

Sustainable Finance Framework

November 2020



Contents

Foreword	3
Introduction	4
Strategy and rationale	5
Managing ESG matters	7
Alignment with market standards	11
Use of Proceeds	11
Exclusions	15
Process for Project Evaluation and Selection	16
Management of Proceeds	18
Reporting	18
External review	19
Periodic improvements	19
References	20
Disclaimer	22



Foreword



I am extremely proud to introduce United Utilities' Sustainable Finance Framework.

The provision of essential water and wastewater services to our customers creates a deep connection between the company, the environment and our broader stakeholders, and we firmly believe that the long-term prospects of the company are inextricably linked to our ability to operate sustainably to best serve the interests of all of our stakeholders.

We have a strong track record of operating in a responsible manner over many years. We have broken new ground in the way the sector approaches emerging environmental and sustainability challenges, such as catchment management schemes and our sector leading support for vulnerable customers. It is not just about what we do, but how we do it. This has been a fundamental part of our culture at United Utilities and is embedded in the DNA of how we operate as a business.

This framework provides a means to raise debt finance to support our strategy of providing the best service to customers, at the lowest sustainable cost, in a responsible manner.

It will allow us to demonstrate how investment in our business makes a positive impact to the North West's environment and society in which we live and operate.

United Utilities' ambitious business plan to 2025 has been shaped by what matters to our stakeholders. The feedback received when developing our plans was clear – stakeholders wanted lower bills, improved services, extra support for those in vulnerable circumstances and a continued commitment to protect the environment of the region. In addition, resilience in our assets and infrastructure, and the ability to deal with emerging demands created by climate change and population growth are embedded in our long-term planning.

Financing our plans, in part, through a Sustainable Finance Framework will enable investors to more directly link the benefits of your funding to the furtherance of United Utilities' environmental and sustainability goals.

Ensuring United Utilities creates value for all stakeholders in a sustainable manner is a significant pillar of my role. I look forward to working with all of our investors to achieve this together.

Phil Aspin

Chief Financial Officer

Introduction

United Utilities holds licences to provide water and wastewater services to over seven million customers, around three million households and 200,000 businesses (non-household customers) in the North West of England. We serve domestic and business customers from rural Cumbria in the North to rural Cheshire in the South, taking in the sub-regions of Greater Manchester, Lancashire, and Merseyside, including the cities of Manchester and Liverpool and surrounding conurbations.

In the next five years (2020-2025), we will invest £5.9bn running, upgrading and future-proofing the region's water infrastructure and services to a blueprint endorsed by our customers and regulators. This investment will contribute over £10billion to the regional economy and support over 22,500 jobs each year.

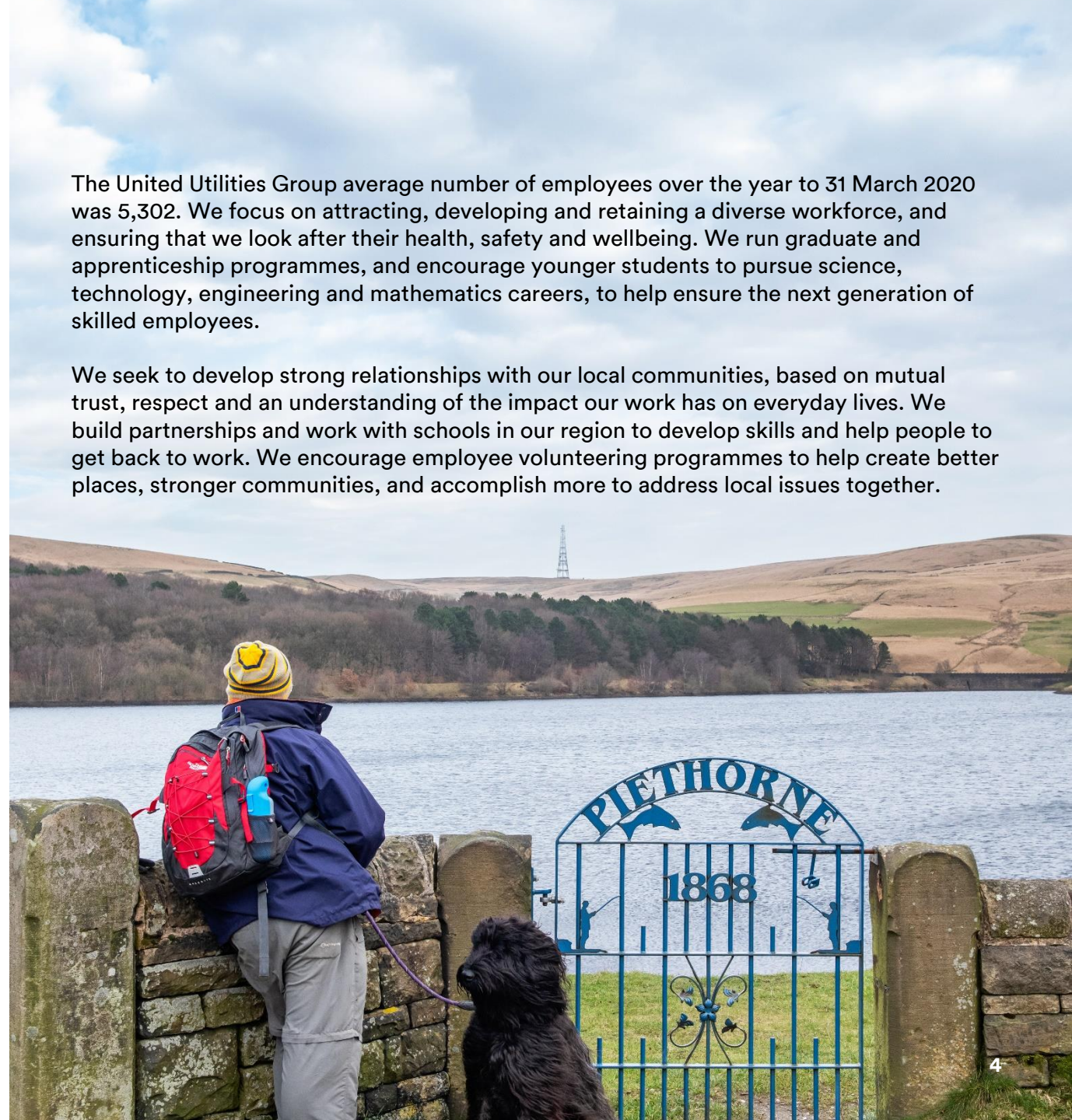
To deliver clean water we maintain 166 reservoirs, 86 water treatment works, and 42,000 kilometres of water pipes across 56,000 hectares of land (primarily catchment land that is open to the public for access and recreation) in the region in order to collect, treat, store and deliver billions of litres of reliable, clean drinking water to millions of customers 24 hours a day.

To remove and treat the region's wastewater we maintain 566 treatment works and 77,000 kilometres of wastewater pipes in order to collect wastewater from homes, businesses and surface water run-off, transport and treat it, and return treated water to protect our natural environment. Alongside this we digest sewage sludge into fertiliser for farmers whilst generating renewable energy from the resultant gas in 37 facilities across the region.

Our customer services include dealing with new connections, metering and billing for millions of customers as well as helping vulnerable customers with our Priority Services and other assistance schemes.

The United Utilities Group average number of employees over the year to 31 March 2020 was 5,302. We focus on attracting, developing and retaining a diverse workforce, and ensuring that we look after their health, safety and wellbeing. We run graduate and apprenticeship programmes, and encourage younger students to pursue science, technology, engineering and mathematics careers, to help ensure the next generation of skilled employees.

We seek to develop strong relationships with our local communities, based on mutual trust, respect and an understanding of the impact our work has on everyday lives. We build partnerships and work with schools in our region to develop skills and help people to get back to work. We encourage employee volunteering programmes to help create better places, stronger communities, and accomplish more to address local issues together.



Strategy and rationale

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

We are a purpose-led organisation. 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 strategy is broken down into three strategic themes, which form the framework for what we do.

The best service to customers

We put customers at the heart of everything we do. As well as delivering a reliable service of wholesome water and removing and treating wastewater, we proactively keep customers informed about any work we are doing in their area and communicate with them in ways that meet their individual needs; for example, we now use 'push texts' to send updates and alerts to customers within a specified location. The best service to customers means being available when they need to contact us, always interacting in a friendly and helpful manner, and offering tailored support and assistance for customers when they need it. As well as these day-to-day interactions, it means consulting on what matters to them. This helps to shape what we do; for example, we redesigned our bills based on customer research and feedback.

At the lowest sustainable cost

In order to run a resilient business for the long-term, it is important to ensure cost reductions are sustainable so that we can keep customer bills affordable in the long term without compromising on resilience or the quality of service we deliver. When we develop our plans and assess different delivery options, we look to minimise the whole-life cost of any project through a holistic approach. This fits with the total expenditure (totex) regulatory model, because the most cost-effective option can vary between traditional operating expenditure (opex) or capital expenditure (capex) solutions. Our innovative Systems Thinking approach helps us look holistically at all options, and operating our entire network as a system rather than discrete assets opens up new opportunities to drive sustainable improvements that would otherwise not have been available.

In a responsible manner

Our purpose drives us to deliver our services in a responsible manner. This means protecting and enhancing the natural environment, using natural solutions where possible and reducing our carbon footprint and waste – with ambitious targets set. It means promoting a safe, healthy and engaging workplace for our employees, supporting their physical and mental health. It drives us to support local communities on issues that matter to them, and to work with local schools to help children understand the natural environment and promote the benefits of water conservation, and invest in training facilities to promote skills for the future. We are also focused on helping vulnerable customers by providing a tailored service and a range of support tariffs for customers in financial need. Above all it means we are open, honest and transparent in our dealings and in reporting our performance.

Strategy and rationale

We believe our business model has an important role to play in the transition towards a more sustainable, resilient, and lower-carbon economy, both through the current investment portfolio and future investments.

Our business plan submission for the 2020–25 period received the highest grades for the sector against the test areas set out by our regulator, Ofwat,¹ in its initial assessment. The main priorities for this investment period include three elements where we face particularly challenging targets: leakage, supply interruptions and sewer flooding.

The technologies and assets we are investing in should enable us to make a meaningful contribution to the United Nations' Sustainable Development Goals² and the objectives of the Paris Agreement on Climate Change.³

We believe that the establishment of this Sustainable Finance Framework will provide the opportunity for investors to more directly link the benefits of the funding which they provide to the furtherance of United Utilities' sustainability objectives, including the ongoing transitioning to a lower carbon economic model in the provision of wholesome water and wastewater services and related environmental benefits.

Under this Framework, we may issue a number of financing instruments, including, but not limited to, bonds, private placements, loans or other forms of debt instrument (Sustainable Financing Instruments).

This Framework reflects the ongoing and anticipated activities of a number of United Utilities entities, including but not limited to United Utilities PLC, United Utilities Water Limited (United Utilities Water Finance PLC, UUW's 100%-owned financing subsidiary, raises listed issuance on behalf of UUW, which is lent on to and guaranteed by UUW) and/or United Utilities Renewable Energy Limited.



Managing ESG matters

How we manage Environmental, Social and Governance (ESG) matters is essential to how we deliver our purpose and operate in a responsible manner.

Environmental

The impact of the environment on our activities, and the impact of our activities on the environment influence how we deliver water and wastewater services to our customers. Consequently, any environmental change, in particular driven by climate change, has the potential to have a significant effect on our business.

Climate change risk is already an integral part of our business risk and asset planning processes. This risk, and associated mitigation and adaptation strategies, is reviewed on a regular basis by the full board, directors and senior managers. Our annual report contains information in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).⁴

Our response to climate change risk can be split into two areas: mitigation and adaptation.

Mitigation – reducing carbon emissions to minimise our contribution to climate change

- We have reduced our carbon footprint by 73% since 2005/06 and have plans to reduce it further, through six carbon pledges.⁵
 1. Commitment to meet our science-based emissions targets (scope 1&2), with a further 42% reduction by 2030, and 100% reduction by 2050
 2. 100% renewable electricity by 2021
 3. 100% Green Fleet by 2028
 4. 1,000 hectares of peat restoration by 2030
 5. Planting one million trees to create 550 hectares of woodland by 2030
 6. Commitment to set science-based scope 3 emissions target by 2021
- We have over 90MW of installed renewable generation capacity with a mix of generation from wind, hydro, solar photovoltaics and energy recovery from bioresources (using sewage sludge to power combined heat and power generators).

Adaptation – improving the resilience in our water and wastewater business

- Supply is managed by ensuring we continue to have resilient water resources and infrastructure capable of moving water efficiently around the region.
- Demand is managed by encouraging and supporting customers to use water efficiently. We have increased our efforts in this area working with customers and stakeholders to reduce consumption through water efficiency programmes.
- We have planned a leakage reduction of 15% between 2020 and 2025.
- Coping with periods of intense, heavy rainfall requires action to cope with excess surface water drainage while minimising the risk of sewer flooding, pollution and spills. Traditional interventions, such as storage tanks and enlarging sewers, are costly and subject to constraints for space, particularly in urban areas with little permeable ground. Innovation is needed to find new solutions, which is why we have increased our focus on the use of sustainable drainage solutions in recent years, working with partners to transform hard-grey areas into living planted places, as well as developing ways to treat spills from our network, rather than storing and pumping them. This reduces the impact of these spills on watercourses, reduces carbon emissions while at the same time providing habitat to promote biodiversity.

Managing ESG matters

As an organisation that provides essential services and infrastructure, we report on adaptation under the UK Climate Change Act 2008, which sets out the current and future predicted impacts of climate change on our organization and our proposals for adapting to climate change.⁶

Natural Capital

Through our catchment systems thinking approach, we are moving towards an optimised integrated approach, considering risks holistically, combining asset and catchment solutions for better outcomes delivered through effective partnerships. Our natural capital performance commitment will ensure the natural environment is protected and improve the way we deliver our services.

Circular Economy

Our operations produce sludges, excavated materials and general office waste, which we are committed to managing in a sustainable way in line with the waste hierarchy. Less than five per cent of our waste goes to landfill,⁷ we use recycled products where practical, and are working to reduce the use of plastics. We look for ways to reduce our use of raw materials to minimise our environmental impact and increase efficiency.

Air Quality

We are the first company in the industry to commit to tackling the issues of air quality by incentivising a reduction of emissions from our energy generation activities through a regulatory performance commitment.

Given the criticality of ensuring sufficient water supply to meet demand to society, a statutory requirement is the development of a Water Resources Management Plan (WRMP). This sets out our proposed strategy for water resources and demand management to ensure that there are adequate water supplies for customers and that the environment is protected. Our current WRMP describes our assessment of the future supply and demand over the period from 2020 to 2045 (with testing of our plans beyond this period), and can be found on our corporate website.⁸

Reports and written policies can be found on our corporate website.⁹



Managing ESG matters

Social

Providing support for customers in vulnerable circumstances is more important than ever and, as a responsible business, we have a duty to continually strive to improve services in order to help those who need it most. However, we recognise the social and economic challenges of a region that is one of the most deprived in the country.

Affordability

We have one of the sector's most comprehensive set of assistance schemes, supporting over 118,000 customers struggling to pay their bills. Our plans to 2025 include helping over 65,000 additional customers out of water poverty.¹⁰

Vulnerability

When factors like old age, ill health, disability, separation or divorce, and unemployment (including any impacts arising from the coronavirus pandemic), make it more difficult to manage household finances, we want to do all we can to help our customers during these difficult times by having a range of support schemes in place. We constantly engage and listen to our customers and we have launched a number of initiatives designed to help those customers who are struggling with bills or who find themselves in vulnerable circumstances.

Health, safety and wellbeing

We want all of our employees, contractors and supply chain partners to get home safe and well. Their health, safety and wellbeing is vital to the success of our business, and anyone can stop working if they feel it is unsafe, and to ask for advice or support. We firmly believe that nothing we do is worth getting hurt for. Our aim is for zero accidents by 2030. We invest in training and development to enable our employees to grow their skills and to help keep them motivated.



Managing ESG matters

Governance

The Board of United Utilities operates in compliance with the UK Corporate Governance Code and we operate our business to several internationally recognised management standards covering quality (ISO 9001), environment (ISO 14001) and health & safety (OHSAS 18001). We pride ourselves on running our business in a way that allows us to maintain accreditation to these standards. The last ISO 9001 and ISO 14001 audit was completed in May 2020. There were no corrective actions noted.

We aim to maintain high ethical standards of business conduct and corporate governance – those systems and processes through which our organisation is managed, controlled and held accountable.

We comply fully with the principles and the spirit of the UK Corporate Governance Code and have procedures and policies in place to ensure we act in accordance with the Universal Declaration of Human Rights. We report compliance on these in our annual report. Our Whistleblowing Policy and a confidential whistleblowing line are available internally and we encourage our employees or contractors to raise concerns about any possible wrongdoing on an anonymous basis.

We have been accredited with the Fair Tax Mark, which recognises organisations that ‘demonstrate that they are paying the right amount of corporation tax in the right place at the right time’.



UN Sustainable Development Goals (SDG)

Our work also contributes across the UN Sustainable Development Goals, and we have identified six¹¹ in which our business most significantly contributes, reflecting the nature of the essential services that we provide. We include these in our annual report and further information can be found on our [website](#).



ESG ratings

We are rated by a number of the leading ESG Ratings Agencies – further details are provided on our corporate website.¹² We have been ranked as a world-class company by the Dow Jones Sustainability Index since 2007, and achieve consistently high scores in many other ESG indices. We believe it is important that we disclose our approach and performance in an open and transparent way so that we can be judged and compared with leading practice. As an illustration, for the first time this year we included in our Annual Report a comprehensive disclosure on our approach to climate change mitigation and adaptation in line with the TCFD requirements.

Alignment with market standards

Our Sustainable Finance Framework has been developed to align with the Green Bond Principles (2018 edition), the Social Bond Principles (2020 edition) and the Sustainability Bond Guidelines (2018 edition)¹³ as published by ICMA, as well as the Green Loan Principles published by the LMA (2020 edition).¹⁴ We intend to follow market best practice and will communicate in a transparent manner on:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting



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 defined below (thereafter defined as “Eligible Projects”).



Eligible Projects are those projects where expenditures has 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.





Project Eligibility Criteria

Green Bonds Principles Category	Eligibility Criteria	Example Green Projects	Example Impact Metrics	EU Taxonomy NACE Codes/Categories	Relevant SDGs
Sustainable Water and Wastewater Management	<p>Projects which reduce pollution and impacts of water abstraction</p> <p>Projects which improve water quality</p> <p>Projects which reduce water losses from the system</p> <p>Flooding mitigation projects</p>	<ul style="list-style-type: none"> • Refurbishment of the water supply network to reduce water losses and improve resilience • Sewer flooding improvement programme • Installation of customer water meters • Water and wastewater treatment works enhancements • Water treatment improvement projects (e.g. UV LED) 	<ul style="list-style-type: none"> • Average energy consumption of the system (including abstraction, treatment and distribution), kWh per cubic meter billed/unbilled authorised water supply • Operational emissions per megalitre of treated water, Kg CO2e/MI • System energy consumption, % reduction (including abstraction, treatment and distribution; measured in kWh per cubic meter billed/unbilled authorised water supply) • Leakage reduction, MI/d and % leakage reduction • % improvement in key water quality parameters • % reduction in water abstractions 	<p>Water collection, treatment and supply</p> <p>(E36.0.0)</p>	
Renewable Energy	<p>Investments and/or expenditures relating to solar photovoltaic or wind power installations</p> <p>Investments and/or expenditures relating to construction and operation of biogas-powered combined heat & power (CHP) plants¹⁵</p>	<ul style="list-style-type: none"> • Renewable energy generation from solar power on land or water • Renewable energy generation from wind power • Renewable energy generation from Biogas-powered combined heat and power plants 	<ul style="list-style-type: none"> • Avoided emissions from renewable electricity generated, tCO2e 	<p>Production of Electricity from Solar PV</p> <p>Production of Electricity from Wind Power</p> <p>(D35.1.1)</p>	



Project Eligibility Criteria

Green Bonds Principles Category	Eligibility Criteria	Example Green Projects	Example Impact Metrics	EU Taxonomy NACE Codes/Categories	Relevant SDGs
Energy Efficiency	<p>Investments and/or expenditures relating to establishment of renewable energy storage capacity</p> <p>Investments and/or expenditures relating to improvement in the energy efficiency of the water system</p>	<ul style="list-style-type: none"> Renewable energy storage Refurbishment of pumps to improve efficiencies, such as new impellor technologies and motor upgrades Installation of variable speed drives and control to improve efficiencies on pumping systems System optimisation and/or reconfiguration to remove unnecessary restrictions Energy management programme aligned to ISO 55001¹⁶ 	<ul style="list-style-type: none"> MWh of storage capacity added KWh/per cubic meter of water billed 	—	
Pollution Prevention and Control	Investments and/or expenditures relating to projects which reduce waste and increase the proportion recycled, and/or recover energy from waste materials ¹⁷	<ul style="list-style-type: none"> Bioresources¹⁸ programme covering the treatment and recycling of sewage sludge Refurbishment of anaerobic digestion facilities Improvements to the Manchester Bioresource Centre 	<ul style="list-style-type: none"> Net GHG emission reduction from sewage sludge treatment through the capture and utilisation of the generated biogas Methane leakage reduction, kg CO₂e, and % reduction Avoided emissions associated with biomethane exported, tCO₂e Total energy generated from biomethane, GWh, % increase y-o-y Energy generated through CHP (or % efficiency of converting dry solids to energy) % Bioresource recycled to land (or % of Bioresource classed as enhanced product) 	Anaerobic Digestion of Sewage Sludge (E37.0.0)	

Project Eligibility Criteria

Green Bonds Principles Category	Eligibility Criteria	Example Green Projects	Example Impact Metrics	EU Taxonomy NACE Codes/Categories	Relevant SDGs
<p>Environmentally Sustainable Management of Living Natural Resources and Land Use</p>	<p>Investments and/or expenditures relating to projects which deliver an increase in natural capital value</p> <p>Investments and/or expenditures relating to projects which contribute to avoidance of designated area deterioration</p>	<ul style="list-style-type: none"> Wetland creation (including reedbeds) – designed and using processes typical of natural wetlands Sustainable drainage systems (SuDS) that mimic nature to manage water flows Catchment management e.g. natural flood management, farm infrastructure improvements - interventions within catchments to reduce nutrient and soil loss, improve water quality and improve flow management. Moorland restoration – protecting and enhancing upland peat habitats 	<ul style="list-style-type: none"> Increase in Natural Capital¹⁹ value Level of reduction (ha) in SSSI-designated²⁰ land classed as deteriorating (or increase in land (ha) classed as improving) Km of river improved 	<p>—</p>	
<p>Terrestrial and Aquatic Biodiversity Conservation</p>	<p>Investments and/or expenditures relating to projects which deliver improved conservation outcomes</p> <p>Investments and/or expenditures relating to river quality improvements</p>	<ul style="list-style-type: none"> Fish passage solutions Site of Special Scientific Interest (SSSI) protection schemes 'Q programme' – river water quality improvement 	<ul style="list-style-type: none"> Km of river improved Increase in SSSI land classed as improving 	<p>Anaerobic Digestion of Sewage Sludge (E37.0.0)</p>	

Project Eligibility Criteria

Green Bonds Principles Category	Eligibility Criteria	Example Green Projects	Example Impact Metrics	EU Taxonomy NACE Codes/Categories	Relevant SDGs
Clean Transportation	Investments and/or expenditures relating to acquisition and deployment of battery electric vehicles and associated charging infrastructure	<ul style="list-style-type: none"> Nissan E-NV200 Battery Electric investment program Charging infrastructure 	<ul style="list-style-type: none"> tCO₂e avoided 	—	
Social Bonds Principles Category	Eligibility Criteria	Example Social Projects	Indicative Metrics	EU Taxonomy NACE Codes/Categories	Relevant SDGs
Access to Essential Services	Investments and/or expenditures relating to programs which enable vulnerable ²¹ customers to maintain access to water and other supplies	<ul style="list-style-type: none"> 'UU Trust Fund' - Provision of Financial Support to economically-disadvantaged customers Priority Services Scheme²² Hardship Hub²³ Youth Programme²⁴ 	<ul style="list-style-type: none"> Number of beneficiaries in target population 	—	

Exclusions

Allocations will be made to Eligible Project Categories as specified above. The following Uses of Proceeds are specifically excluded:

- Financing of any fossil-fuel, nuclear, or large hydropower²⁵ generation projects
- Financing of any activities involving tobacco, alcohol, gambling or defence

Process for Project Evaluation and Selection

We have a comprehensive, integrated, forward-looking, objective and quantitative project risk assessment process. This process aligns to the International Risk Management Standard (ISO 31000), and links to our Wholesale Risk and Asset Planning approach which in turn aligns with the International Standard for Asset Management (ISO 55000). The identification of risks and issues, monitoring of strategic performance requirements and prioritisation of investment and operational management are aligned through these processes. More information on our approach to planning and risk management can be found in our integrated annual report.

For all capital expenditure, throughout the project lifecycle there are a number of financial approval gateways, which provide approval to proceed. These gateways ensure that:

- The approval committee confirms that the project meets the requirements
- The senior sponsor commits to supporting delivery of the project
- Senior management, who make up the financial approval committee, commit the required resources to support the project

The Programme Approval Committee (PAC) approves the release of allocated funding for each stage of a project. Each committee has delegated authority to approve spend based on limits set out in the United Utilities Internal Control Manual. These limits determine which committee can release project funds, based on the latest best estimate of the total cost of the project. Before a project is submitted to PAC for approval, there are a number of assurance activities that take place. These ensure that the project has followed the required steps defined as part of the project lifecycle. The team delivering the project provides the first level of project assurance. This involves the Project and Programme Manager ensuring that the delivery team are following the correct processes and procedures. The Programme Management Office (PMO) provides the second level of assurance. The PMO provides an independent view and assures the project constantly throughout delivery. Examples of this involve facilitated gateway reviews to ensure that the project team have completed all of the necessary activities before moving into the next phase. Corporate Audit provides a third level of assurance on project delivery. External parties or Corporate Audit complete annual reviews on specific areas to ensure that projects are being delivered according to the agreed processes.

PAC1

The financial approval gateway at the start of the project where the business case is presented in order for funds to be released to commence the 'Identify and Define' phases. The purpose of the funding is to identify / confirm the need and develop the required contract documentation.

PAC2

The financial approval gateway at the end of the 'Identify and Define' phase where the business case is presented in order for funds to be released to commence the 'Deliver and Close' phases. The PAC 2 meeting is prior to project contract award and indicates full approval of the investment.

PAC3

The financial approval gateway at the end of the project. The purpose is to review items such as the benefits and present any lessons learned during the investment and how these can be applied in the future.

Process for Project Evaluation and Selection

Going forward, as part of the PAC approval process, all new investment will be assessed to identify whether it meets the definition of an Eligible Project and to which category of spend this should be categorised, in line with the proposed Green and Social categories outlined in the 'Project Eligibility Criteria' table above. This will enable new investments to be added to the register of Eligible Projects that is presented to the Sustainable Finance Committee, from which it can allocate against new funds raised.

To ensure that allocations are made to Eligible Green or Social Projects as specified above, the Company is establishing a Sustainable Finance Committee. The Committee will be responsible for:

- Ensuring the proposed allocations are aligned with the relevant United Utilities policies concerning project development;
- Ensuring the proposed Eligible Projects are aligned with the categories recognised under the Green Bond Principles, Social Bond Principles and Green Loan Principles;
- Approving any proposed changes to the register of Eligible Projects in the event that the projects no longer meet the eligibility criteria (e.g. following divestment, liquidation, technology switch, concerns regarding ongoing alignment with eligibility criteria etc.); and
- Reviewing and approving Allocation and Impact Reports.

The Sustainable Finance Committee will initially comprise representatives from the following corporate functions of United Utilities:

- Treasury
- Sustainability
- Finance
- Regulated business

The Committee will meet on a semi-annual basis or more frequently as required, to review proposed allocations and ensure these are made in alignment with the uses specified here above. The Treasury function will hold overall responsibility for allocation decisions.



Management of Proceeds

The net proceeds arising from the issuance under this Framework will be managed by our Treasury function, and will be wholly allocated to finance, refinance or invest in Eligible Projects.

Our Treasury team will ensure on a best efforts basis that the portfolio of Eligible Projects exceeds, or at least is equal to, the amount of Sustainable Financing Instruments raised under this Framework.

Pending allocation, proceeds will be invested on a temporary basis in accordance with the relevant internal policies, in cash, cash equivalents or similar instruments.

Reporting

United Utilities already operates a comprehensive sustainability reporting framework, and we anticipate that existing reporting arrangements will continue to provide a comprehensive overview of the environmental and social impacts generated by our activities, investments and expenditures.

Within one year of issuance, and annually thereafter until full allocation of the Sustainable Financing instrument net proceeds, we will publish an external report.

The External Report will include (i) an Allocation Report; along with (ii) an Impact Report, subject to the availability of suitable information and data. These reports will be made available publicly at www.unitedutilities.com.

It is anticipated that the Allocation Report will include:

- Total amount of proceeds allocated to Eligible Projects, per category;
- The proportion of the proceeds allocated to refinancing of existing Eligible Projects; and
- Unallocated proceeds.

We will also report on selected impacts of our Eligible Projects based on environmental and social performance data (refer to indicative impact metrics in Use of Proceeds table above).



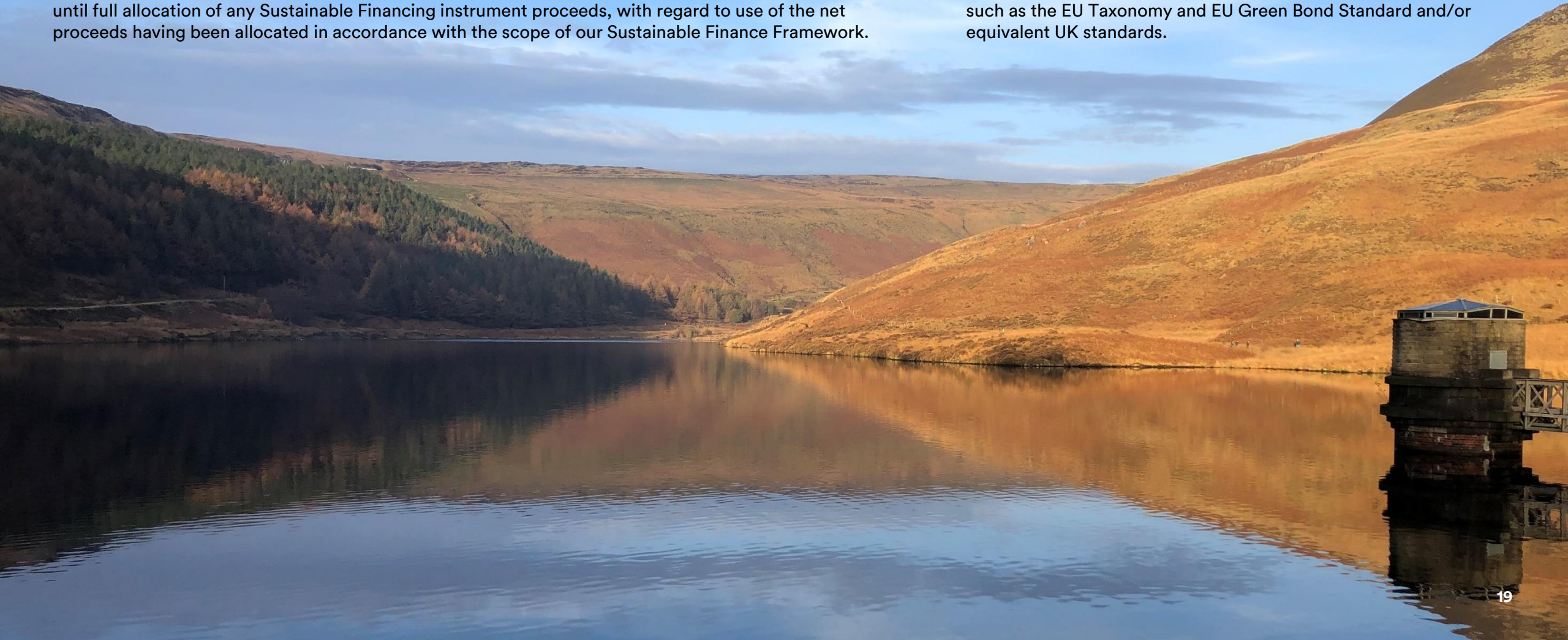
External review

Sustainalytics have provided a Second Party Opinion on our Sustainable Finance Framework. The Second Party Opinion is available at www.sustainalytics.com

We also intend to incorporate into our Allocation Report an independent review by an external auditor within 1 year of issuance of any Sustainable Financing instrument, and annually thereafter until full allocation of any Sustainable Financing instrument proceeds, with regard to use of the net proceeds having been allocated in accordance with the scope of our Sustainable Finance Framework.

Periodic improvements

We anticipate continually evolving our approach to sustainability, and intend to periodically review our Sustainable Finance Framework for alignment and consistency with: i) evolving market standards in respect of the Green and Social Bond Principles and Green Loan Principles; and/or ii) future regulatory developments such as the EU Taxonomy and EU Green Bond Standard and/or equivalent UK standards.



References

¹ The economic regulator of the water sector in England and Wales: <https://www.ofwat.gov.uk/>

² <https://sdgs.un.org/goals>

³ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

⁴ <https://www.fsb-tcfd.org/>

⁵ See page 72 of current Annual Report: <http://unitedutilities.annualreport2020.com/>

⁶ https://www.unitedutilities.com/globalassets/z_corporate-site/cr-images/cr-pdfs/adaptation-progress-report-uu.pdf

⁷ <https://www.unitedutilities.com/corporate/responsibility/environment/resource-efficiency/>

⁸ <https://www.unitedutilities.com/corporate/about-us/our-future-plans/water-resources/water-resources-management-plan/>

⁹ <https://www.unitedutilities.com/corporate/responsibility/our-approach/cr-governance/>

¹⁰ Defined as residential customers spending more than 3 per cent. of their annual household income, after housing costs, on water and wastewater services

¹¹ The five SDGs included in the use of proceeds section of this framework do not fully align with the six SDGs highlighted in our annual report as being most significant to our business, as the SDGs included in this framework are limited to those that are supported through finance as opposed to the wider business operations

¹² <https://www.unitedutilities.com/corporate/responsibility/our-approach/cr-performance/>

¹³ <https://www.icmagroup.org/green-social-and-sustainability-bonds/>

¹⁴ <https://www.lsta.org/content/green-loan-principles/#>

¹⁵ Excludes any CHP plant primarily powered by fossil fuels in line with Exclusions noted on page 15

¹⁶ <https://www.iso.org/obp/ui/#iso:std:iso:55001:ed-1:v1:en>

References

¹⁷ We apply the waste hierarchy to our waste management processes. A large proportion of our waste (water and wastewater sludge) is recycled to land through the appropriate scheme. Much of our excavated material is reused on the site it was dug up from or recycled to be used again. Our office waste is segregated, sorted and is incinerated with energy recovery

¹⁸ Note: There is no introduction of green or municipal waste that would require segregation for recycling prior to anaerobic digestion

¹⁹ We define the added Natural Capital value of schemes as the sum of the multiple benefits delivered by a scheme, beyond those associated with a conventional engineering-led approach. We calculate the added value of these benefits using an independently-assured Natural Capital Accounting methodology. The method assess six Ecosystem Services (ESS) valued by customers; water quality, climate mitigation, flooding, biodiversity, amenity & recreation and health & wellbeing. Natural Capital enhancement measures may include afforestation and/or reforestation projects. As a major owner of woodland we manage our trees in sustainable way to protect water quality, conservation, access, recreation value and timber value. We have been Forest Stewardship Council® (FSC®) certified since 2003. The FSC-UK forest management standard endorses the UK Woodland Assurance Standard (UKWAS) and this certification covers all 4336 hectares of our woodland estate. Our certificate number is SGS-FM/COC-001381. Our License code is FSC-C005555

²⁰ SSSI – Site of Special Scientific Interest - a conservation designation denoting a protected area

²¹ The UU Trust Fund provides financial support to specific vulnerable customer groups including the unemployed and those on low incomes. Each application is assessed based upon the customer's personal circumstances, and typically customers who apply to the UUTF fall within at least one and often several of the target population categories defined in the Social Bond Principles. In particular, a high proportion of applications are made by customers who are unemployed or on low incomes (possibly zero hours contracts), and often these customers have experienced a change in circumstances, or family event – such as disability, bereavement and/or being unpaid carers which has put a strain on their financial circumstances. Recently, the UUTF has been deployed to support customers who have been impacted as a result of the Covid-19 pandemic. Further information concerning eligibility is available at <https://www.unitedutilities.com/my-account/your-bill/difficulty-paying-your-bill/how-we-can-help/>

²² The Priority Services Scheme is designed to provide tailored support to vulnerable members of society in order to maintain their access to the water supply. Eligible groups include: those suffering from chronic/serious illness (including mental health conditions), restricted movement, the elderly (pensionable age), blind or partially sighted, hearing impaired, language or speech difficulties, financially vulnerable, and young adult householders in temporary accommodation. Further information is available at <https://www.unitedutilities.com/help-and-support/priority-services/>

²³ The Hardship Hub gives the region's money advice community the tools to help pinpoint the right support for the people who come to them for help. The hub has been specifically created to support those organisations throughout the North West who provide expert advice to individuals struggling with debt. Access to the information held on the hub is only available to registered advisors working on a not-for-profit basis. <https://www.hardshiphub.co.uk/>

²⁴ Support programme directed at primarily youth target population who are not in education, employment or training (NEET)

²⁵ Defined as hydropower projects with a capacity of 25 MW or above, and involving a water impoundment dam

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November 2020



Water for the North West