

Investor Presentation

August 2022



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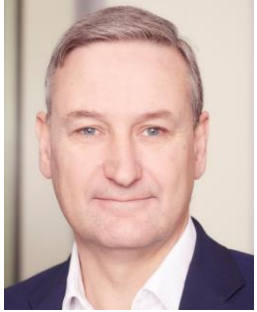
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Presenting today



Tony Bickerstaff
Chief Financial Officer



Dr Angie Needle
Director of Strategy



Tom Sacker
**Director of Treasury, Corporate
Finance and Planning**



Mark Belmega
**Director of Sustainability and
Social Purpose**

Strong performance in an established regulatory environment

- ▶ **Successfully delivered our first year of RIIO-2**
- ▶ **We were successful in our appeal to the Competition and Markets Authority winning 3 out of the 5 of our chosen grounds of appeal**
- ▶ **Transformation continues at pace following separation from National Grid. Our RIIO-2 business plan delivers frontier performance**
- ▶ **Customer performance continues to improve, with our North West network now delivering frontier performance**
- ▶ **Well insulated from inflation, the rise in gas prices and bad debt through a comprehensive package of regulatory protections**
- ▶ **Working at pace in support of our net zero ambition including a Hydrogen Village**
- ▶ **Leading the sector on ESG with an investment programme that supports CO2 reductions and significant on-going contributions to our communities via the Cadent Foundation that leads the sector in terms of scale and ambition**



1. Cadent overview

*keeping people warm, while
protecting the planet*

Tony

We are the largest gas distributor in the UK

- We own and operate four of eight Gas Distribution Networks (GDNs) in the UK
- Following production and importation, all gas in the UK passes through National Grid's national transmission system, before entering one of the eight GDNs
- Shippers pay GDN operators to transport the gas to homes and businesses



We operate and maintain the network, we don't own or sell the gas

What we do

- **Maintain, repair & replace** gas pipes and infrastructure to ensure the safe and reliable flow of gas
- Lead the way for industry on the future **potential of hydrogen** & tackling climate change as per our Environmental Action Plan ('EAP')
- **Connect** homes, businesses & renewable gas suppliers to our network
- Provide **extra care** for those who might need it in a gas emergency
- Manage the **National Gas Emergency Service** for all gas customers in the UK. In 2021/22, we answered **1.4m gas emergency calls**

What we don't do

- We don't **produce gas**
- We don't **own or sell** the gas that flows through our pipes
- We don't repair gas **appliances**
- We don't send out **gas bills**. The cost of our services is included in the customers' gas bill

Our strategic objectives

- Deliver brilliantly for customers today
- Prove the technical and safety case for hydrogen
- Determine the economic and social case for hydrogen
- Become a voice for hydrogen
- Make our business hydrogen ready

50% of the UK is connected by our network



North West

2.7m homes & businesses

34,000km of pipe

Around 40% of the gas distributed into the North West is used by businesses & for industrial purposes. This is higher than any other GB GDN.

West Midlands

1.9m homes & businesses

24,000km of pipe

Centred on the UK's 2nd largest metropolitan area of Birmingham & incorporating a number of smaller urban areas.

North London

2.2m homes & businesses

21,000km of pipe

Largest population of high risk multi-occupancy buildings in the UK. Many layers of buried infrastructure, going back hundreds of years.

Eastern

4m homes & businesses

52,000km of pipe

A geographically diverse network, now to be separated into 2 networks of equal size; East Midlands and East Anglia



Our revenues are supported by significant investment in the asset base



£1,984m revenue



£11.0bn Regulatory Asset Value (RAV)



£685m operating profit



Network reliability: **99.9%**



1,679km mains replaced



98.2% emergencies responded to within 1 hour



5,945 employees



>£5bn TotEx allowed for in RIIO-2

Strong financial performance is underpinned by regulatory protections

31 March 2021 Full Year	Revenue £2,075m	Operating Profit £902m	Capital Investment £1,024m	RAV £10.2bn
31 March 2022 Full Year	Revenue £1,984m	Operating Profit £685m	Capital Investment £725m	RAV £11.0bn

Year on year change due to:	Reduction in connections and diversions income associated with HS2, impacts profit but no impact on cash generation	Higher depreciation from investment. Higher shrinkage costs and exit capacity charges, which will be recovered in subsequent years	Repex volumes and unit costs reducing in RIIO-2 relative to the exit run rate from RIIO-1	Growth from inflation and investment
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2. Regulatory Environment

Tom

Stable regulatory framework and predictable cashflows

Monopoly

Regulated monopoly holding essential infrastructure within the UK energy landscape

Regulation

Well established and transparent regulatory regime

Predictable Cash Flows

Inflation-linked predictable cash flow

Cadent

Your Gas Network

Operations

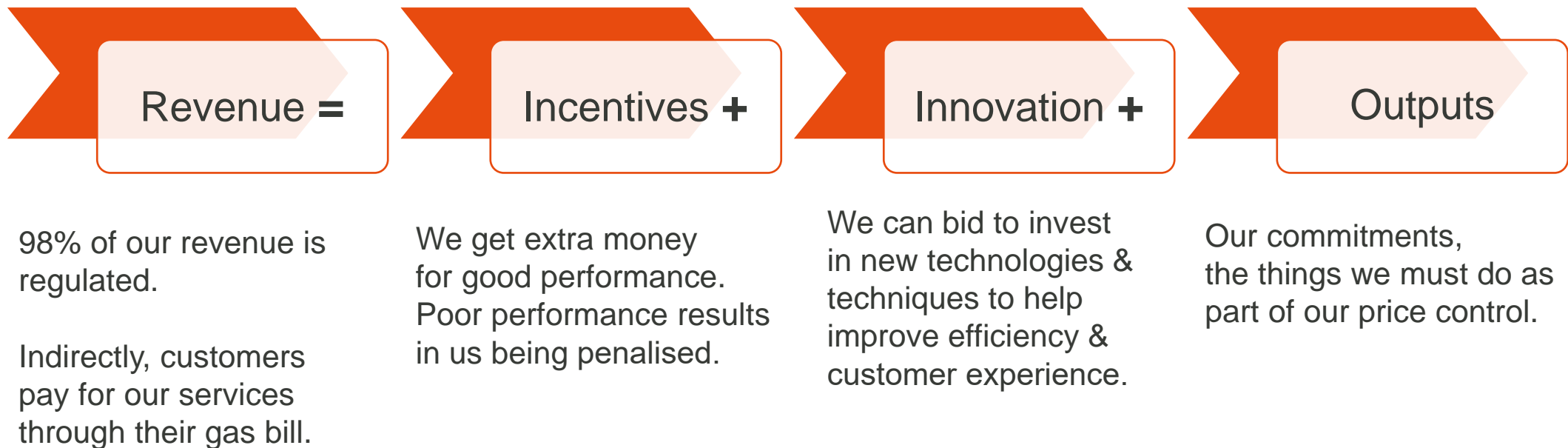
Improving customer performance

Management






Experienced management team

Continued stability of regulatory framework with RIIO-2 now fully established

The current regulatory cycle is RIIO-2, which came into effect in April 2021 and lasts for five years through to March 2026



First year of RIIO-2 shows strong regulatory performance

-  We have met 69 out of 70 annual targets across our networks and we are on track to deliver our 5 year output targets
-  Customer scores averaged 9.05 out of 10 and continue to improve across the networks with North West and West Midlands with strong performance relative to peers
-  We are delivering at the level of totex that has been allowed; delivering 1,679km of mains replacement
-  We have maintained outstanding levels of safety and reliability by rapidly responding to emergency gas escapes and keeping 99.9% of customers on gas
-  We have reduced our shrinkage by 3% and continue to accelerate our environmental action plans

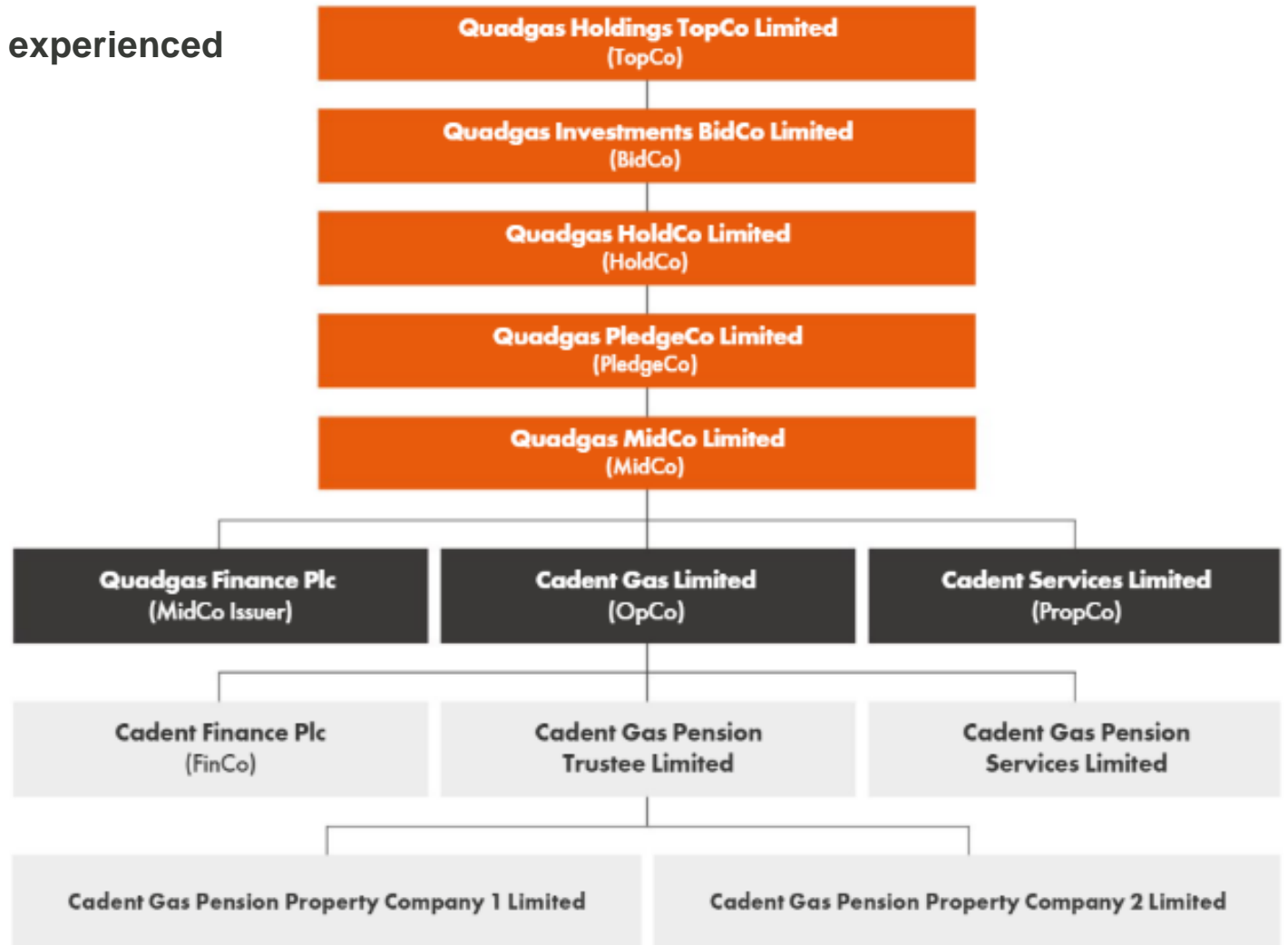
3. Financing Structure & Credit Highlights

Tom

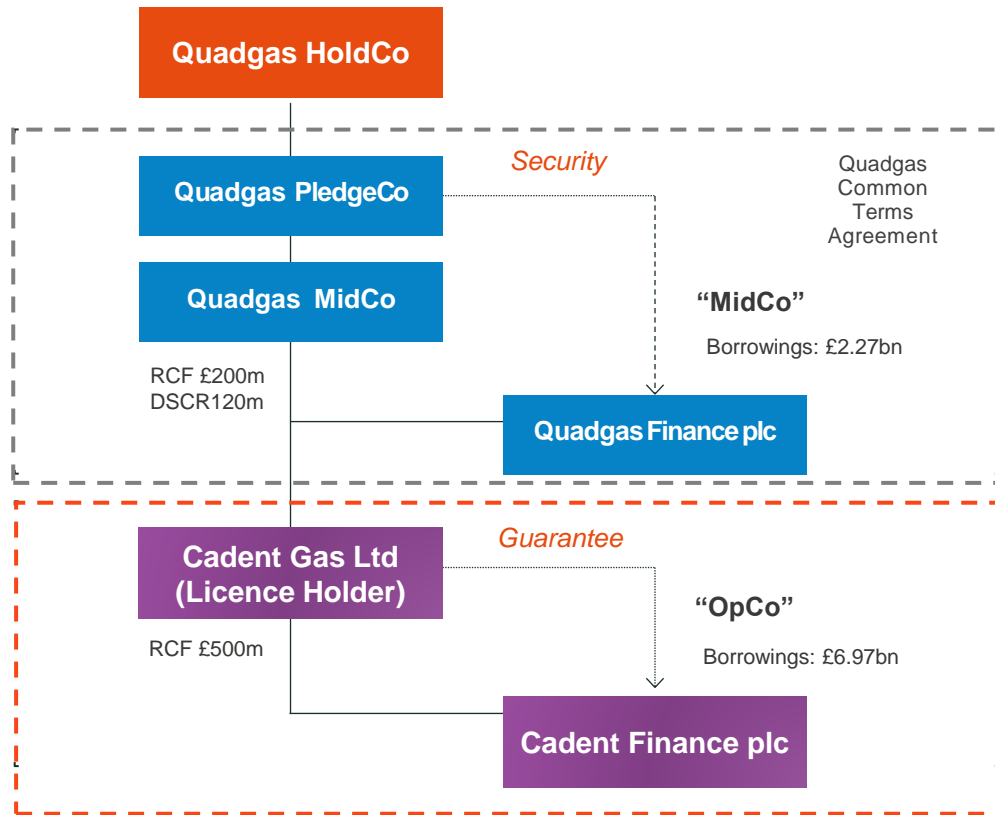
Simple corporate structure owned by a diverse and experienced shareholder group

The Quadgas Group is **owned by a long-term experienced Shareholder group** consisting of:

- Macquarie Infrastructure Real Assets
- China Investment Corporation
- Allianz
- Qatar Investment Authority
- Hermes
- Dalmore Capital
- Amber Infrastructure



Established debt structure with clear creditor protections



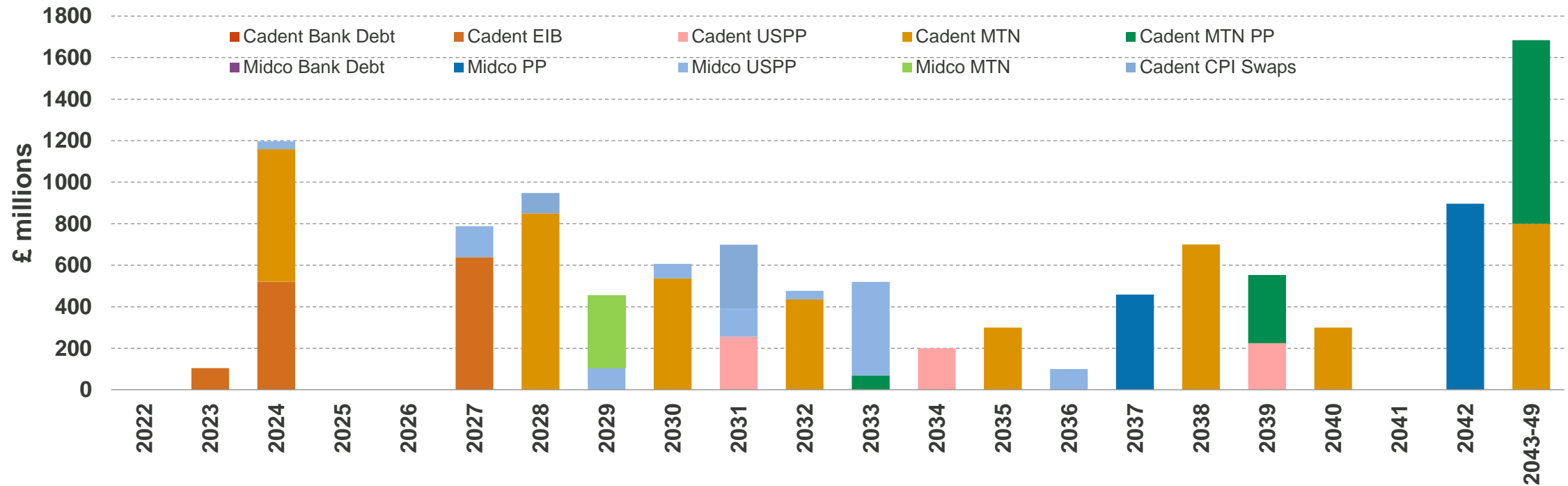
- Cadent funds in the capital markets both through the operating company (for leverage up to 65% of RAV) and for leverage between 65 and 85.5% Net Debt to RAV, through an intermediate holding company, Midco which benefits from Whole Business Securitisation (WBS) structure to protect investors
- Cadent Finance is 100% owned by Cadent and is incorporated to raise borrowings in public and private markets for OpCo.
- Quadgas Finance is 100% owned by Quadgas Midco and is incorporated to raise borrowings in public and private markets for Midco.
- Opco and Midco benefit from their own operational and financial covenants. Revolving credit facilities at each level support liquidity and Midco has a debt service reserve facility used as liquidity support to cover 18 months of Midco debt service costs
- Combined £9.2bn of external debt (Mar 2022), including index linked debt (direct or synthetic)
- £4.3bn of debt issued and facilities replaced since separation (to March 22)

Ratio tests

Quadgas MidCo	Trigger	Default	31 Mar 22
Net debt/ RAV	85.5%	92%	81.5%
Adj. ICR	1.1x	1.0x	2.1x
OpCo net debt/ RAV	65%	70%	61.1%

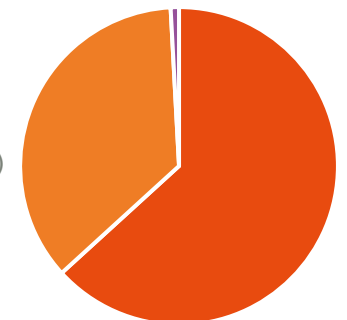
Cadent Gas	Bond Programme Default	31 Mar 22
Net debt/ RAV	70%	61.1%

Cadent has diversified its sources of funding across the major debt markets



- Opco and Midco have a diversified investor base – with debt issued in GBP, USD, EUR and JPY (all currency swapped to GBP).
- Majority of debt issued in fixed (c. 63%) and index-linked (c. 35%) formats
- £1.2bn of existing debt to refinance by 2024
- Used the Transition Bond Framework to issue c. €1.1bn in 2020 and 2021. Sustainable debt markets continue to be a focus of the debt mix.

- Fixed Rate Debt
- Index Linked Debt (after swaps)
- Floating Rate Debt



Solid investment grade credit ratings provided by the 3 major rating agencies

Business highlights



Stable highly regulated environment



Predictable inflation linked cash flows



Revenue insulated from volume and commodity risk



Payments come from gas shippers, not the end customer – no consumer bad debt risk

Cadent creditor protection



70% Net Debt / RAV default covenant



Regulatory requirement to maintain Investment Grade credit rating



Leverage and interest cover ratio tests applying to consolidated group debt



Limitations on group additional indebtedness, debt maturity and interest rate risk apply on consolidated basis to Cadent where most of the debt resides

Corporate Credit Ratings

MOODY'S

Baa1 (Stable)

FitchRatings

BBB+ (Sta)
(Issuer Default Rating)

S&P Global
Ratings

Opco: BBB+ (Stable)
Midco: BBB+ (Stable)

4. Our approach to being a force for good

Mark



Driving the transition to net zero, whilst improving the natural world



**Safety & Sustainability:
Our focus now
and for the future**

Safety & Sustainability report
2019/20



Forecast Scope 1 Shrinkage Emissions Reduction (1000 x tCO₂e)



2022

We will operate a fully electric company car scheme and a zero emissions first responder vehicle fleet by 2026

2026

We will procure 100% certified renewable energy to meet our energy needs

2030

We will reduce our methane emission rates by more than the UK's 30% target

2026

We will be accredited to The Wildlife Trust Biodiversity Benchmark across all of our key sites

2026

We will minimise the use of first time aggregate and ensure that less than 5% of our waste is sent to landfill

2035

We will demonstrate hydrogen at scale through a range of initiatives

Leading the sector on being a force for good



£8.7m

awarded to charitable endeavours since the launch of the Cadent Foundation

20,000

Customers referred for additional services beyond the meter

2-million

Face to face conversations to raise awareness of the Priority Services Register (PSR)

1-million

Households in fuel poverty supported through a range of interventions

2 days / year

Of volunteering leave offered to all employees

£400k

Cadent's fundraising target for Emmaus UK

250,000

CO detection alarms provided free to those most at risk

£84-million

Social benefit delivered in 2021/22

5. Future of Gas

Angie



The ambition of UK Government has solidified over the past year

6th Carbon Budget (Dec 2020)



UK Hydrogen Strategy (Aug 2021)



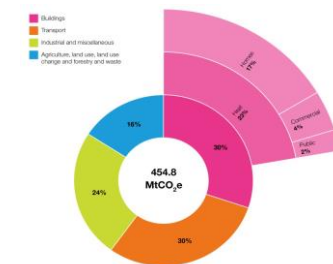
Heat and Buildings Strategy (Oct 2021)



Heat and Buildings Strategy






Presented to Parliament by the Secretary of State for Business, Energy and Industrial Strategy by Command of Her Majesty

October 2021







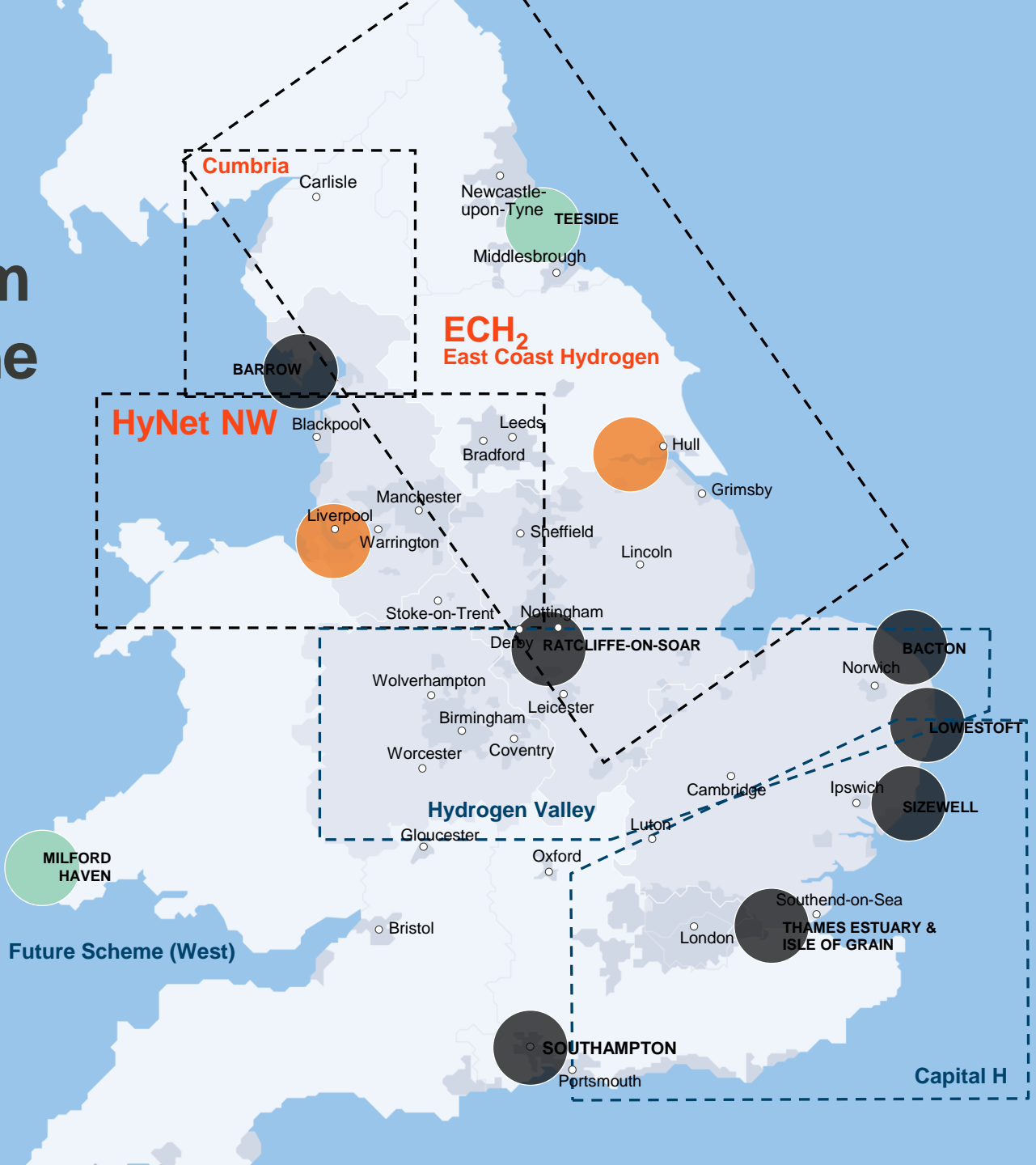
And launched a new British Energy Security Strategy

Summary of UK Government Energy and Security Strategy

	Now	2030	2050
 Hydrogen	<ul style="list-style-type: none"> Financial support framework for production published Low carbon hydrogen standard First allocation to electrolysis later in 2022; operation by 2025 Net Zero Hydrogen Fund (£240m) 	<ul style="list-style-type: none"> Increased target from 5GW to 10GW; 5GW from electrolysis 	<ul style="list-style-type: none"> 240-500TWh supply
 Oil & Gas	<ul style="list-style-type: none"> New licensing rounds Review of shale gas safety Phase out of Russian oil and coal by end 2022 	<ul style="list-style-type: none"> 20-30MT CCUS >40% reduction in gas consumption 	<ul style="list-style-type: none"> 'Net Zero compatible' oil and gas sector
 Nuclear	<ul style="list-style-type: none"> RAB model for new nuclear GB Nuclear Vehicle being set up 	<ul style="list-style-type: none"> Up to 8 new reactors progressed 	<ul style="list-style-type: none"> Up to 24GW of capacity
 Wind & Solar	<ul style="list-style-type: none"> Contracts For Difference framework well established 	<ul style="list-style-type: none"> Up to 50GW of offshore wind Up to 70GW of solar by 2035 	<ul style="list-style-type: none"> >100GW offshore wind
 Energy System	<ul style="list-style-type: none"> New 'Future System Operator in place by 2024 Responsibility for strategic planning across gas and electricity and operations for electricity 	<ul style="list-style-type: none"> End sale of gas boilers in the 2030s 	<ul style="list-style-type: none"> Net Zero by 2050

We are planning five main schemes that will enable the distribution of hydrogen from production sites and pave the way for conversion of gas networks if required

-  IDC Funded Hydrogen Production Projects
-  Future Hydrogen Production Clusters
-  Current Clusters
-  Future Schemes



We continue to demonstrate that the current gas network and appliances can take a blend of hydrogen



- Blending gas up to 20%
- Minimum disruption to customers
- Because no appliance changes
- Keele and Winlaton



Reducing heating emissions in Whitby, Ellesmere Port

The UK is on an important journey to make heating more environmentally-friendly. Bringing low-carbon hydrogen to heat homes and businesses is the next exciting milestone.



In 2025, the first UK village will swap from natural gas to hydrogen. This exciting programme will demonstrate how the rest of the UK can become more environmentally-friendly when it comes to heating and cooking with gas.

Strong performance in an established regulatory environment

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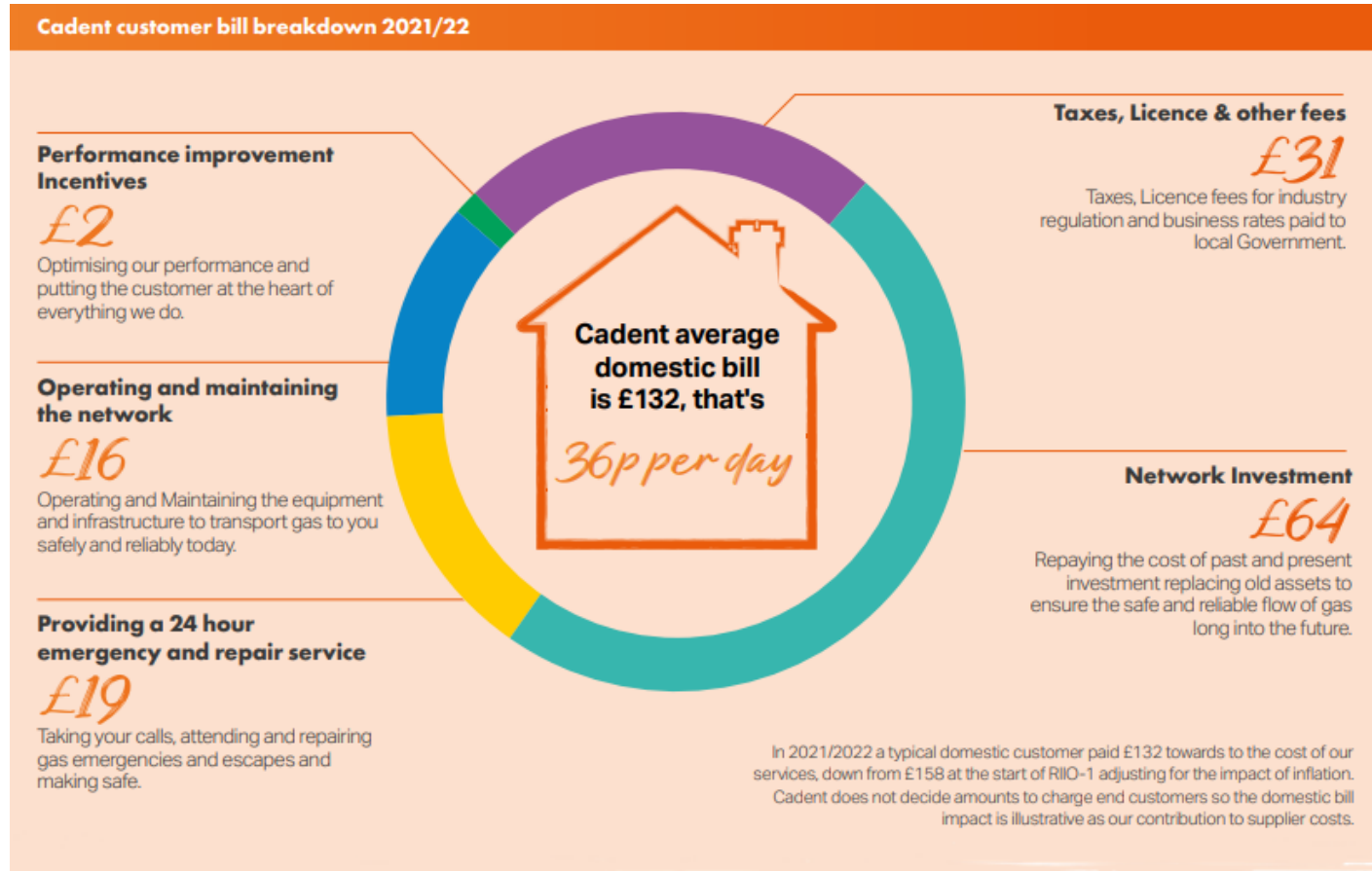
Q&A



Appendix



Customer bill breakdown 2021/22



Corporate Governance at Cadent

The Board's philosophy is to uphold the highest standards of corporate governance appropriate to our size, the essential public service we provide and the regulatory framework that applies to us

Board Composition

- 17 Directors
 - Non-exec Chairman (also SID)
 - 2 further SIDs
 - CEO; CFO; COO
 - 11 Shareholder-nominated Directors
- 4 alternate Directors
- Supported by General Counsel/Company Secretary
- 5 Sub-Committees – Safety, Sustainability, Audit & Risk, Remuneration and Nominations
- 2 Steering Committees – Finance and Public Inquiry and Related Matters
- Advisory Board to Cadent Foundation

Board Effectiveness

- Regularly evaluated; supported by independent third party
- 2020 review - Safety & Sustainability Committee divided into two separate Committees; Finance Committee reconstituted as Steering Committee
- Structure and flow of Board agendas and papers reviewed to ensure information enables appropriate scrutiny and enquiry
- Appointment of independent expert advisors to the Board to consider Cyber matters

Driving Performance and Culture

- Targets set for Cadent colleagues, convey our expectations on delivering our RIIO-2 commitments for the benefit of our customers and wider stakeholders
- Short Term Incentive Plan measures include Customer Excellence; Economic Outcome, Safety, Sustainability and Business Outcomes
- Long Term Incentive Plan measures, applicable to senior managers / executive team, include delivery of RIIO-2 Customer Strategy, Economic Outcomes, Sustainability Commitment, RIIO-2 Commitment and Energy System Transition