

SECOND PARTY OPINION (SPO)

Sustainability Quality of the issuer and Sustainability-Linked Instruments

Kinetik Holdings LP
16 May 2022

VERIFICATION PARAMETERS

Types of instruments contemplated	Sustainability-Linked Instruments
Relevant standards	Sustainability-Linked Bond Principles, as administered by the ICMA (June 2020) Sustainability-Linked Loan Principles, as administered by the LMA and LSTA (May 2021)
Scope of verification	Kinetik's Sustainability-Linked Financing Framework (as of May 9, 2022)
Lifecycle	Pre-issuance verification
Validity	As long as there are no substantial changes to Kinetik's Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance Targets

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SCOPE OF WORK

In October 2021, Altus Midstream LP announced that it will combine with privately-owned BCP Raptor Holdco LP. The following assessment will refer to the pro forma company, Kinetik Holdings LP (“Kinetik” or “the issuer” or “the company”). Kinetik commissioned ISS ESG to assist with its Sustainability-Linked Instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. The sustainability credibility of the Key Performance Indicators (KPIs) selected and Sustainability Performance Targets (SPTs) calibrated – whether the KPIs selected are core, relevant and material to the issuer’s business model and industry, and whether the associated targets are ambitious.
2. Kinetik’s Sustainability-Linked Financing Framework (as of May 9, 2022) and structural components of the transaction – benchmarked against Sustainability-Linked Bond Principles (SLBP), administered by the International Capital Market Association (ICMA) and Sustainability-Linked Loan Principles (SLLP), administered by the Loan Market Association (LMA) and Loan Syndications and Trading Association (LSTA).
3. Sustainability-Linked Instrument’s link to Kinetik’s sustainability strategy – drawing on Kinetik’s overall sustainability profile and related objectives.

KINETIK BUSINESS OVERVIEW

Kinetik Holdings LP (Kinetik) is a midstream energy business providing gathering, transportation, compression, processing, transmission assets and treating services for companies that produce natural gas, natural gas liquids (NGLs), crude oil, and water. Kinetik works with its producer customers to gather and process oil and natural gas products and deliver them for a range of uses – powering industrial operations, providing heating and cooling for homes and businesses, and generating electricity to power homes, factories and organizations of all types.

ISS ESG SPO ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY ¹
Part 1.A:	
KPI selection and SPT calibration	<p>KPI selection: Core and relevant to issuer’s business model and consistent with its sustainability profile. Material to the company’s direct operations but not material to the whole Corporate Value Chain as the KPI does not include Scope 3 emissions².</p>
KPI 1 “Greenhouse gas emissions intensity (Scope 1 and Scope 2)”	<p>Sustainability Performance Target (SPT) calibration³:</p> <ul style="list-style-type: none"> • Limited information available for comparison against past performance • Ambitious against industry peers⁴ • Currently not benchmarkable against an international standard
SPT 1 “Reduce greenhouse gas emissions intensity (Scope 1 and Scope 2) by 35% by 2030 relative to the 2021 baseline”	<p>ISS ESG finds that the KPI selected is core, relevant and moderately material to the issuer’s business model and consistent with its sustainability strategy. The KPI covers approximately 100% of Kinetik’s total Scope 1 and 2 CO₂, methane and NO₂ emissions, while Scope 3 emissions are not estimated and therefore not included. It is appropriately quantifiable, externally verifiable and benchmarkable with limitations as the SBTi methodology for the Oil & Gas sector is still under development. In addition, the baseline year and historical data have not been verified at the time of issuance, but the issuer plans to obtain a limited level of assurance for 2019, 2020 and 2021 (baseline) post issuance.</p> <p>ISS ESG finds that the SPT calibrated is ambitious against peers as it is part of the top 40% in terms of having an existing climate-related target⁵. It is also worth noting that Kinetik has the largest intensity reduction target of the peer group. However, there are limitations not attributable to the issuer as some peers have not set or publicly disclose GHG emissions intensity targets. Moreover, there is limited evidence available to assess the level of ambition against past performance as the baseline and historical data haven’t been verified at the time of issuance. Furthermore, there has been a material change in perimeter due to significant investments made by Kinetik to improve, according to the issuer, the capability of its system, which makes the comparability of each historical year challenging. There are limitations to determining whether the SPT is in line with the Paris Climate Goals (as the SBTi methodology for the Oil & Gas sector is still under development). The SPT set under this Framework is an interim target to a longer-term, 2050 carbon neutrality objective. As of the date of this report, Kinetik is still working on defining a structured action plan to reach net zero by 2050. Aside from that, the target is set in a clear timeline and supported by a strategy and action plan disclosed in the Framework.</p>

¹ ISS ESG’s evaluation is based on the engagement conducted from January to May on Kinetik’s Sustainability-Linked Financing Framework (as of May 9, 2022) and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on February 12, 2022).

² This is based on the requirement in the SBTi general methodology criteria, for a Scope 3 target for the use of sold products to be included for all companies involved in the sale or distribution of natural gas and/or other fossil fuels, irrespective of the share of these emissions compared to the total Scope 1, 2, and 3 emissions of the company. C4 p.5 <https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf>

³ ISS ESG analysis provided on the 2030 target. However, as the SPT 1 ambition level is limited to comparison to peers (it is part of the top 40% in terms of having an existing climate-related target within the ISS ESG universe), the assessment remains valid for both interim and long-term observation dates.

⁴ Assessment based on limited evidence, reference section 1.2.

⁵ Kinetik is one of eight companies in the peer group with a climate-related target.

<p>Part 1.B:</p> <p>KPI selection and SPT calibration</p>	<p>KPI selection: Core and relevant to issuer’s business model and consistent with its sustainability profile. Moderately material if integrated with KPI 1 on the same financial instrument, in which case KPI 1 and KPI 2 are considered material to the company’s direct operations but not material to the whole Corporate Value Chain as the KPI does not include Scope 3 emissions. If used individually on a financial instrument as a stand-alone KPI, the KPI is partially material to the issuer’s business model and sustainability profile.</p>
<p>KPI 2</p> <p>“Methane emissions intensity”</p> <p>SPT 2</p>	<p>Sustainability performance target (SPT) calibration⁶:</p> <ul style="list-style-type: none"> • Limited information available for comparison against past performance • Ambitious against industry peers • Limited evidence available to assess level of ambition against international targets
<p>“Reduce methane emissions intensity by 30% by 2030 relative to the 2021 baseline”</p>	<p>ISS ESG finds that the KPI selected is core and relevant to the issuer’s business model and consistent with its sustainability strategy. If used individually on a financial instrument as a standalone KPI, the KPI is partially material to the company’s direct operations because methane emissions accounts for c. 4.5% of total Scope 1 and Scope 2 CO₂e emissions. When integrated with KPI 1 on the same financial instrument, then together, both KPI 1 and 2 are material to the issuer’s direct operations, as it covers approximately 100% of Kinetik’s total Scope 1 and 2 CO₂, methane and NO₂ emissions. Together, KPI 1 and 2 would be material to the direct operations and not to the issuer’s whole Corporate Value Chain, as Scope 3 emissions are not estimated and therefore not included. It is appropriately quantifiable, externally verifiable and benchmarkable with limitations as the baseline year and historical data have not been verified at the time of issuance, but the issuer plans to obtain a limited level of assurance for 2019, 2020 and 2021 (baseline) post issuance. The KPI covers approximately 100% of Kinetik’s total Scope 1 and 2 methane emissions.</p> <p>ISS ESG finds that the SPT calibrated is ambitious against peers as (i) the 2021 baseline is already much lower than the 2025 Methane Intensity target set by the ONE Future Coalition for the Gathering and Boost sector (Kinetik’s 2021 methane intensity is already beating the 2025 One future target by 44%)⁷ and as (ii) the company goes beyond this sectorial initiative by targeting a 30% methane intensity reduction by 2030 (vs. a 2021 baseline). Moreover, it is part of the top 40% in terms of having an existing climate-related target within the ISS ESG universe⁸. However, there is limited evidence available to assess the level of ambition against past performance as the baseline and historical data haven’t been verified at the time of issuance and as there has been a material change in perimeter due to significant investments made by Kinetik to improve, according to the issuer, the capability of its system, which makes the comparability of each historical year challenging. There are limitations ensuring the target aligns with the Paris Climate Goals or Global Methane Pledge. Apart from these constraints, the target is set in a clear timeline and supported by a strategy and action plan.</p>

⁶ ISS ESG analysis provided on the 2030 target. However, as the SPT 2 ambition level is limited to comparison to peers (it is part of the top 40% in terms of having an existing climate-related target within the ISS ESG universe), the assessment remains valid for both interim and long-term observation dates.

⁷ The ONE Future Coalition is a group of more than 50 natural gas companies working together to voluntarily reduce methane emissions across the natural gas value chain to 1% (or less) by 2025 and is comprised of some of the largest natural gas production, gathering & boosting, processing, transmission & storage and distribution companies in the U.S. and represents more than 20% of the U.S. natural gas value chain.

⁸ Kinetik is one of eight companies in the peer group with a climate-related target.

<p>Part 1.C:</p> <p>KPI selection and SPT calibration</p> <p>KPI 3</p>	<p>KPI selection: Relevant, core and material to issuer’s business model and consistent with its sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:⁹</p> <ul style="list-style-type: none"> • Ambitious against issuer’s past performance, with limited evidence • Ambitious against peers¹⁰ • Limited evidence available for comparison against international targets
<p>“Female representation in Corporate Officer positions (VP level and above)”</p> <p>SPT 3</p> <p>“Increase female representation in Corporate Officer positions to 20% by year end 2026 relative to the 2021 baseline”</p>	<p>The KPI selected is relevant, core and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, and benchmarkable with limitations as the baseline and historical data have not been verified at the time of issuance, but the issuer plans to obtain a limited level of assurance for 2019, 2020 and 2021 (baseline) post issuance. This KPI covers 5.3% of the total workforce of the pro forma structure as of 2021.</p> <p>ISS ESG finds that the SPT calibrated by Kinetik is ambitious against past performance based on limited evidence as the baseline and historical data have not been verified at the time of issuance. In addition, the SPT is ambitious against peers as it is the only company (in the peer group provided by the company) to have set a target on increasing female representation in Corporate Officer positions, however, there are limitations not attributable to the issuer as peers have not set or publicly disclosed Corporate Officer targets. Furthermore, there is limited evidence available to assess the level of ambition against regional/international targets. Aside from these constraints, the target is set in a clear timeline and support by a strategy and action plan.</p>

<p>Part 2:</p> <p>Alignment with the SLBP and SLLP</p>	<p>Aligned with ICMA Sustainability-Linked Bond Principles (SLBP) and Sustainability-Linked Loan Principles (SLLP), except SPT ambition levels are limited to comparison to peers for SPT 1 and SPT 2.</p> <p>The issuer has defined a formal Framework for its Sustainability-Linked Instruments regarding the selection of Key Performance Indicators (KPIs), calibration of Sustainability Performance Targets (SPTs), Sustainability-Linked Instrument characteristics, reporting and verification. The Framework is in line with the ICMA Sustainability-Linked Bond Principles (SLBP) and LMA and LSTA’s Sustainability-Linked Loan Principles (SLLP), except SPT ambition levels are limited to peers for SPTs 1 and 2.</p> <p>The financial characteristics of any security issued under this Framework, including a description of the selected KPIs, SPTs, step-up margin amount or the premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction.</p>
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⁹ ISS ESG analysis provided on the last-mentioned target observation date (December 31, 2026).

¹⁰ Assessment based on limited evidence, reference section 1.6.

Consistent with issuer's sustainability strategy

Part 3:

According to the ISS ESG Corporate Rating published on 12.02.2022, the issuer is classified as having 'medium' sustainability performance. The issuer is not exposed to any 'severe' or 'very severe' controversies.

Link to issuer's sustainability strategy

The KPIs selected by the issuer are related to the environmental risks and impacts along the value and climate protection, as well as gender diversity. These topics are defined as key priorities for the issuer in terms of sustainability strategy and ISS ESG finds the environmental risks and impact along the value chain, climate protection and gender diversity are material sustainability topics for the issuer. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the clear link between the KPIs and key sustainability priorities of the issuer.

ISS ESG SPO ASSESSMENT

PART 1.A: KPI SELECTION & SPT CALIBRATION

KPI 1 'Greenhouse Gas Emissions Intensity (Scope 1 and Scope 2)'

1.1. KPI selected by Kinetik

FROM ISSUER'S FRAMEWORK

- **KPI 1:** Greenhouse gas emissions intensity measured as metric tons of GHG (Scope 1 and Scope 2) emitted from operating facilities and estimated emissions caused by purchasing power from the grid per thousand standard cubic feet of gas gathered
- **SPT 1:** Reduce greenhouse gas emissions intensity by 35% by 2030 relative to the 2021 baseline
- **Long-term goal:** Net zero Scope 1 and 2 GHG emissions by 2050
- **Rationale:** To support achievement of the Paris Agreement and keep global warming to below 2 degrees Celsius, while pursuing efforts to limit warming to 1.5 degrees Celsius, emissions reductions must be addressed globally. Furthermore, Kinetik recognizes the importance of addressing climate change and GHG emissions and actively manages the climate impact of its business. In 2021, Kinetik announced a goal to reach net zero in their Scope 1 and 2 GHG emissions by 2050 and KPI / SPT 1 directly supports this ambitious goal and the broader global transition to a low carbon future.
- **Relevant methodology and benchmark reference:** Calculated using the methodologies outlined by the U.S. Environmental Protection Agency for all operated natural gas assets for the full calendar year. Measured by total Scope 1 and 2 emissions in metrics tons of CO₂ equivalent (CO₂e): CO₂, CH₄, N₂O. Scope 2 emissions are calculated using average U.S. Environmental Protection Agency's Emissions & Generation Resource Integrated Database (eGRID) factors (for U.S. facilities).
- **Baseline:** 0.00376 GHG emissions intensity (mtCO₂e/Mscf)
- **Baseline year:** 2021
- **2030 goal:** 0.00244 GHG emissions intensity (mtCO₂e/Mscf)
- **Scope:** Covering 100% of Kinetik's direct operations as represented by Scope 1 and 2 emissions calculated using the approach outlined below
 - Scope 1: direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by the organization (e.g., emissions associated with fuel combustion in engines, heaters, vehicles)
 - Scope 2: indirect GHG emissions from purchased electricity consumption

As the Environmental Protection Agency (EPA) has not yet opined on how midstream operators are to calculate Scope 3 emissions, Kinetik believes including Scope 3 in this Framework is premature. The company's team continues to evaluate the processes for estimating Scope 3 emissions and as such, Kinetik may look to incorporate into the KPI in future iterations of this Framework when the data becomes available.

Materiality and relevance

“Environmental risks and impacts along the value chain” and “climate protection and contribution to the energy transition” are considered key ESG issues faced by the Oil and Gas Storage and Pipelines industry according to key ESG standards¹¹ for reporting and ISS ESG assessment.

As an operator of pipelines and processing facilities, Kinetik has historically generated most of its GHG emissions primarily through natural gas combustion while operating compressor engines and process heaters.¹² GHGs such as methane and carbon dioxide also escape into the atmosphere during routine operational procedures such as venting and flaring.¹³ Therefore, Kinetik focuses on GHG emissions to reduce its overall environmental impact from operations.

ISS ESG finds the GHG Emissions Intensity (Scope 1 and Scope 2) KPI selected by the issuer to be:

- **Relevant** to Kinetik’s business as companies in the Oil and Gas Storage and Pipeline industry are highly GHG-emitting and exposed to risks related to this KPI, including the environmental risks and impacts of operations along the value chain and climate protection.
- **Core** to the issuer’s business as the company’s key processes will be affected by the actions implemented to reach the target associated with the KPI, including improvements to the company’s operational efficiency, of which the company’s migration to electric compression is the most impactful in reducing CO₂ emissions. To reach the SPT, the company plans to:
 - Procure 100% renewable electricity across all operations. The pro forma company plans to focus on its Scope 2 emissions by adopting BCP’s existing commitment to source 100% of its electricity entirely from renewable resources;
 - Migrate the company’s vehicle fleet towards electric vehicles over the next several years;
 - Implement operational improvements for pneumatic devices (e.g., electric air compression);
 - Implement operational efficiency improvements (e.g., installation of variable frequency drive motors).
- **Moderately Material** to Kinetik from an ESG perspective.
 - The KPI selected is material to the direct operations and activities of the issuer as it covers approximately 100% of the total Scope 1 and 2 GHG emissions;
 - However, the KPI is not material to the whole Corporate Value Chain of Kinetik per ISS ESG’s methodology as Scope 3 emissions are not estimated and therefore not included in the scope of the KPI.

¹¹ Key ESG standards include SASB and TCFD, among others.

¹² EagleClaw, 2020, ESG report, <https://www.eagleclawmidstream.com>

¹³ IEA, November 2021, Methane Emissions from Oil and Gas, <https://www.iea.org/reports/methane-emissions-from-oil-and-gas>

Consistency with overall company's sustainability strategy

According to Kinetik, the delivery of natural gas, natural gas liquids and crude oil is essential to meeting the world's current energy needs. Moreover, the company believes that natural gas could play an integral role in transitioning the economy to lower-carbon sources.

In 2021, the issuer announced its goal to reach net zero in its Scope 1 and 2 greenhouse gas emissions by 2050; underscoring its commitment to contribute to a low carbon future. In addition to the issuer's net zero target, the company introduced a series of steps to achieve its long-term environmental goals, including:

- 1) 100% use of renewable electricity across all operations beginning in 2021;
- 2) Expanded use of electric compression across the company's system where feasible. Since 2020, Kinetik procured 15,000 new horsepower electric motors run on variable frequency drives (VFDs) to compress residue gas, which conserve energy by only providing the amperage for the load required;
- 3) Migrating a significant portion of the company's vehicle fleet to electric vehicles over the next several years.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and Perimeter:** This KPI covers approximately 100% of the total Scope 1 and 2 GHG emissions. However, the KPI does not cover Scope 3 emissions which haven't been estimated at the time of issuance.
- **Quantifiable/Externally Verifiable:** The KPI selected is quantifiable and externally verifiable thanks to the various standards and protocols mentioned below. The company utilizes a widespread calculation methodology for Midstream companies provided by the U.S. Environmental Protection Agency (EPA) for the calculation and measurement of Scope 1 and 2 GHG emissions. The company's GHG emissions intensity is reported at an aggregate level, which is defined as metric tons of GHG emitted from operating facilities and estimated emissions caused by purchasing power from the grid per thousand standard cubic feet of total gas gathered. However, it's important to note the denominator may vary based on company reporting (e.g., barrel of oil equivalent (BOE)).
- **Externally verified:** Kinetik's baseline and historical figures have not yet been verified, but the issuer plans to obtain a limited level of assurance on its GHG emissions intensity KPI for the years 2019, 2020 and 2021 (baseline).¹⁴ Furthermore, the issuer commits to get a third-party verification of its KPI annually post issuance.
- **Benchmarkable:** The company follows a calculation methodology provided by the U.S. Environmental Protection Agency for measuring and reporting Scope 1 and 2 emissions, as well as Generation Resource Integrated Database (eGRID) factors for Scope 2 emissions

¹⁴ Kinetik is committed to obtaining baseline verification concurrent with, or prior to, the first fiscal year measurement period for KPI 1 and KPI 2 (FY 2022 performance).

(specific to U.S. facilities). Therefore, the KPI can be benchmarked against the relevant data reported by other industry peers with certain limitations as the calculation for emissions intensity may differ. Furthermore, the KPI is not benchmarkable against international standards as the SBTi methodology for the Oil & Gas sector is still under development. Benchmarking of the SPT in relation with this KPI has been analyzed in section 1.2.

Opinion on KPI selection: ISS ESG finds that the KPI selected is core, relevant and moderately material to the issuer's business model and consistent with its sustainability strategy. The KPI covers approximately 100% of the total Scope 1 and 2 CO₂, methane and NO₂ emissions, while Scope 3 emissions are not estimated and therefore not included. It is appropriately quantifiable, externally verifiable and benchmarkable with limitations. In addition, the baseline year and historical data have not been verified at the time of issuance, but the issuer plans to obtain a limited level of assurance for 2019, 2020 and 2021 (baseline) post issuance.

1.2. Calibration of SPT

SPT set by the issuer

FROM ISSUER'S FRAMEWORK¹⁵

SPT 1: Reduce greenhouse gas emissions intensity by 35% by 2030 relative to the 2021 baseline

SPT Trigger: Failure to meet KPI targets would trigger an adjustment to the coupon by an amount specified in the transaction documentation payable from the first coupon payment date following the target observation date until maturity.¹⁶

SPT Observation Date(s): To be specified in the transaction documentation.¹⁷

2021 Baseline Intensity: 0.00376 GHG emissions intensity (mtCO₂e/Mscf)

Factors that support the achievement of the target:

- Procure 100% renewable electricity across all operations.
- Migrate company's vehicle fleet towards electric vehicles over the next several years.
- Implement operational improvements for pneumatic devices (e.g., electric air compression).
- Implement operational efficiency improvements (e.g., installation of variable frequency drive motors).

Risks to the target: The issuer has identified potential barriers that may arise limiting the ability to achieve the target. These barriers may include but are not limited to circumstances beyond its corporate control that may make performance commercially impractical, illegal or impossible. This may include impacts from natural disasters; supply chain disruptions; changes in the regulatory environment, including environmental, energy, tax and labor laws and regulations; and general changes in political, social, health, economic and business conditions.

¹⁵ This table is displayed by the issuer in its Sustainability-Linked Financing Framework and has been copied over in this report by ISS ESG for clarity.

¹⁶ The financial characteristics included in any sustainability-linked instrument may vary depending on the type of instrument, its maturity, date of issuance and other factors, which described in Section 2.3.

¹⁷ ISS ESG's assessment is only based on the 2030 target. However, as the SPT 1 ambition level is limited to comparison to peers (it is part of the top 40% in terms of having an existing climate-related target within the ISS ESG universe), the assessment remains valid for both interim and long-term observation dates.

Ambition

Against company's past performance

Indicator	2019	2020	2021 - Baseline	2026 - Target	2030 - Target	CAGR '19 - '21	CAGR '21 - '30
GHG emissions intensity (mtCO _{2e} /Mscf)	0.00628	0.00441	0.00376	0.00303	0.00244	-22.6%	-4.7%
YoY (%)		-29.8%	-14.8%				
Reduction from Baseline Year (%)				-19.4%	-35.0%		

Source: Kinetik as of 5/10/2022

The company's past performance has drastically decreased by -29.8% from 2019 to 2020 and by -14.8% from 2020 to 2021. Between 2019-2021, GHG emissions intensity decreased -40.2%, which equates to a compound annual growth rate (CAGR) of -22.6%. To achieve its 2030 goal, Kinetik's required compound annual growth rate, over the 2021- 2030 period is -4.7%, 18.0 percentage points lower than the compound annual growth rate from 2019-2021.

The SPT is less ambitious compared to the issuer's past performance from a quantitative perspective, however it's worth noting that Kinetik has already achieved significant reductions in GHG emissions from 2019-2021 due to significant investments to improve, according to the issuer, the capability of its system, which makes the comparability of each historical year challenging. However, reaching its goal will require additional CapEx for continued operational improvements.

In this context and compared to the baseline year, ISS ESG deems there is limited information to assess the level of ambition of the SPT against the issuer's past performance given significant investments that have led to a meaningful emissions reduction. Additionally, the baseline and historical performance haven't been verified at the time of issuance and therefore, the estimated values may differ from the final reported values.

Against company's industry peers

ISS ESG conducted a benchmarking of the SPT set by Kinetik against a peer group of 20 companies that are active in the same sector (Oil & Gas Storage & Pipelines), as derived from the ISS ESG universe. Kinetik is one of eight companies in the peer group with a climate-related target, therefore, Kinetik is part of the top 40% in terms of having an existing target for the reduction of emissions. It is also worth noting that Kinetik has the largest intensity reduction target of the peer group.

In this context, ISS ESG concludes that the SPT set by the issuer is ambitious relative to peers in the Oil & Gas Storage & Pipelines sector in terms of defining a target for the reduction of GHG emissions. However, there are some limitations to the assessment not attributable to the issuer as out of 20 peers, six have climate-related targets, but none have GHG emissions intensity targets.

Against international targets

Paris Agreement

In 2021, the issuer publicly announced its goal to reach net-zero in its Scope 1 and 2 greenhouse gas emissions by 2050. However, the validation of the target is not possible as the SBTi methodology for the Oil & Gas sector is still under development. Therefore, there are limitations to assess the level of

ambition of the target against the Paris Agreement as the SBTi methodology for the Oil & Gas sector is still under development.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data from 2019 to its 2021 baseline year. The pro forma historical performance data has not been externally verified, however, the company plans to obtain external verification of its baseline year and future annual performance data.
- **Benchmarkable:** The SPT selected for GHG emissions intensity is not benchmarkable against international standards as the SBTi methodology for the Oil & Gas sector is still under development.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of the SPT measurement.

Supporting strategy and action plan

Kinetik's key efforts to support the achievement of reducing greenhouse gas emissions intensity by 35% by 2030 includes:

- Procure 100% renewable electricity across all operations. Kinetik plans to migrate legacy Altus Midstream operations to source 100% renewable electricity;
- Migrate the company's vehicle fleet towards electric vehicles over the next several years. The company is developing a public-private charging grid. Kinetik estimates the CapEx associated with the project could be significant as the charging grid contemplates five or more charging sites;
- Implement operational improvements for pneumatic devices (e.g., electric air compression). The company has already scoped out roughly \$5 million of capital projects associated with replacing its gas-fire powered compressor engines to electric drives;
- Implement operational efficiency improvements (e.g., installation of variable frequency drive motors).

Opinion on SPT calibration: ISS ESG finds that the SPT calibrated is ambitious against peers as it is part of the top 40% in terms of having an existing climate-related target¹⁸, however, there are limitations as peers have not set or publicly disclose GHG emissions intensity targets. Moreover, there is limited evidence available to assess the level of ambition against past performance as the baseline and historical data haven't been verified at the time of issuance. Furthermore, there has been a material change in perimeter due to significant investments made by Kinetik to improve, according to the issuer, the capability of its system, which makes the comparability of each historical year challenging. There are limitations to determining whether the SPT is in line with the Paris Climate Goals (as the SBTi methodology for the Oil & Gas sector is still under development). The SPT set under this Framework is an interim target to a longer-term, 2050 carbon neutrality objective. As of the date of this report, Kinetik is still working on defining a structured action plan to reach net zero by 2050. The target is set in a clear timeline and supported by a strategy and action plan.

¹⁸ Kinetik is one of 20 Oil & Gas Storage & Pipelines companies assessed within the ISS ESG universe.

PART 1.B: KPI SELECTION & SPT CALIBRATION

KPI 2 'Methane Emissions Intensity'

1.3. KPI selected by Kinetik

FROM ISSUER'S FRAMEWORK

- **KPI 2:** Methane emissions intensity measured as metric tons of methane derived from Kinetik's activities (Scope 1 and 2) per metric tons of methane in total gas gathered
- **SPT 2:** Reduce methane emissions intensity by 30% by 2030 relative to the 2021 baseline
- **Long-term goal:** Net zero Scope 1 and 2 GHG emissions by 2050
- **Rationale:** Given the short atmospheric lifetime of methane relative to carbon dioxide, taking immediate action to limit fugitive methane emissions can rapidly reduce the rate of global warming. According to UNEP, cutting methane emissions is the best way to slow climate change over the next 25 years.¹⁹ Methane currently accounts for 20% of global greenhouse gas emissions²⁰ from human activities and the energy sector has the greatest potential for targeted mitigation by 2030.

While Kinetik has demonstrated progress in reducing its methane emissions intensity – already below the current goal for its sector set by the industry association, ONE Future – the company seeks to drive continued improvement in reducing its methane emissions and support the achievement of the Global Methane Pledge.

- **Relevant methodology and benchmark reference:** Pro forma Kinetik utilizes the U.S. Environmental Protection Agency (EPA) methodology for the calculation and measurement of Scope 1 and Scope 2 methane emissions intensity. Scope 2 emissions also use the Generation Resource Integrated Database (eGRID) factors (for U.S. facilities).
- **Baseline:** 0.0452% methane emissions intensity (mtCH₄/mtGTP)²¹
- **Baseline year:** 2021
- **2030 goal:** 0.0311% methane emissions intensity (mtCH₄/mtGTP)
- **Scope:** The methane emissions intensity calculation covers approximately 100% of Scope 1 and 2 methane (CH₄) emissions:
 - Scope 1: direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by the organization (e.g., emissions associated with fuel combustion in engines, heaters, vehicles)
 - Scope 2: indirect GHG emissions from purchased electricity consumption

As the EPA has not yet opined on how midstream operators are to calculate Scope 3 emissions, Kinetik believes including Scope 3 in this Framework is premature. The company continues to evaluate the processes for estimating its Scope 3 emissions and as such, it may look to incorporate into the KPI in future iterations of this Framework when the data becomes available.

¹⁹ UNEP, September 2021, New global methane pledge aims to tackle climate change, <https://www.unep.org/news-and-stories/story/new-global-methane-pledge-aims-tackle-climate-change>

²⁰ EPA, Importance of Methane, <https://www.epa.gov/gmi/importance-methane>

²¹ Methane intensity is mtCH₄ emitted/ mtCH₄ throughput.

Materiality and relevance

“Environmental risks and impacts along the value chain” and “climate protection and contribution to the energy transition” are considered key ESG issues faced by the Oil and Gas Storage and Pipelines industry according to key ESG standards²² for reporting and ISS ESG assessment. According to the United States Environmental Protection Agency (EPA), “methane (CH₄) is the second most abundant anthropogenic GHG after carbon dioxide (CO₂), accounting for about 20% of global emissions.”²³ Furthermore, the IPCC estimates that the Global Warming Potential (GWP) of CH₄ on a pound-to-pound basis, is 25 times greater than CO₂ over a 100-year period. GWP is a measure that allows the comparison of the global warming impact of different gases. CO₂ is the reference gas, with a GWP of 1. By contrast, CH₄ has an estimated GWP of 28–36 over 100 years²⁴. This underscores the importance of taking immediate action to curb methane emissions.

ISS ESG finds the methane emissions intensity KPI selected by the issuer to be:

- **Relevant** to Kinetik’s business as companies in the Oil and Gas Storage and Pipeline industry are responsible for and exposed to risks related to this KPI, including the environmental risks and impacts of operations along the value chain and climate protection.
- **Core** to the issuer’s business as the company’s key processes will be affected by the actions implemented to reach the target associated with the KPI, including improvements to the company’s operational efficiency that requires significant capital expenditure (CapEx) commitment. To reach the SPT, the company plans to:
 - Change the fuel quality for engine driven compression in its gathering and boosting sector (i.e., lower Btu value) by connecting its compressor sites to its residue sales gas infrastructure via pipelines. The company has identified projects of this nature and expects to spend approximately \$10 million by 2030;
 - Operational improvements for blowdown emissions (e.g., installing emissions controls devices and reducing frequency/duration of blowdown emissions). The company estimates up to \$5 million of CapEx needed to implement these operational improvements across its entire system.
- **Moderately material** to Kinetik’s business model and sustainability profile if integrated with KPI 1 on the same financial instrument, but **partially material** if used individually on a financial instrument as a stand-alone KPI.
 - This KPI is moderately material if integrated with KPI 1 on the same financial instrument. In this case, KPI 1 and KPI 2 are considered material to the company’s direct operations as the emissions intensity calculations cover approximately 100% of total Scope 1 and 2 emissions, but not material to the whole corporate value chain as Scope 3 emissions are not covered in the scope of the KPI.
 - This KPI is partially material to the company’s direct operations if used individually as methane emissions accounts for c. 4.5% of total Scope 1 and Scope 2 CO₂e emissions. According to the company, the methane emissions represent approximately 17% on

²² Key ESG standards include SASB and TCFD, among others.

²³ EPA, Importance of Methane, <https://www.epa.gov/gmi/importance-methane>

²⁴ EPA, Understanding Global Warming Potentials, <https://www.epa.gov/ghgemissions/understanding-global-warming-potentials>

a 20-year Global Warming Potential (GWP) basis, which translates to approximately 300 thousand metric tons CO₂e.

- It is worth noting the company states it already uses Best Available Technology (BAT) for methane and leak detection. In recent years, Kinetik has utilized an upgraded system, which has contributed to lower methane emissions as leaks generally increase as systems age. Given the corrosion of the pipelines as the equipment ages, further capital is expected to be invested to maintain the integrity of the existing systems.

Consistency with overall company's sustainability strategy

Kinetik considers methane as one of its key ESG issues and has implemented measures to reduce methane emissions by joining Our Nation's Energy Future (ONE Future)²⁵ and the Global Methane Pledge.

In 2020, BCP joined ONE Future, a growing coalition of over 50 companies committed to voluntarily reducing methane emissions across the natural gas value chain to at least one percent (1%) by 2025. By joining, BCP pledged to meet the lowest methane intensity targets set by ONE Future for the natural gas gathering and processing segments.

In September 2021, the United States and European Union launched the Global Methane Pledge²⁶, a collective effort to reduce global methane emissions at least 30% from 2020 levels by 2030, which could eliminate over 0.2°C warming by 2050. The Global Methane Pledge was officially launched at the COP 26 climate conference in October 2021, with over 100 countries representing nearly 50% of global anthropogenic methane emissions pledging membership. As a participant in the pledge, Kinetik agrees to take voluntary actions to contribute to a collective effort to reduce global methane emissions at least 30% from 2020 levels by 2030, which could eliminate over 0.2°C warming by 2050.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and Perimeter:** This KPI covers approximately 100% of Kinetik's Scope 1 and 2 methane emissions, which accounts for c. 4.5% of total Scope 1 and 2 CO₂e emissions. The KPI does not cover Scope 3 emissions which haven't been estimated at the time of issuance. In addition, the company's crude oil activity is not currently covered in the Scope 1 methane emissions but, according to the company, the earnings (EBITDA) generated from the company's crude gathering and storage assets represent only approximately 3% of the total pro forma company's estimated 2022 earnings.
- **Quantifiable/Externally Verifiable:** The KPI selected is measurable, quantifiable and externally verifiable thanks to the various standards and protocols mentioned below. The company utilizes a widespread calculation methodology for Midstream companies provided by the U.S. Environmental Protection Agency (EPA) for the calculation and measurement of

²⁵ ONE Future, <https://onefuture.us/>

²⁶ Global Methane Pledge, November 2021, <https://www.globalmethanepledge.org/>

Scope 1 and 2 methane emissions, as well as Generation Resource Integrated Database (eGRID) factors (for U.S. facilities).

- **Externally verified:** Kinetik's baseline and historical figures have not yet been verified, but the issuer plans to obtain a limited level of assurance on its methane emissions intensity KPI for the years 2019, 2020 and 2021 (baseline). Furthermore, the issuer commits to get a third-party verification of its KPI annually post issuance.
- **Benchmarkable:** The company follows a clear calculation methodology provided by the U.S. EPA for measuring and reporting, therefore, the KPI can be benchmarked against the relevant data reported by other industry peers. Benchmarking of the SPT in relation with this KPI has been analyzed in section 1.4.

Opinion on KPI selection: ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and consistent with its sustainability strategy. If used individually on a financial instrument as a standalone KPI, the KPI is partially material to the company's direct operations because methane emissions accounts for c. 4.5% of total Scope 1 and Scope 2 CO₂e emissions. When integrated with KPI 1 on the same financial instrument, then together, both KPI 1 and 2 are material to the issuer's direct operations, as they cover approximately 100% of total Scope 1 and Scope 2 emissions. Together, KPI 1 and 2 would be material to direct operations and not to the issuer's whole Corporate Value Chain, as Scope 3 emissions are not estimated and therefore not included. It is appropriately quantifiable, externally verifiable and benchmarkable with limitations as the baseline year and historical data have not been verified at the time of issuance, but the issuer plans to obtain a limited level of assurance for 2019, 2020 and 2021 (baseline) post issuance. This KPI covers approximately 100% of total Scope 1 and 2 methane emissions.

1.4. Calibration of SPT

SPT set by the issuer

FROM ISSUER'S FRAMEWORK²⁷

Sustainability Performance Target (SPT) 2: Reduce methane emissions intensity by 30% by 2030 relative to the 2021 baseline.

SPT Trigger: Failure to meet KPI targets would trigger an adjustment to the coupon by an amount specified in the transaction documentation payable from the first coupon payment date following the target observation date until maturity.²⁸

SPT Observation Date(s): To be specified in the transaction documentation²⁹

2021 Baseline Intensity: 0.0452% methane emissions intensity (mtCH₄/mtGTP)

Factors that support the achievement of the target: Kinetik has planned key efforts to support the achievement of the target, including:

- Implement changes to fuel quality for engine driven compression (e.g., lower Btu value) by connecting compressor sites to residue sales gas infrastructure via pipelines.
- Implement operational improvements for engine driven compression (e.g., insulate exhaust to reduce methane slip).
- Increase leak detection frequency and decrease repair turnaround time across operations.
- Implement operational improvements for blowdown emissions (e.g., install emission control devices and reduce frequency/duration of blowdowns).
- Increase standards for and monitoring of third parties that operate leased compression.
- Implement operational improvements for pneumatic devices (e.g., electric air compression).

Risks to the target: The issuer has identified potential barriers that may arise limiting the ability to achieve the target. These barriers may include but are not limited to circumstances beyond its corporate control that may make performance commercially impractical, illegal or impossible. This may include impacts from natural disasters; supply chain disruptions; changes in the regulatory environment, including environmental, energy, tax and labor laws and regulations; and general changes in political, social, health, economic and business conditions.

²⁷ This table is displayed by the issuer in its Sustainability-Linked Financing Framework and has been copied over in this report by ISS ESG for clarity.

²⁸ The financial characteristics included in any sustainability-linked instrument may vary depending on the type of instrument, its maturity, date of issuance and other factors, which is described in Section 2.3.

²⁹ ISS ESG's assessment is only based on the 2030 target. However, as the SPT 2 ambition level is limited to comparison to peers (it is part of the top 40% in terms of having an existing climate-related target within the ISS ESG universe), the assessment remains valid for both interim and long-term observation dates.

Ambition

Against company's past performance

Indicator	2019	2020	2021 (baseline)	2026 - Target	2030 - Target	CAGR '19 - '21	CAGR '21 - '30
Methane emissions intensity (mtCH ₄ /mtGTP)	0.0833%	0.0414%	0.0452%	0.0371%	0.0311%	-26.3%	-4.1%
YoY (%)		-50.3%	9.2%				
Reduction from Baseline Year (%)				-16.7%	-30.0%		

Source: Kinetik as of 5/10/2022

The company has drastically decreased methane emissions over the years, and in particular, a significant reduction of -50.3% was achieved between 2019 and 2020. Between 2019 and 2021, the company achieved a compound annual growth rate (CAGR) of -26.3%. The company's target of achieving 30% reduction by 2030 compared to 2021 baseline translates to a compound annual growth rate of -4.1%, which is 22.2 percentage points lower than the compound annual growth rate from 2019-2021.

ISS ESG deems the SPT as quantitatively less ambitious compared to the issuer's past performance from a quantitative perspective. Kinetik has achieved significant reductions in methane emissions from 2019-2021 due to significant investments to improve, according to the issuer, the capability of its system, which makes the comparability of each historical year challenging.

In this context and compared to the baseline year, ISS deems there is limited information to assess the level of ambition of the SPT against the issuer's past performance as the baseline and historical data haven't been verified at the time of issuance. Therefore, the estimated values may differ from the final reported figures. Additionally, there has been a material change in perimeter due to significant investments made by Kinetik to improve, according to the issuer, the capability of its system, which makes the comparability of each historical year challenging.

Against company's industry peers

ISS ESG conducted a benchmarking of the SPT set by Kinetik against a peer group of 20 companies that are active in the same sector (Oil & Gas Storage & Pipelines), as derived from the ISS ESG universe. Kinetik is one of eight companies in the peer group with a target related to climate-related emissions, therefore, Kinetik is part of the top 40% in terms of an existing target for the reduction of emissions.

In addition, Kinetik shared with ISS ESG a peer group composed of 12 companies (including Kinetik), of which it is one of nine companies in the peer group with a climate-related target and one of eight peers with a methane specific target. Most of those peers (including Kinetik) have committed to the 2025 intensity target set by ONE Future for 0.08% methane intensity in the Gathering & Boost Segment. Kinetik is going beyond this initiative by setting a 30% reduction target from a 2021 baseline (which is already beating the 2025 One future target by 44%). In this context, ISS ESG concludes that the SPT set by the issuer is ambitious relative to peers in the Oil & Gas Storage & Pipelines sector in terms of defining a clear climate (and specifically a methane) related target. However, it's important to note that some peers use an absolute-based approach or lack a clear reduction target for methane emissions apart from committing to the ONE Future initiative.

Against international targets

Paris Agreement

The Paris Agreement does not have a separate target for methane emissions; therefore, it is not possible to benchmark the SPT against the Paris Agreement directly.

Global Methane Pledge

Kinetik has calibrated its target to reduce global methane emissions by at least 30% by 2030 from 2021 levels aiming to align with the Global Methane Pledge which supports the Paris Agreement's goal of limiting global warming to well below 2 degrees Celsius.

However, it is worth noting that the Global Methane Pledge is a commitment made by **countries** to "work together in order to collectively reduce **global** anthropogenic methane emissions across all sectors by at least 30% below 2020 levels by 2030".

Kinetik has set an intensity target for Scope 1 and 2 methane emissions, implying that absolute methane emissions would be reduced by 30% by 2030 to the extent gas throughput levels remain consistent from the base year through 2030. However, it is not guaranteed that throughput levels will remain consistent and therefore absolute reductions may deviate from the absolute target outlined by the Global Methane Pledge. Therefore, there is limited evidence to ensure that SPT 2 aligns with the Global Methane Pledge emissions reduction effort over the 2020 – 2030 period.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data from 2019 to its 2021 baseline year. The pro forma historical performance data has not been externally verified, however, the company plans to obtain external verification of its baseline year and future annual performance data.
- **Benchmarkable:** The SPT selected for methane intensity is benchmarkable to a certain extent as it uses a widespread calculation methodology for Midstream companies provided by the U.S. EPA, but there is a lack of information as most peers do not publicly disclose or have set targets related to methane emissions.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of the SPT measurement.

Supporting strategy and action plan

Kinetik's key efforts to support the achievement of reducing methane emissions intensity by 30% by 2030 includes:

- Implement changes to fuel quality for engine driven compression (e.g., lower Btu value) by connecting compressor sites to the company's residue sales gas infrastructure via pipelines
- Implement operational improvements for engine driven compression (e.g., insulate exhaust to reduce methane slip)
- Increase leak detection frequency and decrease repair turnaround time across operations

- Implement operational improvements for blowdown emissions (e.g., install emission control devices and reduce frequency/duration of blowdowns)
- Increase the company's standards for and monitoring of third parties that operate the leased compression
- Implement operational improvements for pneumatic devices (e.g., electric air compression).

Furthermore, the company expects its gas throughput³⁰ volumes to increase to over an 80% utilization in the next five years due to fixed, existing long-term contracts.

The natural gas supplied to the company's systems (already turned online wells) is considered stable as the contracts dictate the current (and future) natural gas gathered and processed (i.e., throughput). Future supply from new wells represents a small amount of the company's total production, while already the turned online wells that are being focused on with this target represent 80% of total expected throughput volumes in 2022. Therefore, the company will support the achievement of the target by focusing on reducing the area of most impact related to its throughput volumes.

Opinion on SPT calibration: ISS ESG finds that the SPT calibrated is ambitious against peers as (i) the 2021 baseline is already much lower than the 2025 Methane Intensity target set by the ONE Future Coalition for the Gathering and Boost sector (Kinetik's 2021 methane intensity is already beating the 2025 One future target by 44%) and as (ii) the company goes beyond this sectorial initiative by targeting a 30% methane intensity reduction by 2030 (vs. a 2021 baseline). Moreover, it is part of the top 40% in terms of having an existing climate-related target within the ISS ESG universe³¹. However, there is limited evidence available to assess the level of ambition against past performance as the baseline and historical data haven't been verified at the time of issuance. Furthermore, there has been a material change in perimeter due to significant investments made by Kinetik to improve, according to the issuer, the capability of its system, which makes the comparability of each historical year challenging. There are limitations ensuring the target aligns with the Paris Climate Goals or Global Methane Pledge. The target is set in a clear timeline and supported by a strategy and action plan.

³⁰ Gathering throughput is the volume of methane that is transported through pipelines from the receipt point (either at the wellhead or customer's compressor station) and the inlet of processing plants.

³¹ Kinetik is one of 20 Oil & Gas Storage & Pipelines companies assessed within the ISS ESG universe.

PART 1.C: KPI SELECTION & SPT CALIBRATION

KPI 3 'Female representation in Corporate Officer positions (VP level and above)'

1.5. KPI selected by Kinetik

FROM ISSUER'S FRAMEWORK

- **KPI 3:** Female representation in Corporate Officer positions, defined as Vice President level or above
- **SPT 3:** Increase female representation in Corporate Officer positions to 20% by year end 2026 relative to the 2021 baseline
- **Long-term goal:** n.a.
- **Rationale:** A diverse and inclusive workplace underpins one of the four pillars of the company's ESG program (People) and represents a key ESG priority for Kinetik. While efforts have been made to increase female representation across the company, Kinetik lags peers in the representation of women in corporate officer positions. Kinetik firmly believes that diversity and inclusion drive innovation and better decisions, employee engagement and its ability to attract top talent.
- **Relevant methodology and benchmark reference:** Measured as of fiscal year-end based on self-reported data. Corporate Officers definition (Vice President level or higher) aligned with the disclosure framework set by the Energy Infrastructure Council (EIC)/GPA Midstream Association.
- **Baseline:** 7.1% female representation in Corporate Officer positions
- **Baseline year:** 2021
- **2026 goal:** 20% female representation in Corporate Officer positions
- **Scope:** This KPI covers Kinetik's Corporate Officer population, which is represented as VP level and above

Materiality and relevance

Gender equality and increasing the representation of women in leadership positions are considered important ESG issues for all companies, regardless of the industry. However, it's important to take into account that women are historically underrepresented in the broader Energy sector³². Therefore, ISS ESG finds the KPI related to the percentage of women in Corporate Officer positions is:

- **Relevant** to Kinetik's business as it relates to the topic of gender diversity and equal opportunities which is a relevant topic for companies across sectors.
- **Core** to Kinetik's business as gender diversity and equal opportunities directly relates to the company's hiring, career development, and business strategy. Thus, the KPI affects the core processes and operations of Kinetik.
- **Material** from an ESG perspective as the KPI captures the proportion of female representation in corporate officer positions (Vice President level or higher), of which women are currently underrepresented in the company's employment structure (7.1% as of 2021). Compared to the company's top management structure, 27% of Kinetik's Board of Directors are composed

³² IEA, March 2020, Gender diversity in energy: what we know and what we don't know, <https://www.iea.org/commentaries/gender-diversity-in-energy-what-we-know-and-what-we-dont-know>

of women and individuals with diverse backgrounds, 50% of Independent Directors are women. The company has stated that it focuses on this specific group as diversity and inclusion drives innovation and better decisions, employee engagement and the ability to attract top talent.

Consistency with overall company's sustainability strategy

In its Framework and 2020 ESG report, the company recognizes that ensuring key female talent remains engaged and willing to grow is a key risk for any company in energy, including Kinetik. The company considers this a material risk with financial implications, as customer expectations continue to rise regarding the ESG performance of their suppliers. Therefore, Kinetik continues efforts to prioritize the retention and attraction of top female talent.

In 2020, BCP joined ALLY (formerly PinkPetro), a community of professionals and member organizations, with a focus on equity, the environment and the energy economy. Kinetik is also a participant and sponsor of women's groups in the energy sector that focus on providing women exposure to industry leaders. In 2022 and years ahead, Kinetik plans to continue to sponsor events and activities which help expose women to industry leaders and key issues. Kinetik believes that participating in such activities allows its high potential females to hear solutions and advice from senior leaders in the industry on how to manage some of the obstacles of being a minority in the energy industry.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** This KPI covers Kinetik's Corporate Officer population (Vice President level and above), representing 5.3% of the total workforce as of 2021; fourteen Corporate Officers out of 266 employees.
- **Quantifiable/Externally Verifiable:** The KPI is quantifiable and externally verifiable. It will be calculated as the number of women in Corporate Officer positions (VP level or higher) of the total number of Corporate Officers, as aligned with the disclosure framework set by the Energy Infrastructure Council (EIC)³³/GPA Midstream Association.
- **Externally verified:** The KPI selected by Kinetik has not yet been verified, but the issuer plans to obtain a limited level of assurance on its corporate officer diversity KPI for the years 2019, 2020 and 2021 (baseline).³⁴ Furthermore, the issuer commits to get a third-party verification of its KPI annually post issuance.
- **Benchmarkable:** The KPI is benchmarkable as it refers to a measurable and quantifiable metric provided by the EIC and commonly used by peers.

Opinion on KPI selection: *The KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately quantifiable, externally verifiable and benchmarkable with limitations as the baseline and historical data have not been verified at the time of issuance, but the issuer plans to obtain a limited level of assurance for 2019, 2020 and 2021*

³³ Energy Infrastructure Council, <https://eic.energy/esg/>

³⁴ Kinetik is committed to obtaining baseline verification concurrent with, or prior to, the first fiscal year measurement period for KPI 1 and KPI 2 (FY 2022 performance).

(baseline) post issuance. This KPI covers 5.3% of the total workforce of the pro forma structure as of 2021.

1.6. Calibration of SPT

SPT set by the issuer

FROM ISSUER'S FRAMEWORK³⁵

Sustainability Performance Target (SPT) 3: Increase female representation in Corporate Officer positions to 20% by year end 2026 relative to the 2021 baseline

SPT Trigger: : Failure to meet KPI targets would trigger an adjustment to the coupon by an amount specified in the transaction documentation payable from the first coupon payment date following the target observation date until maturity.³⁶

SPT Observation Date(s): To be specified in the transaction documentation³⁷

2021 Baseline Intensity: 7.1% female representation in Corporate Officer positions

Factors that support the achievement of the target:

- Recruiting to ensure diverse candidates are considered for all new job openings where possible.
- Implement a workforce discovery program whereby high potential candidates, including those with diverse backgrounds, are identified and fostered to succeed as potential managers of the company.
- Kinetik encourages career development of women across the energy industry, not just within its company. Kinetik's corporate officers participate and mentor female engineers through the Women's Energy Network.
- Kinetik is an active participant and future sponsor of women's leadership conferences and trade groups (e.g., Women's Global Leadership Conference).

Risks to the target: In the context of Kinetik's corporate officer positions with a limited number of individuals, even the addition or departure of one officer can create a significant change in the percentage of women relative to the 20% goal. In determining individuals fit for Corporate Officer positions, Kinetik must ensure each candidate possesses a balance of experiences, skills, knowledge and diversity. Another risk is retirements / departures or other unforeseen circumstances. There may be long lead times required to fill vacancies at the Corporate Officer level given the underrepresentation of women within the energy sector.

³⁵ This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

³⁶ The financial characteristics included in any sustainability-linked instrument may vary depending on the type of instrument, its maturity, date of issuance and other factors, which is described in Section 2.3.

³⁷ ISS ESG's assessment is only based on the 2026 target.

Ambition

Against company's past performance

INDICATOR	2018	2019	2020	2021 - BASELINE	2026 - TARGET
Number of Corporate Officers		13	15	14	
Number of Female Corporate Officers	0	1	1	1	
Female % in Corporate Officer positions	0.0%	7.7%	6.7%	7.1%	20.0%
YoY (%)		NA	-13.3%	7.1%	

Kinetik has set its SPT to increase the percentage of female representation in Corporate Officer positions from 7.1% in 2021 to 20.0% in 2026. This equates to an overall growth of 12.9 percentage points in a 5-year period and an average annual growth rate of 2.57 percentage points. While this growth would represent an improvement in terms of female representation in Corporate Officer positions, it is important to compare this growth rate with the past achievement of pro forma Kinetik. Between 2018-2019, Kinetik had a sharp improvement from 0% to 7.7%, which the company attributes to hiring a new Chief Strategy Officer for BCP. However, between 2019-2021 this varied as the number of male Corporate Officers (at the Vice President level) fluctuated. Overall, over the 2018-2021 period, female representation in Corporate Officer positions has increased by an average annual growth rate of 2.38% but, more importantly, on absolute terms, the company has hired only one female corporate officer over the last 4 years. All things equal, the company would have to hire at least 3 extra female corporate officers (total of 18 members) to reach the 20% target set for 2026.

In this context and compared to the baseline year, ISS ESG deems the SPT as ambitious against past performance based on limited evidence. It's important to note the limitations to this assessment as the baseline and historical performance have not been externally verified at the time of this report.

Against company's industry peers:

Kinetik shared with ISS ESG a peer group composed of twelve companies (including Kinetik), of which Kinetik is the only company with a Corporate Officer target. It is worth noting that the company currently underperforms its peers in terms of current female representation in Corporate Officer positions and has calibrated its target to align with the peer's top performers (target level would allow Kinetik to become part of the 3 best performers in its peer group based on current peer performance).

Thus, ISS ESG finds that Kinetik's Corporate Officer target is ambitious against industry peers. However, it's important to note the limitations not attributable to the issuer as peers have not set or publicly disclose Corporate Officer targets.

Against company's regional and international targets:

There is limited evidence available to assess the level of ambition of the target against regional and international targets as the SPT focuses only on the Corporate Officer positions.

Among other metrics used and pledges made for leadership roles, the Paradigm for Parity® coalition, comprised of business leaders, board members and academics are committed to addressing the corporate leadership gender gap globally by creating a specific set of actions that significantly increase the number of women in senior operating roles, specifically targeting full gender parity (50/50) by 2030, with a near-term goal of women holding at least 30% of senior roles. On a regional level, the US-based Thirty Percent Coalition is committed to have corporate boardrooms inclusive of 30% or more women (including women of color) across public companies.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data from 2018 to its 2021 baseline year. The pro forma historical performance data has not been externally verified, however, the company plans to obtain external verification of its baseline year and future annual performance data.
- **Benchmarkable:** The SPT is able to be benchmarked against Kinetik's own performance and peers, to a certain extent, considering differences in scale and methodology with industry peers. In addition, there are limitations as there are no widely disclosed targets made available by peers for female representation in Corporate Officer positions and as the baseline and historical data have not been verified at the time of this report.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

Kinetik's key efforts to support the achievement of increasing the female representation in Corporate Officer positions to 20% by year end 2026 includes:

- Recruiting to ensure diverse candidates are considered for all new job openings where possible.
- Implementing a workforce discovery program whereby high potential candidates, including those with diverse backgrounds, are identified and fostered to succeed as potential managers of the company.
- Encouraging career development of women across the energy industry, not just within the company. Kinetik's corporate officers participate and mentor female engineers through the Women's Energy Network.
- Continuing active participation and sponsorship of women's leadership conferences and trade groups (e.g., Women's Global Leadership Conference).

In order for Kinetik to fulfill the above initiatives, it requires both a financial investment and an investment of Kinetik employees' time. To reach the 20% target, Kinetik anticipates that up to five women Corporate Officers must be developed/fostered/promoted, and/or externally recruited. Achieving such a level of representation will bring the Corporate Officer female representation closer to the 27% composition of women and individuals with diverse backgrounds of Kinetik's Board of Directors and the 50% female representation among Independent Directors positions. Kinetik also states that its diverse board and Committee Chairs were carefully and thoughtfully selected to ensure

that the governance and oversight of Kinetik's Diversity, Equity and Inclusion initiatives are acutely scrutinized.

Opinion on SPT calibration: *ISS ESG finds that the SPT calibrated by Kinetik is ambitious against past performance based on limited evidence as the baseline and historical data have not been verified at the time of issuance. In addition, the SPT is ambitious against peers as it is the only company to have set a target on increasing female representation in Corporate Officer positions, however, there are limitations not attributable to the issuer as peers have not set or publicly disclose Corporate Officer targets. Furthermore, there is limited evidence available to assess the level of ambition against regional/international targets. Aside from these constraints, the target is set in a clear timeline and support by a strategy and action plan.*

PART 2: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND SUSTAINABILITY-LINKED LOAN PRINCIPLES

This section describes ISS ESG’s assessment of the alignment of the Kinetik’s Sustainability-Linked Financing Framework (as of May 9 2022) with the SLBP and SLLP.

SLB PRINCIPLES	ASSESSMENT	ISS ESG’S OPINION
1.Selection of KPIs		ISS ESG conducted a detailed analysis of the sustainability credibility of KPIs selection available in Part 1 of this report.
2.Calibration of SPTs		ISS ESG conducted a detailed analysis of the sustainability credibility of SPTs is available in Part 1 of this report.
3.Bond or Loan Characteristics	✓	ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by Kinetik as aligned with the Sustainability-Linked Bond and Sustainability-Linked Loan Principles. In the documentation for each SLF instrument, the issuer plans to give a detailed description of the potential variation of the financial characteristics of the instruments, while clearly defining the KPIs and SPTs and their calculation methodologies.
4.Reporting	✓	ISS ESG considers the Reporting description provided by Kinetik as aligned with the Sustainability-Linked Bond and Sustainability-Linked Loan Principles. This will be made publicly available annually and include key information, as described above.
5.External verification	✓	ISS ESG considers the Verification description provided by Kinetik as aligned with the Sustainability-Linked Bond and Sustainability-Linked Loan Principles. The issuer plans on having all annual values of the KPIs and SPTs published and externally verified

PART 3: KINETIK'S ESG PERFORMANCE AND STRATEGY

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.

Business overview

Kinetik Holdings Inc. operates as a midstream company in the Texas Delaware Basin. It provides gathering, transportation, compression, processing, and treating services for companies that produce natural gas, natural gas liquids, crude oil, and water.

ESG risks associated with the issuer and its sector

At issuer level

Leveraging ISS ESG's Corporate Rating methodology, ISS ESG assessed the current sustainability performance of the issuer to be 'medium'. Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part I of the report.



At industry level

Key challenges faced by companies in terms of sustainability management in this sector 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 SECTOR
Environmental risks and impacts along the value chain
Climate protection and contribution to the energy transition
Protection of human rights and community outreach
Worker safety and accident prevention
Business ethics and relations with governments

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.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ³⁸	DIRECTION OF IMPACT	UN SDGS
Services to the oil industry	7.5%	OBSTRUCTION	 

Breaches of international norms and ESG controversies

At issuer level

At the date of publication, ISS ESG has not identified any severe or very severe controversy in which the issuer would be involved.

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 Oil & Gas Storage & Pipelines sector are as follows: Failure to prevent water pollution; failure to assess environmental impacts; and failure to respect indigenous rights. Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

Contribution of KPIs to sustainability objectives and key ESG industry challenges

ISS ESG mapped the KPIs selected by the issuer for its Sustainability-Linked Instruments with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Oil & Gas Storage & Pipelines industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of each KPIs selected.

KPIs SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Greenhouse Gas Emissions Intensity (Scope 1 and Scope 2)	✓	✓	Contribution to a material objective
Methane Emissions Intensity	✓	✓	Contribution to a material objective
Female representation in Corporate Officer positions (VP level and above)	✓	✓	Contribution to a material objective

Opinion: ISS ESG finds that KPIs are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Sustainability-Linked Instruments is clearly described by the issuer.

³⁸ Percentages presented in this table are not cumulative.

DISCLAIMER

1. Validity of the SPO: For Kinetik's Sustainability-Linked Instruments as long as there are no substantial changes to the Sustainability-Linked Financing Framework (as of May 9 2022), SPTs benchmarks and structural securities characteristics described in this document.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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ANNEX 1: METHODOLOGY

ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from industries with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per industry, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles

ISS ESG reviewed the Sustainability-Linked Financing Framework of Kinetik, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA and Sustainability-Linked Loan Principles, administered by the LMA and LSTA. These principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond and Loan market by clarifying the approach for issuance.

ISS ESG reviewed the alignment of the concept of Kinetik's issuance with mandatory and necessary requirements as per the Appendix II – SLB/SLL Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

Analysis of KPI selection and associated SPTs

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPIs selected and associated SPTs. ISS ESG analysed if the KPI selected are core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key widespread calculation methodologies and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPTs against Kinetik's own past performance (according to Kinetik's reported data), against Kinetik's Oil & Gas Storage & Pipeline peers (as per ISS ESG Peer Universe and data and data shared by the issuer), and against international benchmarks. Finally, ISS ESG evaluated the measurability & comparability of the SPTs, and the supporting strategy and action plan of Kinetik.

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

Kinetik commissioned ISS ESG to compile a Sustainability-Linked Instruments' SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Financing Framework aligns with the ICMA Sustainability-Linked Bond Principles and LMA and LSTA Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-Linked Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA's Sustainability-Linked Bond Principles
- LMA and LSTA's Sustainability-Linked Loan Principles

ISSUER'S RESPONSIBILITY

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

- Sustainability-Linked Financing Framework (as of May 9, 2022)

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.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-Linked instruments to be issued by Kinetik based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles and LMA and LSTA Sustainability-Linked Loan Principles.

The engagement with Kinetik took place from January to May 2022.

ISS ESG'S 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 behaviour 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 ISS ESG 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/>

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