

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	Do no significant harm	Minimum safeguards
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.	Alignment requires that making a substantial contribution to one of the environmental objectives is not being achieved at the expense of another of them.	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.