

How we're creating long-term sustainable value

Our EU Taxonomy disclosure

We have undertaken our first voluntary assessment this year of how we align with the EU green taxonomy.

The EU Taxonomy provides a common language and framework for assessing whether an economic activity is environmentally sustainable. Its aim is to prevent greenwashing and help investors make informed sustainable investment decisions in order to direct investments to the economic activities most needed to meet the EU's climate and energy targets for 2030 and the objectives of the European green deal. The taxonomy sets out a list of activities, with detailed criteria that must be met in order to demonstrate alignment. Undertaking an assessment involves three key steps – eligibility assessment, alignment assessment, and financial mapping – as set out below.

Eligibility

We first undertook a review of the more than 150 activities to ascertain which of these we carry out through our activities. The results of this are set out on page 101.

Alignment

Substantial contribution

Companies must demonstrate that the way they deliver an activity makes a substantial contribution to at least one of the six environmental objectives set out below.

Do no significant harm

Alignment requires that making a substantial contribution to one of the environmental objectives is not being achieved at the expense of another of them.

Minimum safeguards

The company must also meet certain social and environmental safeguards, with due diligence processes to cover topics like human rights and anti-bribery.

Financial mapping

The result of the assessment must be reported in terms of three financial KPIs – turnover, opex and capex – with specific definitions of each KPI set out by the taxonomy. We map our financial data to each activity and adjust to align with the taxonomy definitions. Our results are presented on page 103.

Our activities are naturally linked to sustainability, so the environmental objectives are things that we have been contributing towards for some time and continue to focus on.

Climate change mitigation

Focused on reducing greenhouse gas emissions to limit the contribution to global warming.

We were the first (and only) UK water company to have approved science-based targets for the near term, long term and net zero. Our comprehensive TCFD disclosures set out our transition plan to net zero by 2050. We generate renewable energy, and have six ambitious climate pledges, including extensive peatland restoration, woodland creation, and our transition to a green fleet.

Climate change adaptation

Focused on adapting to the unavoidable impacts of climate change, such as rising sea levels and extreme weather events.

As a water and wastewater provider we must constantly adapt to extremes of weather, managing periods of heavy rainfall, prolonged dry periods, and freeze-thaw events. We have long-term plans for managing water resources, drought, and drainage and wastewater. Our AMP8 plan includes investment that will improve our resilience further to these extreme events.

Pollution prevention and control

Focused on preventing and controlling various forms of pollution, including air, water, and soil pollution.

We are sector leading on minimising pollution, and the only UK company to be rated 'green' against serious pollution incidents every year in the EA's environmental performance assessment. We have ambitious targets to reduce pollution incidents further in AMP8, targeting zero serious pollution incidents in every year.

Sustainable use and protection of water and marine resources

Promoting the efficient and sustainable use of water resources, protecting water quality and marine ecosystems.

As shown on pages 18 to 19, we operate across the entire water cycle and rely on water bodies for our core activities, so protecting their sustainability is crucial. We protect the quality of water through management of catchment land, treatment of wastewater, and our significant activity to reduce spills from storm overflows. We are also focused on conserving water through leakage reduction and helping customers to reduce consumption.

Protection and restoration of biodiversity and ecosystems

Aiming to protect and restore biodiversity and ecosystems, including forests, wetlands, and marine habitats.

As set out on page 43, we are committed to protecting and improving biodiversity, and AMP8 final determinations include a specific performance commitment recognising how important this is in our work. The North West includes significant areas of SSSI land and areas of outstanding natural beauty, and our sustainable land management approach, as well as our woodland creation activity, deliver biodiversity benefits.

Transition to a circular economy

Encouraging the reuse, recycling, and recovery of resources to minimise waste and resource depletion.

We are committed to minimising waste from our activities. This includes our treatment of sewage sludge – a by-product from wastewater treatment activity – from which we create clean, renewable energy from biogas and recycle the residual biosolids to create a high quality fertiliser for use in agriculture. More than 98 per cent of our waste goes to beneficial use.

Eligible activities

Given the nature of our core activities, it is not surprising that we are eligible for a large number of the activities set out in the taxonomy. Some activities are quite broad, while others are relatively narrow and specific. We have chosen to focus on the activities that best align with our core day-to-day services but, where other activities are met through what we do, we disclose these as well.

Water supply

Core activity: Construction, extension and operation of water collection, treatment and supply systems. This core activity covers our provision of water services to customers from the point of abstraction, through treatment, and up to the point of supply.

There is another activity - 'Water supply' - that overlaps with this and covers the same end-to-end process, where the focus is on substantial contribution to the sustainable use and protection of water and marine resources. Given that compulsory metering is not legally permitted in our region, we felt the objectives behind our core activity were better suited than the 'Water supply' activity.

There are also a number of narrower and more specific activities that would be eligible, were they not already covered by the end-to-end process of our core activity. This includes:

- 'Manufacture, installation and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems'
- 'Renewal of water collection, treatment and supply systems'
- 'Use of concrete in civil engineering'

➤ Read more about **how we manage water resources and supply to customers** in our water cycle on pages 18 to 19

Wastewater treatment

Core activity: Urban wastewater treatment. This core activity covers our provision of wastewater services to customers from the point of collection, through treatment, storm water management, and up to the point of discharge of final effluent.

There is another activity - 'Construction, extension and operation of wastewater collection and treatment' - that overlaps with this and covers the same end-to-end process, where the focus is on climate mitigation and adaptation. We felt that the focus of our core activity on the sustainable use and protection of water and marine resources was better suited, given the heavy focus on protecting environmental water quality.

There are also a number of narrower and more specific activities that would be eligible, were they not already covered by the end-to-end process of our core activity. This includes:

- 'Flood risk prevention and protection infrastructure'
- 'Phosphorus recovery from wastewater'
- 'Renewal of wastewater collection and treatment'
- 'Nature-based solutions for flood and drought risk prevention and protection'
- 'Use of concrete in civil engineering'

➤ Read more about **how we manage wastewater treatment** in our water cycle on page 19

Sustainable drainage systems (SuDS)

Core activity: 'Sustainable urban drainage systems (SuDS)'.

Our sustainable drainage projects would also be eligible under the broader 'Nature-based solutions for flood and drought risk prevention and protection' activity, but we have focused on the more specific core activity.

With a changing climate we are seeing increasing periods of intense heavy rainfall, and we have particularly high rainfall in urban areas. We are also preparing for a continually growing population, and planning and investing to reduce spills from storm overflows and flood risk. The impact of these changes, with our largely combined sewer network, means that we will continue to see more and more wastewater and surface water runoff entering our sewers unless we find other ways to cope with rainwater. Sustainable drainage is an effective and environmentally beneficial way to ease the strain on combined sewers and better manage rainfall, and this is part of our long-term rainwater management strategy.

➤ Read more about **our rainwater management activities and use of sustainable drainage** in our TNFD disclosures on pages 41 to 49

Bioresources

Core activities: 'Anaerobic digestion of sewage sludge' and 'Electricity generation from bioenergy'.

The sludge by-product from the wastewater separation and treatment process is transported to our bioresources facilities.

These two core activities cover the main treatment process using anaerobic digestion to produce biogas, and the subsequent use of biogas to generate clean, renewable electricity.

➤ Read more about **how we use bioresources to generate renewable green energy** in our water cycle on page 18

Woodland creation and peatland restoration

Core activities for woodland creation: Identified as 'Afforestation' and 'Forest management'.

In addition, our woodland activities would be eligible for other activities, including:

- 'Conservation forestry'
- 'Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event'

Core activities for peatland restoration: Identified as 'Restoration of wetlands' or 'Conservation, including restoration, of habitats, ecosystems and species'.

➤ Read more about **our progress against woodland and peatland pledges** on page 74

Property management and fleet

Core activity for property: 'Acquisition and ownership of buildings'. In addition, in certain years we will be eligible under 'Construction of new buildings' and 'Renovation of existing buildings'.

While the majority of our properties relate to core water and wastewater activities, we do have some outside of these, including head offices.

Core activity for fleet: 'Transport by motorbikes, passenger cars and light commercial vehicles'. However, our fleet is primarily used in our core water and wastewater activities and therefore we have not chosen to strip this out for alignment purposes, but note that this is also an eligible activity.

Non-eligible activities

We have a small amount of non-eligible business activities, such as our retail services for customers. These are not covered within the list of activities for EU taxonomy purposes as they do not meet the specific environmental objectives of the European Green Deal, but we still undertake them through the lens of our commitment to sustainability. For instance, our community investment and the industry-leading affordability and vulnerability support that we provide through our household retail activities both contribute to the social element of ESG.

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Assessment of alignment

Our assessment is the result of a collaborative process between the finance team and numerous other subject matter experts in the relevant functions right across the business.

The EU Taxonomy has detailed requirements and technical screening criteria that must be met to establish alignment. In order to improve the robustness, governance, and efficiency around our assessment we utilised specialised analysis software and expert support and advice from Celsia, part of ISS-Corporate.

This enabled us to assess and demonstrate that we met the minimum safeguards and identify where we were satisfying the criteria for making a substantial contribution, and/or doing no significant harm, for the relevant environmental objectives in relation to each eligible activity.

Initial focus

Our primary focus for this first assessment has been on our water and wastewater activities, which make up the majority of what we do. In doing so, we also separated out our sustainable urban drainage systems from wastewater and assessed these independently for alignment.

As set out on the previous page, we first identified the most suitable core activities, as defined by the EU Taxonomy, for each of these. We then undertook detailed analysis of the technical screening criteria to establish whether we met the requirements for alignment. We were pleased to see that for each of these core activities we did successfully meet the alignment criteria.

In future assessments, we will look to undertake further analysis of the technical screening criteria for activities within bioresources, woodland creation and management, peatland restoration, property and fleet.

While smaller in terms of proportionate contribution to the three KPIs, these are important areas of our business that improve environmental sustainability. In particular:

- Our woodland creation and peatland restoration both deliver important benefits for biodiversity, carbon sequestration and natural flood management, as well as protecting water quality impacted by runoff from this land.
- Our bioresources activities help to ensure our waste is going to beneficial use as well as generating clean, renewable energy.
- Our transition to a green fleet, including our recent addition of four electric HGVs, is an important step towards reducing our emissions and contributing towards climate change mitigation.

Mapping of financial data

We have mapped financial data to the individual activities using existing systems.

The majority of our activities sit within our regulated entity, United Utilities Water Limited (UUW), for whom we are required to report to the regulator, Ofwat, under price controls. These are closely aligned to EU Taxonomy activities – for instance, the water price controls cover the construction, extension and operation of water collection, treatment and supply systems – and therefore form the initial basis of our financial data mapping.

There are instances where we have split financial data further than the price controls to enable reporting with additional granularity, for instance separating out SuDS from within the wastewater price control, and stripping out woodland activity that was in part included under the water price controls.

Regulatory reporting guidelines differ from IFRS, so we made the relevant adjustments between regulatory and statutory accounting standards, and also adjusted to include other activities that sit outside of UUW, to arrive at IFRS reported financial data at the group level, apportioned out between EU taxonomy eligible activities and other activities not eligible under EU Taxonomy.

We then made further adjustments to reflect any differences between the definitions of the KPIs reported under EU Taxonomy and IFRS reporting definitions. The general EU Taxonomy definitions, and core differences with our IFRS-reported equivalents, are set out here.

Turnover

Net turnover is defined by EU Taxonomy as the amounts derived from the sale of products and the provision of services after deducting sales rebates and taxes, such as VAT, that are directly linked to turnover. Governmental grants should be excluded, as they are not recognised as revenue under IAS1 paragraph 82(a). Any grants and contributions we receive are not included in revenue, so turnover for EU Taxonomy purposes does not differ from revenue reported under IFRS.

Capital expenditure (capex)

Capex is defined by EU Taxonomy as the total additions to tangible and intangible assets during the financial year considered before depreciation, amortisation and any re-measurements. It excludes the additions resulting from revaluations and impairments, and fair value changes.

The taxonomy capex definition refers to costs that are accounted based on IAS16 'Property, plant and equipment', IAS38 'Intangible assets', IAS40 'Investment property', IAS41 'Agriculture', and IFRS16 'Leases'. We include depreciation and amortisation as opex, therefore capex for EU Taxonomy purposes does not differ from capex additions reported under IFRS.

Operating expenditure (opex)

Opex aims to capture non-capitalised costs that relate to investments in assets and processes. It is defined by EU Taxonomy as non-capitalised costs related to research and development, building renovation measures, short-term leases, maintenance and repair costs, and other direct expenditure related to the company's strategy for maintaining or improving environmental performance and resilience in respect of each activity.

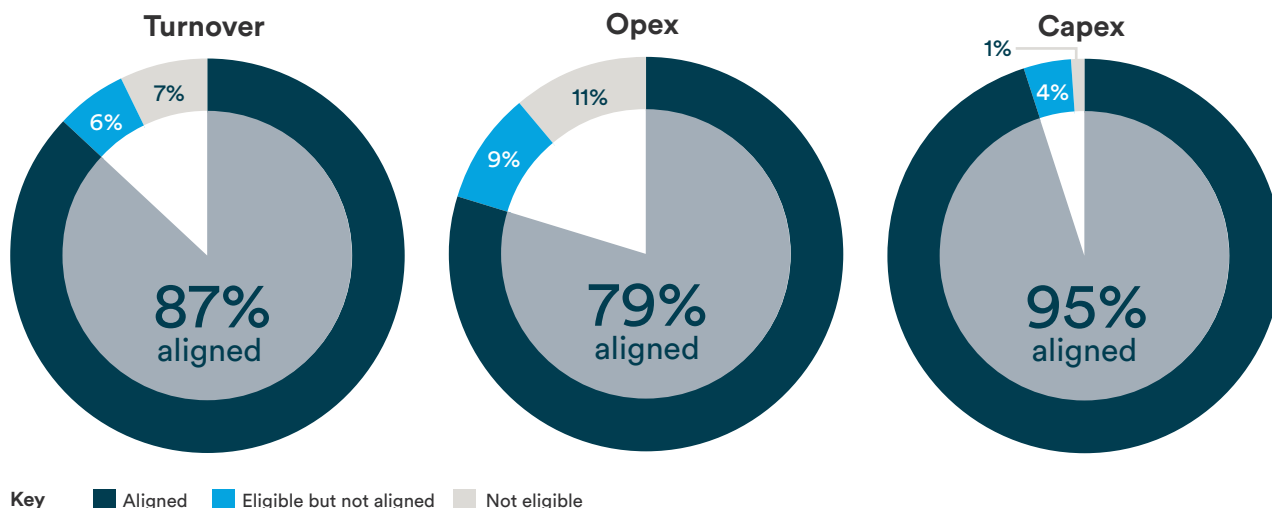
This is the measure that diverges most from IFRS, and we have made a number of adjustments to meet the taxonomy definition of opex.

For example overheads are excluded, as these are not directly attributable to the activities, and we have stripped out depreciation and amortisation.

Reagents such as the chemicals used in water and wastewater treatment, and the electricity used to operate PPE, are also stripped out on the basis that these are direct costs of production and therefore must be excluded under EU Taxonomy to avoid double counting with turnover.

Outcome of our assessment

We are pleased to see that the inherent sustainability of our activities, and our commitment to protecting and enhancing the natural environment, is reflected with a high level of eligibility and alignment under the EU Taxonomy, as shown in the charts below.



Activities	Turnover		Opex		Capex	
	£m	%	£m	%	£m	%
Construction, extension and operation of water collection, treatment and supply systems	887	41%	313	45%	449	35%
Urban wastewater treatment	976	46%	238	34%	764	60%
Sustainable urban drainage systems (SuDS)	1	0%	–	–	6	0%
Total eligible and aligned under EU Taxonomy	1,864	87%	552	79%	1,219	95%
Other eligible activities	135	6%	64	9%	56	4%
Total eligible under EU Taxonomy	1,999	93%	616	89%	1,275	99%
Not eligible under EU Taxonomy	146	7%	80	11%	5	1%
Total⁽¹⁾	2,145	100%	696	100%	1,280	100%

⁽¹⁾ The total opex differs significantly to the equivalent figure calculated under IFRS as a result of the differences in the EU taxonomy definition.



Looking ahead

This was the first year of voluntary assessment against the EU Taxonomy criteria, and as mentioned we have focused primarily on our core water and wastewater activities.

As we move forward, we will continue to refine our assessment further to improve the granularity and further examine the criteria for our other eligible activities.

If and when a UK Taxonomy is published, we will also seek to incorporate this into our assessment.

As mentioned on page 08, we are entering a higher growth phase and will see significantly higher investment levels, with AMP8 capex more than doubling compared with AMP7. This means that our alignment under EU Taxonomy is expected to increase significantly in absolute levels in the next five-year period and beyond.

With a significant proportion of the increase in investment being required to address new environmental improvement drivers, and more nature-based solutions being used in AMP8 than ever before, we would also expect that our proportional alignment would remain very high as we continue to work towards a stronger, greener and healthier North West.