

How we're creating long-term sustainable value



Our EU Taxonomy disclosure

Our corporate level EU Taxonomy disclosures show how much of our revenue, capex and opex is eligible or aligned with sustainable outcomes.

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.

Eligible activities

Given the nature of our core activities, 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

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.

Wastewater treatment

Urban wastewater treatment. This 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.

Bioresources

Core activities: 'Anaerobic digestion of sewage sludge', breaking down organic matter from wastewater treatment and generating renewable energy.

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.

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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 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.

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 (UW), 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.

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 UW, 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 (revenue)

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. Turnover for EU Taxonomy purposes aligns to 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: additions resulting from revaluations, 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 aligns to 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. We have made a number of adjustments from IFRS 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 assets, 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.

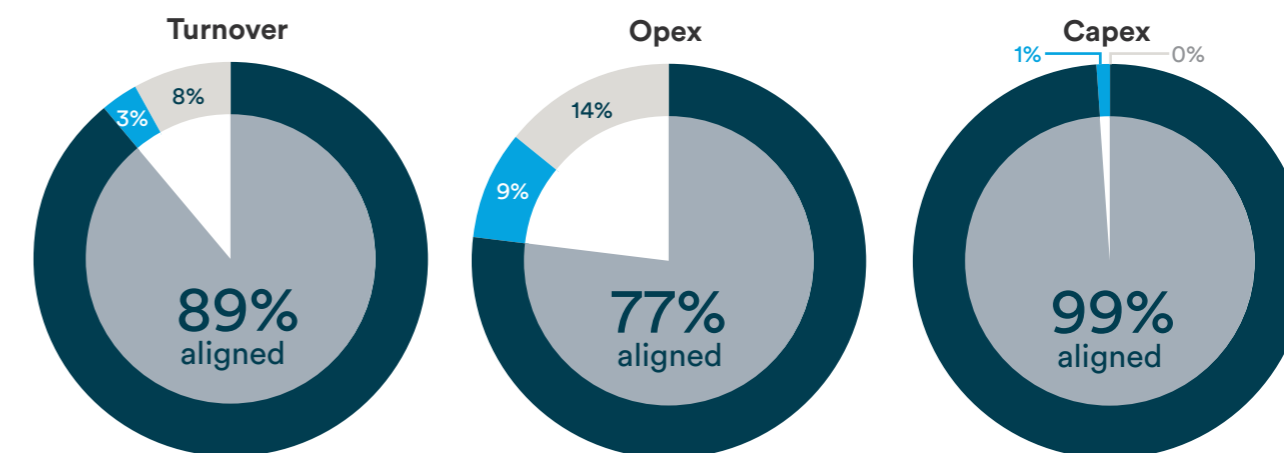
Outcome of our assessment

The overall profile of allocations continues to be driven primarily by year-on-year movements in revenue, opex and capex across the 'aligned', 'eligible', and 'not eligible' categories. In preparing this year's assessment, we have also applied updated guidance on materiality to exclude items below the 10% threshold, including SuDS, Peatland and Woodland.

Compared with the prior year, one notable development is the ability to evidence that activities relating to the anaerobic digestion of sewage sludge meet the criteria for alignment with the EU Taxonomy. As a result, turnover, opex and capex associated with these activities is now classified as 'aligned', contributing to a higher proportions falling within this category.

The proportion of 'aligned' opex has decreased marginally compared with the previous year. This reflects increased operating expenditure associated with scaling up the AMP8 capital programme, including higher staff costs. In addition, there has been an increase in the proportion of opex classified as 'not eligible'. This is primarily due to more granular treatment of a regulatory accounting to IFRS adjustment relating to the removal of bad debt. In the current year, this adjustment has been allocated across water, wastewater and bioresources, providing a more accurate reflection of its impact.

There has been a slight increase in the proportion of 'aligned' capex. This reflects the significant growth in investment across core water and wastewater activities, driven by the company's transformational AMP8 capital programme.



Key: ■ Aligned ■ Eligible but not aligned ■ Not eligible

Activities	Turnover		Opex		Capex	
	£m	%	£m	%	£m	%
Construction, extension and operation of water collection, treatment and supply systems	1,053	40%	264	41%	596	35%
Urban wastewater treatment	1,197	46%	188	29%	1,013	59%
Anaerobic digestion of sewage sludge	82	3%	45	7%	92	5%
Total eligible and aligned under EU Taxonomy	2,332	89%	498	77%	1,701	99%
Other eligible activities	83	3%	60	9%	24	1%
Total eligible under EU Taxonomy	2,415	92%	558	86%	1,725	100%
Not eligible under EU Taxonomy	201	8%	93	14%	2	0%
Total⁽¹⁾	2,616	100%	651	100%	1,727	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.