

REPORT REVIEW

Cadent Green Finance Framework Allocation and Impact Report

Green Finance Framework Allocation and Impact Report of Cadent

26 March 2024

VERIFICATION PARAMETERS

Type(s) of reporting

- Green Finance Framework Allocation and Impact Report

Relevant standard(s)

- Harmonised Framework for Impact Reporting (HFIR), updated June 2023, as administered by International Capital Market Association (ICMA)
- Cadent's Green Finance Framework Allocation and Impact Report (as of March 13, 2024)

Scope of verification

- Cadent's Green Finance Framework (as of March 1, 2023)
- Bond(s) identification:

ISIN	Bond Maturity Date	Bond Issuance Amount
XS2596453014	March 14, 2034	300m GBP
XS2641164491	July 5, 2029	500m EUR
XS2743029923	January 11, 2036	315m GBP

Lifecycle

- Post-issuance verification

Validity

- As long as no changes are undertaken by the Issuer to its Green Finance Framework Allocation and Impact Report as of March 13, 2024

CONTENTS

SCOPE OF WORK.....	3
ASSESSMENT SUMMARY.....	4
REPORT REVIEW ASSESSMENT.....	6
PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE GREEN FINANCE FRAMEWORK	6
PART II: ASSESSMENT AGAINST THE ICMA HARMONIZED FRAMEWORK FOR IMPACT REPORTING.....	9
ANNEX 1: Methodology	17
ANNEX 2: Quality management processes	18
About this Report Review	19

SCOPE OF WORK

Cadent (“the Issuer”) commissioned ISS-Corporate to provide a Report Review¹ on its Green Finance Framework Allocation and Impact Report by assessing:

1. The alignment of the Cadent’s Green Finance Framework Allocation and Impact Report with the commitments set forth in Cadent’s Green Finance Framework (as of March 1, 2023)².
2. Cadent’s Green Finance Framework Allocation and Impact Report- benchmarked against Harmonised Framework for Impact Reporting (HFIR), updated June 2023, as administered by International Capital Market Association (ICMA).
3. The disclosure of proceeds allocation and soundness of reporting indicators – whether the impact metrics align with best market practices and are relevant to the Green Bond issued.

¹ A limited assurance is provided on the information presented in Cadent’s Green Finance Framework Allocation and Impact Report. A review of the post-issuance disclosure practices and of the structure of the financial transactions are conducted against ICMA’s Standards (Green Bond Principles) core principles and recommendations where applicable, and the criteria outlined in the underlying Framework. The assessment is solely based on the information provided in the bond documentations and the annual report. The Issuer [or Cadent] is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² The Framework was assessed as aligned with the Green Bond Principles as of March 1, 2023.

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1</p> <p>Alignment with the Issuer's commitments set forth in the Framework</p>	<p>The Issuer's Green Finance Framework Allocation and Impact Report meets the Issuer's commitments set forth in the Green Finance Framework. The proceeds have been used to (re)finance the retrofit of gas transmission and distribution networks in accordance with the eligibility criteria defined in the Framework.</p>	Aligned
<p>Part 2</p> <p>Alignment with the Harmonized Framework for Impact Reporting</p>	<p>The Green Finance Framework Allocation and Impact Report is in line with ICMA's Harmonized Framework for Impact Reporting (HFIR). The Issuer follows core principles and where applicable key recommendations.</p> <p>The Issuer provides transparency on the level of expected reporting as well as on the frequency, scope, and duration, aligned with best practices. Cadent tracks the proceeds and has clearly reported on the Green Bonds' use of proceeds as well as on the expected environmental impacts.</p>	Aligned
<p>Part 3</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>The allocation of the bonds' proceeds has been disclosed to its portfolio of eligible green assets, as proposed in the framework.</p> <p>The Issuer's Green Finance Framework Allocation and Impact Report has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies and granularity reflecting best market practices.</p>	Positive
<p>Limited Assurance Conclusion</p>	<p>Based on ISS-Corporate Limited Assurance methodology³, Part I, II, and the sampling check assessment results nothing has come to ISS-Corporate attention indicating that the information provided by Cadent in its Report does not present fairly, in all material respects, the</p>	

³ ISS-Corporate limited assurance procedure is based on common market practices and voluntary guidelines, such as ISAE 3000. It solely relies on the analysis of the information provided by the Cadent, which remains the responsibility of the Issuer, including data on the allocation of proceeds, project descriptions, sample portfolios, and impacts of projects. The External Review was conducted through desk-based analysis, and no on-site visits were conducted. However, limited assurance reviews have inherent limitations, and they may not be able to detect all instances of non-compliance in the matters being reviewed, including fraud, error, or non-compliance. We prepared this External Review for the Issuer, and we do not assume any responsibility for any reliance on this report by any persons or users other than the party for whom it was prepared.

allocation of the bond proceeds to eligible Green Projects as described in the Issuer's Bond Framework.

REPORT REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE GREEN FINANCE FRAMEWORK⁴

The following table evaluates the Annual Green Finance Framework Allocation and Impact Report against the commitments set forth in Cadent’s Framework, which are based on the core requirements of the Green Bond Principles as well as best market practices.

GREEN BOND PRINCIPLES	OPINION	ALIGNMENT WITH COMMITMENT
<p>1. Use of Proceeds</p>	<p>Cadent confirms to follow the Use of Proceeds’ description provided by Cadent’s Green Finance Framework. The report is in line with the initial commitments set in the Issuer’s Green Finance Framework: to finance the retrofit of gas transmission and distribution networks.</p> <p>The Issuer’s green project categories align with the project categories and are in accordance with the eligibility criteria set in the Issuer’s Green Finance Framework. Environmental benefits at project category level are described and quantified.</p> <p>The Issuer is transparent that 1047 million GBP has been allocated to the financing of the retrofit of gas transmissions and distribution networks.</p>	<p>✓</p>
<p>2. Process for Project Evaluation and Selection</p>	<p>Cadent confirms to follow the Process for Project Evaluation and Selection description provided by Cadent’s Green Finance Framework. The report is in line with the initial commitments set in Cadent’s Green Finance Framework: follow a transparent process for selection and evaluation of Eligible Assets, projects are selected by a working group comprising representatives from the Treasury Team, Corporate Social Responsibility Team and Project Team.</p>	<p>✓</p>

⁴ The Issuer’s Green Finance Framework was assessed as aligned with the GBP (as of June 2021 with June 2022 Appendix I) as of March 1, 2023.

	<p>The selected projects are defined and structured in a congruous manner. The Issuer ensures compliance with the Eligibility Criteria. ESG risks associated with the project categories are identified and managed through an appropriate process.</p> <p>The Issuer has defined clear responsibilities and is transparent on the parties responsible for project evaluation and selection.</p>	
<p>3. Management of Proceeds</p>	<p>Cadent confirms to follow the Process for Management of Proceeds description provided by Cadent’s Green Finance Framework. The report is in line with the initial commitments set in the Issuer’s Green Finance Framework: 100% (1047 million GBP) of the proceeds collected have been allocated to eligible projects with no exceptions, within 24 months after issuance.</p> <p>The proceeds collected are 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 discloses the temporary investment instruments for unallocated proceeds.</p>	<p>✓</p>
<p>4. Reporting</p>	<p>Cadent’s Green Finance Framework Allocation and Impact Report is coherent with the Reporting description provided by Cadent’s Green Finance Framework. The report is in line with the initial commitments set in the Issuer’s Green Finance Framework: Publish a report annually until the bond matures, publish the Annual Green Finance Framework Allocation and Impact Report of the net proceeds from issued green finance instruments on their website, the balance of unallocated proceeds (if any) and the proportion of new financing and refinancing.</p> <p>The sections “Allocation Reporting” and “Impact Reporting” of the Green Finance Framework Allocation and Impact Report comply with the pre-issuance commitment expressed in the Framework. The report is intended to be publicly available.</p>	<p>✓</p>

REPORT REVIEW

Green Finance Framework Allocation and Impact Report
Cadent

	<i>Further analysis of this section is available in Part III of this report.</i>	
5. Verification	ISS-Corporate has provided a Second Party Opinion (SPO) on Cadent's Green Finance Framework.	

PART II: ASSESSMENT AGAINST THE ICMA HARMONIZED FRAMEWORK FOR IMPACT REPORTING

Reporting is a core component of the Green Bond Principles and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of an annual reporting. Green bond Issuers are required to report on both the use of green bond proceeds, as well as the environmental impacts at least on an annual basis until full allocation or maturity of the bond. The Harmonized Framework for Impact Reporting (HFIR) has been chosen as benchmark for this analysis as it represents the most widely adopted standard.

The table below evaluates Cadent’s Green Finance Framework Allocation and Impact Report against ICMA’s HFIR.

CORE PRINCIPLES		
ICMA HFIR	GREEN FINANCE FRAMEWORK ALLOCATION AND IMPACT REPORT	ASSESSMENT
Reporting on an annual basis	Cadent has reported within one year from issuance and all the proceeds have been fully allocated. The report will be available on Cadent’s website.	✓
Illustrating the environmental impacts or outcomes	The assessment and measurement of the impacts generated by Cadent’s Green Bond(s) covered the following areas: a. Cumulative GHG emissions avoided (tCO ₂ e) b. Reduction in leakage (GWh/yr)	✓
ESG Risk Management	Cadent has respected its ESG management process in line with the Issuer’s framework.	✓
Allocation of proceeds - Transparency on the currency	All Green Bond-related cash-flows are reported in one currency (GBP) when allocating the green bond proceeds and reporting on the category	✓

RECOMMENDATIONS		
ICMA HFIR	GREEN FINANCE FRAMEWORK ALLOCATION AND IMPACT REPORT	ASSESSMENT
Define and disclose period and process for Project Evaluation and Selection	<p>The entirety of the proceeds have been allocated to Green Assets. No modification (removal or additional projects) of the portfolio is planned.</p> <p>The Issuer followed a transparent process for the selection and evaluation of Eligible Green Projects. Projects refinanced through the Green Bond(s) issued under the Issuer’s Green Finance Framework were evaluated and selected based on compliance with the Eligibility Criteria as laid out in the Framework.</p>	✓
Disclose total amount of proceeds allocated to eligible disbursements	A total of GBP 1,047 million has been raised through the Issuer’s Green Retail Bond(s) (XS2596453014, XS2641164491, and XS2743029923). 100% of the proceeds have been allocated to Green Assets.	✓
Formal internal process for the allocation of proceeds and to report on the allocation of proceeds	The Issuer followed a transparent process for the allocation of proceeds. The Issuer has designed a Working Group comprised of representatives from the Treasury Team, Corporate Social Responsibility Team, and Project Team who are responsible for the selection of investments that meet the eligibility criteria as outlined in the Issuer’s Green Finance Framework.	✓
Report at project or portfolio level	The Green Finance Framework Allocation and Impact Report includes the total amount of proceeds allocated per eligible project category. Reporting is done at the project category level.	✓
Describe the approach to impact reporting	The Issuer identifies the specific eligible projects and provides a breakdown of the impacts of the projects at a regional level of the United Kingdom.	✓
Report the estimated lifetime results and/or	The Issuer does not report on the average project lifetime results or economic life (in years) for the eligible project category.	-

project economic life (in years)		
Ex-post verification of specific projects	The Issuer does not have an ex-post verification planned and no ex-ante assumptions were made, as they are not applicable to the chosen eligibility criteria.	-
Report on at least a limited number of sector specific core indicators	The Issuer reports on the following indicators: Transmission and Distribution Networks for renewable and low carbon gases: <ul style="list-style-type: none"> ▪ Cumulative GHG emissions avoided (tCO₂e) ▪ Reduction in leakage (GWh/yr) 	✓
If there is no single commonly-used standard, Issuers may follow and disclose their own calculation methodologies	Cumulative GHG emissions (tCO ₂ e) avoided have been computed from the reduction in leakage (GWh/yr) obtained from the financed projects. The Issuer uses the Shrinkage Leakage Model (SLM) to conduct their impact calculations, which was built by the external party Advantica and whose methodology was agreed upon with the Office of Gas and Electricity Markets (Ofgem). ⁵ Distribution networks must review the methodology and application of the SLM annually but changes to it require prior approval from Ofgem.	✓
Disclosure on the conversion approach (if applicable)	The Issuer elects to convert units reported based on a global warming potential factor (GWP) of 25 ⁶ and includes appropriate disclosure of the conversion approach in the report.	✓
Projects with partial eligibility	The Issuer does not include projects with partial eligibility.	-
When the expected impacts of different project	The Issuer only reports on one project category with one eligibility criteria, so this is not applicable.	-

⁵ The Office of Gas and Electricity Markets, <https://www.ofgem.gov.uk/>

⁶ Note that the Greenhouse Gas Protocol reports the GWP of methane as 28.

components may not be reported separately, Issuers may use (and disclose) the attribution approach		
--	--	--

OPINION

The Issuer follows the Harmonized Framework for Impact Reporting’s core principles and key recommendations. The Issuer provides transparency on the level of expected reporting as well as on the frequency, scope, and duration, aligned with best practices. The Issuer reported on an annual basis and illustrated the environmental impacts of the portfolio of green projects. In addition, the Issuer disclosed the total amounts disbursed to the overall portfolio of eligible green assets in an associated currency.

PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

Use of Proceeds Allocations

Use of Proceeds allocation reporting is key to put the impacts into perspective with the number of investments allocated to the respective Use of Proceeds' category.

The Use of Proceeds allocation reporting occurred within one year from the issuance, after full allocation of the proceeds.

Proceeds allocated to eligible projects/assets

The proceeds' allocation is broken down at the project category level. The Issuer has provided details about the type of project included in the portfolio.

The allocation report section of the Green Finance Framework Allocation and Impact Report of Cadent aligns with best-market practices by providing information on (Forecasted spend of GBP 3.9 billion by end of 2026):

- The cumulative fund allocation (GBP 2.172bn) to the eligible project category.
- The percent of proceeds representing new spend (100%).
- The total amount of proceeds from the Green Bonds (GBP 1047m).

Impact Reporting Indicators

The table below presents an independent assessment of the Issuer’s report and disclosure on the output, outcome, and/or impact of projects/assets using impact indicators.

ELEMENT	ASSESSMENT
<p>Relevance</p>	<p>The impact indicator chosen by the Issuer for this bond is the following:</p> <ul style="list-style-type: none"> a) Cumulative GHG emissions avoided (tCO₂e) b) Reduction in leakage (GWh/yr) <p>These indicators are quantitative and material to the Use of Proceeds categories financed through this bond and in line with the Suggested Impact Reporting metrics by the ICMA Harmonized Framework for Impact Report. This aligns with best market practices.</p>
<p>Data sourcing and methodologies of quantitative assessment</p>	<p>The data is sourced by the Issuer and no ex-ante or ex-post assumptions are adopted by the Issuer due to the nature of the project category. The Issuer solely (re)finances the retrofitting of gas transmission and distribution networks (Repex) and the outcomes from the Repex investment are obtained using an Ofgem approved model.</p> <p>Cumulative GHG emissions avoided have been computed from the reduction in leakage obtained from the financed projects. The Issuer uses the Shrinkage Leakage Model (SLM) to conduct their impact calculations, which was built by the external party Advantica⁷ and whose methodology was agreed upon with Ofgem. Distribution networks must review the methodology and application of the SLM annually but changes to it require prior approval from Ofgem.</p>
<p>Baseline selection</p>	<p>The Issuer takes data from the previous year’s leakage model and transposes it to the current year’s leakage data. The Issuer proceeds to input actual data into the leakage model to capture the impact on leakage in the relevant year.</p>
<p>Scale and granularity</p>	<p>The impact data is presented at the Use of Proceed category level for the indicator(s).</p>

⁷ Now a part of the DNV Group: <https://www.dnv.co.uk/>

High-level mapping of the impact indicators with the UN Sustainable Development Goals

Based on the project categories financed and refinanced by the bonds as disclosed in the Issuer’s Green Finance Framework Allocation and Impact Report, the impact indicator(s) adopted by Cadent for its green finance instruments can be mapped to the following SDGs, according to ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer’s product or services on the UN SDGs.

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> ▪ Cumulative GHG emissions avoided (tCO₂e) ▪ Reduction in leakage (GWh/yr) 	

OPINION

The allocation of the bond’s proceeds has been disclosed, and the Green Finance Framework Allocation and Impact Report has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies and granularity reflecting best market practices. Besides, the impact indicators used align with best market practices using ICMA’s recommended metrics, in the HFIR.

DISCLAIMER

1. Validity of the External Review ("External Review"): Valid as long as no changes are undertaken by the Issuer to its Green Finance Framework Allocation and Impact Report as of March 13 2024.
2. ISS Corporate Solutions, Inc. ("ISS-Corporate"), a wholly-owned subsidiary of Institutional Shareholder Services Inc. ("ISS"), sells, prepares, and issues External Reviews, on the basis of ISS-Corporate's proprietary methodology. In doing so, ISS-Corporate adheres to standardized procedures designed to ensure consistent quality.
3. External Reviews are based on data provided to ISS-Corporate by the contracting party and may change in the future, depending in part on the development of market benchmarks and ISS-Corporate's methodology. ISS-Corporate does not warrant that the information presented in this External Review is complete, accurate or up to date. ISS-Corporate will not have any liability in connection with the use of these External Reviews, or any information provided therein. If the External review is provided in English and other languages, in case of conflicts, the English version shall prevail.
4. Statements of opinion and value judgments given by ISS-Corporate 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 External Review is not an assessment of the economic profitability and creditworthiness of a financial instrument, but refers exclusively to social and environmental criteria.
5. This External Review, certain images, text, and graphics contained therein, and the layout and company logo of ISS-Corporate, are the property of ISS-Corporate (or its licensors) and are protected under copyright and trademark law. Any use of such ISS-Corporate property requires the express prior written consent of ISS-Corporate. The use shall be deemed to refer in particular to the copying or duplication of the External Review wholly or in part, the distribution of the External Review, either free of charge or against payment, or the exploitation of this External Review in any other conceivable manner.

© 2024 | ISS Corporate Solutions, Inc.

ANNEX 1: Methodology

Review of the post-issuance Reports

The ISS-Corporate Report Review provides an assessment of labelled transactions reporting against international standards using ISS-Corporate proprietary methodology.

High-level mapping 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 based on ICMA's Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, the extent to which the Issuers reporting and project categories contribute to related SDGs is identified.

ANNEX 2: Quality management processes

ISSUER'S RESPONSIBILITY

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

- Green Finance Framework Allocation and Impact Report
- Green Finance Framework
- Proceeds Allocation
- Reporting Impact Indicators
- Methodologies, and assumptions for data gathering and calculation
- ESG Risk Management

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is part, 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 Report Review has been conducted by following the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews, and its methodology, considering, when relevant, the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The engagement with Cadent took place in March 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group 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 Report Review

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess the alignment of the Issuer's report with external principles (e.g., ICMA Green / Social Bond Principles, ICMA Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyze the alignment of the Issuer's Report against the commitments in the respective Framework, and analyze the disclosure of proceeds allocation, the data source, and calculation methodologies of the reporting indicators against best market practices. Following these guidelines, we draw up an independent Report Review so investors are as well as informed as possible about the proceeds allocation and the impact of the sustainability finance instrument(s).

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

For information on Report Review services, contact: SPOsales@isscorporatesolutions.com

Project team

Project lead

Marco Casanova Escribano
Analyst
Sustainable Finance Research

Project support

Masaki Kadowaki
Associate
Sustainable Finance Research

Project supervision

Marie-Bénédicte Beaudoin
Associate Director
Head of Sustainable Finance
Research