

MIEJSKIE WODOCIĄGI I OCZYSZCZALNIA SP. Z O.O. GREEN BOND

DNV GL ELIGIBILITY ASSESSMENT

Scope and Objectives

DNV GL Business Assurance Services Limited (henceforth referred to as "DNV GL") has been commissioned by MIEJSKIE WODOCIĄGI I OCZYSZCZALNIA SP. Z O.O. (henceforth referred to as "MWiO" or "Issuer") to provide a Green Bond eligibility assessment on MWiO's Green Bond Framework ("The Framework") for its green bond issuance based on the International Capital Market Association's (ICMA) Green Bond Principles (GBP).

Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

The use of the bond proceeds is intended to finance or refinance green projects under the sustainable water and wastewater management category as defined in ICMA's GBP. More specifically, the projects will be related to storm water drainage system and water and sewerage infrastructure. MWiO has submitted MWiO's Green Bond Framework for external review against the GBP.

No assurance is provided regarding the non-Green Bond Principle terms within the agreement, including non-Green Bond designated tranches. Our objective has been to provide an assessment that the Bond has met the criteria established on the basis set out below.

Responsibilities of the Management of MWiO and DNV GL

The management of MWiO has provided the information and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform MWiO management and other interested stakeholders in the Bond as to whether the established criteria have been met, based on the information provided to us. In our work, we have relied on the information and the facts presented to us by MWiO. DNV GL is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by MWiO management and used as a basis for this assessment were not correct or complete.

Basis of DNV GL's opinion

We have adapted our green bond eligibility assessment methodology to create a MWiO specific Green Bond Eligibility Assessment Protocol (henceforth referred to as "Protocol") - see Schedule 3. Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a green bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental 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 bond should outline the process it follows when determining eligibility of an investment using Green Bond 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 bond should be tracked within the issuing organization, 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 should be made of the use of bond proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by MWiO in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of an MWiO-specific Protocol, adapted to the purpose of the Framework, as described above and in Schedule 3 to this Assessment;
- Assessment of documentary evidence provided by MWiO on the Bond and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Discussions with MWiO and review of relevant documentation and evidence related to the criteria of the Protocol;
- Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.

Findings and DNV GL's opinion

DNV GL's findings are listed below:

1. Principle One: Use of Proceeds.

The use of Green Bond proceeds is to finance Green Projects within the following categories, as outlined in MWiO's Green Bond Framework: "Acquisitions, investments and expenditures related to storm water drainage system and water and sewerage infrastructure with GHG mitigation and/or climate adaptation and resilience benefits". DNV GL concludes that the above Use of Proceeds fall within the defined category of Sustainable water and wastewater management under ICMA's Green Bond Principles 2018.

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

MWiO has within its Green Bond Framework described the formation of an internal Green Bond Committee that will comprise of representatives from the Treasury Department, a representative of the Environmental Protection Desk and the CEO of MWiO. This committee will hold the responsibility for evaluating and selecting the projects to ensure they are in accordance with the green project criteria before they are included in the Green Bond Project Pool or are otherwise qualified for inclusion in a Green Bond. DNV GL concludes that the governance framework for project selection and evaluation as well as the relevant projects under the Green Bond Project Criteria meet the principles defined by the GBP.

3. Principle Three: Management of Proceeds.

DNV GL has reviewed the evidence and finds that MWiO's Green Bond Framework sets out to track proceeds in an appropriate manner through earmarking for financing or refinancing, and allocation to nominated Green Projects within 24 months of issuance. Proceeds will be held in cash or cash equivalents within the treasury function of the organisation or in short-term or temporary investments that do not include fossil-fuel intensive activities or operations. DNV GL concludes that this is an appropriate tracking procedure to track the allocation of funds towards green projects.

4. Principle Four: Reporting.

DNV GL concludes that Reporting requirements on the use and management of proceeds, as well as the impact of projects, is described satisfactorily in the Green Bond Framework and will be provided in an annual investor letter report published on the company website until no more green bonds are outstanding.

On the basis of the information provided and the work undertaken, it is DNV GL's opinion that the Bond meets the criteria established in the Protocol and that it is aligned with the stated definition of green bonds within the Green Bond Principles 2018.

for DNV GL Business Assurance Norway AS

Oslo, 25th of September 2020



Mark Robinson

Manager, Sustainability Services
DNV GL – Business Assurance

About DNV GL

Driven by our purpose of safeguarding life, property and the environment, DNV GL 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 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

1 SCHEDULE 1: DESCRIPTION OF CATEGORIES/ASSETS TO BE FINANCED THROUGH FRAMEWORK

Green Bond Principles Category	Description of Eligible Projects
Sustainable Water and Wastewater Management	Acquisitions, investments and expenditures related to the storm water drainage system purchased from the Grudziądz City Commune on December 20, 2019
Sustainable Water and Wastewater Management	Acquisitions, investments and expenditures related to the modernization and expansion of water and sewage infrastructure.

2 SCHEDULE 2 – LIST OF BONDS NOTIONALLY EARMARKED AGAINST THE GBP PROJECT POOL

MWiO has provided a list of bonds to be notionally earmarked against the GBP Pool:

Tranche	Project	Instrument	Value (PLN)
A	Modernisation and expansion of the water and sewage network	A19	4,000,000.00
B	Water Drainage System	B19	59,178,000.00
		C19	
		D19	
		E19	
		F19	
		G19	
		H19	
		I19	
		J19	
		K19	
		L19	
Total			63,178,000.00

3 SCHEDULE 3: GREEN BOND ELIGIBILITY ASSESSMENT PROTOCOL

3.1 Use of proceeds

Ref.	Green Bond Principle	Requirements	Work undertaken	DNV GL Conclusion
1a	Type of bond	<p>The bond must fall in one of the following categories, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> • Green Use of Proceeds Bond • Green Use of Proceeds Revenue Bond • Green Project Bond • Green Securitized Bond 	<p>Discussions with MWiO and the following documents:</p> <ul style="list-style-type: none"> • MWiO Green Bond Framework • Sprawozdanie_z_działalności- MWiO_2019 • RESOLUTION NO. XII / 99/15GRUDZIADZ TOWN COUNCIL 	<p>The reviewed evidence confirms that the BOND will fall into the category: Green Use of Proceeds Bond.</p>
1b	Green Project Categories	<p>The cornerstone of a Green Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.</p>	<p>Discussions with MWiO and the following documents:</p> <ul style="list-style-type: none"> • MWiO Green Bond Framework • Sprawozdanie_z_działalności- MWiO_2019 	<p>DNV GL concludes that the green bond framework appropriately describes the use of proceeds. Through discussions with MWiO – it is apparent that the Green Bond Framework, for now, focuses on bonds that are already issued. The green project criteria fall under ICMA’s GBP sustainable water and wastewater management category.</p>
1c	Environmental benefits	<p>All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.</p>	<p>Discussions with MWiO and the following documents:</p> <ul style="list-style-type: none"> • MWiO Green Bond Framework • Kodeks etyczny • Polityka Firmy • Sprawozdanie_z_działalności- MWiO_2019 • RESOLUTION NO. XII / 99/15GRUDZIADZ TOWN COUNCIL 	<p>The entirety of the use of proceeds will be used towards financing or refinancing green projects related to the storm drainage system and water and sewerage infrastructure, as these categories fall under the green bond framework’s green project criteria.</p> <p>These projects and assets will have GHG mitigation and/or climate adaptation and resilience benefits. Storm drainage infrastructure helps to mitigate the adverse effects of storm flooding, clearly supporting climate adaptation and resilience of the municipality of Grudziądz. The water and sewerage system can, among other benefits, also produce annual water savings, increase the volume of wastewater</p>

Ref.	Green Bond Principle	Requirements	Work undertaken	DNV GL Conclusion
				treated or avoided and improve water quality.
1d	Refinancing share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced. Where appropriate, they should also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced Green Projects.	Discussions with MWiO and the following documents: <ul style="list-style-type: none"> MWiO Green Bond Framework 	DNV GL concludes that the green bond framework clearly states that the allocation reporting will disclose the refinancing share. Given water infrastructure assets have multi-decade operational lifetimes, and that these assets can fulfil the defined green project criteria despite being older, no look-back period is defined for what will entail the maximum time back an investment can be refinanced.

3.2 Process for evaluation and selection

Ref.	Criteria	Requirements	Work undertaken	DNV GL Conclusion
2a	Investment-decision process	The issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation: <ul style="list-style-type: none"> A process to determine how the projects fit within the eligible Green Projects categories 	Discussions with MWiO and the following documents: <ul style="list-style-type: none"> MWiO Green Bond Framework 	DNV GL concludes that the process put in place by MWiO to select and evaluate projects based on eligibility under the Green Bond Framework is sufficient. MWiO outlines that it will set up an internal Green Bond Committee that will consist of representatives from the Treasury Department, a representative of the Environmental Protection Desk and the CEO of MWiO that will select assets and determine their eligibility under the Green Project Criteria. The committee will give approval to including a project to the Green Bond Project Pool, or otherwise qualify the project for inclusion in a Green Bond after it reaches

Ref.	Criteria	Requirements	Work undertaken	DNV GL Conclusion
		<p>identified in the Green Bond Principles;</p> <ul style="list-style-type: none"> • The criteria making the projects eligible for using the Green Bond proceeds; and • The environmental sustainability objectives. 		<p>consensus that the project meet the eligibility requirements.</p>
2b	<p>Issuer’s environmental and social and governance framework</p>	<p>The issuer of a Green Bond should clearly communicate to its lenders their environmental sustainability objectives;</p> <p>Issuers are encouraged to position this information within the context of their overarching objectives, strategy, policy and/or processes relating to environmental sustainability. Issuers are also encouraged to disclose any green standards or certifications to which they are seeking to conform.</p>	<p>Discussions with MWiO and the following documents:</p> <ul style="list-style-type: none"> • MWiO Green Bond Framework • Kodeks etyczny • Polityka Firmy • RESOLUTION NO. XII / 99/15GRUDZIADZ TOWN COUNCIL 	<p>DNV GL concludes that the projects outlined in the Green project criteria is well placed within company policy and the ethical codex, which clearly states the aim to prevent environmental pollution, to ensure sustainable development, support the local community and to meet the requirements under the ISO9001:2015 and ISO14001:2015 standards.</p> <p>More broadly, MWiOs long-term investment plan highlighted in the Green Bond Framework is integrated within the city of Grudziądz city commune broader environmental protection programme for 2015-2018 and 2019-2022.</p> <p>According to the strategy of the Grudziądz city commune – which owns 100% of MWiO - there are a number of tasks outlined for 2015-2018 and 2019-2022 that are of relevance for the projects outlined in the Green Project Criteria. For 2015-2018, tasks outlined by the city in the segment of water were to:</p> <ol style="list-style-type: none"> 1) undertake modernization of the existing rainwater drainage network and to construct a new network with pre-treatment devices 2) Monitoring of water and sewage as well as water testing 3) The construction of new a sanitary sewage system and water supply <p>All tasks are listed as continuous in their time horizon and therefore ongoing. The tasks were to be financed by a combination of city, external and EU funds.</p> <p>For the period leading up to 2022, several tasks are identified:</p> <ol style="list-style-type: none"> 1) the construction, expansion and systematic modernisation of the sewage system 2) the elimination of illegal sewage discharge through more enforcement activities.

Ref.	Criteria	Requirements	Work undertaken	DNV GL Conclusion
				<p>3) the construction of pre-treatment systems along modernised and newly constructed roads</p> <p>We have also carried out a high-level media review of MWiO. We have found no evidence to suggest that MWiO have been operating in breach of national or local environmental regulations. Based on the evidence reviewed and the discussion we had with senior managers, we found nothing to suggest that MWiO's environmental, social and governance framework is not in line with good practice of the industry in which it operates.</p>

3.3 Management of proceeds

Ref.	Criteria	Requirements	Work undertaken	DNV GL Conclusion
3a	Tracking procedure	The net proceeds of Green Bonds should be credited to a subaccount, 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 Projects.	<p>Discussions with MWiO and the following documents:</p> <ul style="list-style-type: none"> MWiO Green Bond Framework 	DNV GL found that MWiO's framework tracks proceeds in an appropriate manner through earmarking for financing or refinancing using internal financial reporting systems. The evidence reviewed shows how MWiO plans to trace the BOND's proceeds, from the time of issuance to the time of disbursement.
3b	Tracking procedure	So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.	<p>Discussions with MWiO and the following documents:</p> <ul style="list-style-type: none"> MWiO Green Bond Framework 	The evidence reviewed shows that MWiO plans to trace the proceeds from the BOND, from the time of issuance to the time of disbursement, and reduce the net balance of proceeds by amounts in line with the assets debt repayment schedule. At the end of each financial period, the outstanding balance of the Bond will be reviewed.

Ref.	Criteria	Requirements	Work undertaken	DNV GL Conclusion
3c	Temporary holdings	Pending such investments or disbursements to eligible Green Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	Discussions with MWiO and the following documents: <ul style="list-style-type: none"> MWiO Green Bond Framework 	Proceeds will be held in cash or cash equivalents within the treasury function of the organisation or in short-term or temporary investments that do not include fossil-fuel intensive activities or operations. DNV GL concludes that this is an appropriate tracking procedure to track the allocation of funds towards green projects.

3.4 Reporting

Ref.	Criteria	Requirements	Work undertaken	DNV GL Conclusion
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 Green Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	Discussions with MWiO and the following documents: <ul style="list-style-type: none"> MWiO Green Bond Framework Sprawozdanie_z_dzialalnosci- MWiO_2019 	<p>DNV GL concludes that Reporting requirements on the use and management of proceeds is described satisfactorily in the Green Bond Framework and will be provided in an annual allocation report published on the company website until no more green bonds are outstanding.</p> <p>The allocation reporting will include:</p> <ul style="list-style-type: none"> The total amount of outstanding Green Bonds Description of all Green Projects funded by Green Bonds Amounts invested in each investment category defined under Green Project Criteria and the amount of new financing versus refinancing An overview of unallocated proceeds <p>The impact reporting will take into account a number of indicators – some of which highlighted in 1d. Some of these align with indicators identified by ICMA’s working group on water and wastewater management projects and most of which can be quantified. These will also be reported on annually.</p> <p>We highlight that the MWiO Activity report (the second document listed) outlines 7</p>

Ref.	Criteria	Requirements	Work undertaken	DNV GL Conclusion
				<p>impact indicators that are regularly monitored by the company – including quantity and quality of raw and treated water, the sewage discharged from the treatment plant, use of fuel including natural gas and biogas, and quantity of purchased heat and electricity. This will enable robust reporting on these and new indicators identified in the green bond framework.</p> <p>The allocation and impact reports in combination will form an investor letter on the company website.</p>