

YORKSHIRE WATER SUSTAINABILITY BOND

DNV GL ELIGIBILITY 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 Finance Plc, a financing subsidiary of Yorkshire Water, intends to issue a £350 million bond (henceforth referred to as "the Bond") for the purpose of financing and refinancing its business activities.

This is Yorkshire Water's first public bond issuance under the Yorkshire Water Sustainable Finance Framework (henceforth referred to as "the Framework"), January 2019.

DNV GL Business Assurance Services Limited (henceforth referred to as "DNV GL") has been commissioned by Yorkshire Water to provide a Sustainability Bond eligibility assessment on this Sustainability Bond. 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 the Bond, the value of any investments in the Bond, or the long term social and environmental benefits of the transaction. Our objective has been to provide an assessment that the Bond 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 and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform Yorkshire Water management and other interested stakeholders in the Bond as to whether the established criteria have been met, based on the information provided to us. 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 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 Sustainability Bond Eligibility Assessment methodology to create Yorkshire Water - specific Sustainability Bond Eligibility Assessment Protocol (henceforth referred to as "Protocol") - see Schedule 2. 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 Bond 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 sustainability bond must use the funds raised to finance eligible activities. The eligible activities should produce clear social and environmental 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 sustainability bond should outline the process it follows when determining eligibility of an investment using Sustainability Bond 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 sustainability bond should be tracked within the issuing organization, 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 should be made of the use of bond 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 Bond, as described above and in Schedule 2 to this Assessment;
 - Assessment of documentary evidence provided by Yorkshire Water on the Bond and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
 - Discussions with Yorkshire Water 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 confirmed it intends to use the proceeds from this inaugural sustainability bond to finance and refinance capital and operational expenditure within the following areas:

- Water resources
- Raw water distribution
- Water treatment
- Treated water distribution
- Sewage collection, network plus sewage treatment
- Sludge transport, treatment and disposal

DNV GL can confirm Yorkshire Water has determined for each activity whether the benefits of the use of proceeds will be green, social or both, and whether the impact will be low, medium or high.

In alignment with the Framework, those investments are part of the Eligible Social Investments and Eligible Green Investments, which when aggregated are called Eligible Sustainable Investments.

Yorkshire Water has committed to refinancing 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 meets the social and environmental requirements the Framework.

DNV GL has reviewed the bond documentation and concludes that these categories fall within the eligible categories outlined in the Framework which are also consistent with the categories outlined in the Green Bond Principles and Social Bond Principles.

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

Yorkshire Water has confirmed that the categories included in the Sustainability Bond have been reviewed and approved for inclusion within the use of proceeds, by a Committee composed of representatives from the Group's finance and sustainability functions. The assets and expenditures linked to the Bond also follow Yorkshire Water's risk management and procurement policy, summarised in the Framework.

The Committee has selected activities described under Principle One as Eligible Sustainable Investments, in line with the Sustainable Eligible Categories and Excluded Budgetary Categories in line with the Framework.

DNV GL can also confirm Yorkshire Water has specifically 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. In addition, Yorkshire Water has decided to exclude all fleet costs for this bond issuance.

DNV GL concludes that the activities financed by the Bond were appropriately evaluated and selected, in line with the Framework.

3. Principle Three: Management of Proceeds.

DNV GL can confirm the proceeds from the Bond will be appropriately tracked and managed by the Yorkshire Water Treasury team as specified in the Framework.

DNV GL has reviewed documentation detailing the amounts of operational and capital expenditure allocated to green, social, or both categories for this Bond. Information about exclusions are also included in the formal tracking documentation. In alignment with the Framework, the monitoring of

the assets and expenditures included in the Bond will be done annually by the Committee by reviewing data sheets provided by the Finance team.

The Committee determines 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 has also committed to ensuring 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. Yorkshire Water has also committed to maintaining a healthy buffer of investments and expenditures over sustainability funding.

Yorkshire Water intends to follow the company's internal treasury policy who will hold or invest, at its discretion, any unallocated net proceeds from the Bond. Where possible and practicable, unallocated net proceeds will be invested in Sustainable Liquid Investments.

4. Principle Four: Reporting.

Yorkshire Water has committed to providing information annually to investors on the allocation and impact of the Bond.

The reporting will be done 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. Yorkshire Water has also committed to independent external assurance of the initial and annual allocation reporting, and its conformity with this Framework.

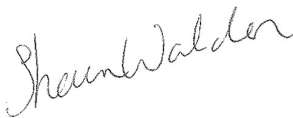
DNV GL can also confirm Yorkshire Water has committed to report their 'Sustainable Debt Ratio' in line with TEGSF's latest Report on Climate-related Disclosures and committed to measuring the impact of the Bond through a wide range of KPIs. These KPIs are listed in the appendices of the Framework.

DNV GL concludes that Yorkshire Water has committed to producing appropriate reporting on the environmental and social impacts of the Bond.

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

for DNV GL Business Assurance Services UK Limited

London, 11 April 2019



Shaun Walden

Principal Consultant and Project Director
DNV GL – Business Assurance



Douglas Farquhar

Principal Consultant and Reviewer
DNV GL – Business Assurance

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 ACTIVITIES TO BE FINANCED THROUGH THE BOND

Yorkshire Water's Sustainable Eligible Categories relevant to this Bond

- Water Resources
 - Raw Water Distribution
 - Water treatment
 - Treated water distribution
 - Sewage collection
 - Network plus sewage treatment
 - Sludge transport, treatment and disposal
-

SCHEDULE 2: YORKSHIRE WATER-SPECIFIC SUSTAINABILITY BOND ELIGIBILITY ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of bond	<p>The bond must fall in one of the following categories:</p> <ul style="list-style-type: none"> • Use of Proceeds Bond • Revenue Bond • Project Bond • Securitized or covered Bond 	<p>Discussions with Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> • Prospectus • Term sheet • Investor presentation 	<p>The type of Bond is described in the Prospectus and Term Sheet included in the Investor presentation. As such it falls within the category of a Use of Proceeds Bond.</p>
1b	Sustainability Project Categories	<p>The cornerstone of a Sustainability Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.</p>	<p>Discussions with Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> • Yorkshire Water Sustainable Finance Framework • Prospectus • 20190403_Sustainable Portfolio_vF2 • Investor presentation 	<p>Yorkshire will use the proceeds to finance the following activities:</p> <ul style="list-style-type: none"> • Water Resources • Raw Water Distribution • Water treatment • Treated water distribution • Sewage collection, network plus sewage treatment • Sludge transport, treatment and disposal <p>Those activities form part of Yorkshire Water's Eligible Sustainable Investments. These projects fall within the eligible categories outlined in the Framework and are consistent with the categories outlined in the GBP, SBP and SBG.</p> <p>DNV GL concludes that the use of proceeds is appropriately described in the Bond documentation.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1c	Social and Environmental benefits	All designated Green and Social Project categories should provide clear socially and environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>Discussions with Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> • Yorkshire Water Sustainable Finance Framework • 19 case-studies of sustainability projects • Investor presentation • 20190403_Sustainable Portfolio_vF2 	<p>Yorkshire Water has selected projects for the Bond which fall under both social and environmental categories.</p> <p>Yorkshire Water has determined for each activity whether the benefits of the use of proceeds will be green, social or both, and whether the impact will be low, medium or high.</p> <p>Yorkshire Water has prioritised those activities which they feel best support progress towards Yorkshire Water’s Five Big Goals and the UN Sustainable Development Goals.</p> <p>In order to make the benefits quantifiable, Yorkshire Water has provided a detailed list of potential KPIs.</p> <p>Yorkshire Water has also presented 19 case-studies showing examples of social and environmental projects with corresponding metrics.</p> <p>The evidence reviewed gives us the opinion that the Bond will deliver clear social and environmental benefits.</p>
1d	Refinancing share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	<p>Discussions with Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> • Yorkshire Water Sustainable Finance Framework • 20190403_Sustainable Portfolio_vF2 	<p>Yorkshire Water has provided evidence demonstrating an expected split of c.66% refinancing and c.34% new/upcoming financing.</p>

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Investment-decision process	<p>The issuer of a Sustainability Bond should outline the decision-making process it follows to determine the eligibility of projects using Sustainability Bond proceeds. This includes, without limitation:</p> <ul style="list-style-type: none"> • A process to determine how the projects fit within the eligible Sustainability Projects categories identified in the Sustainability Bond Guidelines; • The criteria making the projects eligible for using the Sustainability Bond proceeds. 	<p>Discussions with Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> • Yorkshire Water Sustainable Finance Framework • Investor presentation 	<p>Yorkshire Water has established a Committee to review and approve the activities included in the Sustainability Bond. The Committee is composed of representatives from the Group's finance and sustainability functions.</p> <p>The assets and expenditures linked to the Bond also follow Yorkshire Water's risk management and procurement policy, summarised in the Framework.</p> <p>Yorkshire Water has also committed, in alignment with the Framework, to excluding certain categories.</p> <p>DNV GL concludes that the activities financed by the Bond were appropriately evaluated and selected, in line with the Framework.</p>
2b	Issuer's environmental and social and governance framework	<p>In addition to information disclosed by an issuer on its Sustainability Bond process, criteria and assurances, Sustainability Bond investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.</p>	<p>Discussions with Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> • Yorkshire Water Sustainable Finance Framework • 20190403_Sustainable Portfolio_vF2 <p>Environmental and social governance documentation:</p> <ul style="list-style-type: none"> • Water Resilience in Yorkshire • Our contribution to Yorkshire 	<p>Yorkshire Water produce a series of reports detailing their mechanism for monitoring the effectiveness of the social and environmental framework, results and plans for the future.</p> <p>We conclude that from the information provided, the Bond is in line with Yorkshire Water's wider approach to managing environmental & social impacts.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			<ul style="list-style-type: none"> Annual Performance Report 2018 19 case-studies of sustainability projects ARFS 2018 Data Assurance Summary report 2018 Performance Summary report 	

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	<p>The net proceeds of Sustainability Bonds 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 Sustainability Projects.</p> <p>So long as the Sustainability Bonds are outstanding, the balance of the tracked</p>	<p>Discussions with Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> Yorkshire Water Sustainable Finance Framework 20190403_Sustainable Portfolio_vF2 	<p>All expenditure items will be tracked, and Yorkshire Water's Treasury team will 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 Bond.</p> <p>We conclude that there is a clear process in place for the tracking of the balance of the proceeds.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
		proceeds should be periodically reduced by amounts matching eligible sustainability investments or loan disbursements made during that period.		
3c	Temporary holdings	Pending such investments or disbursements to eligible Sustainability Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	Discussions with Yorkshire Water and review of the following documents: <ul style="list-style-type: none"> Yorkshire Water Sustainable Finance Framework 	We conclude that Yorkshire Water has appropriately disclosed how it will manage any unallocated proceeds within its liquidity portfolio.
3d	Over-collateralisation	n/a	Discussions with Yorkshire Water and review of the following documents: <ul style="list-style-type: none"> Yorkshire Water Sustainable Finance Framework 	Yorkshire Water's Treasury team has committed to ensuring 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. Yorkshire Water has also committed to maintaining a healthy buffer of investments and expenditures over sustainability funding.

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL 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 Sustainability Bond 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 Yorkshire Water and review of the following documents:</p> <ul style="list-style-type: none"> Yorkshire Water Sustainable Finance Framework "Our Contribution to Yorkshire" report 	<p>Yorkshire Water will provide information annually to investors on the allocation and impact of social and environmental assets and expenditures financed through the Bond. The reporting will be done in a combined report or a series of reports.</p> <p>Allocation reporting will detail amounts, balances and categories financed, impact reporting will measure the benefits of social and environmental assets and expenditures through a wide range of KPIs and will follow Yorkshire Water's Six Capitals process.</p> <p>KPIs may include:</p> <ul style="list-style-type: none"> Number of jobs supported Hours of education given on the value of water and how to reduce water usage Number of customers receiving support for their water bill Inclusive customer service - % improvement in the services provided to customers in vulnerable circumstances (reviewed and assessed by independent third-party organisations and charities) Number of internal sewer flooding incidents, and improvement interventions Greenhouse gas emissions (tCO₂e) Carbon stored in our land (tCO₂e) Leakage (MI) Annual water savings: water reuse and/or water use avoided (MI) Per capita consumption Drinking water quality Bathing water (beaches) quality (Legal classifications of Excellent, Good, Sufficient or Poor status) Length of river improved Renewable electricity generated (GWh)

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
				<p>DNV GL can confirm Yorkshire Water has committed to producing appropriate reporting on the environmental and social impacts of the Bond.</p>