

Anglian Water Services Ltd
Anglian Water Services Financing Plc

Sustainability Finance Framework

2020



love every drop
anglianwater

Contents

Anglian Water Services Financing: Sustainability Finance Framework	4
About Anglian Water	6
Aligning our goals with the United Nations Sustainable Development Goals	8
Anglian Water corporate sustainability framework	10
Six capitals thinking	11
Our business model	12
1. Use of proceeds	14
2. Process for project evaluation and selection (eligibility criteria)	18
3. Management of proceeds	20
4. Reporting	21
AMP7 sustainable categories	23
Alignment with the Sustainability-Linked Bond Principles, 2020	25
External review	29
Disclaimer	30



Anglian Water Services Financing: Sustainability Finance Framework



At Anglian Water Services Ltd (the “Company” or “Anglian Water”), together with our financing subsidiary vehicle Anglian Water Services Financing Plc, we have developed a framework under which we can issue sustainable transactions, green and/or social finance to finance our Asset Management Plan for the period 2020-2025.

The Anglian Water Sustainability Finance Framework supports the financing of water and water recycling projects that demonstrate our environmentally sustainable management of natural resources and land use, as well as adapting to climate change.

We were delighted to be awarded the Queen’s Award for Enterprise: Sustainable Development for a second time in April 2020. We were first awarded it for a five-year period in 2015, and it is a testament to the long-term focus on sustainable practices across our whole operation and supply chain that we have secured it for a further five years to 2025.

We have been able to achieve industry-leading levels of performance by constantly challenging ourselves and our supply chain partners to find new and better ways to deliver our service to customers. We have also done so while delivering the lowest price increases of any water company since the industry was privatised in 1989.

The standards we have been able to achieve in areas including carbon reduction, leakage, water quality and customer service have, in turn, reset standards for performance across the water industry. We have led the industry on leakage reduction, beating our regulatory target for the ninth year running in 2020, and maintaining leakage levels that are around half the industry average. Crucially, too, the quality of the water we deliver to millions of customers around our region has never been better.

For AMP7 (our five-year asset management period running from 2020 to 2025) we are splitting all of our eligible capital expenditure into 11 sustainable categories, which are discussed in depth throughout this framework.

The framework aligns with the ICMA Green Bond Principles 2018, the Social Bond Principles 2020 and the Sustainability Bond Guidelines 2018, as published by the International Capital Market Association (“ICMA”). The framework also aligns with the Loan Market Association’s (“LMA”) Green Loan Principles 2020.

The Principles have four core components:

1. Use of proceeds
2. Process for project evaluation selection
3. Management of proceeds
4. Reporting

It is understood that certain social projects may also have environmental co-benefits, and that certain green projects may have social co-benefits. We will determine the classification of use of proceeds as sustainable transactions based on our primary objectives for the underlying projects.

It is our intention to follow, where possible, best practices in the market as the standards develop. In addition, we are closely monitoring the European Union (EU) classification of environmentally sustainable economic activities (the European Union Green Taxonomy), as well as the EU Green Bond Standard Principles when these enter into force.

Under this Framework Anglian Water will be able to issue various funding instruments referred to as sustainable transactions in this document, including but not limited to Green, Social and Sustainability Bonds, private placements, bank facilities and leases.





About Anglian Water

At Anglian Water, we cover the largest geographical area of any water company in England and Wales. We employ 5,000 people and supply water and water recycling services to almost seven million customers in the East of England and Hartlepool.

Our huge region stretches from the Humber estuary, north of Grimsby, to the Thames estuary, and from Buckinghamshire to Lowestoft on the east coast. Our coastline is around 1,257 kilometres, and 112,833 kilometres of water and sewer pipes supply and transport water across some 27,500 square kilometres. If we laid them end to end, they would take us a quarter of the way to the moon.

Our challenges

Our region is the driest in the UK, and particularly vulnerable to climate change - low lying, with a long coastline and low rainfall. Water resources are already scarce, and climate change could reduce them further. Yet at the same time we also face the threat of more frequent flooding due to more intense rainfall and rising sea levels.

Our region is also one of the fastest growing in the country. Growth projections exceed 175,000 new homes over the next five years.

We look to address these challenges in collaboration with others, and by shaping our long-term vision in accordance with our 25-year

Strategic Direction Statement, published in 2007 and refreshed in 2017 to meet developing priorities (see graphic, right).

Our purpose

Our purpose is to bring environmental and social prosperity to the region we serve through our commitment to love every drop.

We have always recognised the special responsibility we hold as a monopoly provider of an essential public service. We have a duty to deliver wider benefits to society, above and beyond the provision of fresh, clean water. That responsibility is woven throughout our Strategic Direction Statement and our five-year Business Plan, which are shaped around the need to facilitate growth in our region, unlock opportunities for our customers and stakeholders, safeguard our environment and provide a resilient supply for generations to come.

Our commitment to the environmental and social prosperity of our region goes back many years, even before we set out our Love Every Drop strategy in 2010. We first considered climate change in our assessment of water resources back in 1993 and our education programme has reached nearly half a million people since its launch in 2006. In 2015 we were first awarded the Queen's Award for Enterprise: Sustainable Development in recognition of our work, while in 2017 we were named Responsible Business of the Year, in large part due to our community regeneration work in Wisbech.

In recent years, with the climate emergency accelerating and the challenges of providing resilient supplies to our growing population becoming ever more acute, we have played a leading role in driving industry-wide discussions around the social and environmental purpose of a water company.

With our shareholders' support, in July 2019 Anglian Water became the first major UK utility

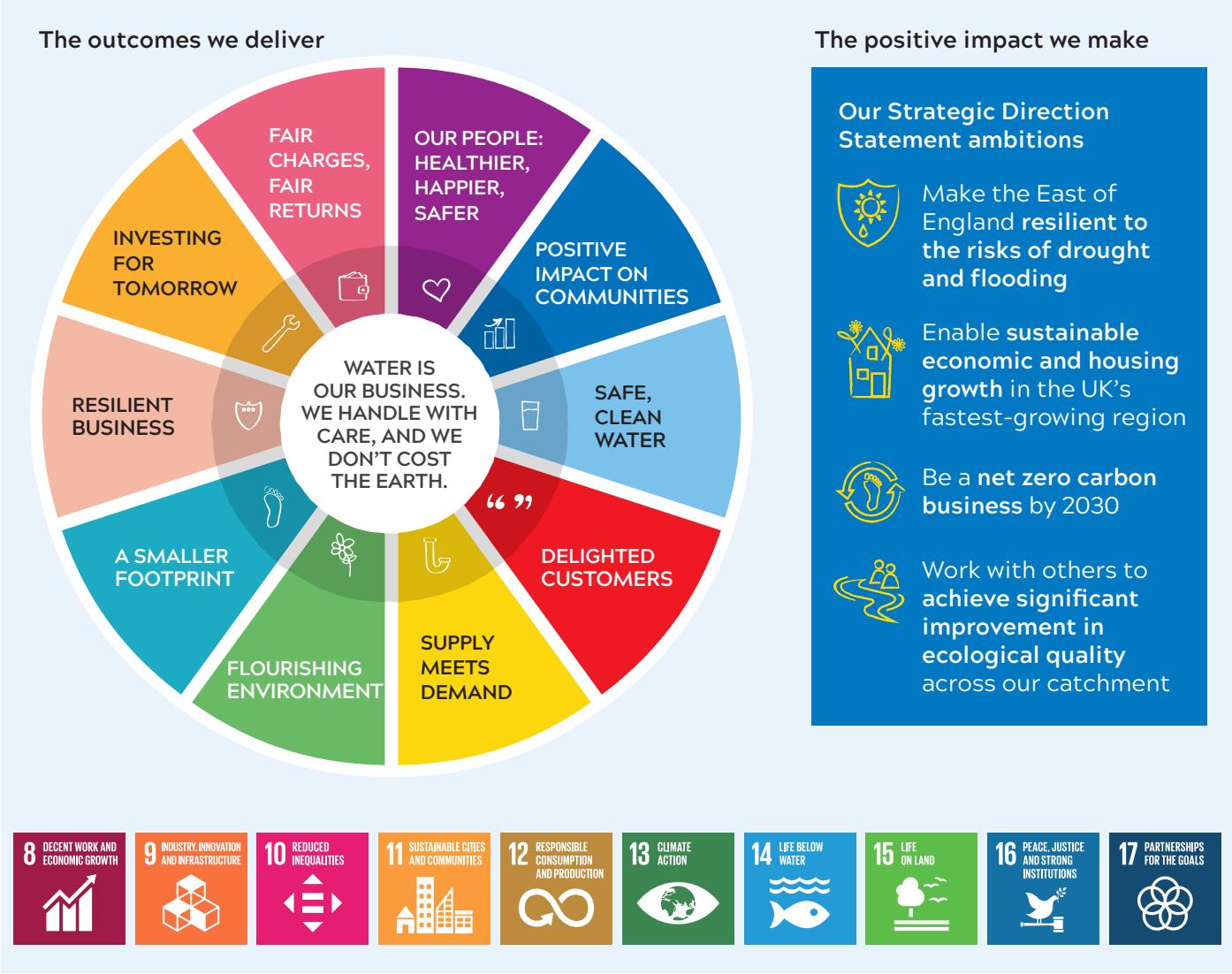
to change our company constitution - the Articles of Association - to lock public interest into the way we run our business, both now and for future generations. By doing so we have ensured that environmental and social priorities will always sit alongside the need to deliver fair returns for our shareholders.

This change underlines our commitment to deliver a sustainable future for the East of England.

Our outcomes

Over the period 2020 to 2025, Anglian Water will invest several billion pounds on running the business, protecting communities from extremes of weather including flooding and helping to underpin economic growth, while at the same time keeping bills affordable.

We have agreed 10 key outcomes that we will deliver for customers through our Business Plan for the period 2020-2025, and performance is monitored using these (see below).



Aligning our goals with the United Nations Sustainable Development Goals

We want to demonstrate how we are contributing to wider societal goals by aligning our activities and the outcomes we deliver to the UN Sustainable Development Goals (SDGs). We are working in the spirit of all 17 goals, but we have mapped our work to the 10 where we have the most material impact at the level of the targets. These are currently being reviewed in line with our next five-year Business Plan and we may add additional goals in line with what will be most material for this period of investment.



“We made history in 2017 when we became the first ever public utility to launch a Sterling Green Bond, and we are very proud that all our capital activity meets the strict criteria set for Green Bond investment. It’s important to be able to demonstrate that our activities not only contribute to positive outcomes in our region but also play a small part in delivering the international objectives of the UN Sustainable Development Goals.”

Steve Buck
CFO

	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	6 CLEAN WATER AND SANITATION	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND
Relevance of SDG to our business (proportion of targets that we can directly contribute to)										
Example target of material interest (we have mapped our engagement against the 169 targets under the 17 SDGs)	3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship	6.5 By 2030, implement integrated water resources management at all levels	8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all	11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities	12.8 By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature	13.2 Integrate climate change measures into national policies, strategies and planning	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species
Underlying potential for negative impact	Our operations can cause pollution if we get things wrong	We know we have a future skills gap	Uncoordinated water management can lead to deficits and impacts on the environment	We build and operate a large network of assets and infrastructure that use energy and resources	Without strategic planning the lack of water can be a blocker to growth	We manage large areas of open space to deliver our service	Without knowledge our customers are unable to act sustainability	We are one of the biggest energy users in the East of England and operate in a region that is particularly vulnerable to climate change	Our operations can cause pollution if we get things wrong	Our operations have a large footprint within the natural environment
How the SDG target aligns to our outcomes	Safe, clean water	Positive impact on communities	Supply meets demand	A smaller footprint	Investing for tomorrow	Positive impact on communities	Positive impact on communities	Investing for tomorrow	Flourishing environment	Flourishing environment



Anglian Water corporate sustainability framework

Sustainability is embedded in the core business of Anglian Water.

We have adopted a long-term visionary business strategy “Love Every Drop” which captures our commitment to sustainability and includes the whole business, from the water we supply to the recycling of used water before it is returned to the environment.

In April 2020, we were honoured to be awarded the Queen’s Award for Enterprise: Sustainable Development 2020-2025 for the second time, a testament to the passion and hard work of all our people, who put our customers, communities and the environment at the heart of their decision making every day.

Last year Anglian Water took the step of committing to become a net zero-carbon business by 2030. However, our journey to net zero carbon really began in 2010. This was when two ambitious goals were set: one for operational carbon and the other for capital carbon. Our capital carbon goal was to halve the carbon emitted through our construction projects by 2015. At the time, measuring and managing capital carbon, let alone setting such a stretching goal for reduction, was unheard of. With visionary leadership and a supply chain that lined up behind the targets, we were able to beat both, achieving a 61 per cent reduction in capital carbon emissions versus a 2010 baseline and a 34 per cent reduction in operational carbon emissions versus a 2015 baseline.

Anglian Water was also the first company in the world to achieve BSI (British Standards Institution) PAS 2080 accreditation, a standard

sponsored by the Green Construction Board to encourage a consistent approach to the management of carbon by all involved in infrastructure, setting out principles and components to manage whole life carbon emissions and deliver reduced carbon over the whole value chain.

Sustainability is integrated throughout our 2020-2025 Business Plan, which includes investment in resilience to climate change impacts as directly reflected in Anglian Water Business Plan Outcomes and supporting goals.

Anglian Water projects fall within the following categories from the Green Bond Principles 2018: “sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment sustainable urban drainage systems and river training and other forms of flooding mitigation”, while also contributing to the Social Bonds Principles 2020 in the following category: “affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy)”.



Six capitals thinking

Having enshrined public interest into the heart of our business we are now working to embed it into decision making. Our Board has committed to using six capitals thinking. This framework is not new to Anglian Water - this way of thinking was first introduced into our Annual Integrated Report in 2015 - but we will now formalise its use as we begin to deliver our 2020-2025 Business Plan.



Natural

The health of the natural systems and resources that we rely on and impact in our region and beyond; the availability and quality of water in our rivers and aquifers, the protection of our soil and biodiversity and our impact on carbon emissions.



Manufacturing

The ability of our infrastructure to provide resilient services to meet the current and future expectations of our customers.



Social

The value of our relationships with stakeholders, including customers, communities and other organisations, the impacts we have on people and society (both positive and negative) and the trust they place in us as a result.



People

The knowledge, skills and wellbeing of our people, and the health, happiness and safety of our working environment; our organisational culture and ways of working.



Financial

The financial health and resilience of the organisation and our access to and use of sustainable finance.



Intellectual

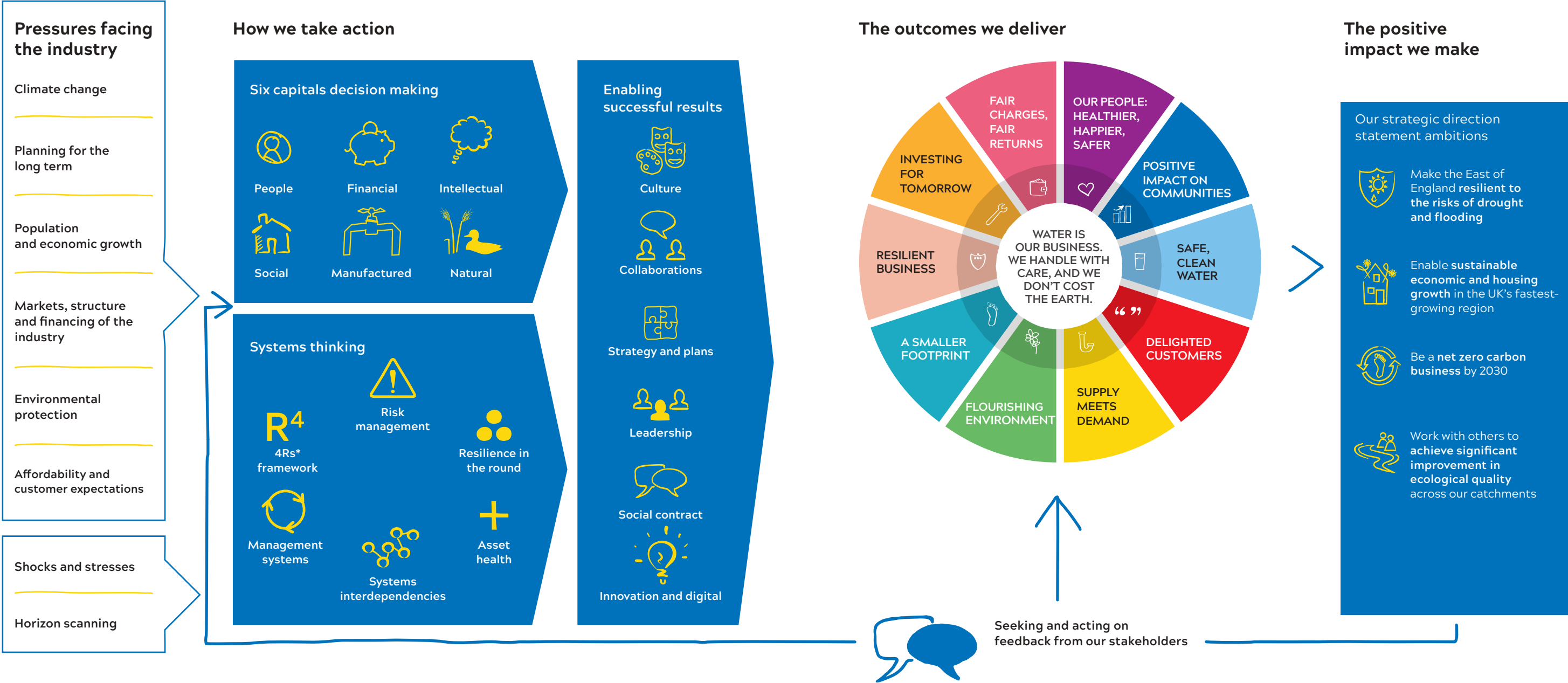
The knowledge, systems, processes, data and information we hold, create and share within our business and with our alliance partners.

Using six capitals thinking will help us keep our responsibility to customers, communities and the environment at the front of our minds when making business decisions. We are developing a set of metrics for each of the capitals to help us understand, track and report on our impact on them at the corporate level.

Our business model

Creating value for our communities

Our purpose is to bring environmental and social prosperity to our region through our commitment to Love Every Drop. Our business model is structured to create long-term value for customers, employees, investors, business partners and the wider community.



* The 4Rs of Resilience refers to Resistance, Reliability, Redundancy and Response & Recovery.

Global drivers for change – United Nations Sustainable Development Goals





1. Use of proceeds

We intend to provide institutional investors with the opportunity to invest in Anglian Water’s sustainable transactions to finance parts of the environmental and social investments made through our current Asset Management Plan for the period 2020-2025 (AMP7). The use of proceeds will include capital expenditures of eligible investments in respect of the projects identified, and falling within the eligible sustainable categories set out on this page.

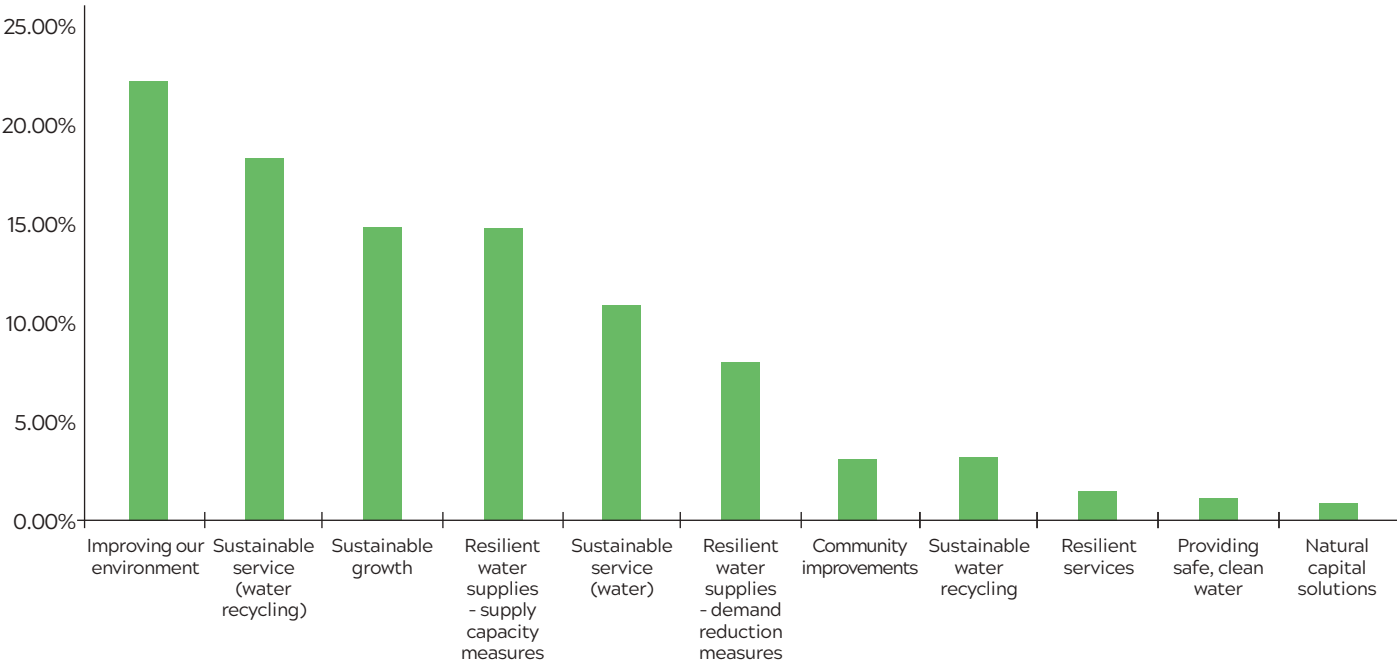
Projects will be identified for each sustainable transaction that is issued by Anglian Water, and put into the corresponding sustainable category (the “eligible category”). Eligible categories will be individually identifiable across the respective sustainable transactions. For each sustainable transaction, there is one corresponding eligible category.

Sustainable categories

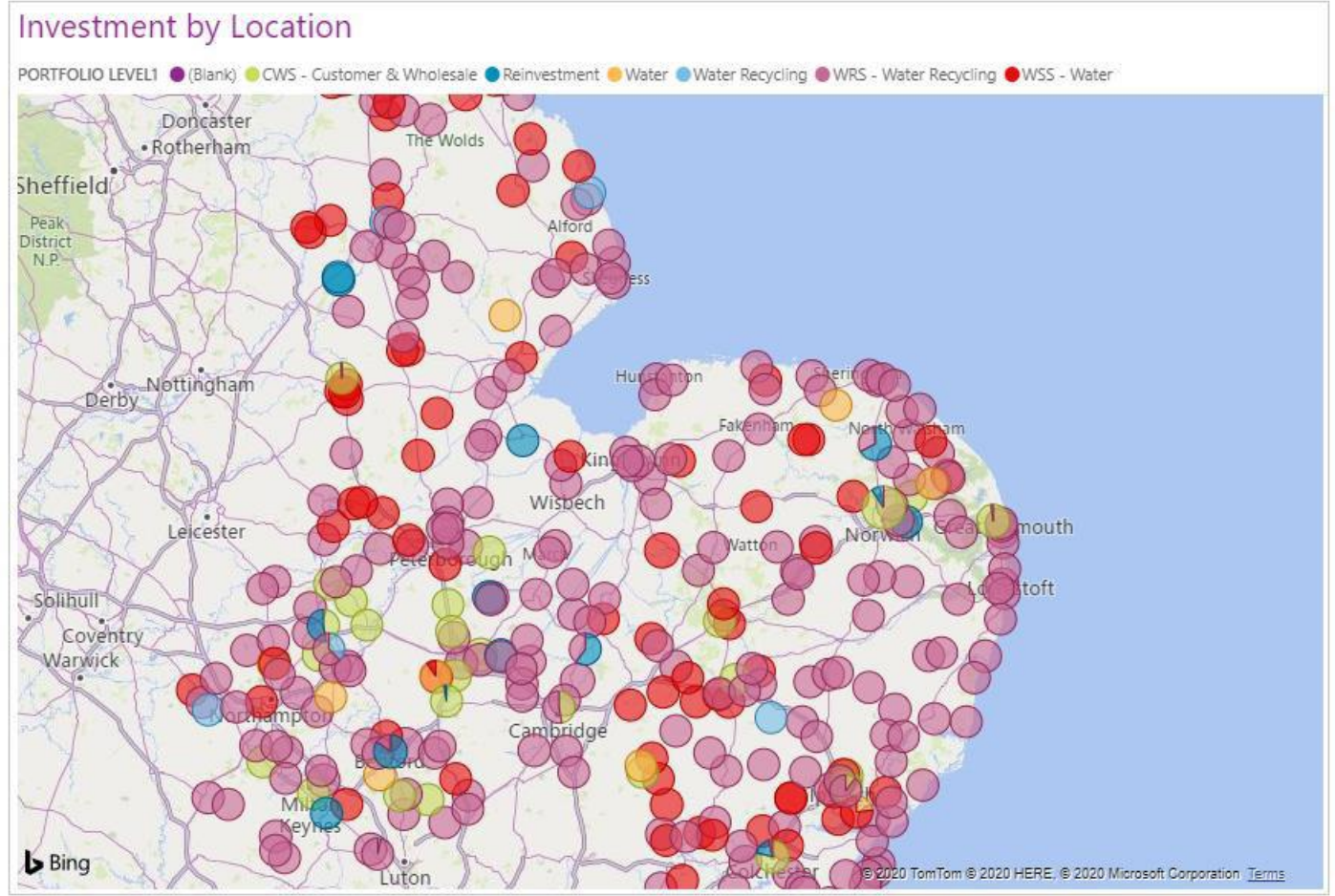
These are mapped out against our AMP7 portfolio and the eligible green and social categories on pages 23-24.

- Community improvements
- Improving our environment
- Providing safe, clean water
- Resilient services
- Resilient water supplies - demand reduction measures
- Resilient water supplies - supply capacity measures
- Natural capital solutions
- Sustainable growth
- Sustainable service (water recycling)
- Sustainable service (water)
- Sustainable water recycling

Indicative view of investment and expenditure split in AMP7



AMP7 year one investment programme



We intend to maintain a healthy buffer of investments and expenditures and ensure the quantum of spend is no less than investments in the eligible sustainable portfolio at any time. The eligible green portfolio will finance, in whole or in part:

- Projects which mitigate climate change impacts by reducing greenhouse gas (GHG) emissions through sustainable design in challenging the consumption of raw materials and use of fossil fuels.
- Projects which help the Anglian Water region to adapt to long-term impacts of climate change such as flooding and drought.
- Projects that support affordable basic infrastructure such as clean drinking water and sewer sanitation.

Categories will be individually identifiable across the respective sustainable finance issues.

Sustainability benchmarks

Anglian Water has banking facilities in place which are linked to our sustainable benchmarks for AMP7 (set out below). We will refinance these facilities under this Framework.

Target	Measure	Actual at last reported date	Benchmark March 2020
Capital carbon	% reduction on 2010 baseline	61%	60%
Water quality	Water quality contacts per 1,000 customers	1.15	1.23
Water consumption	Three-year average litres per capita per day	135	136
Water leakage	Megalitres per day	183	184
Pollution incidents	Incidents per 10,000km of sewer	34	29
Supporting vulnerable customers	% of customers on priority register	2.9%	1.4%

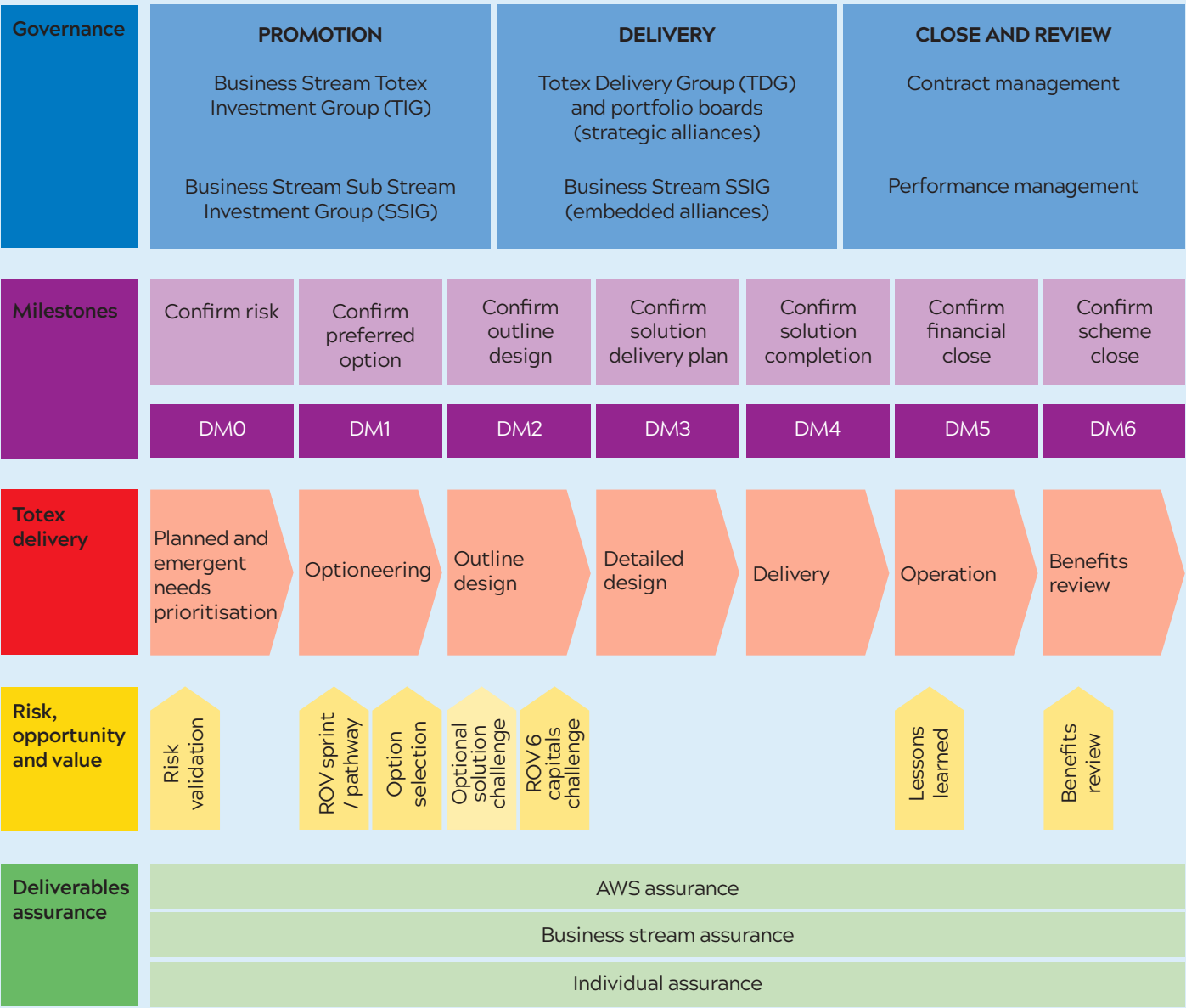


2. Process for project evaluation and selection (eligibility criteria)

All capital expenditure we undertake must meet the Anglian Water Governance Framework (the eligibility criteria), a summary of which is set out below. Accordingly, all of our capital expenditure is capable of being an eligible project for inclusion in an eligible sustainable category.

Anglian Water has a strict governance process for investment as shown in the table below. Carbon reduction will continue to be a key indicator challenged at each milestone up to DM4.

AMP7 - Totex Investment Process



Anglian Water continuously:

1. Agrees business outcomes and identifies potential output measures against strategic and customer requirements
2. Identifies risks
3. Develops solutions to mitigate risks using private and societal costs to measure value and approve investments for consideration
4. Collaboratively plans an optimal set of investments and timing to maximise value against agreed outcomes, within and across portfolios
5. Publishes a five-year plan in line with regulatory cycles and approves internally annually
6. Executes the delivery plan
7. Monitors and reviews plans
8. Review outputs and performance (Delivery Milestone 6).

The carbon-related measures considered in the Governance Framework are capital carbon, changes in operational carbon and changes in power consumption. Risks are assessed and then prioritised by Asset Delivery Planning in collaboration with a range of business representatives. Promotion into the Totex (total expenditure) Delivery Process is signed off at DM0 in the relevant Business Stream Totex Investment Group (TIG) which includes representation from finance, operations, planning and enabling functions. Between DM0 and DM1, optioneering is carried out using a highly collaborative and flexible methodology. This generates a range of options from which the

most efficient, sustainable and effective solution can be selected for promotion at DM1. Selection of projects into the Green Bond portfolio is undertaken at DM0. The Totex Investment Delivery Group (TIDG) assures major capital solution delivery, is chaired by the Director of Strategic Delivery and Commercial Assurance and has representation from across the business, including business stream directors.

It is expected that the list of selected eligible green projects, investments and expenditures within the Green Bond portfolio will be dynamic, and will change over time depending on our investment and expenditure priorities, but will be segregated to each Green Bond portfolio by type of expenditure. We expect these to include projects achieving carbon reduction from our internal agreed baseline, which is the subject of the PAS 2080 accreditation, for example large infrastructure projects, sustainable abstraction schemes, river restoration projects, work on the natural environment programme and significant energy-saving schemes. An overview of the proposed sustainable categories is available at the end of this document.

Anglian Water has two senior level steering groups on climate change mitigation and adaptation. The Carbon Neutrality Steering Group, chaired by Paul Gibbs, Director of Water Recycling, reports on performance and actions against operational and capital carbon goals and implementing strategies in line with our pathways to net zero carbon 2030. The Climate Change Steering Group, chaired by Alex Plant, Director of Strategy and Regulation, assesses the implications of climate change for the Company's business and has visibility of the delivery of our adaptation strategies. Climate change scenarios are being integrated into decision-making about future investment.



3. Management of proceeds



The proceeds from the sustainable transactions will be managed by Anglian Water's Treasury Team, primarily the Assistant Treasurer for Sustainability and the Cash & Sustainability Finance Manager. This will be carried out on a category approach.

Funds raised from the sustainable transactions will be paid to the capex reserve account. Funds will be transferred to the payment account matching the amount of investments and expenditures for the relevant transaction. The net proceeds of the sustainable transactions will be allocated to a category in Anglian Water's accounting records.

We will provide investors with information regarding the projects financed by sustainable finance issues. This information will be made available in the reporting.

To prevent double counting of eligible projects, we will issue debt allocated to eligible

investments and expenditures on a category basis. Reconciliation to the project budget will prevent any double counting in allocation of proceeds. We have expenditure targets allocated for the regulatory review period, the current period being 2020-2025.

Pending the allocation of the sustainable transactions, we will temporarily invest an amount equal to the balance of the proceeds held in the capex reserve account in cash or cash equivalents. Payment of principal and interest on the sustainable transactions will be made from Anglian Water's debt service payment account.

We ensure that the systems and processes as specified in section 3 (Management of proceeds) above meet our requirements over the lifetime of the bonds.

4. Reporting



Allocation reporting

Allocation reporting will be available to investors annually through a Sustainability Finance Report, until the proceeds have been fully allocated, and as necessary thereafter in the event of material developments. Each year's Sustainability Finance Report will incorporate all the sustainable transactions issued to date. The report will detail:

i. Insights into the total amount of the investments and expenditures in the eligible categories in the format set out in section 3, including a description of main eligible projects financed with the proceeds of the bond.

- ii. The savings/mitigations of capital and operational carbon from the Company's agreed baseline measured across the eligible projects
- iii. The balance of unallocated cash and/or cash equivalent still held by the issuer (if any).
- iv. The share of financing vs refinancing for each eligible category.

The allocation report will be reviewed by an external auditor.



Impact reporting

A list of sample eligible investments, expenditures and/or projects; and initially estimated potential allocations of the sustainable transactions.

We may report on a range of measures of the environmental and social impacts of the investments and expenditures funded with the sustainable financing proceeds. In line with our six capitals thinking, this will help ensure that these measures are integral to our governance process on expenditure decisions. The measures cover all aspects of our service and examples include:

- Improving customer service and satisfaction
- Maintaining the highest quality drinking water and reducing interruptions to supply
- Reducing leakage within the network
- Helping customers with water efficiency
- Protecting and improving the quality of coastal bathing waters.
- Delivering favourable condition for Sites of Special Scientific Interest
- Operational and capital carbon performance

- Renewable energy generation
- Assessing the number of investments resilient to climate change
- Reducing the number of properties affected by sewer flooding
- Reducing the potential for pollution incidents
- Maintaining our assets such as water treatment works, sewers and pumps
- Delivering sustainable drainage systems.

In addition we publish an annual greenhouse gas (GHG) emissions report, available at <http://www.anglianwater.co.uk/environment/why-we-care/carbon-management.aspx>.

The metric used (kg of CO2e per mega litre for water supply and water recycling treated) was selected to measure intensity as this is a common business metric for our industry sector.

The carbon data has been externally verified as part of the regulatory reporting requirements. Since 2010, Anglian Water has met the requirements of the Carbon & Energy Management Reduction Scheme (CEMARS), having measured greenhouse gas emissions in compliance with ISO 14064-1:2006.

AMP7 sustainable categories

The following pages set out the Anglian Water sustainable categories for AMP7 (discussed in the Use of Proceeds section on page 14) with a brief summary, an example of what is included in each category and the specific measures we may report on for AMP7.

Before each sustainable transaction is issued, more detail about the specific measures will be provided, including details on how the measures will be benchmarked, calculated and externally verified.

ICMA green category	Sustainable category	Summary	Specific measures we may report on
Environmentally sustainable management of living natural resources and land use	Natural capital solutions	Natural capital solutions for phosphorus removal and water framework directive measures plus eels programme.	The amount of recycled water harvested for phosphorus. The compliance of our sites with the Eel Regulations 2009. The length of river improved by our biodiversity investment.
	Improving our environment	WINEP obligations to improve ecological status of water bodies, both rivers and coastal.	The amount of recycled water harvested for phosphorus. The length of river improved by our biodiversity investment.
Sustainable water and wastewater management	Sustainable service (water recycling)	Capital maintenance of the water recycling infrastructure to prevent deterioration of service to customers and the environment.	Renewable energy generation, the Gwh of energy generated from renewable sources. Efficiency investment, the amount spent on improving the energy efficiency of our assets. Performance against our regulatory performance commitments for external and internal flooding incidents. Reduction in number of pollution incidents.
	Sustainable water recycling	Enhancements to our production of Nutri-bio through bioresources plants and increasing capacity of water recycling centres to match growth.	Number of customers supplied in the region we serve. Number of jobs supported in the local economy. The number of bathing waters that exceed EU bathing water directive requirements. Volume of water recycled (MI).



ICMA green category	Sustainable category	Summary	Specific measures we may report on
Climate change adaption	Resilient water supplies - supply capacity measures	Supply-side measures set out in Anglian Water's Water Resources Management Plan (WRMP) - securing supplies from climate change and growth in the region.	Number of customers supplied in the region we serve. Number of jobs supported in the local economy. Population supported by additional resilience.
	Community improvements	Flood risk reduction, removing persistent low pressure, connecting villages not on the network.	Reduction in the number of pollution incidents. Performance against our regulatory performance commitments for external and internal flooding incidents.
	Resilient services	Improvements to single points of failure and security to outside threats.	Population supported by risk mitigation on single water source supply. Performance on interruptions to supply to our customers.
	Resilient water supplies - demand reduction measures	Demand-side measures set out in the WRMP, including smart metering and leakage - securing supplies from climate change and growth in the region.	Per capita consumption of water. Percentage reduction of three-year average leakage in megalitres per day (ML/d) from the 2019-20 baseline.
Sustainable water and wastewater management	Providing safe clean water	Water quality initiatives such as replacement of lead pipes and treatment of raw water that contains agricultural pollutants such as nitrates.	The amount of recycled water harvested for phosphorus.
	Sustainable service (water)	Capital maintenance of the water infrastructure to prevent deterioration of service to customers and the environment.	Interruptions to supply measured by per household interruption. Performance on leakage by volume of water lost from water pipes (MI). Water quality contacts relating to discolouration.

ICMA social category	Sustainable category	Summary	Specific measures we may report on
Affordable basic infrastructure	Sustainable growth	Accommodating new housing in our region including community surface water removal measures. Example populations will include but are not limited to those listed in the Social Bond Principles 2020.	Number of customers supplied in the region we serve. Number of jobs supported in the local economy. Per capita consumption of water.

Alignment with the Sustainability-Linked Bond Principles, 2020

The Sustainability-Linked Bond Principles ("SLBP"), as administered by the International Capital Market Association ("ICMA"), are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking sustainability-related outcomes, and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance of a SLB.

Our SLB Framework, as incorporated within this wider Sustainability Finance Framework, is in alignment with the ICMA Sustainability-Linked Bond Principles (SLBP) published in June 2020 (<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>).

The Principles above have five core components:

- Selection of KPIs
- Calibration of Sustainability Performance Targets (SPTs)
- Bond characteristics
- Reporting
- Verification

Sustainability-Linked Bonds are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives.

In that sense, issuers are thereby committing explicitly (including in bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline that are relevant, core and material to their overall business.

SLBs are a forward-looking performance-based instrument. The proceeds of SLBs are intended to be used for general purposes; however, in the case of Anglian Water, we anticipate that the proceeds would be deployed largely in alignment with the categories specified above, in support of the overall delivery of the AMP7 capital investment plan.

1. Selection of Key Performance Indicators (KPIs)

Anglian Water has selected the following KPI, which is core, relevant and material to our business. The company's purpose is to bring social and environmental prosperity to its region; our "strategy on a page" sets four clear goals, one of which is creating a sustainable future for our region. Carbon management is a crucial element in this.

KPI #1: Carbon

- **Description:**
Scope 1, 2 and 3 greenhouse gas (GHG) emissions (measured in t/CO₂e contributing to SDG13 (Climate Action)).

We measure our scope 1, scope 2 and scope 3 emissions. This is reported as operational carbon, including the consumption of fossil fuels, transport and process emissions. As scope 3 emissions we also report on capital carbon emissions, associated with the use of materials in constructing and maintaining our infrastructure. In calculating annual GHG emissions, raw data for fossil fuels, treated sludge, etc is collected from around the business and entered into the UKWIR (UK Water Industry Research) Carbon Accounting Workbook. This contains the latest emission factors and provides a summary output of scope 1, 2 and 3 emissions. The data collection and reporting is audited on an annual basis through Achilles CEMARS and certified to ISO-14064.

- **Rationale:**
Anglian Water is committed to reaching net zero carbon emissions by 2030. This is an objective shared with all water companies in England, and set out in 2019 as part of the Water UK Public Interest Commitment to show leadership at a national level.

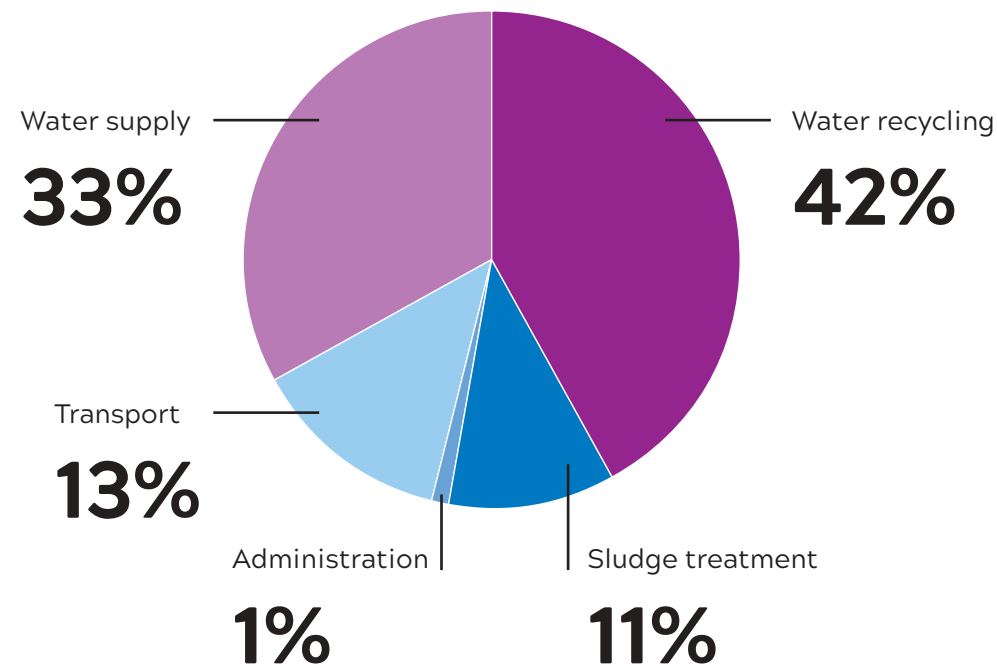
We are targeting net zero carbon emissions by 2030 on operational carbon.

• **Historical performance:**

Greenhouse gas emissions data for period 1 April 2014 to 31 March 2020

	Tonnes of CO2e	
	2020	Baseline
Scope 1	105,346	97,627
Scope 2	163,485	315,555
Scope 3	29,744	42,153
Total annual gross emissions	298,576	455,335

Our gross annual carbon emissions have decreased by 156,759 t/CO2e between 2015 and 2020. There are a number of influencing factors. The grid has de-carbonised by 48 per cent. We have also mitigated the need to import more electricity from the grid, despite growth, the construction of new assets and the adoption of pumping stations.



During 2019/20 as part of our carbon mitigation strategy we saved over 7.71 GWh of electricity (2,138 t/CO2e) and generated 131 GWh of renewable power from biogas CHP, wind and solar. This is due to the success of our design engineers and capital delivery partners in responding to our challenge to deliver more sustainable assets, reduce carbon, reduce the use of finite raw materials and reduce cost.

99 per cent of our carbon emissions result from the provision of water and water recycling services to our customers.

2. Calibration of sustainability performance target (SPTs)

SPT #1: Carbon

Note: The exact definition of net zero and any interim reduction targets will be agreed and defined within the specific Bond issuance document.

- **How it is ambitious:**
 - The Paris agreement goals (and subsequently the UK Government) set the aim of net zero carbon by 2050; our target is to achieve this by 2030.
 - We have historically produced significant emissions through pumping water around our region; as our landscape is predominantly flat, we aren’t able to benefit from gravity-fed pumping as many other companies do.
- **Factors that support the achievement of the targets:**
 - Increased energy efficiencies in our processes and in our value chain.
 - Increased generation of renewable energy.
 - Increased uptake in our electric vehicle usage.
 - Leakage reduction to reduce water production.
- **Factors that risk the achievement of the targets:**
 - Severe disruption to our capital programme by an event outside our control.
 - New regulations introduced which are not in our current expectations and which work against the achievement of this target. The wider government policy, regulatory and supply chain support having an adverse impact for example, in exploiting renewable energy, water efficiency labelling and preventing trialling new technologies that reduce process emissions on water recycling sites.
 - Reduced utilisation of network due to reduced demand for water.
 - Increases in carbon intensity of the National Grid, such as nuclear going offline and being replaced by gas.
 - Significant outages in our renewable energy generation programme.

Reduce carbon, reduce cost

In 2010 we set an ambitious goal to halve the carbon in our newly built assets by 2015. We explored new ways of thinking and working better

with others. By 2015 we had achieved a 54% carbon reduction and significant cost savings. We now have more stretching capital carbon goals and will continue to work with government and other industries to lead by example in this area.

Our energy strategy continues to reduce operational carbon and costs and build resilience. Between 2010 and 2015 we rolled out around 1,000 energy-saving projects which collectively saved over £20 million. In the same period we tripled the amount of renewable power we generate and deliver from solar, wind and combined heat and power (CHP) engines using biogas, a by-product of the water recycling process. Over the next few years we’ll continue to concentrate on renewable energy, particularly solar and CHPs.

Carbon collaboration

Carbon reduction only happens when all in the supply chain are committed to reducing their footprint and saving costs. As we know, a chain is only as strong as its weakest link, so the fact we’ve already made such savings demonstrates the commitment and strength of our suppliers and partners. Carbon collaboration is the key to success and we’re confident that with their ongoing support, we’ll achieve net zero carbon.

In 2016, Anglian Water became the first company in the world to have our carbon management process independently verified through the Lloyds Register LRQA, in accordance with PAS 2080: 2016 Carbon Management in Infrastructure.

We worked with the Green Construction Board’s Infrastructure Working Group to develop this global standard and we’re proud to have been part of a process that brings a joined-up approach to the way industry evaluates and manages carbon emissions.

Anglian Water also discloses through the CDP (Carbon Disclosure Project) its carbon approach and reporting.

Carbon reporting (further developed in section “4. Reporting”)

Since 2010, we have measured and reduced our greenhouse gas emissions using the CEMARS¹ criteria, which allow us to understand our carbon liabilities and improve upon them, year by year. Criteria, which allow us to understand our carbon liabilities and improve upon them, year by year.

¹ CEMARS is now called CarbonReduce.

3.Financial characteristics

The net proceeds from Anglian Water’s Sustainability-Linked Bonds will be used for general corporate purposes (GCP).

On the Notification date (which will occur 15 days after the publication of the KPIs and no later than 90 days), Anglian Water’s external auditor will verify each KPI against each SPT.

The failure of Anglian Water to satisfy one or several of the SPTs above will trigger the Step up Margin to be applied for any Interest Period commencing on or after the interest payment date immediately following the Notification Date. In this case, the rate of interest will be increased by the Step up Margin.

The details of any financial penalty payable to investors in any Sustainability-Linked Bond in the event of a missed target will be set out in the offering documentation provided at the point of issuance of any Sustainability Linked Bond. These details will include:

- Maturity date of instrument
- Sustainability Key Performance Indicator (KPI) [tCO2e]
- Sustainability Performance Target (SPT)
- Sustainability Target Observation Date(s)
- Financial Incentive Mechanism and Quantum (for example a coupon step-up, or payment of a premium at maturity).

4.Reporting

All KPIs will be reported by Anglian Water on an annual basis as part of its annual report/non-financial statement, which is verified by external auditors, and available on Anglian Water’s website.

Reporting may include:

- i. Up-to-date information on the performance of the selected KPI, including the baseline where relevant.
- ii. A verification assurance report relative to the KPI outlining the performance against the SPT and the related impact, and timing of such impact, on a financial instrument performance; and

- iii. Any relevant information enabling investors to monitor the progress of the KPI

Information may also include when feasible and possible:

- Qualitative or quantitative explanation of the contribution of the main factors behind the evolution of the performance/KPI on an annual basis;
- Illustration of the positive sustainability impacts of the performance improvement; and/or
- Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant.

Focus on carbon reporting

Since 2010, Anglian Water has measured and reduced its greenhouse gas emissions using the CEMARS criteria (further described in the Appendix to this Framework) and will continue to do so.

The annual Greenhouse Gas Report provides a breakdown of its emissions and actions for reduction, and is available on its website: <https://www.anglianwater.co.uk/in-the-community/protecting-our-environment/climate-change/carbon-management/>

The carbon data is externally verified as part of the regulatory reporting requirements. Since 2010, Anglian Water has met the requirements of CEMARS² (the Certified Emissions Measurement and Reduction Scheme), having measured greenhouse gas emissions in compliance with ISO 14064-1:2006.

5.Verification

Pre-issuance: Anglian Water’s Sustainability-Linked Bond Framework has been reviewed by DNV GL which has provided a second party opinion, confirming the alignment with the five pillars of the ICMA Sustainability-Linked Bond Principles (SLBP).

Post-issuance: Anglian Water’s performance of each KPI according to each corresponding SPT at the relevant reference date will be verified by the External Verifier, and notified in writing by Anglian Water to the Principal Paying Agent and the Noteholders.



External review

Second party opinion

The Anglian Water Sustainability Framework has been reviewed by DNV GL which has issued a Second Party Opinion. The second party opinion (SPO) provider, DNV GL, has reviewed the Sustainable Finance Framework and certified its alignment with ICMA’s Green Bond Principles 2018, Social Bond Principles 2020 and Sustainability Bond Guidelines 2018, and LMA’s Green Loan Principles 2020.

DNV GL is a world-leading assessment and certificate provider operating in more than 100 countries, with over 350 offices. With its origins stretching back to 1864, DNV GL continues to be driven by its purpose to safeguard life, property and the environment. Starting with the second corporate Green Bond in 2011, DNV GL has provided opinion and verification reports on over 150 green, social and sustainability bonds, loans and frameworks that have been issued to date. This opinion has been published on the Anglian Water website <https://www.awg.com/investors/anglian-water-services---terms-and-conditions/anglian-water-services---investor-information/green-bond/>

Verification

For use of proceeds bonds, we may request on an annual basis, a limited assurance opinion of the allocation of the bond proceeds to eligible assets, provided by any appropriate external auditor.

For sustainability-linked bonds all KPIs will be reported by Anglian Water on an annual basis as part of our annual report/non-financial statement, which is verified by external auditors and available on the Anglian Water website.

CBI Certified (optional)

We may obtain a Water Climate Bond Certification by adopting the necessary requirements set by the Climate Bonds Initiative. The independent certification will be published on the Anglian Water website.

² CEMARS is now called CarbonReduce.

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