

SEVERN TRENT SUSTAINABILITY FINANCING FRAMEWORK

DNV GL INDEPENDENT ASSESSMENT

Scope and Objectives

Severn Trent Plc (henceforth referred to as "Severn Trent") is a large water and sewerage company operating mainly in the Midlands and Wales. It operates through two segments: Regulated Water and Waste Water, and Business Services. The Regulated Water and Waste Water segment collects, treats and distributes 2 billion litres of clean water and collects, treats and disposes 2.9 billion litres of wastewater every day. It serves approximately 4.5 million households and businesses. Moreover, Severn Trent Green Power, part of Severn Trent's Business Services, generates renewable energy from anaerobic digestion, crop, hydropower, wind turbines and solar technology.

Severn Trent demonstrates a strong sustainability focus, which is publicly recognised by an endorsement from the Water Services Regulation Authority ("Ofwat") noting Severn Trent's high standards of governance and sustainability focus as part of its AMP7 Business Plan submission, and a recognition in 2019 from the Purposeful Company Task Force initiative.

Examples of Severn Trent's green and social ambitions include a carbon pledge, biodiversity, water management and river quality improvements, plastic recycling initiatives, support to vulnerable customers and launching the World Water Innovation Fund. These ambitions are reflected in Severn Trent's public reporting such as its annual report 2019 and climate change adaptation report.

Severn Trent has developed a Sustainable Financing Framework (the "Framework") under which it can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across its activities.

DNV GL Business Assurance Services Limited ("DNV GL") has been commissioned by Severn Trent to provide a review of the Framework. 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 instruments issued via the Severn Trent Framework, the value of any investments, or the long term environmental & social benefits of the transaction. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

Responsibilities of the Management of Severn Trent and DNV GL

The management of Severn Trent has provided the information used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform Severn Trent's management and other interested stakeholders in the Framework as to whether the Framework is aligned with the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), and the LMA Green Loan Principles (GLP) and Sustainability Linked Loan Principles (SLLP). In our work, we have relied on the information and the facts presented to us by Severn Trent.

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 Severn Trent 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 Severn Trent specific Green, Social & Sustainability Finance Framework Eligibility Assessment Protocol (henceforth referred to as "Protocol"). 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 Framework 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 funding instruments under the Framework must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental & social benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of funding instruments under the Framework should outline the process it follows when determining eligibility of an investment using proceeds from Green, Social & Sustainability instruments, 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 funding instrument should be tracked within the issuing organisation, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the investors of the instrument should be made of the use of 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 Severn Trent 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 Severn Trent specific Protocol, adapted to the purpose of the Framework, as described above;
- Assessment of documentary evidence provided by Severn Trent on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of Severn Trent's published material with regards to its environmental & social activities relating to the company;
- Discussions with Severn Trent's 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.

Severn Trent intends to use the proceeds of securities issued under the Framework to finance and re-finance both social and environmental projects.

DNV GL has reviewed evidence and can confirm that an amount at least equivalent to the net proceeds from the funds raised under the Framework will be allocated to finance or refinance new or existing assets and expenditures of Severn Trent and its subsidiaries.

Assets and expenditures falling within the Social Eligible Categories ("Eligible Social Investments") and Green Eligible Categories ("Eligible Green Investments") will be aggregated to form the Eligible Sustainable Portfolio. Eligible Social Investments and Eligible Green Investments will together be called Eligible Sustainable Investments.

Severn Trent has stated that, wherever possible, it aims to refinance Eligible Sustainable Investments that have been completed or charged in the last three years but may also finance on-going and future Eligible Sustainable Investments and reserves the right to finance older assets and expenditures starting from the beginning of AMP6 (1st April 2015).

Severn Trent has confirmed that Eligible Sustainable Investments will fall within one or several of the following eligible categories:

Social Eligible Categories

- Affordable basic infrastructure
- Access to essential services
- Food security
- Socioeconomic advancement and empowerment

Green Eligible Categories

- Renewable Energy
- Energy Efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use.
- Terrestrial and aquatic biodiversity conservation
- Clean transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes

Severn Trent has also provided a table mapping its AMP7 Business Plan Outcomes against its Eligible Sustainable Categories and the UN SDGs (United Nations Sustainable Development Goals).

In an appendix to the Framework, Severn Trent also presents 8 comprehensive case-studies showing examples of potential social and environmental projects with corresponding performance metrics.

DNV GL concludes that the eligible categories outlined in the Framework and the case studies are consistent with the categories outlined in the GBP, SBP, SBG, GLP and SLLP.

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

All investment in assets and expenditure at Severn Trent go through a strict internal process for evaluation and selection. Severn Trent's capital governance process includes the 'Concept Board' and the 'Solution Board' which review and approves funding and deliverables for capital projects at various stages of their life-cycle. The Water Strategy Group and Waste Strategy Group maintain oversight of the whole programme and ensure delivery.

Investments are proposed through business cases. DNV GL can confirm that, as part of those, eligibility for inclusion in the Eligible Sustainable Portfolio will be reviewed. The asset management team will first select the Eligible Sustainable Categories relevant to a project which is at business case stage. Following this, eligibility is further reviewed by a Committee composed of representatives from the Group's Treasury, Finance and Responsibility functions. The Committee will evaluate alignment of the Eligible Sustainable Investments with the Sustainable Eligible Categories outlined in the Use of Proceeds section of the Framework.

DNV GL concludes that Severn Trent's Sustainable Financing Framework appropriately describes the process of project evaluation, selection and exclusions. DNV GL can confirm it is anticipated that the majority of Severn Trent's assets and expenditure will be included in the Eligible Sustainable Portfolio under the Framework.

3. Principle Three: Management of Proceeds.

Severn Trent has confirmed that the proceeds from sustainable financing will be managed by its Treasury function. In line with the internal Treasury Policy, Severn Trent will hold or invest, at its discretion, any unallocated net proceeds.

The monitoring of the assets and expenditures will be tracked internally, and the Severn Trent Financial Reporting team will ensure that no double-counting occurs. An analysis will be presented to the Committee at least annually and on request.

Severn Trent intends that the amounts represented by the Eligible Sustainable Portfolio will exceed, or at least be equal to, the amount of finance raised under this Framework.

DNV GL has reviewed evidence and can confirm that the proceeds arising from future issuances will be appropriately managed.

4. Principle Four: Reporting.

Severn Trent has made plans to report on the use of proceeds and impacts within one year from the date of a sustainable financing issuance under the Framework and at least annually thereafter. Investors will receive information on the allocation and impact of social and environmental projects financed through the Framework. The reporting will be done in either a combined report or a series of reports, which will be available through Severn Trent's website.

The Initial Allocation Report will detail the amount of financing raised, how much has been allocated, 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 within the Impact Report.

Severn Trent has also committed to measuring where feasible the impact of social and environmental projects through a wide range of KPIs, which are listed in the Framework. Examples of KPIs include:

Environmental

- Annual renewable energy generated (GWh)
- Annual reduction in CO2 (tCO2e)
- Total level of leakage (Ml/d)
- Area of land conserved and enhanced in the region through land management and biodiversity focussed projects and investments
- Number of km of river improved in the Severn Trent Water region

Social

- Number of vulnerable customers supported
- Number of customers engaged through education
- Number of commitments made around water efficiency, waste and plastic reduction

DNV GL can confirm Severn Trent has committed to producing appropriate reporting on the allocation of proceeds, and environmental and social impacts of its investments made under the Framework

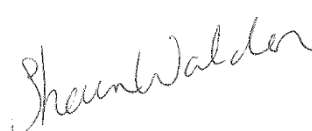
On the basis of the information provided by Severn Trent and the work undertaken, it is DNV GL's opinion that the Framework meets the criteria established in the Protocol and that it is aligned with the stated definition of Green Bonds within the Green Bond Principles, Social Bonds within the Social Bond Principles, Sustainability Bonds within the Sustainability Bond Guidelines, Green Loans within the Green Loan Principles and Sustainability Linked Loans within the Sustainability Linked Loan Principles.

for DNV GL Business Assurance Services UK Limited

London, 18th November 2019

**Douglas Farquhar**

Principal Consultant and Reviewer
DNV GL – Business Assurance

**Shaun Walden**

Principal Consultant and Project Director
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.

SCHEDULE 1: DESCRIPTION OF CATEGORIES TO BE FINANCED THROUGH THE FRAMEWORK

Social categories	Environmental categories
<ul style="list-style-type: none">• Affordable basic infrastructure• Access to essential services• Food security• Socioeconomic advancement and empowerment	<ul style="list-style-type: none">• Renewable energy• Energy efficiency• Pollution prevention and control• Environmentally sustainable management of living natural resources and land use.• Terrestrial and aquatic biodiversity conservation• Clean transportation• Sustainable water and wastewater management• Climate change adaptation• Eco-efficient and/or circular economy adapted products, production technologies and processes