



Sustainable Financing Framework 2021



Introduction from Alastair Cochran, our CFO



Our purpose is to deliver life's essential service, so that our customers, communities and the environment can thrive.

It's what really inspires us and goes hand in hand with our longstanding approach to being more sustainable, and to serve the needs of today's customers in a way that safeguards the future of our services and the environment.

Our approach to sustainability runs through everything we do, from the way we invest in infrastructure and run our finances, to the way we serve our customers and look after the natural environment. It isn't new to us. But, in today's environment, we're giving it even more focus.

We know we need to improve our performance and rebuild trust in Thames Water. We also know we can't do it alone and we need to work together with our stakeholders to be able to make a real difference. To build trust and a collaborative approach, we're committed to being transparent and humble with those around us.

Looking after, and enhancing, the environment is a crucial part of our long-term strategy, whether it's reducing pollutions to protect rivers, looking after water resources and increasing efficiency to make sure there's always enough to go around, or supporting natural habitats to thrive. We rely on a healthy natural environment to provide our services.

Our environment is also facing increasing pressure from the effects of climate change. We have the opportunity to help change the way energy is created and used in the UK – something we're really excited about. We already renewably generate 23 % of the electricity we consume and we're developing opportunities to inject biomethane from our sewage treatment processes into the gas grid.



Our passion to become a force for good goes even further than environmental protection. We can have a really positive impact on communities and society every single day, and that's very much embedded in our plans too. The importance of our support for communities became even more evident during the pandemic, with water being so crucial to good hygiene in the fight against Covid-19 and when many of our customers found themselves in increasingly difficult situations as a result of the lockdowns.

That's why we launched a new, sustainable financing framework to replace our existing green bond framework and incorporate the work we're doing to create long-term value for society and local communities.

This new framework will help us raise funds to support our ESG agenda, making sure our debt is aligned with our environmental and social responsibilities and that we're working together to build a better world for future generations.

Background

We're the UK's largest water and wastewater services provider, serving 15 million customers across the South East of England. We serve small villages and suburbs from parts of Gloucestershire in the west, to areas of Kent and Essex in the east, including London and surrounding conurbations, making our region socially and geographically diverse and presenting some unique challenges.

Between 2020 and 2025, we'll invest over £10 billion on operating, upgrading, and improving resilience of our assets and services for the future, and meeting the needs of customers and regulators.

To ensure the safe and smooth running of London and the Thames Valley, we look after over 31,000 km of water pipes and 97 water treatment works, providing 2.6 billion litres of drinking water every day. We manage over 109,000 km of sewer pipes and 354 sewage treatment works to safely remove and treat 4.7 billion litres of wastewater every day, before returning it to the environment.

We recognise that the provision of water and wastewater services must be done responsibly and sustainably for the benefit of the environment and future generations. Everything we do supports our purpose - to deliver life's essential service, so our customers, communities and the environment can thrive.

During 2019/20, we reset our strategy to make sure we're focusing on what's most important as we headed into the next regulatory period. Our ambitions to 'deliver brilliant customer engagement' and 'invest in resilient assets and systems' are still very much at the forefront of our plans for 2020 to 2025, as well as our third strategic ambition, 'generating public value'. What we do, and how we do it, can have a positive and lasting impact on society and the natural environment. And by going above and beyond the basics of delivering our essential service efficiently, we can create significant public value.

We're committed to delivering our Purpose and building our reputation as a water company that provides a resilient service in a way that our customers, stakeholders, and employees can be proud of, and our investors and regulators support and recognise.

Sustainability

Being more sustainable is a longstanding commitment of ours and it aligns with our strategic approach to generating public value and going beyond the delivery of our basic services to deliver better outcomes for our customers, communities, and the environment.

To support our strategic ambitions and our approach to sustainability, we continue to put the Environment, Social and Governance agenda at the heart of our financial decision-making. Every year we produce a standalone ESG statement, bringing the last five years of ESG data together in one place.

Becoming a more sustainable business is an important consideration for our company, Board and investors and we need to strike a balance between what's best for customers, the environment, local communities, and the future provision of our essential services.

We're passionate about looking after the environment, giving back to the communities we serve and making sure we're a force for good, both now and in the future.



Environment

A healthy natural environment is fundamental to our business and protecting and enhancing nature is something we take very seriously, even more so as we face the increasing challenges posed by climate change.

Natural Capital and Biodiversity

We will assess the Natural Capital stocks across all our landholdings by 2025 and look to use the information in our decision making. We aim to increase biodiversity by 5% at 253 Sites of Biodiversity Interest by 2025.

Net Zero Carbon and beyond

One of our key areas of focus over the next ten years is to reduce the net carbon emissions from our operations to zero by 2030, and then beyond by 2040.

Circular Economy

The water cycle is a true circular economy. We're driving efficiency in the cycle to increase our contribution to a circular economy, through energy generation, recycling sludge to land and creating aggregate for construction.

Healthier Rivers

By 2025 we aim to:

- Reduce pollutions by 30%
- Improve 745km of rivers across our region
- Ensure we meet or exceed all of our environmental obligations
- Clean-up 750 surface water outlets that pollute rivers because of wrongly connected household drains

Renewable energy generation

We will aim to generate, and use, enough green energy in one year that would be sufficient to power 115,000 homes.

Leakage

Leakage reduction remains one of our top priorities and we're focusing on delivering our leakage reduction plans for 2020 to 2025 and ensuring we continue to improve our performance. We've committed to reducing annual average leakage by 20% from our 2019/20 level by the end of 2025 and by 50% in the longer term.

Sustainable Surface Water Management

We are actively working in partnership with local authorities and other third party organisations to adopt sustainable surface water management to reduce the risk of sewer flooding and pollution, and improve network resilience.

UN Sustainable Development Goals

We fully support the aspirations of all 17 Sustainable Development Goals (SDGs), although we focus on four specific goals where we think we can make a significant positive contribution:



We're managing drainage and water resources to ensure sustainable services in the face of climate change and population growth. This goal is essential to a more sustainable world and supports many of the SDGs.



We're working to increase the amount of self-generated renewable energy.



We're working to become more efficient, reduce waste and increase how much we recycle and re-use including bio solids to land.



We're working to increase the capacity to respond to the impacts of climate change and mitigate our contribution to the causes of climate change.

Social

We have an important role to play in society and the way we invest in, and operate, our business will have a long-term impact on the world around us. It's not just about what we do, it's about how we do it.

Vulnerability

We aim to increase the number of customers on our Priority Services Register to 410,000 by 2025.

Sustainable workforce

We aim to educate every school age child in our area about water and wastewater issues, and we're promoting visits by local schools to our education centres and a new mobile classroom. Through this, we'll support and encourage STEM subjects.

Diverse and inclusive workforce

Our skills strategy involves:

- Improving the diversity of our workforce by building a pipeline of skills from local communities and the education sector.
- Creating careers, not just jobs, by investing in our people and fostering a culture of lifelong learning.
- Establishing sustainable strategic skills partnerships.
- Adopting a leading position in the industry, and with our supply chain, on the development of skills.

Affordability

We aim to give at least 200,000 customers, who find it hard to pay, a discount on their bill.

Community Investment

We're working with community partners across our region to promote conservation, access, and recreation on more than 100 of our sites.





Governance

We continue to put our ESG approach at the heart of our financial decision-making.

Policies

Across Thames Water, policies and statements of intent are in place to ensure consistent governance on a range of issues. We have a range of policies covering health and safety, equality, diversity and inclusion, anti-corruption and bribery, human rights and modern slavery, and honest and ethical behaviour. These policies are available on our website.

Corporate Governance Code

The Company is committed to high standards of governance and has applied the principles of the Corporate Governance Code 2018, and the Board Leadership, Transparency and Governance Principles (BLTG).

TCFD alignment

We report on our understanding and our response to climate change in our Annual Report, Annual Performance Report and Sustainability Report. We evaluate the risks, opportunities and our responsibilities associated with this. This is broadly equivalent to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and we'll work to be fully aligned by our 2022/23 reporting year.

GRESB

Each year, we take part in GRESB which assesses firms based on three 'ESG' pillars. In 2018, we became the first UK corporate to tie the interest rate we pay on a revolving credit facility to our GRESB score. If we outperform on our GRESB score, the margin we pay will be lowered and any financial gains are put towards our charitable fund for water and health, or environmental causes.

Sustainable Financing Framework

Our Sustainable Financing Framework (“the Framework”) supports the financing of our water and wastewater recycling projects related to the environmentally sustainable management of natural resources and land use, as well as climate adaptation. We aim to provide transparency, disclosure, integrity, and quality in our Sustainable Financing reporting.

We have developed a Framework under which the entity Thames Water Utilities Limited (TWUL) and its subsidiary, Thames Water Utilities Finance plc (TWUF), can issue three types of Sustainable Financing instruments:

1. Green Bonds/Loans – for which the funds raised are exclusively allocated to Eligible Green Projects
2. Social Bonds/Loans – for which the funds raised are exclusively allocated to Eligible Social Projects
3. Sustainability Bonds – whereby the funds raised are exclusively allocated to Eligible Green Projects and to Eligible Social Projects

Together, all the financing instruments that can be issued under this Framework are called Sustainable Financing Instruments.

We follow the ICMA Green Bond Principles 2021 (“Green Bond Principles”), ICMA Social Bond Principles 2021 (“Social Bond Principles”), ICMA Sustainability Bond Guidelines 2021 (“Sustainability Bond Guidelines”), the Loan Market Association Green Loan Principles 2021 (“Green Loan Principles”) and the Loan Market Association Social Loan Principles 2021 (“Social Loan Principles”). The Framework covers four primary components and the recommended External Review component:

- 1 Use of proceeds
- 2 Process for project evaluation and selection
- 3 Management of proceeds
- 4 Reporting
- 5 External Review

It’s our intention to follow best practice and take into account the technical screening criteria of the ‘EU Taxonomy’ for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation and adaptation, and whether that activity causes no significant harm in determining eligible uses of proceeds. Therefore, our Sustainable Financing Framework may be amended and/or updated to reflect changes in market practice.

Use of proceeds

Definitions

“Eligible Green Projects” means projects which meet the Green Eligibility Criteria of this Framework. A Second-Party Opinion provider will review the Eligible Green Portfolio and a Second Party Opinion of the project eligibility criteria has been provided by an independent reviewer.

“Eligible Social Projects” means projects which meet the Social Eligibility Criteria of this Framework. A Second-Party Opinion provider will review the Eligible Social Portfolio and a Second Party Opinion of the project eligibility criteria has been provided by an independent reviewer.











“Eligible Green Portfolio” means a portfolio of Eligible Green Projects. Debt financing will only be allocated against projects where spend has occurred within the three financial years prior to the financial year of issuance of the relevant debt, and/or where spend is due to occur within a period of two financial years following the financial year of issuance.

“Eligible Social Portfolio” means a portfolio of Eligible Social Projects. Debt financing will only be allocated against projects where spend has occurred within the three financial years prior to the financial year of issuance of the relevant debt, and/or where spend is due to occur within a period of two financial years following the financial year of issuance.

“Eligible Sustainable Portfolio” means a portfolio of Eligible Green Projects and/or Eligible Social Projects. Debt financing will only be allocated against projects where spend has occurred within the three financial years prior to the financial year of issuance of the relevant debt, and/or where spend is due to occur within a period of two financial years following the financial year of issuance.

“Eligibility Criteria” means the criteria a project must meet to be included as an Eligible Green Project or an Eligible Social Project under this Framework, as applicable.

For Eligible Green and Social Projects see chart opposite.

ICMA Green Category	Eligibility Criteria	Example of projects (tbc)	SDG
Sustainable Water and Wastewater Management	Capital maintenance replacement and enhancement of sites aimed at reducing leakage / water losses, improving water quality or enhance the resiliency against flooding.	Sustainable Drainage Systems (SuDS), reducing leakage, increasing resilience, metering, reducing sewer flooding	 
Renewable Energy	Capital maintenance, replacement and enhancement of energy infrastructure based on the following technologies: - solar photovoltaic - biogas - waste heat	Biogas injection to gas grid, solar power on land or water, energy recovery e.g. heat from sewers	
Energy Efficiency	Projects related to the establishment of renewable energy storage capacity or the improvement in the energy efficiency of the water system	Renewable energy storage, process improvements, improved energy use e.g. pump refurbishment / replacement, energy management programme related to our ISO 55001 plans	 
Pollution prevention & Control	Projects aimed at reducing water pollution and recovering wastewater	Solutions to deliver - reducing sewer flooding, reduce pollutions by 30 %, improve 750 surface water outlets, improvement of sewage work control and management	
Environmentally Sustainable Management of Living Natural Resources and Land Use	Projects which deliver an increase in natural capital value or avoid deterioration	Biodiversity net gain, biodiversity projects (grassland restoration, hedgerow planting, tree planting), wetland and pond creation, smarter water catchments, SuDS	
Terrestrial and Aquatic Biodiversity Conservation	Projects aimed at improving conservation outcomes Projects aimed at improving river quality	Biodiversity net gain, wetland creation, smarter water catchments, the creation of new habitats and improving the condition of existing habitats and their connectivity will support species to thrive	
Clean Transportation	Projects relating to acquisition and deployment of electric vehicles and associated charging infrastructure	Decarbonisation of fleet vehicles (by 2025 we expect to buy no more petrol or diesel vans, with the fleet of vans expected to have churned by 2030), zero carbon fuels (the fuels being considered are renewable electricity including solar, and wind and our own hydrogen power), and charging infrastructure	
Climate Change Adaptation	Projects relating to water and wastewater systems resilience	Water Resource solution, drainage and wastewater management solutions We are taking a systems approach to protecting customer service from climate change impacts through the WRMP, DWMP and Drought planning. Options identified will contribute to climate resilience	
ICMA Social Category	Eligibility Criteria	Example of projects	
Access to essential services	Projects enabling all customers/ households to have access to water, with a target population of 11 million water customers, and 15 million wastewater customers to maintain essential water services both now and in the future	Increase the number of customers on our Priority Services Register to 410,000, undertake 25,000 smarter home visits annually to help customers reduce their water bills. In addition, we're also looking to provide support to customers through social tariffs	

Process for project evaluation and selection

We have processes in place to ensure strong governance over approval of capital expenditure.

Our Board reviews and approves our annual capital expenditure budget. All capital expenditure requires management approval, and the level of management approval is determined through our schedule of delegated authority. This ensures there's appropriate scrutiny over the business case.

Projects are considered based on their relative merits, including how they impact our performance commitments, health and safety, the environment, and costs.

All decision making is made in line with the five principles underpinning our strategy:

- 1 Listening to our customers, understanding their needs, and putting those needs at the forefront of our decision making
- 2 Being good custodians of the environment
- 3 Ensuring that our assets are maintained, renewed, and optimised to give the very best 'whole life outcomes'
- 4 Operating our business with optimal efficiency and innovating continuously
- 5 Being crystal clear in all our activities, both internal and external, that we are responsible for the service we give our customers and the health and wellbeing of our assets

Eligible Green Projects and Eligible Social Projects must meet the Eligibility Criteria described in the "Use of Proceeds Section". A panel consisting of the Thames Water Utilities Limited CFO, the Sustainability Director and the Head of Corporate Finance has been appointed to approve the inclusion of projects in the eligible portfolio of Social or Green projects. The approval by any two members of the panel is required for a project to be included in the relevant eligible portfolio.

Our risk management process is aligned with ISO 31000:2018 and we are improving our decision making around assets by developing an asset management system that is ISO 55001 certified. We have a robust approach to considering and managing our risks so we can maximise opportunities to deliver our Purpose through our business and operations, to have a material positive impact on (a) society and (b) the Environment, taken as a whole. The approval panel will ensure that all Eligible Projects will provide environmental benefits and/or positive social impacts in addition to ensuring they meet the previously outlined Eligibility Criteria.





Management of proceeds

The proceeds arising from the issuance of our Sustainable Financing Instruments will be appropriately managed at all times by our Treasury function, and will ultimately be used to finance, refinance, or invest in eligible projects that are in keeping with the principles we follow. Where any proceeds cannot be immediately allocated to finance or refinance these projects, the funds will initially be placed as deposits with Money Market Funds or counterparties that comply with our Treasury Policy.

The net proceeds of the Sustainable Financing Instruments will be tracked using our internal management reporting process. Our Capital Reporting Team will report internally on a monthly basis all expense recognised against Eligible Sustainable Projects. As long as the Sustainable Financing is outstanding, the balance of the tracked proceeds will be periodically adjusted to match allocations to eligible projects made during that period by our Treasury team.

The Treasury team will ensure that the total amount invested or due to be invested in eligible projects in the Eligible Green Portfolio, Eligible Social Portfolio, or Eligible Sustainable Portfolio will always be equal to or higher than the amount of Green Financing Instruments, Social Financing Instruments, or Sustainable Financing Instruments respectively outstanding in the market.

If for any reason a project is no longer eligible, or in case of any major controversy affecting a project in one of these portfolios, the approval panel will substitute such projects with other Eligible Projects for an amount at least equal to such projects as soon as an appropriate substitution option has been identified.

Reporting

Allocation reporting

Allocation reporting will be available to investors within the financial year following the date of issuance of each Sustainable Financing Instrument. This Annual Impact Report will set out the proportion of the proceeds allocated to eligible project spend and the proportion allocated to future spend on eligible projects. The report will continue to be produced until the earlier of (i) the maturity of the debt; or (ii) the proceeds of debt have been reported as having been fully allocated to eligible project spend. Should there be any variance in the initial allocation reporting, such as divestments, we will duly update the allocation report as soon as reasonably possible and no later than the end of the financial year following this major allocation change.

Impact reporting

We will annually, and until the maturity of the Sustainable Financing Instruments, provide investors with information within our Annual Impact Report regarding the environmental or social impacts of the projects funded by the outstanding Sustainable Finance Instruments. We will report at a category level. Both the Annual Impact Report and the project eligibility will be reviewed by a Second Party Opinion provider.

We will report on a range of environmental and social impacts of the investments and expenditures funded with the Sustainable Financing Instruments, subject to the availability of suitable information and data. They cover all aspects of our service and resilience, examples include:

- Maintaining high quality drinking water, measured in terms of water quality compliance risk index
- Reducing leakage from the network, measured in megalitres per day (MI/d)
- Helping customers to become more water 'smart', measured in per capita consumption, in litres per person per day (l/p/d)
- Operational carbon performance measured in terms of absolute carbon emissions (kTCO²e*) and carbon intensity ratios per megalitre of water delivered and wastewater treated (kgCO²e per MI**)
- Increasing renewable electricity generation (Gigawatt Hours (GWh) of renewable energy produced)
- Reducing internal sewer flooding (number of incidents per 10,000 sewer connections)
- Reducing the potential for pollution incidents (number of pollution incidents per 10,000km of the wastewater network)
- Maintaining treatment works compliance (% of compliance)
- Smarter Water Catchment Initiatives (number of catchments)
- Power Resilience, cumulative number of sites that are made resilient to power disturbances (number of Sites)
- Smarter Home Visits (number of visits per year)

*Kilotonnes of carbon dioxide equivalent

**Kilogrammes of carbon dioxide equivalent per mega litre

External review

Pre-Issuance Review

We appointed DNV to independently verify our Sustainability Financing Framework and a selection of example projects and eligibility criteria. DNV has reviewed the Framework content, example projects and eligibility criteria and has confirmed their alignment with the relevant ICMA and LMA Principles and claims made by the issuer, providing us and investors with a verification report.

Post-Issuance review

We intend to seek a limited assurance opinion for each Annual Impact Report, provided by an external auditor certifying the allocation of proceeds in accordance with the principles of this Framework and the environmental and social impacts of the projects.



