

SEVERN TRENT SUSTAINABLE FINANCE FRAMEWORK 2022

DNV INDEPENDENT ASSESSMENT

Scope and Objectives

Severn Trent Plc (henceforth referred to as “Severn Trent” or the “Company”) is a UK-based Holding Company formed in 1989, that today, comprises of two main businesses: Severn Trent Business Services¹ and the Regulated Water and Waste Water (collectively known as the “Severn Trent Group of Companies”) that operate across the UK from the Bristol Channel to the Humber, the North and mid-Wales, and the East Midlands². The Regulated Water and Waste Water part of the company serves across England and Wales, and it is made up of two businesses:

- (1) The wholesale water and wastewater activities of the regulated business, Severn Trent Water Limited (“STW”), and
- (2) The retail function of the business, which sells services to domestic customers, Hafren Dyfrdwy Cyfyngedig (“HD”).

Together, they supply around 2 billion litres of clean drinking water to more than 4.8 million households and businesses and treat around 3.1 billion litres of wastewater each day. STW and HD are also responsible for the maintenance of over 52,200 km of clean water pipes and 92,900 km of sewer pipes.

To continue to demonstrate its long-standing commitment to sustainability and sustainable growth of the Company, Severn Trent has revised its Sustainable Finance Framework (the “Framework”) for 2022. Under this Framework, Severn Trent Plc and its subsidiaries can issue Sustainable Financing Instruments (i.e. green, social and sustainability bonds and/or loans; other debt instruments including committed facilities, private placements, finance leases) to fund eligible assets and expenditures. Through the issuance of its Sustainable Financing Instruments, the Company intends on delivering tangible environmental and social benefits on an individual and/or combined basis.

The Company has also aligned with the applicable United Nations (UN) Sustainable Development Goals (SDGs), and has mapped its eligible green and social project categories to these, specifically: Goal #1 (No Poverty), Goal #4 (Quality Education), Goal #6 (Clean Water and Sanitation), Goal #7 (Affordable and Clean Energy), Goal #11 (Sustainable Cities and Communities), Goal #12 (Responsible Consumption and Production), Goal #13 (Climate Action) and Goal #14 (Life on Land). In addition, to demonstrate its commitment to sustainability and the decarbonisation of the UK water sector, Severn Trent has in place a clear Net Zero Transition Plan to achieve by 2030.

DNV Business Assurance Services UK Limited (“DNV”) has been commissioned by Severn Trent to provide a review of the Framework against the International Capital Market Association (“ICMA”) Green Bond Principles 2021 (“GBP”), Social Bond Principles 2021 (“SBP”) and Sustainability Bond Guidelines 2021 (“SBG”), and the Loan Market Association (“LMA”) for Green Loan Principles 2021 (“GLP”). Our methodology to achieve this is described under the ‘Work Undertaken’ section below.

DNV has not been commissioned to provide independent assurance or other audit activities. No assurance has been provided regarding the financial performance of any bonds or loans issued under the Framework, the value of any investments, or the long-term environmental/social benefits of the associated transactions. Our objective has been to provide an independent assessment of the Framework to establish if it has met the criteria established on the basis as set out below.

Responsibilities of the Management of Severn Trent and DNV

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

¹ Severn Trent Business Services operates in the UK and consists of the following business units: Green Power, Operating Services and Property Development.

² Severn Trent also looks after for some of the UK’s most impressive natural resources, including reservoirs, rivers and underground aquifers within Sites of Special Scientific Interest (SSSI).

Basis of DNV's opinion

We have adapted our eligibility assessment protocol, which incorporates the requirements of the GBP, SBP, SBG and the GLP, to create a "Severn Trent-specific Sustainable 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's opinion.

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

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a Green, Social or Sustainability Bond/Loan must use the funds raised to finance or refinance eligible activities. The eligible activities should produce clear environmental and/or social benefits.
- **Principle Two: Process for Project Selection and Evaluation.** The Project Selection and Evaluation criteria are guided by the requirements that an issuer of a Green, Social or Sustainability Bond/Loan should outline the process it follows when determining eligibility of an investment using Green or Social Bond/Loan proceeds and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a Green, Social or Sustainability Bond/Loan should be tracked within the issuing organisation, that separate portfolios should be created when necessary, and a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors or lenders should be made of the use of Green, Social or Sustainability Bond/Loan proceeds, and that quantitative and/or qualitative performance indicators should be used, where feasible.

Work undertaken

Our work has constituted a high-level review of the available information provided to DNV 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:

- The creation of a Severn Trent-specific Protocol adapted to the purpose of the Framework, as described above, and in Schedule 1 and 2 of this assessment.
- Assessment of the documentary evidence provided by Severn Trent on the Framework, supplemented by high-level desktop research. These checks refer to current assessment best practices and standards methodology.
- Discussions with Severn Trent's management team, and a review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria.

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

Findings and DNV's opinion

DNV's findings are listed below, with further detail provided in Schedule 2.

1. Principle One: Use of Proceeds.

Severn Trent has confirmed that an amount equivalent to the net proceeds of the Sustainable Financing Instruments, i.e. Committed Facilities (revolving and term debt from banks and institutional investors), Green, Social and Sustainable Bonds (all "Sustainable Bonds"), Private Placements (including US Private Placements) and Finance Leases, will be used to finance and/or refinance in whole or in part, eligible assets and expenditures, of a sustainable nature.

The proposed "Eligible Green and Social Categories", as listed below, are expected to deliver positive environmental and social benefits to the communities in which Severn Trent serves. Eligible assets and expenditures that fall within the relevant green and/or social categories are defined as qualifying projects, that together, form part of Severn Trent's "Eligible Sustainable Portfolio".

Eligible Green Categories:

- Sustainable Water and Wastewater Management.
- Terrestrial and Aquatic Biodiversity.
- Environmentally Sustainable Management of Living Natural Resources and Land Use.
- Pollution Prevention and Control.
- Climate Change Adaptation.
- Clean Transportation.
- Renewable Energy.
- Energy Efficiency.

Eligible Social Categories:

- Affordable Basic Infrastructure.
- Socioeconomic Advancement and Empowerment.

In the Framework the Company has provided a list of example projects (see [Schedule 1](#) of this opinion), the performance criteria for each eligible category (see [Schedule 2](#) for illustrative performance indicators), and details the potential environmental and social benefits of the associated projects.

We can confirm that for the eligible social categories Severn Trent has defined the target population which is in line with the requirements as set out by the ICMA/LMA Principles, i.e. providing inclusive and accessible services to all. Severn Trent has also stated in the Framework that it will help the most financially vulnerable customers in their region through schemes such as The Big Difference Scheme. Severn Trent has also stated in the Framework that it will continue to develop and evolve the mapping process for the eligible social project categories. For the eligible green project categories, we can also confirm that Severn Trent has followed standard market practice. We can also confirm that Severn Trent has established an internal process to map its investment against the eligible criteria of the Framework.

Additionally, within the Framework, we have noted that Severn Trent has mapped its eligible green and social project categories to the applicable United Nations (UN) Sustainable Development Goals (SDGs), specifically: Goal #1 (No Poverty), Goal #4 (Quality Education), Goal #6 (Clean Water and Sanitation), Goal #7 (Affordable and Clean Energy), Goal #11 (Sustainable Cities and Communities), Goal #12 (Responsible Consumption and Production), Goal #13 (Climate Action) and Goal #15 (Life on Land).

DNV confirms that the Company will look to allocate the net proceeds to the eligible green and/or social projects (eligible assets and operating expenditures) that benefit the natural environment within 36 months before the financing is raised for a Sustainable Financing Instrument, and/or 24 months after the finance is raised. Refinancing of the existing eligible green and/or social projects that commenced at an earlier date may also be considered on an exceptional basis and will be measured at asset value. Severn Trent has confirmed that in no circumstances will the Company expect to allocate the proceeds of a Sustainable Financing Instrument (SFI) to finance any dividend payments. We can also conclude that the eligible green and social categories as described within the Framework, and the example projects provided to DNV are consistent with those as listed in the GBP, SBP, SBG, and the GLP. In addition, we can confirm that such assets or expenditures to be funded under these categories will provide clear environmental and/or social benefits.

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

DNV can confirm that Severn Trent has in place a clear governance and management structure that must be followed for evaluating and selecting potential eligible green and/or social projects (eligible assets and expenditures). Their eligibility and inclusion into Severn Trent's "Eligible Sustainable Portfolio" will be formally assessed by the "Sustainable Finance Committee" (the "Committee"). This Committee will include representatives from Severn Trent's Treasury, Finance, and Sustainability teams who will meet at least once a year to review the asset and expenditure categories submitted for inclusion. The Company has also confirmed that the projects must fall under one of the eligible categories and meet the respective criteria, as detailed in [Schedule 1](#) of this opinion. Projects that best support the progress towards the UN SDGs will be prioritised.

DNV concludes that there is a robust decision-making process behind the selection, approval, and evaluation of any eligible green and/or social projects, and the associated expenditures and assets as detailed in the Framework.

Investments made into assets by Severn Trent are to be presented as "business cases" which will outline the costs, benefits, and risks of each investment which need to be approved by different boards, as they progress through

their life cycle. For instance, all investment proposals are reviewed and approved by Severn Trent's "Sub-Service Portfolio Board". Approved investments then progress to two sub-Boards: (1) the Concept Board, responsible for the overall approval of funding for new capital projects and programmes of work to be taken forward, and (2) the Solution Board, who has overall responsibility and approval of funding capital projects, changes in these, and of the deliverables. Assets and expenditure are formally assessed for their eligibility and inclusion by the Sustainable Finance Committee (the 'Committee'). The Committee is also responsible for updating Severn Trent's Framework to ensure that it remains fully compliant with the most up to date market practices and guidelines as set out by financial industry bodies. In addition, this Committee will be responsible for determining if any changes to the allocation of the proceeds due to disposals, cancelling or the ineligibility of projects, are necessary.

DNV can conclude Severn Trent has appropriately described the process for project evaluation and selection, i.e. how future issuances will be appropriately evaluated, selected, managed and reported on, within the Framework. We can also confirm this is in line with the requirements as listed under the GBP, SBP, SBG and the GLP.

3. Principle Three: Management of Proceeds.

We can confirm that the management of proceeds arising from future Sustainable Financing Instruments will be used to finance, refinance, or invest in eligible green and social projects, which will be managed by Severn Trent's Treasury function. An equivalent amount of the net proceeds arising from future issuances under this Framework will be tracked until the proceeds are fully apportioned. This is in line with the Company's Treasury Policy.

Severn Trent's Treasury function and financial reporting team will report on all expenses recognised against any eligible green and/or social projects. All expenditure items will be tracked and managed accordingly to ensure no double counting occurs. The balance of proceeds will be periodically adjusted to match allocations of the eligible green and/or social projects (re)financed during this period.

The Company has reported that it will aim to allocate the net proceeds within one year following the issuance or funding (partially or in full) of any Sustainable Financing Instrument, subject to sufficient availability of the approved eligible projects. The balance of proceeds will be periodically adjusted to match allocations to Eligible Green Projects (re)financed during this period; the balance of the net proceeds (allocated or proceeds pending allocation) will be monitored and tracked in accordance with Severn Trent's internal reporting process. We can confirm that Severn Trent's financial reporting team will report on all expenses recognised against the eligible green and/or social projects.

Severn Trent will use existing processes from across its capital and operational investment programmes and align them to the eligible green and/or social categories on a one-to-one basis. We can also confirm that the Company has recognised that this may not always be possible for all elements of its investment programme. Moreover, the Company has reported in the Framework it remains committed to exploring options for both principle and proportional allocations of proceeds, on a case-by-case basis.

In cases where the proceeds cannot be allocated to eligible projects, we can confirm that Severn Trent will substitute these as soon as practical, on a best-effort basis. Where any proceeds cannot be initially allocated, then the funds will be held or deposited in accordance with the Treasury Policy. An analysis will be presented to the Committee at least once a year, and on request.

DNV has reviewed the evidence provided and we can confirm that Severn Trent is committed to appropriately managing the proceeds arising from future issuances and this is in line with the requirements of the GBP, SBP, SBG and the GLP.

4. Principle Four: Reporting.

DNV can confirm Severn Trent has committed to publishing an annual Sustainability Report which will be made available through its [website](#). The Sustainability Reporting, and their existing Annual Report and Accounts and Annual Performance Report, will include information on the environmental and social impacts of the proceeds (Impact Reporting).

An Allocation Report will be made available to investors within one year of the date the finance was issued, as stated under the Framework, and will detail:

- The split between financing and refinancing.
- The share of proceeds allocated per Eligible Category.
- The balance of the unallocated proceeds and type of temporary investments.
- Relevant case studies and information concerning the specific projects financed.

In terms of Impact Reporting, the Company has also confirmed that it will detail the environmental and/or social impacts of the Eligible Projects as funded by the proceeds. The estimated impact of the investments will be published in a combined report or a series of reports, made accessible to investors on the Company's [website](#).

Example relevant metrics are outlined below, and further detail can be found in Schedule 2 (click [here](#)):

Environmental:

- Annual renewable energy generated (GWh) with electricity generated from renewable sources and used on site (renewable generation 100% commitment)
- Emissions – Reduction of Scope 1 and 2 emissions by 46% by 2031 (annual reduction in CO2 (tCO2e))
- Leakage – Reductions in leakage in MI/d (3-yr average).
- Biodiversity - The number of trees planted, or area covered (in number of hectares) by, sustainable land and water resources management practices.
- Length of River Improved – Number of km of river improved in the Severn Trent Water region.

Social:

- Vulnerable customers - Number of struggling customers supported (%).
- Employability Scheme (education) - Number of hours of free employability training provided.

The Company has also stated it is committed to apply the most up-to-date standards and methodologies to measure and report on the impact of future issuances. We can also confirm that Severn Trent has stated its intent to have its impact data independently verified by a third party.

DNV concludes that Severn Trent has made the appropriate plans to produce reporting on both the allocation of proceeds, and on the environmental and social impact of future issuances. We can also confirm this will be made available to its investors on its website and is in line with the requirements of the GBP, SBP, SBG, and the GLP.



On the basis of the information provided by Severn Trent and the work undertaken, it is DNV's opinion that the Framework meets the criteria as established in the Protocol, and this is aligned with the stated definition of "Green Bonds" as within the GBP 2021, "Social Bonds" as within the SBP 2021, "Sustainability Bonds" within the SBG 2021, and "Green Loans" as within the GLP 2021.

for DNV Business Assurance Services UK Limited

London, 22 July 2022

A handwritten signature in black ink, appearing to read "Niki Bowen", written over a light grey rectangular background.

Niki Bowen (PhD)
Senior ESG Consultant and Project Manager
DNV – Business Assurance

A handwritten signature in black ink, appearing to read "Shaun Walden", written in a cursive style.



Shaun Walden
Head of Sustainable Finance and Reviewer
DNV – Business Assurance




About DNV




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



With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 12,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

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

Green Project Categories	Description of activities	UN SDG alignment
<p>Sustainable Water and Wastewater Management</p>	<p>Investment and expenditures that ensure sustainable water cycles as a result of reducing leakage or water losses, improving water quality, mitigating flood risk and adverse impact of abstraction, reducing pollutions, or enhancing the resilience of the water and wastewater networks.</p> <p>Example projects may include:</p> <ul style="list-style-type: none"> • Water efficiency programmes • Investments in customer metering • Investments to manage abstraction and create new supplies • Investment in water infrastructure to enhance resilience, improve water quality, and reduce losses from the system • Investment in sewerage infrastructure to increase capacity, improve treatment processes, and to reduce pollution incidents and flooding 	
<p>Terrestrial and Aquatic Biodiversity</p>	<p>Expenditures that enhance biodiversity, i.e. to restore, remediate, conservation of natural habitats and ecosystems through the Great Big Nature Boost contributing to the 5,000 ha of biodiversity in the Upper Peak District by 2027.</p> <p>Activities may include:</p> <ul style="list-style-type: none"> • Planting 1.3 million trees by 2030 • Peatland restoration of over 2,000 acres across England and Wales • Creating wildflower meadows • Restoring moorlands in the Upper Peak District 	

<p>Environmentally Sustainable Management of Living Natural Resources and Land Use</p>	<p>Investments and/or expenditure in nature-based solutions and catchment management schemes.</p> <p>For instance, activities may include:</p> <ul style="list-style-type: none"> • Catchment management - working directly with farmers to reduce discharges from agriculture, whilst boosting farm biodiversity • Sustainable Urban Drainage Systems 	
<p>Pollution Prevention and Control</p>	<p>Investments to reduce pollutions from the wastewater network such as:</p> <ul style="list-style-type: none"> • Investing in sewerage infrastructure to reduce pollutions and sewer flooding 	
<p>Climate Change Adaptation</p>	<p>Investments and/or expenditure in projects that help to reduce the Group's Scope 1 and 2 emissions by 46. % by 2030 and Scope 3 emissions to achieve a SBT set by 2026 (70% suppliers to have a SBT), and deliver on its 'Triple carbon pledge' commitment (i.e. net zero operational carbon emissions; 100% renewable energy; 100% electric vehicles by 2030 (where available)), and support the Group to meet its Science-Based Targets (SBTs).</p> <p>Projects may include:</p> <ul style="list-style-type: none"> • Reducing or capturing fugitive emissions at bioresource and wastewater treatment works, reducing natural gas usage and optimising our treatment processes. • Developing land to sequester carbon from the atmosphere through natural capital solutions • Designing a sludge strategy that will support the 13.5% reduction in sold products SBT • Engaging suppliers to meet the SBT target by 2026 	

<p>Clean Transportation</p>	<p>Investments made into low carbon alternatives – such as:</p> <ul style="list-style-type: none"> • Electric Vehicles (EVs) and associated infrastructure – with a target to achieve 100% electric vehicles by 2030 (where available) • Replacing all traditional diesel and petrol vehicles with electric or low carbon alternatives (e.g. HVO or hydrogen equivalents) • Low carbon or zero emission alternatives for HGVs and tankers (e.g. hydrogen, biogas) 	
<p>Renewable Energy</p>	<p>Investments into the development and operation of renewable energy facilities with a life cycle GHG emissions below 100g CO₂e/kWh.</p> <p>Examples may include generating energy from:</p> <ul style="list-style-type: none"> • Sewage and food waste • Wind • Solar • Hydropower <p>Examples may also include:</p> <ul style="list-style-type: none"> • Using and procuring 100% of energy from renewable sources • Generating renewable energy through bioresources and Green Power growth targets to offset any residual emissions 	
<p>Energy Efficiency</p>	<p>Expenditures to improve energy efficiency of processes, such as:</p> <ul style="list-style-type: none"> • Efficiency programmes in energy use • Pump/air blowers' replacement programme 	

Social project categories	Description of activities	UN SDG alignment
<p>Affordable basic infrastructure</p>	<p>Expenditure providing financial support to customers struggling to pay their bills* and to help eradicate water poverty** through initiatives, such as:</p> <ul style="list-style-type: none"> Supporting 315,000 vulnerable customers through schemes, such as The Big Difference Scheme, The Severn Trent Trust Fund, and The Severn Trent Through Care Scheme Affordability schemes to support an additional 100,000 customers through a rising inflationary environment <p>*Target population defined as: customers in need and that receive support through the company's affordability support measures. **Target population: 6% of customers will be supported by a social tariff by the end of the AMP.</p>	
<p>Socioeconomic advancement and empowerment</p>	<p>Expenditures that support in the socioeconomic advancement and empowerment of people within the Severn Trent region, for instance:</p> <ul style="list-style-type: none"> Investment in training facilities Employability scheme - internship scheme for students with disabilities and additional educational needs <p>Target population: Severn Trent communities (including underserved and unemployed) to support with more people getting back into work following the pandemic.</p>	

SCHEDULE 2: SEVERN TRENT-SPECIFIC SUSTAINABLE FINANCE FRAMEWORK ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a.	Types of Financing Framework.	<p>The Green/Social/Sustainability Bond must fall in one of the following categories, as defined by the Green/Social/Sustainability Bond Principles and Guidelines:</p> <ul style="list-style-type: none"> • Use of Proceeds Bond. • Use of Proceeds Revenue Bond. • Project Bond. • Securitised Bond. <p>Green/Social Loans are defined as any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing Eligible Green/Social Projects.</p>	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> • Severn Trent’s Sustainable Finance Framework. 	<p>The Framework is developed under the entity Severn Trent Plc³. The Framework outlines the type of Sustainable Financing instruments expected to be issued as green, social, or sustainability debt instruments, as follows:</p> <ul style="list-style-type: none"> • Green, Social, and/ or Sustainability Bonds. • Green, Social, and/or Sustainability Loans. • Green, Social and/or Sustainability private placements. <p>DNV can confirm the specific type of instrument issued will need to be further assessed on an individual basis. We can also confirm that the instruments to be issued under this Framework will support the advancement of the UN SDGs, as indicated in Schedule 1.</p>
1b.	Green / Social / Sustainable Project Categories.	<p>The cornerstone of a Green/Social/Sustainability Bond/Loan is the utilisation of the proceeds which should be</p>	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> • Severn Trent’s Sustainable Finance Framework. • Annual Performance Report 2021 	<p>We can confirm the Framework appropriately describes the utilisation of proceeds and the eligible green/social categories to be financed in part or in whole that define Severn Trent’s Eligible Sustainable Portfolio:</p>

³ Severn Trent Plc is the holding company of the Severn Trent Group of companies. This group comprises of two main businesses: Regulated Water and Waste Water and Severn Trent Business Services. The Regulated Water and Waste Water part of the company serves across England and Wales and is made up of two businesses: the wholesale water and wastewater activities of the regulated business, Severn Trent Water Limited (“STW”), and the retail function of the business, which sells services to domestic customers, Hafren Dyfrdwy Cyfyngedig (“HD”).

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		appropriately described in the legal documentation for the security.	<ul style="list-style-type: none"> TCFD Report 2021. 	<p><i>Eligible Green Categories:</i></p> <ul style="list-style-type: none"> Sustainable Water and Wastewater Management. Terrestrial and Aquatic Biodiversity. Environmentally Sustainable Management of Living Natural Resources and Land Use. Pollution Prevention and Control. Climate Change Adaptation. Clean Transportation. Renewable Energy. Energy Efficiency. <p><i>Eligible Social Categories:</i></p> <ul style="list-style-type: none"> Affordable Basic Infrastructure. Socioeconomic Advancement and Empowerment. <p>The specific utilisation of the proceeds for each issuance and the relevant legal documentation will need to be further assessed on an individual basis to ensure alignment with the Framework.</p>
1c.	Green / Social / Sustainable benefits.	All designated Green/Social/Sustainable Project categories should provide clear environmentally sustainable or social benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> Severn Trent’s Sustainable Finance Framework. Annual Performance Report 2021. Severn Trent Sustainability Report 2021. 	<p>Severn Trent has a corporate purpose to support - “our customers’ health and wellbeing and enhance the environment and the diverse communities we serve”. In particular, the Company has pledged a commitment to move towards more environmental and nature-based approaches to assess and solve the material issues of significance to the company.</p> <p>In addition, as part of its corporate purpose, Severn Trent is committed to helping customers, employees, and communities thrive, particularly those who are vulnerable or under-served. Providing a fair and inclusive place to work,</p>



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>supporting employee learning and skills development, as well as creating a community fund to support community projects count among Severn Trent's social initiatives.</p> <p>The Framework outlines the overarching environmental and social benefits that will be apparent from any instrument issued under the Framework. The specific quantifiable and qualitative benefits (where relevant) of each issuance will need to be agreed on a case-by-case basis and will be subject to further assessment.</p> <p>Severn Trent has also outlined potential KPI reporting metrics to demonstrate the impact from the different projects that are financed, as detailed in Section 4a.</p>

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a.	Investment-decision process.	The issuer of a Green/Social/Sustainability Bond/Loan should outline the decision-making process it follows to determine the eligibility of projects using Bond/Loan proceeds.	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> Severn Trent's Sustainable Finance Framework. Annual Performance Report 2021. 	<p>DNV can confirm Severn Trent has reported in the Framework that there is a clear management structure in place to evaluate and select the Eligible Projects it will finance.</p> <p>Operating in a highly regulated industry, the Company must have established and clear policies and practices in place. For the Eligible Projects to be considered they must fall under the Eligible Categories and meet the Eligibility Criteria, as detailed in Schedule 1.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>To support the selection process Severn Trent has established a “Committee”, who meet at least annually to formally assess the assets and expenditures eligibility and inclusion into its Eligible Sustainable Portfolio. The Committee includes representatives from Treasury, Finance and Sustainability teams. The Committee has the ultimate responsibility for approval of the projects and of the annual capital expenditure budget.</p> <p>We can conclude that the Framework appropriately describes the Process of Project Selection and Evaluation, and that the specific issuances will need to be further assessed on a case-by-case basis.</p>
2b.	Issuer’s governance framework.	In addition to the information disclosed by an issuer on its Green/Social/Sustainability Bond/Loan process, criteria and assurances, investors may also take into consideration the quality of the issuer’s overall framework and performance regarding environmental sustainability.	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> • Severn Trent’s Sustainable Finance Framework. • Annual Performance Report 2021. • Severn Trent Sustainability Report 2021. • TCFD Report 2021. • Severn Trent Responsible Business Report. • Group Environment Policy 2018. • Group Health, Safety and Wellbeing Policy 2016. • UN Global Compact Communication on Progress Report 2020/21. • Making a Difference Report. • Severn Trent Water Climate Change Adaptation Report 2021. 	<p>Severn Trent has established a core strategy based on a commitment to support customers’ health wellbeing, and to enhance the environment and the diverse communities in which it serves. It also intends on advancing the applicable UN SDGs (see Schedule 1).</p> <p>The Committee has also committed to managing potential risks associated with the Eligible Projects put forward to maximise the positive impact on the society and environment as a result of its business and operations. It is also responsible for reviewing and approving updates to the Framework and the publication of allocation reporting.</p> <p>DNV concludes that based on the information provided to us this is in line with Severn Trent’s wider approach to sustainability and managing the risk of potential and future projects.</p>

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a.	Tracking procedure.	The net proceeds of a Green/Social/Sustainability Bond/Loan should be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Green/Social/Sustainable Projects.	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> • Severn Trent's Sustainable Finance Framework. • Annual Performance Report 2021. • TCFD Report 2021. 	<p>Severn Trent has confirmed that the net proceeds arising from the issuance of Sustainable Financing Instruments under the Framework will be used to finance, refinance, or invest in Eligible Green/Social Projects, as defined by the Framework.</p> <p>Severn Trent has stated its intent to allocate the net proceeds to capital expenditures or assets that originated, approved, financed, or completed between 36 months <i>before</i> the issuance date of a Sustainable Financing Instrument, and 12 months <i>after</i> the issuance date. The refinancing of existing green and/or social expenditures or assets originated at an earlier date may be considered, on an exceptional basis.</p> <p>The proceeds from the financing will be appropriately managed by Severn Trent's Treasury function and an equivalent amount will be tracked until the proceeds are fully apportioned. Severn Trent will aim to allocate proceeds within a period of 12 months following issuance or funding (partial or full) of any Sustainable Financing Instrument, subject to sufficient availability of approved eligible projects.</p> <p>DNV has can confirm that Severn Trent has committed to appropriately managing the proceeds arising from future Sustainable Financing Instruments in line with the requirements of the GBP, SBP, SBG and the GLP.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3b.	Tracking procedure.	So long as the Green/Social/Sustainability Bonds/Loans are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible Green/Social/Sustainable investments or loan disbursements made during that period.	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> • Severn Trent’s Sustainable Finance Framework. • Annual Performance Report 2021. 	<p>Severn Trent will maintain an internal reporting process to track the allocation of proceeds for Eligible Green Projects to which the proceeds will be allocated. Severn Trent’s Treasury function and financial reporting team will be responsible tracking the balance of allocated and unallocated proceeds over time to ensure no double counting occurs.</p> <p>Severn Trent has also reported in the Framework that the financial reporting team will present an analysis of net proceeds to the Committee at least annually and on request. Where the Sustainable Financing Instruments are outstanding, Severn Trent’s Treasury function will ensure that the balance of tracked proceeds is periodically reduced by amounts matching allocations to Eligible Projects that are made during that period.</p> <p>DNV concludes that Severn Trent has a clear process in place for tracking the balance of the Eligible Projects.</p>
3c.	Temporary holdings.	Pending such investments or disbursements to Eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> • Severn Trent’s Sustainable Finance Framework. 	<p>Severn Trent Treasury and the Sustainable Finance Group will seek to ensure that the amounts allocated to Sustainable Financing Instruments exceed, or are at least equal to, the balance of the Sustainable Financing Instruments outstanding, whenever possible.</p> <p>In circumstances where proceeds <i>cannot be allocated</i> to an Eligible Project, unallocated proceeds will be held or deposited in accordance with the Group’s Treasury policy.</p> <p>DNV can confirm that Severn Trent has appropriately disclosed how it will manage any unallocated proceeds from its Sustainable Financing Instruments and that this is in line with the GBP, SBP, SBG, and the GLP.</p>

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a.	Periodical reporting.	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which the Bond proceeds, and where appropriate Loan proceeds, have been allocated including - where possible, with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmental, social and/or sustainable impact.	<p>Discussions with Severn Trent and review of the following documents:</p> <ul style="list-style-type: none"> • Severn Trent’s Sustainable Finance Framework. • Annual Performance Report 2021 . 	<p>Severn Trent has confirmed its commitment to annual Sustainable Finance reporting. This will be accessible via the Severn Trent website to Investors. The Company will publish “Allocation Reports” that will set out the proportion of proceeds allocated to Eligible Project spend, and the proportion allocated to future spending on Eligible Projects. The report will be issued within 12 months of issuance of each Sustainable Financing Instrument. Reporting will continue until the debt has reached maturity, or all net proceeds have been reported as being fully allocated to Eligible Project spend, whichever occurs earlier. Should there be a major change to the allocation of proceeds, Severn Trent will update any allocation reporting at the next reporting period.</p> <p>Severn Trent will provide its investors with information regarding the assets and expenditures financed and/or refinanced under the Framework, the amounts of proceeds allocated, and the estimated environmental or social impacts of the Eligible Projects funded by the proceeds raised from the relevant Sustainable Financing Instruments (SFI).</p> <p>An “Annual Performance Report” will be disclosed on at least an annual basis as part of the Company’s Sustainable Financing reporting. This will include relevant indicators, determining the quantifiable impact of their financing, such as but not limited to:</p> <p><i>Environmental:</i></p> <ul style="list-style-type: none"> • Number of water efficiency programmes • Leakage reduction MI/d (3-year average)



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> • Per capita consumption (litres/person/day 3-yr average) • Number of meters installed • Abstraction Incentive Mechanism • Water quality compliance (CRI) • Treatment works compliance (%) • Number of km of river improved • Number of pollution incidents • Sewer flooding • Number of trees planted • Area covered by sustainable land and water resources management practices (ha) • Expenditure on conservation and sustainable use of biodiversity and ecosystems • Pollution load reduction per catchment (kg) • Reduction in pollution incidents per 10,000 km of waste network • Our five River Pledges⁴ • Reduction in direct (Scope 1 and 2 emissions) by 46. % by 2031 • Supply chain with SBT plan by 2026 (%) • Reduction in emissions from sold products (%) • Number of electric or alternative fuels (%) • Number of charging points installed • Electricity generated from renewable generation from renewable sources and used on site (per annum / GWh) • Biogas generated and combusted on site (per annum / GWh) • Energy savings in MWh/GWh (electricity)

⁴ DNV notes that in Framework, Severn Trent has also been awarded a 4-star environmental performance assessment status for the third year running by the Environmental Agency (EA).



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> • GHG emissions reduced / avoided in tonnes of CO2 (tCO2e). <p><i>Social:</i></p> <ul style="list-style-type: none"> • Vulnerable customers: <ul style="list-style-type: none"> ○ Customers supported struggling to pay (%) ○ Customers in vulnerable circumstances receiving priority services (%) • Socio-economic empowerment (education) - Number of hours of employability training (%) <p>DNV confirm Severn Trent's intent to seek external verification of its data for the allocation and impact reporting, which is line with the requirements of the ICMA/LMA Principles.</p>