

Sustainable Finance Framework

Impact Report 2020/2021

Published October 2021



YorkshireWater

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Our purpose: Playing water's role in making Yorkshire a great place to be – now and always



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1. Foreword



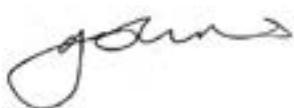
I am delighted to bring you Yorkshire Water's second annual impact report from our Sustainable Finance Framework. This impact report is designed to be read alongside the main 'Our Contribution to Yorkshire' report, which uses our leading six capitals approach to estimate the impact of our business and its operations on society and the environment.

Our ability to provide such broad and in-depth impact reporting stems from our innovative six capitals approach adopted in 2015, which is not just being used to better understand our impact, but also helps shape our strategy, operations and investment decisions. The latest 'Our Contribution' report and the comprehensive assessment behind it has further matured this approach, and we openly share this and the methodology underpinning it for transparency and to give a comprehensive and differentiating approach to investor impact reporting under the Sustainable Finance Framework. This is an annual report and assessment moving forward to deliver on our commitment under this framework.

By increasingly applying the six capitals approach we put being purpose-led at the heart of decision making, and this makes a measurable difference in shaping what we do to grow positive outcomes for the region and to reduce our negative impacts on the environment. The assessment shows that our investments and operations are growing our net contribution across the capitals, for example by reducing carbon emissions, pollution incidents and leakage, and by growing total wages and affordability support.

Our business relies on the debt markets to finance and refinance its operational and capital expenditures, and we understand that sustainable finance is key to delivering our ambitious strategy, including our commitment to be net zero by 2030, and to maximise our contribution to the UN Sustainable Development Goals ("SDGs"). It is therefore critical we give investors a detailed and transparent view of our impact.

As well as discussing the progress we've made in establishing a sustainable finance platform for Yorkshire Water, this report also highlights areas for improvement across our impact reporting as we strive to uphold best practice.



Chris Johns
Chief Finance Officer

2. Glossary of Terms

AECOM	AECOM are the consultants that were used to develop TIVA and the OCY Report.
Assurance Report	This is a report provided by DNV that provides limited assurance over some of the information presented in both the Impact Report and OCY Report.
Committee	The Sustainable Finance Committee made up of representatives from the finance and sustainability teams at Yorkshire Water, involved in assessing the eligibility of expenditures for inclusion in the Portfolio.
DNV	DNV are a leading assurance and classification provider, and the assurance providers under the Assurance Report.
Excluded Budgetary Categories	Those expenditure categories specifically excluded from inclusion in the Portfolio.
Framework	Yorkshire Water's keldagroup.com/investors/sustainable-finance/sustainable-finance-framework/ that underpins our sustainability debt and this report.
Impact Report	This report designed for investors in our sustainability debt.
OCY Report	The Our Contribution to Yorkshire report is the main impact report for Yorkshire Water that gives an estimate of the various impacts our business has across the six capitals. The OCY Report can be found at yorkshirewater.com/capitals
Ofwat	Our principal regulator that sets Yorkshire Water's allowed return, expenditure levels and the amounts we can charge customers.
Portfolio	The Eligible Sustainable Portfolio of expenditures as defined in the Framework.
Public Interest Commitments	A set of six targets that the UK water sector committed to achieving, including being net zero by 2030 and improving social mobility.
UN SDGs	The UN Sustainable Development Goals are a set of 17 goals set by the global community, through the United Nations, which define and drive towards sustainable development.
Six Capitals	These represent the resources which a company relies on and impacts. The capitals are Financial, Human, Intellectual, Manufactured, Natural and Social.
TCFD	The Task Force on Climate-related Financial Disclosures was created by the Financial Stability Board to improve and increase reporting of climate-related financial information.
TIVA	Total Impact and Value Assessment, which is an assessment applying the six capitals across the whole of the business to create a holistic view of impact for Yorkshire Water.

3. Introduction to our Sustainable Finance Framework

Yorkshire Water Services Limited (“Yorkshire Water”, “we” or the “Company”) is the regulated water and wastewater company operating in the Yorkshire Region, serving over 5 million people and 130,000 businesses. We provide some of life’s most essential services – the treatment, supply and safe removal of clean and wastewater.

To provide these services reliably, now and in the future, sustainability has to be in the very fabric of how the Company operates, which is why in 2015 we adopted the six capitals approach to underpin our corporate strategy. The six capitals represent the resources on which we rely and impact on, and expands the Company’s understanding of risk and value to drive more informed and sustainably focused decision making. For example, considering nature-based solutions for wastewater treatment at one our Doncaster sites rather than a traditional hard engineering approach which tends to be very carbon intensive and financially costly.

In 2019, we championed the sector-wide Public Interest Commitments with Water UK, committing Yorkshire Water and other companies in the water industry to addressing challenges on leakage, affordability, plastic waste, social mobility and achieving net zero by 2030.

Yorkshire Water has a Sustainable Finance Framework (the “Framework”) that is fully aligned with its corporate strategy and allows sustainable debt to be raised in a variety of formats to finance and refinance nearly all of its eligible capital (“capex”) and operational (“opex”) expenditure. In FY21 98.5% of opex and 99.7% of capex spend from Yorkshire Water was eligible for inclusion in the Framework, which is an increase over FY20 of 1.4% and 0.7% respectively.

Yorkshire Water’s approach to sustainable finance is based on its award winning six capitals approach which can demonstrate that the Company has a net positive impact to society and the environment. This is comprehensively demonstrated in our latest Our Contribution to Yorkshire report (the “OCY Report”) which is being released alongside this impact report and can be found at yorkshirewater.com/capitals.

With the risks presented by climate change, population growth, biodiversity loss and the continuing impact of the Covid-19 pandemic, it is now more important than ever to understand our impacts on the people and places in our region, and to change the way we make decisions to take these impacts into account.

Sustainable Finance Developments at Yorkshire Water

As at 31 March 2021, £850m had been raised under the Framework across both bond and loan formats, all of which had been allocated.

In April 2021 Yorkshire Water raised an additional £350m in sustainability bonds, bringing the total raised from the Framework to £1.2 billion, and it is expected that the majority of Yorkshire Water’s future debt issuances will be in sustainability format.

For more details on the outstanding debt instruments and allocations, please see the Allocations section on [page 14](#).

Yorkshire Water’s Contribution to the UN Sustainable Developments Goals

The SDGs are a set of 17 goals set by the global community, through the United Nations, which define and drive towards sustainable development. The 17 SDGs are underpinned by 169 targets (more information can be found at: sdgs.un.org/)

We support the SDGs and are ensuring our strategy and activities grow our contribution to them. On page 190 of our latest Integrated Annual Report & Financial Statements (“ARFS”), which can be found at keldagroup.com/investors/document-library/yorkshire-water-financial-statements/, we show the 8 SDGs where we have the biggest impact – shown in the diagram below. Throughout the ARFS we highlight where many of our activities align with the SDGs and provided examples of where we have made a notable contribution.



Continuing response to Covid-19

Yorkshire Water has worked closely with stakeholders in Yorkshire, particularly local authority partners, to ensure it plays a full part in both the immediate and longer-term response to the pandemic.

As a purpose driven organisation led by a clear set of values, YW prioritised the protection of customers and colleagues throughout this challenging period, and during FY21 no colleagues were furloughed or made redundant due to the pandemic.

Home working was instituted for office-based staff and new safe working practices introduced for field and operations teams. These have been maintained throughout the various changes in lockdown and social restrictions which have taken place. Due to the considerable uncertainty as to the future patterns of the virus, YW has decided at present to maintain some elements of this way of working; whilst continuing to monitor the wellbeing of colleagues.

YW continues to offer financial support to those who need it, with over 69,000 customers using one of our support schemes. Small and medium enterprise (“SME”) suppliers also benefited over the year from special measures introduced to ensure instant payments.



4. Use of Proceeds

Yorkshire Water uses debt raised from the Framework to finance and refinance assets and expenditures that fall within the Eligible Sustainable Portfolio (the “Portfolio”).

The Portfolio includes assets and expenditures that benefit societies and communities (Social) and the natural environment (Green), and we recognise that many expenditures will have both Social and Green benefits (Sustainable), such as planting trees to slow the flow of water, mitigate flood risk and sequester carbon.

Sustainability goes hand in hand with being able to provide one of life’s most essential services now and in the future, and as such the majority of our activities and expenditures meet (and are expected to continue meeting) the requirements of this Framework.



Process for Project Evaluation and Selection

Expenditures are assessed for their eligibility in the Portfolio by individuals from the finance and sustainability functions (the “Committee”).

Whilst the components of the Portfolio will change over time depending on Yorkshire Water’s expenditure priorities, the majority of the Company’s assets and expenditures will be included in the Portfolio going forward, taking into account Excluded Budgetary Categories (see below). Over the last three years 99% of the Company’s opex and capex has been eligible for inclusion under the Framework.

1. All assets and expenditures follow the Company’s strict risk management framework and procurement policies (through the following pillars: set objectives, identify, measure, monitor, report)



2. Selection of Eligible Sustainable Investments by the Committee, in line with the Sustainable Eligible Categories, excluding Excluded Budgetary Categories



3. Eligible Sustainable Portfolio

Excluded Budgetary Categories

The following assets and expenditures will not be included in the Portfolio of eligible expenditures under the Framework:

- Personal expenditures
- Financing costs
- Landfill assets and expenditures
- The Company’s remaining fossil fuel fleet
- Assets and expenditures linked to the incineration of waste (excluding activities to such assets to Anaerobic Digestion or other renewable energy generation technologies)
- Potential fines and legal costs associated with pollution incidents.

Reducing Excluded Expenditures

YWS has permanently closed its waste incinerators by investing in Anaerobic Digestion, which converts waste to heat and electricity. We are also investing in installing solar at some of our operational sites around the region and continue to invest in electrifying the Company’s ‘silver fleet’ of light commercial vehicles and trialling hydrogen-based innovations for our tankers. These initiatives form part of our public commitment to have net zero carbon emissions by 2030, which is underpinned by our Carbon Strategy as discussed on our website at yorkshirewater.com/environment/climate-change-and-carbon/our-carbon-strategy/

5. Management of Proceeds

The net proceeds of any finance raised under the Framework will be managed by the Treasury team to fund various operations and capital expenses of Yorkshire Water, except for Excluded Budgetary Categories.

This includes:

- (a) paying down existing drawings under the Company's revolving credit facility;
- (b) refinancing upcoming debt maturities; or
- (c) placing on short-term deposit and drawn upon when required. Yorkshire Water will hold or invest, at its discretion, any unallocated net proceeds as per its internal treasury policy.

Yorkshire Water already monitors its assets and expenditures on a regular basis to a high degree of detail. A data set of all the Company's capital and operational expenditures is prepared annually.

The Committee will make sure that the amounts represented by the Eligible Sustainable Portfolio (the "Portfolio") will exceed, or at least be equal to, the amount of finance raised under the Framework over the same calculation period as the Portfolio by confirming this to the relevant governance group ahead of any such finance being raised.

Whilst we endeavour to place any unallocated net proceeds in Sustainable Liquid Investments (see Framework for definition), we have found there are still very few such investments available to organisations like Yorkshire Water. With the UK Government's new Green Finance Framework and an increasing number of dedicated ESG Money Market Funds we believe the landscape for these types of sustainable investments is changing for the better, and we will continue to engage in dialogue with banks and investment managers to help further develop this area.

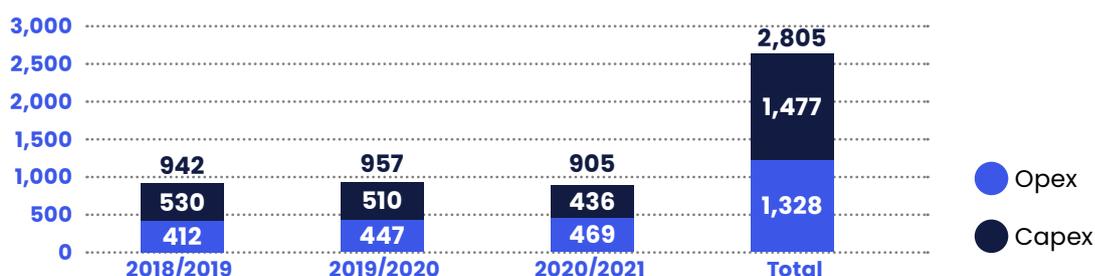


Our Eligible Sustainable Portfolio

The Portfolio

The Portfolio comprises eligible operational and capital expenditures from the latest year ending 31 March 2021 (2020/2021) and the two prior years ending 31 March 2019 and 2020 respectively (2018/2019 and 2019/2020).

Build-up of Portfolio by expenditure and year



We group our expenditures by core business functions as below. The Committee then categorises each grouping as either 'Green', 'Social' or 'Sustainable' by taking a view on the impact the business activities and assets represented in each grouping. This categorisation reflects an estimate of the impacts of the eligible expenditures funded by the allocated proceeds.

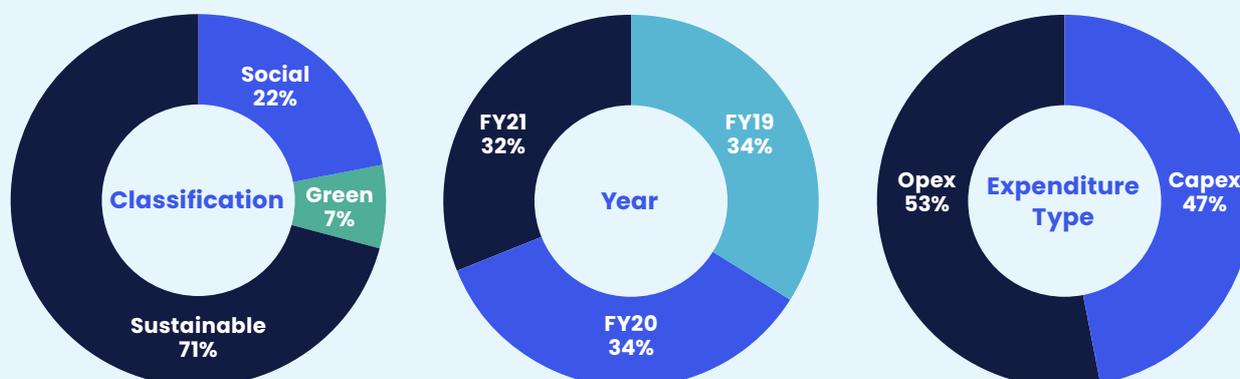
The OCY Report, details of which can be found on [page 15](#), is a more detailed and comprehensive look at how our business impacts society and the environment.

Work continues to improve this categorisation process by aligning it to a six capitals assessment of the different business functions.

Price control	Impact		Category
	Social	Green	Chosen
Water resources	Medium	High	Green
Raw water distribution	High	Medium	Social
Water treatment	High	High	Sustainable
Treated water distribution	High	High	Sustainable
Sewage collection	High	Medium	Social
Network plus sewage treatment	High	High	Sustainable
Sludge transport	Low	High	Green
Sludge treatment	High	High	Sustainable
Sludge disposal	Medium	High	Green

Our Portfolio includes expenditures from the last three financial years and is dynamic, in that expenditures are not fixed and do not continue to accumulate past the three-year calculation period. The amount of debt raised against a portfolio for a given year will also change in a similar way but will be less than the Portfolio at any one time.

As at 31 March 2021 the Portfolio had the following characteristics:



Allocations

The table below summarises the debt raised off the Framework including some key terms and the amount of net proceeds allocated from each debt issuance.

Sustainability Debt	Loan 1	Bond 1	Bond 2	Bond 3 (Tap)
ISIN	n/a	XS1984257029	XS2084420582	XS1984257029
Maturity	Mar-29	Apr-41	Nov-26	Apr-41
Coupon	CPI-linked	2.75%	1.75%	2.75%
Nominal O/S	£100m	£350m	£300m	£100m
Net Proceeds	£100m	£341m	£299m	£106m
Issued	Mar-19	Apr-19	Nov-19	Nov-19
Allocated (at 31 March 2020)	£100m	£341m	£299m	£106m
Allocated (%)	100.0%	100.0%	100.0%	100.0%

The proportion of sustainability debt remained stable over FY21 due to no new debt being issued or material amounts of existing debt being repaid. At the end of April 2021, following the new £350m sustainability bond raised, we estimate the Sustainability Bond Ratio to be c.21%. We expect this to continue increasing as new expenditures and maturing debt is financed and refinanced with sustainable finance.

Total sustainability debt (A) (£m)	£850m
Total YW debt (B)	£5,642m
Sustainability bond ratio (A/B)	15.1%
Total net proceeds	£846m
Total allocated	£846m
Sustainability debt allocated (%)	100%

6. Understanding Our Impact

This Impact Report is intended to be read in conjunction with the OCY Report, which is based on leading work undertaken by Yorkshire Water and AECOM that applies the six capitals to the business to create a view of its holistic impacts across society and the environment. This process is called a total impact and value assessment (“TIVA”).

TIVA estimates the impact of our business across the six capitals and represents these impacts not only as a suite of assured KPIs but also a monetary value. Using renewable energy generation as an example, TIVA would take the amount of energy produced renewably and estimate the value, in pounds sterling, to society and the environment that every gigawatt of power generated represents.

Below is an excerpt from the OCY Report that gives an overview of the estimated economic value of our impact in 2019/2020. We would encourage readers to take a look at the full OCY Report, which can be found at yorkshirewater.com/capitals to get a better feel for the range of KPIs we use to measure our impact.



How a debtholder could estimate the impacts of their investment using TIVA

TIVA estimates the impacts of Yorkshire Water and its operations, and as the Portfolio represents a certain proportion of the Company's expenditures then the sustainable finance raised from the Framework directly enables some of these impacts.

An investor can estimate their contribution from the proportion of the Portfolio that they have financed, which takes account of the total amount invested by them in the various debt instruments in the table on [page 14](#) and the percentage allocation for each debt instrument. The total allocated amount can then be compared to the total Portfolio (£2,805m at 31 March 2021) to determine the proportion that has been effectively financed.

If at 31st March 2021 the Portfolio was equal to 98.4% of the total Capital and Operational expenditures of Yorkshire Water over the last three years, an investor can then apply the proportion of the Portfolio they've financed to the impacts detailed in TIVA to derive an estimate of the impact of their investment in Yorkshire Water's sustainability debt, noting that the Portfolio currently represents three years' worth of expenditure from 2018/2019 to 2020/2021 and so the TIVA impacts should only be taken from these years.

This approach is clear and simple by assuming that every pound represented by the Portfolio is applied to all the expenditures in the business equally, however we believe it is a good indication of the impact of a particular value of investment in Yorkshire Water's sustainable debt. We will develop an approach in the future to allow for a more sophisticated mechanism that investors can use to measure the impact of their investments in Yorkshire Water.

Worked Example – Investor Contribution to Water Use & Efficiency

£100m invested in Bond 3 or 4	A	£100m
% allocated	B	100.0%
£m allocated	C	£100m
Portfolio	D	£2,805m
% financed (C/D)	E	3.6%
Portfolio vs Expenditure	F	98.4%
Proportion of impacts financed (E x F)	G	3.5%
Value to Environment & Society of Water Use & Efficiency over last 3 years (p.35 of OCR)	H	£402m
Investor Contribution to this impact (G x H)		£14m

7. Summary Remarks

- The OCY Report demonstrates Yorkshire Water's net-positive contributions to society and the environment
- The £850m in sustainability debt raised from our Sustainable Finance Framework has helped deliver this net-positive impact
- Our largest impacts remain on financial, manufactured and natural capital, and we have provided practical case studies to bring our findings to life
- The six capitals enable in-depth and leading impact reporting, and help us deliver real benefits.

We have improved our approach to impact reporting however there are areas that we have targeted for improvement:

- Further change as a business will be required to ensure long term resilience of the communities we serve and services we provide
- We will continue to mature and embed our six capitals approach to help us to drive better decision making

- Improvements will be made in the categorisation of our expenditures under the Sustainable Finance Framework and from the development of a more robust impact measuring mechanism for investors.

We would strongly encourage readers of this Impact Report to take a look at the OCY Report, which can be found at yorkshirewater.com/capitals. Both the OCY Report and this Impact Report have been assured by DNV. We have also released the methodology behind the findings presented in the OCY Report. Both the Assurance Report and Methodology Report can be found here at yorkshirewater.com/capitals.

We aim to be open and transparent with all our stakeholders and understand the lack of homogenous impact reporting standards may make it difficult for readers to compare and contrast between companies. We will continue to strive to ensure our reporting remains in-line with best practices and welcome constructive feedback from our investor community.



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