Cadent
Your Gas Network

**Cadent Gas Limited**

**Report for the six months ended 30 September 2024**

This interim management report has been prepared for the Cadent Gas Limited Group (the 'Group'), which comprises Cadent Gas Limited, Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited and Cadent Gas Pension Property Company 2 Limited. Results are consolidated at Cadent Gas Limited, the operating company for the Group, and the ultimate parent company is Quadgas Holdings TopCo Limited.

**Operations**

The Group's principal activity during the period was the ownership of and operation of regulated gas distribution networks. The Group plays a vital role in connecting millions of people safely, reliably and efficiently to the gas they use.

We are the largest gas distribution company in the UK; we own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise over 135,000 kilometres of gas distribution pipeline and we transport gas from the gas national transmission system to over 11 million homes and businesses from the Lake District to London and from the Welsh Borders to the East Coast, on behalf of 47 principal gas shippers. Over 80% of UK homes rely on gas for heating as well as large manufacturers, businesses and commerce being reliant on gas to fuel their operations. At peak times the gas network supplies over four times more energy than the electricity network.

As the UK's largest gas distribution network, Cadent is an influential voice on the importance of green gases such as hydrogen and biomethane in the future energy mix to achieve net zero. Our ambition is to be a leader in the energy sector, helping to achieve the UK's net zero ambitions in a way that is deliverable and that ensures consumers are at the heart of the transition. There is still a long way to go in demonstrating how greener alternatives can support the huge task of decarbonising industry and domestic heating at scale, but our green gas projects are progressing well.

A small proportion of a typical household gas bill goes towards the cost of maintaining our gas network. In 2023/24 a typical domestic customer paid £152 annually towards the cost of our services, down from an average bill of £171 over the RIIO-1 period, adjusting for the impact of inflation. This efficiency has been delivered alongside improved customer services, millions invested to support customers in vulnerable situations, all while we are striving to deliver a service to support a low carbon economy, to meet the UK's net zero targets.

We remain dedicated to supporting communities and customers in vulnerable situations and to date have committed £30 million to the Cadent Foundation. The aim of the Foundation is to help households find sustainable solutions to fuel poverty and ensure people are safe and warm in their homes. It works with charitable organisations to address the root causes and impact of fuel poverty, helping households improve their financial wellbeing and become more energy efficient through advice, support and practical measures.

The Group has experienced significant cost pressures over the RIIO-2 regulatory period with the impacts of inflation being felt throughout our business increasing our cost base. We are mitigating these cost pressures where possible through long-term contracts with our key supply chain partners and through rigorous control over expenditure.

In the first half of the year the Group delivered £358 million of operating profit (2023: £456 million) on revenues of £1,056 million (2023: £1,121 million), generating £677 million of operating cash flow (2023: £628 million), and invested £488 million (2023: £480 million) on new and existing assets. The decrease in revenue of £65 million was mainly due to a decrease in formula income as a result of timing differences largely relating to inflation, pass through costs and RIIO-1 disposal adjustments that are trued up over time. Non-regulated revenues also decreased, mainly as a result of the lower number of network diversions being completed in the period.

### Operations (continued)

Operating costs have increased by £33 million to £698 million (2023: £665 million) largely due to increased employment costs of £133 million (2023: £120 million), increased spending on our vulnerability and carbon monoxide awareness programme of £21 million (2023: £5 million), higher depreciation and amortisation of £246 million (2023: £225 million), increased business rates of £93 million (2023: £87 million) and higher professional and consultancy costs of £14 million (2023: £8 million). These have been partially offset by a reduction in exit capacity charges of £48 million (2023: £85 million).

Finance costs for the period of £152 million (2023: £168 million) have decreased largely due to significantly lower levels of accretion on our index linked debt and swaps offset by increased interest costs.

For the full year the Group remains on track to deliver stable returns with an ongoing focus on delivering a safe and reliable service to our customers.

### Long-term strategy and business objectives

We provide the energy our customers need to stay safe, warm and connected. Our responsibility is to look after the gas pipes so they can continue to deliver safe, reliable and low carbon energy for years to come. We are continually finding smarter and more sustainable ways to develop our networks and work closely with local communities to deliver a high-quality service that our 11 million customers expect.

The next regulatory review by Ofgem, RIIO-3, is on the horizon and our industry is at an interesting and important juncture, as we continue the journey to a cleaner and greener future. Our natural gas network plays a critical role, not only for resilience in power, but also in delivering a safe and reliable service to heat homes and to power industry. The RIIO-3 price review will need to ensure the continued focus on this essential service, as well as enabling the transition to greener solutions for heat, power, and industry.

Ofgem’s Sector Specific Methodology Decision (SSMD) published on 18 July 2024, set out some of the key aspects of the RIIO-3 price review which will inform our business plan and Ofgem's approach to setting allowances for the RIIO-3 regulatory period. Cadent’s RIIO-3 business plan will be submitted to Ofgem on 11 December 2024 and final determinations from Ofgem are expected in late 2025. In the short term, we anticipate the continuance of a core price control for the business as usual activities and also the development of a process to enable projects such as the industrial clusters to decarbonise power and industry across the UK.

The SSMD includes proposals on reducing regulatory asset lives to align with a notional date of 2050 and/or accelerating the Regulated Asset Value (RAV) recovery profile to mitigate stranding risk whilst smoothing charges to support fairness of burden for current and future customers. We believe it is essential that any change in RAV recovery or asset capitalisation policy does not have unintended consequences such as constraining necessary network investment, reducing innovation, or undermining investor confidence and will continue to work with regulators to inform any final decisions in this regard. The gas networks will be required to support a resilient energy infrastructure and enable a smooth transition to a lower carbon economy for decades to come.

We remain committed to delivery of the objectives set out in five customer outcome areas:

- Delivering a quality experience for all of our customers and stakeholders;
- Providing a resilient network to keep the energy flowing;
- Tackling climate change and improving the environment;
- Trusted to act for our communities; and
- Turning insight into action.

## Interim management report (continued)

### Long-term strategy and business objectives (continued)

We constantly strive to minimise our costs to reduce customers' gas bills, we're also committed to helping over one million households who are living in fuel poverty. We have established a range of support programmes, including providing free energy, income and debt advice and funding the repair or replacement of gas boilers and appliances. Since it was established in 2021, our Centres for Warmth programme has grown significantly to over 300 centres, including the inclusion of Home Start centres, as we strive to support our communities. The main aim is to support communities who are living in vulnerable situations with advice regarding fuel poverty, household income, benefits and debt. These centres are a community lifeline, supporting financial and mental wellbeing, as well as gas safety at home.

This period we have invested £488 million (2023: £480 million) to deliver on our commitment to provide a resilient network for our customers as part of an overall investment of more than £4 billion over the five-year regulatory period. Our ongoing investment in the mains replacement programme and the resilience of our network assets are key aspects of our strategy to ensure the network continues to operate safely and is ready to support a transition to low carbon fuels over the decades to come. We have continued to focus on the operational improvements and efficiencies to deliver on our regulatory commitments and to minimise the impact of our activities on customers' bills.

We continue to lead the way to a cleaner, greener future by planning and collaborating with industry and key stakeholders to meet our net zero targets. We are continuing to work closely with government, industry, and communities to continue the great progress in our hydrogen trials across the UK and are pleased to see these going well, particularly around making positive steps to help decarbonise industrial and transportation use. Our regional hydrogen programmes (HyNet, East Coast Hydrogen, Capital Hydrogen, East Midlands Hydrogen and Hydrogen Valley) are focused on decarbonising industry, facilitating the development of hydrogen production to enable heavy industry, gas-fired power generation and heavy transport sites to transition away from natural gas and other fossil fuels, with the initial stages of these programmes supported by funding from Ofgem in RIIO-2; securing the country's industrial future for years to come.

We are seeking ways to reduce our own carbon footprint, aligned with the latest science-based methodologies for the gas and oil sector, through our mains replacement programmes and across our fleet. During 2024/25 we continue to look at our carbon footprint upstream and downstream of our supply chain. We recognise our responsibility to support the UK to meet its greenhouse gas target and have committed to reduce our own carbon footprint by reducing our targets as we progress into the next financial year.

The delivery of net zero by 2050 requires an unprecedented amount of change, investment and collaboration. We believe Hydrogen will play an important role as an energy source for industry, transport, power generation and heating buildings and homes. We continue to champion a whole systems approach to decarbonisation, emphasising the role of hydrogen as a low carbon alternative to natural gas. We would argue that the gas network offers a seamless and familiar transition to a cleaner, greener future, with our Green Print and Ten Point Plan strategies demonstrating our long-term commitment to decarbonise heat while minimising the impact to consumers.

Ahead of the government's 2026 Heat Policy decision over which pathway the UK will follow to reach net zero there is transitional risk for all energy utilities associated with accurately planning infrastructure development. The infrastructure we need can take several years to deliver. Recent government net zero announcements have been supportive of a role for Hydrogen in the future energy system and we are mitigating transitional risk by working closely with government, regulators, system operators, regional and local authorities and customers to understand the need and build 'whole system' plans that minimise uncertainty and risk.

# Interim management report (continued)

## Going Concern

The Board's consideration of the going concern status of the company is an extension of our annual business planning process. The process includes financial forecasting for a period of at least 12 months from the date of this report, a robust risk management assessment, regular budget reviews as well as scenario planning incorporating industry trends, considering any emerging issues and economic conditions. The business strategy aims to enhance our long-term prospects by making sure our operations and finances are sustainable.

Considerations are also made by the Directors for a reasonable worst-case scenario that factors in deliberately negative sensitivities such as a decline in transportation revenue, inflationary pressures on our cost base, fluctuations in pass through costs, a major operational incident and unexpected regulatory action, all of which are assumed to materialise concurrently.

The forecasts and reasonable worst case scenario modelling were considered against the ability to access existing undrawn facilities alongside the ability to access long-term debt markets and short-term cash positioning. It was concluded that sufficient headroom existed in the forecast and against the requirements of our banking covenants and no reasonable possible downside scenario existed wherein the Group would be unable to continue as a going concern.

Based on the above, the Directors have concluded that the Group is well placed to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of this report. The Directors therefore consider, having concluded that there are no material uncertainties, that it was appropriate to adopt the going concern basis of accounting in preparing the half year financial information.

## Liquidity & financing arrangements

We maintain liquidity headroom to ensure that the Group can meet all financial obligations and to fund operations, even during periods of market disruption and times of uncertainty. We manage liquidity by requiring at least 12 months' liquidity available at all times, with at least two months' liquidity available within 24 hours.

At 30 September 2024, Cadent Gas Limited had undrawn credit facilities, money market funds, bank deposits and cash totalling £1,112 million (31 March 2024: £1,248 million) made up of available Revolving Credit Facilities of £650 million, none of which is drawn, investments in short-term money funds of £328 million, short-term bank deposits of £102 million and cash of £32 million. We also retain the capacity to raise additional debt if required from both the debt capital and loan markets.

# Cadent Gas Limited

## Interim management report (continued)

**Results for the six months ended 30 September 2024**

A summary of the key financial results is set out in the table below.

| | Six months ended 30 September 2024 £m | Six months ended 30 September 2023 £m | Movement £m |
|---|---|---|---|
| Revenue | **1,056** | 1,121 | (65) |
| Operating profit – Before adjusting items | **361** | 459 | (98) |
| Adjusting items | **(3)** | (3) | - |
| Operating profit | **358** | 456 | (98) |
| Profit before tax – Before adjusting items | **246** | 320 | (74) |
| Profit before tax | **264** | 371 | (107) |
| Profit for the period | **196** | 277 | (81) |
| Capital investment | **488** | 480 | 8 |

Revenue

Total Group revenue for the period was £1,056 million (2023: £1,121 million) comprising £1,032 million (2023: £1,088 million) of regulated allowed revenue and £24 million (2023: £33 million) from non-regulated activities. The £56 million decrease in regulated allowed revenue was mainly due to a decrease in formula income as a result of timing differences largely relating to inflation, pass through costs and RIIO-1 disposal adjustments that are trued up over time. The £9 million decrease in non-regulated revenues was mainly as a result of the lower number of network diversions being completed in the period.

In previous years volatility in gas prices had a wide impact in the energy industry and a number of shippers and gas suppliers ceased trading. Our exposure to credit losses from these counterparties is mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). Our regulatory mechanisms protect us from long term risks with costs being reimbursed in future periods.

Operating profit before adjusting items

Operating profit before adjusting items for the period was £361 million (2023: £459 million), with revenue of £1,056 million (2023: £1,121 million) offset by £695 million (2023: £662 million) of operating costs. Operating costs have increased by £33 million largely due to increased employment costs of £133 million (2023: £120 million), increased spending on our vulnerability and carbon monoxide awareness programme of £21 million (2023: £5 million), higher depreciation and amortisation of £246 million (2023: £225 million), increased business rates of £93 million (2023: £87 million) and higher professional and consultancy costs of £14 million (2023: £8 million). These have been partially offset by a reduction in exit capacity charges of £48 million (2023: £85 million).

In managing the business, we use alternative performance measures (APM) including Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation and Adjusting Items (Adjusted EBITDA) as a measure of our financial performance as this represents a commonly accepted measure of the underlying operating performance of the company. The company does not believe that this is a substitute for measures under IFRS® Accounting Standards but is useful in assessing the performance of the business on a comparable basis.

Adjusted EBITDA is a non-IFRS Accounting Standards performance measure used by management to aid comparability of our results between periods. As such, it excludes significant business transactions and should not be used in isolation but considered alongside measures under IFRS Accounting Standards. The nearest equivalent IFRS Accounting Standards measure to adjusted EBITDA is profit for the period, which is presented in the condensed consolidated income statement and reconciled overleaf:

# Cadent Gas Limited

## Interim management report (continued)

Operating profit before adjusting items (continued)

| Adjusted EBITDA Reconciliation | Reference | **Six months ended 30 September 2024 £m** | Six months ended 30 September 2023 £m |
|---|---|---|---|
| Statutory results: | | | |
| Profit for the period | | **196** | 277 |
| Add: | | | |
| Tax | Note 7 | **68** | 94 |
| Net finance costs | Note 6 | **94** | 85 |
| Total operating profit | Page 16 | **358** | 456 |
| Add: | | | |
| Depreciation and amortisation | | **246** | 225 |
| Adjusting items within total operating costs | Note 5 | **3** | 3 |
| Alternative performance measure: | | | |
| Adjusted EBITDA | | **607** | 684 |

Adjusted EBITDA has decreased by £77 million due to lower operating profit and higher depreciation and amortisation.

Finance income and costs

Finance income before adjusting items for the period was £37 million (2023: £29 million) due to higher interest income on current asset investments. Finance costs for the period of £152 million (2023: £168 million) have decreased largely due to significantly lower levels of accretion on our index linked debt and swaps offset by increased interest costs.

Adjusting items

Included within total operating profit of £358 million (2023: £456 million) are adjusting items of £3 million (2023: £3 million). The Group is undergoing a transformation programme to improve the efficiency of our operations by restructuring the business. During the period the Group have recognised £3 million (cumulative: £13 million) in adjusting items in relation to our Operational Efficiency programme, driving and demonstrating efficiency as a result of the challenge set to us by the regulator, Ofgem. These activities are infrequent and adjusting in nature, and are financially material over the course of the multi-year exercise.

Included within finance income are adjusting items of £21 million (2023: £54 million) in relation to net gains on derivative financial instruments. This gain is largely due to the remeasurement of derivatives not designated as hedges.

Profit for the period

The Group made a profit after tax of £196 million (2023: £277 million). The reduction in profit for the period is largely due to an overall decrease in operating profit offset by lower taxation.

# Cadent Gas Limited

## Interim management report (continued)

Dividend

In making the decision to pay a dividend in the period, the Board considered:

- The cumulative performance and payments over recent years and a forward assessment into future years;
- Customers benefitting from value for money and better services;
- Supporting households through the shareholder funded Cadent Foundation;
- Enhancing the environment in which we operate;
- Employees being rewarded for their hard work; and
- Our investors earning a reasonable return on the equity they have invested in the business. This investment is critical for ensuring the efficient and economic operation of our network today and the investment requirements of the future.

We share outperformance with our customers through delivering efficiencies that result in lower bills; with our employees through responsible incentive-based bonuses; and with investors through sustainable dividends. We've been able to do this while delivering on our environmental targets, maintaining appropriate gearing and delivering strong financial resilience.

The Board also reviews the company's performance around employees, and executive pay. Executive pay disclosures are significantly enhanced relative to sector standards supported by a remuneration committee that target societal benefits such as performance on customer and sustainability measures alongside financial metrics. We also have transparent and low risk policies in relation to how we interact with the tax authorities.

All of these factors were taken into account, as well as the Board reviewing the dividend policy and satisfying itself that a series of economic tests could be met. The company had more than £5 billion of distributable reserves at 30 September 2024. During the first half of the year, the company paid an interim ordinary dividend of £208 million (2023: £155 million).

Capital investment

Our capital investment has increased by £8 million as compared to the comparative period. Capital investment was £488 million (2023: £480 million) comprising £1 million (2023: £2 million) of intangible assets and £487 million (2023: £478 million) of tangible assets. Tangible asset additions are mainly comprised of £432 million (2023: £412 million) of plant and machinery with the majority relating to our ongoing mains replacement programme with 925km being replaced in the period (2023: 909km). Remaining additions comprise land and buildings £7 million (2023: £24 million), £12 million (2023: £17 million) of assets in the course of construction, motor vehicles and other equipment £12 million (2023: £11 million) and £24 million (2023: £14 million) of right-of-use assets.

Financial position

Net assets increased by £47 million to £2,395 million (31 March 2024: £2,348 million). The main movement in the balance sheet items were a net increase in property, plant and equipment and intangible fixed assets of £239 million arising from capital investment, an increase in the net surplus position of the defined benefit pension scheme by £66 million to £416 million (31 March 2024: £350 million) and a reduction in borrowings to £7,886 million (31 March 2024: £7,985 million) partially offset by a decrease in current asset investments to £430 million (31 March 2024: £569 million) and an increase in trade and other payables to £477 million (31 March 2024: £365 million).

# Cadent Gas Limited

## Interim management report (continued)

Financial position (continued)

The company operates its own DB pension arrangement, the Cadent Gas Pension Scheme (the 'Scheme'), for certain employees. The Scheme closed to future accrual on 31 March 2024. Membership of the defined contribution scheme, MyPension, is offered to all new employees.

On an IAS 19 basis, the defined benefits pension scheme is in a net asset position of £416 million at 30 September 2024 (31 March 2024: £350 million). There is an overall increase of £66 million (DBO reduced by £210 million but assets reduced by £144 million resulting in the net overall increase). This increase follows a valuation exercise undertaken at 30 September 2024 by the Group's independent actuary. The main drivers of the increase over the period are an experience gain of £20 million due to actual inflation over the period being lower than that assumed, plus gains of £135 million due to a change in financial and demographic assumptions partially offset by an experience loss on the plan assets of £94 million.

The Group included an initial estimate of the impact of GMP equalisation within its 31 March 2019 results with a revision at 31 March 2021 following the secondary ruling on GMP equalisation. The Trustees of the Scheme are currently in the initial stages of implementing GMP equalisation in the Scheme, with a methodology agreed. The Group have currently used the same allowance of 0.2% of liabilities for GMP equalisation, as initially used and this is included in the calculation of the DBO at 30 September 2024.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited versus NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK. Detailed investigations are ongoing, but we currently have no reason to believe that the ruling in the case will have any financial impact for the Group. We will continue to assess the position.

The Group has net debt of £7,937million (31 March 2024: £7,816 million). Net debt is a non-IFRS Accounting Standards measure which shows the overall debt situation and is calculated by netting the value of the company's gross borrowings, derivatives and lease liabilities with its cash and other similar short-term financial assets. The nearest equivalent IFRS Accounting Standards measure is borrowings which is presented in the consolidated statement of financial position and is reconciled below:

| | **30 September 2024 £m** | 31 March 2024 £m |
|---|---|---|
| Statutory results: | | |
| Borrowings | **7,886** | 7,985 |
| Cash, cash equivalents and financial investments | **(462)** | (598) |
| Derivatives | **382** | 309 |
| Lease liabilities | **131** | 120 |
| Alternative performance measure: | | |
| Net debt (see note 11) | **7,937** | 7,816 |

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term. At 30 September 2024, Cadent Gas Limited had undrawn credit facilities, money market funds, bank deposits and cash totalling £1,112 million (31 March 2024: £1,248 million) made up of available Revolving Credit Facilities of £650 million, none of which is drawn, investments in short-term money funds of £328 million, short-term bank deposits of £102 million and cash of £32 million. We also retain the capacity to raise additional debt if required from both the debt capital and loan markets.

# Cadent Gas Limited

## Interim management report (continued)

Cash flow

Net cash inflow from operating activities for the six months ended 30 September 2024 was £626 million (30 September 2023: £547 million) with the increase due to a favourable movement in trade and other payables together with lower tax paid offset by lower operating profits.

Events after the balance sheet date

In October 2024, Cadent Gas Limited agreed with relevant lenders to extend the termination date of its £500 million Revolving Credit Facility and £150 million Letter of Credit facility by two years to November 2029. All other terms in the agreement remain unchanged. On 4 November 2024, a further Revolving Credit Facility of £150 million, which was put in place solely to support liquidity over a period of refinancing, expired and was not replaced.

Related party transactions

There have been no material changes in the related party transactions described in the last Annual Report and Accounts. Information relating to dividends and pension fund arrangements are disclosed in notes 8 and 12 respectively.

# Cadent Gas Limited

## Interim management report (continued)

### Performance Highlights

To enable us to achieve the standard of service we aspire to, we monitor our performance in implementing our strategy with reference to clear targets set for key performance indicators (KPIs). These KPIs are applied on a Group wide basis. Performance in the six months ended 30 September 2024 (where available as some are annual figures) and the targets are set out in the table below, together with the prior year performance data for the year to 31 March 2024 and the six month period to 30 September 2023.

| Strategic priorities | KPIs | Definition | Performance |
|---|---|---|---|
| **Trusted to act for our communities** | **Safety** | **Lost time injuries frequency rate**<br>Any injury to employee or contractor resulting in time off work (injuries per million hours worked). | **2024/25 half year: 0.59**<br>**2023/24: 0.51**<br>**2023/24 half year: 0.36**<br>**(Target: 0.58)** [1] |
| **Providing a resilient network to keep the energy flowing** | **Kilometres of network replaced** | **Kilometres of network replaced**<br>Number of kilometres of mains pipe replaced. | **2024/25 half year: 925km**<br>**2023/24: 1,748km**<br>**2023/24 half year: 909km**<br>**(Full year target 2024/25: 1,538km)** [2] |
| **Delivering a quality experience for all our customers and stakeholders** | **Customer satisfaction** | **Customer satisfaction**<br>Our score in customer satisfaction surveys. Ofgem set a baseline target. | **2024/25 half year: 9.36**<br>**2023/24: 9.25**<br>**2023/24 half year: 9.22**<br>**(Target: Higher than 8.75)** [3] |
| | **Complaints** | **Complaints handling**<br>Percentage of complaints handled within 1 day. | **2024/25 half year: 89.2%**<br>**2023/24: 88.9%**<br>**2023/24 half year: 88.0%** |
| **Tackling climate change and improving the environment** | **Sustainability** | **Waste Reduction**<br>Total permissible waste in tonnes | **2024/25 half year: 430**<br>**2023/24: 1,130**<br>**2023/24 half year: 641**<br>**(Target: 1,107)** [4] |

1 Both target and actual is an annual 12-month rolling number.
2 Our programme has been developed to deliver our output of length replaced across all of our networks economically and sustainably over the five-year RIIO period rather than on an individual year basis.
3 Figures represent our baseline targets set by Ofgem for rewards or penalty.
4 Based on the total permissible waste in tonnes which excludes spoil, PE pipe and recycled waste.

Further details of our priorities are disclosed in the Annual Report and Financial Statements 2023/24.

### Delivering our 2024/25 Priorities

Our gas network plays a critical role in delivering safe and reliable heating to over 80% of domestic homes and fuelling major industry, businesses, schools and hospitals in England. We’re at the forefront of shaping and delivering the road to net zero through facilitating a greener gas network and demonstrating a hydrogen pathway for future generations to come.

We are committed to driving down the emissions from our operations. Our business carbon footprint is predominantly influenced by shrinkage emissions, accounting for 98% of our scope 1 and scope 2 emissions. We are aware of the climate impact that natural gas can cause from the distribution network and are addressing this through mains repair works. These works include ongoing maintenance, upgrades, and pipe replacement. This activity is helping to drive the replacement of historic cast iron pipe with PE (polyethylene pipe), which helps reduce leaks and our emissions. We have replaced a further 925km of iron mains in the first half of the year and are on track to deliver our annual mains replacement target of 1,538km.

We continue to be a leading voice on the importance of hydrogen in the future energy mix to achieve our net zero ambitions. We recognise we have a long way to go to demonstrate the capabilities of hydrogen and alternative fuels at scale and applications in domestic heating. Our HyNet project in the North West has made important progress and we’re looking forward to seeing the completed project bring hydrogen to the important industrial markets of the North West. Government has also confirmed its support for blending hydrogen into the gas network, to enable hydrogen production at scale. This outcome is a direct result of the key enabling projects under our HyDeploy programme, that has looked specifically at the safety and technical potential for blending hydrogen.

We are working closely with central and local Government, opinion formers and policymakers, and with Ofgem and other industry stakeholders so we can provide consistent, clear, and strategic advice in order to maintain investment in our critical national infrastructure, relied upon by over 80% of UK homes and businesses. This includes evaluating the framework for future investment and network regulation and developing pathfinder projects to ensure the evolving energy needs of the UK are met alongside the need for consistent reliability, affordability, and security of supply. We are actively developing our RIIO-3 submission to ensure a whole systems approach is applied to support the strategic long-term role of the network.

Managing the environment is about more than just reducing risk and minimising our impact; it’s about implementing best practice environmental solutions to drive efficiency, save money and preserve natural resources. We're working with the Carbon Trust to pursue accreditation of our goals and programmes from the Science Based Targets Initiative. Responding to the urgent need to decarbonise the energy system, we're applying whole energy system thinking to support decarbonisation and the energy system transition, as well as wider stakeholder-driven environmental and economic considerations, including clean air and economic growth.

We continue to focus on our learning and development strategy and have worked with teams to review training needs, refresh current programmes and propose recommendations. In July 2024 we delivered the first hydrogen train-the trainer programme for Learning and Development trainers and assessors. Our detailed programme is tailored to ensure readiness to support upcoming industrial hydrogen projects, and the first phase of HyNet (2026-27). We are actively collaborating with the hydrogen engineering team to stay abreast of the latest procedures and outputs from industry technical evidence projects.

One of our key priorities at this time is keeping our employees and customers safe. We are committed to improving our safety record, delivering a Lost Time Injury Frequency Rate of 0.59. We have maintained our focus on ensuring our colleagues and contractors are safe whilst at work, and that members of the public are safe in the vicinity of our works.

Our vision is for Cadent to be a fair, respectful and inclusive place to work, where all our people feel like they belong, through the experiences and opportunities they have. We engage our leaders to take ownership of inclusion within their teams and empower individuals to take action. Our well established Employee Communities and Working Groups play an important role in integrating a diverse workforce, creating an inclusive culture and keeping employees engaged and motivated. We are proud to give colleagues the opportunity to contribute and make a difference, and are grateful for our fantastic volunteers and the changes they are creating in our culture.

# Cadent Gas Limited

## Interim management report (continued)

### Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report and Financial Statements for the year ended 31 March 2024. A detailed explanation of the risks and how the Group seeks to mitigate the risks, can be found on pages 42 to 48 of the Annual Report and Financial Statements for the year ended 31 March 2024. Below is a summary of our key risks as at 30 September 2024:

- Cyber, physical security breach, data issues or critical system failure
- Effectively managing assets and network reliability
- Securing critical resources and engagement
- Legal and regulatory compliance
- Safety, health and environment
- Changes in external landscape
- Climate change
- Protecting customers' interests
- Macroeconomic and financial

### Going concern

As stated in note 1 these condensed consolidated financial statements, having made enquiries and reviewed management's assessment of going concern, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Auditor

Following the completion of the 2023/24 audit process, Deloitte LLP have been re-appointed as auditor of the Quadgas Holdings TopCo Limited Group and its subsidiaries including Cadent Gas Limited.

### Cautionary statement

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

By order of the Board,

**M W Braithwaite**
Director
20 November 2024
Pilot Way, Ansty, Coventry, CV7 9JU

# Cadent Gas Limited

## Statement of Directors' responsibilities

The half year financial information is the responsibility of and has been approved by the Directors. The directors confirm that the financial information has been prepared in accordance with the United Kingdom Adopted International Standard 34 'Interim Financial Reporting'.

The Directors of Cadent Gas Limited during the period and up to the signing of the condensed financial statements are as listed in the Cadent Gas Limited Annual Report and Financial statements for the year ended 31 March 2024 with the exception of the following changes to the Board:

On 30 September 2024 A O Bickerstaff resigned as Director of Cadent Gas Limited.

On 23 October 2024 W D G Price resigned as Director of Cadent Gas Limited.

By order of the Board,

**M W Braithwaite**
Director
20 November 2024

## INDEPENDENT REVIEW REPORT TO CADENT GAS LIMITED

### Conclusion

We have been engaged by the company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2024 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2024 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34

### Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

### Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern

### Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006. The condensed set of consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the review of the financial information**

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

**Use of our report**

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

**Deloitte LLP**
Statutory Auditor
Birmingham, United Kingdom
20 November 2024

## Cadent Gas Limited

### Condensed consolidated income statement

Six months ended 30 September 2024

| | Notes | **Six months ended 30 September 2024 (unaudited)** | | Six months ended 30 September 2023 (unaudited) | |
|---|---|---|---|---|---|
| | | **£m** | **£m** | £m | £m |
| Revenue | | | **1,056** | | 1,121 |
| Operating costs | | | | | |
| Before adjusting items | | **(695)** | | (662) | |
| Adjusting items | 5 | **(3)** | | (3) | |
| Total operating costs | | | **(698)** | | (665) |
| **Total operating profit** | | | **358** | | 456 |
| Finance income | | | | | |
| Before adjusting items | | **37** | | 29 | |
| Adjusting items | 5/6 | **21** | | 54 | |
| Total finance income | 6 | | **58** | | 83 |
| Finance costs | | | | | |
| Before adjusting items | 6 | **(152)** | | (168) | |
| Total finance costs | | | **(152)** | | (168) |
| **Profit before tax** | | | | | |
| Before adjusting items | | **246** | | 320 | |
| Adjusting items | 5 | **18** | | 51 | |
| Total profit before tax | | | **264** | | 371 |
| Tax | | | | | |
| Before adjusting items | 7 | **(64)** | | (81) | |
| Adjusting items | 5/7 | **(4)** | | (13) | |
| Total tax | 7 | | **(68)** | | (94) |
| Profit after tax | | | | | |
| Before adjusting items | | **182** | | 239 | |
| Adjusting items | 5 | **14** | | 38 | |
| **Profit for the period** | | | **196** | | 277 |

The results reported above relate to continuing operations.

**Cadent Gas Limited**

## Condensed consolidated statement of comprehensive income

Six months ended 30 September 2024

| | **Six months ended 30 September 2024 (unaudited) £m** | Six months ended 30 September 2023 (unaudited) £m |
|---|---|---|
| **Profit for the period** | **196** | 277 |
| **Other comprehensive income/(loss):** | | |
| Items that will not be reclassified to profit or loss | | |
| Remeasurements of post-employment benefit obligations | **60** | (223) |
| Tax on remeasurements of post-employment benefit obligations | **(15)** | 56 |
| **Total items that will not be reclassified to profit or loss** | **45** | (167) |
| Items that may be reclassified subsequently to profit or loss | | |
| Net gain in respect of cash flow hedges | **14** | 21 |
| Net gain/(loss) in respect of cost of hedging reserve | **2** | (4) |
| Amortisation of cost of hedging reserve | **3** | 3 |
| Tax on net gain in respect of cash flow hedge reserve and cost of hedging reserve | **(5)** | (6) |
| **Total items that may be reclassified subsequently to profit or loss** | **14** | 14 |
| **Other comprehensive income/(loss) for the period, net of tax** | **59** | (153) |
| **Total comprehensive income for the period** | **255** | 124 |

The results reported above relate to continuing operations.

## Cadent Gas Limited

### Condensed consolidated statement of financial position

As at 30 September 2024

| | Notes | **As at 30 September 2024 (unaudited) £m** | As at 31 March 2024 (audited) £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **22** | 31 |
| Property, plant and equipment | 9 | **12,080** | 11,832 |
| Pension and other post-retirement benefit assets | 12 | **416** | 350 |
| Derivative financial assets | 10 | **14** | 16 |
| Total non-current assets | | **12,532** | 12,229 |
| **Current assets** | | | |
| Derivative financial assets | 10 | **-** | 3 |
| Inventories | | **15** | 16 |
| Corporation tax | | **-** | 4 |
| Trade and other receivables | | **198** | 211 |
| Current asset investments | | **430** | 569 |
| Cash and cash equivalents | | **32** | 29 |
| Total current assets | | **675** | 832 |
| **Total assets** | | **13,207** | 13,061 |
| **Current liabilities** | | | |
| Trade and other payables | | **(477)** | (365) |
| Borrowings | 11 | **(63)** | (655) |
| Lease liabilities | 11 | **(24)** | (21) |
| Corporation tax | | **(8)** | - |
| Provisions | | **(9)** | (12) |
| Total current liabilities | | **(581)** | (1,053) |
| **Net current assets/(liabilities)** | | **94** | (221) |
| Total assets less current liabilities | | **12,626** | 12,008 |
| **Non-current liabilities** | | | |
| Derivative financial liabilities | 10 | **(396)** | (328) |
| Borrowings | 11 | **(7,823)** | (7,330) |
| Lease liabilities | 11 | **(107)** | (99) |
| Deferred tax liabilities | | **(1,823)** | (1,806) |
| Provisions | | **(59)** | (56) |
| Accruals and deferred income | | **(23)** | (41) |
| Total non-current liabilities | | **(10,231)** | (9,660) |
| **Total liabilities** | | **(10,812)** | (10,713) |
| **Total net assets** | | **2,395** | 2,348 |
| **Equity** | | | |
| Share capital | | **-** | - |
| Cash flow hedge deficit | | **(4)** | (13) |
| Cost of hedging reserve | | **14** | 9 |
| Retained earnings | | **7,678** | 7,645 |
| Other deficit | | **(5,293)** | (5,293) |
| **Total equity** | | **2,395** | 2,348 |

The notes on pages 21 to 30 are an integral part of the financial statements.

The condensed consolidated financial statements on pages 16 to 30 were approved for issue by the Board of Directors on 20 November 2024 and were signed on its behalf by:

**M W Braithwaite**
Director
Cadent Gas Limited
Company registration number: 10080864

**Cadent Gas Limited**

## Condensed consolidated statement of changes in equity

Six months ended 30 September 2024

| | **Share capital £m** | **Cash flow hedge deficit £m** | **Cost of hedging reserve £m** | **Other deficit £m** | **Retained earnings £m** | **Total £m** |
|---|---|---|---|---|---|---|
| **At 1 April 2024** | **-** | **(13)** | **9** | **(5,293)** | **7,645** | **2,348** |
| Profit for the period | **-** | **-** | **-** | **-** | **196** | **196** |
| Other comprehensive income for the period excluding amortisation of cost of hedging reserve | **-** | **9** | **2** | **-** | **45** | **56** |
| Amortisation of cost of hedging reserve | **-** | **-** | **3** | **-** | **-** | **3** |
| **Total comprehensive income for the period** | **-** | **9** | **5** | **-** | **241** | **255** |
| Equity dividends (note 8) | **-** | **-** | **-** | **-** | **(208)** | **(208)** |
| **At 30 September 2024 (unaudited)** | **-** | **(4)** | **14** | **(5,293)** | **7,678** | **2,395** |

| | Share capital £m | Cash flow hedge deficit £m | Cost of hedging reserve £m | Other deficit £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| **At 1 April 2023** | - | (27) | 13 | (5,293) | 7,736 | 2,429 |
| Profit for the period | - | - | - | - | 277 | 277 |
| Other comprehensive income/(loss) for the period excluding amortisation of cost of hedging reserve | - | 15 | (4) | - | (167) | (156) |
| Amortisation of cost of hedging reserve | - | - | 3 | - | - | 3 |
| **Total comprehensive income/(loss) for the period** | - | 15 | (1) | - | 110 | 124 |
| Equity dividends (note 8) | - | - | - | - | (155) | (155) |
| **At 30 September 2023 (unaudited)** | - | (12) | 12 | (5,293) | 7,691 | 2,398 |

The cash flow hedge deficit in relation to the cross-currency interest rate swap contracts will be recycled to the income statement over the life of the hedged items.

## Cadent Gas Limited

## Condensed consolidated statement of cash flows

Six months ended 30 September 2024

| | Notes | **Six months ended 30 September 2024** | Six months ended 30 September 2023 |
|---|---|---|---|
| | | **(unaudited)** | (unaudited) |
| | | **£m** | £m |
| **Cash flows from operating activities** | | | |
| Total operating profit | | **358** | 456 |
| Adjustments for: | | | |
| Adjusting items | 5 | **3** | 3 |
| Depreciation and amortisation | | **246** | 225 |
| Increase in inventories | | **1** | - |
| Decrease in trade and other receivables | | **7** | 13 |
| Increase/(decrease) in trade and other payables | | **51** | (79) |
| Capital contribution income | | **(7)** | (21) |
| Changes in provisions | | **(1)** | (3) |
| Gain on disposal of property, plant and equipment | | **(1)** | (1) |
| Changes in pensions and other post-retirement obligations | | **2** | (1) |
| Capital contributions received | | **24** | 39 |
| Cash flows relating to adjusting items | | **(6)** | (3) |
| Cash generated from operations | | **677** | 628 |
| Tax paid | | **(51)** | (81) |
| **Net cash inflow from operating activities** | | **626** | 547 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchases of intangible assets | | **(1)** | (3) |
| Purchases of property, plant and equipment | | **(433)** | (470) |
| Disposals of property, plant and equipment | | **2** | 2 |
| Interest received | | **31** | 9 |
| Net decrease in financial investments | | **136** | 139 |
| **Net cash flow used in investing activities** | | **(265)** | (323) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds received from loans | | **542** | 535 |
| Cash (paid)/received on derivatives hedging loan proceeds | | **(2)** | 19 |
| Repayment of loans | | **(580)** | (552) |
| Cash received from early termination of derivatives | | **-** | 3 |
| Repayment of lease liabilities | | **(14)** | (9) |
| Interest paid on loans | | **(124)** | (97) |
| Cash received on interest settlement of derivatives | | **28** | 34 |
| Dividends paid to shareholders | 8 | **(208)** | (155) |
| **Net cash flow used in financing activities** | | **(358)** | (222) |
| | | | |
| **Net increase in cash and cash equivalents** | | **3** | 2 |
| **Net cash and cash equivalents at the start of the period** | | **29** | 21 |
| **Net cash and cash equivalents at the end of the period** | | **32** | 23 |
| | | | |
| Comprising: | | | |
| - Cash | | **32** | 23 |
| - Overdraft | | **-** | - |
| | | **32** | 23 |

## Notes to the condensed consolidated financial statements

Six months ended 30 September 2024

### 1 Basis of preparation and new accounting standards, interpretation and amendments

The Annual Report and Financial Statements of the company will be prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the United Kingdom adopted International Accounting Standard 34 “Interim Financial Reporting”.

The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2024, which were prepared in accordance with UK-adopted IFRS Accounting Standards as issued by the IASB, and have been filed with the Registrar of Companies. The auditor’s report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

Having made enquiries and reassessed the principal risks, the Directors have concluded that the Group is well placed to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of this report. The Directors therefore consider, having concluded that there are no material uncertainties, that it was appropriate to adopt the going concern basis of accounting in preparing the half year financial information.

In preparing this half year financial information, the areas of judgement made by management in applying the Cadent Gas Limited's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2024.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2025 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2024. There have been no new IFRS Accounting Standards applicable to the period with material impact on the Group's results.

### 2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Cadent Gas Limited's accounting policies, which are described in note 1 to the 2023/24 Annual Report and Financial Statements, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2024.

On 18 July 2024,Ofgem published it’s Sector Specific Methodology Decision (SSMD), which sets out some of the key aspects of the RIIO-3 price review which will inform our business plan and Ofgem's approach to setting allowances for the RIIO-3 regulatory period. The SSMD includes proposals on accelerating the regulatory Regulated Asset Value (RAV) recovery profile to mitigate stranding risk whilst smoothing charges to support fairness of burden for current and future customers. These proposals are currently being worked through and Ofgem have acknowledged that “the RAV and economic value of the assets are two separate concepts (although linked)” and we will continue to assess the impact of the SSMD on the economic lives of our assets. At this stage, no decisions have been made by Ofgem although further direction is expected through the business plan process and Draft Determination / Final Determination in Summer / Winter 2025. We continue to believe the gas networks will be required to support a resilient energy infrastructure and enable a smooth transition to a lower carbon economy for decades to come.

## 3 Segmental analysis

The Directors believe that the whole of the Group's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Executive Committee who report to the Board of Directors.

The Group's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The Group's assets are all located within the United Kingdom.

## 4 Seasonality

The volumes of gas distributed across network assets are dependent on levels of customer demand which are generally higher in winter months. As a result of this, the amounts reported for the interim period may not be indicative of the amounts that will be reported for the full year due to seasonal fluctuations in customer demand for gas and the impact of weather on demand, however the fluctuations do not have a significant impact on results.

## 5 Adjusting items

In order to illustrate the adjusted trading performance of the company, presentation has been made of performance measures excluding those items to provide a more comparable year-on-year operating performance of the company. The company policy is to exclude items that are considered significant in nature and quantum, or are not in the normal course of business.

The total adjusting items included within total operating costs before tax for the six months to 30 September 2024 is £3 million (2023: £3 million).

Adjusting items are items of income and expenditure that, in the judgment of management, should be disclosed separately on the basis that they are important to an understanding of our financial performance and may significantly distort the comparability of financial performance between periods. The disclosure and classification of adjusting items may not be comparable between companies, and the exclusion of adjusting items impacts the presentation of financial performance and cash flows.

In determining whether an item should be presented as adjusting in nature and hence adjusting the relevant IFRS Accounting Standards measures, management utilises an adjusting items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be incurred or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as adjusting items include items such as significant restructurings, significant write-downs or impairment of non-current assets, integration of acquired businesses, gains or losses on disposals of businesses or investments, debt redemption costs as a consequence of transactions such as significant disposals or issues of equity and the impact on brought forward deferred tax balances arising from corporation tax rate changes.

Adjusting items within finance income comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments (with the exception of the amount relating to accretion which is included within interest) to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in the financial indices and prices over which we have no control.

## 5 Adjusting items (continued)

| | Six months ended 30 September 2024 £m | Six months ended 30 September 2023 £m |
|---|---|---|
| **Adjusting items included within total operating costs:** | | |
| Restructuring costs (i) | **3** | 3 |
| | **3** | 3 |
| **Adjusting items included within finance income:** | | |
| Net gains on derivative financial instruments (ii) | **(21)** | (54) |
| | **(21)** | (54) |
| **Total included within profit before tax** | **(18)** | (51) |
| **Included within taxation:** | | |
| Tax on adjusting items | | |
| Tax credit on restructuring costs | **(1)** | (1) |
| Tax charge on net gains on derivative financial instruments | **5** | 14 |
| | **4** | 13 |
| **Total adjusting items after tax** | **(14)** | (38) |
| **Analysis of total adjusting items after tax** | | |
| Total adjusting items included within operating costs after tax | **2** | 2 |
| Total adjusting items included within finance income after tax | **(16)** | (40) |
| | **(14)** | (38) |

(i) The Group is undergoing a transformation programme to improve the efficiency of our operations by restructuring the business. During the period the Group have recognised £3 million (cumulative: £13 million) in adjusting items in relation to our Operational Efficiency programme, driving and demonstrating efficiency as a result of the challenge set to us by the regulator, Ofgem. These activities are infrequent and adjusting in nature, and are financially material over the course of the multi-year exercise.

(ii) Net gains on derivative financial instruments comprise gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

## 6 Finance income and costs

| | **Six months ended 30 September 2024 £m** | Six months ended 30 September 2023 £m |
|---|---|---|
| **Finance income** | | |
| Interest income from pensions | **9** | 18 |
| Interest income from financial investments | **28** | 11 |
| Adjusting items (i) | **21** | 54 |
| Total finance income | **58** | 83 |
| **Finance costs** | | |
| Interest expense on financial liabilities held at amortised cost: | | |
| Bank loans and overdrafts | **19** | 20 |
| Bonds (ii) | **112** | 102 |
| Derivatives (iii) | **19** | 44 |
| Other interest | **2** | 2 |
| Total finance cost | **152** | 168 |
| **Net finance costs** | **94** | 85 |

(i) Includes a net foreign exchange gain on financing activities of £76 million (six months ended September 2023: £13 million gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value. Also includes a gain of £13 million (six months ended September 2023: £48 million) relating to the remeasurement of derivatives not designated as hedges and £8million gain (six months ended September 2023: £6 million) on redemption of swaps.

(ii) Included within finance costs in bonds is £1 million (six months ended 30 September 2023: £14 million) of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £252 million) and £7 million (six months ended 30 September 2023: £30 million) RPI-linked debt instruments of > 10 years tenor (cumulative: £284 million).

(iii) Included within finance costs in derivatives is £12 million (six months ended 30 September 2023: £24 million) of accretion on RPI-linked swaps with tenor > 10 years (cumulative: £180 million), £15 million (six months ended 30 September 2023: £28 million) on CPI-linked swaps (cumulative: £159 million) with 7-10 years tenor and £6 million (six months ended 30 September 2023: £12 million) on CPI-linked swaps (cumulative: £61 million) with tenor > 10 years. Also included within finance costs is a credit of £14 million (six months ended 30 September 2023: £20 million ) relating to interest on derivatives.

## Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2024

### 7 Taxation

**Tax charged to the income statement**

| | **Six months ended 30 September 2024 £m** | Six months ended 30 September 2023 £m |
|---|---|---|
| Tax before adjusting items | **64** | 81 |
| Tax on adjusting items | **4** | 13 |
| **Total tax expense** | **68** | 94 |

| **Taxation as a percentage of profit before tax** | **2024** | 2023 |
|---|---|---|
| Before adjusting items | **26.0%** | 25.3% |
| After adjusting items | **25.8%** | 25.3% |

The effective tax rate before adjusting items of 26.0% for the period (six months to 30 September 2023: 25.3%) is higher (2023: higher) than the standard rate of corporation tax in the UK of 25% (2023: 25%). The rate is higher than the standard rate as a result principally of non-tax deductible depreciation of assets that have not qualified for any tax relief (0.9%) and other non-tax deductible expenditure (0.4%) offset by non-taxable income (-0.3%). The expected tax rate for the full year in respect of profit before adjusting items is 25.7% (31 March 2024: 25.3% actual rate)

The tax charge for the period can be analysed as follows:

| | **2024 £m** | 2023 £m |
|---|---|---|
| Current tax | **70** | 78 |
| Deferred tax | **(2)** | 16 |
| | **68** | 94 |

### 8 Dividends

| | **2024 £m** | 2023 £m |
|---|---|---|
| Interim dividend of £1,227.59 per ordinary share amounting to £207,500,000 was declared on 25 September 2024 and paid on 26 September 2024 | **208** | - |
| Interim dividend of £917.00 per ordinary share amounting to £155,000,000 was declared on 22 September 2023 and paid on 28 September 2023 | **-** | 155 |
| | **208** | 155 |

No further dividends are proposed for the current financial period.

## 9 Property, plant and equipment

| | Land and buildings £m | Plant and machinery £m | Assets in the course of construction £m | Motor vehicles and other equipment £m | Right-of-use assets £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2024 | 230 | 13,690 | 52 | 248 | 159 | 14,379 |
| Additions | 7 | 432 | 12 | 12 | 24 | 487 |
| Reclassifications | (7) | 8 | (4) | 3 | - | - |
| Disposals | - | (1) | - | (13) | (4) | (18) |
| **At 30 September 2024** | **230** | **14,129** | **60** | **250** | **179** | **14,848** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 April 2024 | (60) | (2,272) | - | (170) | (45) | (2,547) |
| Depreciation charge for the period | (7) | (201) | - | (17) | (12) | (237) |
| Disposals | - | - | - | 12 | 4 | 16 |
| **At 30 September 2024** | **(67)** | **(2,473)** | **-** | **(175)** | **(53)** | **(2,768)** |
| **Net book value:** | | | | | | |
| **At 30 September 2024** | **163** | **11,656** | **60** | **75** | **126** | **12,080** |
| At 31 March 2024 | 170 | 11,418 | 52 | 78 | 114 | 11,832 |

The UK's target to achieve net zero by 2050 may impact the UELs of our plant and machinery with a current deemed life of up to 50 years if our network can no longer be used beyond this point. We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Given the information currently available about how the UK will achieve net zero using alternative technologies (particularly greener gases such as hydrogen and biomethane), and ahead of the 2026 Government Heat Policy decision, it is still reasonable to assume that the network will continue to be used beyond 2050 in its current form or adapted to accommodate hydrogen or biomethane. For sensitivity analysis over the residual lives of assets see note 29 of the Annual Report and Financial Statements 2023/24.

| | Land and buildings £m | Plant and machinery £m | Assets in the course of construction £m | Motor vehicles and other equipment £m | Right-of-use assets £m | Total £m |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 April 2023 | 206 | 12,786 | 73 | 231 | 124 | 13,420 |
| Additions | 24 | 412 | 17 | 11 | 14 | 478 |
| Reclassifications | 2 | 19 | (28) | 7 | - | - |
| Disposals | - | (1) | - | (4) | (2) | (7) |
| At 30 September 2023 | 232 | 13,216 | 62 | 245 | 136 | 13,891 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 April 2023 | (46) | (1,892) | - | (156) | (33) | (2,127) |
| Depreciation charge for the period | (9) | (184) | - | (12) | (11) | (216) |
| Disposals | - | 1 | - | 4 | 2 | 7 |
| At 30 September 2023 | (55) | (2,075) | - | (164) | (42) | (2,336) |
| Net book value: | | | | | | |
| At 30 September 2023 | 177 | 11,141 | 62 | 81 | 94 | 11,555 |
| At 31 March 2023 | 160 | 10,894 | 73 | 75 | 91 | 11,293 |

## 10 Fair value measurement

The following financial instruments included in the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

| **As at 30 September 2024** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value through profit and loss ('FVTPL') instruments | **328** | **-** | **-** | **328** |
| Derivative financial instruments | **-** | **14** | **-** | **14** |
| **Liabilities** | | | | |
| Derivative financial instruments | **-** | **(233)** | **(163)** | **(396)** |
| **Total** | **328** | **(219)** | **(163)** | **(54)** |

| As at 31 March 2024 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value through profit and loss ('FVTPL') instruments | 266 | - | - | 266 |
| Derivative financial instruments | - | 19 | - | 19 |
| **Liabilities** | | | | |
| Derivative financial instruments | - | (182) | (146) | (328) |
| **Total** | 266 | (163) | (146) | (43) |

Financial liabilities in the consolidated statement of financial position are either held at fair value with the exception of borrowings, which are held at amortised cost. Financial assets are classified at inception into one of the following categories which then determines the subsequent measurement methodology: financial assets at amortised cost; financial assets at fair value through other comprehensive income (FVTOCI); and financial assets at fair value through profit or loss (FVTPL). Carrying value is used if it approximates to fair value.

The estimated fair value of total borrowings using market values at 30 September 2024 is £7,008 million (31 March 2024: £6,834 million).

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

The Level 3 derivative financial instruments comprise £1 billion of CPI-linked inflation swaps maturing in 2028 and 2031 which are traded based on a spread to liquid RPI inflation markets. As the market for CPI swaps is still maturing with the spreads not currently observable in their own liquid market, these swaps have been classified as Level 3 instruments. The fair values for these instruments are calculated by using market forecasts of inflation indices obtained from third party valuation data to produce a series of future cashflows. These are then discounted back to a net present value to which model-derived credit and funding valuation adjustments are applied. As these instruments are linked to CPI, higher inflation forecasts across the life of the instruments will result in a larger liability at maturity, negatively impacting the fair value. Conversely, a reduction in inflation forecasts across the life of the instruments will reduce the liability at maturity and positively impact the fair value. Indicatively, a 1% change in the first twelve months of the inflation indices used to calculate the fair values of the Level 3 derivative financial instruments would change the fair values by £11.6 million, with an increase in the inflation indices reducing the fair values and vice versa. Fair values will also be impacted by movements in interest rate curves which are used to derive the discount rates used in calculating the net present values of the instruments.

## Notes to the condensed consolidated financial statements (continued)

Six months ended 30 September 2024

### 10 Fair value measurement (continued)

Movements in the 6 months to 30 September 2024, for assets and liabilities measured at fair value using Level 3 valuations inputs are as follows:

| | **Six months ended 30 September 2024 £m** | Six months ended 30 September 2023 £m |
|---|---|---|
| At 1 April | **(146)** | (124) |
| Net gain for the period | **12** | 7 |
| Settlements | **(29)** | (29) |
| At 30 September | **(163)** | (146) |

Net gains in the period are shown within interest cost in the income statement.

### 11 Net debt

| | **Six months ended 30 September 2024 £m** | Year ended 31 March 2024 £m |
|---|---|---|
| Decrease/(increase) in borrowings & related derivatives | **40** | (364) |
| Repayment of lease liabilities | **14** | 22 |
| Net interest paid on borrowings and derivatives | **96** | 148 |
| **Changes in net debt arising from financing activities** | **150** | (194) |
| Increase in cash and cash equivalents | **3** | 8 |
| (Decrease)/increase in financial investments | **(167)** | 21 |
| **Changes in net debt arising from cash flows** | **(14)** | (165) |
| Changes in fair value | **(34)** | (17) |
| Foreign exchange movements | **74** | 58 |
| Net interest charge on the components of net debt | **(124)** | (262) |
| Other non-cash changes | **(23)** | (40) |
| **Movement in net debt** | **(121)** | (426) |
| Net debt at the start of the period | **(7,816)** | (7,390) |
| **Net debt at the end of the period** | **(7,937)** | (7,816) |

Composition of net debt:

| | | |
|---|---|---|
| Cash, cash equivalents and financial investments | **462** | 598 |
| Borrowings and bank overdrafts | **(7,886)** | (7,985) |
| Derivatives | **(382)** | (309) |
| Lease liabilities | **(131)** | (120) |
| **Total net debt** | **(7,937)** | (7,816) |

## 12 Retirement benefit schemes

| | **30 September 2024 £m** | 31 March 2024 £m |
|---|---|---|
| Present value of funded obligation | **(4,014)** | (4,224) |
| Fair value of plan assets | **4,433** | 4,577 |
| | **419** | 353 |
| Present value of unfunded obligations | **(3)** | (3) |
| **Net defined benefit asset** | **416** | 350 |
| Represented by: | | |
| Liabilities | **(4,017)** | (4,227) |
| Assets | **4,433** | 4,577 |
| | **416** | 350 |
| **Key actuarial assumptions** | | |
| Discount rate - Past service | **4.95%** | 4.80% |
| Discount rate - Future service | **- *** | 4.80% |
| Rate of increase in salaries | **- *** | 2.25% |
| Rate of increase in RPI - Past service | **3.10%** | 3.25% |
| Rate of increase in RPI - Future service | **- *** | 3.10% |

* The Cadent Gas Pension Scheme closed to future accrual on 31 March 2024.

The net pensions position, as recorded under IAS19, at 30 September 2024 was a surplus of £416 million compared to a surplus of £350 million at 31 March 2024. There is an overall increase of £66 million (DBO reduced by £210 million but assets reduced by £144 million resulting in the net overall increase). This increase follows a valuation exercise undertaken at 30 September 2024 by the Group's independent actuary. The main drivers of the increase over the period are an experience gain of £20 million due to actual inflation over the period being lower than that assumed, plus gains of £135 million due to a change in financial and demographic assumptions partially offset by an experience loss on the plan assets of £94 million.

The Group included an initial estimate of the impact of GMP equalisation within its 31 March 2019 results with a revision at 31 March 2021 following the secondary ruling on GMP equalisation. The Trustees of the Scheme are currently in the initial stages of implementing GMP equalisation in the Scheme, with a methodology agreed. The Group have currently used the same allowance of 0.2% of liabilities for GMP equalisation, as initially used and this is included in the calculation of the DBO at 30 September 2024.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited versus NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK. Detailed investigations are ongoing, but we currently have no reason to believe that the ruling in the case will have any financial impact for the Group. We will continue to assess the position.

## 13 Commitments and contingencies

### (a) Capital and other commitments

At 30 September 2024 there were commitments for future capital expenditure contracted but not provided for £307 million (31 March 2024: £320 million). We also have other commitments relating to contingencies in the form of letters of credit and leases.

### (b) Environmental claims

An environmental provision has been set up to deal with the costs of statutory decontamination of Cadent Gas Limited's old gas-manufacturing sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

### (c) Litigation

Through the ordinary course of operations, the company is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the company's results of operations, cash flows or financial position.

### (d) Guarantees and letters of credit

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of bonds, guarantees or letters of credit.

## 14 Related party transactions

A related party is a company or individual who also has an interest in us. The related parties identified include the immediate parent, ultimate parent, fellow subsidiaries, associated undertakings, investments and key management personnel.

There have been no material changes in the related party transactions described in the last Annual Report and Accounts. Information relating to dividends and pension fund arrangements are disclosed in notes 8 and 12 respectively.

## 15 Subsequent events

In October 2024, Cadent Gas Limited agreed with relevant lenders to extend the termination date of its £500 million Revolving Credit Facility and £150 million Letter of Credit facility by two years to November 2029. All other terms in the agreement remain unchanged. On 4 November 2024, a further Revolving Credit Facility of £150 million, which was put in place solely to support liquidity over a period of refinancing, expired and was not replaced.