Northumbrian Water Pension Scheme

Climate change governance and reporting

Year Ended 31st December 2025

The Trustee continues to focus on the impact of climate change as we believe climate change is a material financial risk to our investment portfolios. We also believe that in addition to providing pensions for our members, it would be reasonable to assume that, when they receive their pension, they and their dependents would want to spend it in a world where the environmental quality of life is broadly similar to or better than it is at present.

If sufficient action isn't taken on climate change it could lead to substantial financial, environmental, and social consequences for everyone. This is why climate change is a key consideration within the management of the Scheme's assets.

This is our fourth Climate change and governance reporting summary covering the period 1 January 2025 to 31 December 2025. The full report is available on the website: http://www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents

What is climate change?

Climate change refers to global warming caused by the greenhouse gas (GHG) emissions of human activity. These include carbon dioxide, methane, nitrous oxide and fluorinated gases across the below three scopes of emissions:

- **Scope 1: Direct** emissions from company activity (e.g. running gas boilers and vehicles)
- **Scope 2: Indirect** emissions from purchased energy (e.g. electricity purchased for heating and cooling buildings)
- **Scope 3: Indirect** emissions arising from activities across the company's value chain that are not owned or controlled by the reporting organisation (e.g. business travel)

Climate change-related risks and opportunities

As Trustee, we are ultimately responsible for identifying, assessing and managing the Climate Related Risks and Opportunities that the Scheme is exposed to. We consider the following climate change-related risks and opportunities:

- **Physical risks** - the financial risks and opportunities associated with a company's or government's resilience to climate change-related weather events
- **Transition risks and opportunities** - the financial risks and opportunities associated with a company's or government's ability to transition to a low carbon economy. Here we also include environmental opportunities - the financial opportunities of climate change-related solutions
- **Systematic risks** – the financial risks and opportunities associated with the macro effects of the consumer and government policy responses to climate change which affect overall economic growth, inflation and broad market outcomes.

Trustee Target

We have committed to achieving net-zero GHG emissions on our investments by 2050 and a 50% emissions reduction from 2022 levels by 2030 at the latest.

This is consistent with the Paris Climate Agreement's objective of limiting warming to well below 2°C relative to pre-industrial temperatures.

How we invest?

A wide range of assets are held which have different exposures to greenhouse gasses.

We continue to delegate the day-to-day investment decision-making to our Outsourced Chief Investment Officer 'OCIO'. Our OCIO engages with third-party managers who are in a position to exert significant influence on the companies in which they invest. In this regard, we expect our appointed managers to be responsible investors, meeting expectations listed in the full report.

The Scheme invests in equity and investment-grade corporate bond funds that target net zero. The funds follow a proprietary sustainability framework, apply exclusions to non-adapting or at-risk companies/ issuers, and carry out company-level engagements across the portfolio, spanning multiple themes linked to climate change and the transition to a low-carbon economy.

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The results of our annual assessment

Scenario Analysis

We have undertaken climate scenario analysis to test the resilience of the investment and funding strategy adopted by the Trustee. Both quantitative and qualitative climate change scenario analysis has been undertaken to assess the potential implications of climate change under four modelled scenarios: Rapid Transition (1.6°C), Delayed Transition (1.9°C), Limited Transition (2.9°C) and Failed Transition (3.7°C).

	Short Term (5 years)	Medium Term (10 years)	Long Term (15 years)
Quantitative	Rapid Transition is the most impactful in the near term, with a return shock of c. -0.4% by year 5	Greatest variability arises from the Delayed Transition; Failed Transition becomes most impactful by year 10, with c. -2.4% cumulative return impact	Biggest risks arise from Failed Transition, with c. -13.5% cumulative return impact by year 15
Qualitative			
Physical	More frequent extreme weather events (storms/ floods/ heatwaves) drive localised infrastructure damage and supply chain disruption; insurance losses rise but most regions remain insurable	Increasing severity/ frequency of extreme weather affects infrastructure, agriculture and water availability; insurance withdrawal increases in exposed areas and adaptation costs rise	Severe and persistent impacts (widespread flooding, droughts, crop failures, infrastructure damage); widespread insurance withdrawal reduces property values and increases disruption
Transitional	Uneven climate policy due to geopolitical fragmentation/ energy security; carbon pricing/regulation expands mainly in Europe and parts of Asia; early stranded-asset risk begins in high-emitting sectors	Policy strengthens as pressure increases; carbon pricing rises and border adjustment mechanisms expand; stranded-asset risk grows in fossil fuels and carbon-intensive industries	Limited coordinated decarbonisation; continued reliance on fossil fuels; sporadic transition shocks via abrupt/ uncoordinated policy responses after extreme events
Systemic	Growth supported by technology investment and industrial policy; inflation volatility from food/ energy shocks, but markets remain broadly resilient	Inflation volatility from climate damage and transition investment; supply chain disruption and commodity price shocks weigh on productivity and growth	High systemic risk due to physical climate damage; declining productivity from resource scarcity, infrastructure losses; persistent food/ energy volatility drives inflation and instability; heightened geopolitical tensions and inequality
Portfolio Impact	Neutral to mildly positive overall	Moderately negative	Negative overall

Metrics Results

We report on the below metrics:

Metric	Description	Results	Change vs. previous year
Absolute emissions-based metric: Total GHG emissions	Tonnes of carbon dioxide and equivalents (tCO2e) that the Scheme is responsible for financing	Our absolute emissions for GHG Scope 1 and 2 are 13,073 tCO2e	Decreased (improved) by c. 26% YoY
Intensity emissions-based metric: Carbon footprint	The amount of carbon dioxide and equivalents (tCO2e) emitted per £m of the Scheme's investments	Our emissions intensity for GHG Scope 1 and 2 is 37 tCO2e per £1m invested	Decreased (improved) by c. 28% YoY
Alignment metrics: SBTi	Assessment of the proportion of portfolio companies/issuers that have set net-zero targets that have been validated by SBTi	This is currently 18.7% of total portfolio assets	Increased (improved) by c. 26% YoY
Additional: Data Quality	Proportion of the reported portfolio for which the Trustee has high quality data	This is currently 76% of total assets captured within emissions analysis	Comparability limited due to refinements to previous definition

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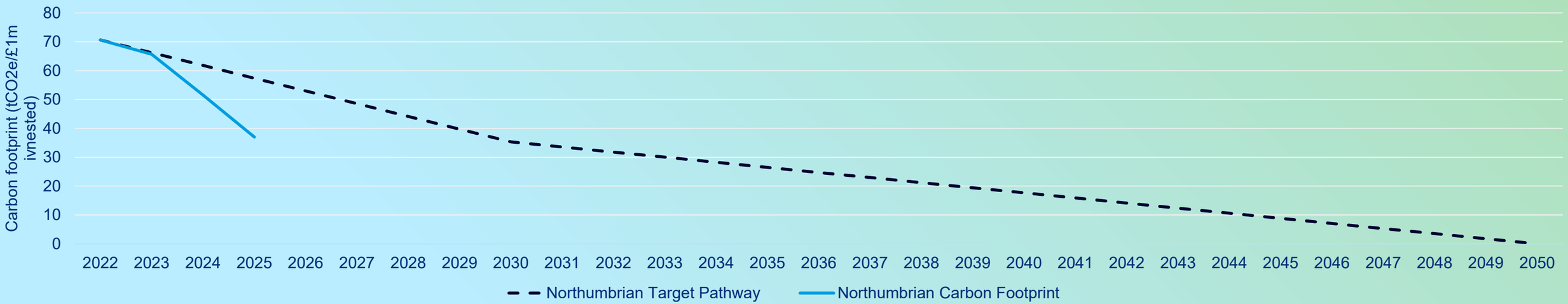
Net Zero Pathway analysis



As at 31 December 2025, the Scheme continues to make progress towards its Net-Zero target. The Net Zero Emissions Intensity Tracker shows a reduction in the portfolio's carbon footprint, representing improvement against the 2022 baseline. Whilst some of this is attributable to methodological changes, a number of our investments have explicit Net-Zero targets so we are pleased with the direction of travel and will keep reviewing this annually.

What's next?

Whilst we expect our portfolio to trend towards our 50% emissions reduction target by 2030, we'll take the decisions necessary to align the portfolio consistently with our goal of net zero emissions by 2050.

We will work closely with the OCIO and investment advisers to ensure that informed decisions are made in accordance with our net zero commitment and account for climate change-related risks and opportunities. We will take account of and report on our progress against the emissions, with a priority of achieving real economy emissions reductions within the sectors and companies in which we invest. The progress made to date can be seen in the full TCFD report. With the help of the OCIO and investment advisers, we will also ensure any relevant direct and indirect policy engagement is undertaken in support of achieving global net zero greenhouse gas emissions by 2050 or sooner.