

Our performance in 2016/17

Operational performance

The best service to customers

Customer service – sitting at the core of everything we do, our strong focus on customer service has helped us deliver substantial improvements in recent years, becoming the most improved company in the 2010-15 period with a reduction of around 75 per cent in the overall number of customer complaints.

This year we re-energised our approach and have seen another upturn in customer satisfaction. In 2016/17 we delivered our best ever scores under Ofwat's qualitative Service Incentive Mechanism (SIM) measure, placing us above the industry average for the full year, and ending the year as a leading company in the sector. Customer complaints in 2016/17 were considerably lower than last year with a 27 per cent year-on-year reduction and a 55 per cent reduction in the circumstance where an issue is not resolved at first contact.

We introduced a number of innovations over the year, setting new benchmarks for the sector. One of the most successful, Priority Services, provides more targeted support for customers experiencing short or long-term personal or financial difficulties in their lives, with tailored assistance for customers. Since its launch in May 2016, we have seen more than 11,000 customers register for this service, supplementing the wide range of initiatives we already offer customers struggling to pay, in order to help them return to regular payment.

Our new customer website was designed to improve accessibility and ease of use following extensive research and customer engagement, includes web chat services across extended hours, and is mobile-enabled to accommodate customers' increasing use of mobile devices to access day-to-day online services. Additionally, we have recently launched the first fully interactive and real-time customer app in the sector.

Improving customer service will continue to be a key area of focus, and our new management team has identified a range of opportunities to deliver further benefits for our customers.

Leading North West service provider – we are consistently ranked third out of ten leading organisations in the North West, through an independent brand tracker survey which is undertaken quarterly. This covers key attributes such as reputation, trustworthiness and customer service. We are behind only Marks & Spencer and John Lewis, and ahead of seven other major organisations covering utilities, telecoms, media and banking services.

Robust water supply – our customers benefit from our robust water supply and demand balance, along with high levels of water supply reliability. Our overall water quality continues to be good, and although our water quality service index has slightly deteriorated from a very good performance in the prior year, it remains above our historical average and we have plans in place to deliver improved performance going forwards. We have consistently delivered a reliable water service, although we experienced some water no-supply incidents in 2016/17. Whilst this is disappointing, our Systems Thinking approach is helping us to respond to these events and avoid them in future.

Reducing sewer flooding – we have continued to invest heavily in schemes designed to reduce the risk of flooding of our customers' homes, including incidence-based targeting on areas more likely

to experience flooding and defect identification through CCTV sewer surveys. Our plan for the 2015-20 period includes a target of reducing sewer flooding incidents by over 40 per cent, in line with customers' affordability preferences, and we have made a good start. Our wastewater network will continue to benefit from significant investment going forward, as we aim to help mitigate changing weather patterns likely to result from climate change.

Key performance indicators:

Outcome delivery incentives (ODIs) – we have 19 wholesale financial ODIs and, as outlined last year, the risk is skewed to the downside with 10 attracting a penalty only.

Whilst a number of our ODI measures are susceptible to one-off events and, on the whole, our ODI targets get tougher each year, our performance in the first two years of this regulatory period has now delivered a cumulative net reward of £9.2 million, exceeding our initial expectations. This gives us confidence to narrow our target range for the cumulative net ODI outcome over the 2015-20 period to between plus £30 million and minus £50 million.

In 2016/17 we have achieved another net reward of £6.7 million, exceeding our initial expectations and demonstrating the effectiveness of our planned acceleration of capital expenditure in this regulatory period, alongside our Systems Thinking and innovative approach to the way we operate.

We were particularly pleased this year with the significant improvements made against our leakage targets and have continued to perform well against private sewers and pollution incidents. Our sewer flooding ODI remains challenging as the target becomes increasingly tougher as we progress through this regulatory period. This meant that we received a small penalty this year despite having improved our overall performance compared with the prior year. Our main areas of reward came through our good performance in the areas of leakage, private sewers and pollution, with our main penalty being on reliable water service and water quality service.

Service incentive mechanism (SIM) – last year we stated our target was to move towards the upper quartile in the medium-term, and we are particularly pleased with the progress we have made this year, which saw us ending the year as a leading company in our peer group.

Qualitative: Ofwat has undertaken the four surveys for 2016/17 and United Utilities has improved its score to 4.42 points, compared with 4.27 points in 2015/16, putting us in joint 6th position for the year out of the 18 water companies, and joint 3rd position out of the 10 companies providing both water and wastewater services. We ended the year with our highest ever score of 4.56 in wave 4, which placed us in equal 3rd position in this wave, and 2nd position out of those providing both water and wastewater services. In particular, customers scored us highly for our billing and wastewater services.

Quantitative: the quantitative assessment measures customer contacts, and performance is assessed on both an absolute and relative basis. Whilst relative performance can only be assessed in full following the end of each full financial year when the other companies publish their respective results, on absolute performance for 2016/17, our score of 77 points represents a marked improvement on our 2015/16 score of 95 points, and of the 13 companies who share data on quantitative scores for the full year, this placed us in 4th position out of the 13 and 1st of the 8 water and wastewater companies in this data share.

Business insight

Priority Services – giving extra help where it's needed

We recognise that customers, at whatever stage of life they are, may face challenges and need help and support to deal with them. It could be that they've suffered a life event, or have health or financial issues. While we already offered help to customers struggling to pay their bills, we acknowledged that there was more we could do to ensure support was accessible to a wider group of customers perhaps dealing with a broader set of challenges. In response, in May 2016, we launched our special assistance scheme – Priority Services.

Prior to launching the service, we spent valuable time understanding the lessons from similar schemes already operating in the wider marketplace, to make sure we benefited from best practice and external guidance.

Working closely with Age UK, MIND, The Alzheimer's Society and Citizens Advice Bureau, to develop the service, we identified four broad categories, or possible risk factors, of vulnerability:

- › physical – e.g. disability, illness or mental health issues;
- › financial – suffering from financial stress or disadvantaged due to financial circumstances;
- › language – English not first language or those with literacy or numeracy needs; and
- › life events – such as bereavement or job loss.

We appreciate that customers may experience one, or a combination of circumstances, so our Priority Services scheme is designed to understand their particular needs in order to provide the right help.

From the start, we felt this was a proposition which required the personal touch, so customers who register for Priority Services are looked after by a specialist team.

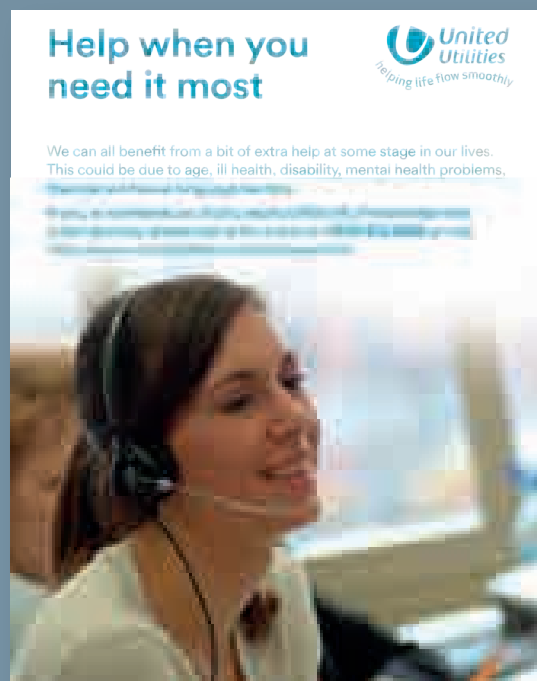
Through Priority Services, we can help customers in a number of ways:

- › allow customers to nominate a carer or family member to discuss their account;
- › 'knock and wait' alert so we know that if we do call at their home, that we need to give them extra time to get to the door;
- › a text relay service;
- › braille, large print, talking bills;
- › a password scheme;
- › translation services;

- › dedicated webchat for those more confident online;
- › help and notification during water and wastewater network issues, such as providing bottled water for those who need it when we have water supply problems;
- › support for dialysis patients;
- › water meter help; and
- › a range of broader financial assistance schemes.

The year ahead will see us launching Priority Ambassadors, equipping our volunteer employees with training and materials to enable them to encourage more sign-ups in their own communities. We are training field-based employees and third party contractors to better spot and support those customers who need extra support.

There are now 30,000 customers registered for Priority Services across the North West.



Watch our short video on priority services at unitedutilities.annualreport2017.com/strategic-report/our-performance-in-201617/operational-performance

Our performance in 2016/17

At the lowest sustainable cost

Power and chemicals – our asset optimisation programme continues to provide the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power assets to generate renewable energy. In addition to the electricity we generate from bioresources, we are developing other renewable energy facilities. This is primarily in the area of solar, where we have invested £45 million in the first two years of the 2015-20 period, contributing towards our expected investment of over £100 million across the five-year period. We have also substantially locked in our power commodity costs across 2015-20, providing greater cost certainty for the regulatory period.

Proactive network management – through our Systems Thinking approach we are more proactive in the management of our assets and networks. We aim to improve our predictive modelling and forecasting through better use of sensors in our network and better analysis of other data, such as weather forecasting, to enable us to address more asset and network problems before they affect customers, thereby reducing the level of reactive work and improving our performance and efficiency.

Debt collection – our region suffers from high levels of income deprivation and we offer wide-ranging schemes to help customers struggling to pay, including our trust fund into which we paid a £5 million contribution in 2016/17. Notwithstanding our industry-leading debt management processes, deprivation remains the principal driver of our higher than average bad debt and cost to serve and we expect this to continue to be a challenging area for us.

Reflecting our ongoing focus on bad debt through our new customer facing management team and the penetration of our affordability schemes, our household bad debt expense has reduced to 2.5 per cent of regulated revenue from 3.0 per cent last year.

Pensions – United Utilities has taken progressive steps to de-risk its pension provision. The group had an IFRS retirement benefit surplus of £248 million as at 31 March 2017, compared with a surplus of £275 million as at 31 March 2016. Further details of the group's pension provision are provided in the pensions section on page 43.

Ongoing formal consultations continue regarding proposed changes to the group's pension schemes.

Capital delivery and regulatory commitments – we are strongly focused on delivering our commitments efficiently and on time, and have a robust commercial capital delivery framework in place. Across the 2015-20 regulatory period, we are working with a single engineering partner and four design and construction partners to deliver our regulatory capital investment programme of c£3.6 billion. We are involving our partners much earlier in project definition and packaging projects by type, geography and timing in order to deliver efficiencies. Projects are allocated on an incentive or competitive basis leading to our partners presenting a range of solutions, innovations and pricing.

We have continued the planned acceleration of our 2015-20 investment programme in order to improve services for customers and deliver early operational and environmental benefits. Regulatory capital investment in 2016/17, including £148 million of infrastructure renewals expenditure, was £804 million, in line with our expectations. This, combined with £799 million invested in 2015/16, brings our total spend to around £1.6 billion of our planned £3.6 billion capital investment across the 2015-20 period.

We are also driving more effective and efficient delivery of our capital programme and applying a tougher measurement mechanism to our Time, Cost and Quality index (TCQi) score for this regulatory period. Despite this tougher approach, our TCQi score remains high at 93 per cent which represents a very good performance, improving from what was already a good performance at 90 per cent in 2015/16.

Key performance indicators:

Financing outperformance – the low cost of debt we have already locked in places United Utilities in a strong position to deliver our target for the 2015-20 period of minimising our cost of debt compared to Ofwat's industry allowed cost.

Total expenditure (totex) performance – although our totex allowance for the 2015-2020 period is challenging, we are implementing a range of initiatives and are confident of meeting our target of delivering our promises to customers within the cumulative 2015-20 wholesale totex final determination allowance. Progress in the first two years has been good and we remain on track to meet the five-year target.

Domestic retail cost to serve – overall, it will be very challenging to meet the regulatory assumptions for domestic retail costs. This is primarily due to Ofwat's price review methodology at PR14 which made no allowance for inflation in the domestic retail business and, in our view, made insufficient allowance for dual service (water and wastewater) companies. The regulatory assumptions for domestic retail costs become progressively tougher as we move through the 2015-20 period. Our target is to minimise our costs compared with Ofwat's revenue allowance and, despite the challenging target, we have delivered a good performance in 2016/17, outperforming this year's revenue allowance by around £14 million.

Business insight

Design for Manufacture and Assembly – a new approach

United Utilities has a significant and challenging capital programme to deliver. Our wholesale operating model/Systems Thinking approach is a radically different way of working and involves investment in a comprehensive set of operating capabilities.

New thinking is not just limited to the way we run our business, it extends to how we design and build our assets, embracing the innovation available from the supply chain.

Traditional on-site manufacturing can be noisy and disruptive for our customers and neighbours and it can be expensive to remove the inherent safety risks with being on busy construction sites. Designing and building off-site in a factory reduces our customer disruption and reduces the on-site safety risk.

One innovation from the supply chain is Design for Manufacture and Assembly (DfMA). DfMA is a new way of thinking about how we design and build new assets. It involves the digital design and prefabrication of a significant proportion of a project off-site. We selected partners that had invested in these techniques and our target is for more than 75 per cent of our projects in AMP6 to employ this approach – aiming to save 10 per cent over traditional costs.

DfMA delivers improvements in safety, quality and maintenance. It eliminates resource waste and reduces on-site build time. We are targeting a total saving of 15,000 man days over this five-year period, and have used DfMA across many areas – from stairways to service reservoirs and from tanks to treatment processes. All have been designed digitally, built in a safer factory environment and delivered and assembled on-site.

DfMA supports product standardisation and we are increasingly using common designs across our asset base, saving duplicated design costs and offering production and maintenance efficiencies. We are developing industry-leading standard products accessible through a digital library for our supply chain partners so we guarantee consistency and standardisation.

Other water companies are using DfMA and we compare favourably to them in our DfMA strategy, ambition and performance. Whilst we are encouraging the use of DfMA on the majority of our projects, our showcase DfMA project is our £200 million modernisation programme at our biggest wastewater treatment works, Davyhulme in Manchester. Here, 35 per cent of the construction project spend is in DfMA – including 4,000 pre-cast panels assembled on site, halving the duration compared to the traditional approach.



Pictured: After constructing the base of the settlement tank at Davyhulme, the pre-cast panels go up in only four days. This has halved the typical site construction schedule.

Our performance in 2016/17

In a responsible manner

Acting responsibly is fundamental to the manner in which we undertake our business, and the group has for many years included corporate responsibility factors in its strategic decision-making. Our environmental and sustainability performance across a broad front has received external recognition. Earlier in the 2016/17 financial year, United Utilities retained its World Class rating in the Dow Jones Sustainability Index for the ninth consecutive year, again achieving industry leading performance status in the multi-utility/water sector. Retaining 'World Class' status for this length of time is a significant achievement, particularly as the assessment standards continue to increase and evolve. In addition, at the Finance for the Future Awards in October 2016, United Utilities won the international Communicating Integrated Thinking award, following on from the PwC 2015 Building Public Trust Awards in which United Utilities was selected as joint winner for Excellence in Reporting in the FTSE 100.

Leakage – we have a strong, year round, operational focus on leakage, alongside our network resilience improvements and the implementation of a range of initiatives, such as active pressure management. This delivered a particularly good performance against our leakage targets in 2016/17, delivering our largest ODI reward in this area.

Environmental performance – this is a high priority for United Utilities and we were encouraged to have been awarded Industry Leading Company status in the Environment Agency's latest performance metrics, as described in the KPIs section below.

Carbon footprint – we are committed to reducing our carbon footprint and increasing our generation of renewable energy. Our carbon footprint has reduced by 22 per cent over the last 10 years. Our renewable energy production in 2016/17 was 149 GWh, representing 18 per cent of our electricity consumption in the year. This represents good progress over the last few years, up from 13 per cent in 2012/13, and we are implementing plans to significantly increase self-generation over the next few years.

Employees – we continue to work hard to engage all of our employees in the transformation of the group's performance. Employee engagement was high at 89 per cent this year, broadly in line with last year on a normalised basis as we amended the question structure slightly. We remain focused on maintaining high levels of employee engagement.

We have been successful in attracting and retaining people and have continued to expand our apprentice and graduate programmes for 2016/17. We now have a total of 64 graduates and 119 apprentices across the business. Our investment in recruiting graduates and apprentices is already benefiting the company, with 122 of them now having secured permanent roles across our business.

Over the last year, we have continued our sustained focus on health, safety and wellbeing. In this period we retained our Gold award status with the Royal Society for the Prevention of Accidents as well as the top place ranking on the Dow Jones Sustainability Index. Following a four-day audit, we were also awarded the UK Workplace Wellbeing Charter. Our contractor accident frequency rate is at its lowest ever at 0.087 accidents per 100,000 hours. For the same period, our

employee accident frequency rate has increased to 0.196 accidents per 100,000 hours, compared with a rate of 0.104 in 2015/16. We recognise that we still have more to do, and health and safety will continue to be a significant area of focus as we strive for continuous improvement.

Communities – we continue to support partnerships, both financially and in terms of employee time through volunteering, with other organisations across the North West. Our Catchment Wise programme helps to tackle water quality issues in lakes, rivers and coastal waters across the North West, and our Beachcare employee volunteering scheme helps to keep our region's beaches tidy. We continue to support local communities, through contributions and schemes such as providing debt advisory services and our Community Fund, offering grants to local groups impacted by our capital investment programme.



Pictured: Employee volunteering, such as helping with local clean-ups, is an important part of how we support our communities.

Key performance indicators:

Leakage – although leakage is included within our outcome delivery incentives, we intend to continue publishing our leakage position separately, with it being an important measure from a corporate responsibility perspective. We delivered an excellent performance in 2016/17 and have again met our regulatory leakage target of 463 megalitres per day.

Environmental performance – on the Environment Agency's latest annual assessment, published in July 2016, we were awarded Industry Leading Company status across the range of operational metrics. This indicates we were in second position amongst the ten water and sewerage companies and aligns with our medium-term goal of being a first quartile company on a consistent basis.

Corporate responsibility – United Utilities has a strong focus on operating in a responsible manner and is the only UK water company to have a World Class rating as measured by the Dow Jones Sustainability Index. In 2016/17, United Utilities retained its World Class rating for the ninth consecutive year.

Business insight

Adapting to climate change

The water sector is one of the most impacted by climate change and this presents both risks and opportunities in the short, medium and long-term.

Consequently, it features predominantly in our strategic thinking and plans. Its impacts, whether relating to water resources or flooding, are considered carefully by the board as highlighted in the corporate governance report, on pages 82 to 84, and management teams as highlighted in the planning section on pages 26 to 29.

Throughout this report, we comment on what climate change means to us and how we are responding. We have a well-established framework for risk management – climate change is one of many risks to our business so it is managed in the same way as any other; see pages 46 to 49 for our risk management approach. Comprehensive details can be found in our annual disclosure to the CDP and our 2015 adaptation report to government where we disclose our climate-related risks and management plans. Both of these can be found at: unitedutilities.com/corporate

Predicted changes to rainfall patterns affecting water quantity and increasing flooding risk from sewers are factored into our strategic planning processes.

Our 25-year water resource management planning takes into account the latest climate change models, including those which contain scenarios for 2°C of global warming. This process means we invest appropriately to ensure the resilience of water supplies, balancing customer demand with the environmental impact of abstraction. And, for times of rainfall shortage, we have a comprehensive drought plan.

To manage situations of too much water, we've changed the operation of some reservoirs to store increased volumes of rainfall. We are also piloting predictive ways to manage our wastewater network as highlighted on page 30. When severe rainfall events are predicted, our aim is to proactively reconfigure

asset operation to handle the additional volume of water, either eliminating or reducing the impact to our customers and assets.

We continue to focus on climate change mitigation, targeting an emissions reduction of 50 per cent by 2020 from a 2006 baseline. Our self-generation of renewable energy is now at 18 per cent with a target to increase this to 35 per cent by 2020, subject to good projected returns. This enhances security of energy supply, provides a new income stream and reduces energy bills.

Efforts continue to reduce our overall energy consumption given c70 per cent of carbon emissions come from electricity used, primarily to power treatment works, where a further 20 per cent of emissions arise from treatment processes. More information can be found within our Carbon section on page 111. In addition, we have embraced innovative practices such as dynamic demand, being the first water company to sign up for National Grid's system to switch equipment off and on in response to changes in electricity supply and demand nationwide, receiving payment for doing so.

The response to climate change is a shared problem requiring shared solutions. That is why, for example, we founded Business in the Community's Water Taskforce, using an existing business network to encourage organisations to take action to address the water management challenges of too much, too little and water of the right quality. For more information on the Taskforce visit bitc.org.uk

Each year, we report performance against a set of climate change metrics covering carbon targets, water supply security and flooding. These can be found in this report and on our corporate responsibility webpages. Our belief is that in reporting what we are doing to address both climate change mitigation and adaptation, and by sharing our progress, we can encourage others to work with us to act responsibly and take action.



Details of our 25-year water resource plan and corporate responsibility can be found at corporate.unitedutilities.com/corporate-responsibility

Pictured: Flooding at our water treatment works in Keswick following Storm Desmond.

