

ANGLIAN WATER GREEN BOND

DNV·GL

DNV GL ELIGIBILITY ASSESSMENT

Scope and Objectives

Anglian Water Services Financing Plc is the financing subsidiary of Anglian Water Services Limited. References in this eligibility assessment to “Anglian Water” refer to Anglian Water Services Financing Plc (and, where the context requires, a reference to “Anglian Water” shall be deemed to be a reference to Anglian Water Services Limited). Anglian Water is a water and sewerage company that operates in the East of England and Hartlepool. Anglian Water supplies water and recycling services to more than six million customers. It employs over 4000 people, looks after over 38,000 km of water mains, 76,000 km of sewers, 140 treatment works and 1,123 water recycling centres.

Anglian Water is intending to issue benchmark sized Sterling bond for the purpose of financing capital expenditure to meet its obligations under the Ofwat regulatory period AMP6 (henceforth referred to as “the Bond”).

The Bond will enable investors to invest in Anglian Water’s environmental investments made through the Asset Management Plan. The Bond will finance, in whole or in part, projects helping mitigate climate change impacts by greenhouse gas (GHG) reduction through the use of energy efficient facilities and conservation of water resources, and/or projects helping adapt to long term impacts of climate change such as flood risk.

DNV GL Business Assurance Services Limited (henceforth referred to as “DNV GL”) has been commissioned by Anglian Water to provide a Green Bond eligibility assessment on the 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, the alignment of the Bond with Regulatory requirements, or the long term 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 Anglian Water and DNV GL

The management of Anglian 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 Anglian Water’s 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 Anglian 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 Anglian 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 green bond eligibility assessment methodology to create a Anglian Water specific Green 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. The overarching principle behind the criteria is that a green bond should "enable capital-raising and investment for new and existing projects with environmental benefits".

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 green bond must use the funds raised to finance eligible activities. The eligible activities should produce clear 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 green bond should outline the process it follows when determining eligibility of an investment using Green 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 green 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 constitutes a high-level review of the available information, based on the understanding that this information was provided to us by Anglian 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 an Anglian 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 Anglian Water on the Bond and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
 - Meetings with Anglian 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.
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Findings and DNV GL's opinion

DNV GL's findings are listed below:

1. Principle One: Use of Proceeds.

Anglian Water intends to provide institutional investors with the opportunity to invest in a Green Bond to finance parts of the environmental investments made through their Asset Management Plan for the period 2015-2020. Anglian Water intends to use the proceeds to invest in an Eligible Green Portfolio, as defined by Anglian Water/Anglian Water Services Financing Green Bond Framework for green bonds.

The Anglian Water/Anglian Water Services Financing Green Bond Framework has declared the eligible green bond categories to be:

- Sustainable water management projects with a reduced climate footprint; and
- Sustainable water recycling projects with a reduced climate footprint.

Schedule 1 provides further information.

DNV GL concludes that these categories fall within a defined category of 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) of the Green Bond Principles 2017.

Evidence was also provided to demonstrate that the investment will also contribute to Anglian Water's "10 Key Outcomes" currently reported in the Annual Integrated Report.

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

The list of selected Eligible Green Projects within the Green Bond Portfolio will be dynamic and change over time depending on the investment and expenditure priorities of Anglian Water. Anglian Water has a strict & robust governance processes for investments. This process includes risk identification, solution selection and carbon reduction calculations through monitoring, decision and delivery milestones, and is set out in Anglian Water/Anglian Water Services Financing Green Bond Framework.

The key metrics considered in the Governance Framework are embodied carbon, changes in operational carbon and changes in power consumption. It is expected that these will include projects achieving a minimum carbon reduction of 50% from Anglian Water's agreed baseline, large infrastructure projects for example achieving a baseline of 2000tCO₂, sustainable abstraction schemes, river restoration projects, work on the natural environment programme and significant energy saving schemes.

DNV GL has reviewed the evidence and can confirm that the Eligible Green Project categories and governance framework for project selection meets the eligibility criteria defined by Anglian Water in the Bond documentation, including Anglian Water/Anglian Water Services Financing Green Bond Framework. Anglian Water has clearly defined the process by which it will allocate funds to Eligible Green Projects and described the key metrics used as well as the governance team responsible for selecting projects. DNV GL note that this is derived from Anglian Water's existing mature governance process that ensures the efficient, sustainable and effective solution is selected for capital expenditure.

3. Principle Three: Management of Proceeds.

DNV GL has reviewed evidence showing how Anglian Water plans to trace the proceeds from the bond, from the time of issuance to the time of disbursement. The Anglian Water/Anglian Water Services Financing Green Bond Framework includes a description of the functions and teams responsible for the tracking. The funds raised from the Bond will be paid to its prefunded Capex Bank account. Funds will be transferred to the Payments account matching the amount of investments and expenditures in eligible

green projects on a portfolio basis. DNV GL can confirm Anglian Water will also maintain a healthy buffer of investments and expenditures over green funding.

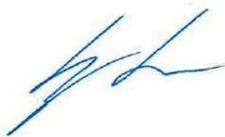
4. Principle Four: Reporting.

DNV GL can confirm Anglian Water will report on the use of proceeds within one year from the date of a Green Bond issuance and annually thereafter, until the proceeds have been fully allocated, and as necessary thereafter in the event of material developments. The information reported on will include insights into the total amount of the eligible investments and expenditures, the savings /mitigation of embodied and operational carbon measured across the eligible projects and the balance of unallocated cash and/or cash equivalent. To further monitor progress, DNV GL can confirm Anglian Water have also set targets for each of the "10 Key Outcomes" and 32 Outcome Delivery Incentives which will also be reported on annually through the Annual Integrated Report.

On the basis of the information provided by Anglian 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 green bonds within the Green Bond Principles 2017, which is to "enable capital-raising and investment for new and existing projects with environmental benefits".

for DNV GL Business Assurance Services UK Limited

London, 21 July 2017



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About DNV GL

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

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

1 SCHEDULE 1: DESCRIPTION OF CATEGORIES TO BE FINANCED THROUGH BOND

Eligible Green Categories	Use of Proceeds
Sustainable Water Management Projects with a reduced climate footprint	Investments in water management projects with a reduced climate footprint: <ul style="list-style-type: none"> • Capital Maintenance; • Enhanced Service Level, and additional standby generation; • Growth (Supply Demand); • Quality.
Sustainable Water Recycling Projects with a reduced climate footprint	Investments in water recycling projects with a reduced climate footprint: <ul style="list-style-type: none"> • Capital Maintenance; • Enhanced Service Level; • Growth (Supply Demand); • Quality.

Project Selection Quantification Criteria: Projects achieving a minimum carbon reduction of 50% from Anglian Water’s agreed baseline, large infrastructure projects, sustainable abstraction schemes, river restoration projects, work on the natural environment programme and significant energy saving schemes.

SCHEDULE 2: ANGLIAN WATER - SPECIFIC GREEN 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, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> • Green Use of Proceeds Bond • Green Use of Proceeds Revenue Bond • Green Project Bond • Green Securitized Bond 	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • Anglian Water Green Bond Term Sheet • Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 	The Anglian Water Green Bond falls within the category of a Green Use of Proceeds Bond.
1b	Green Project Categories	The cornerstone of a Green Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • Anglian Water Green Bond Term Sheet • Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 • Anglian Water/Anglian Water Green Bond Framework and Accreditation Presentation July 2017 	We conclude that the legal documentation confirms the utilization of proceeds is appropriately described.

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1c	Environmental benefits	All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • Anglian Water Green Bond Term Sheet • Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 • Review of Anglian Water’s PAS2080 - Carbon management in infrastructure certification 	<p>The evidence reviewed gives us the opinion that the designated Green Project categories do provide clear environmentally sustainable benefits.</p> <p>In addition, eligibility criteria demonstrate that the Green Project categories provide clear environmental benefits and the thresholds of selection are within reasonable limits.</p>

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Issuer’s environmental and social and governance framework	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer’s overall framework and performance regarding environmental sustainability.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • Anglian Water Green Bond Term Sheet • Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 • Anglian Water/Anglian Water Services Financing Green Bond Framework and Accreditation Presentation July 2017 	<p>We conclude that, from the information provided, Anglian Water’s approach to managing environmental sustainability is in line with the objective of the Green Bond and Anglian Water’s material issues reflect this.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			<ul style="list-style-type: none"> • Anglian Water's Annual Integrated Report • Anglian Water's "Love Every Drop" strategy • Anglian Water's Greenhouse Gas Annual Emissions Report 2016 	

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	The net proceeds of Green 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 Green Projects.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • Anglian Water Green Bond Term Sheet • Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 	We found that the Anglian Water Green Bond will be tracked in an appropriate manner and attested to by a formal internal process.
3b	Tracking procedure	So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • Anglian Water Green Bond Term Sheet 	We conclude that there is a clear process in place for the tracking of the balance taking into account disbursements.

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			<ul style="list-style-type: none"> Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 	
3c	Temporary holdings	Pending such investments or disbursements to eligible Green Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> Anglian Water Green Bond Term Sheet Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 	We conclude that Anglian Water has in place a segregated investment portfolio consisting of cash to use as temporary investments.
3d	Over-collateralisation	The issuer shall demonstrate that the value of the bond is smaller than or equal to the financing needs of the eligible nominated projects.	<p>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> Anglian Water Green Bond Term Sheet Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 	We conclude the Anglian Water Green Bond has sufficient collateralisation, with a pipeline of eligible projects that exceeds the value of the bond by 30%.

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 Green 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>In addition to reviewing the evidence below, we had several detailed discussions with Anglian Water Management on the Criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> • Anglian Water Green Bond Term Sheet • Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 • Anglian Water Integrated Annual Report 	<p>We can confirm Anglian Water commits to annual reporting within their integrated Annual Report and Accounts and the Investor Report.</p> <p>Section 5 Reporting of the Anglian Water/Anglian Water Services Financing Green Bond Framework, July 2017 sets out what will be reported and where including;</p> <ul style="list-style-type: none"> - insights into the total amount of the eligible investments and expenditures. - the savings/mitigations of embodied and operational carbon from the Company's agreed baseline measured across eligible projects. - The balance of unallocated cash and/or cash equivalent.