

## SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Finance Framework

Cadent Gas Ltd.

1 March 2023

### VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>Green Finance Framework</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)</li><li>Green Loan Principles, as administered by the LMA (as of February 2021)</li><li>EU Taxonomy Climate Delegated Act (as of June 2021)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>Cadent Green Finance Framework (as of March 1<sup>st</sup>, 2023)</li><li>Cadent Eligibility Criteria (as of March 1<sup>st</sup>, 2023)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>As long as the framework remains unchanged.</li></ul>

## CONTENTS

Scope of work .....	3
CADENT BUSINESS OVERVIEW .....	3
ASSESSMENT SUMMARY .....	4
SPO ASSESSMENT.....	5
PART I: ALIGNMENT WITH ICMA GREEN BOND PRINCIPLES AND LMA GREEN LOAN PRINCIPLES ....	5
PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE .....	7
CONTRIBUTION OF THE GREEN FINANCE INSTRUMENTS TO THE UN SDGs .....	7
PART III: ALIGNMENT OF THE SELECTION CRITERIA WITH THE EU TAXONOMY CLIMATE DELEGATED ACTS .....	10
PART IV: SUSTAINABLE FINANCE INSTRUMENTS LINK TO CADENT’S SUSTAINABILITY STRATEGY... 13	
A. CADENT’S BUSINESS EXPOSURE TO ESG RISKS.....	13
B. CONSISTENCY OF SUSTAINABLE FINANCE INSTRUMENTS WITH CADENT’S SUSTAINABILITY STRATEGY.....	13
ANNEX 1: Methodology .....	18
ANNEX 3: Quality management processes .....	19
About this SPO .....	20

## Scope of work

Cadent Gas Ltd. (“Cadent”, “the issuer”, or “the company”) commissioned ISS Corporate Solutions (ICS) to assist with its Sustainable Finance Instruments by assessing four core elements to determine the sustainability quality of the instrument:

1. Cadent’s Green Finance Framework (as of March 1<sup>st</sup>, 2023) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP) and the Loan Market Association’s (LMA) Green Loan Principles (GLP).
2. The Eligibility Criteria – whether the nominated project categories contribute positively to the UN SDGs and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. The alignment with the EU Taxonomy on a best-efforts basis<sup>1</sup> – whether the nominated project categories are aligned with the EU Taxonomy Technical Screening Criteria (including the Climate Change Mitigation Criteria and Do No Significant Harm Criteria) and Minimum Social Safeguards requirements as included in the EU Taxonomy Climate Delegated Act (June 2021)<sup>2</sup>.
4. Sustainable Finance Instruments link to Cadent’s sustainability strategy – drawing on Cadent’s overall sustainability profile and issuance-specific Use of Proceeds categories.

## CADENT BUSINESS OVERVIEW

Cadent Gas Ltd. (Cadent Gas) is involved in the distribution of natural gas in the United Kingdom. It transports gas through main and branching pipelines. It is also engaged in the maintenance, repair, and replacement of gas pipes. The company’s network is stretched throughout the North-West, West Midlands, East Midlands, South Yorkshire, East of England, and North London. Cadent brings gas to almost 11 million homes and businesses in the UK.

It is classified in the Gas and Electricity Network Operators industry, as per ISS ESG’s sector classification.

<sup>1</sup> Whilst the Final Delegated Act for Mitigation and Adaptation were published in June 2021, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage the alignment with the EU Taxonomy have been evaluated on a “best efforts basis”.

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139>

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>3</sup>
<b>Part 1:</b> <b>Alignment with GBP and GLP</b>	The issuer has defined a formal concept for its Sustainable Finance Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green Bond Principles (GBP) and LMA Green Loan Principles (GLP).	<b>Aligned</b>
<b>Part 2:</b> <b>Sustainability quality of the Selection Criteria</b>	The Sustainable Finance Instruments will (re-)finance the eligible asset category: Transmission and distribution networks for renewable and low-carbon gases.  This use of proceeds categories has a significant contribution to SDGs 13 'Climate action'.  This use of proceed category also improves the company's operational impacts and mitigates potential negative externalities of the issuer's sector on SDGs 7 'Affordable and clean energy' and SDG 13 'Climate action'.	<b>Positive</b>
<b>Part 3:</b> <b>Alignment with EU Taxonomy</b>	The alignment of Cadent's project characteristics, due diligence processes and policies have been assessed against the requirements of the EU Taxonomy (Climate Delegated Act of June 2021), on a best-efforts basis <sup>4</sup> . The nominated project categories are considered to be: <ul style="list-style-type: none"> <li>• Aligned with the Climate Change Mitigation Criteria</li> <li>• Aligned with the Do No Significant Harm Criteria</li> <li>• Aligned with the Minimum Social Safeguards requirements</li> </ul>	
<b>Part 4:</b> <b>Sustainable Finance Instruments link to issuer's sustainability strategy</b>	The key sustainability objectives and the rationale for issuing Sustainable Finance Instruments are clearly described by the issuer. The project categories financed are in line with the sustainability objectives of the issuer.	<b>Consistent with issuer's sustainability strategy</b>

<sup>3</sup> The evaluation is based on the Cadent's Green Finance Framework (as of March 1<sup>st</sup>, 2023), on the analysed selection criteria as received, and on public information.

<sup>4</sup> Whilst the Final Delegated Act for Mitigation and Adaptation were published in June 2021, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage the alignment with the EU Taxonomy has been evaluated on a "best efforts basis".

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH ICMA GREEN BOND PRINCIPLES AND LMA GREEN LOAN PRINCIPLES

This section evaluates the alignment of the Cadent’s Green Finance Framework (as of March 1<sup>st</sup>, 2023 with the ICMA Green Bond Principles (GBP) and LMA Green Loan Principles (GLP).

GBP/GLP	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by Cadent’s Green Finance Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The issuer’s green category aligns with the project categories as proposed by the GBP and GLP. The criteria are defined in a clear and transparent manner. Environmental benefits are described and quantified.</p> <p>The issuer defines a look-back period of 3 years.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by Cadent’s Green Finance Framework</p> <p>is <b>aligned</b> with the GBP and GLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the issuer.</p> <p>The issuer involves various stakeholders in this process, in line with best market practice.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds proposed by Cadent’s Green Finance Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner and attested in a formal internal process. Moreover, the issuer</p>

		discloses the temporary investment instruments for unallocated proceeds.
<b>4. Reporting</b>	✓	<p>The allocation and impact reporting proposed by Cadent’s Green Finance Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. Cadent explains the level of expected reporting and the type of information that will be reported. Moreover, the issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>The issuer is transparent on the level of impact reporting and the information reported in the impact report, in line with best market practice.</p>

## PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

### CONTRIBUTION OF THE GREEN FINANCE INSTRUMENTS TO THE UN SDGs

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.


#### 1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
------------------------------------	--------------------------------	--------------------------	---------------------------------	-------------------------------------

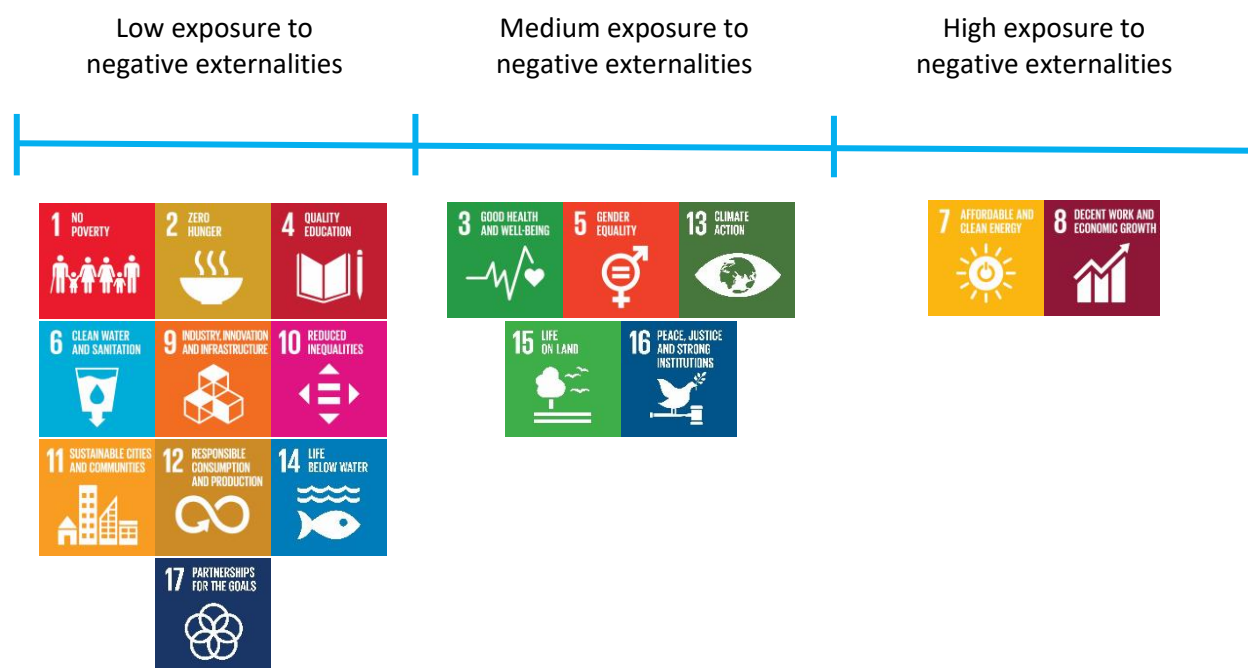
Each of the Green Finance Instruments' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Construction or operation of transmission and distribution networks for renewable and low-carbon gases</b>	<b>Significant Contribution</b>	

**2. Improvements of operational performance (processes)**

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the issuer.





According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities<sup>5</sup> in the Gas & Electricity Network Operators (to which Cadent belongs) are the following:



<sup>5</sup> Please, note that the impact of the issuer’s products and services resulting from operations and processes is displayed in section 4 of the SPO.



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.




USE OF PROCEEDS (Processes)	OPERATIONAL IMPACT IMPROVEMENT <sup>6</sup>	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Retrofitting of gas transmission and distribution networks</b></p> <p><i>Any activity that enables the increase of the blend of hydrogen or other low carbon gasses in the gas system</i></p>	✓	
<p><b>Conversion/repurposing of existing natural gas networks</b></p> <p><i>To 100% hydrogen</i></p>	✓	 
<p><b>Leak detection and repair</b></p> <p><i>For existing gas pipelines and other network elements to reduce methane leakage</i></p>	✓	

<sup>6</sup> The issuer has aligned all of its selection criteria with the technical screening criteria for a substantial contribution to Climate Change Mitigation of the EU Taxonomy Delegated Act (June 2021).

## PART III: ALIGNMENT OF THE SELECTION CRITERIA WITH THE EU TAXONOMY CLIMATE DELEGATED ACTS

The alignment of Cadent’s project characteristics, due diligence processes and policies for the nominated Use of Proceed project category have been assessed with the relevant Climate Change Mitigation, Do Not Significant Harm Criteria (DNSH) and Minimum Social Safeguards requirements of the EU Taxonomy Climate Delegated Act<sup>7</sup> (June 2021), based on information provided by Cadent. Where Cadent’s project characteristics, due diligence processes and policies meet the EU Taxonomy Criteria requirements, a tick is shown in the table below. Cadent’s project selection criteria overlap with the following economic activity in the EU Taxonomy<sup>8</sup>:

### 4.14 - Transmission and distribution networks for renewable and low-carbon gases

PROJECT CHARACTERISTICS AND SELECTION PROCESSES <sup>9</sup>	ALIGNMENT WITH THE EU TAXONOMY
<b>1. SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA</b>	
<p>Cadent confirms that the eligible investments it has identified will include:</p> <p>(1) retrofitting gas transmission and distribution networks to enable 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,</p> <p>(2) leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.</p>	
<b>2. CLIMATE CHANGE ADAPTATION – DO NO SIGNIFICANT HARM CRITERIA</b>	
<p>Cadent has confirmed that the physical climate risks that are material to its activity have been identified through its risk management system. In particular, the risk that Cadent ‘fails to respond to climate change and biodiversity’ has been identified one of the Group’s ‘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 Cadent with new climate related risks.<sup>10</sup></p>	
<b>3. WATER AND MARINE RESOURCES – DO NO SIGNIFICANT HARM CRITERIA</b>	
<p>Cadent’s infrastructure is located in England, where the EU Water Framework Directive was adopted and came into force in 2000. Locally, the WFD is transposed</p>	

<sup>7</sup>[https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

<sup>8</sup> This analysis only displays how the EU Taxonomy criteria are fulfilled/not fulfilled. For ease of reading, the original text of the EU Taxonomy criteria is not shown. Readers can recover the original criteria at the following link: [taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf\(europa.eu\)](https://taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf(europa.eu))

<sup>9</sup> This column is based on input provided by the issuer.

<sup>10</sup> Detailed risk assessment is reported in Cadent’s Climate Change Adaptation Report - <https://documents.cadentgas.com/view/159055732/>

into by the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017.	
<b>4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA</b>	
N/A: there are no EU Taxonomy criteria for the category	
<b>5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA</b>	
Cadent's Sustainable Procurement Standard includes reference to the EU Eco-Design Directive and its equivalent UK version. <sup>11</sup> As such, when procuring equipment with high energy consumption, Cadent covers the ESG aspects as per the directives and specify accordingly.	✓
<b>6. BIODIVERSITY AND ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA</b>	
Cadent's infrastructure is located in England, where Environmental Impact Assessment (EIA) or screening is completed in accordance with Directive 2011/92/EU.	✓

### Minimum Social Safeguards

The alignment of the project characteristics and selection processes in place with the EU Taxonomy Minimum Social Safeguards as described in Article 18 of the Taxonomy Regulation<sup>12</sup> have been assessed. The results of this assessment are applicable for every Project Category financed under this framework and are displayed below:

PROJECT CHARACTERISTICS AND SELECTION PROCESSES <sup>13</sup>	ALIGNMENT WITH THE EU TAXONOMY REQUIREMENT
<b>MSS REQUIREMENTS</b>	
Cadent's respect for human rights is embedded in its ethical code of conduct 'Always, Doing the Right Thing' as signed by its CEO & Chairman of Cadent's Board, as well as in the company's Supplier Code of Conduct. Cadent possesses other relevant policies, including Modern slavery, "Speaking up", Discrimination, Bullying and Harassment, and Grievance. These policies have been drafted by internal experts on the matter and approved, via structured governance mechanisms, at the most senior level. They stipulate the company's human rights expectations of personnel, suppliers, partners and other parties directly linked to its business. Those relevant to all stakeholders are made publicly available, whilst those related to specific groups such as employees or suppliers are embedded throughout the business via specific procedures/processes. This commitment is reinforced by ethical training which is mandatory for all employees.	

<sup>11</sup> BEIS made a commitment that the 'UK will uphold common high product standards wherever possible and appropriate, or even exceed them where it is in the UK's interest to do so' <https://www.gov.uk/guidance/placing-energy-related-products-on-the-uk-market>

<sup>12</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

<sup>13</sup> This column is based on input provided by the issuer.

The risk of adverse impacts on human rights are identified and assessed as part of Cadent’s enterprise risk management (“ERM”) process. This process has embedded within it the company’s risk appetite, which is reviewed by the Board on a regular basis. This risk assessment is undertaken by both line management, and subject matter experts (for example in Human Resources or the Ethics team) both of which are supported in this by a professional central risk team. This assessment of key human right issues relevant to Cadent and its direct operations is regularly updated as the business and operating context evolve.



In turn, Cadent has a range of controls to both prevent and detect adverse impacts. Preventative controls included for example, employee and supplier vetting and approval processed; restrictions on gifts and hospitality; segregation of duties particularly in relation to approvals. Any ethical concerns can be raised via a network of ethical champions across the organization; directly with a member of the Business Conduct Team; via the internal whistleblowing program or the independent specialist company who provide an external whistleblowing provision. Cadent also has established Trade Union forums, through which collective grievances can be raised for resolution. Any concerns raised are investigated by the Business Conduct team who are independent of the wider business and report to the Audit and Risk Committee.

Cadent’s grievance mechanism provides feedback on the effectiveness of the Company’s management of human right issues, directly from those affected. As noted, above actions arising from business conduct investigations are tracked on and compliance with them is tracked and reported at both Executive and Board level. Periodic surveys/audits are also conducted at the supplier level to ensure compliance.

## PART IV: SUSTAINABLE FINANCE INSTRUMENTS LINK TO CADENT'S SUSTAINABILITY STRATEGY

### A. CONSISTENCY OF SUSTAINABLE FINANCE INSTRUMENTS WITH CADENT'S SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the issuer*

The general strategy of Cadent is based on three elements, out of which one defines a holistic sustainability goal for the company, being: to shape the future of the energy system through the networks playing a key role in decarbonizing heat and transport and facilitating the most sustainable and least disruptive path to meeting the Paris Agreement.

The company recognizes its responsibility collaborate with stakeholders and aid in setting the right policy frameworks to ensure that low carbon gas plays an important role in the future energy system. Cadent aims to become a major player in delivering low-carbon fuels through their energy distribution networks.

As described in Cadent's 2018-2019 safety and sustainability report, the company follows the seven-step Energy Networks Association (ENA) Gas Decarbonization Pathways Project. The first four steps are short-term (to 2025) and include:

- Network investment: building a low-cost low carbon network
- Gas quality and safety: gas quality rules provide greater flexibility to reduce costs and carbon, while maintaining safe operation
- System enhancement: developing a smarted gas network operation
- Increasing low carbon: biogases increasing, blend up to 20% H2

Beyond 2025, the pathways include:

- Consumer options: flexible domestic appliances developed, pathway for deployment and future regulation
- Low carbon growth: biogases close to potential, safety case supports higher hydrogen blends and hydrogen is injected at a range of locations
- 100% low carbon: fully integrated approach with dedicated hydrogen networks in some areas and low carbon gas across the system

#### *Rationale for issuance*

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. Since Cadent aims to be a key player in the sustainable energy transition, its Green Finance Framework represents the company's response to these changes and as well as its goal to place sustainability as a driver of its financial and business strategy.

This Framework represents the next chapter in Cadent’s sustainable finance strategy, which has notably included Transition bonds since 2020. The proceeds of these bonds were destined for expenditures for mains replacement, and are compatible with what is described in the current framework according to Cadent.

**Opinion:** *The key sustainability objectives and the rationale for issuing Sustainable Finance Instruments are clearly described by the issuer.*

## B. CADENT’S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

### *ESG risks associated with the issuer’s industry*

The issuer is classified in the Gas & Electricity Network Operators, as per ISS ESG’s sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Worker safety and accident prevention
Protection of human rights and community outreach
Accessibility and reliability of energy supply
Promotion of a sustainable energy system
Environmentally safe operation of plants and infrastructure

### *ESG strengths and points of attention related to the issuer’s disclosures*

Leveraging ISS ESG’s Research, the following strengths and points of attention<sup>14</sup> have been identified:

STRENGTHS	POINTS OF ATTENTION
<p>The company has relevant disclosure regarding the implementation of the Health and Safety Management System and worker accident rates.</p> <p>The company is committed to maintaining its pipeline integrity and safety management. It has disclosed information on protection systems and replacement programs in publicly available documents.</p>	<p>There is no explicit disclosure on fatal accidents for three consecutive years and the Health and Safety management system is not certified to an international standard.</p> <p>The company has reported community outreach and consultations on safety issues. However, there is no disclosure on the regularity of such events and grievance mechanisms concerning safety issues.</p>
<p>The company has disclosed a clear position on climate change and commits to reducing its greenhouse gas emissions. It has reported greenhouse gas emission inventory, and reduction targets and reports of having a</p>	

<sup>14</sup> Please note that Cadent is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Cadent sector, based on publicly available information exclusively. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research’s methodology.

strategy for integrating gases with a lower carbon footprint such as hydrogen and biogas.	
---	--

### *Sustainability impact of products and services portfolio*

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

#### **Social impact of the product portfolio:**

The company is a distributor of natural gas in the UK. The company's product portfolio is operation of natural gas distribution systems, and it has no positive or negative contribution to achieving social sustainability objectives. Thus, the impact of the product portfolio of the company on social Sustainable Development Goals is considered neutral.

#### **Environmental impact of the product portfolio**

The company is a distributor of natural gas in the UK. The company's product portfolio is operation of natural gas distribution systems, and it has no positive or negative contribution to achieving environmental sustainability objectives. Thus, the impact of the product portfolio of the company on environmental Sustainable Development Goals is considered neutral.

### *Breaches of international norms and ESG controversies*

#### At issuer level

At the date of publication and leveraging ISS ESG Research, no severe controversy in which the issuer would be involved has been identified.

#### At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Gas and Electricity Network Operators industry are as follows: Failure to assess environmental impacts, failure to mitigate climate change impacts, and poor stakeholder consultation.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.



## DISCLAIMER

1. Validity of the Second Party Opinion (SPO): Valid as long as the framework remains unchanged.
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes SPOs which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide.
3. SPOs are based on data provided by the Issuer/Borrower and ISS does not warrant that the information presented in this SPO is complete, accurate or up to date. Neither ISS or ICS will have any liability in connection with the use of these SPOs, or any information provided therein.
4. Statements of opinion and value judgments given by ISS are not investment recommendations and do not in any way constitute a recommendation for the purchase or sale of any financial instrument or asset. In particular, the SPO is not an assessment of the economic profitability and creditworthiness of a financial instrument, but refers exclusively to the social and environmental criteria mentioned above.
5. This SPO, certain images, text and graphics contained therein, and the layout and company logo of ICS, ISS ESG, and ISS are the property of ISS and are protected under copyright and trademark law. Any use of such ISS property shall require the express prior written consent of ISS. The use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

The Issuer/Borrower that is the subject of this report may have purchased self-assessment tools and publications from ICS or ICS may have provided advisory or analytical services to the Issuer/Borrower. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any Issuer/Borrower's use of products and services from ICS by emailing [disclosure@issgovernance.com](mailto:disclosure@issgovernance.com).

This report has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While ISS exercised due care in compiling this report, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and scores provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

Deutsche Börse AG (“DB”) owns an approximate 80% stake in ISS HoldCo Inc., the holding company which wholly owns ISS. The remainder of ISS HoldCo Inc. is held by a combination of Genstar Capital (“Genstar”) and ISS management. ISS has formally adopted policies on non-interference and potential conflicts of interest related to DB, Genstar, and the board of directors of ISS HoldCo Inc. These policies are intended to establish appropriate standards and procedures to protect the integrity and independence of the research, recommendations, ratings and other analytical offerings produced by ISS and to safeguard the reputations of ISS and its owners. Further information regarding these policies is available at <https://www.issgovernance.com/compliance/due-diligence-materials>.

© 2022 | Institutional Shareholder Services and/or its affiliates

## ANNEX 1: Methodology

### EU Taxonomy

The assessment evaluates whether the details of the nominated projects and assets or project selection eligibility criteria included in the Green Finance Framework meet the criteria listed in relevant Activities in the EU Taxonomy Climate Delegated Act (June 2021).

The evaluation shows if Cadent's project categories are indicatively in line with the requirements listed in the EU Taxonomy Technical Annex.

The evaluation was carried out using information and documents provided on a confidential basis by Cadent (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the project category location, were drawn on to complement the information provided by the issuer.

### Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment "no or limited information is available" either indicates that no information was made available or that the information provided did not fulfil the requirements of the Green Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Cadent (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which Cadent's Green Finance Framework contributes to related SDGs has been identified.

## ANNEX 3: Quality management processes

### SCOPE

Cadent commissioned ICS to compile a Green Finance Framework SPO. The Second Party Opinion process includes verifying whether the Green Finance Framework aligns with the ICMA Green Bond Principles & LMA Green Loan Principles and to assess the sustainability credentials of its Green Finance Framework, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles (June 2021)
- LMA Green Loan Principles (February 2021)
- EU Taxonomy Climate Delegated Act (June 2021)

### ISSUER'S RESPONSIBILITY

Cadent's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Sustainable Finance Instruments to be issued by Cadent has been conducted based on ISS ESG methodology and in line with the ICMA Green Bond Principles & LMA Green Loan Principles.

The engagement with Cadent took place from June to October 2022.

### ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond /loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information about SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For Information about this Sustainable Finance Instruments SPO, contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

### Project team

#### Project lead

Louis Cottin  
Analyst  
ESG Consultant

#### Project support

Leontine Schijf  
Associate  
ESG Consultant

#### Project supervision

Marie-Bénédicte Beaudoin  
Associate Director  
Head of ISS ESG SPO Operations