

## **YORKSHIRE WATER SUSTAINABLE FINANCE FRAMEWORK**

### **DNV GL INDEPENDENT ASSESSMENT**

#### **Scope and Objectives**

Yorkshire Water Services Ltd (henceforth referred to as “Yorkshire Water”) is a large water and sewerage company operating in the Yorkshire and Humber Region in the United Kingdom. The company collects, treats and distributes clean water, it also collects, treats and disposes wastewater. It serves approximately 5 million customers and 140,000 business premises.

Yorkshire Water, together with its financing subsidiaries Yorkshire Water Services Finance Limited and Yorkshire Water Finance Plc, has developed a Sustainable Finance Framework (the “Framework”) under which it can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across its activities.

DNV GL Business Assurance Services Limited (“DNV GL”) has been commissioned by Yorkshire Water to provide a review of the Framework. Our methodology to achieve this is described under ‘Work Undertaken’ below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of Bonds/Loans issued under the Yorkshire Water Framework, the value of any investments, or the long term environmental & social benefits of the transaction. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

#### **Responsibilities of the Management of Yorkshire Water and DNV GL**

The management of Yorkshire Water has provided the information used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform Yorkshire Water’s management and other interested stakeholders in the Framework as to whether the Framework is aligned with the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP), the LMA Green Loan Principles (GLP) and the Sustainability Bond Guidelines (SBG). In our work, we have relied on the information and the facts presented to us by Yorkshire Water. DNV GL is not responsible for any aspect of the projects, expenditures or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by Yorkshire Water management and used as a basis for this assessment were not correct or complete.

#### **Basis of DNV GL’s opinion**

We have adapted our eligibility assessment methodology to create a Yorkshire Water specific Green, Social & Sustainability Finance Framework Eligibility Assessment Protocol (henceforth referred to as

“Protocol”). Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL’s opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a bond/loan must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental & social benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a bond/loan should outline the process it follows when determining eligibility of an investment using Green, Social & Sustainability Bond/Loan proceeds, and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a bond/loan should be tracked within the issuing organisation, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond/loan investors should be made of the use of proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by Yorkshire Water in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a Yorkshire Water specific Protocol, adapted to the purpose of the Framework;
- Assessment of documentary evidence provided by Yorkshire Water on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of Yorkshire Water’s published material with regards to its environmental & social activities relating to the company;
- Discussions with Yorkshire Water’s management, and review of relevant documentation and evidence related to the criteria of the Protocol;
- Documentation of findings against each element of the criteria.

Our opinion as detailed below is a summary of these findings.

## Findings and DNV GL's opinion

DNV GL's findings are listed below:

### 1. Principle One: Use of Proceeds.

Yorkshire Water intends to use the proceeds issued under the Framework to finance and/or re-finance both social and environmental projects. DNV GL can confirm Yorkshire Water has committed to an amount equivalent to the net proceeds from the finance raised under the Framework will be allocated to finance new and/or refinance existing assets and expenditures of Yorkshire Water.

Assets and expenditures falling within the Social Eligible Categories ("Eligible Social Investments") and Green Eligible Categories ("Eligible Green Investments") will be aggregated to form respectively the Eligible Social Portfolio and the Eligible Green Portfolio. Eligible Social Investments and Eligible Green Investments will together be called Eligible Sustainable Investments.

Yorkshire Water will also aim, wherever possible, to refinance Eligible Sustainable Investments that have been completed or charged in the last two years but may also finance on-going and future Eligible Sustainable Investments. For example, existing debt raised in the past to build essential infrastructure but still meet the social and environmental requirements the Framework.

Yorkshire Water has confirmed Eligible Sustainable Investments will fall within one or several of the following eligible categories:

#### Social Eligible Categories

- Affordable basic infrastructure
- Access to essential services
- Food security
- Socioeconomic advancement and empowerment

#### Green Eligible Categories

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation
- Clean transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes

Within the Framework, Yorkshire Water also presents 19 case-studies showing examples of potential social and environmental projects with corresponding performance metrics.

DNV GL concludes that the eligible categories outlined in the Framework and 19 case studies are consistent with the categories outlined in the GBP, GLP, SBP and SBG.

### 2. Principle Two: Process for Project Evaluation and Selection.

Yorkshire Water has confirmed suitable assets and expenditures that meet the criteria of the Yorkshire Water Sustainable Finance Framework will be reviewed and approved, for inclusion within the use of proceeds, by a Committee composed of representatives from the Group's finance and sustainability functions. All assets and expenditures will also follow Yorkshire Water's risk management and procurement policy summarised within the Framework.

The Committee will select Eligible Sustainable Investments, in line with the Sustainable Eligible Categories and Excluded Budgetary Categories. DNV GL can confirm the Committee will prioritise those activities which they feel best support progress towards Yorkshire Water's Big Goals and the UN Sustainable Development Goals. Following selection and evaluation against the criteria, the investments may be included in the Eligible Sustainable Portfolio.

DNV GL can also confirm Yorkshire Water has committed to excluding certain categories such as personal expenditures, financing costs, landfill assets and expenditures, Yorkshire Water's fossil fuel fleet, assets and expenditures linked to the incineration of waste (without excluding activities for converting incinerators and associated assets to anaerobic digestion), potential fines and legal costs associated with pollution incidents.

DNV GL concludes that Yorkshire Water's Sustainable Finance Framework appropriately describes the process of project evaluation, selection and exclusions. DNV GL can confirm it is anticipated that the majority of Yorkshire Water's assets and expenditure will be included in the Eligible Sustainable Portfolio under the Framework.

### **3. Principle Three: Management of Proceeds.**

DNV GL has reviewed evidence and can confirm the proceeds from sustainable financing will be managed by the Yorkshire Water Treasury team. Yorkshire Water will follow the company's internal treasury policy who will hold or invest, at its discretion, any unallocated net proceeds. Where possible and practicable, unallocated net proceeds will be invested in Sustainable Liquid Investments.

The monitoring of the assets and expenditures will be done annually by the Committee by reviewing data sheets provided by the Finance team. The Committee will determine whether an expense category is Green, Social, both, or Excluded. All expenditure items will be tracked and managed accordingly to ensure no double counting occurs.

Yorkshire Water's Treasury team will always make sure that the amounts represented by the Eligible Sustainable Portfolio will exceed, or at least be equal to, the amount of finance raised under the Framework.

### **4. Principle Four: Reporting.**

Yorkshire Water has committed to provide information annually to investors on the allocation and impact of social and environmental projects financed through the Framework. The reporting will be in either a combined report or a series of reports. The Initial Allocation Report will detail the amount of financing raised, which sub-portfolio the financing was allocated to, a description of assets and expenses financed or refinanced (with case-studies where applicable), the balance of the unallocated proceeds and type of temporary investments, and the division of the allocation between new financing and refinancing. Subsequent reporting will be released annually within the Impact Report. DNV GL can also confirm Yorkshire Water has committed to report their 'Sustainable Debt Ratio' in line with TEGSF's latest Report on Climate-related Disclosures.

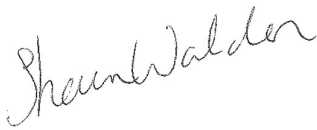
Yorkshire Water has also committed to measuring the impact of social and environmental projects through a wide range of KPIs, of which a selection of potential KPIs to be used in reporting under the Framework are listed in the appendices of the Framework. These KPIs align with Yorkshire Water's Six Capitals process: Financial, Manufactured, Natural, Human, Social, Intellectual, and is reflected in other public reports such as Our Contribution to Yorkshire.

DNV GL can confirm Yorkshire Water has committed to producing appropriate reporting on the environmental and social impacts of its investments made under the Framework.

On the basis of the information provided by Yorkshire Water and the work undertaken, it is DNV GL's opinion that the Framework meets the criteria established in the Protocol and that it is aligned with the stated definition of green bonds within the Green Bond Principles, green loans within the Green Loan Principles, social bonds within the Social Bond Principles and Sustainability Bonds with the Sustainability Bond Guidelines.

**for DNV GL Business Assurance Services UK Limited**

London, 28<sup>th</sup> January 2019



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**About DNV GL**

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

## 1 SCHEDULE 1: DESCRIPTION OF CATEGORIES TO BE FINANCED THROUGH THE FRAMEWORK

Social categories	Environmental categories
<ul style="list-style-type: none"> <li>• Affordable basic infrastructure</li> <li>• Access to essential services</li> <li>• Food security</li> <li>• Socioeconomic advancement and empowerment</li> </ul>	<ul style="list-style-type: none"> <li>• Renewable Energy</li> <li>• Energy Efficiency</li> <li>• Pollution prevention and control</li> <li>• Environmentally sustainable management of living natural resources and land use.</li> <li>• Terrestrial and aquatic biodiversity conservation</li> <li>• Clean transportation</li> <li>• Sustainable water and wastewater management</li> <li>• Climate change adaptation</li> <li>• Eco-efficient and/or circular economy adapted products, production technologies and processes</li> </ul>