Climate disclosures for the year ended 31 March 2026

The Northern Powergrid Group

Prepared by: The Northern Powergrid Group of the ESPS ("the Group")
Date: August 2026

Introduction

Climate change is causing extreme weather, affecting crops, and threatening ecosystems. Understanding its impact and the Group's vulnerability to climate risks helps mitigate these risks and seize opportunities.

UK regulations require pension schemes with over £1bn in assets to meet climate governance standards and publish annual reports on climate risks. Improved climate reporting enhances decision-making and transparency, increasing accountability and providing valuable information to investors and beneficiaries.

This report is the annual climate disclosure for Northern Powergrid Group of the Electricity Supply Pension Scheme ("the Group") for the year ended 31 March 2026, prepared by the Group Trustee in accordance with The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 ("the Regulations") and aligned with the Taskforce for Climate-related Financial Disclosures (TCFD) framework.

The Group is one of the segregated Groups within the Electricity Supply Pension Scheme (the "ESPS"), which is a UK occupational pension scheme with assets of in excess of £29bn as at 31 March 2025. Each Group has its own Group Trustees who have defined responsibilities in relation to a particular Group, including the setting of investment strategy. There is a separate Scheme Trustee which has defined responsibilities for the whole of the ESPS. In particular, the Scheme Trustee has exclusive responsibility for ownership and custody, has administrative control of assets, and implements investment strategy decisions made by each Group Trustee.

This report relates to the Group only, although the contents of this report have been shared with the Scheme Trustee to help it produce an equivalent report for the ESPS: The Electricity Supply Pensions Scheme (espspensions.co.uk).

Contents

Executive summary

This report sets out the actions that we, the Group Trustees, have taken to understand the potential impact climate change could have on the Group. We have worked closely with our investment adviser to identify the climate-related risks and opportunities faced by the Group, and to understand ways we can manage and mitigate those risks.

Our overarching conclusion from preparing this report is that the portfolio is resilient to climate change and the Group's investment managers are properly allowing for climate-related risks and opportunities.

Effective Governance and Risk Management for Climate Resilience

We, the Group Trustees, are responsible for overseeing all strategic matters related to the Group, including climate-related risks and opportunities. We have established a process to identify, assess, and manage the climate-related risks and opportunities the Group faces, integrating it into the broader risk management framework. Please see Appendix 01 for our climate governance and risk management framework.

Strategy update

Our qualitative risk analysis found that the asset classes the Group invests in are somewhat affected by climate-related risks, and these risks are expected to grow over time. We also found several investment opportunities across different asset classes. More details are available on pages 4-5.

The Group Trustees reviewed the climate scenario analysis, completed in 2023, and decided to not refresh the analysis this year, as a number of changes to the Group's investment strategy are in the process of being implemented. The results of the previously conducted analysis indicate that the Group has a reasonable degree of resilience to climate-related risks and the changes to the strategy, once implemented, are not expected to worsen this position.

Metrics & Target update

14,634 tCO_2e
Total reported emissions (Scopes 1+2)*

63 tCO_2e/£M
Carbon footprint (Scopes 1+2)*

Scopes 1&2 ↓
Scope 3 ↓
Emissions changes

51%
Data coverage

**Full breakdown including Scope 3 data is available on pages 11-12.*

Overall, absolute and relative emissions fell for Scopes 1, 2 and 3. This was primarily driven by the replacement of the Group's equity holdings with two new asset-backed securities funds over the year. These funds did not report emissions, which has led to a slight reduction in data coverage for the overall portfolio in aggregate. More details are available on pages 11-12.

Progress towards the Group's data coverage target fell slightly over the year. More details on the target and the steps the Group Trustee have put in place to support progress towards the target are available on pages 13-14.

We hope you enjoy reading this report and understanding more about how we are managing climate-related risks and opportunities within the Group.

P. McCormick

Peter McCormick, Chair

on behalf of the Group Trustees of the Northern Powergrid Group of the ESPS.

Strategy

Identifying climate-related risks and opportunities

We carried out a qualitative risks and opportunities assessment of the asset classes the Group is invested in. From this we identified which climate-related risks could have a material impact on the Group. We also identified suitable climate-related opportunities.

Given the number of asset classes used in the Group, we completed this exercise to the best of our ability. To help us with our assessment, we surveyed our investment managers asking them to rate the climate-related risks and opportunities they believe their funds are exposed to.

Our investments

The Group's investment portfolio is diversified across a range of different asset classes including fixed income, alternatives, and Liability Driven Investment ("LDI").

	LDI	Fixed Income	Alternatives
Allocation	34.0%	34.4%	29.0%

Asset allocations as at 31 December 2025. Alternatives include listed infrastructure, property, asset-backed securities ("ABS") and Insurance-Linked Securities ("ILS"). Figures exclude cash outside the LGIM SLF which is under 3% and not considered material.

How the qualitative risk assessment works

Risk categories
The analysis divides climate-related risks into two types:
Transition risks related to the transition to a low-carbon economy.

Physical risks associated with the physical impacts of climate change on companies' operations.

More details can be found in the *Appendix*.

Ratings
The analysis uses RAG ratings where:

Red denotes a higher level of financial exposure to a risk.

Amber denotes a medium level of financial exposure to a risk.

Green denotes a lower level of financial exposure to a risk.

Time horizons
We assessed the climate-related risks and opportunities over different time horizons considering the Group liabilities. We decided the most appropriate time horizons for the Group are:

Short-term: 1-3 years

Medium-term: 4-10 years

Long-term: 11-20 years

Climate-related risk assessment

Key conclusions

Overall, we are comfortable with the level of understanding that our managers have demonstrated in their responses to questions about climate-related risks. We are also comfortable that the risks posed to the Group are sufficiently mitigated against and/or taken into consideration.

Diversification across asset classes, sectors and regions is important to manage climate-related physical and transition risks for the Group. Investment managers take this into consideration in the construction of their respective risk mitigation frameworks.

The climate-related risks and opportunities identified are broadly in line with last year. Incremental differences are noted in the *Appendix.*

RAG ratings for each asset class can be found in the *Appendix*.

Climate-related opportunities
We have identified some climate-related opportunities which may be suitable for the Group across the short-, medium- and long-term time horizons.

These investment opportunities are considered on a case-by-case basis. However, at the time of writing, the Group's investment strategy demonstrates resilience to climate-related risks and no further action has been taken with regards to the climate opportunities below.

The opportunities identified by managers follow similar themes to the previous year, including green bonds, innovative climate technologies and improving the energy efficiency of real estate properties.

Alternatives	The Group's Asset-Backed Securities managers have identified opportunities within public and private securitisations in light of reduced demand from traditional providers of asset-backed lending (such as banks). Managers can seek to allocate to climate-related opportunities, including energy-efficient real estate; resilient infrastructure; low-emission transport and clean energy generation. Opportunities also include the creation of Article 9 funds, which are funds that promote environmental or social characteristics. The Group's Insurance-Linked Securities manager has noted growing demand for insurance products as the market adapts to climate change, including increased need for coverage of emerging risks such as wildfire (driving new catastrophe bond issuance) and long-term demand from new insurance markets seeking resilience to evolving climate risks. The Group's Listed Infrastructure and property managers have identified opportunities primarily within low-carbon technologies and digitalisation, adopting renewables, innovation and alignment with regulatory change.
Fixed Income / LDI	Opportunities within ESG-tilted and sustainability linked securities have been identified in light of a growing focus by investors on climate risk, carbon footprints and net-zero pathways. Managers can also seek to integrate climate and ESG analysis into credit assessment; actively engage issuers and take investment positions where climate risks appear mispriced. A key focus for managers is centred around innovation and developing adaptive solutions to the climate transition.

Source: Managers

Assessing our managers' climate risk management

We evaluated our managers' skills in handling climate-related risks by asking them 10 questions from the Pensions Climate Risk Industry Group. These questions address their climate management strategies, net zero goals, TCFD reporting, climate scenario analysis, engagement policies, and ability to provide GHG emissions data.

Key Findings

All of the Group's managers responded to the climate risk management questionnaire. Some key highlights include:

- All managers have produced their own TCFD report, setting out their approach to managing climate-related risks. The Group Trustees will continue monitoring the managers' alignment with the industry TCFD reporting in future.
- All managers participate in a range of industry initiatives, such as the Net Zero Asset Manager Initiative; Climate Action 100+; Institutional Investors Group on Climate Change; United Nations Principles for Responsible Investment ("UN PRI"); Standard Board for Alternative Investments (SBAI) and Science Based Targets Initiative ("SBTI").
- All managers carry out climate-related risk scenario analysis with a range of different scenarios involved.
- 5 out of 8 managers were able to provide meaningful carbon data for use within reporting. This is reflected in the metrics and targets section. Where managers were unable to provide meaningful carbon data, this was driven by a lack of readily available data given the nature of the underlying asset class.
- 4 out of 8 managers have set temperature alignment targets which apply to the strategies employed by the Group. Managers will therefore invest in a way which is aligned with the Paris Agreement of limiting global temperature increases to below 2 degrees by the end of the century.

Compared to last year, the information collected remains the same, though the Group Trustees note that the information collected now reflects two additional investment managers.

Key Conclusions

Overall, the Group Trustees conclude that the managers have adequate frameworks and processes in place to ensure climate-related risks and opportunities associated with the transition to low carbon economy are considered within their mandates. In addition, the majority of the Group's investment managers are participating in market-leading industry initiatives and frameworks.

In summary, the Group Trustees are comfortable with the investment managers' ability to act in the best interests of the Group and to account for climate-related risks and opportunities in the portfolios that they manage.

Assessing the Group's resilience to climate change

In December 2023, we analysed climate change scenarios to understand the impact climate change could have on the Group's assets and liabilities.

We compared three climate scenarios to a base case, which reflects market expectations. We chose these scenarios because we believe that they provide a reasonable range of possible climate change outcomes. Each scenario explores the Group's transition to a low-carbon economy under various environmental conditions. The climate scenarios illustrate the climate-related risks the Group faces, highlighting areas where changing the investment portfolio could reduce the risks.

Climate scenarios

	No transition	**Disorderly transition**	**Orderly transition**
	No further action is taken to reduce GHG emissions leading to significant global warming	Limited action is taken, and insufficient consideration is given to sustainable long-term policies to manage global warming effectively	Immediate and coordinated action to tackle climate change is taken using carbon taxes and environmental regulation
Temperature rise by 2100	**+4°C**	**<3°C**	**1.3°C - 2°C**
Reach net-zero by	After 2050	After 2050	2050
Carbon price (2030/2050)	\$40/\$50	\$65/\$340	\$100/\$215
Introduction of environmental regulation	None	Late and aggressive	Coordinated

Source: Aon. **The scenarios were developed by Aon and are based on many assumptions. They are only illustrative and subject to considerable uncertainty.** Please see the *Appendix* for more details.

Group Trustees' update

Under the Regulations, climate scenario analysis must be carried out at least every 3 years, although there are circumstances which may require the climate scenario analysis to be re-done sooner than three years. This may be as a result of, but not limited to:

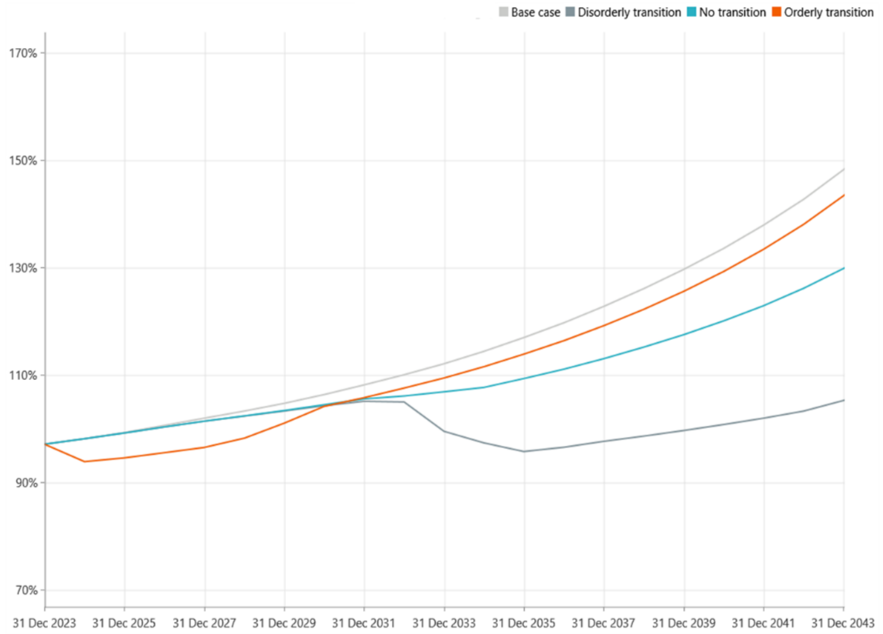
- A significant/material change to the investment and/or funding strategy; or
- The availability of new or improved scenarios or modelling capabilities or events that might reasonably be thought to impact key assumptions underlying scenarios.

Over the year to 31 March 2026, the Group Trustees have agreed a new investment strategy for the Group, which includes an allocation to Asset-Backed Securities, a sell down of Global Equities (both implemented in Q4 2025), and introduction of Investment Grade Credit.

The Group Trustees reviewed the climate scenario analysis completed as at 31 December 2023 and have decided not to refresh the analysis this year given the Group Trustees are currently in the process of implementing the agreed changes to the Group's strategy. The Group Trustees are due to refresh the analysis later in 2026 as part of the triennial review required under the Regulations.

Impact on the funding level

The Group Trustees reviewed scenario analysis which considered the potential impacts of climate change on the Group's strategic asset allocation and liabilities (measured on the Gilts+0.3% basis) and, therefore, its funding position. The analysis is shown in the chart below.



Source: Aon. Effective date of the impact assessment is 31 December 2023

What does the chart show?

The chart shows what might happen to the Group's funding level under each climate scenario up to 20 years into the future. Each line represents a different scenario. The actual funding experience is likely to be different in reality.

The funding level is a measure of how much surplus assets (or deficit) the Group has above the cost of the pension liabilities.

Depending on the scenario, the funding level increases more or less. Under some scenarios the funding level experiences sudden falls.

Key conclusions

The Group's investment portfolio shows good resilience to climate-related risks in all three climate scenarios modelled. This is because of the low-risk investment strategy used by the Group. The portfolio is diversified across different asset classes, geographic regions and market sectors. Also, the Group invests in assets which provide a high level of protection against changes in interest rates and inflation expectations.

Over the short term, the worst-case scenario for the Group is the orderly transition, due to an orderly transition shock (from the immediate, coordinated action taken). However, the Group recovers and stays well-funded.

Over the long term, the worst-case scenario for the Group is the disorderly transition. Although initially the funding level improves, after 10 years the funding level deteriorates due to a disorderly transition shock. However, it recovers and stays above 100% by the end of 20-year modelling period.

Overall, we are comfortable with the level of resilience exhibited by the investment portfolio, and we are not going to make any further changes to the Group's proposed investment strategy as a result of this analysis. While this analysis has been performed on the Group's investment strategy at December 2023, we anticipate that the potential impact of climate change risk on the Group will be limited following the implementation of the proposed investment strategy, driven predominantly by its lower-risk nature and higher allocation to LDI in comparison to the existing strategy.

Considering climate change impacts on sponsoring employer

A key risk identified from the scenario analysis is the volatility of the funding level. In both orderly and disorderly transition scenarios, the Group's funding level drops before recovering. If the funding level worsens, the sponsoring employer might face financial pressure to cover the shortfall with additional contributions. This could also lead the Group to take on more risk or extend the timeline for reaching full funding or other goals. However, the Group is well-funded and invests in a low-risk strategy with high levels of hedging. Therefore, we have taken a proportionate approach to assessing the employer's exposure to climate-related risks and opportunities.

Group Trustees' update – 31 March 2026

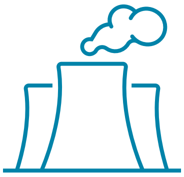
In 2025, the Group Trustees assessed the potential impacts of climate change on the covenant. This included a review of the extent to which these impacts could vary under different scenarios; the actions being taken by the sponsoring employer to respond to climate-related risks and the ability of the covenant to support the climate-related risks to the Group's funding level. The findings of the assessment were included in the Group's TCFD report for the year ended 31 March 2025 and are also summarised in the Appendix.

Over the year to 31 March 2026, as part of the 2025 Actuarial Valuation, a full assessment of the employer covenant was prepared by the Group Trustees' covenant adviser (Aon). The impact of climate change on the covenant was reflected proportionately within this review. It was concluded that while there are material physical risks to the sponsoring employer's operations as a result of climate change, the financial impacts are expected to be largely mitigated by the regulatory regime. Furthermore, the covenant is strong enough (at the time) to support the potential impact on the Group's investments.

Metrics & targets

Our climate metrics

In our first year of TCFD reporting, we decided to report on the metrics below. This year we reviewed the metrics, and we believe they continue to be suitable for us to report against.



Total Greenhouse Gas emissions

The total greenhouse gas (GHG) emissions associated with the portfolio. It is an absolute measure of carbon output from the Group's investments and is measured in tonnes of carbon dioxide equivalent (tCO2e).

Carbon footprint

Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested (tCO2e/£m).

Data Coverage

A measure of the proportion of the portfolio that there is high quality data for (i.e. data which is based on verified, reported, or reasonably estimated emissions, versus that which is unavailable).

Portion of the portfolio with net zero or Paris-aligned targets

A metric which shows how much of the Group's assets are aligned with a climate change goal of limiting the increase in the global average temperature to 1.5˚C above pre-industrial levels.

It is measured as the percentage of portfolio investments with a declared net-zero or Paris-aligned target, or are already net-zero or Paris-aligned. The Group Trustees do not estimate or interpolate missing data. The figures reported reflect only those proportions of each asset class for which a net zero or Paris-aligned target has been formally confirmed.

Asset class		Asset Valuation (%)	Scopes 1 and 2: Data Coverage (%)	Scopes 1 and 2: Carbon footprint (tCO_2e/£m)	Scopes 1 and 2: Total GHG emissions (tCO_2e)	Scope 3: Data Coverage (%)	Scope 3: Carbon footprint (tCO_2e/£m)	Scope 3: Total GHG emissions (tCO_2e)	Proportion of holdings with net zero or Paris-aligned targets (%)
Equities	2025	*Not applicable – the Group disinvested from its equity holdings during the year to 31 March 2026.*							
	2024	14%	99%	66	4,857	98%	733	53,184	43%
Alternatives	2025	61%	54%	79	11,975	54%	171	26,054	34%
	2024	42%	54%	89	10,717	55%	221	27,035	43%
Fixed Income	2025	39%	46%	32	2,659	47%	873	72,373	19%
	2024[1]	45%	46%	59	6,310	46%	738	79,664	21%
Total (ex LDI)	**2025**	**100%**	**51%**	**63**	**14,634**	**51%**	**419**	**98,427**	**28%**
	2024[1]	100%	57%	73	21,883	57%	528	159,883	33%
LDI	2025		100%	135.6	**Physical** 42,427 **Synthetic** 49,516	Not applicable			
	2024		100%	141.2	**Physical** 49,716 **Synthetic** 47,288				

Source: Investment managers / Aon. Figures may not sum due to rounding.
Emissions data was provided by the managers as at 31 December 2025 and 31 December 2024. Insight and L&G provided data at 31 March 2026.
Scope 3 metrics are not reported for LDI, as LDI contains primarily UK sovereign bonds and the calculation methodology for Scope 3 emissions is not yet widely accepted for sovereign bonds.
[1] 2024 figures for fixed income and total (ex LDI) have been amended to reflect updated calculation methodology.

Commentary

Alternatives:

- Scope 1,2 & 3 coverage remained in line with the previous year.
- Scope 1 & 2 increase in absolute emissions is driven by an increase in reported emissions from the listed infrastructure and property funds. The decrease in relative emissions is mostly attributed to the introduction of two new asset-backed securities funds over the year, which do not report emissions data and has affected the underlying aggregation.
- Scope 3 decrease in relative and absolute emissions is mostly attributed to the lower emissions reported for the Threadneedle Property fund.

Fixed Income:

- Scope 1,2 & 3 coverage remained in line with the previous year.
- Scope 1 & 2 decrease in absolute and relative emissions can largely be attributed to the BlackRock Absolute Return Bond Fund and the Insight Bonds Plus Fund. Both Funds are actively managed and so changes to the underlying portfolio holdings will influence the overall carbon footprint of the Fund.
- Similarly, Scope 3 decrease in absolute emissions can be largely attributed to lower emissions reported for the BlackRock Absolute Return Bond Fund and the Insight Bonds Plus Fund. The Scope 3 increase in relative emissions can be largely attributed to the higher carbon footprint figure reported for the L&G Sterling Liquidity Fund.

Notes on the data

In general, we relied on information provided by the Group's investment managers about their greenhouse gas emissions. Our adviser, Aon aggregated this information to calculate the metrics for the Group's portfolio of assets.

The exception to this is the metrics for the LDI; please see the *Appendix* for more information.

Availability of data:

- 5 of the Group's 8 managers provided scopes 1, 2 and 3 GHG emissions.
- 3 managers (Securis, Janus Henderson and TCW) did not provide any emissions data. This is not unexpected given the nature of the asset classes (asset-backed securities and insurance-linked securities) makes it difficult to collate emissions data for the underlying portfolio holdings. This issue is expected to persist for the foreseeable future given the lack of data is inherent to the nature of the asset class itself, which will take significant time to be able to overcome.

Aon did not make estimates for missing data.

The reported emissions metrics may not fully capture the Group's GHG emissions due to some missing data. We expect that future reports will benefit from improved information from managers.

How we collected the carbon data

Our investment adviser, Aon, collected the carbon emissions data from our managers on our behalf using the industry standard Carbon Emissions Template ("CET"). The CET was developed by a joint industry initiative of the Pension and Life Savings Association, the Association of British Insurers and Investment Association Working Group. The CET seeks to provides a standardised set of data to help pension schemes meet their climate reporting obligations.

Targets

Climate-related targets help us track our efforts to manage the Group's climate change risk exposure.

In our first year of reporting, we set a target to improve scope 1 and 2 data coverage to above 90% coverage of carbon emissions data across all growth asset classes by 2028. In 2024, this target was expanded to include scope 3 emissions.

Without meaningful data from the investment managers, it is very hard for us to measure our climate-risk exposure, so it is important to set a target to improve the data quality of the GHG emissions data from the managers.

> **Group Trustees' update**
> Each year we review the suitability of the target we have set. Based on the data collected and the metrics calculated this year, we believe the target continues to be suitable.

Our progress towards the target

The table below shows the data coverage metrics for this year and the previous reporting years.

	Y1 Report	Y2 Report	Y3 Report[1]	Y4 Report
Actual Data Coverage (ex LDI) Scope 1 and 2	45%	54%	57%	51%
Actual Data Coverage (ex LDI) Scope 3	-	52%	57%	51%

[1] 2024 figures for fixed income and total (ex LDI) have been amended to reflect updated calculation methodology.

The Group's performance against the target is measured and reported on every year by collecting and evaluating metrics data from investment managers across the portfolio. This data is then assessed and benchmarked against the previous year's data coverage to determine how the Group has performed relative to the target set.

Over time, this will show the Group's progress against the target. We have made progress towards our target based the assessment above since the first year. The data coverage excludes LDI.

Data coverage has fallen slightly over the year. This was driven primarily by the replacement of the Group's equity holdings (an asset class with very high data coverage) with two new asset-backed securities mandates (an asset class with very low data coverage) over the reporting year. We therefore do not see this decrease as a material issue given that it is related to a structural change in the Group's asset class mix where data coverage is inherently limited, rather than an underlying reduction in data reported year-on-year for existing managers.

Steps we are taking to reach the target

Over the year, the Group Trustees, supported by their Investment Advisor, have requested continued improved data availability and coverage for the funds in which the Group is invested in. The Group

Trustees have not spent further resource on managers beyond the steps outlined in this report, as improvements in the responses from managers at the underlying fund level have been identified. The Group Trustees may choose to engage further in the future should progress towards the target at the underlying fund level decline.

The Group Trustees will continue to take the following steps to progress towards the target:

Step 1 **Increase Data Coverage**

Observation: data was unavailable for three mandates within the Alternatives asset class. Where provided, the data coverage was limited for some mandates, mainly within Fixed Income.

Solution: The Group Trustees will engage with managers directly, or through Aon to request improved data availability and coverage for the mandates that lacked data. Through ongoing pressure from asset owners collectively and new regulatory requirements for asset managers, we expect data coverage to improve over time and will engage further with the managers if progress does not meet our expectations.

However, for some of the asset classes in which the Group invests, particularly in the alternative mandates, it may be some time before meaningful carbon data becomes available due to methodologies to calculate carbon emissions not yet being agreed. We will encourage these managers to participate in industry consultations to develop methodologies.

Step 2 **Facilitate consistent reporting**

Observation: The Group Trustees have relied on manager data but, due to the lack of industry-wide standard on calculating some of these metrics, the information may not be consistent year on year.

Solution: The Group Trustees will engage with the managers directly, or through Aon to ensure that the carbon information provided is consistent on the annual basis. However, the Group Trustees recognise that the reporting may change in line with evolving industry practices.

Appendices

Appendix 01 - Climate governance and risk management framework

Climate governance

As Group Trustees, we are responsible for overseeing all strategic matters related to the Group. This includes the governance and risk management frameworks relating to climate-related risks and opportunities.

We agreed our climate-related beliefs and our approach to managing climate change risk. These are set out in the Group's Statement of Investment Principles ("SIP"), which is reviewed annually.

Group Trustees' update

During the year to 31 March 2026, the Group Trustees reviewed the Group's RI-360i dashboard, which provides insights into the RI activities undertaken by the Group's underlying managers. The Group Trustees agreed to continue to monitor the trends over time as well as encourage greater transparency from managers.

The Group Trustees conducted a review of the Group's RI Policy and agreed that no changes were needed, but they will consider training where required on ESG themes, such as: biodiversity and nature risks, and social factors, in order to better understand the potential implications on the investment portfolio and support ongoing engagement with the Group's investment managers as deemed necessary.

Our climate beliefs

We believe that the risks associated with climate change can have a materially detrimental impact on the Group's investment returns.

We also believe that climate-related factors may create investment opportunities. We seek to capture such opportunities where they are appropriately aligned with our strategic objectives and fiduciary duty.

Climate-related risks and opportunities are integrated into our risk management framework so we can maintain oversight of the climate-related risks and opportunities that are relevant to the Group.

We receive regular training on climate-related issues to ensure that we have the appropriate knowledge and understanding to support good decision-making. Over the year, our Investment Adviser provided an update on the Group's climate related reporting requirements and the risks and opportunities associated with the Group's investments, as part of the production of this report.

We are ultimately responsible for oversight of all strategic matters related to the Group and for making Group wide decisions. This includes approval of the governance and management framework relating to ESG considerations and climate-related risks and opportunities.

Role of the Group Trustees

With support from our advisers, we seek to ensure that investment decisions include consideration of climate-related risks and opportunities within the context of the Group's wider risk and return requirements and are consistent with the RI policy as set out in the SIP.

We regularly monitor and review progress against the Group's climate change risk management objectives and any material developments.

Key climate-related activities include:

- Ensuring investment proposals explicitly consider the impact of climate risks and opportunities;
- Engaging with the Group's investment managers to understand how climate-related

risks are considered in their investment approach; and

- Working with the Investment Adviser and investment managers to ensure stewardship activities are being undertaken appropriately on the Group's behalf and relevant climate-related metrics as set out in the TCFD recommendations are disclosed. This has been reviewed as part of the annual Engagement Policy Implementation Statement, which provides examples of voting and engagement (latest statement available here).

Group Trustees' update

The Group Trustees have spent a considerable amount of time and resource in understanding the Group's climate-related risks and opportunities to be able to provide a comprehensive TCFD report.

This has been carried out through a series of engagements with investment managers and a review of climate-related information associated with the investment portfolio.

How we work with our advisors

We expect our advisers and investment managers to bring important climate-related issues and developments to our attention in a timely manner. We expect our advisers and investment managers to have the appropriate knowledge on climate-related matters and to apply this knowledge to the advice that they provide us. We communicate these expectations to our advisers and investment managers, and seek to question or challenge information received from third-parties for reasonableness in line with our fiduciary duties where appropriate.

We take account of our investment adviser's views of each investment manager's ESG-integration capabilities when appointing or reviewing investment managers. We also include a consideration of climate-related risks and opportunities as part of performance-review meetings with our investment managers.

Investment adviser – our investment adviser, Aon, provides investment-related strategic advice and support on our climate-related risks and opportunities. This includes regular training and updates on climate-related issues, climate change scenario modelling and ESG ratings for investment managers.

Aon has supported us on climate-related matters at numerous Group Trustee Board meetings as well as at meetings with our investment managers.

Aon has qualifications and expertise in this area, including their participation in cross-industry initiatives and being a signatory of both the Principles for Responsible Investment (PRI) and the UK Stewardship Code.

The Group Trustees monitor the quality of climate-related support and advice from its investment adviser as part of an annual review against the investment consultant's objectives.

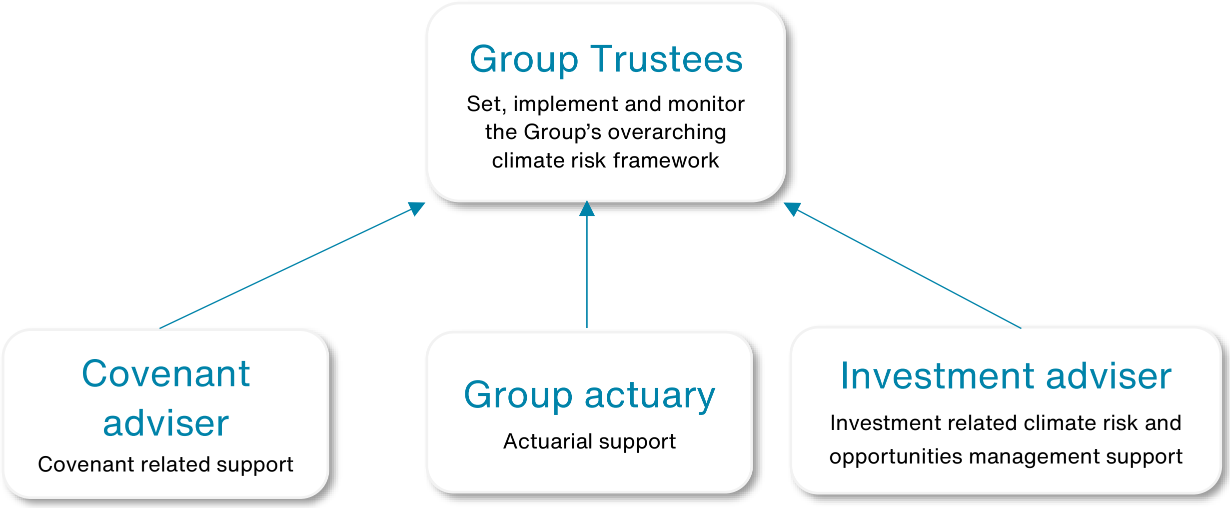
Group Actuary - the Group Actuary, Philip Dennis, helps us assess the potential impact of climate-related risks on the Group's funding where relevant.

As part of its assessment of its advisers' climate-related competence, the Group Trustees will seek to understand how climate-related factors affect the funding assumptions used for the Group, and which sources of expertise the Group has used in determining the appropriate assumptions to use.

Covenant adviser - our covenant adviser, Aon, helps us understand the potential impact of climate-related risk on the Sponsor covenant of the Principal Employer (Northern Electric plc) and each of the Participating Employers (Cal Energy Resources Limited, Integrated Utility Services Limited, Northern Powergrid (Northeast) plc, Vehicle Lease and Service Limited, Northern Powergrid (Yorkshire) plc.

As part of covenant advice sought, the Group Trustees will seek to understand how climate-related factors could affect the sponsoring employers' strategies over time. In doing so, the Trustee will seek information from the covenant adviser regarding its credentials in assessing climate-related factors.

We illustrate our Group's structure below:



Group Trustees' update

Throughout the year, the Group Trustees have met with their investment adviser to ensure that they are meeting the regulatory requirements and obligations expected from them with regards to reporting on climate-related risks and opportunities.

The TCFD report, SIP, RI Policy and Engagement Policy Implementation Statement (EPIS) all form evidence of the governance that the Group Trustees have in place.

The Group Trustees also receive a Responsible Investment dashboard that is updated annually and provides visibility of the climate-related risk credentials of the Group's investment managers to support further engagement activity.

Our process for identifying and assessing climate-related risks

We have established a process to identify, assess and manage the climate-related risks that are relevant to the Group. This is part of the Group's wider risk management framework and is how we monitor the most significant risks to the Group in our efforts to achieve appropriate outcomes for members.

The process involves both a qualitative assessment of climate-related risks and opportunities and a quantitative climate scenario analysis, both of which are provided by our investment adviser and reviewed by us. Together these give us a clear picture of the climate-related risks to which the Group is exposed.

When prioritising the management of risks, we assess the materiality of climate-related risks relative to the impact and likelihood of other risks to the Group. This helps us focus on the risks that pose the most significant impact.

Our climate risk management framework

We recognise the long-term risks posed by climate change and have taken steps to integrate physical and transition climate-related risks into the Group's risk management processes.

We have developed a climate risk management framework as set out in the tables below. It is part of the Group's wider risk management and is how we monitor the most significant risks to the Group. This framework clearly describes who is involved, what is done and how often.

Governance

Activity	Owner	Support	Frequency
Develop a climate change governance framework (this document)	Group Trustees	Investment Adviser	One off
Add / review climate risks and activity on key Plan documentation (risk register, work plan)	Group Trustees	Investment Adviser	Ongoing
Review advisor objectives to ensure advisors have appropriate climate capability, and bring important, relevant, and timely climate-related issues to the Group Trustees' attention	Group Trustees	Advisors	Annual
Train Group Trustees on climate-related topics including climate risks and opportunities	Group Trustees	Investment Adviser	Ongoing
Engage with the Group's investment managers to understand how climate risks are considered in their investment approach and stewardship activities are being undertaken appropriately	Group Trustees	Investment Adviser/ Investment Managers	Annual
Ensure investment proposals explicitly consider the impact of climate risks and opportunities, and seek investment opportunities	Group Trustees	Investment Adviser	Ongoing
Ensure that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material	Group Trustees	Group Actuary, Covenant advisor	Triennial

Group Trustees' update for the year ending 31 March 2026

The Group Trustees met throughout the year with their investment advisors to discuss the requirements set out for the Group with regards to TCFD reporting and the statutory requirements relevant to the Group. The Group Trustees have a process in place to ensure that disclosure and compliance requirements are followed in relation to TCFD, SIP and EPIS.

Barring any regulatory changes, the ongoing requirements in the above plan are likely to continue on a routine basis. Similarly, covenant advice was considered as part of the most recent actuarial valuation, and will also be considered as part of future actuarial valuations.

Strategy

Activity	Owner	Support	Frequency
Identify climate-related risks and opportunities (over agreed time periods) for investment & funding strategy	Group Trustees	Investment Adviser/ Investment Managers	Annual
Conduct climate change scenario analysis to understand the impact of climate-related risks on the Group's portfolio	Group Trustees	Investment Adviser	Annual reviews. Triennial refreshed modelling thereafter.

Group Trustees' update for the year ending 31 March 2026

The Group Trustees reviewed the climate scenario analysis, completed in 2023, and decided to not refresh the analysis this year, as a number of changes to the Group's investment strategy are in the process of being implemented. Our scenario analysis informs us how our investment and funding strategy over the short, medium, and long term will fare across modelled scenarios. Tools such as the PCRIG Due Diligence Questionnaire and RAG Due Diligence Questionnaire are also deployed to our investment managers to help identify and assess climate related risks and opportunities.

Risk management

Activity	Owner	Support	Frequency
Identify, assess, and manage key climate-related risks	Group Trustees	Investment Adviser/ Investment Managers	Ongoing
Consider climate-related risks in the Group's other risk processes and documents, such as the risk register and the SIP, and regularly review these	Group Trustees	Advisors	Ongoing

Group Trustees' update for the year ending 31 March 2026

We have processes in place for identifying and assessing climate-related risks. Climate risk management is integrated into the ongoing risk management activities of the Group via this climate risk management plan.

We carried out qualitative assessment of climate risks and quantitative climate scenario analysis, which combined helps us to focus on the risks that pose the most significant impact. Based on our analysis for this TCFD report, we do not need to make any further changes to the Group's investment strategy. Additionally, we conduct an annual review of our manager's rating across various climate-related risk criteria to ensure our climate beliefs are being aligned as much as possible.

Metrics and Targets

Activity	Owner	Support	Frequency
Review and agree on metrics	Group Trustees	Investment Adviser/ Investment Managers	Annual
Review and agree target	Group Trustees	Investment Adviser/ Investment Managers	Annual
Obtain data for agreed metrics	Group Trustees	Investment Adviser/ Investment Managers	Annual

Group Trustees' update for the year ending 31 March 2026

For this report we have collected and reported on the carbon metrics associated with the Group's assets from the relevant managers. More information can be found in the Metrics and Targets section of the report.

Appendix 02 – Climate risk categories

Climate-related risks are categorised into physical and transition risks. Below are examples of transition and physical risks.

Transition risks

Transition risks relate to how well an organisation can adjust to reducing greenhouse gas emissions and switching to renewable energy. These risks include four main areas: policy and legal issues, technological changes, market shifts, and reputation concerns.

Policy and legal

Examples
Increased pricing of GHG emissions
Enhanced emissions-reporting obligations
Regulation of existing products and services

Potential financial impacts
Increased operating costs (e.g. higher compliance costs, increased insurance premiums)
Write-offs, asset impairment and early retirement of existing assets due to policy changes

Technology

Examples
Cost to transition to lower emissions technology
Unsuccessful investments in new technologies

Potential financial impacts
Write-offs and early retirement of existing assets
Capital investments in technology development
Costs to adopt new practices and processes

Market

Examples
Changing customer behaviour
Uncertainty in market signals
Increased cost of raw materials

Potential financial impacts
Reduced demand for goods and services due to shift in consumer preferences.
Abrupt and unexpected increases in energy costs.
Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations).

Reputational

Examples
Stigmatisation of sector
Increased stakeholder concern or negative stakeholder feedback

Potential financial impacts
Reduced revenue from decreased demand for goods and services.
Reduced revenue from decreased production capacity

Physical Risks

Physical risks are the physical effects of climate change on a company's operations. They impact how well a company can function due to climate disruptions. These risks are divided into acute risks, which are sudden extreme climate events, and chronic risks, which are long-term climate trends.

Acute

Examples
Extreme heat
Extreme rainfall
Floods
Droughts

Chronic

Examples
Water stress
Sea level rises
Land degradation
Variability in temperature

Appendix 03 – Climate-related risk assessment in detail

The following tables summarise the transition and physical risks for each asset class the Group is invested in. Each table is based on ratings and commentary provided by the managers.

Alternatives – (29% of portfolio)

- CBRE Global Investors UK Property PAIF
- Threadneedle Property Unit Trust
- Securis Non-Life Fund (ILS)
- L&G Listed Infrastructure
- Janus Henderson ABS
- TCW Global Securitised Credit

Physical Risks

	Acute	Chronic
Short	Low to Medium	Low to Medium
Medium	Low to Medium	Low to Medium
Long*	Low to High	Low to High

The materiality of physical risks vary across timeframes. Property and ABS funds are especially affected by extreme weather events and unpredictable climate events.

Transition Risks

	Regulatory	Technology	Market	Reputation
Short	Low to Medium	Low to Medium	Low	Low
Medium	Low to High	Low to Medium	Low to Medium	Low to Medium
Long*	Low to High	Low to High	Low to High	Low to Medium

The transition risks gradually increase over time. This is due to the increased regulatory pressures affecting real estate, changing consumer demands in the market, and potential reputational damage from not transitioning to a low carbon economy.

The results of the alternatives analysis are in line with the previous report. The Janus Henderson ABS Fund has categorised some long-term risks as “high”, given the risk of increased volatility arising from climate extremes. However, Janus Henderson noted that the risk horizon for most securitisations is less than 10 years, somewhat mitigating this risk.

Fixed Income – non LDI (34% of portfolio)

- Insight Bond Plus
- BlackRock Absolute Return Bond Fund
- L&G Sterling Liquidity Fund

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Low to Medium	Low

Transition Risks

	Regulatory	Technology	Market	Reputation
Short	Low	Low	Low	Low
Medium	Low to Medium	Low	Low to Medium	Low
Long	Low to Medium	Low to Medium	Low to Medium	Low

Fixed income remains relatively unaffected from physical risks due to the risk mitigation processes that managers build into their portfolios. Some physical risks from extreme weather events and changes to the severity and frequency of these events are already being felt today. However, risks are relatively geographically concentrated.

Transition risks remain low throughout the timeframes. Managers noted that they consider such risks in their ESG risk analysis frameworks when constructing funds.

The results of the fixed income analysis are identical to the previous report. Managers noted that while climate-related risks continue to evolve, the actively-managed nature of the funds means that underlying portfolio construction can be adapted, to help mitigate evolving climate-related risks.

LDI (34% of portfolio)

- BlackRock Passive QIAIF

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Low	Low

Transition Risks

	Regulatory	Technology	Market	Reputation
Short	Low	Low	Low	N/A
Medium	Low	Low	Low	N/A
Long	Low	Low	Low	N/A

The LDI portfolio is resilient across all time horizons against the effects of both physical and transition risks associated with climate change and is, therefore, classed as low risk. The manager assigns risk ratings to securities depending on how the holdings today are exposed to physical and transition risks in different scenarios within the manager's underlying proprietary climate risk models.

The results of the LDI analysis are identical to the previous report. The Group's LDI manager noted that the stability in ratings largely reflects the nature of the underlying asset class, where the impact of climate-related risks on valuations remains limited.

Source: Managers, Aon. *N/A = TCW has provided a rating as 'N/A' for Long term risks as it invests in securities with, predominantly, less than 5-years to maturity and is able to dynamically position and reinvest proceeds freely when securities evolve and hence doesn't pose itself to long term risks. BlackRock ARBF has provided a rating N/A for Reputation risk as it does not relate to this asset class.

Appendix 04 – Climate scenarios in detail

The table below describes each climate scenarios and the impact on the Group over the short-, medium- and long-term time horizons.

Base case Temperature rise +1.5°C- 2.4°C Reach net zero 2050 Uncoordinated environmental regulation	**Summary of the Scenario** The base case uses Aon's Capital Market Assumptions, reflecting current market pricing, including climate impacts. Action is taken to tackle climate change, but the approach is fragmented. The transition to a low-carbon economy is assumed to be a slow yet orderly.	**Impact to the Group** The funding level gently increases, with accelerating over time.
No Transition Scenario Temperature rise +4°C Reach net-zero after 2050, if at all Environmental regulation None	**Summary of the Scenario** **In the short-term:** No action is taken to combat climate change. **In the medium-term:** No action is taken to combat climate change. **In the long-term:** Climate change headwinds grow and act as a drag on economic growth and risk asset returns. Impacts from physical risks become more severe and irreversible by 2100.	**Summary of the impact to the Group** **In the short term:** The Group experiences a mild increase in the funding level but increasing risks posed to the overall well-being of members and their beneficiaries. **In the medium term:** The funding level slightly lags some of the other scenarios modelled at the 10-year mark. **In the long term:** The funding level improves on a similar trajectory to the other scenarios modelled but at a slower pace. In the long term. This is the second worst-case scenario for the Group (albeit still resulting in a strong funding position).
Disorderly Scenario Temperature rise <3°C Reach net-zero after 2050 Environmental regulation Late and Aggressive	**Summary of the Scenario** **In the short-term:** Insufficient consideration given to long-term policies and there is no action taken to combat climate change. **In the medium-term:** Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. Adverse	**Summary of the impact to the Group** **In the short term:** The funding level improves in line with the other scenarios modelled in the short term. **In the medium term:** The funding level deteriorates after 10 years due to a disorderly transition shock, sending the funding level below the 100% mark.

	impacts from climate change leads to a drag on risk assets.	
	In the long-term: After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long-term. However, the late and disorderly climate transition means that physical climate risks remain prominent over the very long-term.	**In the long term:** The funding level for the Group recovers and stays slightly above 100% by the end of the 20-year modelling period. This is the worst-case scenario for the Group.
Orderly Scenario	**Summary of the Scenario**	**Summary of the impact to the Group**
Temperature rise 1.3°C – 2°C Reach net-zero 2050 Environmental regulation Coordinated	**In the short-term:** Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly.	**In the short term:** This is the worst scenario for the Group in the short term, due to an orderly transition shock taken from the immediate, coordinated action towards a low-carbon economy.
	In the medium-term: The rapid transition to clean technologies and green regulation begins to boost economic growth.	**In the medium term:** Under this scenario, at the 10-year mark the Group has recovered its funding levels to be in line with/better than most other scenarios modelled.
	In the long-term: The rapid transition to clean technologies and green regulation begins to boost economic growth. This represents the fastest transition to a green economy, combined with limited physical impacts from climate change despite the large initial transition cost.	**In the long term:** The funding level remains well above 100%, this is the third best-case scenario for the Group, falling short of the Base Case.

Source: Aon. Effective date of the impact assessment is 31 December 2023.

Modelling limitations

The scenarios were developed by Aon and are based on many assumptions. They are only illustrative and subject to considerable uncertainty.

The climate scenarios modelling illustrates the potential impact climate change could have on the asset portfolios. It does not consider the impact climate change could have on other risks for our clients, such as timing of member options, operational risks, and covenant risk and longevity risk.

When changing the investment strategy, it is important to consider other relevant issues such as governance, costs, and implementation, including choosing managers and conducting due diligence.

The scenario modelling reflects market conditions and market views at the effective date of the modelling. The model may produce different results for the same strategy under different market conditions.

Modelling assumptions

The climate scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty. They consider the exposure of the Group to climate-related risks and the approximate impact on asset/liability values over the long-term.

The purpose of the model is to consider the long-term exposure of the Group to climate-related risks and the pattern of asset returns over the long term.

i. In particular, the model considers different climate change scenarios and the approximate impact on asset/liability values over the long-term.

Our model assumes a deterministic projection of assets and gilts+0.5% liabilities, using standard actuarial techniques to discount and project expected cashflows.

i. It models the full yield curve as this allows for an accurate treatment of the liabilities and realistic modelling of the future distribution of interest rates and inflation. It also allows us to truly assess the sensitivities of the assets and liabilities to changes in interest and inflation rates.

ii. The parameters in the model vary deterministically with the different scenarios.

iii. Note no allowance is made for expenses, with modelled asset/liability cashflows left unaffected by these factors.

The liability update and projections are considered appropriate for the analysis. However, they are approximate and a full actuarial valuation carried out at the same date may produce a materially different result. The liability update and projections are not formal actuarial advice and do not contain all the information you need to make a decision on the contributions payable or investment strategy.

The model intends to illustrate the climate-related risks the Group is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the portfolio allocation.

I. Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

II. Climate-related risks are considered on an asset class level, and do not consider the specific geographical locations which will have a strong influence on the climate-related risk the Group is exposed to.

Investment risk is only captured in the deviance from the Base Case, but this is not the only risk that the Group faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

The model has been set up to capture recent market conditions and views; the model may propose different solutions for the same strategy under different market conditions.

This report, and the work relating to it, complies with ‘Technical Actuarial Standard 100: General Actuarial Standards’ (‘TAS 100’) (updated July 2023). The model complies with TAS 100.

Appendix 05 – Climate metrics in detail

The material provided herein is grounded in part from publicly available information and information from third-party sources (e.g. the investment managers) with whom the Trustee has contractual relationship and the Trustee believes to be reliable, but which has not been independently verified by the Trustee, and Trustee does not represent that the information is accurate or complete.

Additional information on the metrics calculations

Carbon metrics for non-LDI asset classes

Emissions data was collected from the managers using the CET[1]. Managers provided carbon footprint and data coverage for their fund(s).

Aon calculated the total GHG emissions for each fund as follows:

£M invested in the fund x *Carbon footprint* x *Data coverage*

Aon aggregated the carbon footprint for each asset class as follows:

$$\frac{\sum Gi}{\sum(Ai \times Ci)}$$

Where *i* is each fund in the asset class

G_i = Total GHG for fund *i* (tCO_2e)

A_i = Assets invested in fund *i* (£M)

C_i = Data Coverage of fund *i* (%)

Aon does not make estimates for data which was unavailable

LDI

Aon requested the physical and synthetic split from the Group's LDI manager. The carbon footprint was calculated using UK GHG Emissions and PPP adjusted GDP and assumes data coverage to be 100%. Scope 3 is not applicable to LDI, as it contains primarily UK sovereign bonds and scope 3 emissions are not yet widely available for UK sovereign bonds.

Portion of the portfolio with net-zero or Paris-aligned targets

Aon requested a SBTi validated metric from our public investment managers for our binary target measurement metric and aggregated the results based on the portion of assets invested in each fund – i.e., the portion of the assets invested which have a net zero or Paris-aligned target. Aon does not make any estimates for missing data. The Group's SBTi validated metric only represents the portion of the portfolio for which there is data.

Industry-wide issues

There is no standard method for calculating some of these metrics, leading to varied approaches by managers. These industry-wide issues underscore the importance of climate reporting to enhance transparency. We anticipate improved information from managers as the industry aligns to expectations and best practice standards.

[1] https://www.plsa.co.uk/Policy-and-Research/Document-library/Carbon-Emissions-Template

Appendix 06 – Covenant Assessment

We have taken a proportionate approach to summarising the potential impacts on the covenant.

- NPg ("Northern Powergrid") [through its subsidiaries Northern Powergrid (Yorkshire) plc and Northern Powergrid (Northeast) plc] is the sole provider of electricity distribution in the north-east of England. It is regulated by the Office of Gas and Electricity Markets ("Ofgem") which requires the DNOs to operate within a regulatory framework, which protects consumers by limiting what Distribution Network Operators ("DNOs") can charge for the use of their networks. The RIIO-ED2 price control runs from 1 April 2023 to 31 March 2028.
- In preparing its 2023-28 business plan in 2021, NPg used the Meteorological Office's UK Climate Projections 2018 which focussed on two potential climate scenarios:
    - RCP2.6, which is roughly in line with the 2°C global warming considered in the Paris agreement (broadly speaking, the Group Trustees' Orderly Transition scenario); and
    - RCP8.5, which represents the highest greenhouse gas concentrations and has an increase in global mean temperature of c.4°C by 2080-2100 (broadly speaking, the Group Trustees' No Transition scenario).

NPg's infrastructure faces varied physical risks from climate change however, its 2024 assessment concluded that the risk status was generally low and mitigating actions are being taken.

In December 2024, NPg published its latest Climate Change Adaptation report which sets out its assessment of identified risks to its assets and operations as a result of climate change and the actions being taken by Management to seek to mitigate the potential impacts.

The report summarises the likelihood and potential impact of the assessed risks to conclude on an overall score for each risk.

- Higher-likelihood lower-impact risks include the potential interference with assets from higher vegetation growth during longer growing seasons and ground movements due to drought, while lower-likelihood higher-impact risks relate primarily to flooding from higher (and extreme) precipitation.
- As shown in the "Impact and Likelihood" matrix below, the overall score for all risks is generally considered to be low under the RCP2.6 (i.e. Orderly Transition) scenario through to the next century.
- We note that a higher risk status has been assigned to the flooding-related risks under the No Transition (4oC) scenario by the 2100s, but we suggest that this should be treated with caution given the limited confidence in predictions that far into the future.
- In response, NPg has developed various adaptation plans such as improving flood defences and also considered how it can best recover from events when they occur (noting some of the learnings from Storm Arwen in 2021).
- Implementation of mitigations remains in progress in many areas noting that, in some cases, these will require improving the design standards of the network when assets are next due for replacement.

Limitations of the assessment

- To the extent possible, we also set out potential timeframes of the impacts.

- We have adopted a pragmatic approach and summarise only the key issues. NPg publishes a significant amount of information on the risks stemming from climate change which we reference, together with its associated governance arrangements. Accordingly, we only present an abbreviated summary of the key points.
- Our comments are based only on public-level information. Accordingly, we have not engaged with Management in the preparation of this paper.
- This paper does not represent a full assessment of the employer covenant which will be prepared as part of the Group's 2025 Valuation.

NPg assessment of climate change risks, RCP2.6 to 2100s

Likelihood \ Impact	Minimal	Minor	Moderate	Major	Catas-trophic
Almost certain					
Likely		1			
Possible		5	5		
Unlikely		1	2	1	
Highly unlikely					1

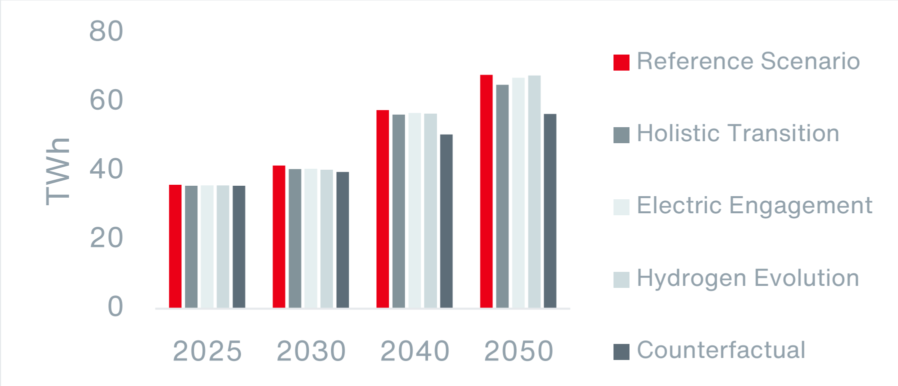
Source: NPg, Adapting to Climate Change, December 2024. Note: Number of risks identified in each category are shown.

Investment is required in response to changing energy demand

While this presents covenant risks and opportunities for NPg, the financial impact will be mitigated by the regulatory regime.

- The UK's target of achieving net-zero carbon emissions by 2050 is expected to have material consequences for the energy sector and Distribution Network Operators (such as NPg).
- In its Distribution Future Energy Scenarios 2024, NPg sets out the five potential transition pathways which have been used by the National Energy System Operator – all four that achieve net zero by 2050 are expected to result in a material increase in total energy consumption (from 36 to 68 TWh) and peak electrical demand (from 7 to 14 GW) in NPg's region by 2050.
- NPg plans to increase capacity and deliver a more flexible network with smart grid solutions that respond in real time to energy demand.
- The annual cost of this investment over the 2023-28 regulatory period is estimated at c.£170m p.a. (i.e. c.25% of total expenditure). The regulatory framework allows NPg to recover this investment from consumers, making it a long-term opportunity for the covenant.
- These costs are typically recovered over a long period of time meaning the significant up-front outlay could result in a near-term increase in debt and associated financing risks.
- However, Ofgem is expected to increase the scale of the permitted investment program in the determination period due to the new Accelerated Strategic Transmission Framework which will significantly limit the risk to the covenant as a result of the significant investment required to support the energy transition.

Total electrical energy consumption, NPg region



Covenant consequences

While the energy transition brings significant investment requirements for NPg, the regulatory regime ultimately acts to limit the upside and the downside to the covenant.

Source: Distribution Future Energy Scenarios, 2024.

Summary of potential covenant impact

Climate change is expected to have limited overall impact on the covenant. Accordingly, we conclude that the covenant is adequate to support the risks to the Group's investment strategy as a result of climate change.

- NPg continues to monitor the physical risks to its infrastructure and seeks to mitigate them where possible. While arguably some impacts are already being felt, the impacts are expected to be greater over the longer term (i.e. over 10 years).
- NPg publishes regular assessments of these risks (most recently in December 2024) and currently assesses the risk level to be low which indicates limited risks to the Group's covenant.
- While material investment will be required to support the transition the current regulatory environment both limits the financial risk to NPg and will likely allow it to earn to a financial return on this investment.
- While the regulatory periods are limited to five years and arrangements can, and do, change, wholesale changes to the regulation of electricity distribution in the UK are not expected.
- As such, we do not expect climate change to have a material impact on the covenant at this time.
- We note that the Group Trustees have previously considered the impact of climate change on the Group's investments (most recently as at 31 December 2023).
- This analysis concluded that the largest impact might be felt under a Disorderly Transition scenario with the funding level on a gilts + 0.3% basis falling to c.90%.
- However, the Group would recover to full funding by the end of the 20-year modelling period, demonstrating that reliance on the covenant is expected to be limited.
- We note that the Group's DNO employers retain strong credit metrics and ratings (Moody's: A3) indicating limited covenant risk and continued financial ability to support the Group if required.

Appendix 07 – GHG emissions

Greenhouse gases trap heat in the atmosphere, keep the Earth's surface and atmosphere warm. They warm the Earth by absorbing sunlight and re-emitting it as heat. Human activities, like burning fossil fuels and deforestation, increase greenhouse gases, making the atmosphere more effective at trapping heat.

Since the Industrial Revolution, greenhouse gas levels have risen significantly. The Kyoto Protocol[2] identifies six major greenhouse gases, with human-made carbon dioxide being the largest contributor to global warming. Each gas has different global warming potential and atmospheric persistence, so emissions are measured as carbon dioxide equivalent (CO2e) for comparison.

Greenhouse gases are categorised into three 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

Scope 1: All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles

Scope 2: These are the indirect emissions from the generation of electricity purchased and used by an organisation

Scope 3: All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells

Main greenhouse gases identified by the Kyoto Protocol

CO_2
Carbon dioxide

CH_4
Methane

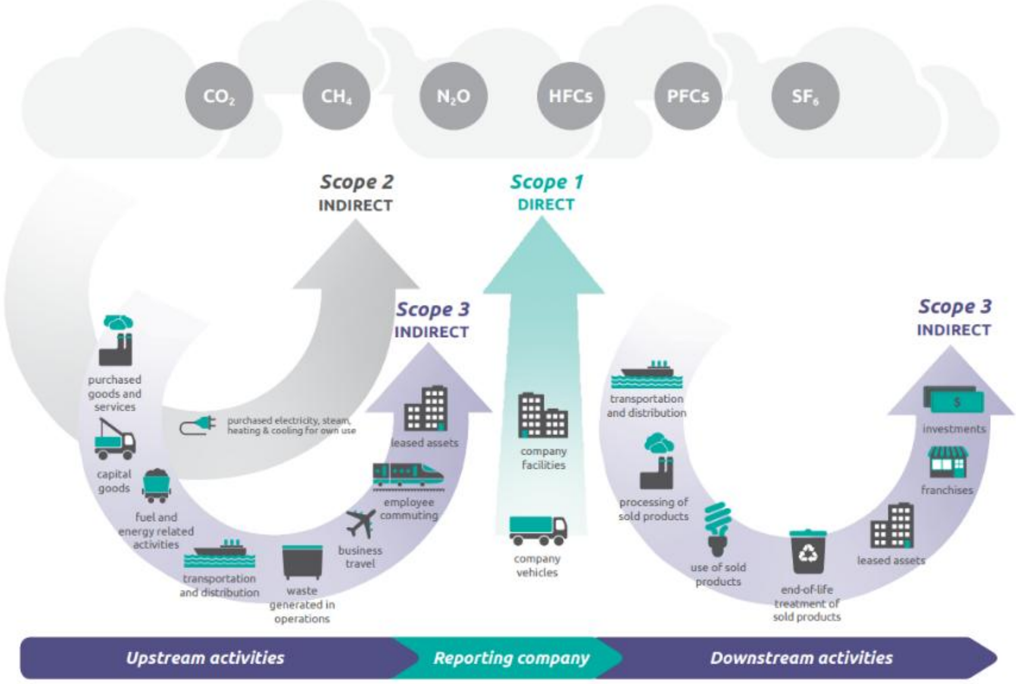
N_2O
Nitrous oxide

HFCs
Hydrofluorocarbons

PFCs
Perfluorocarbons

SF_6
Sulphur hexafluoride

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf, 2011

[2] https://unfccc.int/kyoto_protocol