Cadent
future
Your Gas Network

Our Green Finance Framework

March 2023

Strictly private and confidential

Our Green Finance Framework

The aim of this document is to provide our investors, lenders and stakeholders with an overview of our sustainability journey and how they can be part of it by investing in and supporting our green finance instruments.

Contents

Introduction: We are Cadent	3
Our Green Finance Framework	13
Use of Proceeds	14
Process for Project Evaluation and Selection	18
Management of Proceeds and Reporting	20
Case Studies	21

We are Cadent

"We go beyond to provide the energy our customers need to stay safe, warm and connected. Our responsibility is to look after the gas pipes so they can continue to deliver safe, reliable and low carbon energy for years to come.
We are continually exploring smarter and more sustainable ways to develop our networks and work closely with local communities to deliver a high quality service that our 11 million customers expect."

Steve Fraser
Chief Executive Officer

We have the critical role to provide an essential public service to keep people safe, warm, and connected whilst supporting the most vulnerable in our communities as we prepare for a cleaner, greener future.

The past few years have shown how vulnerable society is to unexpected natural and economic events, and the impact those events can have on people's lives.

That impact is usually felt hardest by those on low incomes with many struggling to make ends meet due to price rises or suffering with a cold, poorly insulated, energy inefficient home.

The price of energy and home heating have rarely been bigger concerns for people than they are today, and we are playing our part in helping people across our communities to heat their homes more affordably.

Whilst we're doing what we can to minimise our costs to reduce customers' gas bills, we're also committed to helping over one million households who are living in fuel poverty.

We have established a range of support programmes, including providing free energy and income advice, debt consolidation services and funding the repair or replacement of gas boilers and appliances.

Energy efficiency is another key focus.

Alongside a large scale education programme providing tips about how to reduce energy usage in the home, the Cadent Foundation is also funding in-home energy efficiency improvements, such as more energy efficient appliances and home insulation measures.

We are working to reduce our greenhouse gas (GHG) emissions leakage from the gas network through mains replacement programmes and introducing zero-emissions vehicles into our operating fleet.

Overall, we strive to be recognised as a force for good by our clients and stakeholders. Our sustainability agenda is part of the company's broader strategy, and through our continued efforts in pursuing environmental commitments with supply chain partners, the launch of a green fleet and with the injecting of biomethane into the network as well as trialling hydrogen blending at scale, we are consolidating our role at the forefront of the energy transition in Britain.

What we do

Our role as the largest Gas Distribution Operator in the UK is to transport gas to 11 million customers through our network of 131,000km of mains across the North West, West Midlands, East of England (including East Midlands and South Yorkshire), and North London. This includes some of the largest and most densely populated cities in Great Britain, including London, Birmingham and Manchester.

We perform various services in relation to operating the gas network:

- Connect, disconnect and alter gas connections for homes and businesses
- Help renewable energy producers connect to the network
- Manage the National Gas Emergency Service for the UK gas industry

Including Cadent's four network areas, there are eight Gas Distribution Networks, each covering a separate geographical region of Great Britain.

National Gas Transmission is the Gas Transmission Operator that owns and manages the UK National Transmission System.

Highly regulated business means common statutory requirements:

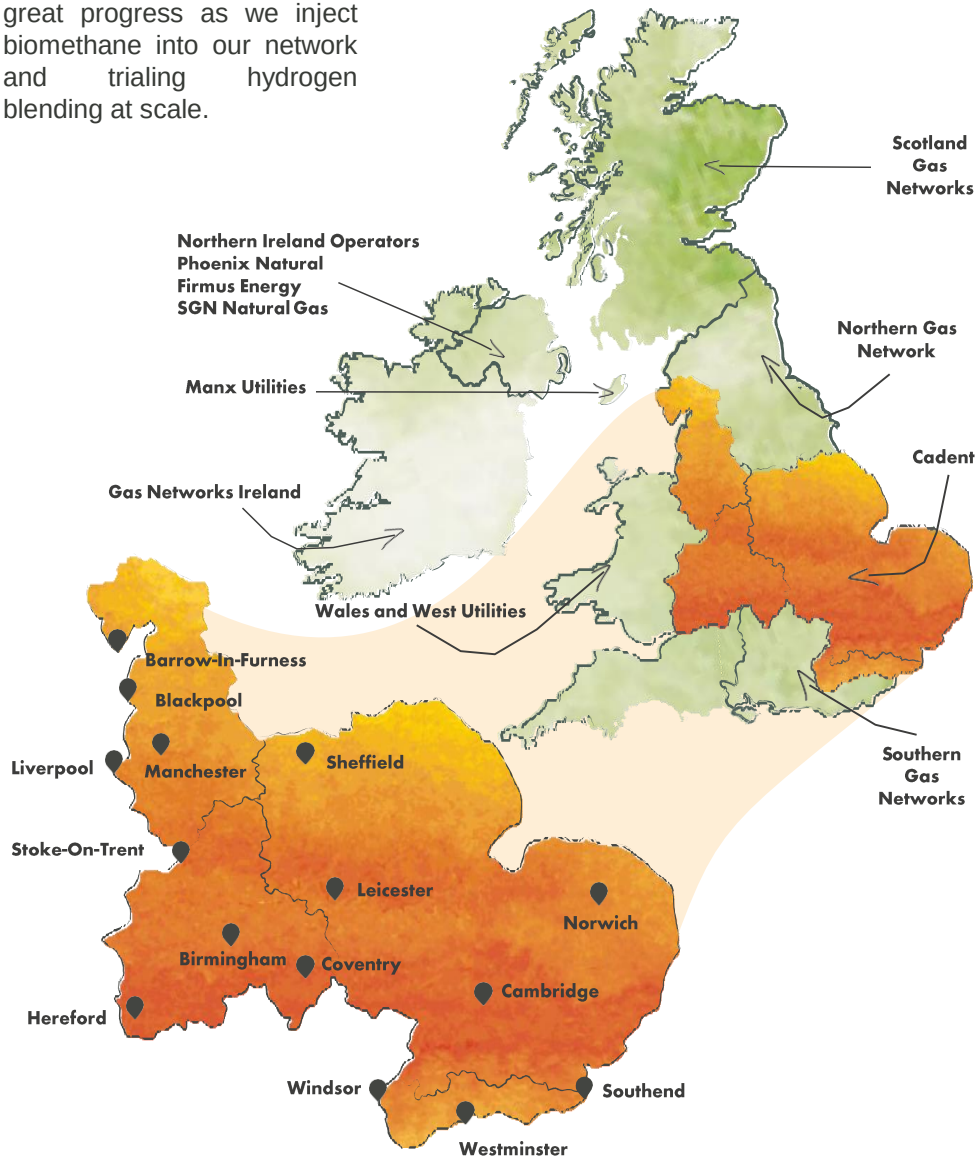
Gas transmission and distribution companies in Great Britain are regulated businesses and operate under licences issued by the Office of Gas and Electricity Markets (Ofgem), and are also subject to common statutory requirements which are overseen by the Department for Energy Security and Net Zero, the Health and Safety Executive (HSE), the Environment Agency (EA), the Scottish Environment Protection Agency (SEPA), and Natural Resources Wales (NRW).

Gas Distribution Operators are responsible for transporting gas from the transmission network to their customers. Security of Supply obligations set out in the licence by Ofgem, are complied with by ensuring appropriate levels of capacity are procured and provided to satisfy varying downstream customer requirements.

Ofgem also sets price controls, a ceiling on the amount companies can earn from charges to use the network, with the current regulatory period (RIIO (Revenue= Incentives + Innovation + Outputs) –GD2) running from 2021-2026.

During RIIO-2, we have set our ambition through the Environmental Action Plan* (EAP), which explains how we will take responsibility for environmental impacts of our networks and operations. This plan will drive improvements in our environmental performance over the next five years.

Our focus remains to reducing our GHG emissions leakage from the gas network, work with supply chain partners to reduce embodied carbon in materials, reduce our carbon footprint through the roll out of electric vehicles and to ensure that our networks are ready to transport greener gases. We can already see great progress as we inject biomethane into our network and trialing hydrogen blending at scale.



*Find out more about our EAP commitments here

Our approach towards Sustainability and contribution to the UN Sustainable Development Goals

Our purpose is to keep people warm while protecting the planet.

As a provider of a critical service, we have a responsibility to keep people safe, warm and independent in their homes, and provide businesses with the power they need to operate.

We do this with a keen eye to the future, whilst decarbonising our own business, and investing in green alternatives to fossil gas to fuel the UK for generations to come.

This is reflected through our values and the key pillars upon which they are built:

By makings things, easier, fairer and greener, we want to

fuel a thriving world

Easier Warmth

Where we help people stay warm and independent in their homes, no matter their personal circumstances

Easier Warmth ambitions

- Affordable warmth accessible for everyone
- A smooth consumer-focused energy transition that leaves no-one without heat

Easier Warmth goals

- By 2026, we will reach one million people with interventions that can improve affordability of home heating*
- By 2030, we will ensure that 50% of households in our networks know that hydrogen is a viable option for heating their homes – with over half of these located in the most disadvantaged areas of our networks

* One million people provided access to tools and advice to reduce their energy consumption and maximise their income, 100,000 provided with 1-1 free energy and income advice consultations, 10,000 connected to the gas grid free of charge and 10,000 direct interventions to improve the energy efficiency of customers' homes.

Fairer Opportunities

Where the potential to thrive is inclusive, within Cadent, our supply chain and our communities

Fairer Opportunities ambitions

- Motivated, skilled, valued and diverse workforce
- Improved social mobility in our communities

Fairer Opportunities goals

- By 2026, we will ensure that Cadent and 100% of our local delivery partners, deliver best practice standards on equality, diversity, inclusion, and fair pay
- By 2030, we will inspire 100,000 people from underrepresented and disadvantaged groups to gain access to career opportunities in the energy sector

Greener Society

Where we are driving the transition to net zero, whilst improving the natural world

Greener Society ambitions

- Stable climate, protected natural world

Greener Society goals

- By 2030, we will reduce our methane emission rates and leakage by more than the UK's 30% target
- By 2035, we will demonstrate hydrogen at scale through a range of initiatives
- By 2026, we will be accredited to The Wildlife Trust Biodiversity Benchmark across all our key sites
- By 2036, reduce carbon emissions by 43%

Our ESG ratings and benchmarks tell the successful story of our sustainability pathway

SUSTAINALYTICS
a Morningstar company
RATED

19.6 Low Risk

(November 2021)

MSCI
MSCI ESG RATINGS AAA
CCC | B | BB | BBB | A | AA | AAA

(15 July 2022)

GRESB
★ ★ ★ ★ ☆ 2022

90%

Commitment towards a sustainable future

We recognise the urgent challenges faced to successfully navigate the different pathways to deliver net zero, an area we are leading in to develop a hydrogen-energy future.

We lead the way to a cleaner, greener future by planning and collaborating with industry and key stakeholders to meet our net zero targets.

We are committed to reducing our carbon footprint in line with the latest science methodology.

A key goal to achieve our ambition will be to ensure our targets are aligned with the Science Based Targets initiative (SBTi) as we progress through RIIO-2.

Reducing our carbon footprint

Climate change is a key part of our strategy and our targets enable us to drive our sustainability performance through monitoring and continuous improvement to ensure we reduce our environmental impact and deliver our strategic ambition of becoming a net zero organisation consistent with the UK Government's 2050 target.

The Paris Agreement sets out an international ambition to hold the increase in global average temperate well below 2°C above pre-industrial levels, and to pursue efforts to limit this to 1.5°C. Science-based targets provide companies with a clearly defined pathway for reducing their emissions in line with the goal.

In 2021, we worked with The Carbon Trust to set our science-based target pathway to 2050 for own operations and scope 3 emissions.

We are committed to reducing our emissions by 43% by 2036, against a baseline of March 2020.

The target includes our direct and indirect emissions associated with scope 1 (including Shrinkage) and 2. These stretching targets were developed through consultation with our regulator, expert advisers and wider stakeholders, including customers and have Cadent Board-level oversight.

We also recognise the relevance of our scope 3 carbon footprint*. We have set up a dedicated action plan built on engaging more widely with our supply chain to establish a revised scope 3 emissions baseline.

In particular, we performed a screening exercise to highlight scope 3 emissions categories that are materially relevant to our operations in 2021 with The Carbon Trust.

From this exercise, a high-level scope 3 screening summary was generated to demonstrate each scope 3 categories applicable to our operation and to assess the quality of data that is currently available.

As we aim to improve our scope 3 emissions reporting over RIIO-2, we introduced a new carbon reporting tool for the supply chain in 2021 and over 80% of our mains replacement work suppliers signed up to it.

This tool helps us measuring key material, transport, and energy use across our supply chain and, for example, reducing embedded carbon in plastic pipe and fittings, whilst we focus on reducing plastic pipe waste.

*Find out about our scope 3 categories in our Annual Environmental Report here

Our Network Improvement Programme is at the core of our emission reduction goals

The majority of carbon dioxide GHG emitted by our business is from methane emissions derived from shrinkage, which is for the majority due to gas leakage.

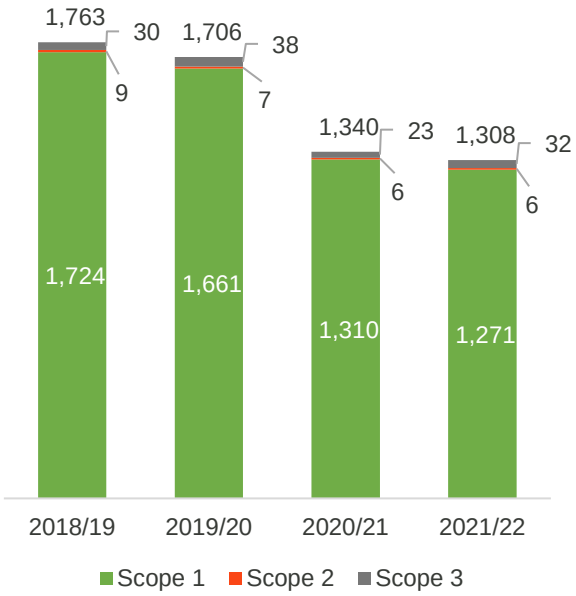
We have a number of initiatives underway to reduce our methane emissions. We are investing hundreds of millions of pounds in replacing around 1,600km per annum of metallic mains with lower-leaking plastic pipework.

The mains we replace are selected using a comprehensive risk analysis tool that considers public safety, environmental impacts, and economic implications.

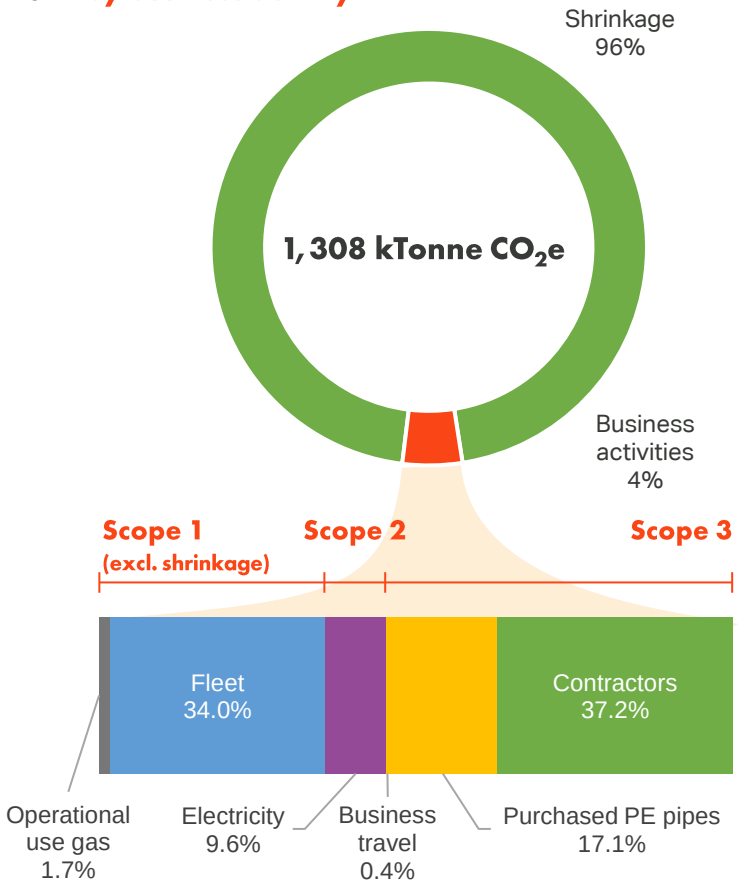
In order to maximise the environmental benefits, we are running a number of innovation projects to better detect and predict leaking metallic pipes and even capture methane that is leaked.

As we replace damaged or low-quality pipes with new plastic alternatives not only do we lower leakage from the network but we also enable the transport of low carbon gasses like hydrogen and biogas.

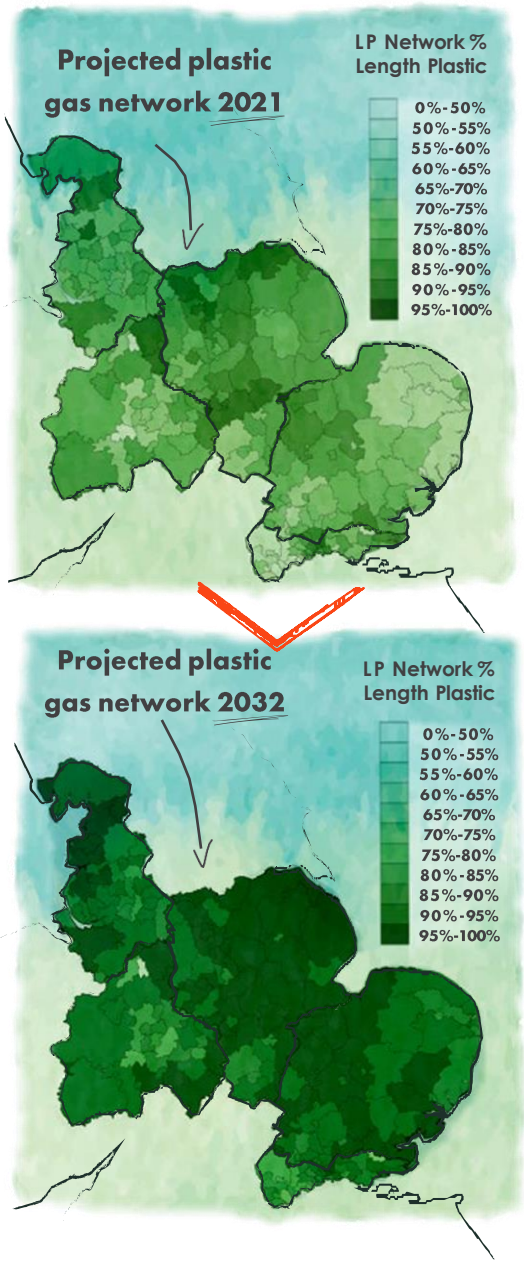
Our Historical carbon footprint (kTonne CO_2e)



Our 2021/22 carbon footprint by business activity



Upgrading the gas network



Addressing our day-to-day environmental impact

We are aware of our responsibility for emissions as a result of our day-to-day activities, including from our fleet, from the services or materials we use, and from our energy consumption and own use of gas as a fuel in our processes.

We are implementing different measures and strategies to improve our day-to-day emissions, which include implementing a largely electric and hydrogen powered fleet, procuring 100% renewable electricity and reducing emissions across our supply chain. We will supplement this through carbon offsetting activities that we'll fund and support through our employee volunteering programme.

UK's hydrogen strategy becomes clear

The future of gas and hydrogen has continued to receive a great deal of attention since 2021, with the launch of the Government's Ten Point Plan, the Energy White Paper, the Hydrogen Strategy and the Heat and Buildings Strategy. All these publications propose a significant role for the gas infrastructure and particularly hydrogen in supporting delivery of the UK's net zero ambition.

Hydrogen is not the only solution to decarbonisation and will be used in combination with other technologies, such as renewable electricity, heat pumps, heat networks and biomethane.

It is clear though that net zero presents a significant challenge for all electricity and gas energy networks to ensure we manage a transition to low carbon technologies in a manageable and affordable way. The Government has set out some near-term ambitions on hydrogen. The Ten Point Plan and subsequent strategy documents set out several key areas intended to propel the UK toward its net zero target, whilst simultaneously boosting the number of jobs involved in the green economy.

For hydrogen, the plan focuses on an ambition to deliver 10 Gigawatts of hydrogen production capacity by 2030 with supporting business models. The aim to complete the necessary tests to enable blending hydrogen into the gas network by 2023; a pioneering conversion of a village and a town to hydrogen by 2025 and 2030 respectively; and supporting this was a proposal to mandate hydrogen-ready appliances by 2026.

We have launched our Hydrogen Ten Point Plan, detailing the actions we are taking to prepare and support toscale up hydrogen production, invest in jobs and skills as well as look after colleagues and consumers. This plan has been used to both educate our employees and external stakeholders on the scale of our ambition and commitment to a hydrogen future.

Read more about our Ten Point Plan here

Our role in the future of gas

Our Future of Gas programme continues to progress its activity across the five key themes of Position & Advocacy, Technical & Policy evidence & implications, Future Shape of the gas sector and the Cadent business, Operational Transition and Hydrogen Infrastructure, to ensure that we can demonstrate how the gas network can be repurposed to deliver hydrogen in the future, and that we can do it safely and affordably.

Our ongoing delivery of the Future of Gas programme, coupled with our work to develop our long-term strategy, enables us to have a stronger strategic narrative – and in due course help shape the policy framework for the future gas sector.

We also actively contribute to many industry associations including the Energy Networks Association, Energy Utilities Alliance and the Confederation of British Industries.

We have also been a member of the Hydrogen Taskforce along with other key companies including BP, Shell, Orsted, Centrica, ARUP, Equinor and SSE. Given the success of the Taskforce, and the need to coordinate activities across the value chain, directly supporting Government with delivering the hydrogen strategy, it has now been re-established as a trade organisation Hydrogen UK of which Dr Angela Needle, our Director of Strategy, is the Vice President for the first two-year term of the organisation.

Moreover, one of our Regional Development Managers is the Low Carbon Hydrogen Lead on the Midlands Engine's Green Growth Board, which was set up to deliver their Ten Point Plan for Green Growth and to deliver against their new Hydrogen Technologies Strategy.

We have also pioneered innovation projects to demonstrate the viability of hydrogen networks through large scale demonstration projects such as blending with HyDeploy and, and hydrogen pipelines with HyNet.

Finally, by working with partners to connect more sustainable sources of gas, such as biomethane, we are already providing consumers with access to more sustainable energy.

"Hydrogen is one of the key solutions to tackling our climate emergency and along with renewables can provide a greater level of energy security. The UK needs a prosperous hydrogen economy, and our pioneering plans will help to forge the greener future our communities deserve."

Dr Angela Needle
Director of Strategy, Cadent
Vice President, Hydrogen UK

How the environment is part of our wider business planning processes and decision-making

We have established a Board-level Safety and Sustainability Committee, supported by an Executive level Safety and Engineering Committee and a Customer Operations and Performance Committee, to further integrate sustainability and the delivery of short, medium and long term environmental goals into our business strategy and decision-making activities.

The Committee is responsible for providing independent assurance to the Board on the scope, adequacy and effectiveness of the company's safety and sustainability policies and management systems and has been active in setting out our strategic direction and ambition for sustainability.

The membership of the Safety and Sustainability Committee provides a wealth of expertise from a wide range of sectors and international perspectives, including the utilities sector, global business and Government.

Our environmental management system has been certified to ISO14001 standards for over 20 years, including recent accreditation to the updated ISO14001:2015 standard.

This management system combines many elements of good practice:

- It identifies those elements of an organisation's activities that have the potential to impact on the environment. These are collated within a business-wide 'Environmental Aspects' register and set out the risk and control framework to ensure compliance with legislative and other obligations.
- The aspects are ranked and prioritised on the basis of the potential severity of their impacts on the environment to ensure that the appropriate controls are enacted.
- It identifies metrics that can be used to measure the scale of impacts on the environment and targets to drive continual improvement. This helps us to prioritise areas of focus.
- It monitors emerging or changing requirements, external trends and best practice.
- It identifies opportunities to embed more sustainable practices and drive environmental benefits.
- We have established a cross-business Environmental Best Practice Forum and Network Safety Health and Environment (SHE) forum.
- We carry out an annual management review process, presenting a comprehensive statement of performance risk and opportunities to our Executive Team and our Board, ensuring visibility at the highest levels of the organisation.
- Our investment sanctioning process requires examination, evaluation and sign-off of environmental risks and opportunities for all projects. This integrates elements of changing environmental legislation, such as the Medium Plant Combustion Directive (now in Environmental Permitting Regulation, 2018) into forward business plans.
- We monitor standards of environmental management on all our sites through an annual baseline exercise and periodic focused audits.
- All our risks are recorded in our enterprise risk management system and are scored on a unified scoring scale with easy comparability, and visibility of risks and management.

These practices enable us to identify risks and potential impacts, and specify the controls required to minimise environmental harm.

Our Green Finance Framework

Our business model is driven by our constant commitment towards providing essential services to our customers and fostering the transition to a low-carbon economy whilst continuing to inspire other industry players to do the same.

The introduction in the market of new green finance instruments and labels as well as improvements in market standards, including but not limited to the EU Taxonomy and the updated Green Bond Principles, are driving issuers to improve their ESG commitments and efforts across transitioning sectors.

Our Green Finance Framework (the "Framework") represents our response to these changes and as well as our continuous commitment to place sustainability as a core driver of our financial and business strategy.

This new Framework aims at our ability to align our funding needs with our sustainability goals and to issue financing instruments in multiple sustainable formats.

Under this Framework, we will be able to issue EU Taxonomy aligned green instruments, including Bonds, loans, Derivatives, Revolving Credit Facilities as well as any other financing instruments in various formats and currencies.

Instruments issued under this Framework will follow the best market practice as established by the Green Bond Principles 2021 (GBP) administered by the International Capital Market Association (ICMA), the Green Loan Principles 2021 (GLP) administered by the Loan Market Association (LMA), and subject to finalisation, be aligned with the draft European Green Bond Standard (EU GBS) and the European Commission's recommendations by voluntarily adhering to the requirements of the EU GBS regulation proposal.

The Framework is also aligned as closely as possible with the EU Taxonomy Regulation that entered into force on 12 July 2021, and the Delegated Acts on Climate Change Mitigation and Adaptation adopted on 6 July 2021 (EU Taxonomy).

To the best of our abilities, we have selected the Eligible Projects under this Framework for their contribution to at least one of the EU Environmental Objectives, as well as do no significant harm (DNSH) to any of the remaining EU Environmental objectives.

Our Green Finance Framework has four core components:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

Updates to this Framework

As the sustainable finance market continues to evolve, this Framework may be revised or updated to remain consistent with shifting expectations, best market practices and regulatory landscape.

In particular, we will maintain alignment of this Framework to upcoming versions of the relevant ICMA and LMA principles as they are released.

Relevant updates will be subject to the prior approval of a qualified provider of second party opinions.

Use of Proceeds

We will use the proceeds of the Green Bonds to finance and/or refinance, in whole and in part, new and/or existing Eligible Projects contributing substantially to climate change mitigation within the following eligible category.

Eligible Category	Contribution to EU Environmental Objectives*
Transmission and distribution networks for renewable and low-carbon gases.	Substantial contribution to Climate Change Mitigation (Article 10), including but not limited to: 1.a) Generating, transmitting, storing, distributing or using renewable energy in line with Directive (EU) 2018/2001, including through using innovative technology with a potential for significant future savings or through necessary reinforcement or extension of the grid.

Relevant NACE Codes	Scope and definition for Eligible Projects	Technical Screening Criteria	Contribution to UN SDGs
35.22 - Distribution of gaseous fuels through mains.	> Conversion, repurposing or retrofit of gas networks for the transmission and distribution of renewable and low-carbon gases. > Construction or operation of transmission and distribution pipelines dedicated to the transport of hydrogen or other low-carbon gases.	The activities consists in one of the following: > Retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low carbon gasses in the gas system. > Construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases. > Conversion/repurposing of existing natural gas networks to 100% hydrogen. > Leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage .	

*Find out about Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 here

Do No Significant Harm Assessment

Transmission and distribution networks for renewable and low-carbon gases

Climate change adaptation

All eligible projects have been through a climate risks analysis process according to our own enterprise risk management framework*. Our climate related risks and opportunities are identified and managed by the Executive Committee with governance from the Sustainability Committee, and oversight via the Net Zero Transition Committee and the RIIO-2 Environment Steering Group.

These groups meet regularly, led by Executive Members, to monitor progress of action plans and provide assurance of commitments made to prepare the business for transition to Net Zero.

Our climate change risks are managed in line with our overall risk management framework.

This includes a thorough, consistent and documented approach to identifying, assessing, treating, monitoring and reporting risks.

All risks are recorded in the Resolver Risk Management system, and are scored on a unified scoring scale, providing consistency, comparability and visibility of risks and how they are being managed. Risks, including climate risks, are each assigned an owner who is responsible for managing it, within our overall governance structure.

In particular, the risk that Cadent 'fails to respond to climate change and biodiversity' is one of our 'Principal Risks', and it is overseen by the Executive Committee and Sustainability Committee.

These Committees review the risk and its management and consider performance against targets and changes in the business environment that impact or present us with new climate related risks. These are then reported to and reviewed by the Board/relevant Board Committee as appropriate.

Ultimately, our climate related risks and opportunities can be categorised as having one of two main causes:

- **Physical impacts** that need to be adapted to such as increased severity of extreme weather events (acute) such as storms, droughts and floods or longer-term shifts in weather patterns (chronic). We also consider the steps necessary to minimise our impact on the climate and biodiversity.
- **Transitional impacts:** associated with the transition to a low carbon economy, for instance from changes to policy and legal actions, technology, market and reputational concerns.

In 2021, with support from Carbon Trust, we have assessed our own carbon footprint and identified climate projections based on the IPCC methane projections and IEA CO_2 projections for service buildings and transport, using a combination of the Absolute Contraction (AC) and Sectoral Decarbonisation Approach (SDA).

A dedicated scenario planning exercise has been performed with the aim to align our environmental impact with the Well-below 2 Degree Scenario science-based target sector decarbonisation pathways.

*Learn more within our climate change adaptation report here

Do No Significant Harm Assessment

Transmission and distribution networks for renewable and low-carbon gases

Protection and restoration of biodiversity and ecosystems

Our Land Management and Biodiversity Management Standard (CAD/SHES/MS/22) sets the Biodiversity expectations for all of our permanent and temporary worksites, including for managing and protecting habitats, flora and fauna.

To date, we have not started a large-scale relevant project, such as HyNet, that required an Environmental Impact Assessment (EIA) and when we do, this duty would be delegated to the competent contractor.

For smaller mains projects, we will meet best practice standards by undertaking pre-biodiversity surveys to understand any potential risks or areas to be aware of for the project.

As part of our RIIO-2 Environmental Action Plan, an external consultant is conducting ecology surveys across all manned depot locations and 10 of our key Above Ground Installations sites. The output from the reports will explain what actions we could take and what the biodiversity net gain would be.

Sustainable use and protection of water and marine resources

Our Control of Water and Waste-water Management Standard (CAD/SHES/MS/04) sets Cadent's expectations for our permanent and temporary worksites in relation to:

- Managing the discharge of water and effluent from sites;
- Preventing the pollution of surface and ground water adjacent to our sites; and
- Providing the requirements for compliance with discharge consents and environmental permits.

Water pollution and spill control are also identified, and risk assessed in our "Aspects and impacts" document (CAD/SHES/MAN/01 – Appendix C) and in the Environmental Emergency Preparedness Plan (CAD/SHES/MS/16).

We are currently undergoing a project to survey and update the surface and foul drainage plans for all of our larger permanent sites.

Our water use is predominantly for office use (kitchens/ cleaning/ toilets) and there is limited operational use.

Pollution prevention and control

To ensure the ongoing reduction in Safety and Environmental risk, we have a risk based pipe replacement programme in place. This programme includes local gas transmission pipes and gas mains, services, risers (pipes carrying gas up through buildings).

When we do experience leaks, they are dealt with as promptly and efficiently as possible.

Any significant sized motors, pumps or fans which require replacement go through our procurement process. Our Sustainable Procurement Standard includes reference to the EU Eco-Design Directive and its equivalent UK version. This serves as a reminder to our buyers that in the unlikely event of procuring equipment with high energy consumption, that they should address the ESG aspects as the design, specification and tender stage.

Minimum Social Safeguards

Transmission and distribution networks for renewable and low-carbon gases

Our responsibility to respect human rights is central to our ethical code of conduct 'Always Doing the Right Thing'. Our code of conduct sets a clear ethical standard for staff and offers guidance on a range of topics with some form of ethical dimension. The importance of behaving ethically is positively reinforced by Cadent's leadership team, and both our CEO and Chairman of the Board have signed our code of conduct.

The code of conduct forms part of a larger policy framework* which ensures business is conducted in an ethical way. The framework includes our Supplier Code of Conduct, which requires third party suppliers to align themselves with Cadent's values and ethical standards. Our Modern Slavery Statement outlines the controls used to mitigate the risk of modern slavery in our supply chain. We actively participate in industry forums to share best practice and to contribute towards eliminating modern slavery from the industry. Our policy framework also covers topics such as discrimination, bullying, harassment, and grievances to ensure fairness and equality for all staff. Our policies are periodically reviewed to ensure they remain accessible, helpful, and aligned with industry standards.

Our commitment towards human rights is further reinforced by e-learning packages, including one about our ethical code of conduct, which are mandatory for all staff to complete.

Assessing the risk of adverse impacts human rights is part of our enterprise risk management process.

Our policies form an important aspect of our control framework designed to manage risk. The risks associated with each business practice are recorded and regularly reassessed by subject matter experts, line managers, and the Board to determine the risk level, our risk appetite, and the effectiveness of our existing controls. These activities represent an ongoing process of assessment and review, supported by Cadent's central risk and assurance team.

Our controls to prevent and detect adverse impacts are governed by a range of processes, including an employee and supplier vetting procedure. Gifts and Hospitality are governed by Always Doing the Right Thing, which sets out the types of gifts and hospitality that can be accepted. There is a process whereby staff must declare gifts and hospitality which is monitored regularly and, when appropriate, declarations are challenged. Cadent operates a Conflict-of-Interest processes whereby managers and staff within commercially sensitive positions must declare any personal, business, or other financial affiliations which may adversely impact their role at Cadent or their ability to act in Cadent's interests. There is a segregation of duties between purchase requestors and approvers, and a chain of approval for spending made on our procurement system.

Cadent promotes a 'speaking up' culture to support staff who wish to raise a concern about any potentially unethical practices. Our 'speaking up' policy outlines the support and guidance available to those wishing to 'speak up' and this culture is reinforced in a positive 'tone from the top'. There are a range of contact options available to those wishing to 'speak up' including an internal whistleblowing hotline and email address, an external provider which specialises in managing whistle-blowing concerns, and a network of 'ethics champions' across the organisation.

Cadent has a dedicated Business Conduct team which responds to, and where necessary, investigates any concerns raised by staff members. The Business Conduct team reports to the Audit and Risk Committee and shares its findings to drive improvements across the business.

Our Grievance Mechanism

Our grievance processes provide feedback on our management of issues, some of which have a human rights dimension. Cadent has a Grievances policy to allow staff to raise concerns whilst always ensuring fair and consistent treatment. There are also Trade Union Forums through which collective grievances can be communicated and resolved.

*Our policies are available here

Process for Project Evaluation and Selection

All our investments are subject to approval through an investment or sanction committee. This is also the case for major projects or change within our business. Each of these is accompanied by a justification which includes explicit assessment of risks and opportunities relating to environment, safety, stakeholders, customers communities.

All procurement is guided by our policy for Sustainable procurement and any contractors or suppliers appointed to work with us or on our behalf in the delivery of eligible projects will be subject to prequalification through the Achilles/UVDB process.

Furthermore, they are all obliged to become signatories to the Global Supplier Code of Conduct* which specifies minimum standards for safe, responsible, ethical and environmentally focused delivery.

Projects financed and/or refinanced through the net proceeds of the Green Bonds will be evaluated and selected by a working group of representatives with the required level of expertise and seniority.

This team will be constituted of representatives from:

> the Treasury team

> the Corporate Social Responsibility team

> the Project team

The Project team will evaluate the nominated projects and assets and report the information to this working group. The working group will be responsible to select the Eligible Projects that are compliant with the eligible categories described in the previous section.

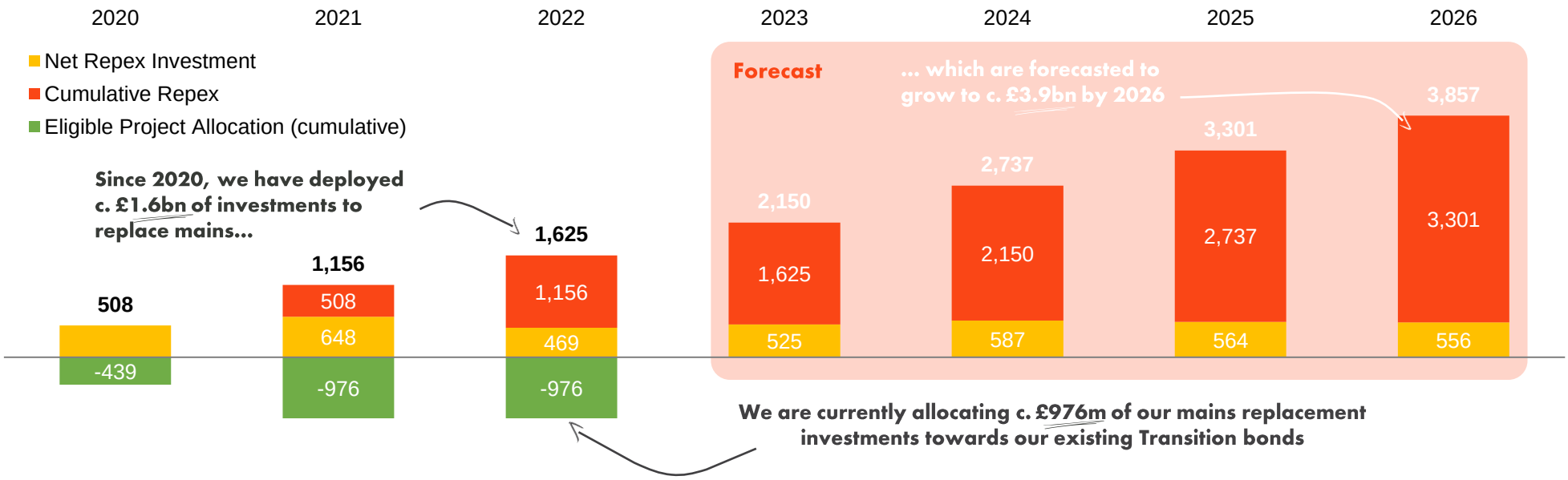
Eligible Projects may include new projects, projects under construction or in our portfolio, with a disbursement date no older than 36 months. The role of the working group will be to:

1. Review, select, validate and monitor the pool of Eligible Projects, based on Sustainable Policy, enterprise risk valuation and the Green Finance Framework;
2. Identify the proper impact metric that best describes the environmental benefits;
3. Draft, verify and validate annual reporting for investors;
4. Monitor the on-going evolution related to the Sustainable Capital Markets in terms of disclosure/reporting and update the Framework accordingly, when needed, in order to be in- line with market best practices; and
5. Review the Framework to reflect any changes about our sustainability strategies and initiatives.

*Learn more about Cadent's Supplier Code of Conduct here

Alignment of Eligible Project Pool by 2026 under this Framework

Overview of our Mains Replacement Expenditures (£m)



As we progress with our Network Improvement Programme we also further our effort to reduce emissions

The most significant component of our emissions inventory is leakage from underground metallic gas pipes across the distribution networks. For many years, we have been replacing these old leaky assets with modern plastic pipes.

Since 2013, we have invested in our Network Improvement Programme with the same care for our customers, employees and for the environment as today.

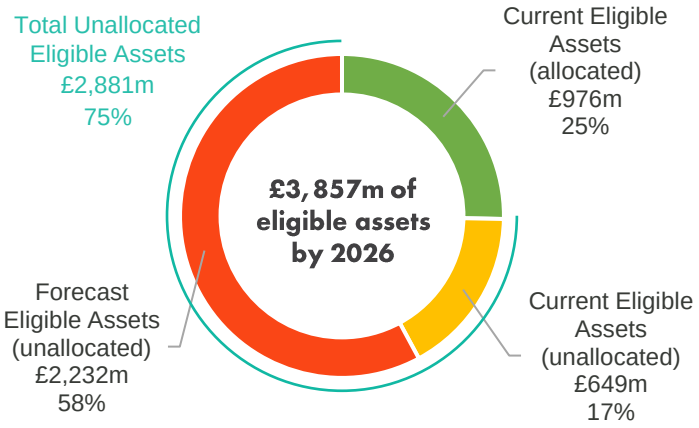
Since 2020, these expenditures have been financed, in part, through our Transition bonds and going forward thanks to this framework, future expenditures will be financed through our Green bonds.

We recognise that labels in the sustainable finance market are evolving, but our mission to improve the network remains the same.

Between 2020 and 2022, we have invested a cumulative £1.6bn to replace mains, of which c. £976m have been allocated towards our Transition bonds.

As we progress with our Network Improvement Programme, we expect to reach £3.9bn of cumulative investments eligible under this framework, of which £2.9bn (75%) may be used to issue new Green bonds.

Up to £2.9bn of eligible assets available for our future Green bonds



Management of Proceeds and Reporting

Management of Proceeds

The net proceeds from our Green Bonds will be deposited in the general account and an amount equal to the net proceeds will be earmarked for allocation to Eligible Projects, in accordance with this Framework.

All relevant information regarding the issuance of Green Bonds and Eligible Projects (re)financed will be monitored and kept in our accounting systems.

The balance of the tracked proceeds should be periodically adjusted on a quarterly basis, in order to match allocations to Eligible Projects (re)financed during this period.

We will substitute any projects that are no longer eligible, as soon as practical once an appropriate substitution option has been identified.

The payment of principal and interest on any bond issued by us under the Framework will be made from our general funds and will not be linked to the performance of any Eligible Project.

Pending the allocation or reallocation, as the case may be, of the net proceeds, we will invest the balance of the net proceeds, at our own discretion, in cash or cash equivalent, or in other liquid marketable instruments, as per our liquidity management policy.

Typically, we would intend to allocate the full amount of proceeds within the next 24 months following the issuance of the Green Bonds.

Reporting

We will report on the allocation of net proceeds and associated impact metrics of the Green Bonds within one year from issuance and annually thereafter until the proceeds have been fully allocated, and as necessary in the event of material development.

This report will be published as a standalone Green Bond report and will be made available on our website.

In case of several issuances, the annual report will be updated to reflect all bonds issued under the Framework.

Allocation Report

The report will include:

> The list of Eligible Projects (re)financed;

> The aggregated amount of allocation of the net proceeds to the Eligible Projects at category level;

> The proportion of net proceeds used for financing versus refinancing; and

> The balance of any unallocated proceeds invested in cash and/or cash equivalents (if any).

Impact Report

Where possible, we will report on a number of impact metrics associated with the Eligible Projects funded with the net proceeds of the Green Bond.

External Review

a. Pre-Issuance

Cadent has retained ISS ESG to provide a Second Party Opinion (“SPO”) on its Green Financing Framework to confirm alignment with the ICMA Green Bond Principles (2021), and LMA Green Loan Principles (2021) as well as with the EU Taxonomy on a best-efforts basis. The SPO will be made available on Cadent’s website.

b. Post-Issuance

Cadent will request annually, within one year after issuance and until full allocation, a limited assurance report on the allocation of the Green Bond proceeds to eligible projects to be provided by a third-party verification firm or auditor.

Examples of Impact Measurement Metrics

Eligible category	Impact Measurement Metrics
Transmission and distribution networks for renewable and low-carbon gases.	> Estimated annual GHG emissions avoided (in tCO_2e). > Reduction in leakage as a result of the project (in GWh/y or GWh/km replaced), as per the leakage model agreed with the regulator.

Case study I: Blending hydrogen with HyDeploy

HyDeploy

ITM POWER
Energy Storage | Clean Fuel

BESPOKE RESEARCH AND CONSULTANCY FROM HSE

Northern Gas Networks

Cadent
Your Gas Network

Keele UNIVERSITY

PROGRESSIVE ENERGY

Pioneering the safe use of blended hydrogen in gas networks to reduce carbon emissions

Blending hydrogen at 20 mol% with natural gas across the UK, would save around 6 million tonnes of carbon dioxide emissions every year, the equivalent of removing 2.5 million cars from the road

Great Britain has a world class gas grid and currently fossil gas provides around 83% of its heat in buildings and most of its industrial heat. Delivering low carbon heat through blended hydrogen would make the most of the existing gas grid network and means that customers do not require disruptive and expensive changes in their homes.

This project will help us to reach the UK Government' s target of net zero carbon emissions by 2050.

Blending hydrogen into the gas grid is important in the plan to achieve net zero and the Prime Minister's Ten Point Plan has set a target to enable blending by 2023.

This has been driven by our successful work on the HyDeploy project*. The HyDeploy blending trial at Keele University successfully ran on hydrogen blends of up to 20% over winter 2020 and ceased blending in March 2021.

With HyDeploy, we have proven that the use of the blended gas requires no change to appliances, and customers do not notice any difference to their gas supply.

We continue to be the overall lead for hydrogen blending projects across the gas distribution networks.

Consumers did not detect any apparent difference with their heating or appliance for the duration of the trial and there were no differences detected between appliances that had been run on blends versus those that had not. The next phase of the programme, called HyDeploy2, moved to a public network at Winlaton operated by Northern Gas Networks which started blending hydrogen to 600 homes in September 2021 following approvals from the Health and Safety Executive.

We are also testing blended hydrogen and methane on a range of commercial and industrial appliances as part of the programme.

Discover more in our third progress report here

*Learn more about how Hydrogen is vital to tackling climate change at HyDeploy.co.uk

Case study II: New hydrogen pipelines – HyNet

HyNet North West

HyNet North West Low carbon hydrogen is set to play a major role in achieving 'Net Zero emissions' across the UK by 2050.

HyNet* is centered in the north west of England and north Wales and delivers full scale, deliverable and cost-effective multi-sector decarbonisation by combining fuel switching to low carbon hydrogen and the deployment of Carbon Capture and Storage.

Low carbon hydrogen will be supplied to industrial, flexible power, transport and domestic and commercial gas customers to provide an alternative to fossil fuels. HyNet infrastructure will include:

Hydrogen Production:

At the heart of the HyNet cluster, 3 TWh per year of low carbon hydrogen production by 2025, rising to 30 TWh by 2030 at a 'hub' located at the Stanlow Manufacturing Complex consisting of four state-of-the-art hydrogen production plants, which will capture ~97% of by-product CO_2 from processing natural gas and Refinery Off Gas (ROG) feedstocks.

CO_2 Transport and Storage:

This hydrogen production will be linked to a Carbon Capture and Storage transport and storage system, designed specifically to sequester CO_2 produced by hydrogen production and other industrial sources into long-term geological storage in the depleted Liverpool Bay gas fields.

Hydrogen Network:

Hydrogen will be delivered to multiple end customers via the UK's first hydrogen multi-consumer network, with circa 85 km of 'spine' pipeline in place by 2027 and up to a further 270 km of hydrogen network in place by 2030.

The network is routed to supply large industrial and flexible power generators in the area and to enable injection into the existing natural gas Local Transmission System, allowing all customers to readily switch from natural gas to a carbon free fuel.

Plant 1 will supply the Stanlow Manufacturing Complex and other nearby industrial sites via a dedicated hydrogen pipeline before the hydrogen network is complete.

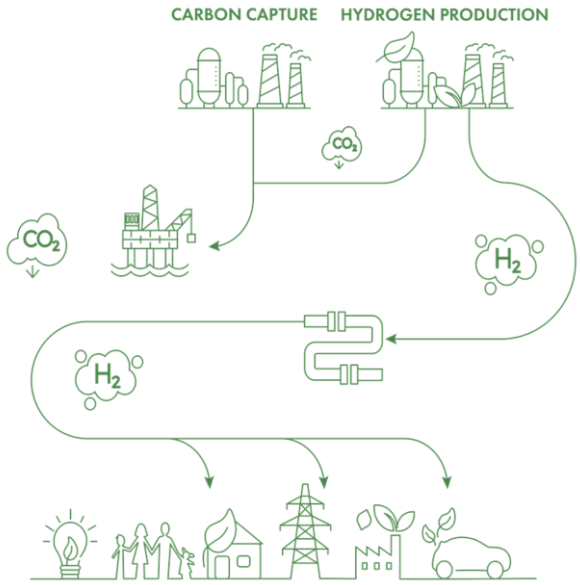
Hydrogen Storage:

A complex of hydrogen storage salt caverns will be created in the Cheshire salt basin and connected to the hydrogen distribution network.

The complex will be able to store around 1.3 TWh of hydrogen, to enable fluctuations in demand to be managed cost effectively, without sizing the production hub to meet peak regional demand.

The FEED for HyNet CO_2 Transport and Storage, as well as the Hydrogen Network and Storage, is currently being developed under UK Research and Innovation's Industrial Decarbonisation Challenge funding.

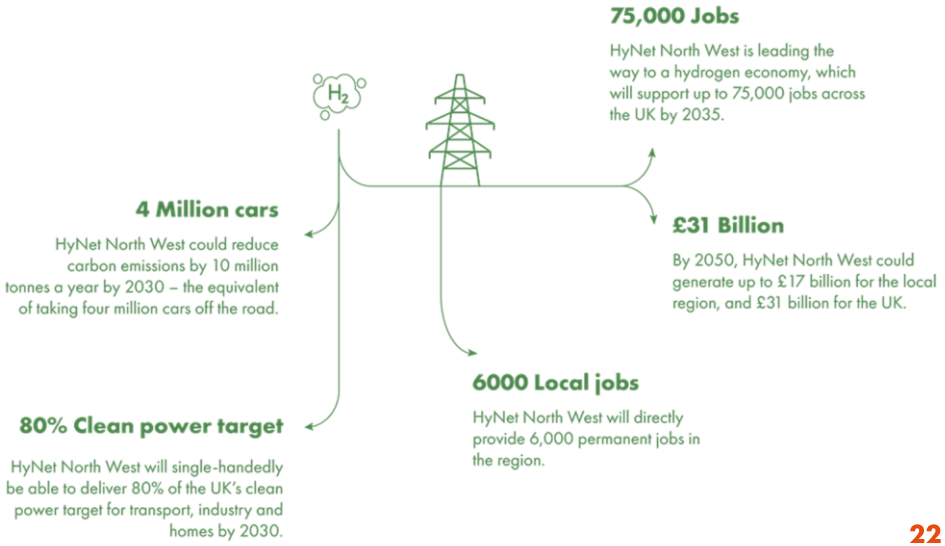
The HyNet process



HyNet is a project that will bring together the proven technology and infrastructure needed to drive us towards a net zero future.

This includes infrastructure to capture and lock away carbon dioxide (a greenhouse gas) emissions (CCS) Produce, transport and store low carbon hydrogen

The benefits



*Discover more at hynet.co.uk

Disclaimer

This document may contain or incorporate by reference public information not separately reviewed, approved or endorsed by Cadent Gas Limited and accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Cadent Gas Limited as to the fairness, accuracy, reasonableness or completeness of such information. This document may contain statements about future events and expectations that are forward-looking statements. None of the future projections, expectations, estimates or prospects in this document should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in the document. Cadent Gas Limited has and undertakes no obligation to update, modify or amend this document or the statements contained herein to reflect actual changes in assumptions or changes in factors affecting these statements or to otherwise notify any addressee if any information, opinion, projection, forecast or estimate set forth herein changes or subsequently becomes inaccurate. This document is not intended to be and should not be construed as providing legal or financial advice. It does not constitute an offer or invitation to sell or any solicitation of any offer to subscribe for or purchase or a recommendation regarding any securities, and nothing contained herein shall form the basis of any contract or commitment whatsoever and it has not been approved by any security regulatory authority. The distribution of this document and of the information it contains may be subject to legal restrictions in some countries. Persons who might come into possession of it must inquire as to the existence of such restrictions and comply with them. The information in this document has not been independently verified. The addressee is solely liable for any use of the information contained herein and Cadent Gas Limited shall not be held responsible for any damages, direct, indirect or otherwise, arising from the use of this document by the addressee. This Green Finance Framework is the exclusive intellectual property of Cadent Gas Limited.