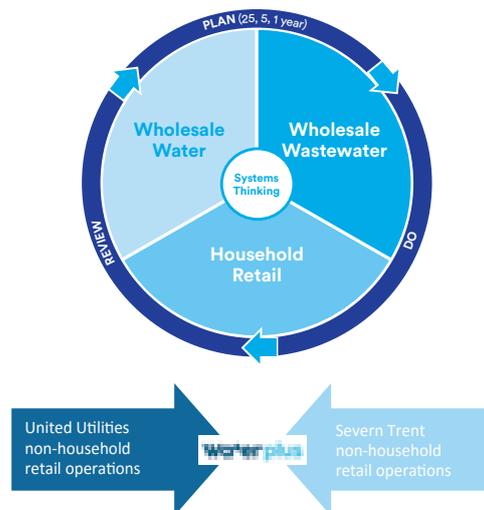


Our business model

Planning – key milestones



Planning cycles

We have structured our business in line with Ofwat's four distinct price control areas:

- › Wholesale water;
- › Wholesale wastewater;
- › Household retail; and
- › Non-household retail.

The non-household retail area is now subsumed within our joint venture with Severn Trent, Water Plus. While we can influence it, we cannot control it. It is not part of our consolidated group, therefore it does not form part of our group's business model.

The three business areas within our business model (wholesale water, wholesale wastewater, and household retail) undertake both long-term and shorter term planning to identify how they can best deliver their outcomes. We adopt an integrated approach, which considers a whole range of stakeholders including customers, investors, the environment, our employees and local communities. These plans take into account the internal and external factors described on pages 18 to 24. Underpinning our approach to planning, we undertake a cycle of continuous assessment using KPIs, and other performance measures, which helps us formulate our future improvement plans for our various stakeholders.

Wholesale business areas

All of the group's RCV, of just over £10 billion, sits within the wholesale water and wholesale wastewater business areas, and we are allowed to earn an annual return on this asset base on the basis of an industry-allowed cost of debt and equity set by Ofwat. Allowed costs for both of these wholesale price controls are determined by Ofwat using its totex cost assessment models. Our cost performance against our allowed cost of debt and totex will determine how much outperformance or underperformance we generate.

Retail business areas

Allowed costs within the household retail price control are determined using a water industry average cost to serve approach, rewarding companies who are able to achieve costs below the industry average. The opening of full competition in the non-household retail price control from 1 April 2017 provides a strong incentive for water companies to deliver efficiencies and service improvements in that area.

Planning 25 years+

We provide an essential service and in order to maintain a reliable, high quality water service for our customers, we have to look a long way ahead, to anticipate and plan for the changes and core issues that are likely to impact on our activities. Our long-term strategy then helps us to define what we need to deliver over the shorter term, which in turn helps to create value.

Over the next 25 years, we will face many challenges and opportunities including:

- › climate change and its implications for water resources and flooding;
- › the emergence of a more open, competitive UK water market;
- › more rigorous environmental regulations;
- › population growth;
- › the implications of the UK's exit from the European Union; and
- › combining affordable bills with a modern, responsive service.

By anticipating and planning ahead, we can ensure that we continue to deliver what customers want at a fair price and in a responsible way, in line with our three strategic themes.

Our Strategic Direction Statement, 'Playing our part to support the North West', sets out our long-term strategy for the next 25 years, examining the challenges ahead and how we will focus our resources and talents in order to meet them.

We consulted with thousands of customers and other stakeholders to ensure their expectations are reflected in our plans.

Our 25-year Water Resource Management Plan sets out the investment needed to ensure we have sufficient water to continue supplying our customers, taking into account the potential impact of climate change.

Some of the key ways we create value over the long-term are by:

- › investing in our people to ensure a committed, capable and motivated workforce delivering high performance;
- › close collaboration with suppliers and disciplined investment, based on a sustainable whole-life cost modelling;
- › efficiently implementing a robust and appropriate mix of debt and equity financing;
- › embracing innovation to make our future services better, faster or cheaper;
- › long-term planning and management of water resources – 25-year Water Resource Management Plan;
- › responding to climate change; and
- › sustainable catchment management.



Read more online at corporate.unitedutilities.com/future

Business insight

Supporting Defra's approach to the natural environment

Defra has established 'Pioneer' projects to explore, test and trial aspects of its approach to making the country the healthiest and most beautiful place to live, work and bring up a family, not just for today but for generations to come. The aim is that we will be the first generation to leave the natural environment of England in a better state than we found it. The Pioneer projects will:

- › test new tools and methods that apply a natural capital approach in practice;
- › demonstrate a joined-up integrated approach to delivery;
- › pioneer and 'scale-up' the use of new funding opportunities; and
- › grow our understanding of 'what works', sharing lessons and best practice.

These four 'asks' form the basis of the Pioneers and each will seek to apply them within their respective environments (urban, catchment, marine and landscape). It is a principle of the Pioneers that they will need to be flexible and adaptable, trying new and innovative thinking and approaches and share the learning widely with others as they progress.

It is also a principle that the ways of working developed as part of the Pioneers utilise existing resources or secure new funding

sources to deliver environmental outcomes. The aim is that others can then replicate what is achieved.

We are actively supporting the two Pioneers that are just starting out in the North West. The urban Pioneer is set in the Greater Manchester City Region and the catchment Pioneer is being piloted in Cumbria. We will be contributing resources to both groups, as water is a key element of the natural environment, and the intent of the Pioneers supports our customer promise of protecting and enhancing the environment.

The purpose of the Cumbria Pioneer is to build on the work that has already been completed in the county, working together with partners and communities to share knowledge, learn lessons and encourage innovative ways of improving and investing in the environment.

The purpose of the Urban Pioneer is to make a clear and evident contribution to Greater Manchester's natural environment, engaging and connecting people with nature in their city, maximising their health and economic benefits through investment in the environment, creating sustainable growth and a good quality of life. It will support communities and decision-makers across Greater Manchester as they work to improve the environment, focusing on the local challenges and situations.

Our business model

Planning 5 years

Each five-year regulatory period is designed to help us achieve our long-term vision.

By submitting a robust, balanced plan to Ofwat, prior to the start of each five-year regulatory period, we can help ensure we receive a regulatory contract that allows for the best overall outcomes for our customers, shareholders and the environment.

Once each five-year regulatory contract is set, we create value principally by delivering, or outperforming, that contract by providing **the best service to customers, at the lowest sustainable cost, in a responsible manner.**

Our five-year plan for 2010-15 focused on improving customer satisfaction, meeting our statutory obligations and delivering shareholder value. We delivered on each of these, providing us with a strong platform to deliver further in 2015-20.

For the current 2015-20 regulatory period, some of the key ways in which we are aiming to create value are:

Improve customer service – improving efficiency and reducing costs, as well as improving our SIM performance to increase rewards / reduce penalties from Ofwat.

Enhance our debt collection activities – reducing retail costs, whilst providing the best support for customers struggling to pay.

Minimise total costs on a sustainable basis – for example, power, materials and property rates, which will help us to meet or outperform our allowed totex costs.

Raise low-cost finance – helping us to outperform our allowed finance costs, which is our main area of outperformance potential in this period.

Deliver our operational and regulatory commitments – helping to ensure we achieve high levels of customer service and meet environmental standards as well as improving our ODI performance to increase rewards / reduce penalties from Ofwat, in areas such as reliably delivered high-quality water, and reducing pollution and sewer flooding incidents.

Implement our hedging strategies – fixing medium-term interest rates and power costs helps us to meet our allowance by reducing the volatility of these costs.

Increase our production of renewable energy from waste – protecting us from rising energy costs and reducing our carbon footprint.

Maintain a robust supply/demand balance – providing water resource and customer supply benefits, as well as avoiding any penalties or unfunded expenditure requirements from our regulators.

Supporting this value generation, each of our business areas has plans over 2015-20 to deliver as follows:

Wholesale water

Maintain existing high levels of reliability in the delivery of day-to-day water services, making better use of technology to monitor remotely and control more of our source-to-tap assets.

Maintain existing high levels of water quality as measured at customers' taps and our water treatment works.

Reduce the number of contacts from customers regarding water quality.

Maintain leakage at or below the sustainable economic level.

Limit the impact on customers of increases in operating costs, such as chemicals and rates, by making cost savings elsewhere through continuous improvement in the efficiency of our operations.

Commence work to link 150,000 customers in West Cumbria to Thirlmere reservoir to ensure a long-term, reliable supply of drinking water and to support the sensitive ecology in that area.

Wholesale wastewater

Build on the customer satisfaction improvements we have already delivered. Continue to improve the way we operate, making better use of technology, automation and control to drive better customer service at reduced cost.

Reduce the number of our customers' properties exposed to sewer flooding by over 40 per cent, seeking opportunities to work in partnership with others to deliver schemes cost-effectively and promote the use of more sustainable drainage systems.

Improve the region's bathing waters to meet tougher regulatory standards, and work with other organisations to support them in delivering improvements to our region's beaches.

Improve water quality in the North West's rivers and lakes through investment in our treatment works and at overflows, reducing pollution. We are engaging with stakeholders to explore innovative catchment management techniques to control diffuse pollution in our catchments.

Increase our production of renewable energy from waste to help protect customers from rising energy costs and reduce our carbon footprint.

Constrain costs associated with taking responsibility for all private sewers and private pumping stations across the region, through improvements to our operating model and efficient delivery of our programme.

Household retail

Continue to improve the customer experience by being more proactive with customers, anticipating problems before they materialise and improving our communication channels so that we are easier to do business with.

Reduce further the number of customer complaints and resolve them whenever we can, avoiding the need for complaints to be referred to the Consumer Council for Water.

Reduce the debt burden on the company and its customers by engaging with those who are struggling to pay, helping them return to sustained payment behaviour. We are extending our options for assistance to hard-pressed customers, including the social tariff, and we remain committed to contributing to the United Utilities Trust Fund, which has proven effective in helping customers in difficulty return to regular payment.

Reduce the cost to serve our customers through systems and process improvements. This is particularly important under the new price control methodology which uses an industry average retail cost to serve to determine part of customer bills.

Planning 1 year

Each financial year, we develop a business plan which is approved by the board. This sets our annual targets which are designed to help deliver further improvements and move us towards achievement of our five-year goals.

Our business plan covers a broad range of measures across the three strategic themes: **The best service to customers**, at the lowest sustainable cost, in a responsible manner.

Performance monitoring

Senior management has quarterly business review meetings with the executive directors to monitor and assess our performance against these measures, helping to ensure that we are on track to deliver our targets.

Performance measurement

At the end of every financial year, our performance is assessed against these measures and this determines employees' annual bonuses right through the organisation. As well as annual targets, our directors are assessed against three-year performance, covering total shareholder return, sustainable dividends and customer service, through long-term incentive plans.

Details of the 2016/17 annual bonus and vested long-term incentive plans for our executive directors are shown on pages 99 to 101 respectively within the remuneration report.

 Read more about [KPIs](#) on pages 31 to 33

The diagram below shows how our strategic themes flow through each planning cycle and help us work towards our vision.

