

# THAMES WATER SUSTAINABLE FINANCING FRAMEWORK

## DNV INDEPENDENT ASSESSMENT

### Scope and Objectives

Thames Water Utilities Limited (henceforth referred to as “Thames Water”) is the UK’s largest water and wastewater services provider, serving a population of 15 million across South-East England, including parts of Gloucestershire, Kent, Essex, and London. Managing an overall network of 140,000 km of water and sewer pipes and 451 treatment works, Thames Water provides around 2.6 billion litres of clean drinking water, and treats up to 4.7 billion litres of wastewater, per day.

Together with its subsidiary, Thames Water Utilities Finance plc, Thames Water has developed a Sustainable Financing Framework (the “Framework”) under which it can issue Sustainable Financing Instruments (i.e., green bonds and loans, social bonds and loans, and sustainability bonds). This Framework replaces its existing ‘Green Bond Framework’, and aligns with its Environmental, Social and Governance (ESG) agenda and its commitment to environmental and social responsibilities.

DNV Business Assurance Services UK Limited (“DNV”) has been commissioned by Thames Water to provide a review of the Framework against the International Capital Market Association (“ICMA”) Green Bond Principles 2021 (“GBP”), Social Bond Principles 2021 (“SBP”), and Sustainability Bond Guidelines 2021 (“SBG”), and the Loan Market Association (“LMA”) for Green Loan Principles 2021 (“GLP”) and Social Loan Principles 2021 (“SLP”). Our methodology to achieve this is described under the ‘Work Undertaken’ section below. DNV has not been commissioned to provide independent assurance or other audit activities. No assurance has been provided regarding the financial performance of any bonds or loans issued under the Framework, the value of any investments, or the long-term environmental/social benefits of the associated transactions. 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 Thames Water and DNV

The management of Thames Water has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform Thames Water’s management and other interested stakeholders as to whether the Framework is aligned with the principles for such finance, as issued by the ICMA and LMA. DNV’s assessment is supplemented with international guidelines and standards, as well as DNV’s own technical expertise to assess sustainability eligibility. In our work we have relied on the information and the facts presented to us by Thames Water. DNV is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by Thames Water and used as a basis for this assessment were not correct or complete.

### Basis of DNV’s opinion

We have adapted our eligibility assessment methodology to create a Thames Water-specific Sustainable Financing Framework Eligibility Assessment Protocol (henceforth referred to as “Protocol”). Our Protocol includes a set of suitable criteria that can be used to underpin DNV’s opinion.

As per our Protocol, the criteria against which the Framework has been reviewed is grouped under the four Principles outlined as outlined below:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a Green, Social or Sustainability Bond/Loan must use the funds raised to finance or refinance eligible activities. The eligible activities should produce clear environmental and 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 Green, Social or Sustainability Bond/Loan should outline the process it follows when determining eligibility of an investment using Green or Social 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 Green, Social or Sustainability 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 investors or lenders should be made of the use of Green, Social or Sustainability Bond/Loan 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 Thames 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 Thames Water-specific Protocol, adapted to the purpose of the Framework, as described above;
- Assessment of documentary evidence provided by Thames Water on the Framework and supplemented by high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Discussions with Thames Water's management, and review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria as detailed in [Schedule 2](#) of this document.

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

## Findings and DNV's opinion

DNV's findings are listed below:

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

Thames Water intends to use this Framework to issue green, social and sustainability bonds, loans or other debt instruments, or "Sustainable Financing Instruments", to finance or refinance "Eligible Green Projects" and "Eligible Social Projects" that are of a sustainable nature and that will deliver positive environmental and/or social benefits to the communities that Thames Water serves. Assets and capital expenditures falling within the relevant green or social categories as outlined below, will be defined as qualifying projects ("Eligible Green Projects" and "Eligible Social Projects") that, together, form part of Thames Water's "Eligible Sustainable Portfolio".

The Eligible Sustainable Portfolio will comprise the following Eligible Categories:

*Eligible Green Categories:*

- Sustainable Water and Wastewater Management.
- 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.
- Climate Change Adaptation.

*Eligible Social Category:*

- Access to Essential Services.

Thames Water has also provided evidence of listed example projects, and the overarching environmental or social sustainability benefits, within the Framework. These are further defined in [Schedule 1](#) of this opinion alongside the list of the Eligible Categories, with example performance indicators outlined in [Schedule 2](#). Although no specific target population or customer has been identified for the Eligible Social Category, Thames Water has confirmed that the currently proposed projects are accessible to all, and do not exclude vulnerable or disadvantaged populations.

DNV has reviewed the evidence and can confirm that an amount equivalent to the funding raised under the Framework will be used to finance, refinance and/or invest in projects within the Portfolio, and that such projects would result in clear environmental and/or social benefits.

DNV concludes that the Eligible Categories outlined in the Framework (and the example projects provided to DNV) are consistent with those listed in the GBP, SBP, SBG, GLP, and the SLP.

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

DNV can confirm that Thames Water has a clear management structure in place to evaluate and select potential Eligible Projects. Thames Water has confirmed that projects are considered based on their relative merits on performance, health and safety, the environment and costs, and that Eligible Green Projects and Eligible Social Projects must fall under the Eligible Categories and meet the Eligibility Criteria described under “Principle One: Use of Proceeds” and [Schedule 1](#).

Projects will be approved for inclusion in the Eligible Green or Social Portfolio by a panel consisting of Thames Water’s CFO, the Sustainability Director and the Head of Corporate Finance. Approval by any two members of the panel is required for project inclusion in the relevant Eligible Portfolio. DNV notes that Thames Water is committed to considering and managing its risks in order to maximise its opportunities to have a positive impact on society and the environment through its business and operations. We further note that 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 Eligibility Criteria.

DNV can also confirm the Framework and its associated portfolio categories are aligned with Thames Water’s broader sustainability strategy, which supports Thames Water’s commitment to generate public value and to deliver better outcomes for customers, communities, and the environment. Thames Water has also aligned the Eligible Project Categories to the relevant United Nation’s Sustainable Development Goals (SDGs), specifically: SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action).

DNV concludes that Thames Water’s Framework appropriately describes the process for project evaluation and selection and is in line with the requirements listed in the GBP, SBP, SBG, GLP, and the SLP.

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

The management of proceeds will be the responsibility of Thames Water's Treasury function and will be carried out using its internal management reporting process. Net proceeds arising from the issuance of Sustainable Financing Instruments under the Framework will be used to finance, refinance or invest in Eligible Projects in line with the Framework and its principles. On a monthly basis, Thames Water's Capital Reporting team will report internally on Eligible Project expenditures, allowing the Treasury team to periodically adjust the balance of tracked proceeds according to the disbursements made during that period.

Thames Water has further confirmed that debt financing will only be allocated to Eligible Projects where spend has occurred within a lookback period of three financial years and look-forward period of two financial years from the financial year of issuance of the relevant Sustainable Financing Instrument. In cases where proceeds cannot be allocated to Eligible Projects, the proceeds will be placed as deposits with Money Market Funds or bank counterparties that comply with Thames Water's Treasury Policy. If a project is found to no longer meet the Eligibility Criteria set out in this Framework, Thames Water will substitute it for other Eligible Projects to the same value or higher as soon as a suitable option is identified.

DNV has reviewed the evidence and can confirm that Thames Water has committed to appropriately managing the proceeds arising from future Sustainable Financing Instruments issuances in line with the requirements of the GBP, SBP, SBG, GLP, and the SLP.

### 4. Principle Four: Reporting.

DNV can confirm that Thames Water has committed to publishing information on both the allocation of proceeds raised from Sustainable Financing Instruments, and on the environmental and social impacts from the Eligible Projects funded by these proceeds.

In terms of 'Allocation Reporting', following issuance of a Sustainable Financing Instrument, Thames Water will produce an annual report setting out (1) the share of proceeds allocated to Eligible Project spend, and (2) the share allocated to future spend on Eligible Projects. Reporting will continue until the debt has reached maturity, or all of the net proceeds have been reported as being fully allocated to Eligible Projects, whichever occurs earlier. Thames Water will endeavour to update the allocation reporting within a reasonable time, and no later than the end of the financial year in the event of a major allocation change.

In terms of 'Impact Reporting', Thames Water has confirmed that it will issue an Annual Impact Report made available to investors. The report will detail the environmental or social impacts of the Eligible Projects funded through proceeds raised from Sustainable Financing Instruments. Thames Water has also identified example indicators to support its 'Impact Reporting' – for instance:

- Maintaining high quality drinking water, measured in terms of water quality compliance risk index.
- Reducing leakage from the network, measured in megalitres per day (Ml/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 (kilotonnes of carbon dioxide equivalent; kTCO<sub>2e</sub>) and carbon intensity ratios per megalitre of water delivered and wastewater treated (kgCO<sub>2e</sub> per Ml).
- 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).

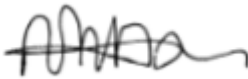
- Power Resilience, cumulative number of sites that are made resilient to power disturbances (number of sites).
- Smarter Home Visits (number of visits per year).

DNV concludes that Thames Water has appropriate plans in place to produce reporting on the allocation of proceeds, and on the environmental and social impact of future Sustainable Financing Instruments issuances. We can confirm that this is also in line with the requirements of the GBP, SBP, SBG, GLP, and the SLP.

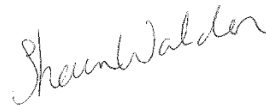
On the basis of the information provided by Thames Water and the work undertaken, it is DNV's opinion that the Framework meets the criteria established in the Protocol, and that it is aligned with the stated definition of green bonds within the GBP 2021, social bonds within the SBP 2021, sustainability bonds as stated within the SBG 2021, green loans within the GLP 2021, and social loans within the SLP 2021.

**for DNV Business Assurance Services UK Limited**

London, 13 December 2021

A handwritten signature in black ink, appearing to read "Nichola Hutson".

**Nichola Hutson**  
Senior Consultant and Project Manager  
DNV – Business Assurance

A handwritten signature in black ink, appearing to read "Shaun Walden".




**Shaun Walden**  
Principal Consultant and Reviewer  
DNV – Business Assurance




**About DNV**

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 12,000 professionals are dedicated to helping customers make the world safer, smarter and greener.




**SCHEDULE 1: DESCRIPTION OF ACTIVITIES TO BE FINANCED UNDER THE FRAMEWORK**

ICMA / LMA Green project category	Description of activities	SDG alignment
<b>Eligible Green Categories:</b>		
<p><b>Sustainable Water and Wastewater Management</b></p>	<p>Projects for capital maintenance, replacement and enhancement of sites aimed at reducing leakage or water losses, improving water quality or enhancing resilience against flooding.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Sustainable Drainage Systems (SuDS).</li> <li>• Leakage reduction projects.</li> <li>• Increasing resilience.</li> <li>• Metering.</li> <li>• Sewer flooding reduction projects.</li> </ul>	 
<p><b>Renewable Energy</b></p>	<p>Projects for capital maintenance, replacement and enhancement of energy infrastructure based on the following technologies: solar photovoltaic, biogas, waste heat.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Biogas injection to gas grid.</li> <li>• Solar power on land or water.</li> <li>• Energy recovery, e.g., heat from sewers.</li> </ul>	


<p><b>Energy Efficiency</b></p>	<p>Projects related to the establishment of renewable energy storage capacity or the improvement in the energy efficiency of the water system.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Renewable energy storage.</li> <li>• Process improvements.</li> <li>• Improved energy use, e.g., pump refurbishment / replacement.</li> <li>• Energy management programme related to Thames Water’s ISO 55001 plans<sup>1</sup>.</li> </ul>	 
<p><b>Pollution Prevention and Control</b></p>	<p>Projects related to reduction of water pollution and wastewater recovery.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Sewer flooding reduction solutions.</li> <li>• Reducing pollution incidents (target of 30% reduction).</li> <li>• Improving surface water outlets (target of 750 outlets).</li> <li>• Improving sewage work control and management.</li> </ul> <p>Thames Water has also published a Pollution Incident Reduction Plan for 2020 - 2025<sup>2</sup> which outlines the initiatives and interventions it has taken in the last two years and demonstrates its commitment to reducing pollution.</p>	

<sup>1</sup> Thames Water has a plan in place to achieve ISO 55001 accreditation of its Asset Management System (AMS). The AMS covers all physical assets owned and managed by Thames Water and is used directly for the provision of services to its customers.

<sup>2</sup> Pollution Incident Reduction Plan 2020 – 2025 – Year 2 Report – April 2021 [\[online\]](#).

<p><b>Environmentally Sustainable Management of Living Natural Resources and Land Use</b></p>	<p>Projects which deliver an increase in natural capital value or avoid deterioration.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Biodiversity net gain.</li> <li>• Biodiversity projects (grassland restoration, hedgerow planting, tree planting)</li> <li>• Wetland and pond creation.</li> <li>• Smarter water catchments.</li> <li>• SuDS.</li> </ul>	
<p><b>Terrestrial and Aquatic Biodiversity Conservation</b></p>	<p>Projects aimed at improving conservation outcomes and river quality.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Biodiversity net gain.</li> <li>• Wetland creation.</li> <li>• Smarter water catchments.</li> <li>• Creation of new habitats and improving the condition of existing habitats and their connectivity will support species to thrive</li> </ul>	
<p><b>Clean Transportation</b></p>	<p>Projects relating to acquisition and deployment of electric vehicles and associated charging infrastructure.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Decarbonisation of fleet vehicles (2025 target to stop procurement of petrol/diesel vans).</li> <li>• Zero carbon fuels (such as renewable electricity from solar and wind, and Thames Water’s own hydrogen power).</li> <li>• Charging infrastructure.</li> </ul>	



<p><b>Climate Change Adaptation</b></p>	<p>Projects relating to water and wastewater systems resilience.</p> <p>Thames Water is taking a systems approach to protecting customer service from climate change impacts through the Water Resources Management Plan (WRMP), Drainage &amp; Wastewater Management Plan (DWMP) and Drought planning. Options identified will contribute to climate resilience.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Water Resource solution.</li> <li>• Drainage and wastewater management solutions.</li> </ul>	
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ICMA / LMA Social project category	Description of activities
<p><b>Eligible Social Category:</b></p> <p><b>Access to Essential Services</b></p>	<p>Projects enabling customers/households to have access to water, with a target population of 11 million water customers, and 15 million wastewater customers<sup>3</sup>.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• Increase the number of customers on Thames Water’s Priority Service Register (PSR) to 410,000, for access to Priority Services. The PSR<sup>4</sup> is open to people who: <ul style="list-style-type: none"> <li>○ can claim a pension.</li> <li>○ have a disability or serious illness.</li> <li>○ need a consistent supply of water for a medical condition.</li> <li>○ have a child under five.</li> <li>○ need translation or help to understand communications from Thames Water.</li> <li>○ have a condition that affects their life such as dementia.</li> <li>○ are blind, partially sighted, deaf, or hard of hearing.</li> <li>○ have a mental health condition.</li> <li>○ need extra support due to life-changing events like bereavement.</li> </ul> </li> <li>• WaterHelp and WaterSure schemes<sup>5</sup> for households in need of Extra Care Services. <ul style="list-style-type: none"> <li>○ These schemes are aimed at households on low income or those who may benefit from financial support as they have a large family or a water-dependent medical condition.</li> </ul> </li> </ul>

<sup>3</sup> DNV notes that although no specific target population has been identified for the Eligible Social Category, Thames Water has confirmed that the proposed projects are accessible to all, and do not exclude vulnerable or disadvantaged populations.

<sup>4</sup> Thames Water – Priority Services [[online](#)].

<sup>5</sup> Thames Water – WaterHelp and WaterSure [[online](#)].

## SCHEDULE 2: THAMES WATER-SPECIFIC SUSTAINABLE FINANCING FRAMEWORK ASSESSMENT PROTOCOL

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Types of Financing Framework	<p>The Green/Social/Sustainability Bond must fall in one of the following categories, as defined by the Green/Social/Sustainability Bond Principles &amp; Guidelines:</p> <ul style="list-style-type: none"> <li>• Use of Proceeds Bond</li> <li>• Use of Proceeds Revenue Bond</li> <li>• Project Bond</li> <li>• Securitised Bond</li> </ul> <p>Green/Social Loans are defined as any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing Eligible Green/Social Projects.</p>	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Report and Sustainability Report 2020/21.</li> <li>• Environmental, Social and Governance Statement 2021 <a href="#">[online]</a>.</li> <li>• Thames Water – Our journey to net zero carbon and beyond <a href="#">[online]</a></li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<p>The Framework is developed under the entity Thames Water Utilities Limited and its subsidiary, Thames Water Utilities Finance plc. The Framework outlines the type of Sustainable Financing instruments expected to be issued as Use of Proceeds Bonds and/or Loans, which may include:</p> <ul style="list-style-type: none"> <li>• Green, Social and/or Sustainability Bonds.</li> <li>• Green and/or Social Loans.</li> </ul> <p>The Eligible Sustainable Project categories that define Thames Water’s Portfolio are:</p> <p><i>Eligible Green Categories:</i></p> <ul style="list-style-type: none"> <li>• Sustainable Water and Wastewater Management.</li> <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>• Climate Change Adaptation.</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p><i>Eligible Social Category:</i></p> <ul style="list-style-type: none"> <li>• Access to Essential Services.</li> </ul> <p>DNV can confirm that the specific type of bond/loan will need to be further assessed on an individual basis. DNV can also conclude that the instruments issued under this Framework support the achievement of the UN SDGs, with the alignment to specific SDGs as indicated in <a href="#">Schedule 1</a>. DNV notes that Thames Water has indicated SDG alignment of the Framework in line with its corporate SDGs and, as such, not all relevant SDGs will have been captured.</p>
1b	Green / Social / Sustainable Project Categories	The cornerstone of a Green/Social/Sustainability Bond/Loan is the utilisation of the proceeds which should be appropriately described in the legal documentation for the security.	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Environmental, Social and Governance Statement 2021 <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	DNV can conclude that the Framework appropriately describes the proposed utilisation of proceeds. The specific utilisation of proceeds of each issuance will need to be further assessed on an individual basis, and the relevant legal documentation will need to also be reviewed further to ensure alignment with the Framework.
1c	Green / Social / Sustainable benefits	All designated Green/Social/Sustainable Project categories should provide clear environmentally sustainable or social benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Report and Sustainability Report 2020/21 <a href="#">[online]</a>.</li> <li>• Assessment of potential projects laid out in the Framework.</li> <li>• Environmental, Social and Governance Statement 2021 <a href="#">[online]</a>.</li> <li>• Pollution Incident Reduction Plan 2020-2025 – Year 2 Report – April 2021 <a href="#">[online]</a>.</li> </ul>	<p>The Framework outlines the overarching environmental, social, and sustainable benefits that will be realised by any Bond/Loan issued under the Framework. Specific quantitative and qualitative benefits, where relevant, of each issuance will be agreed on a case-by-case basis and are subject to further assessment. Thames Water has outlined potential KPI reporting metrics to demonstrate the impact from the different projects. For instance:</p> <ul style="list-style-type: none"> <li>• Maintaining high quality drinking water, measured in terms of water quality compliance risk index.</li> <li>• Reducing leakage from the network, measured in megalitres per day (Ml/d).</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
			<ul style="list-style-type: none"> <li>• Thames Water – Our draft Drought Plan 2021 <a href="#">[online]</a>.</li> <li>• Thames Water – Our Water Resources Management Plan 2020 – 2100 (published in April 2020) <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<ul style="list-style-type: none"> <li>• Helping customers to become more water ‘smart’, measured in per capita consumption, in litres per person per day (l/p/d).</li> <li>• Operational carbon performance measured in terms of absolute carbon emissions (kTCO<sub>2e</sub>) and carbon intensity ratios per megalitre of water delivered and wastewater treated (kgCO<sub>2e</sub> per MI).</li> <li>• Increasing renewable electricity generation (gigawatt hours (GWh) of renewable energy produced).</li> <li>• Reducing internal sewer flooding (number of incidents per 10,000 sewer connections).</li> <li>• Reducing the potential for pollution incidents (number of pollution incidents per 10,000km of the wastewater network).</li> <li>• Maintaining treatment works compliance (% of compliance).</li> <li>• Smarter Water Catchment Initiatives (number of catchments).</li> <li>• Power Resilience, cumulative number of sites that are made resilient to power disturbances (number of sites).</li> <li>• Smarter Home Visits (number of visits per year).</li> </ul>

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Green/Social/Sustainability Bond/Loan should outline the decision-making process it follows to determine the eligibility of projects using Bond/Loan proceeds	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Report and Sustainability Report 2020/21 – Governance Section <a href="#">[online]</a>.</li> <li>• Environmental, Social and Governance Statement 2021 <a href="#">[online]</a>.</li> <li>• Thames Water – Our board <a href="#">[online]</a>.</li> <li>• Thames Water – Our journey to net zero carbon and beyond <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<p>Thames Water has confirmed that its Board reviews and approves the annual capital expenditure budget. Additionally, Thames Water has processes in place for Management to review and approve capital expenditures according to the business case. Projects are considered based on their relative merits, including how they impact Thames Water’s performance commitments, health and safety, the environment and costs.</p> <p>Thames Water’s five principles underpinning its decision-making strategy are:</p> <ol style="list-style-type: none"> <li>1. Listening to customers, understanding their needs, and putting those needs at the forefront of decision-making.</li> <li>2. Being good custodians of the environment.</li> <li>3. Ensuring that assets are maintained, renewed, and optimised to give the very best ‘whole life outcomes’.</li> <li>4. Operating the business with optimal efficiency and innovating continuously.</li> <li>5. Being crystal clear in all activities, both internal and external, that Thames Water is responsible for the service given to its customers and the health and wellbeing of its assets.</li> </ol> <p>Eligible Green Projects and Eligible Social Projects financed under the Framework will have to meet the Eligibility Criteria described under the “Use of Proceeds” section of the Framework, as set out in <a href="#">Schedule 1</a> of this report. Projects will be approved for inclusion in the Eligible Green or Social Portfolio by a panel consisting of Thames Water’s CFO, the</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>Sustainability Director and the Head of Corporate Finance. Approval by any two members of the panel is required for project inclusion in the relevant Eligible Portfolio.</p> <p>On that basis, we conclude that the Framework appropriately describes the Process of Project Selection and Evaluation. The specific issuances will need to be further assessed on a case-by-case basis.</p>
2b	Issuer's governance framework	In addition to information disclosed by an issuer on its Green/Social/Sustainability Bond/Loan process, criteria and assurances, investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Report and Sustainability Report 2020/21 – Governance Section <a href="#">[online]</a>.</li> <li>• Environmental, Social and Governance Statement 2021 <a href="#">[online]</a>.</li> <li>• Thames Water – Our board <a href="#">[online]</a>.</li> <li>• Thames Water – Our journey to net zero carbon and beyond <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<p>DNV notes that Thames Water is committed to considering and managing its risks in order to maximise its opportunities to have a positive impact on society and the environment through its business and operations. We further note that 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 Eligibility Criteria.</p> <p>DNV can conclude that, from the information provided, the Framework is in line with Thames Water's wider approach to managing sustainability (environmental and social in nature). Thames Water has established a core strategy based on a commitment to delivering better outcomes for customers, communities and the environment. Thames Water show a range of ESG commitments, including natural capital and biodiversity targets, carbon reduction targets, community investment and corporate governance policies. This ESG approach aligns with the UN SDGs, most significantly SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action).</p>

### 3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure	The net proceeds of a Green/Social/Sustainability Bond/Loan should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Green/Social/Sustainable Projects.	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Performance Report 2020/21 <a href="#">[online]</a>.</li> <li>• Annual Report and Sustainability Report 2020/21 <a href="#">[online]</a>.</li> <li>• Corporate Criminal Offence Policy <a href="#">[online]</a>.</li> <li>• Honest and Ethical Behaviour Policy <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<p>Thames Water has confirmed that the net proceeds arising from the issuance of Sustainable Financing Instruments under the Framework will be used to finance, refinance or invest in Eligible Projects in line with the Framework and its principles.</p> <p>Management of proceeds from instruments issued under the Framework will be undertaken by Thames Water's Treasury function and the net proceeds will be tracked using Thames Water's internal management reporting process. The Treasury Team will further ensure that the total amount invested or due to be invested in Eligible Projects will always be higher or equal to the amount outstanding in the market for the relevant Green / Social / Sustainable Financing Instruments.</p> <p>As per the definitions provided for its Eligible Green Portfolio and Eligible Social Portfolio, Thames Water has confirmed that debt financing will only be allocated to Eligible Projects where spend has occurred within a lookback period of three financial years and look-forward period of two financial years from the financial year when the relevant Sustainable Financing Instrument is issued.</p> <p>In case a project no longer meets the Eligibility Criteria, Thames Water's approval panel will substitute any such project with other Eligible Projects to the same value or higher as soon as a suitable option is identified.</p>



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>DNV concludes that Thames Water has an appropriate procedure in place to track and manage the allocation of proceeds from the Sustainable Financing Instrument issuances.</p>
3b	Tracking procedure	<p>So long as the Green/Social/Sustainability Bonds/Loans are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible Green/Social/Sustainable investments or loan disbursements made during that period.</p>	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Performance Report 2020/21 <a href="#">[online]</a>.</li> <li>• Annual Report and Sustainability Report 2020/21 <a href="#">[online]</a>.</li> <li>• Corporate Criminal Offence Policy <a href="#">[online]</a>.</li> <li>• Honest and Ethical Behaviour Policy <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<p>Thames Water has confirmed that its Capital Reporting team will report internally on expenditures against Eligible Projects every month. While the Sustainable Financing Instruments are outstanding, Thames Water's Treasury team will ensure that the balance of tracked proceeds is periodically reduced by amounts matching allocations to Eligible Projects made during that period.</p> <p>DNV concludes that Thames Water has a clear process in place for tracking the balance of the Eligible Projects, taking into account periodic disbursements.</p>
3c	Temporary holdings	<p>Pending such investments or disbursements to Eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.</p>	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Performance Report 2020/21 <a href="#">[online]</a>.</li> <li>• Annual Report and Sustainability Report 2020/21 <a href="#">[online]</a>.</li> <li>• Corporate Criminal Offence Policy <a href="#">[online]</a>.</li> <li>• Group Treasury Policy (dated 19<sup>th</sup> November 2020).</li> <li>• Honest and Ethical Behaviour Policy <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<p>Thames Water has confirmed that, in cases where proceeds cannot be allocated to Eligible Projects, the proceeds will be placed as deposits with Money Market Funds or bank counterparties that comply with Thames Water's Treasury Policy.</p> <p>DNV can confirm that Thames Water has appropriately disclosed how it will manage any unallocated proceeds from its Sustainable Financing Instruments and that this is in line with the GBP, SBP, SBG, GLP, and the SLP.</p>

#### 4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which the Bond proceeds, and where appropriate Loan proceeds, have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	<p>Discussions with Thames Water and review of the following documents:</p> <ul style="list-style-type: none"> <li>• Annual Performance Report 2020/21 <a href="#">[online]</a>.</li> <li>• Annual Report and Sustainability Report 2020/21 <a href="#">[online]</a>.</li> <li>• Environmental, Social and Governance Statement 2021 <a href="#">[online]</a>.</li> <li>• Section 9: Environmental Appraisal (WRMP19) <a href="#">[online]</a>.</li> <li>• Sustainability Policies <a href="#">[online]</a>.</li> <li>• Thames Water – Our Water Resources Management Plan 2020 – 2100 (published in April 2020) <a href="#">[online]</a>.</li> <li>• Thames Water Sustainable Financing Framework 2021.</li> </ul>	<p>Thames Water has confirmed that it will publish an Annual Impact Report which will set out the proportion of proceeds allocated to Eligible Project spend and the proportion allocated to future spend on Eligible Projects. The report will be issued within the financial year following the financial year of issuance of each Sustainable Financing Instrument and reporting will continue until the debt has reached maturity or all net proceeds have been reported as being fully allocated to Eligible Project spend, whichever occurs earlier. Should there be a major change in allocation of proceeds, Thames Water will endeavour to update the allocation reporting within a reasonable time and no later than the end of the financial year following the financial year of allocation change.</p> <p>Additionally, within its Annual Impact Report, Thames Water will provide investors with information around the environmental or social impacts of the Eligible Projects funded by the proceeds raised from the relevant Sustainable Financing Instruments. Depending on the availability of the relevant information and data, Thames Water will endeavour to report on the environmental and social impacts through qualitative and quantitative indicators. Example indicators include:</p> <ul style="list-style-type: none"> <li>• Maintaining high quality drinking water, measured in terms of water quality compliance risk index.</li> <li>• Reducing leakage from the network, measured in megalitres per day (Ml/d).</li> <li>• Helping customers to become more water ‘smart’, measured in per capita consumption, in litres per person per day (l/p/d).</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>• Operational carbon performance measured in terms of absolute carbon emissions (kTCO<sub>2</sub>e) and carbon intensity ratios per megalitre of water delivered and wastewater treated (kgCO<sub>2</sub>e per MI).</li> <li>• Increasing renewable electricity generation (gigawatt hours (GWh) of renewable energy produced).</li> <li>• Reducing internal sewer flooding (number of incidents per 10,000 sewer connections).</li> <li>• Reducing the potential for pollution incidents (number of pollution incidents per 10,000km of the wastewater network).</li> <li>• Maintaining treatment works compliance (% of compliance).</li> <li>• Smarter Water Catchment Initiatives (number of catchments).</li> <li>• Power Resilience, cumulative number of sites that are made resilient to power disturbances (number of sites).</li> <li>• Smarter Home Visits (number of visits per year).</li> </ul> <p>DNV can also confirm Thames Water's intent to seek external verification of its allocation and impact reporting to ensure alignment with the Framework.</p>