

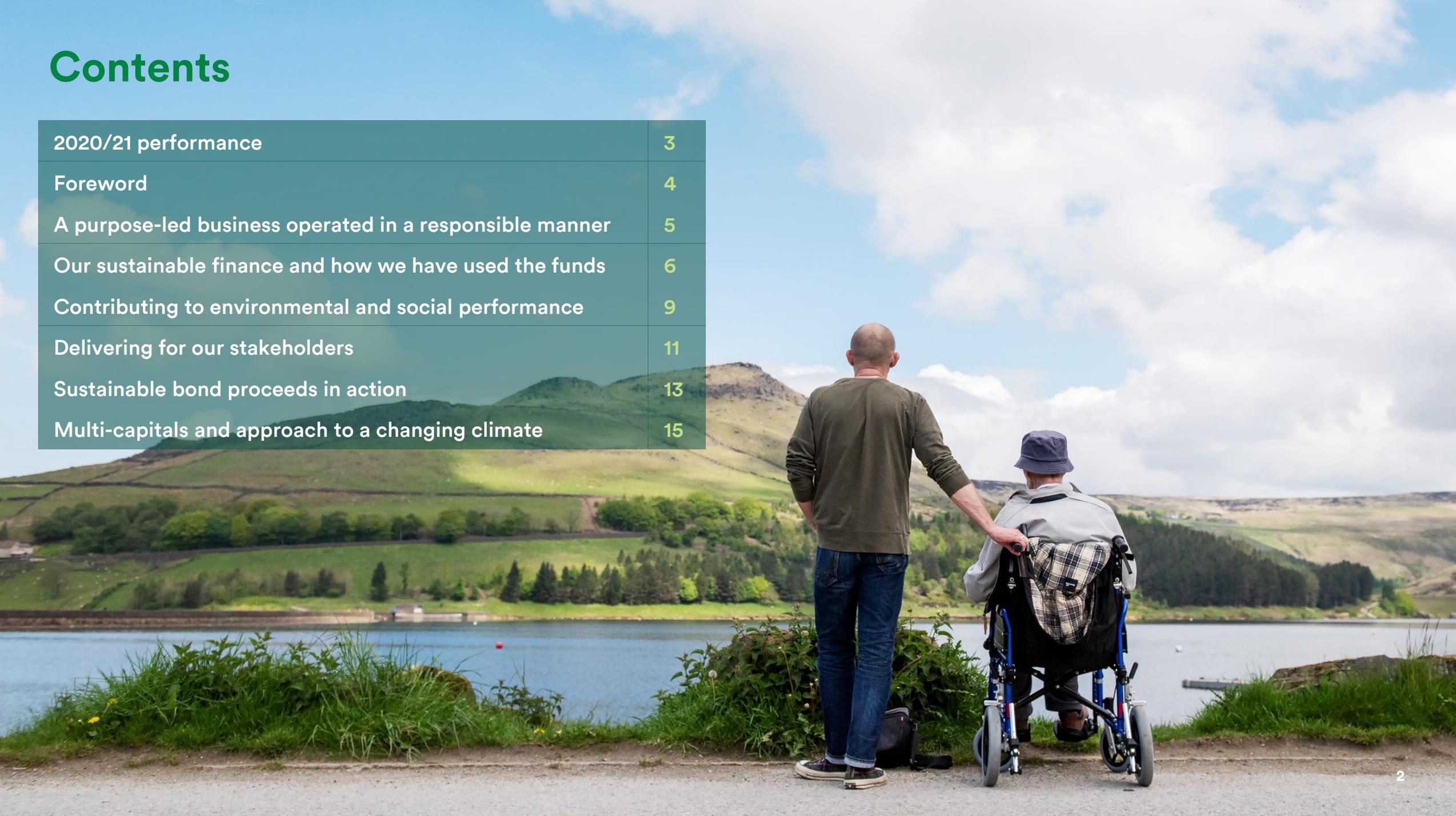
Sustainable Finance Framework

Allocation and Impact Report 2021



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2020/21 performance

£297m

of total funding
for sustainable
projects

37

projects
funded

World class

status achieved in Dow Jones
Sustainability Index for
14 consecutive years

Meeting science-based targets for

42%

reduction in scope 1 and 2
emissions by 2030

Science-based targets covering

scope 3

emissions set and submitted
for validation by SBTi

Commitment to

**net zero
carbon**

by 2030

Leakage target met for

15th

consecutive
year

Over

128,000

customers signed up to
Priority Services

£15m

extension to our social tariff
to support customers affected
by COVID-19

Achieved the maximum

4 star

rating in the Environment
Agency's assessment for 2020

Zero

serious pollution
incidents for the
second year running

250

young people to be
supported through the
Kickstart Scheme

Foreword



Environmental, social and governance (ESG) is at our heart and always has been; we have a deep connection with the environment and the communities we serve.

The publication of our Sustainable Finance Framework in November 2020 was another demonstration of our strong track record of operating in a responsible manner and how we fulfil our purpose to deliver great water and more for the North West.

As I highlighted in the foreword to the framework, it will enable you, our investors, to more directly link the benefits of your funding to the furtherance of United Utilities' environmental and societal goals.

Having achieved our climate change objectives up to 2020, reducing greenhouse gas emission by 73%, we've committed to six carbon pledges and are making good progress against them all. From October 2021, 100% of our electricity will be sourced from renewable technologies and we have set ambitious science-based scope 3 emissions targets that have been submitted to the Science Based Targets initiative (SBTi) for endorsement.

We are in a unique position to make a real, positive contribution to society and have an ambitious and innovative approach to addressing affordability and vulnerability. We have an extensive range of schemes available to help customers and around 200,000 currently benefit from that help. Our transformation to a digital utility is helping us operate more efficiently and deliver better service to customers whilst protecting and improving the natural environment.

In line with the reporting commitment in the framework, I am pleased to introduce our first allocation and impact report. This report details the proceeds from our debut bond and the amount allocated to Eligible Projects. The report also provides an overview of the environmental and social impacts generated by our activities, investments and expenditures including how we have delivered our best ever leakage reduction performance and ensured there have been no serious pollution incidents for the second year running.

Increasingly, stakeholders, including investors, assess how companies approach responsible business through an ESG lens. We believe there is a close relationship between ESG performance and investor value and that it is important to disclose our ESG performance in an open and transparent way. We believe this was an important reason why our debut bond attracted new investors to United Utilities, including several from outside the UK.

This report complements our comprehensive corporate reporting of financial and non-financial information that aims to provide stakeholders with the evidence that we are purpose led and that we focus on what matters to them.

We are committed to maintaining the availability of our Sustainable Finance Framework and I look forward to demonstrating how this links to our performance in this report.

Phil Aspin
Chief Financial Officer

Complementary reports



Integrated **Annual Report and Financial Statements** with full disclosure on the Task Force on Climate-related Financial Disclosures recommendations



Our approach to Environmental, Social and Governance: a guide for investors



Tax Report 2021 – aligned to the Fair Tax Mark accreditation



Our Sustainable Finance Framework

A purpose-led business operated in a responsible manner

We are a purpose-led organisation and this drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner, looking after the interests of the stakeholders with whom we interact.

Our purpose is to provide great water and more for the North West.

Providing great water means delivering our core water, wastewater and customer services, reliably and to the highest quality.

Providing 'more' means creating value for our stakeholders by understanding what matters to them through strong and constructive relationships. We do this by:



Supporting **communities** to be stronger



Protecting and enhancing the **environment**



Caring for **customers** through trusted relationships



Delivering a sustainable return to **investors**



Creating a great place to work for all our **employees**



Innovating in partnership with **suppliers**

Our strategy is broken down into three themes, which form the framework for what we do:

The best service to customers

At the lowest sustainable cost

In a responsible manner

Operating in a responsible manner is key to delivering our purpose, creating and maintaining value for stakeholders. This is not just about what we do, but how we do it.

We have a strong track record leading on environmental, social and governance matters. We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges. We believe there is a close relationship between ESG performance and investor value.

Having tangible, externally recognised measures of our behaviour and performance help to demonstrate that we are operating in our stakeholder interests. We collate, monitor and report on a wider range of performance measures linked to what stakeholders tell us matter most.

Our Sustainable Finance Framework provides the opportunity for investors to more directly link the benefits of the funding which they provide to the furtherance of our sustainability objectives, such as our transition to a lower carbon economic model in the provision of water and wastewater services and related environmental benefits.



Our sustainable finance and how we have used the funds

Our Sustainable Finance Framework was published in November 2020 (the “Framework”) and was developed to align with relevant International Capital Market Association (ICMA) and Loan Market Association (LMA) principles.¹ Under our Framework we stated our intention to follow market best practice and to communicate in a transparent manner on:

Use of proceeds

Process of project evaluation and selection

Management of proceeds

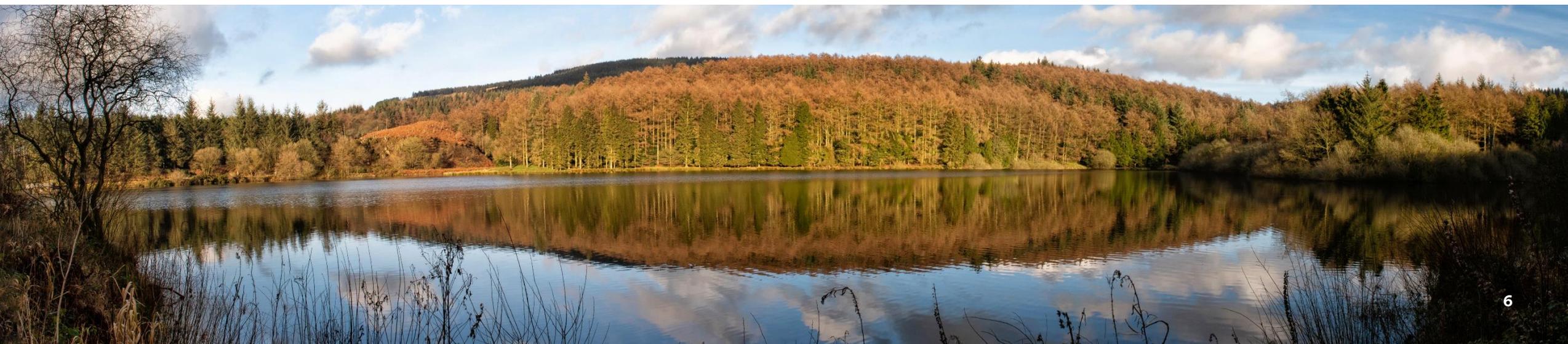
Reporting

¹ Green Bond Principles (2018 edition), the Social Bond Principles (2020 edition) and the Sustainability Bond Guidelines (2018 edition) as published by ICMA, as well as the Green Loan Principles (2020 edition) as published by the LMA.

Our sustainable finance portfolio

Our inaugural sustainable bond under the Framework was issued in January 2021. The detail of our one Sustainable Financing Instrument as at 31 March 2021 is set out below:

Name	GBP 300,000,000.00 0.875% Fixed Rate Notes due 2029
Issuer	United Utilities Water Finance PLC
On lent to	United Utilities Water Limited
Form of financing	Bond
Issue date	28 January 2021
Maturity date	28 October 2029
Credit rating	A3 (Moody’s) / A- (Fitch) / BBB+ (S&P)
ISIN	XS2291328735
Net proceeds	£297.0m



Our sustainable finance and how we have used the funds

Use of proceeds

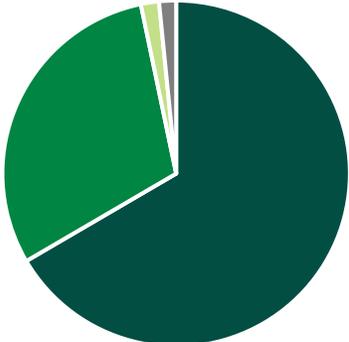
An amount at least equal to the net proceeds from the issuance of the Sustainable Financing Instruments, will be used to finance or refinance, in whole or in part, new or existing projects that meet the Project Eligibility Criteria as set out in the Framework.

Eligible projects are those projects where expenditures have occurred within the three year period prior to the issuance year of the Sustainable Financing Instruments, and/or where expenditure has occurred within a two year period following the issuance.

In line with this, looking back over the financial years ended 31 March 2019 and 31 March 2020, we have identified £862.7m of projects as available for allocation. From this portfolio of Eligible Projects our sustainable finance portfolio has been allocated as follows:

Eligible category	Net proceeds allocated	Focus of projects
Sustainable Water and Wastewater Management	£197.7m Δ	Reducing abstraction and leakage from distribution networks
Terrestrial and Aquatic Biodiversity Conservation	£89.6m Δ	Improvements to river water quality and improving the natural environment
Pollution Prevention and Control	£5.0m Δ	Anaerobic digestion for energy recovery and recycling of biosolds to land
Access to Essential Services	£4.7m Δ	Helping vulnerable customers and those in financial difficulty
Total	£297.0m Δ	
Unallocated amounts	£0.0m Δ	

Allocation



- Sustainable Water and Wastewater Management
- Terrestrial and Aquatic Biodiversity Conservation
- Pollution Prevention and Control
- Access to Essential Services

Assurance statement

KPMG LLP (“KPMG”), our independent auditor, has provided limited assurance over the selected information in this table denoted by the symbol Δ using the assurance standard ISAE (UK) 3000.



Our sustainable finance and how we have used the funds

Process for project evaluation and selection

To ensure that allocations are made to Eligible Green or Social Projects (as specified in the framework) we have established a Sustainable Finance Committee comprising representatives from Treasury, Sustainability, Finance and the Regulated Business. The committee is supported by a cross-department Sustainable Finance Working Group.

All capital expenditure funded under the Framework is subject to rigorous governance and assurance activity. Project approval committees at three key stages in the project lifecycle approve the release of allocated funding and multi-layer assurance activity ensures that the required project lifecycle steps have taken place. As part of this governance process, projects are initially evaluated and allocated to the eligible categories under the framework. This initial allocation is then verified by a cross-department Sustainable Finance Working Group and signed off by the Sustainable Finance Committee.

The Sustainable Finance Committee has:

- ensured that allocated Eligible Projects have followed the relevant United Utilities project development policies;
- ensured that allocated Eligible Projects are aligned with the ICMA and LMA principles¹ categories;
- approved changes to the register of Eligible Projects where eligibility criteria is no longer met; and
- reviewed and approved this Allocation and Impact Report.

¹ Green Bond Principles (2018 edition), the Social Bond Principles (2020 edition) and the Sustainability Bond Guidelines (2018 edition) as published by ICMA, as well as the Green Loan Principles (2020 edition) as published by the LMA.

Management of proceeds

The net proceeds arising from the issuance under our Framework is managed by our Treasury function. Our inaugural sustainable bond has been wholly allocated to refinance Eligible Projects that took place in the year to 31 March 2019. Therefore as our inaugural sustainable bond was fully allocated on issuance no temporary investment of the proceeds has been required.

Our Treasury team has ensured that the portfolio of Eligible Projects has exceeded, or been at least equal to, the amount of Sustainable Financing Instruments raised under this Framework.



Contributing to environmental and social performance

Our eligibility criteria link through to overall company responsible business impact metrics that matter to our stakeholders.

Green Bonds Principles Category

Eligibility Criteria

Overall Company Impact Metrics

Highlights

Relevant SDGs

Sustainable Water and Wastewater Management

Projects which reduce pollution and impacts of water abstraction.

Projects which improve water quality.

Projects which reduce water losses from the system.

Flooding mitigation projects.

Leakage	Year	2018/19	2019/20	2020/21
	MI/d	452.0	439.8	424.7
Regulated emissions per megalitre of treated water, Kg CO ₂ e/MI	Year	2018/19	2019/20	2020/21
	Kg CO ₂ e/MI	n/a	131.98	118.51
Regulated emissions per megalitre of sewage treated, Kg CO ₂ e/MI	Year	2018/19	2019/20	2020/21
	Kg CO ₂ e/MI	n/a	168.51	152.26

Invested in new infrastructure, such as our West Cumbria project (£70m in FY19), to allow us to transfer water around the region more efficiently to avoid depletion of individual water sources.

6 CLEAN WATER AND SANITATION



Terrestrial and Aquatic Biodiversity Conservation

Investments and/or expenditures relating to projects which deliver improved conservation outcomes.

Investments and/or expenditures relating to river quality improvements.

Km of rivers improved	Year	2018/19	2019/20	2020/21
	Km	50.5	159.5	n/a
Improving river water quality and the water environment	Year	2018/19	2019/20	2020/21
	Net days schemes delivered early/late	n/a	n/a	0
Number of trees planted	Year	2018/19	2019/20	2020/21
	Trees	27,190	29,696	216,601

Our Windermere catchment strategy (£13.4m in FY19) has helped to reduce phosphorus entering England's largest lake through improved storm water storage and enhanced treatment at two wastewater treatment works.

14 LIFE BELOW WATER



Contributing to environmental and social performance

Green Bonds Principles Category

Pollution Prevention and Control

Eligibility Criteria

Investments and/or expenditures relating to projects which reduce waste and increase the proportion recycled, and/or recover energy from waste materials.

Overall Company Impact Metrics

Total energy generated from sewage sludge (CHP and biomethane exported to gas grid as GWh equivalent)	Year	2018/19	2019/20	2020/21
	GWh	128.9	135.7	142.4
Nitrogen oxides (NOx) emissions per unit of renewable electricity generated	Year	2018/19	2019/20	2020/21
	NOx/GWh	n/a	n/a	1.3
% biosolids recycled in compliance with regulatory standard and Biosolids Assurance Scheme	Year	2018/19	2019/20	2020/21
	%	n/a	n/a	99.87

Highlights

Anaerobic digestion refurbishment (£2.1m in FY19) at our Warrington North treatment works has contributed to increasing the amount of renewable energy from biomethane to 142.4GWh in 2020/21.

Relevant SDGs



Social Bonds Principles Category

Access to Essential Services

Eligibility Criteria

Investments and/or expenditures relating to programs which enable vulnerable customers to maintain access to water and other supplies.

Indicative Metrics

Number of customers lifted out of water poverty	Year	2018/19	2019/20	2020/21
	Customers	n/a	n/a	71,057
Number of households registered for Priority Services	Year	2018/19	2019/20	2020/21
	Households	74,505	99,992	128,831

The United Utilities Trust Fund (£4m in FY19) is part of our affordability support for customers who struggle to pay their bills.

Relevant SDGs



Delivering for our stakeholders

The proceeds from the sustainable bond contribute to the generation of value for our stakeholders and the delivery of our purpose. We monitor our performance across six stakeholder groups.

 More detail can be found in our [Annual Report and Financial Statements](#)

Communities

Measure	2025 target	2020/21 performance	Status	
			Annual performance	Against 2025 target
KPI:				
Community investment	10% increase (£2.82 million)	£2.15 million		
Partnership leverage	1:4	1:7		
Percentage of participants who remain employed six months after completing an early careers or outreach scheme with United Utilities	50–60%	83%		
Number of children benefiting from education materials	20,000	19,120		
Visitor experience/satisfaction measure at recreation sites	Dependent on 2021 baseline	Baseline in 2021		

Status key:

Annual performance		Against 2025 target	
	Met expectation/target		Confident of meeting target
	Close to meeting expectation/target		Some work to do
	Behind expectation/target		Target unobtainable
	Baseline year		Baseline year

Customers

Measure	2025 target	2020/21 performance	Status	
			Annual performance	Against 2025 target
KPI:				
C-MeX	Above industry median	Above industry median		
Additional service measures:				
D-MeX	Above industry median	Above industry median		
Market Performance Standards	Upper quartile	Upper quartile		
Operational Performance Standards	Upper quartile	Upper quartile		
Managing complaints:				
Number of household written complaints compared to WASCs	Upper quartile	Upper quartile ¹		
Speed of resolution	5 days	3.5 days		
Vulnerability:				
Number of households registered for Priority Services	In excess of 220,000 (7%)	128,831 (4.1%)		
BS18477 'Inclusive service provision' certification for Priority Services	Maintain certification	Maintained		
Affordability:				
Number of customers lifted out of water poverty	66,500	71,057		
Helping customers look after water in their homes	10% increase	13.75%		

¹ Latest comparative data available 2019/20

Employees

Measure	2025 target	2020/21 performance	Status	
			Annual performance	Against 2025 target
KPI:				
Employee engagement	Upper quartile against UK utilities norm	Upper quartile against UK utilities norm		
Employee opinion survey diversity and inclusion questions score	UK high performance norm	UK high performance norm		
Employee opinion survey learning and development category score	UK utilities high performance norm	UK utilities high performance norm		
Living Wage accreditation	Secure and retain	Secured accreditation		
Pension Quality Mark +	Retain accreditation	Retained		
Health and safety				
Accident Frequency Rate: employees (per 100,000 hours)	0.064	0.094		
Accident Frequency Rate: contractors (per 100,000 hours)	Year-on-year improvement in score	0.087		
Wellbeing Charter accreditation	Retain accreditation	Retained		

Delivering for our stakeholders

Environment

Measure	2025 target	2020/21 performance	Status	
			Annual performance	Against 2025 target
KPI:				
Environment Agency's Environmental Performance Assessment	Upper quartile	Upper quartile	●	●
Leakage reduction	15% ¹	On track	●	●
% of waste to beneficial use	98%	97.3%	●	●
Enhancing natural capital for customers	£4 million	Delivery scheduled from 2022	●	●
Number of trees planted	500,000	216,601	●	●
Better air quality: nitrogen oxides (NOx) emissions per GWh of renewable electricity generated	1.42 NOx/GWh	1.3 Nox/GWh	●	●
Climate change mitigation: meeting our science-based reduction target	14%	1% increase	●	●
Climate change adaptation: multiple measures	 See TCFD section of our Annual Report and Financial Statements			

¹ As measured against a 2017/18 baseline

Status key:

Annual performance	Against 2025 target
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable
● Baseline year	● Baseline year

Investors

Measure	2025 target	2020/21 performance	Status	
			Annual performance	Against 2025 target
KPI:				
RoRE	Assessed annually	4.3%	●	●
UK Corporate Governance Code	Maintain compliance	Compliant	●	●
Maintain performance across a range of trusted investor indices	Upper quartile	Upper quartile	●	●
Credit rating UUW (Moody's, S&P, Fitch)	A3, BBB+, A-	A3, BBB+, A- (stable outlook)	●	●
Gearing	55–65%	62%	●	●
Maintain sustainable finance framework	Available/continued issuance	Available	●	●
Fair Tax mark	Retain annual accreditation	Retained	●	●
Risk maturity	Year-on-year improvement	Met expectation	●	●
Anti-bribery: % of identified employees completing required training	100%	94%	●	●
Investor engagement: % met or offered to meet by value (active targetable institutional shareholder base)	75%	81%	●	●

Suppliers

Measure	2025 target	2020/21 performance	Status	
			Annual performance	Against 2025 target
KPI:				
Invoices paid within 60 days	At least 95%	99.55%	●	●
Average time taken to pay invoices	<28 days	13 days	●	●
% of suppliers in high-risk categories, as identified by sustainability risk assessments, covered by enhanced due diligence audits	5%	Delivery scheduled from 2021	●	●
% of partner and strategic suppliers that have sustainability risk assessment in place	75%	35%	●	●
Supplier Relationship Management score	90%	69%	●	●
% of targeted suppliers signed up to United Supply Chain	100%	38%	●	●
CIPS ethical mark	Retain annual accreditation	Retained	●	●
Savings delivered through innovation and efficiency	£40 million	£3.9 million	●	●

Sustainable bond proceeds in action

Business Insight: Sustainable water supplies for West Cumbria

In 2022 we are required to stop abstracting water from Ennerdale Water and the River Ehen in West Cumbria to avoid the risk of damage to the protected species that rely on these water sources.

To achieve this, we're linking around 150,000 customers in West Cumbria to our regional water supply network through the West Cumbria Water Supplies Project which is in the final stages of construction. The project will allow us to transfer water around the region more efficiently to avoid depletion of individual water sources.

This £300m programme (of which £70m was funded by our inaugural sustainable bond) delivers a new 30km twin aqueduct pipeline from Thirlmere to Redmain and refurbishes sections of our existing pipe network – over 100 kilometres of water pipes in total. We are building a new water treatment works at Williamsgate, new pumping stations and two underground service reservoirs capable of storing over 70 million litres of treated water.

The aqueduct pipelines have been constructed to make the most of gravity and use the natural contours of the land, allowing the water to travel easily along the pipes without the need for pumps. So far, the project has delivered the longest-ever tunnel of its type in the UK and completed over a million man hours with no lost time accidents. During the work we have protected the wildlife and aesthetics of the Lake District National Park which is designated as a World Heritage Site.

At Williamsgate, the new treatment works will be capable of treating 80 million litres of water every day and has been designed to merge into the natural contours of the surrounding environment. It has been constructed with a green roof to help it blend into the landscape.

Despite several challenges during construction, including dry weather, extreme wet weather, flooding and COVID-19, we're still on track to complete this ground-breaking and innovative scheme in 2022.

Putting stakeholders at the heart of this project has resulted in a sector-leading approach to stakeholder management for major water infrastructure in England. We have worked closely with regulators, stakeholders, local communities and contractors, and this constant dialogue has ensured the highest standard of environmental protection and transparency.



Sustainable bond proceeds in action

Business Insight: Affordability and vulnerability support

Affordability is a hugely important issue for many people in the North West and lowering bills and helping customers out of water poverty is a priority for us. With 4 in 10 of the most deprived neighbourhoods in the country being in the region, we're working hard to help customers who need it most.

We provide a broad range of support for customers who are struggling to pay their bill, from Payment Matching, where we match every £1 payment from customers who have built up debt, to Payment Break, where we delay payments for an agreed period of time if customers have experienced a life issue – such as losing their job or having to pay out for an unexpected household emergency.

We also provide annual funding (£4 million was funded by our inaugural sustainable bond) to the United Utilities Trust Fund (UUTF) to make sure that financial support is available to as many customers as possible. The UUTF provides one-off grants for customers in real financial difficulty who are in need of a fresh start. The Trust Fund also provides funding to debt advice charities through organisational grants to enable more people to benefit from the delivery of money advice and financial literacy services.

As a result of the impact of COVID-19 there was increased demand for our support schemes, in particular for the Payment break scheme and UUTF grants with significant growth in application volumes as customers tried to manage through difficult financial circumstances.

Vulnerability and its causes are often complex. Being aware of the reasons why a customer may be in these circumstances is important in understanding what support they need, and whether this extra support is a permanent or temporary requirement.

Our Priority Services scheme helps customers who need a bit of extra support due to age, ill health, a disability, mental-health problems, financial worries or language barriers. As at 31 March 2021 we had over 128,000 households signed up to our priority services register where customers can get additional help such as our nomination scheme where a carer, family member or friend can be nominated to speak to us on behalf of the customer.



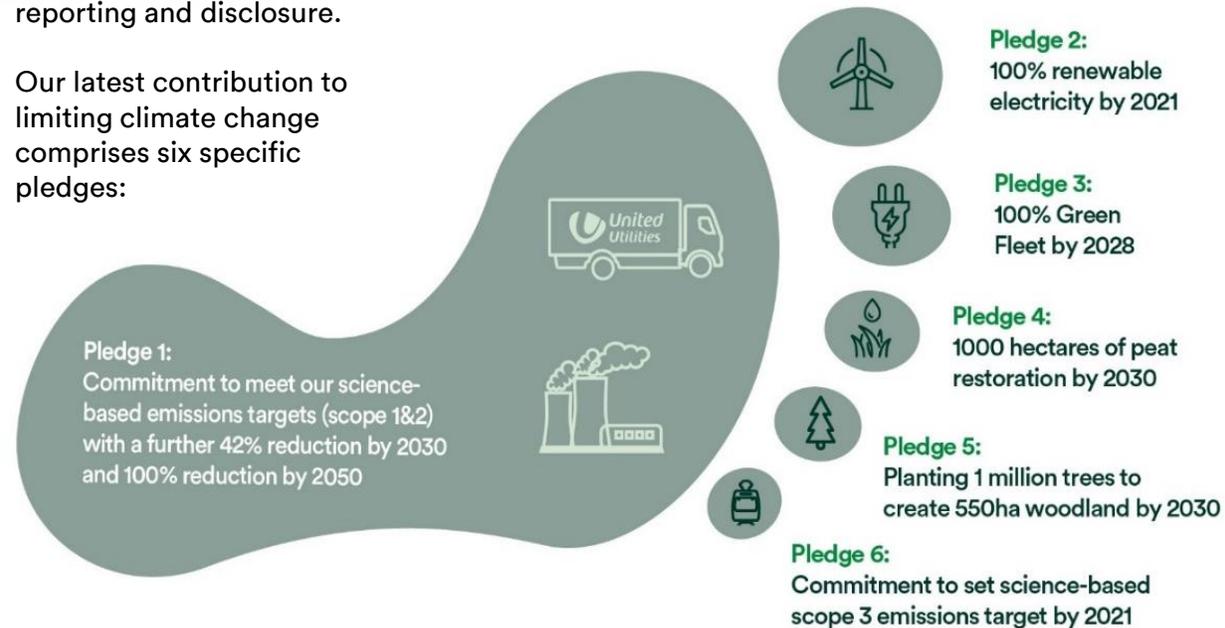
Multi-capitals

To further embed our purpose, we are undertaking a project to examine how far adopting a multi-capital approach will better inform our decision-making processes. Aligned with the six capitals of integrated reporting, the work will determine what level of maturity the company wants and is able to achieve for each capital (manufactured, financial, natural, social, human and intellectual). The project will explore whether embedding capitals into decision making processes will be possible and so enable us to demonstrate more clearly how investment decisions are aligned to creating value for stakeholders.

Approach to a changing climate

Climate change has been a subject of strategic and operational focus for use for over two decades. We have been providing information in our Annual Report and Accounts in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for the past two years and our CDP climate change rating improved from B to A- in 2020, demonstrating leadership-level reporting and disclosure.

Our latest contribution to limiting climate change comprises six specific pledges:



#1 – On track to achieve this pledge although progress will not be linear year-on-year while we work to reverse the pressures that are driving growth in emissions.

#2 – Over 94% of the electricity we used in 2020/21 came from renewable technologies. Contract for 100% renewable electricity to start October 2021.

#3 – 27 electric vehicles deployed at operational sites, and trialling a 44 tonne biogas-powered HGV trial.

#4 – Five sites proposed for green recovery catchment restoration.

#5 – Planted 9,783 woodland carbon code compliant trees, established two tree nurseries and identified hundreds of potential sites for new and ‘replanted’ woodlands.

#6 – Scope 3 target now set.

We published two climate change adaptation reports, in 2011 and 2015, to highlight the impact that climate change is likely to have on the region we serve and the strategic considerations required to address the most significant risks. This year, in the lead up to the COP26 in Glasgow, we will publish our third adaptation report following a public consultation during the summer of 2021.

United Utilities Group PLC

Haweswater House
Lingley Mere Business Park
Lingley Green Avenue
Great Sankey
Warrington
WA5 3LP

Registered in England and Wales
Registered number 6559020



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Water for the North West