

AffinityWater

AFW15 Green Finance Framework

September 2021 - revised July 2023



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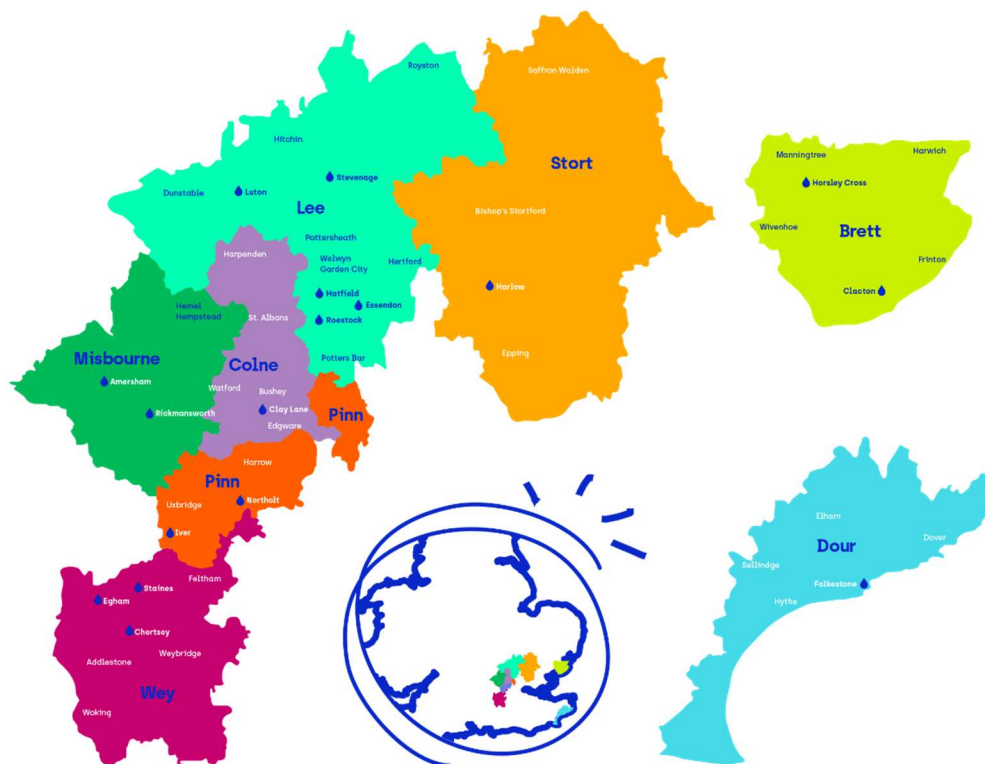
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Affinity Water at a Glance

We are the largest 'Water Only' company in the United Kingdom supplying clean water to our local community for more than 170 years. We own and manage the water assets and network in an area of approximately 4,500km² across three supply regions in the South East of England and we divide our supply regions into eight different communities, each named after a local river. This allows us to tailor our services to customers on a local level.

The communities we serve



Our purpose and vision

We're taking care of your water now and for the future.

Our purpose We supply high-quality drinking water and take care of our environment, for our communities now and in the future.

Our vision Our vision is to be the UK's leading community-focused water company

Our three brand genes highlight the three things we want everyone to know about Affinity Water.



Our Long term ambitions

Our long term ambitions, as set out in our Strategic Direction Statement are focused on four key areas: the environment, resilience and our customers and communities.

Our long term ambitions

Environment

Leave the environment in a sustainable and measurably improved state.

- End unsustainable abstraction from chalk groundwater sources
- Achieve Net Zero for operational emissions by 2030 and all carbon by 2045
- Deliver a net gain in Natural Capital

Customers

Deliver what our customers need, ensuring affordability for all.

- Exceed customers' expectations for drinking water
- Personalise our services to support different needs and wants
- Take care of our vulnerable customers and keep bills affordable

Resilience

Be prepared for change, and resilient to shocks and stresses.

- Ensure a resilient supply of water for our customers
- Ensure our physical assets are resilient for the longterm
- Ensure our people, processes, suppliers and finances remain resilient

Communities

Work with our communities to create value for the local economy and society.

- Build trust and transparency
- Enhance environmental and social health to provide value to our communities
- Reduce our impact in the water environment for all

Governance at Affinity Water

We recognise the importance of demonstrating to customers, regulators and other stakeholders that we operate to the highest standards of governance and transparency.

We support the principles of good corporate governance set out in the UK Corporate Governance Code and have adopted our own Governance Code, founded on the governance obligations in our licence and the principles set out in Ofwat's publication (January 2019): Board leadership, transparency and governance – principles. We last reviewed our Governance Code in February 2021.

Our independent non-executive directors are the largest single group on our Board, compared to our executive directors and investor-appointed non-executive directors. Our independent non-executive directors therefore have a strong voice in the governance of our regulated business. More information about our directors is available on our website¹.

Alongside our Governance Code, we have published documents² which explain how our Board and Committees operate, where decisions are taken and how our shareholders participate in certain key decisions relating to our business. We have also published the respective responsibilities of our Chairman and Chief Executive and the terms of appointment of our independent non-executive directors.

Our Code of Ethics helps to promote and maintain the highest standards of ethics and conduct. It is a series of principles focused on taking care of our organisation and each other, the environment around us, the communities we serve and ultimately our reputation. Further information about our governance is included in the Annual Report and Financial Statements of Affinity Water Limited and can be found in the Investor Relations section of our website³.

Overarching Sustainability Strategy

Sustainability is at the heart of Affinity Water's activities and all of our plans. More importantly, it demonstrates how we add value to society. To enhance sustainability within our activities, we use environmental, social and governance ('ESG') themes aligned to the UN's Sustainable Development Goals, to help us understand both the risks for the business and our opportunities to add value.

Our ESG initiative also aims to demonstrate the 'multi-capital' value of Affinity Water. We recognise it is important to take a deeper view of value, as the services we provide offer broader value creation beyond the financial. We aim to understand how we create value through six capitals – natural, human, social, manufactured, intellectual and financial assets in our business.

¹ <https://www.affinitywater.co.uk/corporate/about/board>

² <https://www.affinitywater.co.uk/corporate/about/governance-assurance>.

³ <https://www.affinitywater.co.uk/corporate/investors/library>

Our ESG policy helps guide and align our teams, we also have an established ESG sub-committee at Executive Leadership level. This committee monitors the performance of our ESG programmes and balance these with our performance commitments, including overseeing climate-change risks and opportunities and progress towards net zero.



Our Company and Our Environment

As a supplier and steward of a precious resource, water and the environment, for future generations, we are acutely aware that we must continually invest in building trust with our customers and hold our performance accountable to our communities and wider stakeholders. This is central to achieving our vision of being a community focused, sustainable and responsible business.

ESG principles are the predominant drivers of everything we do which include health and safety, employee engagement and culture, diversity and our environment. Affinity Water is at the forefront of climate change – our operations must be sensitive to the environment in which we operate – in the provision of water for society, in its abstraction from the environment and in the protection of water and the environment for future generations.

Alongside the water industry, we have committed to an industry wide target of achieving Net Zero carbon emissions by 2030 and our net zero strategy with a supporting action plan. The strategy is underpinned by four principles that guide how we will achieve our net zero targets

- **Principle 1** – Adopting a net zero culture We want all our employees to put GHG emissions at the heart of the choices we make, and feel empowered to reduce emissions across the business. To do this, we are using the Carbon Literacy Project to help us provide the right training and knowledge.
- **Principle 2** – Applying the GHG emissions-management hierarchy to our decision-making means we will prioritise activities that avoid or reduce emissions. This will help us minimise the need to offset emissions that we cannot otherwise eliminate.

- **Principle 3** – Investing in nature-based solutions As stewards of our environment, we invest in nature-based projects that will enable more water to be left in the environment and create more resilient river systems by restoring the rivers and enhancing habitats. We also work with farmers on improving soil health through regenerative farming practices. We believe many of these projects also have a GHG-emissions benefit. This is something we would like to better understand and then maximise the potential of.
- **Principle 4** – Working with others We cannot reach net zero on our own. To be successful, we need to work closely with our suppliers and wider stakeholders, with the support of our customers. We are working with our supply chain to understand their emissions and look at opportunities to reduce these

This route to Net Zero confirms our commitment to reducing carbon emissions and we will continue to engage with and support other sectors to achieve this vision. We report our GHG emissions following the 2013 UK Government Environmental Reporting Guidance and using the 2018 UK Government Conversion Factors for Company Reporting. We'll continue to improve our ESG reporting to our investors and wider stakeholders and we are committed to signing up to the Carbon Disclosure Project (CDP) and Task Force on Climate Related Financial Disclosures (TCFD) by 2025. Through this process we will report on our climate risks and adaptation actions in an integrated way with our progress towards achieving net zero.

For any new and complex global societal issue, we strive first to learn and then to define a principled approach to guide our efforts. This has been fundamental to our recent work around chalk streams, and it's the approach we are taking to pursue our carbon goals as well. We have concluded that six principles will be vital as we continually innovate and take additional steps on an ongoing basis.

- **Addressing the full scope of our emissions.** We will develop carbon accounting and improve our baseline assessments in order to help us reduce our emissions
- **Taking responsibility for our carbon footprint.** We will take responsibility for all our emissions – reducing first, offsetting next
- **Empowering customers.** We will develop and deploy technology to help our customers reduce their carbon and water footprints
- **Ensuring effective transparency.** We will publish our progress in our Annual Report and Financial Statements and updating this route map
- **Using our voice on carbon-related and environmental public policy issues.** We will support new public policy initiatives to accelerate carbon reduction and removal opportunities
- **Enlisting our employees and partners.** We recognise that our employees and partners will be our biggest asset in advancing innovation and driving behavioural change, and we will create new opportunities to enable them to contribute to our efforts



We will also be phasing out our diesel generators and replacing pumps with more energy efficient ones as well as looking at our natural capital and how we can measure this to help us better deliver our objectives on leaving the environment in a measurably better state than it is today.

UN Sustainable Development Goals

The United Nations' SDGs are a blueprint to achieve a better and more sustainable future for all. The 17 related goals address the global challenges we face including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

As a water company supplying a vital resource to our communities, we have identified which goals are particularly applicable to us and our long-term ambitions

UN SDG	Core Activities	The Way We Operate
	Supplying quality water, working alongside sewerage companies regarding sanitation	We use the latest treatment technology and monitoring systems to ensure a consistent supply of high quality water to our customers, benefitting the wider communities and positively impacting our environment.
	Net Zero strategy	We are investing in renewable energy generation and solar generation on our sites. We are committed to generating 7.5% of our total electricity from renewables; 20% of our fleet vehicles to be electric by 2024/25 and all vehicles to be electric by 2030 and further energy efficiency schemes to reduce energy consumption from our operations
	Securing sustainable quality water and supplying to domestic and commercial customers	We continuously invest in our physical assets, both above and below ground to ensure we have stable long-term assets available to continue to provide water to future generations.
	Securing the long term provision of sustainable water for all	Our Water Resources Management Plan identifies, over a 60-year period, how we will balance available supplies with required demand, to ensure a reliable water supply for future generations. Our WRMP is available on our website: affinitywater.co.uk/water-resources .
	Ensuring that we protect the environment	We are continuously adapting to the challenges that climate change poses on our industry as well as considering our own impact on climate change, by looking at ways we

UN SDG	Core Activities	The Way We Operate
		manage our natural capital to ensure we achieve our purpose, including considering an options appraisal to deliver environmental benefits in line with our WRMP and understand the wider benefits of our investment.
	Ensuring sustainable water sourcing and protecting the environment	We are working with stakeholders to address the environmental challenges of protecting our precious local rivers and habitats while encouraging behavioural change. We are reducing groundwater abstraction in order to leave more water in the environment to ensure we can meet future demand.
	Increasing biodiversity and a sustaining the environment	Our catchment management programme aims to make a positive impact on the environment by improving soil and water quality, capturing carbon, and managing flood risk.

Framework Rationale

The Green Finance Framework (the “Framework”) aligns Affinity Water’s strategic and sustainability priorities with its funding and financial strategy. Affinity Water has selected a number of key expenditures which are fundamental to its Sustainability Strategy and deliver tangible environmental and indirect positive impacts on society, in addition to contributing to the United Nations’ Sustainable Development Goals (UN SDGs). Affinity Water looks to attract investors who are supportive of these goals, as these act as valuable partners in supporting our journey and contribution to a more sustainable society.

Green Finance Framework

Under this Framework, Affinity Water Limited including any of its subsidiary entities Affinity Water Finance PLC and Affinity Water Finance (2004) PLC, hereafter Affinity Water will be able to issue Green Bonds/Financing Instruments to support our environmental objectives.

We have developed this Framework under which we can issue various Green funding instruments, including but not limited to:

- Green Private Placements (including US Private Placements)
- Green Bonds
- Green Loans

Affinity Water's Framework aligns to the following principles/guidelines as published by the International Capital Markets Association ("ICMA") and Loan Market Association ("LMA"):

- ICMA Green Bond Principles ("GBP") – (June 2021)⁴
- LMA Green Loan Principles – (February 2021)⁵

The four core components of the principles being

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting



Use of Proceeds

We have identified the following Eligible Green Project categories





- Sustainable water and wastewater management
- Pollution prevention and control
- Terrestrial and aquatic biodiversity conservation
- Energy Efficiency

Examples of relevant projects/activity are below:

ICMA Eligible Green Project Category	Eligibility Criteria	UN SDGs
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⁴ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

⁵ https://www.lma.eu.com/application/files/9716/1304/3740/Green_Loan_Principles_Feb2021_V04.pdf

<p>Sustainable water and wastewater management</p>	<p>Treatment investment – Maintaining/upgrading our existing water treatment assets and investing in new assets to end unsustainable abstraction.</p> <p>Leakage reduction – Expenditure aimed at finding and fixing leaks or future potential leaks.</p> <p>Production and Supply – Expenditure related to the abstraction, treatment, storage and pumping of water.</p>	
<p>Pollution prevention and control</p>	<p>Demand management – Expenditure aimed at reducing water usage in the community. The main measure of success is reductions in Per Capita Consumption (PCC). This workstream includes; education campaigns⁶, home water efficiency checks, issuing water saving devices and universal metering.</p> <p>Catchment management – Pollution management and prevention at source (improving raw water quality so, in theory, we have to do less to treat the water, reducing costs and carbon).</p>	
<p>Terrestrial and aquatic biodiversity conservation</p>	<p>River restoration – Re-naturalising river channels to improve health and biodiversity, making the rivers more resilient to environmental shocks and stresses such as drought.</p> <p>Climate change adaptation – Reducing unsustainable groundwater abstraction, improving environmental resilience where our operations to supply water are demonstrating negative impacts upon the environment.</p>	
<p>Energy Efficiency</p>	<p>Investments and/or expenditures relating to improvement in the energy efficiency of Affinity Water's water system.</p>	

On a best efforts basis, Affinity Water expects to allocate the Net Proceeds to Green Projects originated, approved, financed or completed between 24 months before the issuance date of a Green Financial Instrument to 24 months after the issuance date, as well as to the refinancing of existing physical Green assets.

Process for Project Evaluation and Selection

As a regulated water company, we have strong corporate governance structures in place. The Board is the ultimate decision making authority and approves the annual budget and business plan for each 5-year regulatory period.

Expenditures will be assessed to determine whether they meet the definition of an Eligible Project, in line with the proposed Green categories outlined in the table above.

⁶ www.saveourstreams.co.uk

Affinity Water has set up a Green Finance Committee who will meet annually and oversee the evaluation and selection of suitable Eligible Green Projects for funding via Green Instrument issues. The Green Finance Committee will include the Chief Finance Officer alongside specialists as required from sustainability, capital delivery, operations and treasury.

The Green Finance Committee will be responsible for:

- Ensuring allocations are aligned with our relevant environmental policies
- Approving changes to the register of Eligible Projects in the event that they no longer meet the eligibility criteria
- Ensuring alignment with the ICMA Green Bond Principles (June 2021) and LMA Green Loan Principles (February 2021)
- Reviewing Allocation and Impact Reporting

Management of Proceeds

The Net Proceeds arising from the issuance of our Green Instruments will be appropriately managed at all times by our Treasury function, and will ultimately be used to finance, refinance or invest in eligible projects that are in keeping with this Framework.

Affinity Water will maintain a register for tracking Green Projects to which Net Proceeds are to be allocated, or have been allocated, with associated investments recorded in its accounting systems. Treasury will oversee the register of Eligible Green Projects and will present to the Green Finance Committee on an annual basis, from which it can allocate against new funds raised. Where any proceeds cannot be immediately allocated to finance or refinance these projects, the funds will initially be placed as deposits, money market funds or temporary refinancing purposes in accordance with our Treasury Policy.

Reporting

We will produce a report annually on the allocation of proceeds and the impact of the Green funding which will be made available to investors and wider stakeholders on our website⁷. The report will include a list of the projects to which proceeds have been allocated, as well as a brief description of the projects and their expected impact.

Affinity Water will make publicly available reporting on its website relating to the allocation of Net Proceeds and report on the impact of the Green Projects financed, within 12 months from the issuance of any Green Financial instrument. Reporting will occur on an annual basis until full allocation of the Net Proceeds, with material developments, being reported in a timely manner.

⁷ <https://www.affinitywater.co.uk/corporate/investors/library>





Allocation Reporting

Affinity Water's allocation reporting will include:

- A description of the Green Projects financed under the Framework with case study examples
- The split between financing and refinancing
- Information on how any unallocated proceeds are being held

Impact Reporting

Affinity Water will report against a number of Impact Indicators where feasible and as outlined below. Affinity Water intends to report, on a best efforts basis where possible, in alignment with the ICMA Framework for Impact Reporting. Example Impact Indicators used may include:

ICMA Eligible Green Project Category	Example Impact Indicators	UN SDGs
Sustainable water and wastewater management	<p>Customers served (number)</p> <p>CRI Score</p> <p>Reduction in leakages (MI/d)</p> <p>ILI as measure of efficiency of our infrastructure</p>	
Pollution prevention and control	<p>Reduction in Per Capita Consumption (l/p/d)</p> <p>Meters installed (number)</p> <p>Customers engaged and signed up to campaigns (number)</p> <p>Total area of active Catchment Management schemes (ha/yr ; km²/yr)</p>	
Terrestrial and aquatic biodiversity conservation	<p>Reduce unsustainable abstractions (MI/d)</p> <p>Delivery of biodiversity projects e.g. watershed in square metres (sq/m) of land reserved for biodiversity per year (sq/m/yr), or total spend per year (£/yr)</p> <p>Length of rivers improved (km)</p> <p>Area of cover crops planted (ha)</p>	
Energy Efficiency	<p>Pump/critical asset replacement programme progress (number replaces/ energy saved)</p> <p>Energy saved from supply automation kWh/m³ (energy consumption per m³ of water produced)</p>	

External Review

DNV Business Assurance Services UK Limited (“DNV”) has been appointed to confirm the alignment of the Framework to the ICMA Green Bond Principles – June 2021 and the LMA Green Loan Principles – February 2021.

DNV has provided a Second Party Opinion (SPO) of Affinity Water’s Framework, which can be found on Affinity Water’s website. This review will cover issuance of Green Instruments issued under this framework.

External verification of the allocated and unallocated portions of the Net Proceeds will be provided by an external reviewer along with any allocation reports issued whilst Green Instruments are outstanding. The level of assurance provided will be disclosed.

Case Studies

Investing in new infrastructure to help conserve chalk-stream habitats

We’re investing around **£14 million** as part of our programme to meet demand by increasing the supply of water from alternative sources so we can **reduce the amount we abstract from chalk groundwater**. This project will enable us to do this by bringing water down through existing pipes from Anglian Water’s Grafham reservoir, near Huntingdon, adding to the supply we already import from there.

Each area’s water is different chemically (even though

both are safe and meet all relevant standards), so we’ll condition the imported water at our new Sundon plant to make it compatible with our pipes. The existing Sundon site already has a great deal of the infrastructure we need, making good use of existing assets, and we will complete the new conditioning plant in 2023/24, allowing us to reduce local groundwater abstraction by December 2024.

Projects like this are critical to keeping more water in the environment to protect our chalk stream habitats, which are home to an abundance of species such as water crowfoot, flag iris, mayfly, brown trout, kingfisher, otters, and the nationally endangered water vole.

UNSDGs

Our alignment with the UN Sustainable Development Goals



Water-saving solutions for new housing developments

In our supply area, new properties are forecast to use an extra 83.03 million litres of water a day by 2032, on top of what is already being used. **We're leading an Industry project on Water Neutrality** at NAV sites to establish if the total amount of water used in the community can be the same as before the new homes were built. (NAVs are companies who can be appointed to provide water services to customers in an area).

We're working with different industry stakeholders, technology manufacturers and housebuilders on a water-neutrality blueprint, to help us future-proof the local water network against population growth. We will publish our findings for others to follow.

Tests include:

- Installing water-saving devices in homes as well as in commercial buildings like schools and leisure centres
- Running a behaviour change campaign for residents to reduce water use.

Our first trial is at a site called Bidwell in Houghton Regis, Bedfordshire where we are testing how a behavioural change campaign might work in the absence of water-efficiency technology

UNSDGs

Our alignment with the UN Sustainable Development Goals



Tackling non-native invasive species

Invasive non-native species (INNS) are having a negative impact on our economy, wildlife and habitats, and threaten native species by spreading harmful diseases, competing for resources or damaging natural ecosystems. Through our INNS Out scheme this year, we worked with 20 local organisations to help **reduce the spread and introduction of INNS across multiple river catchments**. The support was both in-kind, with colleagues offering over 50 volunteer days and financial with Affinity was donating a total of £650,000 to 16 projects.

These removed Himalayan balsam, cotoneaster and floating pennywort, as well as invasive aquatic species like demon shrimp.

The scheme will run again in 2023 building on the work that has already been done

UNSDGs

Our alignment with the UN Sustainable Development Goals



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