index including Housing. CPI-H is the UK Government's preferred measure of inflation, and will be used by Ofwat to calculate inflation of revenue and RCV in AMP7. CPI is the closest proxy for which debt and derivatives are available in the financial markets.
DWI	Drinking Water Inspectorate. Independent quality regulator that assesses our comparative performance in the water side of our business.
EA	Environment Agency. Independent environmental regulator that assesses our comparative performance in the wastewater side of our business.
FD	Final Determination. The regulatory settlement Ofwat gives each company to deliver for the 5-year regulatory price control period.
IAP	Initial Assessment of Plans. Ofwat graded water companies' business plan submissions for AMP7 across 9 key test areas and categorised the plans, leading to different timelines and base returns for higher/lower rated plans.
ODIs	Outcome Delivery Incentives. The rewards and penalties associated with operational performance against regulatory targets agreed for the period.
Ofwat	Independent economic regulator for the water sector in England and Wales.

Term	Description
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), helping to ensure intergenerational equity by sharing the cost of long-term investments.
PR14 / PR19	Price Review years. PR14: the price review process for AMP6, concluded in 2014. PR19: the price review process for AMP7, will be concluded in 2019.
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	The rate at which expenditure previously added to the RCV (see PAYG ratio) is recovered through revenues in a regulatory period.
RPI	Retail Price Index. Until recently (see CPI-H) this was the UK Government's preferred measure of inflation, and RPI is being used by Ofwat to calculate inflation of revenue and RCV in AMP6.
SIM	Service Incentive Mechanism. This is the metric used to measure customer satisfaction during AMP6, with separate assessments of quantitative SIM and qualitative SIM giving an overall combined SIM score for the period that can be used to compare performance versus peers within the water sector.
TCQi	Time Cost and Quality index. This is the internal measure we use to assess our capital projects, giving equal weighting to cost efficiency, quality, and on-time delivery.
Totex	Total expenditure. This comprises operating costs, infrastructure renewals expenditure (IRE) and capital expenditure. Any variation from companies' allowed level of totex for the period represents out- or under-performance.

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.

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