

Strategy & Vision





I am pleased to report another positive year for our Environmental, Social and Governance (ESG) journey. This is our third annual ESG report detailing our responsible business practices and the significant steps we are making towards our sustainability targets.

We are an energy infrastructure company that develops, operates and invests in key energy infrastructure assets that are vital to UK energy security. Working with our partners and local communities, we transport and process around 40% of the UK's domestic gas production.

We are investing in low carbon hydrogen infrastructure to enable the decarbonisation of our existing assets and to contribute to the UK's overarching goal of achieving net zero by 2050.

There were several ESG highlights during 2023. We refreshed our ESG strategy, an integral part of how we do business and effectively manage the impact of our activities. We also updated our Materiality Assessment with employees contributing to the selection and ranking of the appropriate material topics as they relate to our business. In addition, we rolled out our ESG training plan and

delivered average ESG training hours per employee above the 20-hour target.

Other standout moments from a wider business perspective in 2023 included:

- Our low carbon hydrogen project on Teesside, H2NorthEast, entering front end engineering design (FEED) with Worley and Johnson Matthey.
- SSE Thermal coming on board as a joint venture partner in H2NorthEast. Together we are driving its continued progress towards becoming a major contributor to industry decarbonisation across the Tees Valley.
- Our CATS facility on Teesside celebrating 30 years of operation and 21 years without a lost time incident, which undoubtedly contributed to Kellas winning the Offshore Energies UK 2023 award for Outstanding Contribution to Energy Security.

ESG sits at the forefront of our business and we want everyone at Kellas, and those working with us through our operating partnerships, to know they are part of a company that prioritises health, safety and the environment and has clear sustainability targets.

This report provides insights for our stakeholders and investors about how we are sustainably managing our business, highlights key achievements and improvements we made in 2023 and demonstrates our ESG strategy in action.

I trust you will find this report a useful source of information about our company, performance, and sustainability goals.

Nathan Morgan CEO, Kellas Midstream





Strategy & Vision



2020s

2030s

2040s

Our strategy for this decade is: To establish at least one new material net zero infrastructure business.

To continuously improve the environmental footprint at CATS. Around £5m has been earmarked for energy efficiency and emissions reduction projects, and H2NorthEast will be an additional enabler for decarbonisation.

To responsibly develop our existing natural gas transportation and processing infrastructure business as natural gas continues to displace higher-emission hydrocarbons such as coal and fuel oil for power generation and heating.

Our mid-term strategy is to grow our net zero carbon infrastructure business by bringing onstream another two to three material net zero carbon projects during the decade.

As a midstream infrastructure company, we do not own natural gas reserves so our business is uniquely positioned to expand into the net zero carbon arena, by either integrating net zero opportunities into our existing gas transportation streams or operating new net zero projects as new standalone businesses.

Our longer-term strategy is that net zero carbon infrastructure becomes the core Kellas business activity.

Late life management of our existing natural gas infrastructure business will explore all opportunities to re-purpose existing gas infrastructure for new net zero business opportunities such as hydrogen transportation and carbon capture, utilisation and transportation.



Business Overview



Developing, operating and investing in key energy infrastructure to support UK energy security and a sustainable net zero transition.

2023 BUSINESS OVERVIEW

Kellas transported 12.2 billion standard cubic metres of gas in 2023 with our CATS (Central Area Transmission System) pipeline and terminal, ETS (Esmond Transportation System) pipeline, and HGS (Humber Gathering System) pipeline operating at close to 100% availability for the year and providing a reliable, dependable service to our customers.

2023 was the first full year of operation for HGS. We maintained safe and reliable operations throughout the year, achieving 95.4% availability. We safely completed the Tolmount East project, the first tie-back to the Tolmount platform, which was delivered ahead of schedule.

Our H2NorthEast project, a planned 1GW low carbon blue hydrogen production facility located at the CATS terminal, progressed through pre-FEED activities in the first half of the year and commenced FEED in August 2023.

Work on our energy efficiency projects at the CATS terminal continued at pace in 2023. Ongoing flare reduction efforts saw a 27% reduction in flaring in 2023 compared to 2022. Detailed design for our heat integration project, sanctioned in July 2022, was concluded and offsite fabrication of the heat exchanger was completed. Initial civil engineering work has been completed and the structural steel work delivered. Onsite construction will carry on throughout the first half of 2024.

Our health and safety culture remains exceptionally strong, with no lost time injuries (LTI) at the CATS terminal for the 21st consecutive year. We did, however, have an LTI on the Tolmount platform, when a frayed cable on a sandwich toaster was not detected and resulted in a member of the team receiving an electric shock. The individual made a full recovery, and corrective measures were identified and actioned.



Business Overview



Producing low carbon hydrogen at scale on Teesside

H2NORTHEAST

We are developing H2NorthEast, a low carbon CCUS-enabled blue hydrogen production facility at our CATS terminal on Teesside, in partnership with SSE Thermal. Initially, H2NorthEast will deliver 355MW of low carbon hydrogen to local industries, upscaling to over 1GW in future phases that will see the project providing as much as 10% of the UK's 10GW hydrogen production capacity target by the early 2030s.

H2NorthEast will produce blue hydrogen from natural gas, with the emissions being captured and stored permanently using carbon capture and storage (CCS). It is part of the East Coast Cluster which aims to remove 50% of the UK's industrial cluster emissions and decarbonise the Teesside and Humber industrial regions.

In August 2023, H2NorthEast entered FEED in partnership with leading service companies, Worley and Johnson Matthey. In November 2023, Statera Energy became the first customer for the project after signing a Heads of Terms agreement with Kellas for the supply of hydrogen to its Saltholme power stations in Teesside. In December 2023, we formed a joint venture with SSE Thermal which saw it acquire a 50% share in H2NorthEast and we are working in partnership to drive the project's contined progress.

IN PARTNERSHIP WITH



Business Overview



ESG MATERIALITY

A Materiality Assessment (MA) is a systematic process used to identify, prioritise and understand the ESG issues most relevant to an organisation and its stakeholders. These issues are often referred to as material topics or material aspects. Using the Global Reporting Initiative's (GRI) Standard 11 for Oil and Gas Sector, we created the MA shown on the right at a Kellas team development session in 2023 with employees contributing to the selection and ranking of the elements in GRI Standard 11.

The assessment was performed with a double materiality approach, looking at both impact of business operations and risks presented to the company. We deemed topics or aspects in GRI Standard 11 not shown in the Kellas MA as not applicable or below the materiality threshold for inclusion.

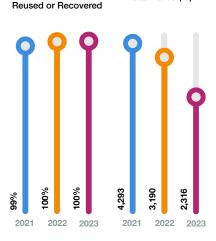




2023 ESG HIGHLIGHTS

Gas Flared (te)

% of Waste Recycled,



Materiality Assessment

MORE			Topic 11.1 GHG emissions Topic 11.8 Asset integrity and critical incident management Topic 11.9 Occupational H&S
Impact on Stakeholders	Topic 11.4 Biodiversity Topic 11.11 Non-discrimination and equal opportunity	Topic 11.3 Air emissions Topic 11.5 Waste Topic 11.10 Employment practices Topic 11.14 Economic impacts Topic 11.15 Local communities Topic 11.19 Anti-competitive behaviour	Topic 11.2 Climate adpatation, resilience, and transition Topic 11.7 Closure and rehabilitation
	Topic 11.6 Water and effluents Topic 11.20 Anti-corruption		
LESS		Impact on business	MORE



Safety



Focussing on occupational and process safety

Safety is our top priority and at the heart of everything we do. Everyone at our operating assets and offices has a part to play in safety. We strive to maintain a safe working environment where everyone who comes onto our sites goes home safely.

STRONG SAFETY CULTURE

At CATS, there were no lost time injuries for the 21st consecutive year in 2023, highlighting the terminal's exceptional safety culture. While we celebrate this achievement and the work of everyone involved, our focus is always on the next 20 seconds, and we are never complacent based on past results. At HGS, the Tolmount East construction project dominated the 2023 work program. We safely managed four walk-to-work construction campaigns and coordinated multiple vessels working in close proximity to the Tolmount platform.

We operate in a high-hazard industry, and work tirelessly to control and mitigate against hazards. We have industry best practice safety and management procedures in place for all our assets, and we promote an open and collaborative safety culture with a strong focus on the leading indicators.

Safety

2023 PERFORMANCE

We completed over 467,000 hours of work across our assets in 2023. We experienced a lost time injury on the Tolmount platform when an operator using a sandwich toaster in the small accommodation module did not detect the cable was frayed with an exposed bare wire. The operator received an electric shock and was taken onshore by medivac as a precaution, and subsequently made a full recovery after a short period of time off work. A full investigation was completed, corrective measures were implemented and several opportunities for improvement were identified and actioned.

There was also a first aid case relating to HGS at the quayside at Great Yarmouth. As the crew were mobilising for a walk-to-work campaign, an operator suffered a minor foot injury on the vessel gangway. Again, a full investigation was performed and corrective actions put in place.

There were no injuries, recordable or otherwise, at CATS in 2023. We promote a strong reporting culture at all our sites and encourage everyone to stop the job if a task is not fully understood or there are any concerns about safety.



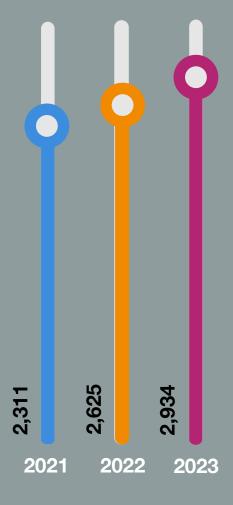




FOCUS ON THE LEADING INDICATORS

We maintain a strong focus on leading HSE indicators by encouraging everyone to take part in safety conversations, permit audits, assurance activities, job site checks, toolbox talks and other proactive safety activities.

Our total Annual Safety Inputs at CATS have increased year on year since 2020 and have recovered following a dip during the COVID-19 pandemic when site staffing was at minimum levels. We also recorded 384 proactive safety inputs on HGS. We believe our focus on leading indicators is key to the strong safety performance we achieved in 2023.



Annual Safety Inputs

Our commitment to the environment

ENVIRONMENTAL KEY PERFORMANCE INDICATORS						
	2021	2022	2023			
Energy Intensity (kWh per boe throughput)	0.41	0.34	0.35			
Carbon Intensity (kgCO₂e/boe throughput)	0.86	0.73	0.74			
Gas flared (te)	4,293	3,190	2,316			
Methane emissions (te)	71	53	38			
Methane Intensity (%)	1.19E-05	7.14E-06	5.61E-06*			
Scope 1 GHG emissions (teCO₂e)	56,524	58,967	55,519			
Scope 2 GHG emissions (teCO₂e)	0	0	0			
Waste recycled, reused or recovered (%)	99%	100%	100%			

^{*}Equal to 5.61 x 10-6

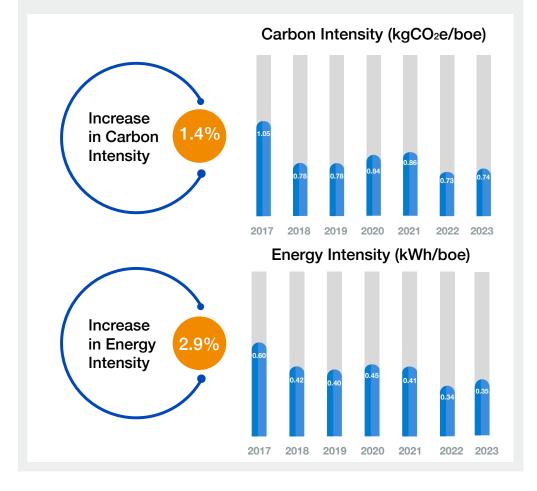
POLICY COMMITMENTS

- > ISO 14001
- > Environmental Aspects and Impacts Register
- > Health, Safety, Security, Environment and Assurance (HSSEA) Policy
- > Biodiversity Action Plan
- > Flare Minimisation Strategy



Environmental responsibility is embedded in our culture and our day-to-day activities. We are actively taking steps to reduce our operational emissions to meet our net zero ambitions.

As part of the refinancing of the Kellas business in 2021, sustainability linked lending Key Performance Indicators (KPIs) were set for Carbon Intensity, Energy Intensity and ESG training, and our performance is measured against the KPI targets each year. In 2023 we achieved our Energy Intensity and ESG training KPIs. While we emitted less CO₂e than the ESG KPI target, we did not achieve our Carbon Intensity KPI due to lower than expected total throughput for the year compared to the 2021 business plan reference case.



CONTINUING OUR CARBON REDUCTION JOURNEY

Overall carbon emissions decreased by approximately 8% in 2023, mainly due to the reduction in flaring at CATS. Despite two plant upsets at CATS, which resulted in a small amount of unplanned flaring, ongoing valve remedial work and close operations focus resulted in a decrease of approximately 30% in flaring. As with 2022, emissions from the ultra-low emissions Tolmount platform have been included in our reporting, even though the resulting volumes fall below the reporting requirements for UK ETS (Emissions Trading Scheme).

CATS has one of the lowest carbon intensities of all gas processing facilities in the UK and our energy efficiency projects, particularly the heat integration project, will help reduce our emissions even further over the coming years. The CATS team won the Emerson Exchange Most Innovative Application for Sustainability Award, and the NEPIC Corporate Environmental Award, for its emissions reduction and energy efficiency improvement efforts in 2023.

SITE GENERATED ELECTRICITY

Since 2019, 100% of imported electricity to CATS has been from renewable sources, resulting in zero Scope 2 emissions from our operations. The CATS turbo-expander uses otherwise wasted process energy to generate zero-emissions electricity which is used to power onsite operations. It generates around 80% of the site's required electricity. Our continued focus on minimising electricity import, including another excellent year of performance from the turbo expander, resulted in a 4% reduction in electricity consumption in 2023.

100% of electricity required by the Tolmount platform is generated by its power generation system. The primary power generation system on the platform is a 200kW micro gas turbine which is fed by fuel gas from the Tolmount wells.





Improving energy efficiency and reducing emissions at CATS

We are focused on continuous improvement in our energy efficiency at CATS to help us achieve our 2025 aspiration of reducing onsite emissions by 25% from 2020 levels, and reducing our site power consumption.

We have identified four key focus areas:

- > Heat Integration
- > LED lighting replacement
- > Compressor valve replacement
- > Flaring minimisation

Heat integration: The heat integration project uses waste heat from the CATS fractionation process to pre-heat the sales gas upstream of the sales gas heater. This reduces the work required from the sales gas heater and therefore reduces the load on the fired heaters (which provide process heat to the sales gas heater). Pre-heating using waste heat therefore reduces overall site CO₂ emissions. The project completed FEED in 2022 and was sanctioned in Q3 2022. During 2023, the detailed design phase and fabrication of the heat exchanger was completed offsite, while onsite civil works and scaffolding took place to install the main

exchanger platform and support pipework. The project entered construction in Q1 2024 in parallel with the final engineering procurement activities and offsite pipework fabrication and valve testing. We expect beneficial operation by Q3 2024 and, over the lifetime of the asset, the project is forecast to reduce emissions by an average of 725 tCO₂/yr.

LED lighting replacement: This project involved replacing traditional sodium lamp lighting around the CATS terminal with energy efficient LED lighting. In 2023, CATS completed the planned LED upgrade scope, replacing approximately 620 sodium lamps with more efficient LED lighting. The new LED lighting is brighter and reduces energy consumption for the site, with the electrical load estimated to reduce by around 45kW per annum.

Compressor valve replacement: CATS is currently undertaking a programme to replace existing overhead compressor valves with new energy efficient valves, the aim of which is to reduce electricity consumption from the compressors by around 21kW per annum.

Energy efficient valves have been fitted to two of the four compressor machines, one in 2022 and another in 2023. New valves will be fitted to the other two machines during Q2 2024.



Flaring minimisation: Flare metering improvements at the CATS terminal have optimised purge rates and minimised flaring emissions, resulting in much lower flaring in 2023 than in 2022. In December 2022 we installed Flare Master, an independent meter for calculating flow rate through both high and low pressure flares, and this provided improved accuracy and redundancy of flow measurement throughout 2023. This system can be used to assist with future environmental reporting and has helped identify excess flaring (above minimum flare purge set points). We have utilised Flare Master in combination with pressure build-up (PBU) testing to identify further valves that are leaking into the flare system. Identified valves will all be replaced or refurbished during the Q3 2024 turnaround (TAR), and as a result emissions are forecast to reduce by 385 tCO₂/year.



HOT OIL HEATERS AT CATS

CATS engineers are currently working on projects involving hot oil heaters that will further increase our energy efficiency, or reduce emissions.

The site has two hot oil heaters that burn fuel gas to provide process heat, which is required to raise the sales gas temperature to the National Grid specification and regenerate glycol used in the gas dehydration process. The hot oil heaters account for around 85% of CATS greenhouse gas (GHG) emissions.

The CATS heat integration project as described on page 12 is aimed at reducing the load on the hot oil heaters, which in turn reduces GHG emissions. It will reduce the energy consumption of the hot oil heaters by waste heat from the gas treatment process on Train 1 being used

to pre-heat the sales gas before it passes through the sales gas heaters.

CATS is also looking at a hot oil heater fuel switching project to replace the current hydrocarbon fuel source with hydrogen sourced from the H2NorthEast facility. This fuel switching project is currently in concept stage, with FEED expected in 2025 and the new fuel system to be commissioned in line with H2NorthEast commencing operation. Current forecasts assume a 95% hydrogen / 5% fuel gas mixture fuelling the two heaters, which will in turn reduce GHG emissions from the heaters by 95%. Over the remaining lifetime of the CATS asset, the fuel switching will result in a material reduction in GHG emissions.



Hot oil heater at the CATS terminal

13 INTEGRITY PARTNERSHIP TENACITY

Protecting our natural environment



ESG is at the forefront of our approach to business, and we have embedded environmental responsibility into our day-to-day operations and are striving to make a positive impact in our local communities by protecting the environment and promoting biodiversity.

At CATS, the Green Team is a group of enthusiastic volunteers actively seeking opportunities to improve environmental sustainability at the terminal, minimise environmental impact from operations, and carry out conservation projects. The team maintains a Biodiversity Action Plan in partnership with INCA (Industry Nature Conservation Association) and continued to make steady progress in 2023.







CATS GREEN TEAM 2023 HIGHLIGHTS

Butterflies and moths

Successfully enhanced habitats and species around CATS – confirmed that the Small Blue butterfly colony established in 2022 has extended beyond the CATS boundary, and recorded 10 new species of moth in 2023, including Brick, Bearded Chestnut, Vine's Rustic and Swallow Prominent.

Flora and fauna

Introduced appropriate plant and flower species in surrounding areas to attract more insects and birds.

Honeybees

Hosted four hives of honeybees which produced more than 60 jars of honey.

Waste Disposal

Prevented the spoil from ground investigation work going to landfill by profiling it to provide habitat for butterflies.

Emissions reduction

Carried out survey to identify any valves passing to flare – adjustments made to reduce emissions and a plan to replace these passing valves will be in place by June 24.

ESOS (Energy Saving Opportunity Scheme)

Carried out ESOS assessment, identifying eight energy saving opportunities which will be considered for implementation from 2024.

Social



Investing in our people

We invest in our people with the aim of having a happy, healthy and motivated team. We care that everyone working at Kellas, or connected to us through operating partnerships and stakeholder relationships, feels part of a business that prioritises health, safety and the environment.



- > Formed working group to focus on improving Learning & Development
- > Engagement survey showed that 98% of employees are proud to work at Kellas
- > Welcomed a new graduate engineer and industrial placement team member



Prioritising employee wellbeing

Each year we develop a Kellas People Plan promoting employee engagement, health and wellbeing, skills and development, individual performance delivery and people governance.

Our Kellas People Plan for 2023 enhanced engagement through personal development plans, town halls, lunch and learns, and opportunities for employees to provide feedback through our annual engagement survey.

Our health and wellbeing initiatives focused on monthly yoga classes, podcast groups, knowledge sharing through regular bitesize communications on health and wellbeing topics and family social events. We also held team-wide development sessions on Inclusive Leadership and Mental Wellbeing and Stress Awareness.

SOCIAL KEY PERFORMANCE INDICATORS						
	2021	2022	2023			
Gender diversity -						
% female employees	14%	14%	14%			
Lost Time Injury Frequency (LTIF)	0	0	0.43			
Employee turnover rate (%)	0.0%	3.9%	3.2%			
Employee absenteeism rate (%)	0.9%	0.4%	0.3%			
Employee training received						
(hours per employee)	13.4	21.8	23.9			
Community grants and funding						
(in thousands of £)	16	71.7	93.2			

At the end of 2023, Kellas had a full time equivalent (FTE) staff of 49. Wood, our operating partner for the CATS terminal and pipeline, had an FTE staff of 137 committed to CATS. ODE AM, our operating partner for the HGS pipeline and Tolmount platform, had an FTE staff of 3 committed to HGS.

15

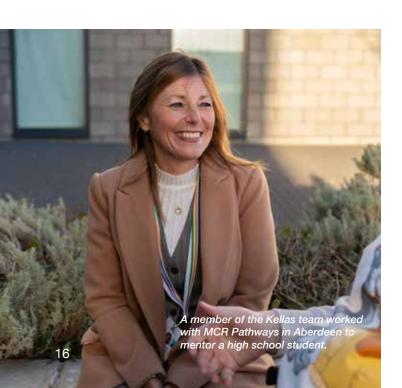
Social



Leading with integrity

We are creating a culture that promotes ESG awareness and informs our team about the issues impacting our operations, the environment and our local communities. Our commitment to ESG training resulted in over 23 hours of ESG training completed per employee which included the following topics:

Net zero Inclusive leadership and unconscious bias Stress awareness Cyber awareness



Educating and inspiring future professionals

We are committed to investing in, nurturing and supporting emerging talent and recognise its value in shaping the future energy sector.

Our partnership with Teesside
University continued to go
from strength to strength. We
saw the first two scholars of
the Kellas Midstream Clean
Energy Scholarship programme
graduate, one of whom is now
part of our team through Grayce,
a company that provides highperforming talent for change and
transformation projects.

We also welcomed a new cohort of scholars in September, two undergraduates and three postgraduates, and we are delighted to support these bright and committed individuals as they gain the critical knowledge and skills needed to help the energy sector transition to clean energy.

Over the summer months we hosted six high school students on work placements at our Aberdeen offices, learning about a wide range of business functions including operations, legal, marketing and administration, and gaining valuable interview skills.

Throughout the year we provided mentoring support to a high school student in partnership with Aberdeen charity, MCR Pathways.



On Teesside, the CATS team supported Year 11 and 12 students with interview practice and work experience and hosted primary school children on a STEM-focused (science, technology, engineering and mathematics) site visit in conjunction with Children Challenging Industry.

A member of our leadership team sits on the Board of TechFest, a charity that promotes STEM activities to young people in Aberdeen, and also the Inverurie Youth Sports Foundation which supports the future development of youth in sport.



Social

Positively impacting our communities

We are committed to making a positive impact in the local communities where we operate and we maintain an annual Corporate Social Responsibility (CSR) plan that details our social investment based on key themes of Education, Community engagement and People. In 2023 we welcomed new members to the CSR committees at Kellas and CATS.

We pride ourselves on being a good neighbour, supporting charities and organisations in the Aberdeen and Teesside areas where our assistance, whether financial or hands-on, can make a genuine difference.

Our partner charities for 2023 were the Camphill Wellbeing Trust, ALK Positive and Balmedie Beach Wheelchairs which we supported with funding and through volunteering.







In addition to our partner charities, we also supported other good causes in Aberdeen and Teesside by making ad hoc charitable donations and committing our time and resources. We increased our total CSR spend in 2023 by almost 30% from 2022, which included our continued funding of clean energy scholarships at Teesside University where we are partnering to invest in and support emerging talent.



Our Kellas Kiltwalkers once again took on the Aberdeen Mighty Stride, walking 17.8 miles from Aberdeen's Duthie Park to Banchory raising £1609 for Friends of ANCHOR.



We completed a second volunteering day at the Camphill Wellbeing Trust's Compass Project in Aberdeen involving a range of activities including constructing a composting toilet, watering no-dig beds and planting vegetables.





Kellas Christmas elves collated our team's donations for the VSA Christmas Appeal 2023 which provided gifts for vulnerable children and adults.

17 INTEGRITY PARTNERSHIP TENACITY

Governance



Conducting our business responsibly

Our leadership team is committed to operating under the stewardship of transparent corporate governance principles, and these strengthen the confidence and trust of our many stakeholders. The Kellas principles of Integrity, Partnership and Tenacity guide how we conduct our business and we have robust governance and management processes in place.



GOVERNANCE KEY PERFORMANCE INDICATORS						
	2021	2022	2023			
% female board members	17%	17%	0%			
Number of board meetings	11	11	11			
Anti-bribery and corruption training compliance	100%	100%	100%			
Cyber security NIS-D improvement plan completeness	94%	97%	85%*			
Number of cyber security incidents	; 0	0	0			

*In 2023, to drive continual improvement in cyber security of critical national infrastructure, the Department for Energy Security and Net Zero (DESNZ) issued a revised and more rigorous NIS-D scoring mechanism which we benchmarked against in 2023 and will report against moving forward.

Our diversity KPI was impacted slightly in 2023 by the departure from our board of our only female board member.



POLICY COMMITMENTS

- > Anti-Bribery and Corruption Policy
- > Whistleblowing Procedure
- > Anti-Slavery and Human Trafficking Policy
- > Personal Data Protection Policy
- > IT and Cyber Security Policy

Governance





Online employee governance training for new employees progressed well, including 1 or 2-yearly refreshers.



Continued SECR (Streamlined Energy and Carbon Reporting) in annual accounts.



NIS-D Cyber and data security compliance of 85%.



Welcomed our Board on its annual visit to Teesside in October.

Cyber Security

As an operator of critical national infrastructure, cyber security has a vital role to play in the management of our business activities and is more crucial than ever in the context of current world events.

Kellas-operated assets are covered by the UK security NIS (Network & Information Systems) regulations, and we work with government to demonstrate compliance and minimise the risk of business interruption and major accident hazard aspects of cyber security.

We had no cyber security incidents at CATS in 2023 and the facility was audited by independent industrial cyber security experts, TEKGEM, with the results showing strong performance and no major issues were highlighted.

We continued to invest in cyber security maintenance and improvements. In 2023, to drive continual improvement in cyber security of critical national infrastructure, the Department for Energy Security and Net Zero (DESNZ) issued a revised and more rigorous NIS-D scoring mechanism which we benchmarked against in 2023 and will report against moving forward.



