

Sustainable Finance Framework

Allocation Report

For the year ended 31 March 2022

Published December 2022



Yorkshire Water

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We're proud to play water's role in making Yorkshire a brilliant place to be – now and always

This is our purpose



Contents

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1. Foreword



I am delighted to bring you Yorkshire Water's *Allocation Report 2022* under our Sustainable Finance Framework (the Framework). This report marks the third time that we have reported on the allocation of funds raised under the Framework. It is designed to be read in conjunction with the main *Our Contribution to Yorkshire* report, which assesses the impacts of Yorkshire Water's business activities and investments, both positive and negative, using our six capitals approach.

The latest *Our Contribution to Yorkshire* report and the assessment behind it has further matured this approach. We openly share this and the methodology underpinning it for transparency and to provide an informative annual impact report for our investors.

We operate in a complex environment: customer expectations are rising, particularly with regards to environmental performance; we are experiencing significant financial pressures; and ongoing cost-of-living increases continue to impact our customers. In the face of these challenges, the requirement for robust, integrated decision making has never been greater. Our six capitals approach helps us recognise the many sources of value on which we depend as a business. By improving how we use the six capitals within our business, we aim to ensure decisions taken to improve the efficiency of our services are not made at the expense of our long-term resilience or affordability for future generations.

Our assessment shows that our investments and operations are growing our contribution across the capitals in some areas, for example by reducing leakage and by growing the number of customers supported financially. However, we do not get everything right all of the time and our performance over the past year has not always met the standards that we set ourselves.

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 strategy and contributing to the UN Sustainable Development Goals (SDGs). It is therefore critical we give investors a transparent view of our impact.

We will continue to develop and embed our six capitals approach across Yorkshire Water along with our impact and allocation reporting as we strive towards best practice.

Chris Johns
Chief Finance Officer

2. Glossary of Terms

Allocation Report	This report is designed for investors to provide information on the allocation of our debt under the Sustainable Finance Framework
Assurance Report	A report produced by an independent assurance provider that provides information on the scope of their engagement, a description of the work performed, and their conclusions
Committee	The Sustainable Finance Committee made up of representatives from the finance and sustainability teams at Yorkshire Water, who are involved in assessing the eligibility of expenditures for inclusion in the Portfolio
Deloitte	Deloitte is a leading global provider of audit, assurance and other professional services. They have provided limited assurance over selected information within this <i>Allocation report</i> . They also provide financial audit services over our Annual Report and Financial Statements and limited assurance over selected information within the <i>Our Contribution to Yorkshire</i> report
Excluded Budgetary Categories	Those expenditure categories specifically excluded from the Portfolio
Framework	Yorkshire Water's Sustainable Finance Framework that underpins our sustainability debt and this report
Green Bond Principles	Issued by the ICMA, the Green Bond Principles, updated as of June 2021, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond
ICMA	The International Capital Market Association is a not-for-profit membership organisation that represents financial institutions active in the international capital markets worldwide and serves as Secretariat to the Green Bond Principles and the Social Bond Principles
Ofwat	The economic regulator for the water sector in England and Wales. Ofwat sets Yorkshire Water's allowed return, expenditure levels and the amounts we can charge customers
Our Contribution to Yorkshire	The <i>Our Contribution to Yorkshire</i> report assesses the impacts of Yorkshire Water's business activities using a six capitals framework. It can be found at yorkshirewater.com/capitals
Portfolio	The Eligible Sustainable Portfolio of expenditures as defined in the Framework
Price Controls	Binding price and service packages set by Ofwat that water companies must deliver
Public Interest Commitments	A set of six targets that the UK water sector has committed to achieving by 2030, including reaching operational net zero and improving social mobility
Six Capitals	These represent the assets and resources which a company relies on and impacts. The capitals are Financial, Human, Intellectual, Manufactured, Natural and Social
Social Bond Principles	Issued by the ICMA, the Social Bond Principles, updated as of June 2021, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market by clarifying the approach for issuance of a Social Bond
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

3. Introduction

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 140,000 businesses. We provide some of life’s most essential services – the treatment, supply and safe removal of clean and wastewater as well as being custodians of essential infrastructure and the natural environment.

To provide these services reliably, now and in the future, sustainability has to be in the very fabric of how we operate. Our six capitals approach is designed to help us become more sustainable and resilient by better understanding, and ultimately better managing, the economic, environmental, and social impacts of our actions. In turn, this should allow us to protect and grow the value we create for customers, investors, and other stakeholders.

In 2019, we signed up to 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 allows sustainable debt to be raised in a variety of formats to finance and refinance the majority of its capital (“capex”) and operational (“opex”) expenditure, together total expenditure (“totex”). In the year ended 31 March 2022, 89.3% of totex spend from Yorkshire Water was eligible for inclusion in the Framework, which is a decrease from the previous year of 9.8 percentage points reflecting our ongoing refinement of the Framework and improvements to the assessment process we use to identify expenditure we class as sustainable in nature.

Yorkshire Water’s approach to sustainable finance is based on its six capitals approach to impact assessment and reporting. Further information on this topic is provided in the *Our Contribution to Yorkshire* report, which is published in conjunction with this *Allocation report* and can be found at yorkshirewater.com/capitals

With the risks presented by climate change, population growth, biodiversity loss and the cost-of-living crisis, it is now more important than ever for us 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 2022, £1,200m had been raised under the Framework across both bond and loan formats, all of which has been allocated.

In August 2022, Yorkshire Water raised an additional £100m in sustainability loans, bringing the total raised from the Framework to £1,300m. The allocation of these loans will be reported on in our 2023 Allocation Report.

For more details on the outstanding debt instruments and allocations, please see the Allocations section on [Page 16](#).

Yorkshire Water's Contribution to the UN Sustainable Developments Goals

The SDGs are a set of 17 goals formally adopted 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).

The criteria we use to assess the eligibility of expenditure for inclusion within the Framework are mapped to specific SDGs and their underpinning targets, which allows us to understand how and where our work contributes to each goal. See [Appendix 1](#) for further information.



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”). New financing is defined as expenditure incurred during the year ended 31 March 2022. Refinancing is defined as expenditure incurred in the two prior financial years ended 31 March 2021 and 2020 respectively. As at 31 March 2022 all proceeds have been allocated between new financing and refinancing.

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 provide amenity value.



5. Allocation reporting criteria

The following criteria have been applied in calculation and allocation of the Portfolio as presented within this report

1. Expenditure data

All assets and expenditures follow Yorkshire Water's risk management framework and procurement policies. Annual operational and capital expenditure is reported from Yorkshire Water's SAP system at financial year end and categorised by price control in line with the Annual Performance Report submitted to Ofwat and published on our website¹.

2. Eligibility assessment

Expenditure is assessed as eligible for inclusion in the Eligible Sustainable Portfolio, following the Eligibility Criteria based on Social and Green Bond Principles ([Appendix 1](#)) and excluding the Excluded Budgetary Categories listed within Yorkshire Water's Sustainable Finance Framework (2019)².

Operational expenditure is assessed by general ledger code. Capital expenditure is assessed by investment category on a scheme-specific basis rather than on an individual line-item basis. Investment categories reflect the primary deliverable associated with each capital scheme. Expenditure for a given capital scheme includes purchased goods and/or services, as well as staff costs, consultancy costs, third-party costs, and overheads associated with delivering the scheme.

In line with Social and Green Bond Principles, eligible expenditure is linked to the provision of social and/or environmental benefits. However, we recognise that delivery of such benefits may also generate some adverse impacts (e.g., injuries sustained by colleagues; greenhouse gas emissions from our operational assets). Further information on how we assess the impacts of our business activities is provided in the *Our Contribution to Yorkshire* report that is published in conjunction with this *Allocation Report*.

¹yorkshirewater.com/reports/

²keldagroup.com/media/1077/732859_yws_sustainable_framework.pdf

3. Categorisation

Eligible expenditure is assessed against Social and Green Bond Principles and ICMA's mapping between these principles and the SDGs, and assigned to Social, Green, or Sustainable sub-portfolios on the basis of the benefits provided to societies and communities (Social), the natural environment (Green), or both (Sustainable).

4. Allocation

Debt raised under the Sustainable Finance Framework is allocated against expenditure within the Eligible Sustainable Portfolio. An allocation log is maintained to ensure debt is not allocated to the same expenditure more than once.

5. Approval

The Eligible Sustainable Portfolio, allocation of debt, and final reporting disclosures are reviewed and approved by the Sustainable Finance Committee, comprised of representatives from the Finance and Sustainability teams at Yorkshire Water.

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 (including costs associated with raising finance)
- Landfill assets and expenditures
- Yorkshire Water's remaining fossil fuel fleet
- Assets and expenditures linked to the incineration of waste (this does not exclude activities for converting incinerators and associated assets to Anaerobic Digestion or other renewable energy generation technologies)
- Fines and legal costs associated with pollution incidents (if any)

Reviewing Excluded Expenditures

It is expected that certain aspects of the specified excluded budgetary categories will reduce over time in line with initiatives that form part of our drive towards net zero. For example, we are continuing to invest in electrifying Yorkshire Water's 'silver fleet' of light commercial vehicles and reduce the use of fossil fuel vehicles.

As described further on [page 14](#), we have enhanced our portfolio categorisation processes to assess capex spend at an individual scheme level against Green and Social Bond Principles. As a result, schemes that do not map to any Green or Social Bond Principles are excluded from the eligible Portfolio. The updated eligibility criteria against which opex and capex are assessed are included in [Appendix 1](#). Schemes are assessed on an outcome focussed basis. As such, whilst overall schemes may be judged to meet Green or Social Bond Principles, elements of contributory spend may not. We will continue to refine our approach to eligibility assessment as the Framework develops.

6. Management of Proceeds

The net proceeds of finance raised under the Framework are managed by the Treasury team to fund various operational 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; and
- (b) refinancing upcoming debt maturities.

Unallocated net proceeds will be held as temporary investments, placed on short-term deposit and drawn upon when required. Yorkshire Water will hold or invest, at its discretion, any temporary investments as per its internal treasury policy.

The Committee ensures that the amounts represented by 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.

We endeavour where possible, and subject to availability, to place any unallocated net proceeds in Sustainable Liquid Investments (see Framework for definition).

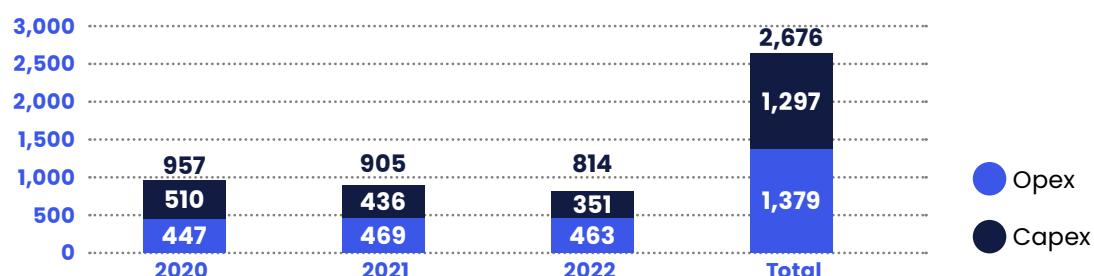


Our Eligible Sustainable Portfolio

The Portfolio

The Portfolio comprises eligible operational and capital expenditures from the latest year ending 31 March 2022 and the two prior years ending 31 March 2021 and 2020 respectively.

Build-up of Portfolio by expenditure and year (£m)



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. Over the last three years 95.6% of the Company's opex and capex has been eligible for inclusion under the Framework.

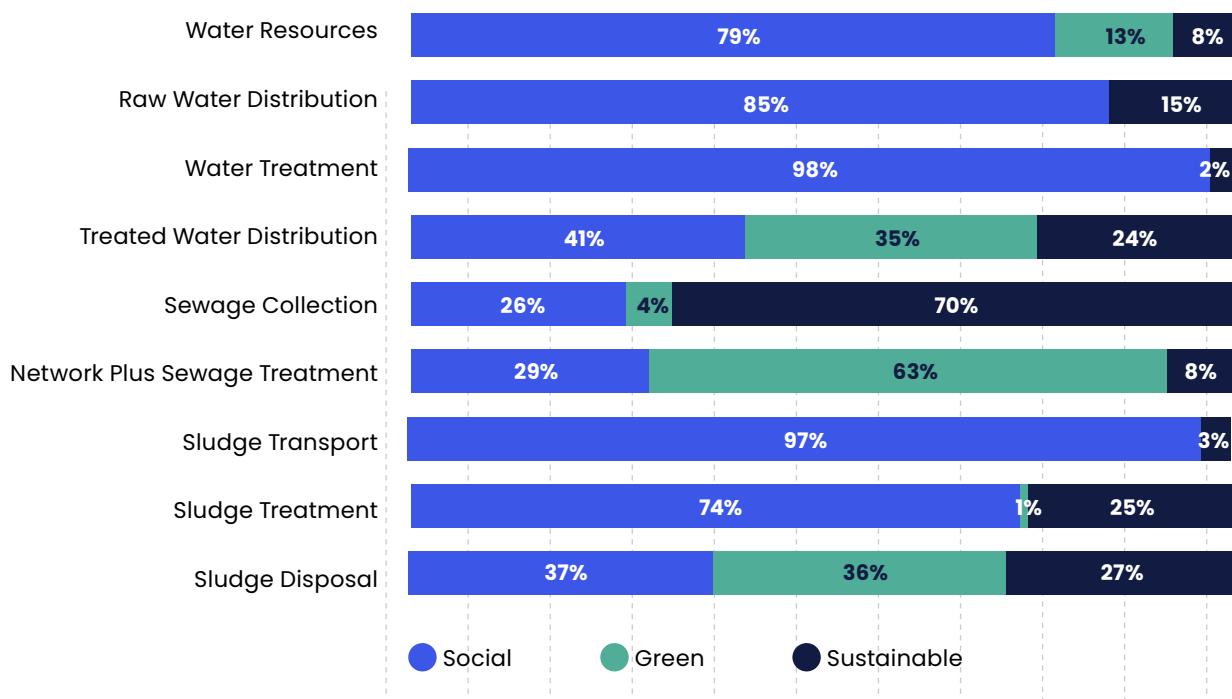
The amount of debt raised against a portfolio for a given year will also change in a similar way but will be less than the Portfolio at any one time. As at 31 March 2022, 67.2% of the Portfolio was unallocated against finance raised under the Framework.

Movement in Portfolio			
	Allocated	Unallocated	Total
As at 31 March 2021	£846m	£1,959m	£2,805m
	30.2%	69.8%	100.0%
Current year portfolio	£25m	£789m	£814m
Previous years' portfolio allocated during the year	£320m	£(320)m	-
Prior year expenditure no longer within portfolio timeframe	£(315)m	£(628)m	£(943)m
As at 31 March 2022	£876m	£1,800m	£2,676m
	32.8%	67.2%	100.0%

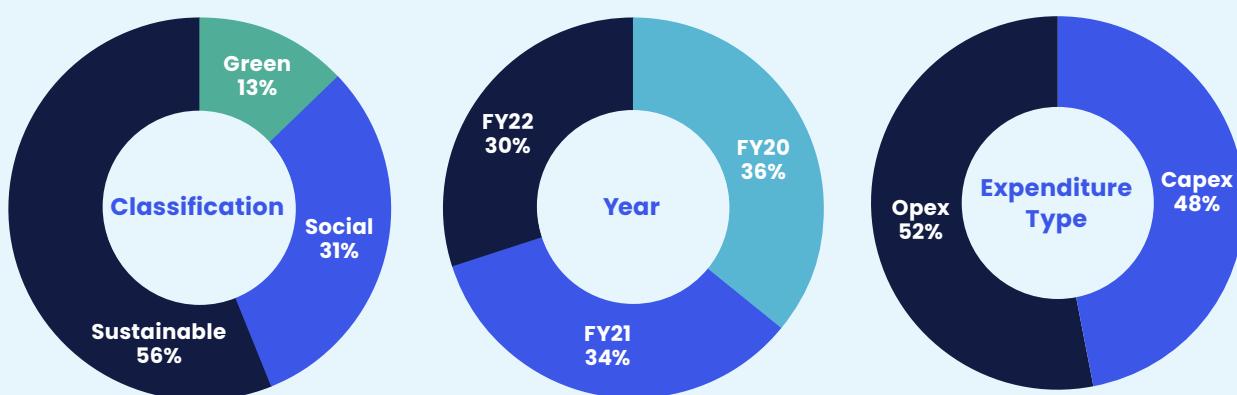
We group our expenditures by core business functions as below. The Committee then categorises the weighting of each business function between 'Green', 'Social' and 'Sustainable' based on a granular assessment of individual capex schemes against ICMA Green and Social Bond Principles. The capex scheme assessment is used as the basis for allocation of opex.

This builds on the methodology in previous years which allocated expenditure to either 'Green', 'Social' or 'Sustainable' at a Price Control level. Our revised approach reflects a more detailed analysis of the nature of the underlying costs and reflects our view of the likely impacts of the eligible expenditures funded by the allocated proceeds.

FY22 Categorisation Assessment by Price Control



As at 31 March 2022, the Portfolio had the following characteristics:



The following table illustrates, for each price control, examples of assets financed during the year.

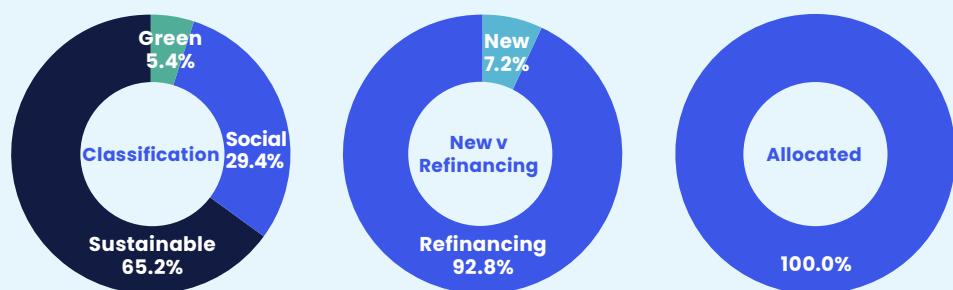
Price control	Price control description	Examples of assets financed during the year ended 31 March 2022
Water Resources	Activities related to the operation of existing water resource sites, identification of new sources, catchment management, licence management, and abstraction infrastructure	Enhancing the safety of reservoir spillways Conservation, access and recreation programmes across our rural estate
Raw Water Distribution	Activities related to the transport of raw water from abstraction sites to storage facilities (e.g. reservoirs) or treatment works and activities related to the construction, operation and maintenance of storage facilities	Delivering water quality risk mitigation measures in service reservoirs Biosecurity initiatives to reduce the spread of invasive non-native species
Water Treatment	Activities related to the treatment of raw water to meet drinking water standards	Water treatment work upgrades to mitigate the risk of taste and odour issues Improving security around water treatment works
Treated Water Distribution	Activities related to distributing treated water from treatment works to customers. Includes network repair and maintenance activities, and activities associated with new network development	Rolling out water meters to improve water use efficiency (see related case study in the <i>Our Contribution to Yorkshire report</i>) Investing to reduce leakage across our water network
Sewage Collection	Activities related to the collection of foul sewage from customers' properties, surface water drainage from customers' properties, and highway drainage. Includes development, repair and maintenance of sewage collection infrastructure	Proactive investment to reduce the risk of sewer flooding Installing customer sewer alarms in high-risk properties to alert us to issues on our network and allow us to respond promptly
Network Plus Sewage Treatment	Activities related to sewage treatment processes, including discharging treated wastewater into rivers and producing sewage sludge for transporting onwards to sludge treatment processes	Installation of new equipment to reduce the amount of phosphorous we release to the environment Provision of gas detection monitors at wastewater facilities to keep our colleagues safe
Sludge Transport	Activities related to the transport of sludge from sewage treatment plants to sludge treatment plants	
Sludge Treatment	Activities related to sludge treatment including thickening and dewatering	Delivering a new energy and recycling facility at Huddersfield
Sludge Disposal	Activities related to the collection of treated sludge, onward transport, and disposal to landfill, agricultural land, land reclamation sites and other end users	Refurbishing anaerobic digesters to improve efficiencies and resource reuse

Allocations

In April 2021, a further sustainability bond was issued, the fourth to be raised off the Framework, and the sole issuance during the year. Net proceeds have been allocated in full against the Portfolio. The table below summarises key terms and net proceeds for the instrument.

Key Features	Sustainability Bond 4
ISIN	XS2333224314
Maturity	Oct-32
Coupon	1.75%
Nominal O/S	£350m
Net Proceeds	£345m
Issued	Apr-21
Allocated (at 31 March 2022)	£345m
Allocated (%)	100.0%

As at 31 March 2022, Sustainability Bond 4 had the following characteristics:



In total, net sustainability debt raised off the Framework amounted to £1,191m as at 31 March 2022 which has been allocated in full against the Portfolio.

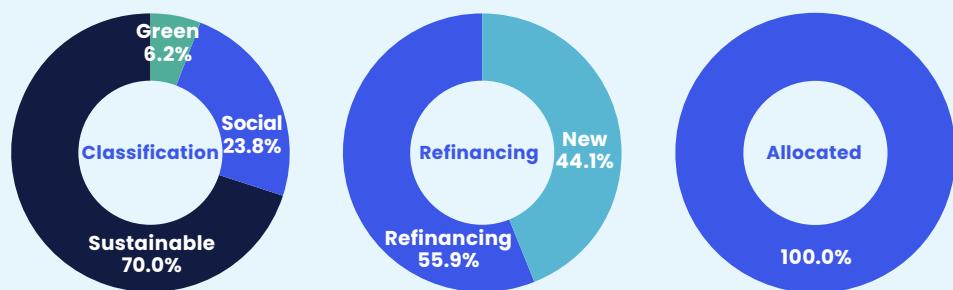
Movement in Sustainability Debt Net Proceeds

	Allocated	Total
As at 31 March 2021		
Issued during the year	£846m	£846m
As at 31 March 2022	£345m	£345m
	£1,191m	£1,191m

Total Sustainability Debt (A) (£m)	£1,200m
Total YW Debt (B) (£m)	£5,714m
Sustainability bond ratio (A/B)	21.0%
Total Net Proceeds (£m)	£1,191m
Total Allocated (£m)	£1,191m
Sustainability Debt Allocated (%)	100%

All sustainability debt raised off the Framework remains outstanding and now accounts for 21.0% of total Yorkshire Water debt, an increase from 15.1% as at 31 March 2021. We expect the Sustainability Bond Ratio to continue increasing as new expenditures and maturing debt is financed and refinanced with sustainable finance.

As at 31 March 2022, the total outstanding sustainability debt had the following characteristics:



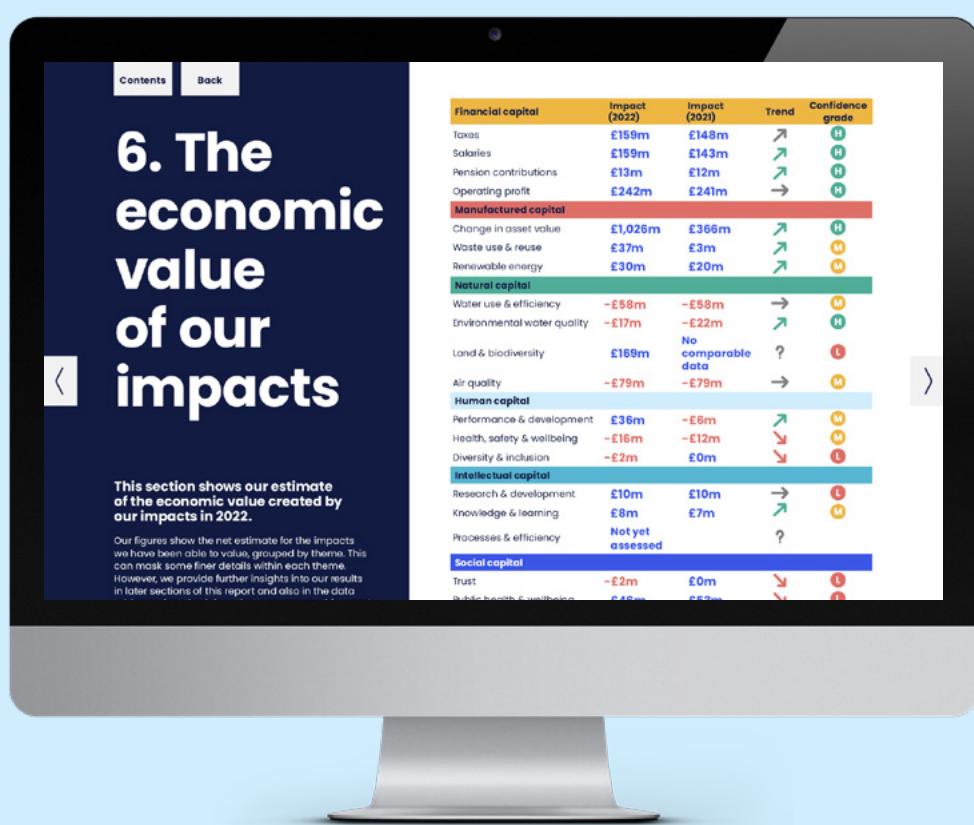
7. Understanding Our Impact

This Allocation Report is intended to be read in conjunction with the Our Contribution to Yorkshire report, which uses a six capitals framework to assess and value the impacts of Yorkshire Water's business activities each year.

Our approach assesses the extent and condition of Yorkshire Water's assets, the outputs we generate through our activities, as well as the monetary impacts of those outputs across all six capitals.

For example, our electricity generation facilities (manufactured capital assets) contribute to energy resilience by exporting renewable electricity to the grid (output). We can express the value of this enhanced resilience to society in monetary terms (impact).

Below is a excerpt from the *Our Contribution to Yorkshire* report that gives an overview of the estimated economic value of our impact in 2021/2022. We would encourage readers to take a look at the full *Our Contribution to Yorkshire* report to better understand how we measure our impact and also read some case studies that bring our assessment to life.



Appendix 1:

Sustainable Finance Framework – updated eligibility criteria

Below are details of updated eligibility criteria and examples of eligible expenditure for Social and Green Bond Principles categories used in Yorkshire Water's Sustainable Finance Framework. Linkages between Sustainable Development Goals and each Social and Green Bond Principle category are also highlighted. We aim to update the Framework with these updated eligibility criteria over the next year to recognise and account for changes made to the Social and Green Bond Principles since the Framework was released in 2019.

Social Bond Principle 1 – Affordable basic infrastructure

Key SDGs: 6. Clean Water and Sanitation; 9. Industry, Innovation and Infrastructure



Maintaining and enhancing water assets and services to ensure safe, reliable, sustainable and resilient infrastructure to provide enough safe water to all our customers, including:					Maintaining and enhancing wastewater assets and services to provide reliable, sustainable, resilient and effective sanitation, manage sewer and wider flood risk, and prevent pollution of the water environment, including:					Keeping bills affordable to customers and promote financial assistance to customers who are struggling to pay their water bill through one of our support tariffs.
Investing at water treatment works (WTW) and in our water distribution network where we observe unacceptable risk to drinking water quality, capacity, reach, resilience or reliability.	Replacing supply pipes to reduce health risk and water leakage.	Proactive maintenance on our water mains to remove iron and other potential contaminants, to protect quality water supplies.	Protecting and restoring the land catchments from which we source much of Yorkshire's public water supply, particularly to stop soil erosion and pollutants, to help ensure high quality sources of water whilst also delivering wider benefits for recreation, carbon storage and wildlife.	Investing in water-use efficiency and ensuring sustainable withdrawals of freshwater.	Investing at wastewater treatment works (WwTW) and in our sewerage infrastructure to ensure resilience, sufficient capacity for the growing population, and to meet tighter legal standards to protect rivers and coasts for the safety and enjoyment of people and to protect wildlife.	Increasing capacity on our sewer network to ensure sufficient capacity for the growing population and economy, and to reduce risk of sewer flooding of homes and public spaces.	Introducing Natural Flood Management (NFM) techniques on our land, and partners' land, to slow the flow and reduce risk of flooding in communities downstream, whilst also delivering wider benefits for recreation, carbon storage and wildlife.	Developing infrastructure to increase recycling and safe reuse of water.		

Social Bond Principle 2 – Access to essential services

Key SDGs: 3. Good Health and Well-being; 4. Quality Education; 8. Decent Work and Economic Growth; 10. Reduced Inequalities



Ensuring all parts of the communities we serve can effectively access our essential services and are supported when they need it, including:

Providing financial support to those that struggle to pay, through our portfolio of financial packages including our social tariff Water Support. Reducing our own and customer mains-water consumption, including helping businesses switch to non-potable sources of water where they can (e.g. cooling processes).

Providing tailored services for those who need them, including Priority Services Register, Dementia Friends and website accessibility.

Investing to keep bills low, including recovering unpaid debt, investing in productivity levels, renewable energy and energy efficiency measures, innovation and creating value from waste and underused resources.

Investing in the long-term availability of skills and knowledge to support the future of water and wastewater services, including:

Providing inclusive education about water and our services to youth and adults, to improve knowledge, technical skills and employability and promote access to our support services to our diverse communities.

Providing inclusive job creation, apprenticeships and recruitment schemes, and our Industrial Cadets work experience programme.

Enhancing the diversity of our supplier base by, for example, providing additional support to small- and medium-sized enterprises and community organisations and making it easier for them to engage with us and bid for tenders.

Promoting health and wellbeing in our communities, including through the provision of recreation services on our land.

Social Bond Principle 3 – Food security

Key SDGs: 2. Zero Hunger; 12. Responsible Consumption and Production



Supporting development and delivery of sustainable food systems through our interactions with catchment land and the agricultural sector, including:

Investment in sewage sludge storage and process (quality) improvements to ensure a reliably high-quality material which can be safely recycled to land to recover the inherent nutrient value, providing an alternative to traditional fertilisers.

Working responsibly with our farm tenants and others, investing to maintain and restore catchment land to protect water quality and produce agricultural products in a sustainable way.

Programmes to protect soils and to control Invasive Non-Native Species (INNS) and promote biodiversity on catchment land.

Social Bond Principle 4 – Socioeconomic advancement and empowerment

Key SDGs: 1. No Poverty; 4. Quality Education; 5. Gender Equality; 8. Decent Work and Economic Growth, 10. Reduced Inequalities



Supporting socioeconomic advancement and empowerment through the provision of education, training and development; supporting employability; protecting and promoting labour rights; and providing fair wages and inclusive, equitable access to services, resources and opportunities, including:

Training and development programmes for all colleagues.	Educating our communities on water and water saving. Our bespoke education centres are mainly aimed at Key Stage 2 to support the curriculum, but also open to visitors from across society.	Providing inclusive job creation, apprenticeships, recruitment schemes, and our Industrial Cadets work experience programme.	Providing safe and secure working environments for employees and contractors. Ensuring the safety of our communities on and around our land, works and assets.	Ensuring through Our Living Wage accreditation that all employees are paid over and above statutory wage levels. Embedding contractual requirements for our suppliers to abide by our Living Wage Commitment.	Working to reduce the risk of modern slavery in our supply chain, assessing suppliers' awareness and compliance with the Modern Slavery Act, and undertaking supplier risk assessments.	Improving equity, diversity and inclusivity across genders, LGBT+, race, disability, social background and more.	Building the resilience of those most at risk of flooding in our region to reduce their exposure and vulnerability to extreme weather events, e.g. our Living with Water and Connected by Water partnerships.
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Green Bond Principle 1 – Renewable energy

Key SDGs: 7. Affordable and Clean Energy; 8. Decent Work and Economic Growth; 9. Industry, Innovation and Infrastructure; 12. Responsible Consumption and Production



Maintaining and increasing our investment in renewable energy, including:

Operating our renewable energy assets, including anaerobic digesters, biogas CHPs, solar panels, wind and hydro turbines.	Investing to expand the generation capacity, efficiency or capability of our current renewable energy assets, including refurbishing our anaerobic digestors, investing in biogas treatment and increasing sludge throughput.	Investing in new renewable energy infrastructure, including new anaerobic digesters, wind and solar.	Sourcing renewable energy through contractual arrangements, including power purchase agreements, electricity on certified zero-carbon tariffs and green gas certificates.
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Green Bond Principle 2 – Energy efficiency

Key SDGs: 7. Affordable and Clean Energy; 8. Decent Work and Economic Growth; 9. Industry, Innovation and Infrastructure



Improving energy efficiency through a range of measures, including:

Replacing old plant and machinery with new, more efficient plant and machinery, including pumps.

Retrofitting, refurbishing or upgrading current property, plant and equipment to operate more efficiently.

Introducing and improving monitoring and control systems to manage operations more efficiently, including the use of smart meters, smart networks and artificial intelligence.

Focusing on energy efficiency as part of design specifications, optioneering and build in our capital delivery programme.

Improving fleet and logistics efficiency.

Green Bond Principle 3 – Pollution prevention and control

Key SDGs: 11. Sustainable Cities and Communities; 12. Responsible Consumption and Productions



Maintaining and enhancing assets and services to prevent pollution, including our programmes to:

Invest at WwTW and in our sewerage infrastructure to ensure resilience, sufficient capacity for the growing population, and to meet tighter legal standards to protect rivers and coasts.

Increase capacity and other interventions on the sewer network to ensure sufficient capacity for the growing population and economy, and to reduce escapes from the sewer which cause pollution.

Invest to reduce nuisances caused by our assets, including odour, noise and flies.

Transitioning to a net zero operating model to help ensure a stable climate that continues to provide reliable rain, including:

Reducing our emissions by investing in, for example, energy efficiency, renewable energy generation, fuel replacement, and innovative asset designs.

Working with our value chain to reduce greenhouse gas emissions, including those associated with our capital programmes and ongoing operation of our assets.

Working to sequester carbon in our land and catchment through land protection and restoration programmes.

Ensuring we are disposing of our waste in a safe and responsible manner, and working to reduce our waste generation through prevention, reduction, recycling and reuse.

Green Bond Principle 4 – Environmentally sustainable management of living natural resources and land use

Key SDGs: 11. Sustainable Cities and Communities; 12. Responsible Consumption and Production; 15. Life on Land



Delivering sustainable management of the environment and its resources, including:

Protecting and restoring the land catchments from which we source much of Yorkshire's public water supply, particularly to stop soil erosion and pollutants, to help ensure high quality sources of water whilst also delivering wider benefits for recreation, carbon storage and wildlife.

Working to address the environmental impacts of water abstraction, as identified in the Water Industry National Environment Programme (WINEP).

Introducing Natural Flood Management (NFM) techniques on our land, and partners' land, to slow the flow and reduce the risk of flooding in communities downstream, whilst also delivering wider benefits for recreation, carbon storage and wildlife, including:

Extending the woodland cover on our land and managing our woodland in line with recognised sustainable forestry management schemes. Using planting and land management techniques to store and slow rainwater while also delivering wider benefits for society and wildlife.

Managing municipal flood risk through a range of traditional engineering approaches combined with NFM techniques within the region's cities and their catchments.

Restoring and protecting peat uplands as part of our catchment management programmes to protect water quality. This involves re-wetting and revegetating peatlands to a more natural state in which they can act as a sponge to store water.

Delivering programmes to protect soils and to control Invasive Non-Native Species (INNS) on our catchment land.

Green Bond Principle 5 – Terrestrial and aquatic biodiversity conservation

Key SDGs: 6. Clean Water and Sanitation; 14. Life Below Water; 15. Life on Land



Playing our role as a water company to conserve, protect and restore water-related ecosystems, including forests, wetlands, rivers, peatlands and coastal waters, responding to both regulatory requirements and wider expectations, including:

Meeting our requirements under the Water Industry National Environment Programme (WINEP) and Water Industry Strategic Environmental Requirements (WISER).

Protecting and improving SSSIs and other special habitats.

Restoring fish migration routes for improved spawning, such as through our Fish Passage Programme.

Carrying out river restoration trials to improve river environments beyond our large capital investments at WwTW.

Investing to reduce nutrient pollution.

Managing our woodland in line with recognised sustainable forestry management schemes.

Working in partnership with others to conserve and enhance biodiversity across the region.

Green Bond Principle 6 – Clean transportation

Key SDG: 11. Sustainable Cities and Communities



Moving to a low carbon fleet and to solutions that reduce transportation use, including:

Transitioning our fleet to electrical, biogas and hydrogen vehicles.

Investments into new infrastructure to support low carbon transportation, including electric vehicle charging points.

Investments in new technologies to reduce travel.

Improving fleet and logistics efficiency.

Working with our value chain to support a wider move to clean transportation, including where relevant for our capital programmes and ongoing operation of our assets.

Green Bond Principle 7 – Sustainable water and wastewater management

Key SDGs: 6. Clean Water and Sanitation; 12. Responsible Consumption and Production



Investing in the sustainable management of water and wastewater and reducing our own and customer mains-water consumption, including:

Maintaining and enhancing water and wastewater assets and services to ensure quality, reliable, sustainable and resilient infrastructure to provide safe water and sanitation and to meet tighter legal standards to protect rivers and coasts.

Investing to reduce leakage and bursts in our network and our customers pipes.

Working with our business and other non-household customers to switch to non-potable sources of water where they can, for example, by helping them use lower grades of water in cooling and washing processes where potable standards are not necessary.

Working with our customers and others to manage and reduce water consumption and to support and strengthen the participation of local communities in improving water and sanitation management.

Investing in water efficiency measures at our operational sites and in our offices, for example, by minimising the loss of backwash water used in water treatment processes and replacing use of potable water in wastewater treatment processes with lower grades of water.

Developing infrastructure to increase recycling and safe reuse of water.

Ensuring sustainable abstraction and implementing integrated water resources and catchment management.

Green Bond Principle 8 – Climate change adaptation

Key SDGs: 1. No Poverty; 13. Climate Action; 17. Partnership for the Goals



Strengthening resilience and adaptive capacity to climate-related hazards, including:

Investment at our own assets to protect them from extreme weather impacts like flooding.	Investment in programmes across Yorkshire to work in partnership to manage flood risk and build the resilience of those most at risk of flooding in our region to reduce their exposure and vulnerability to extreme weather events, e.g. our Living with Water and Connected by Water partnerships.	Introducing NFM techniques and Sustainable Urban Drainage Systems on our land, and partners' land, to slow the flow and reduce the risk of flooding in communities downstream, whilst also delivering wider benefits for recreation, carbon storage and wildlife.	Planning for and responding to drought conditions and low river flows, including development and implementation of our Water Resource Management Plans.	Planning for and responding to longer, heavier rainfall events and more intense storms, including development and implementation of our Drainage and Wastewater Management Plans, our Storm Water Management Strategy and investment in our assets to reduce the risk of flooding and sewer flooding.	Delivering on the actions set out in our latest Adaptation Report. These reports form part of the UK's climate risk assessment and policy cycle under the Climate Change Act, 2008.	Investing in smart networks and data analytics to build network resilience to climate-related shocks and stresses.
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Green Bond Principle 9 – Eco-efficient and/or circular economy adapted products, production techniques and processes

Key SDGs: 8. Decent Work and Economic Growth; 11. Sustainable Cities and Communities; 12. Responsible Consumption and Production



Reducing waste generation through prevention, reduction, recycling and reuse and embracing the principles of the circular economy, including:

Investing to create value from waste and under-used resources that currently exist in our and our partners' businesses, such as grit and screenings; fats, oils and greases (FOGs); water and wastewater sludges (including potential calorific, mineral and nutrient value); heat lost to the environment; construction, repair and maintenance waste; and under-utilised land.	Working with our business and other non-household customers to switch to non-potable sources of water where they can, for example, by helping them use lower grades of water in cooling and washing processes where potable standards are not necessary.	Developing infrastructure to increase recycling and safe reuse of water.	Prolonging asset life, reducing asset replacement need and associated waste, for example through re-lining of assets and re-lining pipes.	Investing in opportunities to provide heating and cooling services where these are by-products of our assets and processes.	Developing and working in partnerships for more circular or sustainable outcomes, eg through systems thinking or integrated catchment management.
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Appendix 2:

Independent limited assurance report

Independent Assurance Report to the Directors of Yorkshire Water Services Ltd

We have been engaged by the Directors of Yorkshire Water Services Ltd ("Yorkshire Water") to perform a limited assurance engagement relating to the Selected Information, as outlined below, within the 'Allocation Report' ("the Report") which discloses the reported use of the proceeds of the sustainable bond ISIN XS2333224314 issued on 27 April 2021.

Selected Information in the Allocation Report	Applicable Criteria
For the bond proceeds of the April 2021 issuance (ISIN XS2333224314):	
The allocation of proceeds to a sub-portfolio(s) (Social or Green or Both Green and Social).	The "Allocation Reporting Criteria" that is to be published within the Allocation Report, and is based on the Yorkshire Water Sustainable Finance Framework 2019 (the Framework).
Balance of the unallocated proceeds and type of temporary investments.	
The division of the allocation between new financing and refinancing.	

Use of report

This report is made solely to the Directors of Yorkshire Water in accordance with our agreed terms of engagement. Our work has been undertaken so that we might state to the Directors of Yorkshire Water those matters we have agreed to state to them in this report and for no other purpose. Without assuming or accepting any responsibility or liability in respect of this report to any party other than Yorkshire Water and the Directors of Yorkshire Water, we acknowledge that the Directors of Yorkshire Water may choose to make this report publicly available for others wishing to have access to it, which does not and will not affect or extend for any purpose or on any basis our responsibilities. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Yorkshire Water and the Directors of Yorkshire Water as a body, for our work, for this report, or for the conclusions we have formed.

Our conclusion

Based on our work as described in this report, nothing has come to our attention that causes us to believe that the Selected Information, as presented on page 16 of the Report which discloses the reported use of the proceeds of the sustainable bond ISIN XS2333224314 issued on 27 April 2021 has not been prepared, in all material respects, in accordance with the applicable criteria defined within the Report prepared and published by Yorkshire Water at yorkshirewater.com/about-us/capitals

Respective responsibilities of the directors and assurance provider

The Directors are responsible for:

- Establishing applicable criteria for preparing the Selected Information (the Allocation Reporting Criteria);
- Designing, implementing, and maintaining internal processes and controls over information relevant to the preparation of the Selected Information that are free from material misstatement, whether due to fraud or error; and
- Measuring and reporting the Selected Information based on the applicable criteria.

Our responsibility is to express a conclusion on the Selected Information based on our procedures. We conducted our engagement in accordance with the International Standard for Assurance Engagements 3000 ("ISAE 3000") issued by the International Auditing and Assurance Standards Board ("IAASB"), in order to state whether anything had come to our attention that causes us to believe that the Selected Information have not been prepared, in all material respects, in accordance with the applicable criteria as defined within the Report.

The bond proceeds in scope of our engagement, as presented on page 16 of the Report, is listed as follows:

Issuer	Yorkshire Water Finance Plc
ISIN	XS2333224314
Maturity	27 October 2032
Coupon	1.750%
Nominal O/s	£350.0m
Net Proceeds	£345.0m
Issued	27 April 2021
Allocated (at 31 March 2022)	£345.0m
Allocated %	100%

Our procedures consisted primarily of:

- Performing enquiries with management to understand how the Allocation Reporting Criteria have been applied in the preparation of the Selected Information;
- Obtaining an understanding of the key systems, processes and controls for managing and reporting the Selected Information;
- Inspecting issuance documentation and bank statements to confirm the total reported value of net proceeds;
- Inspecting minutes of the Sustainable Finance Committee to confirm the value of portfolio allocations during the period and that allocated projects were considered against the eligible categories and approved;
- For a sample of projects, inspecting business plans to confirm the appropriateness of the allocation of proceeds and that allocated projects were considered against the eligible categories;
- For a sample of project expenditure, inspecting invoices to confirm the value of allocated expenditure;
- Substantive testing to confirm that a sample of identified assets from the approved listing were funded in line with the approach set out in the Allocation Reporting Criteria;
- Inspecting system generated reports and statements to confirm the balance and placement of unallocated proceeds was in line with the requirements of the Allocation Reporting Criteria;
- Obtaining a listing of assets refinanced to confirm this is consistent with the disclosure relating to proportion of total proceeds refinanced;
- For a sample of assets refinanced, inspecting operational records or other appropriate project documentation to confirm the amounts refinanced and that refinancing eligibility is in line with the Allocation Reporting Criteria; and
- Accumulating misstatements and control deficiencies identified and assessing whether material.

Criteria

The self-defined applicable criteria; the nature of the Selected Information; and absence of consistent external standards allow for different, but acceptable, measurement methodologies to be adopted which may result in variances between entities. The adopted measurement methodologies may also impact comparability of the Selected Information reported by different organisations and from year to year within an organisation as methodologies develop.

Inherent limitations

Our engagement provides limited assurance as defined in ISAE 3000. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Inherent limitations exist in all assurance engagements due to the selective enquiry of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Our work does not involve testing the operating effectiveness of controls over the underlying data, nor have we sought to review systems and controls beyond those relevant to the Selected Information.

Our independence and competence

We complied with Deloitte's independence policies, which address and, in certain cases, exceed the requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants in their role as independent auditors, and in particular preclude us from taking financial, commercial, governance and ownership positions which might affect, or be perceived to affect, our independence and impartiality, and from any involvement in the preparation of the report.

We have applied the International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Deloitte LLP

London, UK

16 December 2022

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YorkshireWater