



PENNON'S SUSTAINABLE FINANCE FRAMEWORK 2024



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This assessment is valid so long as the evidence provided to DNV remains materially unchanged and remains applicable in the context of the financial Framework being assessed.

PENNON'S SUSTAINABLE FINANCE FRAMEWORK 2024

DNV INDEPENDENT ASSESSMENT

Scope and Objectives

Pennon Group (hereafter "Pennon", "The Group", or "The Company") is a FTSE 250 company, and a leading provider of water and wastewater services to customers based in the South-West of England. The Company serves a total of c.3.5 million across nine counties, and c.380.000 business customers across the UK, which can be grouped under three key business areas: water, retail, and energy.

The water businesses include South West Water Limited, which in 2023, under the license of South West Water, bought Bristol Water. As of January 2024, the Group acquired Sutton and East Surrey Water (SES Water), expanding the Group's presence in water across Southern England. The retail businesses are Pennon Water Services Limited (PWS) and Water2Business (a joint venture with Wessex Water), which was established to manage the in-area operations for South West Water. PWS is a joint venture with South Staffordshire Water Business. Finally, and with regards to the Group's investment plan for renewable energy and to contribute to the Group's Goal to become Net Zero, Pennon Power was established in 2023, set to generate up to 135 GWh throughout all of Pennon's sites and across four dedicated sites by 2027.

As a highly regulated industry and reflecting the Group's Environmental, Social, and Governance ("ESG") targets set in 2021/22 to 2025, as informed by Pennon's materiality assessment, the Company's commitment to sustainability and its purpose are clear. As a custodian of natural capital, the Group has set a Net Zero target for its operational carbon emissions by 2030, and a commitment to reduce its greenhouse gas (GHG) emissions across its entire value chain by 2045. Pennon has also committed to look to invest in the maintenance and improvement of its services, operations and assets, and ensure that it finds more sustainable ways of working to protect, enhance, and reduce the impact on the natural environment.

The Group has also aligned its strategy to the most relevant United Nations Sustainable Development Goals (SDGs) for its business. Specifically, the SDGs related to water, clean energy and the protection of the environment, such as Goal #6 (Clean water & Sanitation), Goal #7 (Affordable and Clean Energy), Goal #11 (Sustainable Cities and Communities), Goal #13 (Climate Action), Goal #14 (Life Below Water), and Goal #15 (Life Below Land). In contributing towards its social goals with a focus on communities, Pennon aligns with Goal #6 (Clean water & Sanitation) and Goal #12 (Responsible Consumption & Production). For the Eligible Green Project Categories, where relevant, Pennon has also mapped the projects to the relevant EU Sustainable Taxonomy Objectives (EU Taxonomy).

Since March 2023, c. £775 million have been secured through the Group's first Sustainable Financing Framework (the "Framework") which was originally published in 2019. In October 2023, the Group submitted its plan for 2025-30, outlining a further £2.8 billion of capital investment into the areas that matter most to the business, supporting the financing of investments across the Group that will result in environmentally and socially sustainable outcomes. To capitalise on this, Pennon has renewed its Framework for 2024.

Through the issuance of the Sustainable Financing Instruments, the Group intends to deliver tangible environmental and social benefits on an individual and/or combined basis. Under this updated Framework, the Group can issue funds (bonds and/or loans) of a green, blue, social, and sustainability nature through any subsidiary (the "Pennon Group")¹. The Sustainable Financing Instruments (i.e. committed bank facilities, public bonds, private placements, long funding finance leases, facilities to support the Groups prefunding requirement, Schuldscheindarlehen) to be issued are intended to support the Group's ESG agenda and its corporate purpose of *"supporting the lives of people and the places they love for generations to come"*.

¹ However, South West Water, as a regulated company, raises most of its funding in its own name.

DNV Business Assurance Services UK Limited (“DNV”) has been commissioned by Pennon to provide a review of the Framework against the International Capital Market Association (“ICMA”) Green Bond Principles 2021 with June 2022 Appendix 1 (“GBP”), Practitioner’s Guide to Bonds to Finance a Sustainable Blue Economy 2023 (“BFSBE”), Social Bond Principles 2023 (“SBP”) and Sustainability Bond Guidelines 2021 (“SBG”); and the Loan Market Association (“LMA”) for Green Loan Principles 2023 (“GLP”) and Social Loan Principles 2023 (“SLP”).

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

Responsibilities of the Management of Pennon and DNV

The management of Pennon has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion that is intended to inform Pennon’s management and other interested stakeholders, such as investors, as to whether the Framework is aligned with the principles for such finance as set out by the ICMA GBPs, SBPs, SBGs and BFSBEs, and the LMA GLPs and the SLPs. DNV’s assessment is also supplemented with international guidelines and standards, as well as DNV’s own technical expertise, to assess the sustainability eligibility of that put forward in this Framework.

In our work we have relied on the information and the facts presented to us by Pennon. DNV is not responsible for any aspect of the projects, expenditures, or instruments referred to in this opinion, and cannot be held liable if the estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by Pennon and used as a basis for this assessment were not correct or complete.

Basis of DNV’s opinion

We have adapted our eligibility assessment methodology to create a Pennon-specific Sustainable Finance Framework Eligibility Assessment Protocol (henceforth referred to as “Protocol”). Our Protocol includes a set of suitable criteria that can be used to underpin DNV’s opinion.

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

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

- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors or lenders should be made of the use of Green, Blue, Social or Sustainability Bond/Loan proceeds, and that quantitative and/or qualitative performance indicators should be used.

Work undertaken

Our work has constituted a high-level review of the available information provided to us by Pennon based on the understanding that this information was provided to us in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us.

The work undertaken which has formed our opinion, includes:

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

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

Findings and DNV's opinion

DNV's findings are listed below with further detail provided in [Schedule 2](#):

1. Principle One: Use of Proceeds

Pennon has confirmed that it will allocate the net proceeds of the Sustainable Financing Instruments (Green, Blue Social and/or Sustainability bonds and/or loans, and other debt instruments) that will be used to finance and/ or refinance in whole or in part, qualifying projects ("Eligible Projects"). These projects are set out to deliver positive environmental and social benefits to the communities in which Pennon serves.

Projects eligible under the Framework may include Capital Expenditures (CapEx), Operational Expenditures (OpEx), Assets, and stakes in other companies. Where Pennon seeks any stake in a Company, the acquisition is only eligible if it is deemed to be a "Pure Player" within the Framework. A Pure Player has been defined as a Company that derives a minimum of 90% of its revenues from activities aligning with the Eligibility criteria in the Framework. This can be a combination of Green and/or Social activities.

Pennon has also outlined its exclusionary criteria, wherein no revenues can be made if a Company derives any income from activities listed in the exclusionary criteria, it is automatically classified as ineligible under the Framework, and any finance dedicated towards the purchase should be reallocated. Principle 2 explains this process in more detail. To see excluded activities please refer to [Schedule 2](#).

Capital expenditures, and financing instruments that fall within the relevant Green and/or Social Categories as detailed below, are defined as qualifying projects that together, form part of Pennon's portfolio of Eligible Projects, as follows:

Eligible Green Categories:

- Sustainable Water Management
- Climate Change Adaptation
- Pollution Prevention and Control – Marine Pollution
- Renewable Energy
- Clean Transportation
- Environmentally Sustainable Management of Living Natural Resources and Biodiversity Conservation

Eligible Social Categories:

- Affordable Basic Infrastructure

Certain projects within the above-mentioned Eligible Green Categories may also be classified as Blue, in line with the ICMA BFSBE. The following Green Categories may present Blue projects: Climate Change Adaptation; Pollution Prevention and Control - Marine Pollution; and Environmentally Sustainable Management of Living Natural Resources and Biodiversity Conservation. In each of the cases, projects are to comply with additional criteria to promote a Sustainable Blue Economy. These are outlined further in [Schedule 1](#) of this opinion.

Within the Framework, Pennon has provided a list of potential activities (see [Schedule 1](#) of this opinion), the performance criteria for each Eligible Category (see [Schedule 2](#) for illustrative performance indicators), and details of the potential environmental and social benefits from this.

The Eligible Green and Social Categories have also been mapped to the applicable UN SDGs. Specifically, for the Eligible Green Categories. Where possible, these have also been mapped to the relevant EU Taxonomy for Sustainable Activities' Environmental Objectives (EU Taxonomy).

DNV can also confirm that Pennon has defined the target population for its Social Category and that this is in line with the requirements as set out by the ICMA/LMA Principles, i.e. focussing on people who are financially disadvantaged, and who qualify for water access support schemes. Customers that qualify can be categorised under one of the following four schemes:

- WaterCare: Low-income customers who are either on a water meter or assessed charges
- WaterSure: Customers on a water meter and means-tested benefits
- FreshStart: Customers that are new to debt and are dealing with a life-changing event, such as bereavement or unemployment
- ReStart: Customers under a payment matching scheme

Pennon has also confirmed that it will prioritise the allocation of finance towards new projects. Where Pennon does refinance, a lookback period of no longer than two years from the date of issuance for capital and operational expenditures will be applied.

DNV concludes that the eligible green and social categories as described within the Framework, and the example projects defined, are consistent with those listed in the GBP, SBP, SBG, BFSBE, GLP and the SLP and that such projects will provide clear environmental and/or social benefits.

2. Principle Two: Process for Project Evaluation and Selection

DNV confirms that Pennon has a clear management structure in place for evaluating and selecting potential eligible green and social projects (expenditures and financing instruments). Eligible projects *must* fall under one of the green and/or social categories, and meet the respective criteria as detailed in [Schedule 1](#) of this opinion.

There is a robust decision-making process behind the approval of any Eligible Green and/or Social Category and the associated projects, as detailed in the Framework. The ESG Executive Committee (hereafter “the Committee”) oversees ESG risks, benefits and sets the respective strategic priorities. The Committee is responsible for assessing the eligibility of the projects. The Committee meets four times annually, and includes representatives from the finance, environmental and sustainability functions. The assessment is also monitored by the Investment Planning Committee (“IPC”) which is chaired by the CEO, which meets monthly. The IPC oversees the Group’s overall risk management and assessment of the major capital expenditures of the Group, ensuring compliance with the Group’s governance framework.

We can also confirm that the ESG Executive Committee will be responsible for overseeing Pennon’s Framework to ensure that it remains compliant with the most up to date market practices, guidelines produced by financial industry bodies, and for determining whether any changes are necessary to the allocation of the proceeds due to disposals, cancelling or ineligible projects.

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

3. Principle Three: Management of Proceeds

DNV can confirm that the management of the proceeds from the issuance of future Sustainable Financing Instruments used to finance, refinance, or invest in the eligible Green and/or Social projects, will be coordinated by Pennon’s Group Treasury team, and that this is carried out in accordance with the Group’s internal treasury management process.

The proceeds will be initially paid into a separate “green reserve” bank account until the Group releases it to its general account for allocation. The general treasury account at the respective issuer/borrower level and an equivalent amount will be tracked until the proceeds are fully allocated, which is in line with the Group’s Treasury Policy. Pennon will aim to allocate the proceeds within a period of 24 months following issuance or funding of any Sustainable Finance Instrument, subject to sufficient availability of the approved eligible projects. In cases where the proceeds are not yet allocated to the eligible projects, Pennon has stated that they will be placed as temporary investments, i.e. as short-term fixed interest deposits or the overnight money markets. Where possible, the Group will use green and sustainable deposit solutions for the Group’s surplus cash. Pennon will also engage with the institutional liquidity fund providers to understand their ESG criteria and manage the deposits in accordance with their Treasury Policy. The Treasury Policy seeks to use different financial products to manage cash and other asset classes in the most effective way. This typically means asset classes with low volatility and high liquidity.

In the case funded Eligible Projects no longer meet the eligibility requirements or are disposed prior to issue maturity, the proceeds initially allocated to these projects shall be reallocated to another Eligible Project of the Group. The replacement of the funds is completed on a best-effort basis within 24 months of the decision.

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

4. Principle Four: Reporting

DNV can confirm that Pennon has committed to annual Sustainable Financing Reporting. It will publish information on both the allocation of proceeds (Allocation Reporting) raised from the Sustainable Financing Instruments, and on the expected and improved environmental and social impacts (Impact Reporting) from the Eligible Projects funded by these proceeds. Reporting will commence within one year of issuance and will be published annually thereafter, until all outstanding Sustainable Financing Instruments reach maturity. These reports will be made accessible to investors on the Group's website.

In terms of Allocation Reporting, Pennon will outline:

- The outstanding amount of Sustainable Financing Instruments
- A brief description of the largest and most representative projects in each Eligible Category
- The total amount of proceeds allocated to Eligible Projects, specified at least per Category
- The breakdown of the Eligible Projects by expenditure type
- The split between financing and refinancing
- The balance of unallocated proceeds

In terms of Impact Reporting, Pennon has confirmed that it is committed to detailing the environmental or social impacts of the Eligible Projects to be funded through the proceeds in terms of quantitative measures, as listed below, and supplemented by case study reports and qualitative information where relevant.

Relevant metrics may include, for instance:

- Water quality compliance (CRI – compliance risk index score)
- kWh of annual renewable energy generated
- River water quality – Kg of phosphorous / % reduction

These have been further detailed in [Schedule 2](#).

The Group has also stated its intent to apply the most up-to-date standards and methodologies to measure and report on the impact of future issuances, which will be disclosed in its annual sustainable finance reporting. DNV can also confirm that Pennon has outlined its commitment to have its data independently verified by a third party.

DNV concludes that Pennon has made appropriate plans to produce reporting on the allocation of proceeds, and on the environmental and social impact of future Sustainable Financing Instruments issuances, and this will be made available to its investors on its website. This is in line with the requirements of the GBPs, SBPs, SBGs, BFSBEs, GLPs, and the SLPs.


On the basis of the information provided by Pennon and the work undertaken, it is DNV's opinion that the Framework meets the criteria established in the Protocol, and that it is aligned with the GBPs, SBPs, SBGs, BFSBE, GLPs and SLPs.

for DNV Business Assurance Services UK Limited

London, 18th July 2024



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About DNV



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

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 14,800 professionals are dedicated to helping customers make the world safer, smarter and greener.





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





Pennon has listed its Eligible Project Categories, with descriptions of the respective activities to be (re)-financed. The Company has also mapped out alignment to the UN Sustainable Development Goals (SDGs) and, where relevant, the EU Taxonomy, and the ICMA Practitioners Guide on Bonds to Finance the Sustainable Blue Economy.

ICMA / LMA Green Project Category	Description of Example Eligible Projects to be Financed	Indicative EU Environmental Objective Mapping	UN SDG Alignment
<p>Sustainable Water Management</p>	<p>The construction, extension, operation, and renewal of water collection, treatment and supply systems intended for human consumption based on the abstraction of natural resources of water from surface or groundwater sources.</p> <p>Activities may include but are not limited to:</p> <ul style="list-style-type: none"> • Projects related to the management and enhancement of water assets and services. This might include rainwater harvesting or pond creation • Projects which improve drinking water quality, including through increasing water treatment by natural filtration systems • Projects which reduce water losses • Projects promoting the reuse of water <p>Construction, operation, upgrade, extension and renewal of desalination plants to produce water to be distributed in drinking water supply systems for which climate adaptation measures have been implemented.</p>	<p>Sustainable Use and Protection of Water and Marine Resources</p> <p><u>Activity</u></p> <p>2.1 – Water supply</p>	  



<p>Climate Change Adaptation</p>	<p>Construction, extension, renewal and operation of climate adapted centralised wastewater systems including collection (sewer network), treatment and supply systems. Activities may include but are not limited to:</p> <ul style="list-style-type: none"> • Projects related to the mitigation of drought • Projects related to the prevention of flooding • Projects that reduce the risks associated with the impacts of extreme weather events • Projects which control and prevent coastal erosion <p>Projects may qualify for the indicative Blue Category '<i>Coastal Climate Adaptation and Resilience</i>', as set out in the BFSBE, if the following criteria are met:</p> <ul style="list-style-type: none"> • Projects must support ecological and community resilience as well as adaptation to climate change including using nature-based solutions • Projects must be within 50km of the coast or within the marine environment 	<p>Climate Change Adaptation</p> <p><u>Activities</u></p> <p>5.1 – Construction, extension and operation of water collection, treatment and supply systems</p> <p>5.2 – Renewal of water collection, treatment and supply systems</p> <p>5.3 – Construction, extension and operation of wastewater collection and treatment</p> <p>5.4 – Renewal of wastewater collection and treatment</p>	
<p>Pollution Prevention and Control – Marine Pollution</p>	<p>The construction, extension, upgrade, operation and renewal of urban wastewater infrastructure. This includes treatment plants, sewer networks, stormwater management structures, water storage, connections to wastewater infrastructure, decentralised wastewater treatment facilities and other appropriate systems, as well as discharge structures for treated effluent.</p> <p>Activities may include but are not limited to:</p> <ul style="list-style-type: none"> • Projects which maintain, enhance and upgrade wastewater assets and services • Projects related to water storage such as rainwater harvesting systems; aquatic ecosystems (lakes, wetlands); groundwater recharge systems; infiltration ponds, and pumps 	<p>Sustainable Use and Protection of Water and Marine Resources</p> <p><u>Activities</u></p> <p>2.2 – Urban Wastewater Treatment</p> <p>2.3 – Sustainable Urban Drainage Systems (SUDS)</p>	

	<ul style="list-style-type: none"> • Projects related to water monitoring and sampling programmes <p>Projects may qualify for the indicative Blue Category '<i>Marine Pollution</i>', as set out in the ICMA Practitioners Guidance for Bonds to Finance the Sustainable Blue Economy, if the following criteria are met:</p> <ul style="list-style-type: none"> • Projects must prevent, control and reduce waste from entering the coastal and marine environments • Wastewater management projects must be within 100km of the coast • Solid waste management projects must be within 50km of the coast or a river that drains to the ocean • Non-point source pollution management projects must be within 200km of the coast or within 50km of rivers (and their tributaries) that flow to the ocean • Projects must comply with policies and regulations <p>The construction, extension, operation and renewal of urban drainage systems facilities that mitigate pollution and flood hazards due to discharges of urban runoff, and improve the urban water quality and quantity. This includes those that harness natural processes, such as infiltration and retention.</p> <p>Activities may include but are not limited to:</p> <ul style="list-style-type: none"> • Projects which minimise sewage overflows and spills through the reduction of rainwater drainage to the sewerage network 		
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<p>Renewable Energy</p>	<p>The generation of electricity from the following sources:</p> <p>Renewable energy generation from:</p> <ul style="list-style-type: none"> • Solar PV • Wind Power • Hydropower • Bioenergy • Cogeneration of heat/cool and power from bioenergy • Pyrolysis • Anaerobic digestion of sewage sludge <p>The storage of electricity, including the construction and the operation of facilities that store electricity and return it to the grid at a later time. This includes only the renewable energy sources listed above and pumped hydropower storage.</p>	<p>Climate Change Mitigation</p> <p><u>Activities</u></p> <p>4.1: Electricity generation using solar photovoltaic technology</p> <p>4.3: Electricity generation from wind power</p> <p>4.5: Electricity generation from hydropower</p> <p>4.8: Electricity generation from bioenergy</p> <p>4.10: Storage of electricity</p> <p>4.20: Cogeneration of heat/cool and power from bioenergy</p> <p>5.6: Anaerobic digestion of sewage sludge</p>	 
<p>Clean Transportation</p>	<p>The purchase, financing, leasing, renting, and operation of vehicles with zero tailpipe emissions.</p> <p>The construction, modernisation, maintenance, and operation of infrastructure that is required for zero tailpipe CO₂ operation of zero-emissions road transport.</p>	<p>Climate Change Mitigation</p> <p><u>Activities</u></p> <p>6.5: Transport by motorbikes, passenger cars and light commercial vehicles</p> <p>6.15: Infrastructure enabling low-carbon road transport and public transport</p>	 

<p>Environmentally Sustainable</p> <p>Management of Living Natural Resources and Biodiversity Conservation</p>	<p>The planning, construction, extension, and operation of large-scale nature-based flood or drought management, and coastal, transitional or inland aquatic ecosystem restoration measures. These measures need to contribute towards preventing and protecting against flooding or droughts, and enhancing natural water retention, biodiversity and water quality in each of the circumstances and geographical measures.</p> <p>Activities may include but are not limited to:</p> <p>Projects dedicated to rivers and lakes:</p> <ul style="list-style-type: none"> • Re-meandering River courses by creating a new meandering course or reconnecting cut-off meanders or reconnecting a lake or group of lakes to a river • Restoration of the longitudinal and lateral connectivity of a river (including oxbow lakes) by removing obsolete barriers, including dams and weirs or small barriers across or along the river • The substitution of artificial riverbank or lake shore protection with nature-based solutions for bank or bed stabilisation as measures for river or lake restoration • Measures aimed to improve the diversification of river or lake depth and width to increase habitat variety <p>Projects dedicated to wetland creation:</p> <ul style="list-style-type: none"> • Installation of ditches for rewetting, removal of drainage installations, replacement with installations that control the discharge, or setting back of dykes to enable flooding • Implementation of constructed wetlands for water retention and treatment, both on land and along unvegetated water bodies, in rural and urban contexts <p>Projects dedicated to coastal measures:</p> <ul style="list-style-type: none"> • The conservation or restoration of coastal wetlands including seagrass beds, which operate as a natural barrier 	<p>Sustainable Use and Protection of Water and Marine Resources</p> <p><u>Activity</u></p> <p>3.1: Nature-based solutions for flood and drought risk prevention and protection</p> <p>Protection and Restoration of Biodiversity and Ecosystems</p> <p><u>Activity</u></p> <p>1.1: Conservation, including restoration of habitats, ecosystems, and species</p>	   
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	<ul style="list-style-type: none"> • Measures consisting of morphological changes and the removal of barriers to minimise the need of artificial beach nourishment and enhance the conditions of coastal ecosystems, justified on the basis of a sediment balance study • Dune reinforcement and restoration, including the planting of dune vegetation • Coastal reef conservation or restoration <p>Projects dedicated to river-wide basin management:</p> <ul style="list-style-type: none"> • Land management measures, including afforestation of reservoir catchments areas, spring or wellhead protection areas and river basin headwaters in general • The restoration of natural infiltration for groundwater recharge by facilitating or augmenting soil retention capacity and infiltration <p>Projects dedicated to conservation, including restoration of habitats, ecosystems and species such as:</p> <ul style="list-style-type: none"> • Projects which deliver improved conservation outcomes • Projects relating to river quality improvement and the restoration of wetlands <p>Projects may qualify for the indicative Blue Category 'Marine Ecosystem Management, Conservation, and Restoration', as set out in the ICMA BFSBE, if the following criteria are met:</p> <ul style="list-style-type: none"> • Projects must manage, conserve, and restore the health of coastal and marine ecosystems • Projects must be within 100km of the coast or within the marine environment 		
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ICMA / LMA Social Project Category	Description of Example Eligible Projects to be Financed	Target Population(s)	UN SDG Alignment
Affordable Basic Infrastructure	<p>Investments and/or expenditures relating to programs which enable vulnerable customers to maintain access to water and other supplies. This includes:</p> <ul style="list-style-type: none"> Ensuring all parts of the local community can effectively access the essential services and are supported when they need it, focused on eliminating water poverty Supporting the wider South-West economy, including the tourism industry, which sees the population grow to circa 10 million in the summer months 	<p>Target populations, which are dependent on the project and eventual outcome:</p> <ul style="list-style-type: none"> WaterCare: Low-income customers who are either on a water meter or assessed charges WaterSure: Customers on a water meter and means-tested benefits FreshStart: Customers that are new to debt and are dealing with a life-changing event, such as bereavement or unemployment ReStart: Customers under a payment matching scheme 	 

SCHEDULE 2: PENNON-SPECIFIC SUSTAINABLE FINANCE FRAMEWORK ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Types of Financing Framework	The Sustainable Finance Framework should make clear what financial instruments are to be defined as eligible for green, social, blue, and sustainable financing.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon's Sustainable Finance Framework 2024 • Pennon's Anti-financial Crime Policy (Link) 	<p>The Framework outlines the type of Sustainable Financing Instruments expected to be issued as green, social, blue and/or sustainability debt instruments, as follows:</p> <ul style="list-style-type: none"> • Green, Social, Blue and/ or Sustainability Bonds (including public bonds and private placements) • Green, Social, Blue and/or Sustainable Loans (including committed bank facilities, long funding finance leases, Schuldscheindarlehen) <p>DNV can confirm that the specific type of financing instruments issued will need to be further assessed on an individual basis. We can also confirm that the instruments to be issued under this Framework will support the advancement of the UN SDGs and the EU Taxonomy objectives, where relevant, as indicated in Schedule 1.</p>
1b	Green / Social / Blue/ Sustainable Project Categories	The cornerstone of a Green/ Social/ Blue/ Sustainability Bond/ Loan is the utilisation of the proceeds which should be appropriately described in the legal documentation for the security.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon's Sustainable Finance Framework 2024 • Pennon's Annual Report and Accounts 2024 (Link) 	<p>We can confirm that the Framework appropriately describes the utilisation of Proceeds and the Eligible Sustainable Project Categories to be financed, in part or in whole as indicated in Schedule 1.</p> <p>This can include:</p> <p>Eligible Green Categories:</p> <ul style="list-style-type: none"> • Sustainable Water Management

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> • Climate Change Adaptation • Pollution Prevention and Control – Marine Pollution • Renewable Energy • Clean Transportation • Environmentally Sustainable Management of Living Natural Resources and Biodiversity Conservation <p>Eligible Social Categories:</p> <ul style="list-style-type: none"> • Affordable Basic Infrastructure <p>The specific utilisation of the proceeds for each issuance, and the relevant legal documentation will need to be further assessed on an individual basis to ensure alignment with the Framework. This includes Pure Players, defined as companies or assets where 90% of revenue comes from activities within the Eligible Categories as defined in Schedule 1, and which exclude those generating any revenue from fossil fuels and/or nuclear energy.</p>
1c	Green / Social / Blue Sustainable benefits	All designated Green/ Social/ Blue / Sustainable Project categories should provide clear environmentally sustainable or social benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon’s Sustainable Finance Framework 2024 • Pennon’s Annual Report and Accounts 2024 (Link) • Pennon Sustainability Disclosures Pennon Website (Link) 	<p>The Framework outlines the overarching green, blue, social, and sustainable benefits that will be realised by any Sustainable Financing Instrument that is issued under the Framework.</p> <p>The investments for Pennon’s water business are targeted to environmental and social benefits, as part of its strategic plan for 2025-2030 Pennon has committed £2.8 billion in areas such as water resilience and quality, resource efficiency and climate adaptation.</p> <p>The Group has demonstrated its commitment to working towards these benefits and specifies which of the UN SDGs</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>the proposed Eligible Green and Social Projects will contribute towards, i.e.:</p> <ul style="list-style-type: none"> ▪ Goal #6 (Clean Water and Sanitation) ▪ Goal #7 (Affordable & Clean Energy) ▪ Goal #11 (Sustainable Cities & Communities) ▪ Goal #12 (Responsible Consumption & Production) ▪ Goal #13 (Climate Action) ▪ Goal #14 (Life Before Water) ▪ Goal #15 (Life on Land) <p>As well as contributing to the environmental ambitions set out by the EU Taxonomy:</p> <ul style="list-style-type: none"> • Sustainable Use and Protection of Water and Marine Resources • Protection and Restoration of Biodiversity and Ecosystems • Climate Change Mitigation • Climate Change Adaptation <p>The specific quantifiable and qualitative benefits (where relevant) of each issuance will need to be agreed on a case-by-case basis and will be subject to further assessment.</p> <p>Pennon has also outlined potential KPIs and reporting metrics to demonstrate the impact from the different projects that are financed, as detailed in Section 4a.</p>
1d	Target Population	All designated social projects should provide the social benefits outlined in 1d to specific target populations.	In addition to reviewing the evidence below, we have had detailed discussions with Pennon:	The proceeds will be targeting financially disadvantaged people who qualify for water access support schemes:

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
			<ul style="list-style-type: none"> • Pennon’s Sustainable Finance Framework 2024 • Pennon’s Annual Report and Accounts 2021 (link) 	<ul style="list-style-type: none"> ▪ WaterCare: Low-income customers who are either on a water meter or assessed charges ▪ WaterSure: Customers on a water meter and means-tested benefits ▪ FreshStart: Customers that are new to debt and are dealing with a life-changing event, such as bereavement or unemployment ▪ ReStart: Customers under a payment matching scheme <p>DNV confirms that the target population is consistent with the target populations as outlined in the SBPs and SLPs.</p>
1e	Blue Bonds	All designated Blue proceeds should provide a substantial improvement toward the “Sustainable Blue Economy” as set out in the ICMA Practitioners Guidance for Bond to Finance the Sustainable Blue Economy.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon’s Sustainable Finance Framework 2024 • Pennon’s Biodiversity Policy (link) 	<p>The framework outlines the definition of “Blue” activities and outlines the requirements for activities to fall under the either of the following indicative Blue Categories:</p> <p><i>Coastal Climate Adaptation and Resilience</i></p> <ul style="list-style-type: none"> • Projects must support ecological and community resilience as well as adaptation to climate change including using nature-based solutions • Projects must be within 50km of the coast or within the marine environment <p>Pennon has a commitment to the avoidance of negative impacts on threatened and protected species, to respect legally designated protected areas and to no trade of CITES listed species embedded within its corporate policies, guarding against the key risks associated with grey infrastructure in ecologically sensitive areas.</p> <p><i>Marine Pollution</i></p>



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> • Projects must prevent, control and reduce waste from entering the coastal and marine environments • Wastewater management projects must be within 100km of the coast • Solid waste management projects must be within 50km of the coast or a river that drains to the ocean <p>Non-point source pollution management projects must be within 200km of the coast or within 50km of rivers (and their tributaries) that flow to the ocean</p> <p>Projects must comply with policies and regulations</p> <p><i>Marine Ecosystem Management, Conservation, and Restoration</i></p> <ul style="list-style-type: none"> • Projects must manage, conserve, and restore the health of coastal and marine ecosystems • Projects must be within the marine environment or within 100 km of the coast <p>Pennon will, on a best-effort basis, where appropriate, ensure that no projects labelled Blue are related to built-in obsolescence and will attempt to maximise the circularity of Blue-related infrastructure, where possible.</p> <p>DNV confirms that the Blue Projects outlined in the Framework align with the guidelines for delivering a “Sustainable Blue Economy” as set out in the ICMA Practitioners Guidance for Bonds to Finance the Sustainable Blue Economy. DNV can also confirm that the Blue label will only be sought by Pennon if the Group is able to show the positive environmental impact in line with the ICMA BFSBE.</p>

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Green/ Social/ Blue/ Sustainability Bond/ Loan should outline the decision-making process it follows to determine the eligibility of projects using Bond/ Loan proceeds.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon’s Sustainable Finance Framework 2024 • Pennon’s Annual Report and Accounts 2024 (Link) • Pennon’s Governance Structure Chart 2024 (link) • Pennon TCFD Report “Bringing Water to Life” 2024 (Link) • Pennon’s Governance Framework Site (link) 	<p>DNV confirms that the Group has reported in the Framework, a clear management structure in place to select and evaluate the Eligible Projects it will finance.</p> <p>Projects will be evaluated for selection under the Sustainable Finance Framework by the ESG Executive Committee which includes representatives from the Group’s finance, environmental and sustainability functions and meets four times within the financial year.</p> <p>The responsibilities of the ESG Executive Committee include the following:</p> <ul style="list-style-type: none"> • Reviewing and selecting Eligible Projects • Monitoring the Eligible Projects over the lifetime of the Sustainable Financing Instruments • Ensuring the exclusion of assets and expenditures that no longer comply with the eligibility criteria, or that have been postponed, cancelled, divested, or subject to a material ESG controversy • Replacing projects that are no longer eligible as soon as reasonably practicable • Verifying and approving the annual allocation and impact reporting • Overseeing the Framework and future updates to ensure Pennon remains in line with best market practices, evolving regulation, and investor expectations

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>All of Pennon’s investments and those of its subsidiaries must follow Pennon’s governance framework. It is the responsibility of the Investment Planning Committee (IPC) to consider and approve. Among its key responsibilities is to review papers delivered by the Investment Review Group (IRG), considering projects’ benefits, costs and ESG benefits, specifically projects’ carbon impact.</p> <p>The identification of ESG risks and benefits is integrated in the Group’s overall risk management framework and process. The ESG Executive Committee oversees ESG risks, sets strategic priorities and monitors the delivery according to Pennon’s ESG framework.</p> <p>The IPC oversees the process for risk identification and solution selection, which includes:</p> <ol style="list-style-type: none"> 1. Identification of potential environmental and social risks associated with Eligible Projects 2. Developments of solutions to mitigate risks 3. The execution of delivery 4. Monitoring and review plans <p>DNV concludes that the activities to be financed by future sustainable finance debt issuances will be appropriately evaluated, selected, managed and reported on, as outlined within the Framework, and that they meet the requirements as set out under the GBP, SBP, SBG, BFSBE, GLP and the SLP.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2b	Issuer's governance framework	In addition to the information disclosed by an issuer on its Green/ Social/ Sustainability Bond/ Loan process, criteria and assurances, investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon's Sustainable Finance Framework 2024 • Pennon's Annual Report and Accounts 2024 (Link) • Pennon TCFD Report "Bringing Water to Life" 2024 (Link) • Pennon Sustainability Disclosures Pennon Website (Link) • Pennon ESG Databook 2024 (Link) 	<p>Guided by Pennon's purpose 'to support the lives of people and the places they love for generations to come' and its strategic direction to 2050, Pennon has integrated social and environmental ambitions in its four strategic priorities to 2030, which are as follows:</p> <ol style="list-style-type: none"> 1. Water quality and resilience 2. Storm overflow and pollutions 3. Net-zero and environmental gains 4. Addressing affordability and delivering for customers <p>Pennon has also set a number of targets across its environmental, social and governance impacts. Key targets include but are not limited to:</p> <ul style="list-style-type: none"> • Reduce Pennon's operational carbon emissions to Net Zero by 2030 and across the entire value chain by 2045 • Reduce water use within Pennon's operational sites. • Increase community investment by 10% each year <p>DNV concludes that based on the information provided, its Sustainable Finance Framework is in line with Pennon's wider approach to managing sustainability.</p>

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure	The gross proceeds of a Green/ Social/ Blue/ Sustainability Bond/ Loan should be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Green/ Social/ Sustainable Projects.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon's Sustainable Finance Framework 2024 • Pennon's Code of Conduct Policy (link) • Pennon's Anti-financial Crime Policy (Link) • Pennon's Whistleblowing Policy (link) • Pennon's Regulatory and Compliance Policy (link) 	<p>Pennon's Treasury team will ensure, on a best-efforts basis, that the expenditure will be at least equivalent to the net proceeds arising from the issuance of the Sustainable Financing Instruments under the Framework.</p> <p>Pennon confirms that where projects no longer meet the eligibility criteria or are disposed of before the issue maturity, the proceeds will be reallocated to other Eligible Projects held by the Group. Replacement of the allocation will be delivered within two years of the disposition and on a best-effort basis.</p> <p>DNV can confirm that Pennon has committed to appropriately managing the proceeds arising from issuances of Sustainable Financing Instruments in line with the requirements of the GBP, SBP, SBG, BFSBE, GLP and the SLP.</p>
3b	Tracking procedure	So long as the Green/ Social/ Blue/ Sustainability Bonds/ Loans are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible Green/ Social/ Sustainable investments or loan disbursements made during that period.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon's Sustainable Finance Framework 2024 	<p>Where the Sustainable Financing Instruments are outstanding, the Treasury team will ensure that the balance of the tracked proceeds is periodically reduced by an amount matching the allocations made to Eligible Projects during that period.</p> <p>DNV concludes that Pennon has a clear process in place for tracking the unallocated and allocated proceeds balance for the Eligible Projects.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3c	Temporary holdings	Pending such investments or disbursements to Eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon’s Sustainable Finance Framework 2024 • Pennon Treasury Policy extract • Pennon’s Code of Conduct Policy (link) • Pennon’s Anti-financial Crime Policy (Link) • Pennon’s Whistleblowing Policy (link) • Pennon’s Regulatory and Compliance Policy (link) 	<p>Proceeds will be held by a separate green reserve bank account until allocation by the Group. Pending allocation, funds will be managed by the Group’s Treasury function and are to be placed in short-term fixed interest deposits or overnight money markets. Pennon has set out criteria for these deposit counterparties in order to ensure good credit quality.</p> <p>In line with current Treasury Policy parameters, deposits are only made with counterparties which have a credit rating equal to or in excess of: P1 Moody’s/ A1 Standard & Poors for deposits up to one year, and Aa2 Moody’s/ AA Standard & Poors for deposits in excess of one year.</p> <p>Where possible, the Group will use green and sustainable deposit solutions for the Group’s surplus cash. To ensure a good understanding of the ESG criteria and managing funds within the Treasury Policy, Pennon will engage with institutional fund providers. DNV can confirm that Pennon has appropriately disclosed how it will manage any unallocated proceeds from its Sustainable Financing Instruments and that this is in line with the GBP, SBP, SBG, BFSBE, GLP, and the SLP.</p>

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which the Bond proceeds, and where appropriate Loan proceeds, have been allocated including - where possible, with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmental, social and/or sustainable impact.	<p>In addition to reviewing the evidence below, we have had detailed discussions with Pennon:</p> <ul style="list-style-type: none"> • Pennon’s Sustainable Finance Framework 2024 • Pennon Sustainability Disclosures Pennon Website (Link) • Pennon ESG Databook (Link) • Pennon Annual Allocation and Impact Report 2022 (Link) 	<p>Pennon has confirmed that it has committed to annual Sustainable Finance reporting of allocations and impacts. This will be accessible by investors via the Pennon website.</p> <p>Allocation reporting will set out:</p> <ul style="list-style-type: none"> • Outstanding amount of Sustainable Financing Instruments • Brief description of the largest and most representative projects in each Eligible Category • The total amount of funds allocated for each Eligible Category and projects where possible • The breakdown of the Eligible Projects by expenditure type (assets or capital expenditures) • Split between financing and refinancing • The balance of unallocated proceeds <p>The report will be issued within one year of issuance of each Sustainable Financing Instrument. Reporting will continue until maturity of the outstanding Sustainable Financing Instruments.</p> <p>Should there be a material change to projects where a full allocation has been reached, Pennon will endeavour to update the allocation reporting periodically.</p> <p>Impact reporting will also be made available by Pennon to provide its investors with information relating to the environmental or social expected or achieved impacts of the funded projects. This will include relevant indicators determining the quantifiable impact of the financing,</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>supplemented by case study reports and qualitative information. Example metrics could include the following:</p> <p><i>Sustainable water management</i></p> <ul style="list-style-type: none"> • Water quality compliance (CRI - compliance risk index score) • Volume of water leaked (3-year average - Megalitres per day) • Water mains repairs (number of repairs per 1,000km) • Annual water savings from installed customer tools and meters <p><i>Climate change adaptation</i></p> <ul style="list-style-type: none"> • Improvement to greenhouse gas emissions (tonnes of CO₂ equivalent or intensity figures) • Reduction in number of operating days lost to floods • Peatland Restoration (Ha) • Risk of Sewer Flooding in a Storm • Changes in the CO₂ nutrient and/or pH levels for coastal vegetation • Peatland Restoration (Ha) <p><i>Pollution Prevention and control – Marine Pollution</i></p> <ul style="list-style-type: none"> • Bathing water quality (% of beaches meeting bathing water classification) • Wastewater treatment capacity added or improved (m³/day) • Annual absolute (gross) amount of wastewater discharge avoided before and after the project in m³ • Wastewater pollution incidents category 1-3 per 10,000km of sewer

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> • Average number of spills per storm overflow • Internal sewer flooding (number per 10,000 sewer connections) • External sewer flooding (number per 10,000 sewer connections) • Absolute number of protected and/or priority species that are deemed sensitive in protected/ conserved area before and after the project • Bathing water quality (% of beaches meeting bathing water classification) <p><i>Renewable Energy</i></p> <ul style="list-style-type: none"> • kWh of annual renewable energy generated. • Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent <p><i>Clean Transportation</i></p> <ul style="list-style-type: none"> • % of electric cars and vans in the fleet • Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent • Reduction of air pollutants: particulate matter (PM), sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds <p><i>Environmentally sustainable management of living natural resources, biodiversity and conservation</i></p> <ul style="list-style-type: none"> • Biodiversity (units per 100km² of land) • Maintenance/safeguarding/increase of protected area/habitat in km² and in % for increase • River water quality (Kg of phosphorous / % reduction)



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> • Absolute number of protected and/or priority species that are deemed sensitive in protected/ conserved area before and after the project • Changes in the CO2 nutrient and/or pH levels for coastal vegetation <p><i>Affordable Basic Infrastructure</i></p> <ul style="list-style-type: none"> • Number of customers moved to support tariffs • Customers on Priority Services Register (PSR) reach • Value affordability (% not in water poverty) • % increase in community investment <p>DNV can confirm Pennon's commitment to producing appropriate and transparent reporting on both the allocation and impact of the financing, and that this meets the requirements of the GBP, SBP, SBG, BFSBE, GLP and the SLP.</p>