

**BUSINESS
PRINCIPLES**

Our approach
to doing
business



Introduction

At United Utilities we are proud of our strong commitment to high ethical standards in the conduct of our business. We are focused upon behaving with integrity, fairness and observance of legal requirements at all times.

Our philosophy is reflected in our Business Principles, which summarises our approach to doing business. Following changes to the structure of United Utilities in recent years and the introduction of the 2006 Companies Act, which introduced some changes to the legal landscape, we have updated this guide.

In this document, we summarise our business philosophy and the principal policies we operate throughout all of our business operations. These are described in more detail in our revised Internal Control Manual. It is the responsibility of employees and their line managers to ensure that they are familiar with the contents that are applicable to their jobs, along with related policies and operating procedures.

Our vision to be a world class operator of utility infrastructure is founded upon our ability to maintain and enhance our reputation for having high business and ethical standards. The continued success of our business will be underpinned by fostering this reputation with all those who have an interest in our business and more generally, with the communities globally in which we operate.

We cannot live up to our commitments to conduct business legally and with integrity and fairness if we, as individuals, do not speak up when we should. To that end, anyone with serious concerns that we may not be adhering to these commitments is encouraged to speak up via their line manager or by using our 'talk openly' procedure described on page 14.

I look forward to your continued commitment and dedication to our business philosophy and approach to doing business.

A handwritten signature in black ink, appearing to be 'Philip Green', written over a horizontal line.

Philip Green, Chief Executive

(for and on behalf of the Board of United Utilities Group PLC)

Our vision & values

Contents

Our vision is to be a world class operator of utility infrastructure

Our values enable us to create the right business environment in which to achieve our vision. Our values are:

TEAM We believe that we can only succeed if we act as one team, showing mutual respect for each other and all working to the same agenda with a clear vision, one set of values and a common goal. We actively encourage our people to share successes and knowledge to help identify best practice.

TRUST We provide essential resources to large numbers of customers. It is important that if we make commitments, as a team, we deliver on them. Building and maintaining the trust of our customers, fellow employees, shareholders and stakeholders more generally is essential to our success. We aim to do business in a way which inspires trust, avoiding unnecessary rules and constraints, being open and honest in our communication and where we make mistakes, we admit them and learn from them.

PASSION We want everyone to understand the importance of what our company does and to take pride in what we do. We will celebrate our successes, rewarding those who champion new ideas, inspire others and are relentless in doing the right thing to the best of their ability. We encourage people to look for alternative solutions to problems and not to look for excuses or fail to take responsibility.

COMMITMENT We must be committed to delivering on our promises in everything we do. This means that we will always strive to go the extra mile, take ownership of issues and follow them through to resolution. It also means leading by example and always trying to act with integrity and fairness.

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An overview

CUSTOMERS

We focus on the needs of our customers and seek to:

- provide quality services and supplies which are safe, reliable and good value, supported by continuous innovation in anticipation of customer needs;
- keep our promises and make it easy for customers to do business with us;
- keep customers updated on matters which affect them and adopt appropriate standards in our marketing and advertising;
- promote programmes to make our services accessible, including addressing issues of affordability;
- establish long-term relationships with our customers and measure customer satisfaction;
- ensure the timely and fair resolution of complaints; and
- protect the safety of the public.

SUPPLIERS AND BUSINESS ASSOCIATES

We seek constructive business relationships and aim to:

- foster long term agreements within clearly defined boundaries of contractual responsibility;
- deal with organisations whose business conduct, principles and standards are compatible with our own;
- treat our business associates with appropriate standards of ethical behaviour;
- safeguard the confidential information of others and not use such information for any improper business activity or potential gain; and
- conduct all business dealings at arm's length, including adherence to our policies concerning conflicts of interest, gifts and bribes.

EMPLOYEES

We respect the rights of our people and work to enable everyone to achieve their full potential and make their best contribution. In particular we strive to:

- provide competitive rewards to attract and retain employees and recognise high achievement;
- invest in developing our employees;
- value diversity and recruit and promote on merit;
- communicate openly and honestly with our employees and enable effective employee representation to be maintained;
- provide safe, secure working conditions;
- keep employee records confidential to the extent the law permits us to do so;
- enable our employees to balance their work and home lives;
- engender an environment in which our employees are candid, honest and professional in performing their duties; and
- ensure our employees communicate openly and transparently with our advisers, auditors and regulators.

GOVERNMENT AND REGULATORS

We are committed to open dialogue and building constructive relationships with national and local governments and regulators. We seek to:

- respect all applicable legal and regulatory requirements wherever we operate;
- supply information to governments and regulators that is complete and accurate;
- work with relevant authorities to ensure that regulation fairly balances our interests with those of all our stakeholders, now and in the future; and
- work with relevant local authorities and emergency services to protect public health.

INVESTORS

Always mindful of our legal obligations we endeavour to:

- treat all investors fairly;
- inform them promptly of any major actions or decisions potentially affecting their investment;
- maximise enduring shareholder value and promote the success of the company for the benefit of our shareholders;
- maintain high standards of business dealings and corporate governance; and
- report openly and transparently on our activities.

CORPORATE RESPONSIBILITY

We view our corporate responsibility as integral to the way we operate our business. We aim to:

- invest in community programmes which support and add value to our operations;
- recognise and manage the effect of our operations upon the community and the environment;
- invest in education programmes that support our business and long-term recruitment needs;
- take account of the traditions and cultures of the communities in which we operate; and
- encourage our people to make a positive contribution to the communities in which we operate.

Customers

We are committed to our vision of being a world class operator of utility infrastructure and provider of essential services and we aim to:

- be a high performance company, operating within the upper quartile of all important standards set by regulators and/or as measured by appropriate benchmarks;
- deliver high quality services and supplies which are safe, reliable and good value, recognising that our services and supplies are usually essential to the health and welfare of our customers;
- protect the safety of the public in connection with our operations;
- seek to instil in our employees and systems of work a responsibility and a dedication to deliver solutions to the issues facing our customers, that are 'right first time';
- measure our successes, monitor feedback and listen to criticism, seeking long-term relationships with customers;
- comply with data protection requirements at all times, handling customer information in accordance with legal requirements and with care and sensitivity, only discussing details of the customer's account with the customer, their representative or such other person who could be deemed responsible for the charges due;
- ensure all our representatives dealing with customers carry appropriate identification;
- make our services as accessible as possible, with procedures in place to ensure that consideration is given to the particular communication and security needs of older customers and those with special needs;
- take account of the position of customers with genuine and serious financial hardship in our decision-making processes, offering a variety of options to make payments easier;
- tackle vigorously those who appear simply unwilling to pay through strict debt recovery processes, because of the wrongful burden such customers impose upon others and our shareholders; and
- keep customers up to date on matters that affect them and ensure that our advertising and marketing is appropriate.

Suppliers and business associates

We seek to develop long-term relationships with our key suppliers, contractors and other business associates by:

- complying with applicable law and regulations wherever we do business;
- striving to ensure that our employees do not indulge in anti-competitive or other inappropriate behaviour;
- endeavouring only to do business with organisations whose principles and conduct are compatible with ours and who meet or are committed to seeking to match our own environmental and supply chain sustainability standards;
- establishing mutual responsibilities through a clear, consistent procurement policy and transparent tendering, seeking, amongst other matters, to ensure clear commercial terms and approval levels are put in place to facilitate operations once a contract is in operation;
- never seeking to take advantage of others through unlawful means, such as the payment or receipt of bribes, the use of inappropriate payments or business hospitality or offering or accepting other wrongful inducements;
- striving to ensure, so far as possible, that all suppliers, agents, distributors, joint venture partners and consultants have written terms of appointment, are suitably qualified and experienced and have satisfactory references; and
- having a code of procurement principles and being committed to treating our business associates with the appropriate standards of ethical behaviour and never offering or giving any item of value to influence unlawfully or inappropriately their behaviour towards us.

Employees

COMMUNICATION

We are committed to communicating and consulting with our people and their representatives, formally and informally. Therefore we:

- seek to use appropriate mechanisms to inform and consult on business results, future plans and any changes, especially where there may be an impact on employees; and
- communicate appropriately either directly with employees, or through their representatives and Trade Unions.

CONFLICTS OF INTEREST AND CONFIDENTIALITY

We seek to ensure all employees understand they must act ethically and responsibly and:

- declare any personal interest which may affect their independent judgement on any operational decision in which they are required to participate, or on which they might exert an influence;
- treat as confidential all information gained through their normal duties; and
- understand the need to be vigilant in safeguarding information that is confidential to the business or others.

EQUALITY

We believe that individuals should be selected, promoted and treated solely on the basis of merit and the requirements of the job. Therefore we will:

- make it clear when recruiting that UU is an equal opportunities employer, assessing candidates for each position solely on merit and always seeking to select and appoint the most suitably qualified candidate;
- offer terms and conditions of employment on a non-discriminatory basis and appoint, develop and promote employees solely on merit;

- consider adjustments to working practices, wherever possible, in order to accommodate a more diverse workforce;
- share and promote our equality policy with our suppliers and other business associates;
- seek to raise awareness of equality issues and counteract ignorance or prejudice;
- not tolerate bullying or harassment of any kind and take action to eliminate such behaviours if they are found to exist;
- investigate allegations of discrimination, take disciplinary action where necessary; and
- always strive to ensure our policies conform to current equality best practice.

LEARNING

We believe in a culture of continuous learning and supporting employees to maximise their potential. Accordingly, we strive to:

- identify and match future skills and knowledge requirements in our business plans;
- invest resources and support employees in devoting sufficient time to learning and encourage the sharing of knowledge by all;
- encourage employees to reach their full potential. To this end, employees are encouraged to agree personal development plans with their managers annually, and managers are expected to provide honest and constructive feedback upon performance to their teams;
- encourage external accreditation for training wherever possible to ensure it is of the appropriate quality and recognised by other employers;
- provide support through mentor and peer groups, training our managers as leaders, coaches and facilitators;
- measure and target the contribution which learning adds to our success; and
- seek opportunities to re-train and re-deploy employees when skill and knowledge requirements change.

OCCUPATIONAL HEALTH

We look to facilitate the wellbeing of our employees on a preventive rather than curative basis. Therefore we:

- monitor employee absence and use such data and other indicators to try to identify possible appropriate preventative/remedial measures;
- aim to ensure effective processes are in place to manage employees' health related problems and that employees are dealt with fairly and with respect; and
- use health education programmes and provide information for employees to illustrate the harmful effects of substance abuse, and give guidance to managers on the early recognition of such issues in the workplace and how to address them.

REMUNERATION

We aim to ensure that our remuneration arrangements attract and retain people of the right calibre in order to promote corporate success and enhance shareholder value. Our overall approach is to seek to:

- attract, develop, motivate and keep talented people at all levels;
- pay competitive salaries and benefits to our people; and
- encourage our people to hold shares in our company.

When pay levels are set, amongst other matters, we take account of the work that an employee does and comparator remuneration in other companies for similar roles.

WORK/LIFE BALANCE

We seek to ensure that our employees can balance their work and home lives. Therefore we aim to:

- recognise the demands that work may place on home life, reduce excessive work related pressure and deal fairly and sensitively with employees affected by ill health;

- operate flexible working arrangements where consistent with the needs of our business;
- have an additional leave policy to help employees who need to take time off for family or other personal reasons or to perform authorised public duties; and
- support eligible employees in any request for career breaks subject to business requirements.

HEALTH AND SAFETY

We are committed to seeking to ensure the health, safety and welfare of our employees, contractors, visitors, customers and members of the public. Therefore we aim to:

- comply with health and safety legislation and where appropriate legislation does not exist, adopt best industry practice;
- integrate health and safety management principles into the way we manage our business;
- set specific objectives, targets and management programmes for health and safety and engender a culture within which our employees can deliver them;
- define health and safety roles and responsibilities and have a clear management structure for them;
- facilitate change and continuous improvement by active employee consultation, communication, involvement and participation;
- manage and control our health and safety risks through effective assessment processes;
- monitor and review our performance and report it publicly;
- seek to improve our systems and performance; and
- work with our contractors to try to ensure effective health and safety management, compliance and meeting of standards. We also try to influence our joint venture and other business associates to do likewise.

Government and regulators

We are committed to open dialogue and building constructive relationships with national and local governments and regulators by:

- seeking to engage in open dialogue with government and regulators to achieve, amongst other matters, clarity surrounding the boundaries of our respective responsibilities;
- being proactive in raising not only our own issues, but also those that have industry-wide significance and/or related regional and national concerns, either directly or through industry bodies;
- taking a long-term view of the issues facing our business and assessing the impact of the company's operations upon the community and the environment;
- treating clear regulatory obligations as binding undertakings to deliver on and aiming to outperform our performance indicators in line with our vision to be a world class operator of utility infrastructure;
- seeking to ensure that the information that we supply to governments and regulators is complete and accurate; and
- working with the relevant authorities and emergency services to protect public health.

Investors

We are committed to honouring our responsibility to our shareholders and credit investors. Our shareholders are our owners. It is partly their capital that funds investment enabling us to promote the success of the company. Our relationship with lending institutions is also important because we need to ensure we have efficient access to the finance necessary to run the business.

While always mindful of our legal obligations, we strive to keep our investors informed of developments and aim to:

- provide true and fair disclosure that is also timely and released in understandable form in all announcements and publications;
 - make financial news releases available on our website as soon as practical after release to the London Stock Exchange;
 - publish compliant, balanced and understandable business reviews in our annual and interim reports, using appropriate financial reporting standards;
 - update shareholders on all information deemed likely to have a potentially material effect on the share price of United Utilities as soon as possible;
 - have in place a programme of meetings and presentations for institutional investors with directors and senior managers. We also encourage retail investors to make the best possible use of annual general meetings by participating and voting on shareholder matters;
- act fairly between all members of the company and listen to the feedback we receive from our shareholders;
 - work to create long term shareholder value;
 - seek to protect our investors by maintaining high standards of business conduct and corporate governance. Accordingly, we strive to ensure:
 - we comply with the Combined Code on Corporate Governance;
 - relevant employees are made aware of our rules and those of the UK Listing Authority on the restrictions on the use and dissemination of price sensitive information; and
 - we assist investment analysts by supplying non-price sensitive information and publishing details of formal presentations given to analysts to assist our wider shareholder community.

Corporate responsibility

We recognise the impact that our business operations can have upon the environment and the communities where we operate. Accordingly, we seek to manage our business responsibly and take account of climate change and sustainable development. We are also committed to developing relevant skills and talent of our people without which we could not promote the success of the company and our shareholders. As part of the process of ensuring accountability for what we strive to do, we report upon our corporate responsibility performance and strategic direction annually in our corporate responsibility report.

CLIMATE CHANGE

We recognise the potential for our operations to impact upon climate change and the need to find ways of mitigating these effects. Therefore we:

- monitor and report upon our greenhouse gas emissions. Against a background of rising demand to meet higher treatment standards, we aim to first halt and then reverse increases;
- seek to minimise energy use by continuously assessing how we manage our existing assets and by improving the design of our future plant;
- plan to increase our generation and use of renewable energy and improve our energy efficiency;
- consider the impact of climate change on our operations, and put in place appropriate measures; and
- seek to educate our employees, customer and business associates to help them address the challenges climate change gives rise to.

SUSTAINABLE DEVELOPMENT

We recognise and support the need for sustainable development which seeks to protect and enhance the environment, conserve natural resources, protect public health and support the communities we serve. Therefore we strive to:

- include principles of sustainable development in our business practices and consider the long-term effects of our decisions;
- minimise waste and limit our requirements for non-renewable raw materials;
- encourage government policy and regulation that allows us to make progress towards sustainability;
- assess and manage the environmental risks and effects associated with our operations;
- endeavour to protect, preserve and enhance the physical environment in which we operate;
- manage our land responsibly, balancing access, conservation and recreation considerations; and
- encourage the responsible use of water and offer to fit water meters where appropriate.

DEVELOPING SKILLS AND TALENT AND COMMUNITY PARTNERSHIPS

We recognise our responsibilities to our employees, customers, suppliers and to the broader communities within which we operate. We strive to be a good corporate citizen and seek to develop appropriate talents for the future success of our business. Therefore we aim to:

- raise awareness of our corporate responsibility approach amongst our employees, customers, suppliers and community partners;
- work with the communities in which we operate, in a way which supports and adds value to our operations through partnerships and employee involvement;
- encourage and support our people to make a positive contribution to the communities in which we operate;
- invest in education programmes, concentrating upon those that are aligned with our business focus and long-term recruitment needs; and
- assess the views of stakeholders in our decision-making processes, working with communities for mutual longer term benefits.

Putting integrity first

WHY SOMETIMES IT IS ABSOLUTELY NECESSARY TO SPEAK UP

We are committed to the achievement of world class performance, but we will not sacrifice integrity in order to achieve our targets. Even within the best organisations, individuals are sometimes tempted to cross the line between appropriate and inappropriate behaviour. If we are to maintain and enhance our reputation for having high standards of business conduct, it is essential that our people recognise they have a positive duty to act in such circumstances and feel able to raise concerns about any wrongdoing. Normally, such concerns will be raised through line managers or employee representatives.

Our disclosure or 'talk openly' policy, encourages any employee or contractor to raise concerns about any possible wrongdoing, including possible breach of our business principles, by reporting them in confidence to the Company Secretary, the HR Director or the Director of Audit and Risk. Occasionally, employees may feel uncomfortable about raising concerns through the normal line management reporting channels or directly with senior individuals, so we have also provided a voicemail number (01925 233338) which can be used by anyone on an anonymous basis. A confidential phone line is also provided through external provider, Expolink on 0800 374199.

HOW DO WE CHECK THE SYSTEM IS WORKING?

Every matter is fully investigated in the strictest confidence and we seek to protect individuals from any possible reprisals for doing the right thing and 'speaking up'. All reports are monitored by our audit committee which consists entirely of independent non-executive directors. The committee also reviews the 'talk openly' or disclosure policy and its effectiveness every year.

As part of our end-of-year processes, all members of the Executive Leadership Team are required to sign a letter of compliance in which they must verify, having made appropriate enquiry of their line managers, that, to the best of their knowledge, their people have applied our business principles and acted with integrity in all of their dealings. We also report to our stakeholders in an annual report and invite feedback that helps us continually to improve our business principles.

In summary

We are committed to keeping our business principles, policies and Internal Control Manual under regular review and up to date. We are also committed to ensuring that our employees know what we expect from them and that they can comply with their obligations to us. At all times, any employee who is in any doubt as to what is the right thing to do, should ask and keep on asking until they have obtained the guidance they need.

Sources for more information

If you wish to speak to someone about any aspect of how we do business, please contact one of the people below.

Customer

Gary Dixon, Customer Services Director
Tel: 01925 429600
Email: gary.dixon@uuplc.co.uk

Suppliers and business associates

Colin Davis, Supply Chain Director
Tel: 01925 778002
Email: colin.davis@uuplc.co.uk

Employees and Health and safety policy and strategy

Sally Cabrini, HR Director
Tel: 01925 237007
Email: alison.clarke@uuplc.co.uk

Government and regulators and Corporate responsibility

Gaynor Kenyon, Communications Director
Tel: 01925 237025
Email: gaynor.kenyon@uuplc.co.uk

Investors

Russ Houlden, Chief Financial Officer
Tel: 01925 731500
Email: tim.weller@uuplc.co.uk

Integrity

Tom Keevil, General Counsel & Company Secretary
Tel: 01925 237071
Email: tom.keevil@uuplc.co.uk

Employees can access this document plus a copy of our internal control manual on our intranet, One. This document is also available on our website: unitedutilities.com

unitedutilities.com

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Registered in England and Wales
Registered Number 6559020



**DELIVERING TODAY,
BUILDING FOR TOMORROW**

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