Cadent
Your Gas Network

Quadgas MidCo Limited
Report for the six months ended 30 September 2023

This interim management report has been prepared for the Quadgas MidCo Limited Group (the 'Group'), which comprises Quadgas MidCo Limited, Cadent Gas Limited, Cadent Finance Plc, Cadent Services Limited, Quadgas Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited. Results are consolidated at Quadgas MidCo Limited, the operating company for the Group is Cadent Gas Limited 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 131,000 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 51 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 a leading voice on the importance of hydrogen in the future energy mix to achieve our net zero ambitions. Our ambition is to make hydrogen a safe, fair, and reliable choice for consumers by actively supporting the development of a hydrogen economy in the UK by engaging with industry and the government to feed into their net zero plans (and to influence hydrogen infrastructure funding decisions). We continue to play a leading role in raising awareness and educating customers and key stakeholders on the role hydrogen can play. Working with leading bodies, we have been exploring the positive economic impact of hydrogen's use for industry, heating and as a source of resilience, particularly during periods of low renewable energy generation (i.e. limited wind resource or solar irradiance).

A small proportion of a typical household gas bill goes towards the cost of maintaining our gas network. Through a continued focus on innovation and efficiency improvements we are committed to reducing our costs by over £500 million by 2026, which supports providing for a real reduction in customer gas bills over time. In 2022/2023 a typical domestic customer paid £154 towards the cost of our services, down from £163 at the start of RIIO-1 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 committed to supporting communities and customers in vulnerable situations and to date have donated £25.6 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.

Historic volatility in gas prices had a wide impact in the energy industry and a number of shippers and gas suppliers ceased trading in the previous financial years. 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). In circumstances where a supplier fails, Ofgem appoint a Supplier of Last Resort (SoLR) to ensure continuity in the supply of gas to end customers. The appointed SoLR is entitled to make a claim to cover costs incurred in taking on the customers which is apportioned between the gas distribution networks (including Cadent). Whilst Cadent has been exposed to short term impacts, our regulatory mechanisms protect us from long term risks with costs being reimbursed in future periods. The continued flow of gas to people's homes and business is of upmost importance and we will continue to work collaboratively with Ofgem to support suppliers and shippers.

Operations (continued)

The Group is experiencing significant cost pressures 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 as we work through our transformation programme.

In the first half of the year, the Group delivered £432 million of operating profit (2022: £451 million) on revenues of £1,121 million (2022: £1,148 million), generating £629 million of operating cash flow (2022: £709 million), and invested £483 million (2022: £411 million) on new and existing assets. The decrease in revenue of £27 million was mainly due to a decrease in capacity income following lower shipper capacity bookings on the comparative period, partially offset by an increase in diversions income.

Operating costs have decreased by £8 million to £689 million (2022: £697 million) partly due to the effects of lower wholesale gas prices reducing our shrinkage costs to £15 million (2022: £37 million) and a reduction in property costs to £131 million (2022: £134 million), offset by higher depreciation of £239 million (2022: £221 million). The Ofgem mandated pricing formula ensures we are reimbursed for the majority of these cost increases in a future period.

Finance costs for the period of £254 million (2022: £308 million) have decreased largely due to lower accretions on index-linked debt and derivatives.

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. The cost of living crisis and industry supply challenges has highlighted the critical role that our natural gas network currently plays, not only for resilience in power, but also in delivering a safe and reliable service to heat homes and to power industry. The 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.

Cadent are responding to the consultation on the frameworks for future systems and network regulation. In the short term, we anticipate the continuance of a core price control for 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 objectives we have set are focussed 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.

Long-term strategy and business objectives (continued)

We do what we can 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 and income advice, debt consolidation services and funding the repair or replacement of gas boilers and appliances. We have also established over 50 Centres for Warmth across our networks. Alongside a large scale education programme providing advice on reducing energy usage in the home, the Cadent Foundation is investing millions of pounds in home energy efficiency improvements, such as more energy efficient appliances and home insulation.

This period we have invested £483 million (2022: £411 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 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 2023/24 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 our own reduction targets to reduce our carbon footprint as we progress through 2026.

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 green hydrogen as a low carbon alternative to natural gas. We have been progressing several projects and trials, which in the period include Cadent supporting NGN's Redcar Village trial following the deselection of our Whitby Hydrogen Village trial and an increased focus on Hydrogen for industrial use, as well as meeting leaders across the political spectrum, industrial users, and multinational energy companies to establish key relationships for hydrogen production and blending. 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 need and build 'whole system' plans that minimise uncertainty and risk.

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, a robust risk management assessment, regular budget reviews as well as scenario planning incorporating industry trends, considering any emerging issues and economic conditions. Our business strategy aims to enhance our long-term prospects by making sure our operations and finances are sustainable.

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. Despite ongoing macro-economic and geo-political volatility, the company has not been significantly impacted as a result of protections in place through the regulatory price control. The company continues to closely monitor and manage these impacts.

Going Concern (continued)

The Group has net current liabilities of £615 million (31 March 2023: £48 million asset) primarily due to several items of debt maturing within 12 months from the date of this report. The carrying value of the debt as at 30 September 2023 is £763 million and will be repaid using existing liquidity & financing arrangements (as detailed below) together with access to capital markets. Having made enquiries and reassessed the principal risks it was concluded that sufficient liquidity headroom existed in the forecast and against the requirements of our banking covenants and no reasonably possible downside scenario existed wherein the company would be unable to continue as a going concern.

After due consideration, it was recommended to the Board in November 2023 that the financial statements be prepared on a going concern basis.

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 2023, the Group had undrawn credit facilities, an undrawn bank loan and cash totalling £1,355 million (31 March 2023: £1,354 million) made up of available Revolving Credit Facilities of £850 million of which £60 million is drawn, a £150 million undrawn, committed bank loan, investments in short-term money funds of £204 million, short-term bank deposits of £181 million and cash of £30 million. We also retain the capacity to raise additional debt if required from both the debt capital and loan markets.

Quadgas MidCo Limited

Interim management report (continued)

Results for the six months ended 30 September 2023

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

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m	Movement £m
Revenue	**1,121**	**1,148**	(27)
Operating profit – Before adjusting[1] items	**435**	**453**	(18)
Adjusting[1] items	**(3)**	**(2)**	(1)
Operating profit	**432**	**451**	(19)
Profit before tax – Before adjusting[1] items	**211**	**161**	50
Profit before tax	**257**	**329**	(72)
Profit for the period	**183**	**226**	(43)
Capital investment	**483**	**411**	72

[1]The term ‘adjusting’ represents a change in terminology from the prior period which disclosed certain items as ‘Exceptional items and remeasurements’. See note 1 for details.

Revenue

Total Group revenue for the period was £1,121 million (2022: £1,148 million) comprising £1,088 million (2022: £1,122 million) of regulated allowed revenue and £33 million (2022: £26 million) from non-regulated activities. The £34 million decrease in regulated allowed revenue was largely due to a decrease in capacity income following lower shipper capacity bookings with the £7 million increase in non-regulated revenues mainly as a result of the higher number of diversions being completed.

Operating profit before adjusting items

Operating profit before adjusting items for the period was £435 million (2022: £453 million), with revenue of £1,121 million (2022: £1,148 million) offset by £686 million (2022: £695 million) of operating costs. Operating costs have decreased by £9 million largely due to the effects of lower wholesale gas prices reducing our shrinkage costs to £15 million (2022: £37 million), an increase in capital investment reducing our subcontractor costs to £7 million (2022: £15 million) and a reduction in property costs to £131 million (2022: £134 million), offset by higher depreciation of £239 million (2022: £221 million) and an increase to exit capacity charges to £84 million (2022: £79 million). The Ofgem mandated pricing formula ensures we are reimbursed for the majority of these cost increases in a future period.

In managing the business, we use Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (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 measure is a substitute for IFRS measures, however it does believe such information is useful in assessing the performance of the business on a comparable basis.

Adjusted EBITDA is a non-IFRS 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 IFRS measures. The nearest equivalent IFRS measure to adjusted EBITDA is profit/(loss) for the period, which is presented in the condensed consolidated income statement and reconciled overleaf:

Quadgas MidCo Limited

Interim management report (continued)

Operating profit before adjusting items (continued)

Adjusted EBITDA Reconciliation	Reference	**Six months ended 30 September 2023 £m**	Six months ended 30 September 2022 £m
Profit for the period		**183**	226
Add:			
Tax	Note 7	**74**	103
Net finance costs	Note 6	**175**	122
Total operating profit	Page 16	**432**	451
Depreciation and amortisation		**248**	232
Adjusting items	Note 5	**3**	2
Alternative performance measure:			
Adjusted EBITDA		**683**	685

Adjusted EBITDA has decreased by £2 million due to higher depreciation and amortisation offset by lower operating profit.

Finance income and costs

Finance income before adjusting items for the period was £30 million (2022: £16 million) due to an increase in interest income as a result of an increase in current asset investments. Finance costs for the period of £254 million (2022: £308 million) have decreased due to the effects of inflation changes on index-linked debt and derivatives.

Adjusting items

Included within total operating profit of £432 million (2022: £451 million) are adjusting items of £3 million (2022: £2 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 in adjusting items in relation to our Operational Efficiency programme in response to 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 £49 million (2022: £170 million) in relation to net gains on derivative financial instruments. This is due to changes in the mark-to-market values of index-linked swaps (RPI & CPI), which have been impacted by the increase in the interest rate curve in the period, reducing the net present value of the future index linked cashflows, as well as a combination of changes in market forecasts of RPI and CPI.

Profit for the period

The Group made a profit after tax of £183 million (2022: £226 million). The reduction is largely due to lower net gains on derivative financial instruments in the period and lower operating profit partially offset by increased finance income and reduced finance expense.

Quadgas MidCo Limited

Interim management report (continued)

Dividend

During the first half of the year, the company paid an interim ordinary dividend of £129 million (2022: £100 million). 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 Group's performance around employees, and executive pay. Executive pay disclosures are significantly enhanced relative to sector standards supported by a strong remuneration committee that target societal benefits such as performance on customer and sustainability measures. We also have transparent and low risk policies in relation to how we interact with the tax authorities.

Capital investment

Our capital investment has been significantly impacted by the effects of inflation with total investment increasing £72 million from the comparative period. Capital investment was £483 million (2022: £411 million) comprising £2 million (2022: £Nil million) of intangible assets and £481 million (2022: £411 million) of tangible assets. Tangible asset additions are mainly comprised of £412 million (2022: £343 million) of plant and machinery with the majority relating to our ongoing mains replacement programme with 909km being replaced in the period (2022: 846km). Remaining additions comprise land and buildings £27 million (2022: £12 million), £17 million (2022: £32 million) of assets in the course of construction, motor vehicles and other equipment £11 million (2022: £12 million) and £14 million (2022: £12 million) of right-of- use assets.

Financial position

Net assets decreased by 2.5% to £3,604 million (31 March 2023: £3,698 million). The main movement in the balance sheet items were a decrease of £208 million in the net surplus position of the defined benefit pension scheme to £521 million (31 March 2023: £729 million), coupled with a decrease to current asset investments to £385 million (31 March 2023: £526 million). This decrease was partly offset by a net increase in property, plant and equipment and intangible fixed assets of £234 million arising from capital investment.

Goodwill of £1,713 million (31 March 2023: £1,713 million) has been recognised. Having reviewed its assets for indicators of significant impairment since the annual report for the 2023 financial year were signed, including the profit after tax of £183 million for the period, management has concluded no such indicators exist and therefore no impairment has been recognised as at 30 September 2023. The annual impairment test for goodwill and indefinite life intangibles will be completed at 31 March 2024.

The Group operates its own DB pension arrangement, the Cadent Gas Pension Scheme (the 'Scheme'), for certain employees. Membership of the defined contribution scheme, MyPension, is offered to all new employees.

Quadgas MidCo Limited

Interim management report (continued)

Financial position (continued)

On an IAS 19 basis the defined benefits pension scheme is in a net asset position of £521 million at 30 September 2023 (31 March 2023: Net asset of £729 million). There is an overall decrease of £208 million (DBO reduced by £281 million but assets reduced by £489 million resulting in the overall reduction). This decrease follows a valuation exercise undertaken at 30 September 2023 by the Group's independent actuary. The main drivers of the decrease over the period for the DBO are a significant increase in corporate bond yields (which drive the discount rate) resulting in a reduction of the DBO by £344 million and a gain on demographic assumptions from the adoption of the latest CMI2022 future mortality improvement projections model resulting in a reduction of the DBO by £70 million, partially offset by an increase in the DBO of £177 million due to actual inflation over the accounting period being higher than that assumed at 31 March 2023. Plan assets fell as actual asset returns were lower than interest income.

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, however a final methodology and approach are yet to be agreed and confirmed. The choice of methodology will ultimately affect the financial impact of GMP equalisation. 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 2023.

On 3 August 2023 the Group launched a consultation on proposed changes to the DB scheme on whether the future accrual of benefits would continue. The consultation closed on 2 October 2023.

The Group has net debt of £10,798 million (31 March 2023: £10,593 million). Net debt is a non-IFRS 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 measure is borrowings which is presented in the consolidated statement of financial position and is reconciled below.

	30 September 2023	31 March 2023
	£m	£m
Statutory results:		
Borrowings	**10,865**	10,848
Cash, cash equivalents and financial investments	**(415)**	(554)
Derivatives	**251**	209
Lease liabilities	**97**	90
Alternative performance measure:		
Net debt (see note 11)	**10,798**	10,593

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term. At 30 September 2023, the Group had undrawn credit facilities and cash totalling £1,355 million (31 March 2023: £1,354 million) made up of available Revolving Credit Facilities of £850 million (31 March 2023: £850 million) of which £60 million (31 March 2023: £50 million) is drawn, a £150 million undrawn, committed bank loan, investments in short-term money funds of £204 million (31 March 2023: £526 million), short-term bank deposits of £181 million (31 March 2023: £Nil) and cash of £30 million (31 March 2023: £28 million).

Cash flow

Net cash inflow from operating activities for the six months ended 30 September 2023 was £577 million (30 September 2022: £663 million) with the decrease due to lower operating profit, together with lower trade and other payables, offset by lower pension deficit payments.

Interim management report (continued)

Events after the balance sheet date

On 26 October, Cadent Finance Plc, a subsidiary of Quadgas MidCo Limited, entered into a £36 million floating to fixed swap. This increases the proportion of the £432 million cross currency swap, entered into in relation to the €500 million bond issued on 5 July 2023, swapped from floating to fixed to £146 million.

On 7 November 2023, having provided sufficient notice to the lender, Cadent Gas Limited, a subsidiary of Quadgas MidCo Limited, repaid a bank loan with a contractual maturity date of 7 May 2024. This bank loan was index-linked with a notional value of £60 million and carrying value of £104 million as at 30 September 2023.

On 15 November 2023 Quadgas Finance Plc, a subsidiary of Quadgas MidCo Limited, priced £199.4 million GBP equivalent of private fixed rate notes for settlement on 16 January 2024:
- £30 million maturing 16 July 2030 with a coupon rate of 6.88%,
- £54 million maturing 16 January 2032 with a coupon rate of 6.97%,
- £35 million maturing 16 January 2034 with a coupon rate of 6.88%,
- $75 million maturing 16 January 2030 with a coupon rate of 7.08%, which is swapped to GBP £60.4 million at a rate of 6.92%

These notes are guaranteed by and proceeds were lent to Quadgas MidCo Limited on matching terms.

On 1 November 2023, communication was sent by Cadent Gas Limited, a subsidiary of Quadgas MidCo Limited, to the members of its Cadent Gas Pension Scheme setting out the conclusion on the proposed changes to the Scheme. The changes will result in closure of the Scheme to future accrual together with transition payments to impacted members. The costs of the change are expected to be in the region of £15-25 million.

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.

Quadgas MidCo 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 2023 (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 2023 and the six-month period to 30 September 2022.

Strategic priorities	KPIs	Definition	Performance
Trusted to act for our communities	**Safety**	**Lost time injuries frequency rate** Any injury to employee or contractor resulting in time off work (injuries per million hours worked).	**2023/24 half year: 0.36** **2022/23: 0.54** **2022/23 half year: 0.42** **(Target: 0.54)** [1]
Providing a resilient network to keep the energy flowing	**Kilometres of network replaced**	**Kilometres of network replaced** Number of kilometres of mains pipe replaced.	**2023/24 half year: 909km** **2022/23: 1,742km** **2022/23 half year: 846km** **(Full year target 2023/24: 1,604km)** [2]
Delivering a quality experience for all our customers and stakeholders	**Customer satisfaction**	**Customer satisfaction** Our score in customer satisfaction surveys. Ofgem set a baseline target.	**2023/24 half year: 9.22** **2022/23: 9.20** **2022/23 half year: 9.21** **(Target: Higher than 8.75)** [3]
	Complaints	**Complaints handling** Percentage of complaints handled within 1 day.	**2023/24 half year: 88.0%** **2022/23: 89.0%** **2022/23 half year: 90.8%**
Tackling climate change and improving the environment	**Incidents**	**Environmental incidents** Number of serious environmental incidents	**2023/24 half year: 0 incidents** **2022/23: 1 incident** **2022/23 half year: 0 incidents** **(Target: No serious incidents)**[4]
	Waste	**Waste Reduction** % waste reduction	**2023/24 half year: +5%** **2022/23: 27%** **2022/23 half year: 29%** **(Target: 8%)**[5]

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 baselines targets set by Ofgem for rewards or penalty.
4 Serious incident causing significant environmental harm or damage.
5 Based on the % waste reduction against a baseline of 1,226 tonnes per year for 2023/24 (2022/23: 1,680 tonnes) which excludes spoil, PE pipe and recycled waste).

Further details of our priorities are disclosed in the Annual Report and Financial Statements 2022/23.

Delivering our 2023/24 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 continue to maintain, repair and replace gas pipes and associated infrastructure which will prepare us to meet the country's net zero commitments and ensure the safe and reliable flow of gas.

We are committed to driving down the emissions from our operations. With an estimated 97% of our current emissions relating to leakage from our iron and steel pipe network we are prioritising activities to reduce leakage with a further commitment to reach a net zero non-leakage business carbon footprint ('BCF') by the end of the RIIO-2 period. We have replaced a further 909km of iron mains in the first half of the year and are on track to deliver our annual mains replacement target of 1,604km.

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. We are also studying the blending of hydrogen into the natural gas networks, which will both enhance the country's energy mix and make material contribution to achieving our net zero targets.

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 2023 we have launched new Leadership & Development learning modules through our Management Effectiveness programme. This is a significant step forward in supporting our people on their leadership journey, giving them the tools, skills, and knowledge to equip them for a successful career.

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 0.36. 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 of 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 make a difference in their teams, our ED&I (equity, diversity & inclusion) working groups and our employee communities. We have added a further 2 communities this year, a grief support group and men's engagement network. 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.

Quadgas MidCo 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 2023. A detailed explanation of the risks and how the Group seeks to mitigate the risks, can be found on pages 9 to 16 of the Annual Report and Financial Statements for the year ended 31 March 2023. Below is a summary of our key risks as at 30 September 2023:

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

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 2022/23 audit process, Deloitte LLP have been re-appointed as auditor of the Quadgas Holdings TopCo Limited Group and its subsidiaries including Quadgas MidCo 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
22 November 2023
Pilot Way, Ansty, Coventry, CV7 9JU

Quadgas MidCo 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 Quadgas Midco Limited during the period and up to the signing of the condensed financial statements are as listed in the Quadgas Midco Limited Annual Report and Financial statements for the year ended 31 March 2023 with the exception of the following changes to the Board:

- On 19 July 2023 A G Ray was appointed as Director of Quadgas MidCo Limited.
- On 19 July 2023 A Marsden resigned as Director of Quadgas MidCo Limited.

By order of the Board,

M W Braithwaite
Director
22 November 2023

INDEPENDENT REVIEW REPORT TO QUADGAS MIDCO 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 2023 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 2023 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 the parent 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
22 November 2023

Quadgas MidCo Limited

Condensed consolidated income statement
Six months ended 30 September 2023

	Notes	**£m**	**Six months ended 30 September 2023 (unaudited) £m**	£m	Six months ended 30 September 2022 (unaudited) £m
Revenue			**1,121**		1,148
Operating costs					
Before adjusting[1] items		**(686)**		(695)	
Adjusting[1] items	5	**(3)**		(2)	
Total operating costs			**(689)**		(697)
Total operating profit			**432**		451
Finance income					
Before adjusting[1] items		**30**		16	
Adjusting[1] items	5/6	**49**		170	
Total finance income	6		**79**		186
Finance costs					
Before adjusting[1] items	6	**(254)**		(308)	
Total finance costs			**(254)**		(308)
Profit before tax					
Before adjusting[1] items		**211**		161	
Adjusting[1] items	5	**46**		168	
Total profit before tax			**257**		329
Tax					
Before adjusting[1] items	7	**(62)**		(61)	
Adjusting[1] items	5/7	**(12)**		(42)	
Total tax	7		**(74)**		(103)
Profit after tax					
Before adjusting[1] items		**149**		100	
Adjusting[1] items	5	**34**		126	
Profit for the period			**183**		226

The results above relate to continuing operations.

[1]The term ‘adjusting’ represents a change in terminology from the prior period which disclosed certain items as ‘Exceptional items and remeasurements’. See note 1 for details.

Quadgas MidCo Limited

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2023

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m
Profit for the period	**183**	226
Other comprehensive (loss)/income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	**(223)**	(175)
Tax on remeasurements of post-employment benefit obligations	**56**	44
Total items that will not be reclassified to profit or loss	**(167)**	(131)
Items that may be reclassified subsequently to profit or loss		
Net gains in respect of cash flow hedges	**27**	70
Net (loss)/gains in respect of cost of hedging reserve	**(4)**	11
Amortisation of cost of hedging reserve	**3**	4
Tax on net gains in respect of cash flow hedge reserve and cost of hedging reserve	**(7)**	(22)
Total items that may be reclassified subsequently to profit or loss	**19**	63
Other comprehensive loss for the period, net of tax	**(148)**	(68)
Total comprehensive income for the period	**35**	158

The results above relate to continuing operations.

Quadgas MidCo Limited

Condensed consolidated statement of financial position

As at 30 September 2023

	Notes	**As at 30 September 2023 (unaudited) £m**	As at 31 March 2023 (audited) £m
Non-current assets			
Intangible assets		**3,896**	3,904
Property, plant and equipment	9	**13,054**	12,812
Pension and other post-retirement benefit assets	12	**521**	729
Derivative financial assets		**30**	43
Total non-current assets		**17,501**	17,488
Current assets			
Derivative financial assets		**7**	-
Inventories		**15**	15
Trade and other receivables		**196**	211
Corporation tax		**11**	24
Current asset investments	10	**385**	526
Cash and cash equivalents		**30**	28
Total current assets		**644**	804
Total assets		**18,145**	18,292
Current liabilities			
Trade and other payables		**(423)**	(500)
Borrowings	11	**(811)**	(221)
Lease liabilities	11	**(15)**	(12)
Provisions		**(10)**	(23)
Total current liabilities		**(1,259)**	(756)
Net current liabilities		**(615)**	48
Total assets less current liabilities		**16,886**	17,536
Non-current liabilities			
Derivative financial liabilities	10	**(288)**	(252)
Borrowings	11	**(10,054)**	(10,627)
Lease liabilities	11	**(82)**	(78)
Deferred tax liabilities		**(2,747)**	(2,788)
Provisions		**(73)**	(63)
Accruals and deferred income		**(38)**	(30)
Total non-current liabilities		**(13,282)**	(13,838)
Total liabilities		**(14,541)**	(14,594)
Net assets		**3,604**	3,698
Equity			
Share capital		**1**	1
Cash flow hedge deficit		**(15)**	(35)
Cost of hedging reserve		**13**	14
Retained earnings		**3,605**	3,718
Total equity		**3,604**	3,698

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 22 November 2023 and were signed on its behalf by:

M W Braithwaite
Director
Quadgas MidCo Limited
Company registration number: 10615396

Quadgas MidCo Limited

Condensed consolidated statement of changes in equity
Six months ended 30 September 2023

	Share capital	**Cash flow hedge deficit**	**Cost of hedging reserve**	**Retained earnings**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 1 April 2023	**1**	**(35)**	**14**	**3,718**	**3,698**
Profit for the period	**-**	**-**	**-**	**183**	**183**
Other comprehensive income/(loss) for the period excluding amortisation of cost of hedging reserve	**-**	**20**	**(4)**	**(167)**	**(151)**
Amortisation of cost of hedging reserve	**-**	**-**	**3**	**-**	**3**
Total comprehensive income/(loss) for the period	**-**	**20**	**(1)**	**16**	**35**
Equity dividends (note 8)	**-**	**-**	**-**	**(129)**	**(129)**
At 30 September 2023 (unaudited)	**1**	**(15)**	**13**	**3,605**	**3,604**

	Share capital	Cash flow hedge (deficit)/reserve	Cost of hedging reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
At 1 April 2022	1	(22)	6	3,877	3,862
Profit for the period	-	-	-	226	226
Other comprehensive income for the period excluding amortisation of cost of hedging reserve	-	52	7	(131)	(72)
Amortisation of cost of hedging reserve	-	-	4	-	4
Total comprehensive income for the period	-	52	11	95	158
Equity dividends (note 8)	-	-	-	(100)	(100)
At 30 September 2022 (unaudited)	1	30	17	3,872	3,920

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.

Quadgas MidCo Limited

Condensed consolidated statement of cash flows

Six months ended 30 September 2023

	Notes	**Six months ended 30 September 2023 (unaudited)**	Six months ended 30 September 2022 (re-presented)[2] (unaudited)
		£m	£m
Cash flows from operating activities			
Total operating profit		**432**	451
Adjustments for:			
Adjusting[1] items	5	**3**	2
Depreciation, amortisation and impairment		**248**	232
Decrease/(increase) in trade and other receivables		**14**	(31)
(Decrease)/increase in trade and other payables		**(78)**	64
Capital contribution income		**(21)**	(11)
Changes in provisions		**(3)**	(1)
Gain on disposal of property, plant and equipment		**(1)**	(1)
Changes in pensions and other post-retirement obligations		**(1)**	(27)
Capital contributions received		**39**	40
Cash flows relating to adjusting[1] items		**(3)**	(9)
Cash generated from operations		**629**	709
Tax paid		**(52)**	(46)
Net cash inflow from operating activities		**577**	663
Cash flows from investing activities			
Purchases of intangible assets		**(3)**	(1)
Purchases of property, plant and equipment		**(473)**	(404)
Disposals of property, plant and equipment		**2**	1
Interest received		**9**	-
Net decrease/(increase) in financial investments		**141**	(3)
Net cash flow used in investing activities		**(324)**	(407)
Cash flows from financing activities			
Proceeds received from loans		**545**	225
Cash received on derivatives hedging loan proceeds		**19**	-
Repayment of loans		**(552)**	(235)
Cash received from early termination of derivatives		**3**	-
Repayment of lease liabilities		**(8)**	(5)
Interest paid on loans		**(163)**	(151)
Cash received on interest settlement of derivatives		**34**	26
Dividends paid to shareholders	8	**(129)**	(100)
Net cash flow used in financing activities		**(251)**	(240)
Net increase in cash and cash equivalents		**2**	16
Net cash and cash equivalents at the start of the period		**28**	21
Net cash and cash equivalents at the end of the period		**30**	37
Comprising:			
- Cash		**30**	38
- Overdraft		**-**	(1)
		30	37

[1]The term 'adjusting' represents a change in terminology from the prior period which disclosed certain items as 'Exceptional items and remeasurements'. See note 1 for details.

[2] Re-presented. See note 1 for details.

Notes to the condensed consolidated financial statements

Six months ended 30 September 2023

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 International Financial Reporting Standards (IFRS) 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 2023, which were prepared in accordance with IFRS 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.

Despite ongoing macro-economic and geo-political volatility, the company has not been significantly impacted as a result of protections in place through the regulatory price control. The company continues to closely monitor and manage these impacts. The Group has net current liabilities of £615 million (31 March 2023: £48 million asset) primarily due to several items of debt maturing within 12 months from the date of this report. The carrying value of the debt as at 30 September 2023 is £763 million and will be repaid using existing liquidity & financing arrangements together with access to capital markets. Having made enquiries and reassessed the principal risks it was concluded that sufficient liquidity headroom existed in the forecast and against the requirements of our banking covenants and no reasonably possible downside scenario existed wherein the company and its subsidiary undertakings would be unable to continue as a going concern, and that it is therefore appropriate to adopt the going concern basis 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 2023.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2024 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2023.

Adjusted operating profit, after 'adjusting items' (previously 'Operating profit', after 'Exceptional items and remeasurements')

The company presents results on a statutory and adjusted basis. The alternative performance measure (APM) 'adjusted profit' represents a change in terminology from the prior period which separately disclosed certain items to show an 'exceptional' profit measure. The change in terminology has been adopted to reduce any judgement and interpretation of the meaning 'exceptional' profit by users of the Financial Statements. As this is a terminology change only, there has been no change to how the company determines items to be adjusting, and there has been no change to previously reported comparatives. Any previously 'exceptional items and remeasurements', continue to meet the definition of 'adjusting items' following the change in terminology in the current year. The company's policy is follow a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. Treatment as adjusting items provides users of the accounts with additional useful information to assess the year-on-year trading performance of the company. The adjusted profit measures are not recognised profit measures under IFRS and may not be directly comparable with adjusted profit measures used by other companies. Further details relating to adjusting items are provided in note 5.

Interest paid within the condensed consolidated statement of cash flows

Cash received on interest settlement of derivatives has been presented separately from interest paid on loans within the condensed consolidated statement of cash flows, to give more relevant information to users of the accounts through a better understanding of interest cash flows. Amounts were previously shown presented in aggregate in a single line.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1 to the 2022/23 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.

Notes to the condensed consolidated financial statements

Six months ended 30 September 2023

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

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 2023. Management has concluded that having reviewed its assets for indicators of significant impairment since the end of the most recent review of impairment, there are no indicators of significant impairment that require a detailed impairment calculation to be performed. Although there have been several external macro-economic developments in the period including a higher interest rate and inflation environment, some of which have been either adverse or positive to value, the nature of regulatory finance and the various indexation methodologies contained within our licence ensure the risk in the cash flows (as reflected in the discount rate) from such changes is commensurate with an ability to increase charges and cashflows and as a result, together with the substantial headroom that existed at 31 March 2023, management have concluded that there are no reasonable possible changes in the key assumptions that would result in an impairment.

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 Group, presentation has been made of performance measures excluding those items to provide a more comparable year-on-year operating performance of the company. The Group's policy is to exclude items that are considered significant in nature and quantum, or are not in the normal course of business or are consistent with items that were treated as exceptional items in prior periods.

The total adjusting items before tax for the six months to 30 September 2023 is a net charge of £3 million (2022: £2 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 and hence adjusting the relevant IFRS 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.

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 to the extent that hedge accounting is not achieved or is not effective.

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2023

5. Adjusting items (continued)

	Six months ended 30 September 2023	Six months ended 30 September 2022
	£m	£m
Adjusting items included within operating costs:		
Restructuring costs (i)	**3**	2
	3	2
Adjusting items included within finance income:		
Net gains on derivative financial instruments (ii)	**(49)**	(170)
	(49)	(170)
Total included within profit before tax	**(46)**	(168)
Included within taxation:		
Tax on adjusting items		
Tax credit on restructuring costs	**(1)**	-
Tax charge on net gains on derivative financial instruments	**13**	42
	12	42
Total adjusting items after tax	**(34)**	(126)
Analysis of total adjusting items after tax charge		
Total adjusting items included within operating costs after tax	**2**	2
Total adjusting items included within finance income after tax	**(36)**	(128)
	(34)	(126)

(i) The Group is undergoing an operational transformation programme to improve the efficiency of our operations by restructuring the business. During the period the group have recognised £3 million in adjusting items in relation to our Operational Efficiency programme in response to 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.

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2023

6. Finance income and costs

	Six months ended 30 September 2023	Six months ended 30 September 2022
	£m	£m
Finance income		
Interest income from pensions	**18**	14
Interest income from financial instruments	**12**	2
Adjusting items(i)	**49**	170
Total finance income	**79**	186
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**22**	42
Bonds(ii)	**158**	150
Interest payable on intercompany financing	**30**	30
Derivatives(iii)	**43**	86
Other interest	**1**	-
Total finance cost	**254**	308
Net finance costs	**(175)**	(122)

(i) Includes a net foreign exchange gain on financing activities of £13 million (six months ended 30 September 2022: £91 million loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value. Also includes an amount relating to the remeasurement of derivatives not designated as hedges or ineligible for hedge accounting and ineffectiveness on derivatives not designated as cash flow hedges.

(ii) Included within finance costs in bonds is £14 million (six months ended 30 September 2022: £38 million) of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £246 million) and £57 million (six months ended 30 September 2022: £61m) RPI-linked debt instruments of >10years tenor (cumulative: £441 million).

(iii) Included within finance costs in derivatives is £28 million (six months ended 30 September 2022: £48m) of accretion on CPI-linked swaps with tenor 7-10 years (cumulative: £140 million), £12 million (six months ended 30 September 2022: £20m) on CPI-linked swaps (cumulative: £53 million) with tenor >10 years and £22 million (six months ended 30 September 2022: £33m) on RPI linked swaps with tenor >10 years (cumulative: £162 million). Also included within finance costs is an amount of £19 million credit relating to interest on the derivatives.

7. Taxation

Tax charged to the income statement

	Six months ended 30 September 2023	Six months ended 30 September 2022
	£m	£m
Tax before adjusting items	**(62)**	(61)
Tax on adjusting items	**(12)**	(42)
Total tax expense	**(74)**	(103)

Taxation as a percentage of profit before tax	**2023**	2022
Before adjusting items	**29.4%**	37.9%
After adjusting items	**28.8%**	31.3%

The effective tax rate before adjusting items of 29.4% for the six months to 30 September 2023 is higher (2022: 37.9% higher) than the standard rate of corporation tax in the UK of 25% (2022: 19%). The rate is higher than the standard rate of tax mainly due to an increase in the current year charge relating to financing costs for which tax relief is restricted which increases the effective tax rate by 3.8% and depreciation on assets which have not qualified for tax relief (and so is not included in temporary differences) which increases the effective tax rate by 0.8% and non-taxable income which reduces the rate by 0.4%. The expected tax rate for the full year in respect of profit before adjusting items is 29.4% (31 March 2023: 30.2% actual rate).

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

	2023	2022
	£m	£m
Current tax	**(65)**	(24)
Deferred tax	**(9)**	(79)
	(74)	(103)

8. Dividends

	2023	2022
	£m	£m
Interim dividend of £0.025 per ordinary share amounting to £129,335,000 was declared on 22 September 2023 and paid on 28 September 2023	**129**	-
Interim dividend of £0.020 per ordinary share amounting to £100,000,000 was declared on 22 September 2022 and paid on 27 September 2022	**-**	100
	129	100

No further dividends are proposed for the current financial period.

9. Property, plant and equipment

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and other equipment	Right-of-use assets	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Cost						
At 1 April 2023	241	14,452	73	217	107	15,090
Additions	27	412	17	11	14	481
Reclassifications	2	19	(28)	7	-	-
Disposals	-	(1)	-	(4)	(2)	(7)
At 30 September 2023	**270**	**14,882**	**62**	**231**	**119**	**15,564**
Accumulated depreciation and impairment						
At 1 April 2023	(52)	(2,077)	-	(126)	(23)	(2,278)
Depreciation charge for the period	(9)	(208)	-	(12)	(10)	(239)
Disposals	-	1	-	4	2	7
At 30 September 2023	**(61)**	**(2,284)**	**-**	**(134)**	**(31)**	**(2,510)**
Net book value:						
At 30 September 2023	**209**	**12,598**	**62**	**97**	**88**	**13,054**
At 31 March 2023	189	12,375	73	91	84	12,812

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 2022/23.

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and other equipment	Right-of-use assets	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2022	205	13,699	44	183	82	14,213
Additions	12	343	32	12	12	411
Reclassifications	11	2	(13)	-	-	-
Disposals	-	-	-	(2)	-	(2)
At 30 September 2022	228	14,044	63	193	94	14,622
Accumulated depreciation and impairment						
At 1 April 2022	(37)	(1,680)	-	(102)	(20)	(1,839)
Depreciation charge for the period	(9)	(195)	-	(12)	(5)	(221)
Disposals	-	-	-	2	-	2
At 30 September 2022	(46)	(1,875)	-	(112)	(25)	(2,058)
Net book value:						
At 30 September 2022	182	12,169	63	81	69	12,564
At 31 March 2022	168	12,019	44	81	62	12,374

Notes to the condensed consolidated financial statements (continued)

Six months ended 30 September 2023

10 Fair value measurement

The 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 2023	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	**385**	**-**	**-**	**385**
Derivative financial instruments	**-**	**35**	**2**	**37**
Liabilities				
Derivative financial instruments	**-**	**(142)**	**(146)**	**(288)**
Total	**385**	**(107)**	**(144)**	**134**

As at 31 March 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Fair value through profit and loss ('FVTPL') instruments	554	-	-	554
Derivative financial instruments	-	43	-	43
Liabilities				
Derivative financial instruments	-	(127)	(125)	(252)
Total	554	(84)	(125)	345

Financial liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to 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 value through other comprehensive income (FVTOCI); and financial assets at fair value through profit or loss (FVTPL).

The estimated fair value of total borrowings using market values at 30 September 2023 is £8,621 million (31 March 2023: £8,987 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 and £250 million of RPI-CPI basis inflation swaps maturing in 2033 both 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 rates to produce a series of future cashflows which are then discounted back to a net present value to which model-derived credit adjustments are applied. As these instruments are linked to CPI, higher inflation forecasts will result in a larger liability at maturity, negatively impacting the fair value. Conversely, a reduction in inflation forecasts 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 £9.2 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 2023

10. Fair value measurement (continued)

Movements in the 6 months to 30 September 2023, for assets and liabilities measured at fair value using Level 3 valuations inputs are as follows:

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
At 1 April	**(125)**	(114)
Net gain for the period	**10**	41
Settlements	**(29)**	(28)
At 30 September	**(144)**	(101)

Net gains/(losses) in the period are shown within interest cost in the income statement.

11. Net debt

	Six months ended 30 September 2023 £m	Year ended 31 March 2023 £m
Increase in borrowings & related derivatives	**(15)**	(435)
Repayment of lease liabilities	**8**	16
Net interest paid on components of net debt	**129**	224
Changes in net debt arising from financing activities	**122**	(195)
Increase in cash and cash equivalents	**2**	8
(Decrease)/increase in financial investments	**(150)**	445
Changes in net debt arising from cash flows	**(26)**	258
Changes in fair value of financial assets	**54**	220
Foreign exchange movements	**23**	(68)
Other non-cash changes	**(15)**	(38)
Net interest charge on the components of net debt	**(241)**	(576)
Movement in net debt (net of related derivative financial instruments)	**(205)**	(204)
Net debt (net of related derivative financial instruments) at the start of the period	**(10,593)**	(10,389)
Net debt (net of related derivative financial instruments) at the end of the period	**(10,798)**	(10,593)

Composition of net debt:

Cash, cash equivalents and financial investments	**415**	554
Borrowings and bank overdrafts	**(10,865)**	(10,848)
Derivatives	**(251)**	(209)
Lease liabilities	**(97)**	(90)
Total net debt	**(10,798)**	(10,593)

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2023

12. Retirement benefit schemes

	30 September 2023 £m	31 March 2023 £m
Present value of funded obligation	**(3,911)**	(4,192)
Fair value of plan assets	**4,435**	4,924
	524	732
Present value of unfunded obligations	**(3)**	(3)
Net asset	**521**	729
Represented by:		
Liabilities	**(3,914)**	(4,195)
Assets	**4,435**	4,924
	521	729
Key actuarial assumptions		
Discount rate - Past service	**5.50%**	4.75%
Discount rate - Future service	**5.45%**	4.65%
Rate of increase in salaries	**2.10%**	2.10%
Rate of increase in RPI - Past service	**3.30%**	3.25%
Rate of increase in RPI - Future service	**3.20%**	3.15%

The net pensions position, as recorded under IAS19, at 30 September 2023 was a surplus of £521 million compared to a surplus of £729 million at 31 March 2023. There is an overall decrease of £208 million (DBO reduced by £281 million but assets reduced by £489 million resulting in the overall reduction). This decrease follows a valuation exercise undertaken at 30 September 2023 by the Group's independent actuary. The main drivers of the decrease over the period for the DBO are a significant increase in corporate bond yields (which drive the discount rate) resulting in a reduction of the DBO by £344 million and a gain on demographic assumptions from the adoption of the latest CMI2022 future mortality improvement projections model resulting in a reduction of the DBO by £70 million, partially offset by an increase in the DBO of £177 million due to actual inflation over the accounting period being higher than that assumed at 31 March 2023.

The Scheme's assets decreased by £489 million mainly due to actual asset returns being lower than interest income.

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, however a final methodology and approach are yet to be agreed and confirmed. The choice of methodology will ultimately affect the financial impact of GMP equalisation. 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 2023.

On 3 August 2023 the Group launched a consultation on proposed changes to the scheme on whether the future accrual of benefits would continue. The consultation closed on 2 October 2023.

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2023

13. Commitments and contingencies

a) Capital and other commitments
At 30 September 2023 there were commitments for future capital expenditure contracted but not provided for £364 million (31 March 2023: £346 million). We also have other commitments relating to contingencies in the form of letters of credit and leases. These commitments and contingencies are described in further detail on page 142 of the Annual Report and Financial Statements 2022/23. Following a change to the security arrangements in the period for the Cadent Gas Pension Scheme, the letter of credit facility is no longer drawn, however, we retain the £150 million facility to provide security to the Scheme Trustees should it be required.

(b) Environmental claims
An environmental provision has been set up to deal with the costs of statutory decontamination of Cadent Gas Limited and Cadent Services 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 Group 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 Group'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 other 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

On 26 October, Cadent Finance Plc, a subsidiary of Quadgas MidCo Limited, entered into a £36 million floating to fixed swap. This increases the proportion of the £432 million cross currency swap, entered into in relation to the €500 million bond issued on 5 July 2023, swapped from floating to fixed to £146 million.

On 7 November 2023, having provided sufficient notice to the lender, Cadent Gas Limited, a subsidiary of Quadgas MidCo Limited, repaid a bank loan with a contractual maturity date of 7 May 2024. This bank loan was index-linked with a notional value of £60 million and carrying value of £104 million as at 30 September 2023.

On 15 November 2023 Quadgas Finance Plc, a subsidiary of Quadgas MidCo Limited, priced £199.4 million GBP equivalent of private fixed rate notes for settlement on 16 January 2024:
- £30 million maturing 16 July 2030 with a coupon rate of 6.88%,
- £54 million maturing 16 January 2032 with a coupon rate of 6.97%,
- £35 million maturing 16 January 2034 with a coupon rate of 6.88%,
- $75 million maturing 16 January 2030 with a coupon rate of 7.08%, which is swapped to GBP £60.4 million at a rate of 6.92%

These notes are guaranteed by and proceeds were lent to Quadgas MidCo Limited on matching terms.

On 1 November 2023, communication was sent by Cadent Gas Limited, a subsidiary of Quadgas MidCo Limited, to the members of its Cadent Gas Pension Scheme setting out the conclusion on the proposed changes to the Scheme. The changes will result in closure of the Scheme to future accrual together with transition payments to impacted members. The costs of the change are expected to be in the region of £15-25 million.