Cadent
Your Gas Network

# *Going beyond* for customers, communities and colleagues

**Annual report and accounts**
2021/22

# Highlights of the year

## Financial

### Revenue
£1,984m
(2021: £2,075m)

### Operating profit
£685m
(2021: £902m)

### Capital investment
£725m
(2021: £1,024m)

### Adjusted EBITDA
(Earnings before Interest, Tax, Depreciation, Amortisation, and Exceptional items)

£1,097m
(2021: £1,286m)
See our Financial review section on pages 12-16.

### RAV
(Regulated Asset Value)

£11.0bn
(2021: £10.2bn)

## Operational

### Network reliability
99.9%
(2021: 99.98%)

### Emergencies responded to within the hour
98.2%
(2021: 99.0%)

### Number of customer calls answered
1.4m
(2021: 1.3m)

### Percentage of emergency calls answered within 30 seconds
92.5%
(2021: 91%)

### Mains replaced
1,679km
(2021: 1,743km)

### Fuel poor connections in 2021/22
3,269
(2020/21: 4,291)
RIIO – 1 total: 34,674

# Going beyond

**We go beyond to 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 exploring 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.**

## Contents

# We are Cadent

## We're here to keep people warm while protecting the planet. That's not only providing a reliable gas supply but to make sure we take care of our planet whilst we do so.

### The UK energy market

We have a critical role to provide an essential public service to keep people safe, warm, and connected whilst supporting the most vulnerable in our communities as we prepare for a cleaner, greener future. The past two years have shown how vulnerable society is to unexpected natural and economic events, and the impact those events can have on people's lives. That impact is usually felt hardest by those on low incomes with many struggling to make ends meet due to price rises or suffering with a cold, poorly insulated, energy inefficient home. The price of energy and home heating have rarely been bigger concerns for people than they are today, and we are playing our part in helping people across our communities to heat their homes more affordably.

A small proportion of a typical household gas bill goes towards the cost of maintaining our gas network and operating the National Gas Emergency Service. Through a continued focus on innovation and efficiency improvements, we are committed to reducing our costs by over £500m by 2026, which supports providing for a real reduction in customer gas bills over time. In 2021/2022 a typical domestic customer paid £132 towards the cost of our services, down from £158 at the start of RIIO-1 adjusting for the impact of inflation. This efficiency has been delivered alongside improved customer services, whilst leading the way to a low carbon economy, to meet the UK's net zero targets.

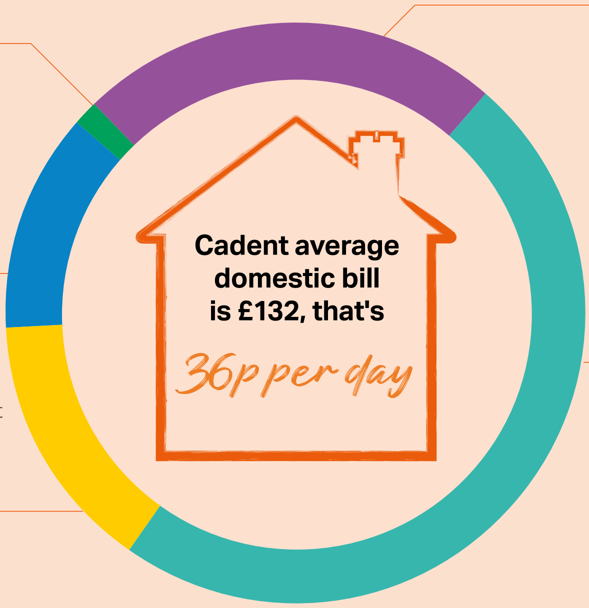
Read more about our commitments in Going beyond to transform the environment chapter on page 41.

Whilst we're doing 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. Energy efficiency is another key focus. Alongside a large scale education programme providing tips about how to reduce energy usage in the home, the Cadent Foundation is also funding in-home energy efficiency improvements, such as more energy efficient appliances and home insulation measures.

The figure below explains how the work we do is included in the cost of gas bills. It is important to note that gas customers do not directly pay their bills to us, they pay their gas supplier, who pay Cadent for maintaining our network and transporting gas on their behalf.

The impact of the recent increases in energy prices on Cadent is described further within our financial review on page 12.

**Cadent customer bill breakdown 2021/22**




**Performance improvement Incentives**

£2

Optimising our performance and putting the customer at the heart of everything we do.

**Operating and maintaining the network**

£16

Operating and Maintaining the equipment and infrastructure to transport gas to you safely and reliably today.

**Providing a 24 hour emergency and repair service**

£19

Taking your calls, attending and repairing gas emergencies and escapes and making safe.

**Taxes, Licence & other fees**

£31

Taxes, Licence fees for industry regulation and business rates paid to local Government.

**Network Investment**

£64

Repaying the cost of past and present investment replacing old assets to ensure the safe and reliable flow of gas long into the future.

In 2021/2022 a typical domestic customer paid £132 towards to the cost of our services, down from £158 at the start of RIIO-1 adjusting for the impact of inflation. Cadent does not decide amounts to charge end customers so the domestic bill impact is illustrative as our contribution to supplier costs.

* In the Strategic report and Governance sections when we refer to customer, we are referring to our consumers, suppliers and shipper. Within the Financial statements when we refer to customer, we are referring only to our direct customers

# Our Key Financial Metrics



| | |
|---|---|
| **Revenue**<br>£1,984m<br>(2021: £2,075m) | The vast majority 96% is for charges to gas shippers for transporting gas at prices set by Ofgem, our regulator. The gas shippers recover these costs from energy suppliers, who in turn recover these costs through consumer's energy bills. We don't own the gas in the network or profit from any movement in wholesale gas prices; we earn a return from the significant investment in the assets we operate. |
| **Operating Costs**<br>£1,299m<br>(2021: £1,173m) | Relates to amounts we spend on running the operations, delivering services to our customers, our Force for Good strategy and investing in the future of gas and accounting for depreciation representing amounts previously invested in our network assets. We have transformed our underlying operating costs over the last 5 years contributing to a reduction in the annual cost of our services of 10% in real terms.<br>Our operating costs include £244m for the 5,945 people we directly employ, including £48m of pension costs paid into our current and past employee pensions schemes. |
| **Operating Profit**<br>£685m<br>(2021: £902m) | This funds interest, tax, investment in upgrading the network and returns to shareholders. |
| **Interest Cost**<br>£326m<br>(2021: £145m) | The annual cost for monies borrowed for investing in upgrading the gas network. The responsible way we manage our finances ensures we maintain an investment grade credit rating from our three rating agencies (S&P, Moody's and Fitch) which reduces our borrowing costs. |
| **Taxation**<br>£85m<br>(2021: £145m) | The corporation tax paid on annual profits. We also paid £483m in VAT, employee and property-related taxes to HMRC during the year. We manage our taxes transparently and efficiently. We do not use aggressive tax planning. |
| **Dividends**<br>£195m<br>(2021: £Nil) | The amount paid to our parent company as a return on its investment in Cadent. In 2020/21 no dividend was paid to our parent company due to the uncertainties created by COVID-19. The level of return we earn on shareholders' equity investment is also regulated by Ofgem. |
| **Investment**<br>£725m<br>(2021: £1,024m) | The amount that has been invested in upgrading the gas network for the future. This is broadly consistent with the amount we will invest in each year of the five years of the RIIO-2 regulated price control period to 2026. |
| **RAV**<br>£11,036m<br>(2021: £10,235m) | The value of the Regulated Asset representing amounts previously invested in the network. |
| **Net debt**<br>£7,214m<br>(2021: £6,782m) | By borrowing to fund the investment in our network or the RAV, we are able to spread our significant investment costs equitably across generations. |

## Chairman's statement

# We are fully committed to supporting all of our *customers*

**"Welcome to our 2021/22 annual report, covering another year where we have faced transformational change and significant challenges in the environment in which we live and work. Our people have once again been exceptional, delivering above and beyond amidst change and uncertainty as we continue to provide the essential service our communities expect."**

**Sir Adrian Montague CBE**
Chairman

### Transformational journey

Our focus in the last financial year has been on the transformational journey to position Cadent as one of the top performers in the industry. Our colleagues have managed magnificently as we faced continuing COVID restrictions that tested our ability to perform for customers against the background of factors beyond our control. Our success is further testament to everyone who came together to work through such a challenging period. I have seen many heart-warming stories in our communities where colleagues worked together to deliver an exemplary service above and beyond their usual roles. We had to adjust our ways of working to continue our critical service while also following government guidance. I would like to begin by expressing my gratitude to all our colleagues who have worked tirelessly throughout the pandemic. Our performance throughout the year remained so strong is a real demonstration of teamwork, and I'd like to personally thank everyone who performed so well under such difficult circumstances to support local communities and those in vulnerable situations.

### Cleaner, greener future

We have one eye on the future and are at the heart of the many industry leading projects around the future role of gas. We are a leading voice on the importance of hydrogen in the future energy mix to achieve our net zero ambitions. To make hydrogen a future reality, the Board is currently working through several key areas in the supply chain and continues to be focused on the technical challenges in adapting our distribution system to allow the wide-scale supply of hydrogen. In addition, we are actively engaging with many stakeholders, including Government and regulators, to demonstrate the opportunities and benefits of hydrogen as the UK moves to a low carbon future.

On a more practical front, our HyNet project is moving forward well in the North West, and we continue to work to make the hydrogen cluster a reality, while also learning the lessons that will be vital for a widespread roll-out in the future. We have worked closely with BEIS in developing their Heat and Buildings Strategy with a view to ensuring hydrogen is an integral part of the energy mix by 2026. We know there is a long way to go but we are moving in the right direction.

The launch of our recently announced Hydrogen Village in Whitby, Ellesmere Port with our partner British Gas, also in the North West, will be instrumental in delivering decarbonised heat at scale, and the Board is taking a keen interest to see how this develops. This will give us further learnings about what needs to be done to deliver a hydrogen future for homes and businesses, while ensuring we still provide the warmth people enjoy today without major changes to infrastructure.

## Strengthening our leadership

I would like to thank Steve Fraser for his leadership during his second full year as CEO. Steve has spearheaded transformational change within the business, and the Board is immensely pleased with the performance of the Executive team by implementing changes which bring significant experience, ability, and value, they have made real positive difference to Cadent. We were pleased to welcome Howard Forster and Anthony Bickerstaff to the Board this year, with Anthony appointed as CFO in February, and Howard joining as an additional Executive Director in July 2021.

We believe these changes have strengthened the leadership team and their collective experience gives us all a strong platform to lead Cadent into its next phase. Following his departure in December 2021, I'd like to recognise the work Steve Hurrell accomplished during his tenure and wish him well for the future.

Following the separation of the Safety and Sustainability Committees, we have seen some real progress throughout the year. Our Safety Committee has been instrumental in setting the tone across the business, with increased focus on ensuring safety remains at the heart of our business.

The Sustainability Committee has made significant progress, especially with the development of our Force for Good strategy which enables us to set out how we can make a positive impact in our communities. Our new charity partnership with Emmaus is testament to the life-changing impact we can have in our societies. True to our purpose of keeping people warm, over the next two years colleagues will work closely with the charity to support those experiencing homelessness through fundraising, volunteering, and knowledge sharing.

As we start to live with COVID, it is now the time for the Board to re-engage in face-to-face contact and to pursue our commitment to continue to drive the right culture and embed our values at every level of the business. As a result of the transformation programme, we have seen positive changes and great performance, although I know we have much more to do. I am committed to engaging with colleagues, stakeholders, and communities over the coming year so we can drive further performance improvements.

## Business plan

Our appeal to the Competition and Markets Authority (CMA) was heard this year and we were pleased to reach a satisfactory outcome where errors specific to Cadent have now been corrected. Our RIIO-2 business plan was developed after listening carefully to the voice of our customers, our stakeholders, and industry about their expectations of us and our services. Our plan, which was developed with the intention of setting the new efficiency benchmark for our industry, was subject to robust and critical challenge by our independent customer engagement group.

## Committed to a better future

With increased demand, declining resources, and ongoing uncertainty about the course of the pandemic, 2021 was another challenging year for the many charities which play a huge role in helping the most vulnerable in our communities. From meeting and talking to our charities, there is no doubt the past two years have had a profound impact on the way they operate, which means the work undertaken by the Cadent Foundation is of even greater importance. With the cost of living crisis at the forefront of many people's thoughts, we have refocused the Foundation's purpose on fuel poverty. We have seen firsthand the impact the Foundation has on many lives and our continued work will be able to support those who find themselves unable to heat their homes.

We are working closely with our partners and advisers to focus on addressing the causes of fuel poverty by looking at infrastructure, utility bills and referral schemes, to empower our engineers to support customers through our Reactive Response initiative. This scheme allows our engineers to make referrals to support those customers most at need of financial support. You can read more in the Annual Impact report at https://documents.cadentgas.com/view/585521892/

## Looking ahead

Our focus on operational excellence remains paramount for the year ahead. We have demonstrated our performance across Ofgem's league tables, and our new operating model is successfully enabling local teams to be responsive and to bring an improved customer experience across the networks we operate.

I am proud of the work we have delivered to ensure our teams take local accountability for customer experience and relationships. Our mains replacement programme continues to move forward at pace and our new contract management partners are helping by delivering a greater connection and responsiveness to customers. I have seen really strong results from local engagement with our supply chains and from moving decisions close to the communities we serve. This has also enhanced our approach to becoming a diverse business, helping us attract talent and key skills from across the country. We know we have a lot of work to do in this area but Cadent is an exciting place to be as we recognise the scale of work that has been done in a short time to radically transform the business into what it has become today. We understand there will always be short-term challenges we need to confront, and we will always do so. This is against a backdrop of moving into the longer-term strategic vision for a hydrogen economy which creates many opportunities for the future of our business.

I would like to acknowledge the operational, business support, and senior leadership teams who have worked tirelessly to deliver a great performance throughout the year, in an environment of much uncertainty. I am sure this will continue into the coming year, and I am very much looking forward to meeting teams across the whole business to see how they are helping build our future network.

**Sir Adrian Montague CBE**
Chairman

26 July 2022

# Our business model

## What we do

**We look after the gas pipes and equipment that supply gas to 11m homes and businesses.**

**We maintain, repair and replace gas pipes and associated infrastructure to ensure the safe and reliable flow of gas which will prepare us to meet the country's net zero commitments.**

**We connect homes, businesses and renewable gas suppliers to our network.**

**We provide extra care for those who might need it in a gas emergency.**

**We manage the National Gas Emergency Service for all gas customers in the UK. If something goes wrong, we are the first point of call to make sure it's dealt with calmly, quickly and safely. In 2021/22, we answered 1.4m gas emergency calls.**

## What we don't do

**We don't produce gas.**

**We don't own or sell the gas that flows through our pipes.**

**We don't repair gas appliances.**

**We don't send out gas bills. The cost of our services is included in the customers' gas bill.**

## Our strategic objectives

**Delivering a quality experience for all of our customers and stakeholders.**

**We promise to provide a service experience of the highest quality to all of our customers, tailoring it to their needs.**

Read more on pages 17 to 18.

**Providing a resilient network to keep the energy flowing.**

**We are focused on delivering a resilient network to keep the energy flowing safely and reliably to all of our customers.**

Read more on pages 17 to 18.

**Tackling climate change and improving the environment.**

**We are committed to meeting the net zero challenge and supporting the transition to a resilient energy system.**

Read more on page 55.

**Trusted to act for our communities.**

**We are strengthening our reputation through the actions we take, ensuring our service is transparent, valued and trusted.**

Read more on pages 17 to 18.

**Turning insight into action.**

**We use stakeholder insights to prioritise the actions we take across our business.**

## Our engagement

### Customers

Increasing our engagement with customers to identify their priorities and meet their needs.

### Communities

Delivering engagement at a local level to respond to the diverse needs of our networks.

### Colleagues

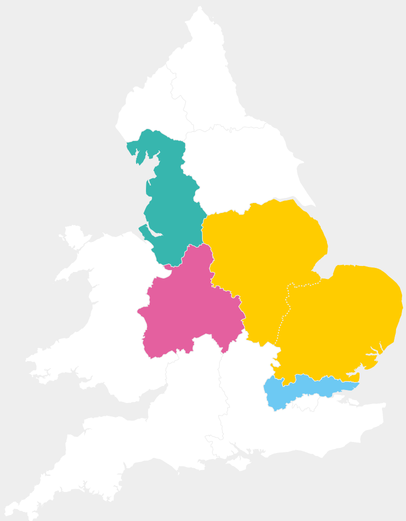
Creating an inclusive culture where employees, contractors and partners are given a voice.

### Investors

Providing confidence and value through robust data, governance and outcomes.

## Our networks

**We look after over 131,000km of pipeline and almost 50% of Great Britain's gas customers. We deliver our services from 28 operating areas through our five networks, each with their own geographical and social requirements. We are improving levels of service with a localised customer operating model that can respond to the specific needs of our communities.**



### North West

Sitting between the Pennines and the West Coast, encompassing Ambleside in Cumbria at its northernmost tip, and Whitchurch in the south. Around 40% of the gas distributed into the North West network is used by businesses and for industrial purposes; this is far higher than any other gas distribution network in Great Britain.

**2.7m**
homes and businesses

**1,388**
colleagues

### West Midlands

The only network without a coastline, landlocked amidst neighbouring networks – North West, East of England and Wales and West. Centred on the UK's second largest metropolitan area of Birmingham and incorporating major cities, large towns and smaller urban areas.

**1.9m**
homes and businesses

**1,020**
colleagues

### North London

The network has the largest population of high rise multi-occupancy buildings in the UK. While it is stacked high, it is also dug deep, with many layers of buried infrastructure going back hundreds of years. The network extends from Central London, covering north of the River Thames, to High Wycombe in the west and Southend-on-Sea in the east.

**2.2m**
homes and businesses

**1,418**
colleagues

### Eastern: East Midlands and East of England

Serving customers across the Eastern region; from Humberside down through Lincolnshire, Norfolk and Suffolk. Also serving the cities of Sheffield in the north, Derby, Nottingham, Leicester in the East Midlands and Cambridge in the south, as well as the northern parts of the M25 corridor.

**4m**
homes and businesses

**2,119**
colleagues

## Our new values that guide us to deliver on our commitments

We work *together*

We take *responsibility*

We drive *performance*

We shape *the future*

## Chief Executive's review

# We work collaboratively with stakeholders to shape our *future network*

**"Welcome to my review for 2021/22 which gives you an update on our performance and my highlights in the year."**

**Steve Fraser**
Chief Executive Officer

### Going beyond for our colleagues and communities

As I reflect on another challenging year, I would like to thank everyone in the business for their resilience as we continued to deliver excellent services to customers. Our teams have worked tirelessly, day and night to deliver for the 11 million homes and businesses who rely on us to keep them safe and warm, while also showing commitment to make significant improvements across operational performance, safety, and customer satisfaction. It was important to us to go above and beyond during these difficult times to make sure our communities were front and centre of our operations as we navigated our way through the pandemic. The fact that we were able to do that and continue to improve our services is a real credit to all our people.

The last year has been particularly difficult with the cost of living increase, especially with the price volatility we've seen across energy markets. We continue to work closely with industry and with Ofgem to ensure we do everything we can to keep our proportion of the gas bill as low as possible, helping to reduce our impact on communities in the future. Alongside that, we've refocused our efforts with the Cadent Foundation on fuel poverty, to offer support to our most vulnerable customers and communities. We absolutely recognise the responsibilities of companies like Cadent to do the most they can to help during difficult times. We've shown our willingness to do that during the pandemic and will continue to do so as we face further cost of living issues in the current year.

## Centres for Warmth – £100,000 to support community centre renovations, offer funding for expert local advisers to provide financial, energy efficiency and gas safety advice.

### A voice for hydrogen

In November, we attended COP26 to showcase how the gas industry can and will tackle climate change. We continue to champion a whole systems approach to decarbonisation, emphasising the role of hydrogen as a low carbon alternative to natural gas. We have been leading several projects and trials, as well as meeting leaders across the political spectrum, industrial users, and multinational energy companies to establish key relationships for hydrogen production and blending.

I am particularly delighted that we have been successful in getting to the next phase of the hydrogen village trials. Converting the gas networks of a 2,000-home village from natural gas to lower carbon hydrogen would reduce the carbon emissions linked to home heating by reducing overall emissions by around a quarter. These developments are key milestones for the industry and our contribution to tackling climate change.

Schemes like this confirm our belief that hydrogen will play a vital role as an energy source for industry, for transport, for power generation, and for heating buildings and homes. We would argue that the gas network offers a seamless and familiar transition to a cleaner, greener future, and I was pleased with the launch of our Green Print and Ten Point Plan strategies to demonstrate our long-term commitment to decarbonise heat while minimising the impact to consumers.

We continue to invest significant funds into hydrogen development by training our people, developing the right skills, and ensuring our assets are ready for the future. Even as we look forward to a hydrogen future, we must continue to deliver for our customers today. Every interaction, new process, every connection, and every investment project allow us to demonstrate our expertise and to build trust to help shape the future of gas.

### Giving back to communities

Our purpose is to help people to stay warm and independent in their homes no matter what their circumstances, and the launch of the Warm Hubs and Centres for Warmth has seen us work to achieve this in some of our most vulnerable communities. I have been proud to see all the volunteering efforts our colleagues have delivered this year, reaching out to our communities, working closely with local foodbanks, providing energy referral support, and helping to make life easier for those living in difficult situations.

In January 2022, our employees voted to partner with Emmaus UK, an adult homeless charity and social enterprise. They support individuals experiencing homelessness by providing wellbeing support, meaningful work experience and training, and a home for as long as someone may need it. Through partnering with Emmaus, we will be providing vital support through fundraising, volunteering, and by sharing expertise on energy efficiency and employability skills.

Above all else, the last two years have really shown just how vulnerable society is to unexpected events, with those events impacting people's livelihoods. Our Critical Friends Panel has engaged with us throughout the year to provide feedback on our commitment areas. We've been talking to our focus groups and panels about what matters most to them concerning the transition to a greener future and vulnerability, and they have given great insight into how their priorities have changed. We have responded to their concerns about the cost of living and energy security with our Force for Good strategy. This is critical as we focus on secure warmth for everyone, opportunities for communities to thrive, and on leading the energy transition. Playing our part to help everyone heat their homes more affordably is something I am incredibly passionate about, as is also delivering an industry-leading approach to contributing positively to people's lives.

# Chief Executive's review continued


I mentioned the repurposing of the Cadent Foundation, and it was especially important we made a positive and lasting difference to those who need it the most by awarding more than £3.8 million to charities last year. The work carried out with Groundwork's Green Doctors to provide energy efficiency advice has been instrumental in supporting people to stay safe and warm in their homes. Another potentially life-changing partnership came as we teamed up with Reactive Response, a pioneering new safeguarding system developed with the charity National Energy Action (NEA). This allows our engineers to refer eligible customers to NEA, which then organises necessary gas repairs or replacement work. Through this partnership we have been able to refer more than 1,000 homes to stay warm and connected. Empowering our engineers through this referral scheme is a fantastic achievement for everyone involved and one which allows us to make a real difference to many people.

## Our talent

This year saw the introduction of our new values to bring together all our colleagues, allowing us to achieve the best outcomes. Our values reflect how we perform to be the best within our teams:

- We work together; to achieve unity and collaboration. Our colleagues working together to create solutions to get the best outcome we can. Everyone should be made welcome, valued, and embrace the diverse teams who work together to deliver for our customers.
- We drive performance as one team; always striving for excellence. Thinking through before acting and putting the customer at the heart of what we're doing. We're about people; customers and colleagues; not just pipes.
- We take responsibility in everything we do; safety, impact, ethics, always doing the right thing, and considering others' health and wellbeing.
- We shape the future; to take the initiative and challenge the status quo and welcome new ideas. We are constantly learning, adapting, and taking positive actions for our future to make changes in a sustainable way.

We believe our new values are integral to the launch of our employee life cycle, where we aim to allow everyone to reach their full potential and to feel valued throughout their careers with us. We also recognise there is still work to be done so we can truly reflect the inclusive and diverse culture we strive for. Our employee-led internal communities have gone from strength to strength and have played a key role in bringing unity during the pandemic when many teams worked remotely. I am proud of their achievements and of their passion, as the communities provide everyone with a voice, as well as helping drive practical and positive changes to so many.

## Driving our future

The past year has seen our leadership teams come together to take the company forward through RIIO-2 and into planning for RIIO-3. I welcome Anthony Bickerstaff to the team as our new Chief Financial Officer. Anthony brings extensive financial and commercial experience which will help us build on the work of the past two years. Mark Byard has joined us as our new Director of Safety with over 20 years in the utilities industry and operational experience spanning road safety, risk management and occupational health and safety.

Following on from Sir Adrian's comments, I would also like to thank all our colleagues and stakeholders for the positive engagement during our appeal to the CMA. I would like to thank Ofgem for the way they approached the specific issues within the appeal. We can agree we reached a fair and reasonable outcome for all.

Having reached that agreement, I see leaders across the business working together to drive a consistent approach and to provide support to all colleagues to deliver our changes. The introduction of our new contract management and delivery partners has enhanced our operating model and we have seen notable improvements in our customer satisfaction performance measures. Whilst we have seen exceptional improvements in our performance, we are yet to see a consistent approach for all customers. For some, our standards haven't been as high as we would have expected. Every day we learn from each interaction how to improve our service. This has been the influence behind many of the changes we have made across our communities.

**"I would like to thank everyone for their commitment, their relentless pursuit for ever-improving performance, and their unity in working together and bringing their best self to work."**

We have led a remarkable transformation programme, and continue to deliver extensive changes, while hitting our targets and expectations across the business. The abilities of our people and engagement to drive these changes has been exceptional and we continue to look for innovative ways to make our service and performance even more outstanding for our customers and for the communities we serve.

Our new hybrid working policy has been instrumental in helping us work through what has been a difficult time for many, and there has been a time for readjustment as we navigate to a new normal. Our hybrid approach has enabled us to support our office-based colleagues to provide a better work/life balance and to empower our teams to be more flexible with their working day. We have invested in several new depots and offices throughout the year and have opened our new operational office at Ansty Park in Coventry bringing together colleagues from several locations.

## Outlook

I would like to thank everyone in Cadent for their commitment, their relentless pursuit for ever-improving performance, and their unity in working together and bringing their best self to work. I recognise this year has been another challenging one to navigate but we've shown that, by bringing together the best talent in the industry, we can strive for excellence as we lead the way to a cleaner, greener future.

**Steve Fraser**
Chief Executive Officer

26 July 2022

# Financial review

## Investing efficiently in the development of our network is essential to maintaining strong *performance*

### Overview

During the year our RIIO-2 price control was finalised and we have a clear plan to deliver on our objectives during the regulatory period. Our appeal to the CMA in relation to our RIIO-2 business plan was successfully concluded this year. Some of the important errors have been corrected by Ofgem and it has been confirmed that we set the new efficiency benchmark for the industry as we set out to do. We remain committed to providing the best for our customers and ensuring that Cadent can continue to deliver a safe and reliable energy network now and lead the development of a net zero future.

In the first year of the RIIO-2 regulatory period, we have invested £725m (2021: £1,024m) in our network to deliver on our commitment to provide a resilient network for our customers as part of an overall investment of over £4bn over the five year regulatory period. Our ongoing mains replacement programme successfully transitioned to a new model on the 1 April 2021, utilising the skills and expertise of our Construction Management Organisations, together with the flexibility of working with a number of Local Delivery Partners. Our transformation activities which have been a key focus for our business are now largely complete, creating an organisation capable of delivering the levels of efficiency, reliability and service that our customers deserve and our Board expect.

Financial performance in 2022 was impacted by a number of notable factors. Our revenue from large-scale HS2 diversion projects decreased by £80m following completion of the first phase of these works, and gas price increases during the year resulted in increased costs for the modelled volumes of shrinkage gas of £58m (2021: £12m) and exit capacity charges paid in relation to the National Transmission System of £164m (2021: £127m). These factors contributed to a reduction in operating profit to £685m (2021: £902m operating profit).

The vast majority 96% of revenue we earn is for charges to gas shippers for transporting gas at prices set by Ofgem, our regulator. We don't own the gas in the network and have limited direct exposure to movements in wholesale gas prices.

The increase in gas prices had a wide impact on our industry and a number of shippers and gas suppliers ceased trading in the year. 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). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a supplier of last resort (SoLR) process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities. At 31 March 2022 the outstanding debt with these failed customers was £8m, which remains outstanding and is subject to our existing credit procedures.

## Net debt

£7.2bn

(2021: £6.8bn)

Within the year Bulb Energy, a large supplier and shipper we trade with, was placed into special administration and is receiving significant government support to carry on trading and ensure there is no disruption to customers' energy supply. The special administration allows us to continue to trade with Bulb Energy, and we have reviewed the credit arrangements in place in line with our policy.

Ofgem appoint a SoLR when an existing supplier fails 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). Under the terms of our licence claims are paid in parallel with the receipt of additional compensating income over the course of the subsequent financial year. Cadent has received claims totalling £412m which will be included within the charges we raise with shippers in the 2023 financial year, and we will pay onto the SoLRs.

The continued flow of gas to people's homes and businesses is of utmost importance and we will continue to work collaboratively with Ofgem to support suppliers and shippers.

Following the outbreak of the conflict between Russia and Ukraine, we have undertaken a thorough review of our supply chain to identify and mitigate risks arising from impacted suppliers, either due to proximity to the conflict or sanctions imposed by the UK Government. One of the shippers we trade with had strong links to the Russian Government and we have complied with UK Government and Ofgem guidance in full in respect of this relationship. In addition, Cadent, along with the other UK Gas Distribution Networks and National Grid, are supporting the Ukrainian gas network by providing supplies necessary to keep their network functioning.

We have continued to act in the best interests of our communities and the customers that we serve by supporting the Cadent Foundation, which has to date benefitted from £18m of funding. We have renewed our ongoing commitment to contribute one percent of our net profits to the Cadent Foundation throughout RIIO-2. As a result, we expect communities will benefit from £28m of funding for projects that make a positive impact by providing support to people in vulnerable situations and energy poor communities, to work to protect and preserve our natural environment and create a sustainable energy future. This will ensure that our communities share in our performance into the future.

## RAV (Regulated Asset Value)

£11.0bn

(2021: £10.2bn)

### Investing to ensure the safety and reliability of our networks

Our balance sheet is dominated by the value of our physical assets and the corresponding borrowings, as set out in the net debt table, that fund our capital investment programmes. Capital investment was £725m (2021: £1,024m) and is primarily associated with the ongoing gas mains replacement programme which saw 1,679 km of mostly cast iron pipes replaced by polyethylene pipe during the year. The reduction in investment is due to a large number of projects completing in the final year of the RIIO-1 regulatory period last year, resulting in higher capital investment in 2020/21.

### Operating financial performance

Revenue was £1,984m (2021: £2,075m) driven primarily by our transportation charges (to recover our Regulatory Allowed Revenue) which are levied on gas shippers, who will then recover these costs from energy suppliers, who in turn recover these costs through consumers' energy bills. Each year our revenues are largely fixed in line with the profile set out by our price control settlement which determines the pricing of our services to the gas shippers.

Any differences between our allowed revenues and the amounts collected through our pricing are adjusted in future years. Revenues for the year ended 31 March 2022 decreased as a result of a reduction in our connections and diversions income associated with HS2, following completion of the first phase of these works in the 2021 financial year.

Operating profit was £685m (2021: £902m) with operational expenditure largely comprising charges in relation to the National Grid Gas Transmission network (exit capacity), business rates and employment costs of our direct workforce and contract partners. Gas price increases during the year resulted in increased shrinkage costs of £58m (2021: £12m) and exit capacity charges of £164m (2021: £127m). The Ofgem mandated pricing formula ensures we are reimbursed for excess costs in a future period.

We use Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation and Exceptional 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 closest IFRS measure to adjusted EBITDA is gross profit, and we have reconciled adjusted EBITDA to operating profit below:

| Adjusted EBITDA Reconciliation | Reference | 2022 £m | 2021 (restated)[1] £m |
|---|---|---|---|
| Operating profit | Page 122 | 685 | 902 |
| Depreciation and amortisation | Note 5 | 400 | 374 |
| Exceptional items | Note 6 | 12 | 10 |
| **Adjusted EBITDA** | | **1,097** | 1,286 |

1 See note 1(c) of the consolidated financial statements.

# Financial review continued

## Year-end cash and cash equivalents

£93m
(2021: £832m)

## Cash flow and net debt

Borrowings (both current and non-current) at 31 March 2022 were £6,967m (2021: £7,475m) mainly comprising fixed rate and index-linked debt.

Net debt is a measure which shows our overall debt position. Net debt is calculated by netting the value of our liabilities and debts with cash and other similar short-term financial assets. Our net debt at 31 March 2022 was £7,214m (2021: £6,782m).

| Net debt (see note 25 of the Financial Statements) | 2022 £m | 2021 £m |
|---|---|---|
| Borrowings | 6,967 | 7,475 |
| Cash and financial investments | (93) | (832) |
| Derivatives | 261 | 115 |
| Lease liabilities | 79 | 24 |
| **Net debt** | **7,214** | 6,782 |

## Uses and sources of cash

The vast majority of our revenues are set in accordance with the regulatory charging methodology (part of the industry network code) which, being a capacity-based regime, provides relative stability and predictability of cash flows with only a small exposure to changes in gas usage volumes. Our ability to convert revenue to profit and cash is important and by managing our operations efficiently and safely we are able to generate sustainable operating cash flows.

Cash generated from operations in 2021/22 was £1,098m, £199m lower than in 2020/21, primarily due to higher operating costs resulting from increases in gas prices, higher contributions required to be paid into our pension scheme and fewer capital contributions received from customers for new connections or diversions, largely due to the majority of HS2 diversions being completed in earlier years.

Investing efficiently in the development of our network is essential to maintaining strong performance for our customers and long-term sustainable returns for our shareholders. Consequently, our cash flow used in investing activities was £124m, of which £861m is due to spend on the purchase of property, plant and equipment and intangible assets. This was offset by utilisation of money market funds to fund our operations and repay some outstanding debt (see below for detail).

## Borrowings

Driven by the need to fund our capital investment programme we have a material amount of debt, with varying maturities and requirements for new incremental debt, therefore we operate a pro- active policy of meeting investors and our relationship banks regularly to provide updates and information to facilitate ongoing access to the capital markets.

Our financing strategy is focused on securing the required debt in advance of our needs in order to reduce any financing risk. We have managed the maturity profile of our debt by refinancing some of our debt ahead of when it falls due, repaying £300m of an existing syndicated term loan with a maturity date of July 2024 on 14 April 2021, and a further £250m of loan notes on 22 September 2021 with maturity date of the same date.

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term, with £500m available at the 31 March 2022 in a Revolving Credit Facility at Cadent Gas Limited, and a further £110m available from a £200m facility at Quadgas MidCo Limited (the immediate parent company).

The replacement of key interest rate benchmarks such as the London Inter-Bank Offered Rate (LIBOR) with alternative benchmarks in the UK, EU, US and other territories occurred at the end of 2021 for most benchmarks, with remaining USD LIBOR tenors expected to cease in 2023. The Group has transitioned all financial instruments which referenced LIBOR to the relevant alternative benchmark in the year, with minimal impact. As at 31 March 2022, the Group was not directly exposed to interest rate benchmark reform as it held no interest rate derivatives or floating rate debt that continued to reference LIBOR.

## Net finance costs

Net finance costs of £316m (2021: £123m) were driven by external debt funding and remeasurements of our derivatives. The increase is largely attributable to the impact of the significant movement in inflation in the year on our inflation-linked debt and swaps.

The increase in inflation seen during the year will increase our cost base, although we manage risks associated with this where possible through long-term contracts with our key supply chain partners. As our regulated revenues and Regulated Asset Value ('RAV') are index-linked to the Consumer Prices Index including owner occupiers' housing costs (CPIH), this offers some protection against increasing inflation over the medium term. In addition, inflation-linked liabilities act as a natural hedge against fluctuations in inflation rates. Since April 2021, we have entered into CPI-linked swaps, totalling £1bn and maturing in 2028 and 2031, increasing the proportion of our debt book that is hedged to inflation, aligning our position more closely to the average exposure to inflation across our industry. These are in addition to the £400m of RPI-linked swaps already held.

## Credit ratings

Cadent Gas Limited and the debt issued by its subsidiary Cadent Finance Plc are rated by the three main UK credit rating agencies. The current ratings are Baa1 from Moody's Investor Services Limited, BBB+ by Standard & Poor's and A- (Issuer Default rating of BBB+) by Fitch Ratings Limited. All ratings are currently on a Stable Outlook and the company seeks to maintain ratings at this solid investment grade level on a consistent basis. The ratings are unchanged from the previous financial year.

## Liquidity

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.

As at 31 March 2022, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash held in Money Market Funds was £80m. All funds held with the Money Market Funds can be drawn with no notice. We also have access to Revolving Credit Facilities from our relationship banking group. This allows for drawings of up to £500m with a further £200m facility available to be lent down from the immediate holding company, Quadgas MidCo Limited. As at 31 March 2022 £90m had been drawn down from the facility at Quadgas MidCo Limited, with nothing drawn down from the Cadent Gas facility. Included within cash of £13m at 31 March 2022 is an amount of £11m received in grants. The use of this cash is restricted by the specific terms and conditions of each grant and is therefore not available for general use.

We also maintain a bond programme through Cadent Finance Plc which allows efficient access to debt capital markets, in a range of different currencies. The combination of short-term liquid funds and access to longer term borrowings allows us to keep a healthy level of liquidity.

## Regulatory gearing

The level of gearing relative to our RAV is a key measure within the regulatory framework and also forms part of our banking covenants. Adjusted net debt (see reconciliation to statutory net debt below) expressed as a percentage of RAV indicates the level of debt employed to fund our regulated business. As a result of investment during the year and inflation, our RAV grew by £0.8bn to £11.0bn in the year, against which we have an adjusted net debt (consistent with the regulatory measure) of £6,745m, being 61% of RAV.

| Net debt (see note 25 of the Financial Statements) | 2022 £m | 2021 £m |
|---|---|---|
| **Net debt** | **7,214** | 6,782 |
| Derivatives | **(109)** | (43) |
| Unamortised debt fees | **16** | 14 |
| Unamortised fair value adjustments | **(259)** | (271) |
| Accrued interest | **(42)** | (44) |
| Lease liabilities | **(75)** | (20) |
| **Adjusted net debt** | **6,745** | 6,418 |

## Taxation

Our effective rate of corporation tax for the year, before exceptional items and remeasurements, is 20.9% (2021: 19.0%). After exceptional items and remeasurements the effective rate increases to 125.2% (2021: 19.0%), reflecting the exceptional tax charge described below.

In common with other companies with a large long-term asset portfolio we have a significant deferred tax provision that mainly relates to the benefits received in the past from tax allowances on capital expenditure before the depreciation on those assets has been charged to our profits. This provision is released to the income statement as the depreciation catches up with the tax allowances received. The provision is calculated at the rate of tax applicable when the provision is expected to reverse.

In the March 2021 Budget, it was announced that legislation will be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. The Finance Bill received Royal Assent in June 2021 and therefore deferred tax balances forecast to reverse in the period from 1 April 2023 have been restated in the year to 25% of temporary differences, resulting in an increase to the deferred tax liability of £414m, with an exceptional charge of £388m recognised in the income statement and £26m recognised in other comprehensive income. Deferred tax balances which are forecast to reverse prior to this remain at 19%.

During the year and in accordance with our obligations under Finance Act 2016 Schedule 19, we published our Tax Strategy statement (which can be found on the corporate governance pages of cadentgas.com). We are committed to being a responsible and compliant taxpayer and the Tax Strategy statement sets out our approach to a number of key tax policies including our approach to tax governance and risk management, our attitude towards tax planning, our risk appetite in relation to UK taxation and our approach to dealing with HMRC.

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2022 was £325m direct taxes (2021: £363m) and £239m indirect taxes (2021: £249m).

## Dividend

Our dividend policy balances the distribution of available funds to shareholders, after having considered the forward committed cash requirements of the business to support our investment programmes and managing an appropriate level of gearing, as well as considering wider macroeconomic factors and the broader performance of the business relative to a range of regulatory and customer performance metrics. The company had more than £5bn of distributable reserves at 31 March 2022 including the loss in the period. During the year we paid dividends totalling £195m (2021: £ nil).

# Financial review continued

## Pensions

We operate pension arrangements on behalf of our employees, some of whom are members of the defined benefit scheme, the Cadent Gas Pension Scheme, which is closed to new entrants. Membership of the defined contribution scheme is offered to all new employees.

Changes in the underlying market conditions during 2021/22 have resulted in an increase in the discount rate and inflation assumptions used in valuing our pension liabilities. These changes, amongst other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2022 decreasing to £5,476m, resulting in an increase to the overall surplus of 154% to £1,083m.

The table below sets out the key details of the pension surplus calculation.

| Net debt (see note 25 of the Financial Statements) | 2022 £m | 2021 £m |
|---|---|---|
| Present value of defined benefit obligation | (5,476) | (6,020) |
| Fair value of scheme assets | 6,559 | 6,446 |
| Surplus in scheme | 1,083 | 426 |
| | | |
| **Key actuarial assumptions** | | |
| Discount rate – past service | 2.65% | 1.95% |
| Discount rate – future service | 2.60% | 2.00% |
| Rate of increase in salaries | 2.65% | 2.50% |
| RPI inflation – past service | 3.65% | 3.25% |
| RPI inflation – future service | 3.40% | 3.10% |

## Exceptional costs

Included within total operating profit of £685m (2021: £902m) are exceptional items of £12m (2021: £10m). Cadent is undergoing an ongoing programme to improve the efficiency of our operations by restructuring the business and on 19 April 2021 announced a proposal to restructure the current organisational design. The programme is largely complete and restructuring costs totalling £12m have been recognised in the year, which mainly relate to pension and redundancy costs. Cumulative costs of £52m have been recognised since the beginning of the restructure in 2019, relating to pension costs, redundancy costs and consultancy costs. These activities are infrequent and financially material, and therefore have been considered exceptional in nature.

## Supplier payment practices

We are committed to ensuring that we treat our supply chain partners fairly and this is evidenced by the improvement in average payment days reported to BEIS from 39 to 28 days during the course of the year. This improvement reflects our ongoing work as an organisation to make our payment processes more efficient by harnessing the capabilities of new procurement systems which allow for e-invoicing and improved payment transparency for our suppliers.

## Accounting policies

Our Group financial statements are prepared in accordance with International Financial Reporting Standards and the company financial statements are prepared in accordance with FRS 102.

Following the application of the IFRS Interpretation Committee agenda decision in April 2021 in relation to cloud computing arrangements involving software as a service (SaaS), Cadent has applied a change in accounting policy within year and no longer capitalises customisation and configuration costs unless they result in a separately controlled intangible asset. Management identified that costs previously capitalised no longer met the capitalisation threshold under the guidance. As this resulted in a change to existing accounting policies, this has been applied retrospectively to the accounts resulting in a restatement of comparative figures as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and errors. See note 1(c) within the financial statements for further information.

**Anthony Bickerstaff**
Chief Financial Officer

26 July 2022

# Our strategic objectives for RIIO-2 (2021-2026)



## We submitted a robust and very ambitious business plan to Ofgem in December 2019 to enable us to lead the way in our role over the next five years. The plan was built on an extensive and tailored customer and stakeholder engagement programme, which we continue to engage with, to ensure we can continue to deliver a safe and reliable energy network now, and lead the development of a cleaner, greener future.

The world has changed a lot since 2019 and we are very aware that over three million of our customers may now be living in fuel poverty, as the cost of living continues to increase and energy prices hit record highs. We have reviewed the strategic objectives in our plan, which remain highly relevant and important, in particular our focus on delivering outstanding safety and customer service standards, whilst driving over £500m in efficiency savings, which will ultimately result in a lower customer gas bill.

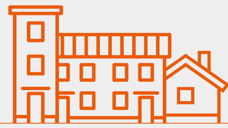
In 2021 we appealed Ofgem's final determination of our business plan to the CMA. The outcome of our appeal upheld three of the five grounds that we raised and has confirmed that when properly assessed, Cadent's networks are setting Ofgem's defined efficiency benchmark for the sector. Our plans therefore are now the only ones in the sector to be acknowledged by Ofgem with a business plan incentive reward for cost and quality.

**Dr Tony Ballance**
Chief Strategy and Regulation Officer

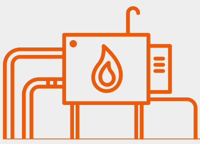
### The plan sets out the following:

Delivers an Environmental Action Plan which demonstrates our leadership on tackling climate change, by innovating and driving momentum to create pathways to decarbonisation.

Focuses on improving the experience for all our customers, including targeted financial, and safeguarding support through our extensive customer vulnerability strategy.



Enhanced by an ongoing commitment to invest 1% of annual profits to the Cadent Foundation, which is focused on supporting thousands of customers living in fuel poverty.



Maintains the outstanding levels of safety and reliability that our customers rely on.

Has innovation running through it with a refreshed innovation strategy and competition plan which leverages the skills and capabilities of our employees, our supply chain partners, and ideas from multiple industries.

Builds trust that we are acting in the best interests of our communities and embracing whole system thinking.

Focuses on becoming a Force for Good, delivering easier warmth, fairer opportunities and a greener society for customers, stakeholders, colleagues and communities.

# Our strategic objectives for RIIO-2 (2021-2026) continued

## Providing a resilient network to keep the energy flowing

99.9%
Reliability keeping customers on gas.

1,705km
Of old metallic mains replaced each year – a distance greater than John O'Groats to Land's End.

35mins
World-class emergency response service with average arrival time of 35 minutes.

>£500m
Cost efficiency savings for customers embedded in our Plan.

## Tackling climate change and improving the environment

Road to net zero

14-17%
Reduction in leakage from our network.

$CO_2$
Significant step towards carbon neutrality in our operations.

HyNet
Innovation to decarbonise the North West with hydrogen.

Clean Gas
Enabling capacity for greener resources.

## Delivering a quality experience for all of our customers and stakeholders

Reliability
Reduction in time interrupted for customers in multi-occupancy buildings.

Affordability
Offering a suite of targeted interventions.

Priority Services
Raising awareness through direct conversations, partnerships and colleague training.

CO Safety
Raising awareness of the dangers of carbon monoxide across our networks.

## Trusted to act for our communities

£6m p.a.
>1% post-tax profit invested back into our communities through our charitable foundation – c. £6m p.a.

>10%
Saving p.a. in customer bills in real terms (excluding inflation).

Transparency
Simple, clear and comprehensive reporting against all of our customer commitments.

60%
Of colleagues giving back to our communities through volunteering.


# Going beyond to deliver a resilient network

**After a lightbulb moment climbing Mount Kenya when she was young, Kate Grant realised her passion and purpose was to leave a cleaner and healthier planet for future generations. Since then, our Director of East of England Network has earned a Masters in Engineering for sustainable development, worked on the construction and maintenance of Olympic venues in London and been named one of the UK's Top 50 Women in Engineering.**

During a Leadership Insights Series interview with our partner Enzen, Kate shared the valuable insights and wisdom gained during her career. Kate spoke to Louise Carter, Enzen UK's Head of People and Culture, about her achievements, her excitement for the future of the gas industry and the challenges she has overcome throughout her career and personal life.

Kate explained how curiosity, cultivating relationships and the courage to make decisions are all essential ingredients in a leader. Kate shared her views on the opportunities and challenges ahead and how the utilities industry can combine its expertise and talent to lead the shift towards a sustainable future.

**"Curiosity, courage and respect are the hallmarks of any good leader."**

**Spotlight on Kate Grant**
You can watch the full interview here.

https://vimeo.com/668155099/9b4f83ea1f

# Our year in review
# Our operational performance

**We have seen unprecedented changes in our league table achievements, and these have gained recognition across the industry. Our new contract management organisations, local delivery partners and new supply chain networks have supported us through significant change. We have been able to demonstrate the benefits that local knowledge, experience, and accountability can bring to our services.**

This new approach has led to positive feedback with increased engagement and communications. We know we have more to do for each customer interaction, but we are addressing some of these head on through our transformation programme.

We have made several leadership changes throughout the year and have grown from strength to strength to give our local leadership teams greater autonomy for the teams they manage. Separating the Eastern network into two, East Midlands and East of England, has been instrumental in focusing attention to the specific needs of the two regions. We have grown our hydrogen operations with new senior leaders, and with this brings experience, future skills, and opportunities to the local areas. I am proud that we have been first to pilot many advances in engineering technology and innovation. Partnering with the best in the industry to engineer world class projects, refurbishments and trialling new skills and experience has seen us set new benchmarks across the industry.

2021/22 is the first year of our RIIO-2 regulatory period and we have continued to develop and embed our new operating model which gives clear local accountabilities to our teams. Since establishing our 28 customer operations areas in 2021 we have seen huge improvements. The significant improvements and transfer of accountabilities to a local delivery approach has enhanced data, engagement, and insights, leading to a near real time response to customers and operations.

Our teams have clear accountability for delivering emergency, repair and connections activities, and improvements have been made across customer satisfaction in all networks. We are now regularly featured in and amongst the top of the industry customer satisfaction league tables.

We have continued to embed our construction management organisations and network investment planning offices across our networks. We have seen a number of improvements in our scores alongside the on-target delivery of 1,679km to replace old iron mains for new plastic pipes. This investment will support the transportation of cleaner, greener energy as we transition to a hydrogen future.

During the year we have established two separate network leadership teams in our Eastern region to allow us to improve our response to specific issues that our colleagues and customers experience in the East of England and the East Midlands. The increase in our leadership capability and capacity allows us to improve our response to local stakeholders and address the specific challenges of the two regions. Both have differences in their geographies, characteristics, and stakeholder requirements.

With these changes we had an excellent start to year one in RIIO-2 and delivered against all our regulatory targets. We have seen great improvements in our customer scores and have delivered on our promises to support those customers most in need. We have accelerated our environmental action plans and will launch electric vehicles to our emergency colleagues by the end of 2022.

We are on track to deliver against our RIIO-2 business plan and have a strong focus on efficiencies for all our customers. Alongside all of these achievements, we are looking to the future to understand how our network and operational practices need to change and refocus to deliver a low carbon energy future for generations to come.

**Howard Forster**
Chief Operating Officer

# Our year in review
## Supporting our communities



**Customer satisfaction**

| Performance by Network* scored out of ten | Emergency Response & Repair 2020/21 | Emergency Response & Repair 2021/22 | Planned Works 2020/21 | Planned Works 2021/22 | Connections 2020/21 | Connections 2021/22 |
|---|---|---|---|---|---|---|
| Eastern; East Midlands and East of England | 9.56 | **9.50** | 8.68 | **8.65** | 8.25 | **8.76** |
| North London | 9.41 | **9.29** | 8.42 | **8.61** | 8.28 | **8.73** |
| North West | 9.55 | **9.55** | 8.45 | **9.11** | 9.01 | **9.05** |
| West Midlands | 9.52 | **9.46** | 8.13 | **8.96** | 8.50 | **8.82** |

- The survey and scoring methodology in RIIO-2 has changed to include a greater depth of survey audiences, questions and channels.

### Planned works

For our planned work activity, 2021/22 represented the first year with new contractual and operating arrangements. In line with our wider customer strategy, we implemented a delivery model which placed greater emphasis on network and local level accountability; tailoring experiences to the local communities in which we were working. Our Network Directors were in place to manage teams and partners to drive new ways of working to improve customer and colleague satisfaction. The teams in place share our purpose and values to deliver first time, every time, and promote a collaborative and collective culture of responsibility. This has led to sharing best practices across our networks and promote innovative new ideas. Our North West and West Midlands networks have delivered some of the biggest improvements in scores we have seen in the industry.

### Connections

During the year we took the strategic decision to transfer our connections services from an indirect operation to a predominant direct workforce operation. This brings clarity and accountability and ultimately moves our response to customers much closer to the core of our operations. Taken directly from customer feedback, we have really started to see the benefits with reduced lead times, quicker acceptance, and completion. Overall, our customers have told us that this approach has exceeded expectations and improved the connections journey.

### Emergency Response and Repair

We recognise the value customers see in our response to gas emergencies and quick repairs. We have been consistently delivering a score above 9.4 over several years. Our 2021/22 plans centred on key insights focused on reducing disruption from our works, including the interruption of gas supplies, and completing our reinstatement works quickly.

Our average duration of a gas supply interruption across all networks has seen continued improvements and this has been reflected in our scores. We have introduced new contract partners and ways of working for reinstatement works, which are delivering significant improvements in next day (D+1) response for customers.

Working with our customer strategy teams, charity partners and the Cadent Foundation has seen great benefits in our response to customers in vulnerable situations to invest in services beyond the gas meter. You can read more about the great work we are doing on page 32.

*Regulatory methodology for obtaining customer satisfaction has changed between RIIO-1 and RIIO-2 for both Connections and Emergency Response & Repair, meaning previous years and trending are not comparable*

### Complaints Handling

When things go wrong or not according to plan, customers want issues resolving quickly and without any hassle. We have maintained an industry-leading level of performance in responsiveness and recognise that we can quickly learn from mistakes and insights. Our local networks teams are agile and quick to deal with any issues and can put measures in place to make positive improvements if needed.

Our standards of emergency call handling are >90% and have been delivered against a challenging environment during the pandemic. We worked to improve our flexibility, collaborate across industry, and put measures in place to protect our own colleagues during a time of uncertainty. We worked quickly to protect this critical service and to make sure our colleagues were supported throughout.

| Complaints | % closed in D1* 2020/21 | % closed in D1* 2021/22 | Complaint metric score** 2020/21 | Complaint metric score** 2021/22 |
|---|---|---|---|---|
| Eastern | 77.86 | **79.04** | 2.49 | **2.10** |
| North London | 77.84 | **85.71** | 2.42 | **1.67** |
| North West | 83.77 | **89.06** | 1.98 | **1.41** |
| West Midlands | 83.27 | **85.56** | 1.74 | **1.65** |

* Same day closure.
** Scoring of complaints resolution – Ofgem state scores should be below 5 in RIIO-2.

| Standards of service | Eastern % | North London % | North West % | West Midlands % |
|---|---|---|---|---|
| 2021/22 Controlled* | 98.8 | 97.5 | 98.9 | 99.8 |
| 2021/22 Uncontrolled** | 98.1 | 97.6 | 98.1 | 99.3 |

| Responding to gas emergencies | Total | % |
|---|---|---|
| Calls to emergency number (for the whole of the UK gas sector) | 1,434,416 | |
| Answered within 30 seconds | 1,325,122 | 92.46% |
| Reported gas escapes | 310,719 | |
| Escapes related to Cadent's network | 63,309 | 18% |
| Escapes related to other matters (CO, boilers etc. – not all Cadent network related) | 286,154 | 82% |

# Our year in review
# Supporting our communities continued

## Resilient network

In the last twelve months, network reliability and resilience has been brought into sharp focus with several major storms hitting the UK. Storm Arwen was a reminder of the importance of both network resilience and the ability to respond to loss of supply incidents to ensure we keep our customers safe, warm, and connected. In 2021/22, our network reliability was 99.9% and our customers remain likely to experience less than one loss of gas supply in their lifetime.

We have maintained our performance improvements for customers in multi-occupancy buildings. There is a real engineering and logistical challenge when faced with a loss of supply. However where we do experience loss of supply, we have been at the forefront of protecting those most vulnerable. We are present in the community and restore gas supplies as soon as possible.

With many of our assets underground we are conscious about the disruption we cause to local communities when we replace or repair our network. Our teams work with local stakeholders from the planning, design, engagement, and delivery stages to have a real focus to minimise the impact of our works.

In our North London network, the impact of road closures is particularly acute as the majority of the network is situated within a dense urban environment. In 2021/22, we have worked collaboratively with several partners to coordinate our works with other utility companies on over 50 projects, saving over 400 days of disruption. This means we are collectively only disrupting a community once whilst we complete multiple improvements in their local area. We have led the way with our approach and are proud to have won three awards including individual recognition for colleagues who have delivered above and beyond in their communities.

## Tottenham Pressure Reduction Station

In April 2021, our Capital Delivery Asset Health team started complex engineering works to relocate Tottenham Above Ground Installation (AGI) to facilitate Meridian One, a £6bn, 20-year regeneration project, bringing 10,000 homes and thousands of jobs to Enfield. Housed in an oval shaped wall to emulate the heritage Tottenham gas works constructed in 1846, once the largest gas works in the country.

The project team are piloting several initiatives to reduce the carbon emissions in construction, paving the way for Cadent's first net zero construction site, and the Meridian One carbon positive ambition. The key components in the trial include a 100% renewable Hydrogen Fuel Cell providing energy to the site using green hydrogen, EV charging points using energy produced by the green hydrogen, and hybrid plant and machinery powered by hydro-treated vegetable oil (HVO), producing 90% less $CO_2$ emissions than its diesel counterpart.

Through collaboration with our contract partners and stakeholders, we have designed an innovative commissioning and decommissioning strategy optimising safety and environmental performance. Through complex valve configurations we have drastically reduced the amount of natural gas vented to atmosphere resulting in a 17-tonne carbon saving.


### Lost Time Injury Frequency Rate

0.55

Injuries per million hours worked

Compared to 0.7 in 2020/2021

## Working safely

We have maintained our focus to keep our colleagues and contractors safe whilst at work and ensure members of the public are safe when they are close to our works and operational sites.

We have continued our work to evolve our process safety management framework with improvements on our safety record and a Lost Time Injury Frequency Rate of 0.55. In addition, we have seen improvements in our main safety metrics compared to 2019/20.

Our regular reviews of our Safety Management System, ensure that it's legally compliant, meets best practice and meets the needs of our colleagues. We've continued to provide training for senior leaders on process safety and embed the use of a leading measures dashboard. We share the learning from incidents at the monthly Safety and Engineering Committee and report regularly to the dedicated Board Safety Committee.

We have seven Safety Improvement Groups which have been set up to drive improvements in areas of risk for us; Culture, Process Safety, Cable Avoidance, Road Safety, Fatigue, interface between people and plant, and protecting the public from our works. These groups are chaired by Operational Directors and report regularly on their plans to drive continuous improvements in our ways of working. We've expanded these groups to invite our partner organisations to create a conduit between other organisations to support best practice sharing.

## Investing for the future

We recognise that asset management is the centre of what we do and it's an area of continual investment and growth. Like many energy networks, we are faced with a great opportunity to reimagine our network to deliver low carbon energy in the future. This exciting future is not without uncertainty, and we recognise we must grow our capability to deal with the challenges we face and take the opportunities.

We were delighted to renew our ISO 55001 Asset Management accreditation as an important independent recognition of the policies, processes and most importantly the people we have in our asset management community.

During the year this continual investment in our assets can be demonstrated by our replacement of 1,679km of metallic iron mains with new plastic pipes.

This investment is essential to increase reliability, longevity and helps us reduce gas leakage and the environmental impact of the gas network to ensure we can deliver for our customers now and into the future.

## Minimising disruption to Portobello Market, London

From March 2021 – April 2022 we engaged in a collaborative approach to deliver essential upgrades to the gas network at Portobello Road and nearby streets, working with market holders, businesses, residents and Royal Borough of Kensington and Chelsea (RBKC) Council.

Most of the new pipes have been inserted into the old ones to reduce overall disruption to the market, and this involved digging intermittent trenches along Portobello Road.

Portobello Market is world-renowned and is a busy market every day of the week, but especially at the weekend. Through consultation and collaboration with businesses, market traders and residents ahead of each construction phase, the market has remained open throughout the project phases and has been critical to the smooth running of the project.

We engaged in regular consultations, planning and reviews with the council teams covering street works, traffic management, market management and public affairs for each phase of the work.

We organised many face-to-face events and meetings with stall holders, businesses and visited residents. Bespoke letters were sent out, a dedicated website created, and used the market's social media channels, which all helped to ensure a consistent and successful collaborative approach.

The project was completed a month ahead of schedule with minimal complaints and positive local response to the work due to our approach and engagement.

## IGEM awards

We had success at the IGEM Gas Industry Award's 2022 after being shortlisted in eight out of ten categories, and receiving four awards:

**Manager of the Year**
Mumtaz Patel

**Customer Service Award**
Our North West Network's rise up the customer satisfaction league table

**Project of the Year**
Hydrogen Homes (in collaboration with NGN and BEIS)

**Product of the Year**
FTPS pipeline spacers for dead insertion of PE Pipe over Weko Seals (in collaboration with FT Pipeline Systems and Rosen).

Reflecting on her award, Mumtaz, who is Senior Delivery Support Manager in our Investment Planning Office (North West), said:

"I am blown away by this recognition. It was very overwhelming to see the amount of support I received when I won the award. Although it is an individual award, I have worked with and still work some amazing people who have motivated and inspired me but more importantly believed in me and my abilities. As the Sponsor of Women in Cadent, and being a female Muslim engineer, it is extra special as I hope my win can inspire others into the industry and operational roles."

**Mumtaz Patel**
*Senior Delivery Support Manager in our Investment Planning Office (North West)*

# Our year in review
## Supporting our communities continued

### "What a great team of friendly professionals"

In September 2021, around 1,200 properties were affected by a local governor failure which resulted in no gas to the village of Tattenhall in Cheshire. Engineers were quick to act, and the blockage was cleared. The village was kept regularly updated about the situation and the customer experience and professional response was highly praised. This was a great example of engagement and our partners all working together, from the local council to the Salvation Army.

**"Every member of Cadent staff I have spoken to has been helpful and polite. Their exercise in customer service is something I have rarely seen."**

Jenny Moten, North West Network Director said "I would like to extend a massive thank you to the residents of Tattenhall for being so patient during our work to restore gas supplies to the village. We were sorry for the disruption caused and made sure we looked after everyone during this incident. We provided hot meals for the most vulnerable in the community, as well as a take-away offer with local businesses. We would like to thank these businesses for their assistance during this difficult time. The community are terrific, and everyone has been incredibly accommodating to the teams working so hard to get everyone back on gas."

**"The way Cadent have handled this has been exceptional in a time where big companies rarely offer good customer service... let alone the level of care and communication this dedicated team have shown."**

**"An amazing job your team have done in supporting the whole village and reaching the most vulnerable."**

## Innovation from the next generation

An entrepreneurial team of our business graduates have put their heads together to create a brand new app for our Connections customers. The app is a Cadent first, designed and developed to keep customers at the heart of the gas connections process. Despite having no previous coding experience, the talented team were able to build the app from scratch, through their persistence, eagerness to learn and collaborative approach. The graduate group joined us in September, facing the unprecedented challenge of joining a new company remotely during the pandemic. Since then, they have each been working on rotation in different business areas, and alongside their placements took on this joint project with one sole aim: to simplify and enhance the experience for our Connections customers.

The app is designed to contain everything our Connections customers need, all in one place. Users can access key information about how our Connections process works, submit their applications, access progress updates and FAQs, and log feedback and enquiries.

Equipped with encouraging project sponsors, a supportive Google Cloud Team and a low-code app building platform called AppSheet, our graduates were able to produce the very first Cadent Connections App – demonstrating the possibilities of citizen development when combined with the right attitude and self-application.

**"Our company exists for our customers, and it's both a duty and privilege to keep our customers at the heart of the way we work and the decisions we make. I hope that the Cadent Connections App will support this vision."**

**Anthony Bull and Chloe Langham**
Graduates who worked on the project

## Tree-mendous: completion of £300,000 project to protect gas supply impacted by Storm Christoph

At the start of 2021 when storms battered the UK, one consequence was a tree uprooting from the banks beside the Trent and Mersey Canal. The tree fell on top of a gas pipe and footbridge that crosses the water. In the middle of the night, we despatched teams to ensure everything was safe. Although there was no damage, there were concerns about further ground movement, and the impact that could have on local gas supply to 2,300 homes.

A major multi-agency operation took place to monitor conditions and deliver a new route to supply gas to the village whilst decommissioning the section of pipe over the canal.

Over eight months, we designed, planned, and delivered this extensive project, installing more than 800 metres of new plastic pipe underground, as well as other gas assets. This involved working with a range of agencies including the Canal and River Trust, Cheshire West and Chester Council, private landowners and our contracted specialists.

**"From the teams who responded within minutes, to the teams who've now installed this new main and abandoned the other, this has genuinely been a Herculean effort from all, it shows the spirit, determination and professionalism of our teams and partner agencies to keep our customers safe and to keep people warm in their homes."**

**Jenny Moten**
North West Network Director.

# Our year in review
## Supporting our communities continued

### Data and digitalisation

Over the last 12 months, our operational and back-office digital transformation has seen great progress as we implement new systems and processes to bring benefits to teams with the right technology in place to drive performance.

Our Data and Digitalisation strategy demonstrates how we are working towards leading an enriched experience for colleagues wherever they work. It brings together key partners to design and deliver products and services that address customers' and colleagues' needs, support the wider community, and builds new capabilities with greater accessibility.

We have been working hard on our Brilliant Basics strategy that puts simplification for customers and colleagues at its heart. We have delivered changes to provide the following:

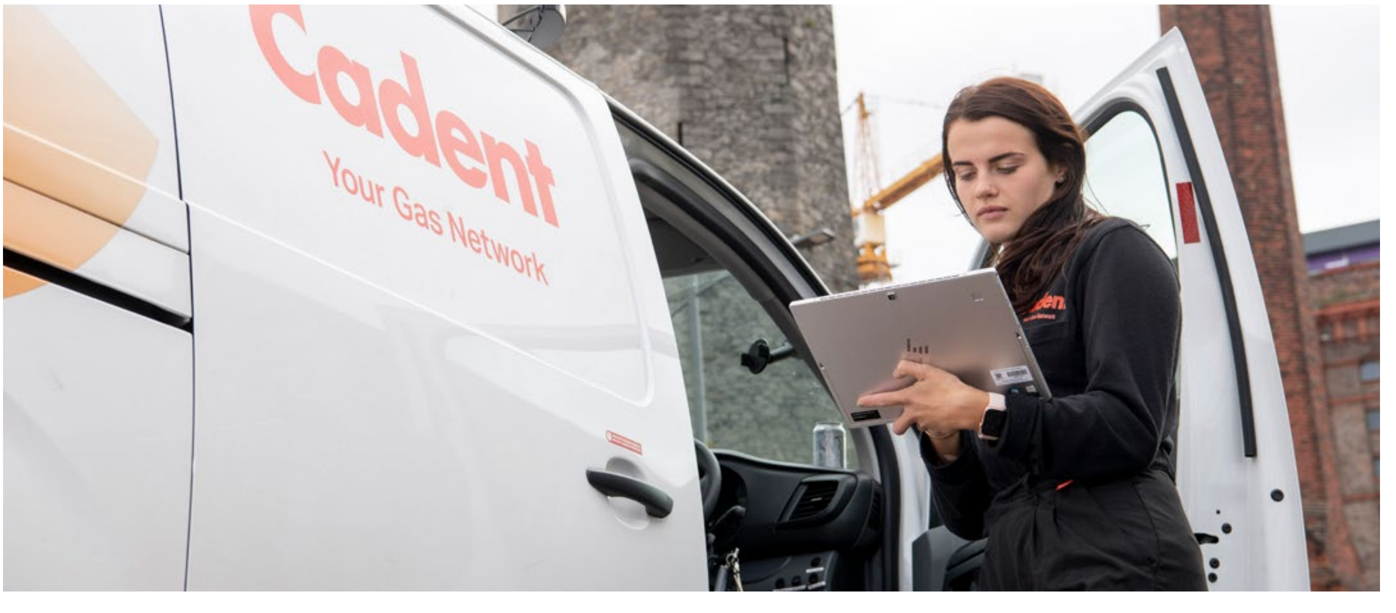
- Real-time data insights across all of our key process, providing information to those that can make a real difference for our customers. Information on vulnerable customers, customers without gas, have reduced the time we leave customers off gas, improved our Customer Satisfaction scores and supported our journey to become regionally based with local decision making.
- A new modernised Field Services Management system built on best of breed technology that has enabled us to remove Technical Debt and provide a better interface for our Field Engineers. This will form the base for us to build out more digital services and remove paper based from the Field. It also provides a new data set that will enhance our insights into the field operations and build a better and more efficient service for the future.
- A new HR platform has simplified the process of contacting HR and dealing with colleagues queries with a single point of contact as well as introducing new ways of capturing performance information, supporting development and succession planning. We will be building further capability over the next year to improve our recruitment processes and time management processes.
- The IT helpdesk service is now operating entirely from the UK and over the course of the year we will be completing an insourcing activity of the management of all our core IT systems. We are also building our own development capability as we are adopting agile ways of working to speed up the delivery of technology enabling changes to support our Operational transformation ambitions.
- We have invested in our Cyber Security team and have been running a Cyber Awareness programme for all colleagues to ensure that there is an improved level of awareness of our main vulnerabilities. We have also been working on our Business Continuity plans and Recovery capabilities as we mature our approach and respond to the changing global context on cyber threats.

Following significant changes to our technology infrastructure we are on a journey to invest in further initiatives to make things easier for our colleagues and customers.

**"I'm proud to be part of shaping the future of the energy sector, enabled by the digitalisation of our business and the network we run, working in collaboration with our partners and stakeholders."**

**Kate Jones**
Chief Information Officer

**Read more about our**
**Data and Digitalisation strategy**
https://cadentgas.com/nggdwsdev/media/Downloads/reports/Our-Digitalisation-Action-Plan-2022-06.pdf



# Going beyond to support our communities

**In January 2022 we partnered with Emmaus UK, an adult homelessness charity and social enterprise. The charity supports individuals experiencing homelessness by providing wellbeing support, meaningful work experience and training, and a home for as long as someone may need it.**

We aim to raise over £400,000 for Emmaus and we will encourage employees to champion the partnership by enhancing their knowledge of homelessness and providing vital support through fundraising, volunteering, and sharing expertise on energy efficiency, employability skills and tackling climate change. We give all of our employees two paid days per financial year to volunteer for the good causes which align to our social impact ambitions of making life easier, fairer and greener.

To ensure volunteering is available and accessible to all, we have partnered with award-winning community support expert organisation, Neighbourly, to create an online and interactive volunteering platform which offers a focused range of inclusive opportunities across all of our networks.

> **"Through partnering with Emmaus, we are building on the close alignment with our purpose, values, and social impact ambitions to provide more people with warm homes, accelerated access to careers in the energy sector and sustainable futures."**

# Our year in review
# Making a positive social impact

**"We estimate that over three million people in our communities are living in fuel poverty, which is likely to get much worse as the cost of living goes up. We can't solve this alone, but we are a key part of the solution and will help over one million customers by 2026."**

**Mark Belmega**
Director of Sustainability and Social Purpose

We are proud of our strong track record of operating as a responsible business, putting people and the planet at the heart of everything we do. It is important to our customers, colleagues, and stakeholders that we give back to the communities we serve. This means helping those who need additional support and increasing social mobility, whilst playing our part to help combat climate change to secure a long-term future for all.

Our social impact forms a key part of how we will do that – making life easier, fairer and greener for everyone we serve. The past two years have really shown how vulnerable society is and the impact those events can have on people's livelihoods and the environment.

Playing our part in helping people across our communities to heat their homes more affordably is a key focus of our social impact ambition. We want our customers, communities, and supply chain to thrive, and we can only succeed in that ambition by being a truly sustainable business. It is vital for us to create social value by benefitting the most vulnerable in our societies and contributing to our local communities to reduce the impact of our operations. For us, sustainability means being a Force for Good and having a positive social impact in three key ways: creating easier warmth, fairer opportunities, and a greener society.

You can read more information about our progress and ambitions in Our Social Impact 2022 – https://documents.cadentgas.com/view/738872591

## Tackling vulnerability and fuel poverty

Our customer vulnerability strategy recognises that everyone is unique and that their individual circumstances today could be different tomorrow. It reflects the need to understand and prepare for these changes before they happen, to help us keep people warm, safe, and independent in their homes.

Our approach to supporting customers in vulnerable situations is centred around four main objectives:

1. Tackling fuel poverty and making energy affordable.
2. Providing services beyond the meter to never leave a customer vulnerable without gas.
3. Carbon monoxide safety.
4. Raising awareness of the Priority Services Register and providing a range of safeguarding service.

We estimate that over three million households living in our networks are currently experiencing fuel poverty. This is a significant increase over the last 12 months as the cost of living continues to increase and fuel prices reach an all time high. We are committed to playing our part with wider industry and Government to tackle affordability and reduce fuel poverty. In 2021/22 we have provided over 3,000 homes with a free connection to the gas network. In addition, we have partnered with organisations around the country who specialise in providing professional and impartial energy and income advice, funding thousands of home visits, which typically save the average household over £2,000.

With fuel poverty impacting so many customers, it is impossible to reach them all with direct interventions. Therefore, we've begun a series of initiatives that aims to raise awareness of customers living in fuel poverty of ways in which they could either save money on their energy or increase their income through benefits available to them. We've embarked on a national campaign to make customers aware of advice and tools that we provide on our website, including providing free access to an on-line benefits calculator, developed in partnership with the charity Turn2us. By 2026 we will have supported more than one million customers living in fuel poverty through our suite of interventions.

The various projects and initiatives that we deliver to support customers in vulnerable situations are funded largely through a regulated allowance known as the Vulnerability and Carbon Monoxide Awareness allowance and the Cadent Foundation. More information can be found here.

https://cadentgas.com/about-us/responsibility/vcma

### Our aim

Keep all of our customers safe, warm and independent in their home regardless of their personal circumstances.

### Strategy

| | | |
|---|---|---|
| **Positioning**<br>Robust governance through all levels of the organisation | **Data**<br>Enhanced use of data and analytics to better understand vulnerability | **Services**<br>Co-created through ongoing stakeholder engagement |
| **Partnerships**<br>A truly joined-up partnership environment | **Training**<br>Investing in our people to support them to be able to act | **Leadership**<br>At the forefront of promotion and awareness |

### Customer commitments

| | | | |
|---|---|---|---|
| Identifying customer needs and joining up support services | Going beyond to never leave a customer vulnerable without gas | Protecting our customers from the dangers of carbon monoxide | Tackling affordability and fuel poverty |

# Our year in review
## Making a positive social impact continued

### Providing services beyond the meter

Our primary role is to keep gas flowing safely and reliably into millions of homes and businesses across our networks. At times, doing this requires us to temporarily interrupt the supply of gas to a home or isolate an appliance that is no longer safe.

We aim to never leave a customer vulnerable without gas, that means when we encounter customers who cannot afford to pay for appliances to be fixed or replaced, we arrange this for them, free of charge, but as the pipework and appliances in people's homes do not belong to Cadent, it is the responsibility of the customer to fund any necessary in-home repairs. However, we recognise that for many customers, they simply cannot afford to do this. We have provided additional training for our own engineers and partnered with other specialists to provide a range of additional services, free of charge, to help keep our customers safe and warm.

These include servicing, repairing, and replacing appliances (such as cookers and boilers), carrying out in-depth safety investigations and even providing temporary heating and cooking alternatives whilst the work is being done.

We are now referring around ten customers every day (over 3,000 per year) through the scheme working with National Energy Action to deliver the right solutions to meet specific customer needs. We are expanding the number of services that we offer and using data to pinpoint where issues might lie, e.g. ageing appliances, so we can fix them before they occur.

### Priority Services Register

For many years we have chaired a cross utility sector working group aiming to increase the general public's awareness of the Priority Services Register and ensure that it operates in the most effective manner to help the energy industry and to understand how to best support our customers.

This year we have trained over 4,000 of our colleagues to be able to spot the signs of customers living in vulnerable situations. This allows them to have the confidence and knowledge to offer a wide range of support packages. We have completed a six-week winter awareness campaign, which we invited the other national gas distribution network businesses to join, and which we estimate has reached over 20 million across the UK to raise PSR awareness and encourage registrations.

### Carbon Monoxide safety

Unfortunately, carbon monoxide poisoning kills around 40 people in the UK each year. This year we have continued to develop our Safety Seymour (Key stage 1) and CO Crew (Key stage 2) primary school education programmes. Working with the consultancy Skewb, to create classroom based lessons using Minecraft to increase engagement and learning.

We ran a large summer campaign using social media, digital billboards, national radio, and posters in London Underground stations and at motorway service stations to raise awareness of the potential harm associated with carbon monoxide and how to avoid it. We estimate that these were seen or heard by over nine million people living in our networks.

We also work with partners such as Fire and Rescue services to help us to distribute free carbon monoxide alarms to customers living in vulnerable situations.


**Over**

**9 million**

people saw or heard our campaign

## UK gas networks partner with Scouts to raise awareness of carbon monoxide

We have partnered with The Scout Association to help educate young people about the dangers of carbon monoxide (CO), and how to keep themselves and their families safe from the 'silent killer'.

Over the coming three years, Cadent, along with the other UK gas companies Northern Gas Networks, SGN and Wales and West Utilities, will be working with Scouts to launch activities for all age groups between 6–18-year-olds, helping them to understand the signs of CO, the symptoms of CO poisoning, and what steps to take if they think the poisonous gas is present in their homes.

Four activities have already been created for Beavers (6-8 years) and Cubs (8-10 years), and plans are already in the pipeline for Scouts (10-14 years), and Explorers (14-18 years). Cubs will now be able to earn their Cubs Home Safety Activity Badge, which has been sponsored by the gas networks, when learning how to prevent accidents in the home and gaining knowledge on what to do if they occur. Through the partnership, training and guidance will be provided for adult volunteers about CO safety, so they are better equipped to teach the young people in their groups, and to make sure everyone stays safe in meeting places and on camps.

### "We're thrilled to be working with Scouts to teach more young people across the UK about carbon monoxide".

**Phil Burrows**
Head of Customer Vulnerability
Social Programme Delivery

"Carbon monoxide safety is something everyone should know something about. The expertise that the UK gas companies have fed into the programme activities that we have developed in partnership with them means we've been able to create something that's fun to use, engaging and potentially life-saving. Through this partnership, we can equip over 350,000 young people with important skills that may one day save a life."

**Simon Carter**, Scouts


## Using Minecraft to educate children about CO Safety

In October 21 we saw the launch of the first Cadent Children's panel, which involved 26 children, aged between 5-14 years old.

The children took part in testing a new Minecraft game focused on educating children about the risk of carbon monoxide, with the game allowing children to safely engage and develop an awareness and understanding about the nature of carbon monoxide and how to prevent harm from exposure to it in their home. This project builds on, and complements, our educational programmes, including Safety Seymour and the CO Crew. The Minecraft game was developed through a partnership between ourselves, Skewb Climate and Educraft.

The panel of children tested the game and provided lots of great feedback on how to develop the game before we took it to schools. Everyone had great fun and committed to supporting the next set of Minecraft games as they are developed!

Developers of the game, Ruta Blazeviciute (Director, Skewb Climate) and Shashi Seshadri (CEO Skewb) said, "It is really exciting to work with Cadent on the carbon monoxide educational and awareness programme! So exciting to see our children adopt so quickly to this digital medium; having fun on such an important topic of safety and wellbeing; with incredible learning avenues and potential to positively impact our future generations!"

# Our year in review
# Making a positive social impact continued

## Always doing the right thing

Our updated modern slavery statement sets out steps that we have taken to prevent slavery and human trafficking taking place in Cadent and our expectations from our supply chain. The statement outlines our commitment to support our staff to ensure factors such as having the appropriate working conditions, being treated with respect, and paid fairly, have had the appropriate due diligence. Our policy framework, training and awareness programmes incorporate the commitment we make towards the respect for human rights. We have taken positive steps forward by improving our policies, processes, and training to mitigate the possibility of exploitation within our supply chain.

We are a member of the Utilities Modern Slavery working group which collaborates with the Slave Free Alliance. As part of this working group, we are reviewing our procurement processes to keep them in line with best practice in the Utilities Sector; preventing enforced labour, human trafficking, and slavery in a co-ordinated manner within our industry.

Our modern slavery statement is updated annually and published on our website in line with the Modern Slavery Act requirements. To find out more about our ongoing commitments to tackling slavery and human trafficking you can read our modern slavery statement on our website.

### Promoting a 'Speaking Up' culture

This year we have updated our internal policy called 'Always Doing The Right Thing'. This sets out our culture of 'speaking up' which is supported by the numerous channels available to all employees and the wider population to raise concerns. We have confidential helplines available internally and externally that operate 24/7. We take all allegations of potential ethical misconduct very seriously and have a dedicated Ethics and Business Conduct team trained to independently investigate all reported concerns sensitively and thoroughly and taking the relevant remedial action.

## Cadent Foundation – a year of growth

Cadent Foundation

As we moved into 2021, there remained a high degree of uncertainty, but we were starting to see charities think beyond the immediate crisis to look to the future and how they could provide critical support as demand for their services continued to rise. We reflected on the impact we had achieved in our first year and looked to learn from other foundations and organisations working in the charitable sector to determine what more we could be doing for the charities we fund.

We are uniquely placed to see the real-life impact income deprivation, fuel poverty, low energy efficiency and poor living environments has on the people in our communities. We have a strong track record of operating as a responsible business and the Cadent Foundation was set up to help play a part in addressing these inequalities. Whilst continuing our commitment to placing people at the heart of what we do, we renewed our purpose to working with charities that tackle the causes and consequences of these complex social issues with effective long-lasting solutions.

Leveraging our knowledge and expertise, supporting people out of fuel poverty to ensure they are safe and warm in their homes, naturally became more of a key focus for the Foundation. In fact, 83% of the funding awarded in 2021 was for projects aimed at addressing the root causes and impact of fuel poverty. We're now in a much stronger position to focus on our core purpose and measure what matters to capture the kind of change that we are achieving with our charity partners. As we prepare to launch our 2022-2027 strategy, we want to amplify the impact we have by combining our funding, partnerships, expertise, and influence to enable the charities we support to thrive and help more people in our communities.

You can read more about the Cadent Foundation and the grants in action here – https://documents.cadentgas.com/view/585521892/

## £56,000 grant to help tackle fuel poverty in Blackpool

Blackpool Coastal Housing was awarded a £56,814 grant as part of a joint initiative with Cadent and the Cadent Foundation to help those living in fuel poor households and ensure they have a warm, secure, and safe home. The Warm and Healthy Homes Project is a new scheme which aims to reduce the number of cold-related deaths and illness in Blackpool by providing individuals with the tools they need to fight fuel poverty.

The £31,814 grant from Cadent is being used to provide a dedicated case worker who will work with households to provide a tailored package of support and information. This includes providing help to access broader health and wellbeing support services, as well as offering critical money saving advice to reduce energy bills.

A £25,000 discretionary emergency fund from the Cadent Foundation, will be used to contribute towards the cost of keeping homes warm. This could include repairing or replacing heating appliances, double glazing, draught excluders, or insulation. Over the next 12 months, the 'Warm and Healthy Homes Project' aims to support over 350 households that are struggling with fuel-related poverty, and provide them with a warm, safe, and healthy home.

### Help that will last a lifetime

John Donnellon, Chief Executive Officer at Blackpool Coastal Housing said: "The latest Fuel Poverty Statistics show that Blackpool has the largest number of households in Lancashire who are fuel poor, 15.2% compared with the national average of 10.3%. This grant is helping to meet that need and we are incredibly grateful to Cadent and the Cadent Foundation for awarding us the funding. The impact of this project will last far beyond the duration of the project itself; the improvements in health, wellbeing, and financial circumstances of those most vulnerable in Blackpool will last a lifetime."


# *Going beyond* to create a culture of equality and inclusivity for all

**Race Equality Week 2022**

We were delighted to be joined by Sandra Kerr CBE, Race Equality Director, Business in the Community, who spoke at our Race Equality Week Lunch and Learn #actionnotjustwords event. It was an important opportunity for us to reflect on the commitments we made last year by signing the Race at Work Charter and to celebrate with colleagues how we're progressing against the seven key action.

"I was delighted to speak at Cadent's event to mark Race Equality Week. Cadent is one of 800 businesses who have publicly committed to driving change through the Race at Work charter."

These companies are working together so that the UK can have one of the most inclusive workplaces in the world.

**"By taking collective action, we can break down workplace barriers, raise the aspirations and achievements of talented individuals regardless of their ethnicity and deliver an enormous boost to the long-term economic position of the UK."**

**Sandra Kerr CBE**
Race Equality Director, Business in the Community

# Our year in review
## Creating a culture of equality and inclusivity for all



> "Understanding, learning and celebrating what makes us different, as well as what we have in common, is not only good for us as individuals, it enables us to work better together as one team."

**Keri Handford**
People Director, Centre of Expertise

### Looking after each other

During the year we were faced with uncertainty about the pandemic and established a regular management command team, Bronze and Silver, who were put in place to review our control measures and provide weekly updates and support for colleagues and customers. We worked with Government, industry, and partners to ensure our approach was measured and appropriate to balance the level of infections we saw across the country, with BEIS and Ofgem fully in support of our approach.

We maintained a high level of caution throughout the year and kept controls in place across offices, depots and in customers' homes. This meant that our levels within the business were always kept under control and reviewed daily. We are aware that COVID impacted many of us in different ways and we saw several of our operational colleagues and supply chain partners impacted by the changes across the year.

We would like to thank all of our colleagues for being kind, respectful and supportive as we faced a challenging time with the ever-changing impacts on our communities. Our regular communication to all helped everyone to check in and raise any concerns immediately.

### Total employees

**5,945**
up from 5,258 in 2020/21

### Recruiting, developing, and rewarding our people

Over the last 12 months, we have reshaped our business, building stronger, simpler, and more agile teams; to help us deliver on the commitments we have made and put us in a strong position to respond to the opportunities ahead.

We have all embraced new ways of working over the last 18 months and this has brought positive changes to many of us. It has provided us with a great opportunity to review the way we all work to support a healthy work/life balance; the ability to choose where we want to work, in collaboration with the needs of our team and the business. We successfully launched a hybrid working model for our office-based colleagues to bring increased flexibility, accessibility, and choice. This really helped to support our colleagues working from offices and depots during the pandemic. We have received great feedback about the improved work/life balance this has achieved for many people.

In 2021, we introduced a new People framework, defining roles and clarifying accountabilities and expectations at all levels across the business.

Colleagues have worked together to establish our new purpose of 'Keeping People Warm, While Protecting the Planet', as well as a new set of values and behaviours that matter to us. Teams across the business are getting together to explore our new values, discuss what they mean and how we can bring them to life through what we do; establishing a culture that everyone feels part of, believes in, and lives by.

This year we have taken the opportunity to strengthen our approach to goal setting by introducing new Objectives and Key Results. Our purpose, values and objectives are directly reflected against functional, departmental and team objectives. Reinforcing a one team approach to drive performance where agreed commitments are visible so everyone understands how they contribute to our success.

# Our year in review
# Creating a culture of equality and inclusivity for all continued

## Attracting new talent

Our successful new talent schemes have continued to run smoothly for the second year of the pandemic; with our largest cohort of 85 technical apprentices nearing completion of their scheme. We have 200 apprentices live on a scheme over 11 different programmes.

Our apprentice levy remains strong as we continue to diversify our apprenticeship offerings. We have introduced Human Resources and Customer Practitioner programmes this year and are currently progressing Digital / Information Technology apprenticeships. In 2021/22 we have drawn 89.14% of the levy spent with no expired funds.

Our student cohorts continue to rise with our Industrial Placement programme tripling to an intake of 14 up from four across all areas. Our largest intake of 23 graduates are settling in well and our first cohort of the new two-year engineering scheme completed in the Summer.

The pandemic has meant that we had to make adjustments to run our schemes which included training delivery methods, project work and virtual interview assessments. All our new starters in Autumn 2021 completed a face-to-face induction which was welcomed by the group as this strengthens their scheme engagement from day one when they join us.

We are delighted to rank well in the Job Crowd Top Companies to work for, with an overall company rating of 4.3 out of 5. For Apprentices we are ranked 16th and for Graduates 28th.

This year we have focused on our learning and development strategy and have worked with teams to review training needs, refresh current programmes and propose recommendations. As a result of this strategic direction, we have recruited digital content advisers and leadership trainers to provide a hybrid model of training creation and materials. This helps us to design solutions in an agile manner. The full learning strategy will be launched in 2022 where we will rebrand and reorganise our training architecture and create new programmes to support career development. We have reviewed our mandatory curricula training and continue to focus on delivering high quality technical training from our four training centres. In addition to the cultural transformation, a refreshed approach to customer training for our Customer Centre has been launched and will now be implemented across our operational colleagues.

## Skills development

### Hydrogen skills

To support our transition to hydrogen and the technical advancements required, we are actively involved in the development of hydrogen skills through a variety of consultations and reviews. We are members of the Hydrogen UK panel in Jobs and Skills and on the HyNet Skills, Learning and EDI Committee. Both committees are developing ideas around the skills needed. They are contributing to research for our business and wider industry requirements about the solutions needed to help various challenges in career attraction and development.

### Education and Skills

We contribute to the wider sector skills challenge in many ways, largely through collaboration with Energy and Utility Skills (EUS) and our membership with the Apprentice and Technical Education Advisory Group and CEO Council.

We play an active role in the two workstreams of the Energy and Utility Workforce renewal and skills strategy 2020-2025. The workstreams are "Reflecting the population that the sector workforce serves" and "Delivering the competencies and skills we need". Contribution in these groups support our Diversity and Inclusion and Training Strategies.

Significant output of the skills workstream remains high on the government agenda and includes the apprenticeship levy flexibility that has been mentioned during House of Lords' reading of the Skills Bill. We continue to support and contribute to a range of external events, such as Industry and Parliamentary Trust groups and All Party Parliamentary Groups; providing our view on skills, apprenticeships, and the economy.

### External partnerships

We have engaged with four colleges in North London and the North West with a view to providing work experience for Level 1 and 3 construction skills, Level 1 and 3 plumbing skills students.

Working with Careers and Enterprise Company, Elevate EBP and ELSA we are providing an employer experience for over 2000 students. In recognition of this work, we have been awarded Patron status by Elevate.

We have been working alongside Manchester Metropolitan University on the Future Me challenge with our graduates setting challenges for First and Third Year engineering students.

Our graduates are also mentoring students from Abraham Moss via the EDU-CATOR Global programme.

We are represented on the Employer Partnership Board (Engineering) with Runshaw College and the Manchester Metropolitan University Engineering Industrial Advisory Board.

We have also been appointed as the Employer Chair for the Leicestershire Career and Enterprise Partnership.

## Our lifecycle

This year we launched our 'Cadent experience lifecycle' to support our people at every step of the way through their career with us. This looks at how it feels to work here and is focused on our services rather than processes. The life cycle starts from day one when colleagues join us, through developing, performance, changing careers or when colleagues decide to leave the business.

## Retaining talent

We have reviewed the talent and career development strategy and proposed enhancements. The principles include being fair, forward thinking, conversation led, skills focused, transparent and consistent. All of these will help us to create a wonderful organisation where people have unique opportunities to develop, grow and build a remarkable career. Further initiatives will be rolled out during 2022/23.

## Celebrating success

Sharing recognition is highly valued and we celebrate individual stories and share what success looks like. Our Recognition scheme 'Cadent Congratulates' is now well established and is designed to make it easy to say "thank you" to colleagues. Our Social Wall is used to acknowledge colleagues and is a great way to share fantastic achievements across the business. Colleagues can also nominate each other for a monthly Value Award. Recognition is linked to our new values. and we select up to five nominations per value per month. Nominations are considered by a Recognition panel with representatives from across the business to ensure a consistent approach when selecting all the entries. Successful nominations receive a financial reward and a pin badge. Each quarter, we award the CEO Spotlight Awards. These recipients are selected as the best from the nominations in the last quarter and demonstrate outstanding work or behaviours. Winners receive financial reward and a CEO Spotlight trophy.

This year we have introduced a new 'High Five' award. This allows colleagues to give instant recognition and helps to celebrate the everyday successes which have delivered "over and above". This is linked to our charity partner; any financial award given can be made, at the employee's request, as a donation to our charity partner.

## Improving experiences

Our HR system transformation phase is in progress, and we have rolled out several system improvements to make it much easier for our colleagues to engage and improve experiences. These include a Performance and Goals hub, Compensation and Succession Planning. The improvements will simplify our ways of working and help to remove the manual nature of tasks. As we strive to become more data driven, our dashboard functionality will provide improved insights into people metrics to have a holistic view of our employees. The new dashboards give our management teams access to data from across the organisation.

**"We are delighted to rank well in the Job Crowd Top Companies to work for; with an overall company rating of 4.3 out of 5. For Apprentices we are ranked 16th and for Graduates 28th."**

## Our COVID hub provided regular updates featuring key information:

- Guidance about working from home
- Guidance for our operational teams working on-site and in homes
- PPE updates; stock levels and guidance
- Specific guidance for colleagues and managers focused on testing, isolation, and vaccines
- Training centre advice and safety measures in place
- How to purchase DSE equipment
- Advice about taking care of IT equipment
- Short guide about recovering from COVID
- A platform to share stories amongst colleagues
- Guides focused on looking after mental health
- Specific vaccine guidance with support
- Travel advice
- Annual leave carry over
- Introduction of two days' paid volunteering allowance
- An Employee Assistance Programme available 24/7 to provide a range of emotional and practical support
- Working with carer responsibilities
- Alternative vouchers to support teams who wanted to celebrate at the end of the year but were unable to meet due to restrictions or uncertainty
- Provision of laptops to support colleagues who were balancing homeschooling of children and their work

# Our year in review
## Creating a culture of equality and inclusivity for all continued

**"In my role as Executive Sponsor for Equality, Diversity and Inclusion, I ensure our people can play an active role in making this company a great place for people of all genders, sexualities, faiths, ethnicities and abilities to work in."**

**Ranjit Blythe**
Chief of Staff and ED&I Executive Sponsor

Throughout the year we reflect and celebrate the way that women across the business are using their expertise and voice to shape the role they play in the utilities sector. Women across all areas are thriving in operational roles, finding solutions to the climate change crisis through innovation, and supporting our customers to be safe and warm in their homes.

Focusing on the year ahead we are also reviewing our ethnicity pay gap data to ensure we can develop the right plan of action based on real information. Next year we will publish this alongside our gender pay report. We are committed to being an inclusive place to work, one that reflects our communities and values difference. This kind of change takes time and action at all levels and I'm proud to be part of the progress we have made so far but recognise there is significantly more do. Our five employee community groups have grown from strength to strength and our partnerships continue to provide us with the tools and support needed to drive change and I thank my colleagues for their hard work, passion, and drive.

### We have five well established Employee Community groups:

These groups are employee led and each play an important role to integrate a diverse workforce, creating safe spaces, and fostering an inclusive culture. All groups have an Executive Sponsor from the senior leadership team who oversees the Community, providing direction and support.

Our Employee Communities regularly input into our Equality, Diversity, and Inclusion (ED&I) Steering Group and Working Group. The Steering Group is made up of senior leadership from across the company and they work to provide strategic direction for ED&I. They help to determine the business priorities and challenge and improve companywide policy and practice. The Working Group operates in line with the Steering Group to drive progress against the agreed business priorities, provide feedback and highlight issues. We are supported by passionate colleagues and each of our communities play an essential role to drive our ambitions and shaping our culture.

Embrace
Military Community
Pride at Work
Thrive
Women in Cadent

## Our military community has a spectacular silver lining

We're absolutely thrilled that we have been awarded the Ministry of Defence's Employer Recognition Scheme Silver Award. Our supportive HR policies to military Reservists, as well as the growth of our employee-led 'Cadent Military Community' (CMC), were held as exemplars, helping us continue our journey towards being truly diverse and inclusive.

During a ceremony held at the magnificent National Memorial Arboretum in Staffordshire, our employees and CMC members Dave Mounfield, Lee Rowland and Joseph Harvey accepted this award on behalf of the company.

Dave said: "We created our Cadent Military Community two years ago with this award in our sights. It shows that Cadent is delivering tangible support to the armed forces community, as well as our commitment to the Armed Forces Covenant and our Veteran, Reservist, Cadet and forces family community. "This is one of many fantastic work streams within the business to improve our diversity, equity and inclusion. Since signing the Armed Forces Covenant in 2018 we have worked extremely hard across the organisation to create an environment of inclusivity for all.

Our executive team and everyone working here has shown leadership and commitment to the forces community.

I would like to thank all members of the Community for their input, insightfulness, humour, and dedication towards our shared objective. We couldn't have achieved this without you!

**"This is one of many fantastic work streams within the business to improve our diversity, equality and inclusion. Since signing the Armed Forces Covenant in 2018 we have worked extremely hard across the organisation to create an environment of inclusivity for all."**

# Our year in review
## Creating a culture of equality and inclusivity for all continued

### National Inclusion Week

This was an opportunity to highlight our Inclusion Heroes and gave our ED&I champions the recognition they deserve, as well as acknowledging our Employee Communities for their achievements and hard work. Our informative content and online event facilitated in-depth and meaningful discussions. It was our ambition for colleagues to understand the important of inclusion and how small changes in our daily lives can make a big difference.

### Count Me In

In September 2021, our Count Me In campaign was launched as an initiative to increase data disclosure. Launched during National Inclusion Week 2021 celebrations, we offered employees the opportunity to easily update their personal information. Understanding the diversity of our workforce allows us to offer a supportive, welcoming, and inclusive place to be; safe in the knowledge that we can make necessary adjustments to improve the working environment.

### Health and Wellbeing

#### Financial support

We focused on increasing knowledge and understanding of financial wellbeing amongst our colleagues, as we know the impact financial issues can have on mental health and wellbeing. We introduced an online financial wellbeing hub for colleagues to bring personal finance information together with access to external support through webinars covering debt and budgeting, pensions, and pension investments.

#### Occupational Health (OH)

This year we have transformed our Health and Wellbeing support and are proud to have our own in-house OH team which has improved quality, consistency, and engagement. The launch of the team in October 2021 has received an overwhelming positive response by colleagues and managers across the business.
Our Head of Health and Wellbeing has brought together a team of highly skilled and experienced Occupational Health Nurse Advisers and Technicians. They deliver a management referral service, a health monitoring program and facilitate access to specialist physical and psychological rehabilitation contract partners. Our aim is to support all colleagues to be healthy at work and to support a timely return to work after a period of health-related absence.

#### Mental Health and Wellbeing

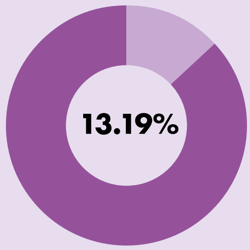
In June 2021, we were awarded 'Silver- Achieving Impact' by Mind following our submission in the Workplace Wellbeing Survey.
This external validation of the work we are doing to embed an open and supportive culture on mental health has informed the next phase of our strategy. A collaboration with Mates in Mind, a charity focused on mental health of men working in industrial roles, is being delivered across our networks and is proving to be a great resource for our operational teams.

#### Management of Vibration Exposure

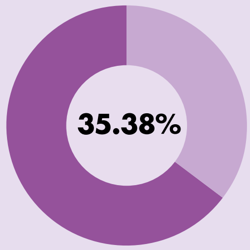
Exposure to hand and arm vibration at work remains one of the most significant work-related health risks where we and others in the sector have been subjected to scrutiny by the Health and Safety Executive and improvements are needed by the industry. We are delivering a live project to transform our approach to this risk. Our focus covers: tools and equipment, work planning, health monitoring, training, and communication. This is all encompassed in a revised Risk Assessment and Action Plan to ensure we are working together and supporting shared best practice.

### Our gender pay gap

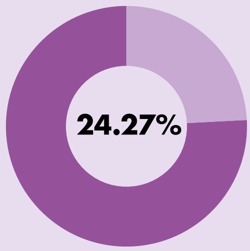
Since last year's report in April 2020, we now have an additional 2,053 employees which have been included in our reporting, making a direct comparison challenging. We are pleased to report that since 2020 we have seen a reduction in both the mean and median hourly rate gap along with a reduction in the median bonus pay gap, however there is still room for improvement. You can read more about our pay gap in our report here – https://documents.cadentgas.com/view/544985519/



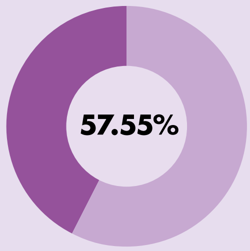
Mean gender pay gap



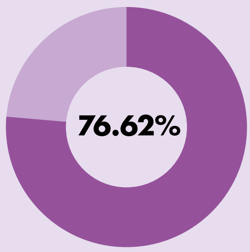
Mean gender bonus gap



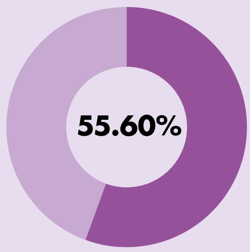
Median gender pay gap



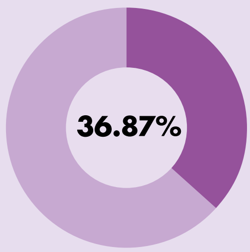
Median gender bonus gap



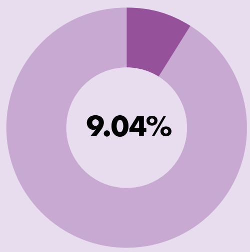
Percentage of males who were paid a bonus



Percentage of females who were paid a bonus



Percentage of female managers (band A-D)
(April 2021 35.0%)



Percentage of all colleagues identifying as BAME
(April 2021 7.9%)

# Going beyond to tackle climate change and improve the environment

**Our first site husbandry supervisor**

A specialist in arboriculture and horticulture, Nick Tavernor already had an impressive impact, transforming our approach to how we co-exist with nature on our sites, with the expertise to really understand the living environment our kiosks, governors and above-ground pipework reside in.

Nick from our West Midlands team, has been visiting and improving every one of West Midlands' 1,776 district governor sites. "The team has been brilliant; everyone's come at this with a superb attitude," says Nick. In Cadent, we are working much harder. And we can also put the responsibility onto our suppliers too, asking them to provide us with products and services that consider the environment, which boosts their level of eco-friendliness. It goes on and on from there. Before you know it, we are raising our game together and that's how it should work. We can turn these areas into wildflower meadow. In terms of perception, that doesn't look untidy, it looks pretty. Yet it's species-rich grassland which sustains birds, hedgehogs, frogs, toads, insects, bees, butterflies and moths. I want us to 're-wild' – find ways to keep our sites safe, but in ways that reduces our impact on the environment and improves biodiversity. Nick's team are also introducing bird boxes to our sites where they can, and he's in talks with wildlife rescue groups, thinking some of our locations could be perfect as release sites for animals (such as hedgehogs) to return to the wild.

# Our year in review
# Transforming the environment

> "As a responsible company, we are fully committed to our role in tackling climate change for the communities we serve."

**Dr Tony Ballance**
Chief Strategy and Regulation Officer

## Positive environmental action

During RIIO-2 our Environmental Action Plan ('EAP') will set out our role for the next five years and demonstrate our leadership in tackling climate change through innovation and creating pathways to decarbonisation. We are an industry leader in determining and establishing the future potential of hydrogen and alternative fuels which will form part of the future energy mix. We are actively engaging with Government and regulators to build awareness of these opportunities offered by green gases in the journey towards net zero.

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. In 2021/22 we have started 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. Our high standards of environmental performance focus on protecting and enhancing the environment through continuous improvement and key innovations to create long term benefits for society.

## Our climate change impact

We want our customers and stakeholders to see us as a Force for Good and our sustainability agenda is part of our strategy to achieve this. We work closely with all our stakeholders to achieve this ambition and shape a sustainable future for generations to come. Launched in December 2021, our Climate Change Adaptation Report was submitted to DEFRA (Department of Environmental, Farming and Rural Affairs). The report addresses our primary commitments and provides an update on our existing risks, mitigation measures and programmes. We have also identified new risks to provide a clear picture of the climate change impacts that could affect our business.

You can read the report here – https://documents.cadentgas.com/view/159055732/

Our climate change risks are managed in line with our overall risk management framework. This includes a thorough, consistent, and documented approach to identifying, assessing, treating, monitoring, and reporting risks. All our risks are recorded in our enterprise risk management system and are scored on a unified scoring scale with easy comparability, and visibility of risks and management.

We understand that being transparent about our performance to all stakeholders is essential to maintaining the trust of customers and colleagues. An important part of building this foundation is by improving our range of engagement activities underpinned by a clear Safety, Health, Environment and Security (SHES) framework.

## Environmental Management System

Our operations are covered by an Environmental Management System (EMS), certified to ISO14001:2015. We work with internal and external stakeholders to identify applicable compliance along with any significant areas of environmental impact. This is to ensure we fully manage our obligations and responsibilities. You can read our policy here.

https://cadentgas.com/nggdwsdev/media/Downloads/about/Policy-Statement-Environment-PL02-FINAL.pdf

Our EMS sets out our environmental policy, procedures, and standards to identify, manage and control potential environmental impacts of our operations. During 2021/22, we completed a series of internal environmental audits to ensure compliance across the business. This was to provide assurance for the environmental management at our depots and pleased to report we were not subject to any environmental fines or prosecutions.

We are implementing a new environmental reporting system for all of our environmental reporting - from our business carbon footprint to water consumption. This will support us to deliver high standards of performance, seeking innovative and sustainable ways to reduce our footprint.

The new system produces expert dashboards, with informative data and future trend and analysis reporting to drive continuous improvement.

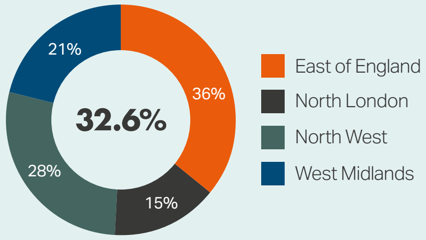
## Transitioning to a more sustainable future

We have an existing Transition Bond Framework, which is used to finance eligible Green projects. In the year to 31/03/22, We issued no new debt and therefore the framework has not been utilised in the year. We successfully issued off this framework in March 2020 (€500m) and March 2021 (€625m) and the proceeds have now been fully allocated to eligible projects.

The impact of this spend can be calculated using Cadent's Ofgem approved leakage model for 2020/21, which is prorated to the allocated proceeds amount (£536.7m). The impact of this spend is summarised in the tables opposite. The leakage model underpinning the impact calculations in this report is the Shrinkage Leakage Model (SLM). It is used by each Distribution Network to calculate emissions from the transportation network. The SLM was built by Advantica and the methodology within it is agreed by Ofgem.

Ofgem do not provide procedures or guidance as to how to complete the SLM, however the Distribution Networks meet periodically to ensure a standardised set of modelling rules. On an annual basis the Distribution Networks have a licence obligation to review the methodology and application of the SLM and to investigate ways to improve the accuracy of the calculation. Changes to the methodology within the SLM requires Ofgem approval and expert review.

**Reduction in leakage** (in GWh/yr)




| | Eastern | North London | North West | West Midlands | Total Cadent |
|---|---|---|---|---|---|
| Reduction in Leakage (GWh/yr) | 12.9 | 5.6 | 10.2 | 7.6 | 36.2 |
| Annual GHG emissions avoided (in $tCO_2e$) | 15,766.1 | 6,830.5 | 12,464.5 | 9,363.5 | 44,434.6 |

You can read more about our Transition Bond Framework here:
https://cadentgas.com/about-us/our-company/investor-relations/overview/transition-bond-framework

## Reducing our emissions

We recognise our responsibility to support the UK to meet its greenhouse gas emissions (GHG) target and have committed to medium- and long-term targets.

In 2021/22, the majority 95.5% of carbon dioxide equivalent GHG emitted by our business is from shrinkage, which is the leakage of methane from our gas networks. However, like others, we are also responsible for emissions as a result of our day-to-day activities, including:

- Commercial vehicle fleet and company mileage.
- In the services or materials we use (e.g. our supply chain partners, our plastic pipes).
- Our energy consumption and own use of gas as a fuel in our processes (OUG).
- Upstream and downstream emissions in the supply chain.

The majority of GHG emission data is captured at a corporate level and, to meet the requirements for the Regulatory Reporting Business Carbon Footprint table, an apportionment methodology has been applied to report data by network.

We are working towards collecting a broader range of data from our suppliers to understand our Scope 3 emissions and will move this work forward. This includes measuring key material, transport, and energy use across our supply chain and, for example, reducing embedded carbon in plastic pipe and fittings, whilst we focus on reducing plastic pipe waste.

Whilst the majority of our emissions are due to shrinkage, we are addressing this through the mains repair, maintenance, and replacement programme. This activity means we replace damaged or low-quality pipes with new plastic alternatives which means lower leakage from the network. Leakage from our network in 2021/22 was 0.41% of total throughput and our replacement programme will continue to deliver this year.

## Road to Zero car scheme

In May 2021, we undertook the largest change to our company car policy and moved towards an Electric Vehicle (EV) scheme to reduce our business mileage emissions. The scheme provides colleagues with a selection of the latest EV cars on the market and provides a home charging point to make it even easier for our colleagues to switch to electric. Over the coming years more of our drives will be changing from petrol or diesel engines as the cars are due for renewal.

For 2021/22, carbon emissions associated with company car travel increased by 38.5% compared with the previous year. The emission change reflects a change in work post pandemic and a reduction in remote working. However, we still implement hybrid working and have seen a year on year trend in decrease of emissions from business mileage.

# Our year in review
# Transforming the environment continued

## Renewable energy

We continue to look for opportunities to reduce our environmental footprint, particularly in relation to our energy consumption and greenhouse gas emissions from offices, depots and operations. Through our energy procurement process we have committed to 100% certified renewable sources of both electricity and gas with contracts in place to 2024.

In 2021/22 we reviewed our estate and closed our main head office, moving to a new, purpose-built building in Ansty that supports the reduction in energy consumption through several energy initiatives. These include solar panels on the roof generating up to 300,000 kWh per year, increased external shading to lower the electrical load on air-conditioning and 67 electric vehicle charging points.

Through 2020/21 we procured 100% renewable electricity, reducing our scope 2 carbon footprint on a market-based value. In September 2021 we renewed our supplier contract with Engie and continued to secure 100% Renewable Energy of Guarantees Origin) (REGO) for electricity certified energy certificated.

During 2021/22 we have started to work on the procurement process for 100% certified renewable gas. We aim to have this in place at the start of 2022/23 reporting year, which will support our reduction in market-based scope 1 emissions.

## Streamlined Energy and Carbon Reporting

The table below quantifies our business carbon footprint in tonnes of $CO_2$ equivalent and shows performance of our emission reduction activities against our RIIO-2 targets.

**GHG emissions and energy use data for 1 April 2021 to 31 March 2022**

| Scope 1 and 2 (Direct emissions) | Current year reporting 2021/22 | Comparison reporting year 2020/21 |
|---|---|---|
| Gas usage from our sites /$tCO_2e$ | | |
| Scope 1 | 987.68 | 1,116.56 |
| Natural gas shrinkage (Leakage +Theft of Gas+ Own use of gas) /$tCO_2e$ | | |
| Scope 1 | 1,250,137.49 | 1,289,332.83 |
| Fuel usage from Commercial vehicles, company cars and grey fleet /$tCO_2e$ | | |
| Scope 1 | 19,675.65 | 19,668.47 |
| Purchased electricity for own use (Location based) /$tCO_2e$ | 5,527.45 | 6,446.08 |
| Purchased electricity for own use (Market based) /$tCO_2e$ | 0 | 0 |
| Scope 2 | 5,527.45 | 6,446.08 |
| **Total Scope 1 and 2 /$tCO_2e$** | 1,276,328.27 | 1,316,563.94 |
| **Scope 1 and 2 Energy consumption /kWh** | | |
| As above | 1,202,166,399.03 | 1,228,374,165.88 |
| Intensity metric: Total scope 1 and 2 $tCO_2e$ per £m turnover | 615.10 | 663.93 |
| Intensity metric: Total scope 1 and 2 $tCO_2e$ per km of our gas network | 11.65 | 12.02 |
| | | |
| **Scope 3 (Indirect emissions)** | | |
| Business travel /$tCO_2e$ | | |
| Rail, Air, Ferry, Car Hire, Private vehicle use | 243.96 | 5.83 |
| Emissions from production and delivery of purchased PE pipe /$tCO_2e$ | 9,881.51 | 17,777.00 |
| Contractor vehicles /$tCO_2e$ | | |
| Mains Replacement contractor fuel use | 21,526.71 | 5,706.00 |
| **Total Scope 3 emissions /$tCO_2e$** | | |
| As above | 31,652.18 | 23,488.83 |
| **Total annual net emissions /$tCO_2e$** | 1,307,980.45 | 1,340,052.77 |
| **Intensity metric: Total emissions /$tCO_2e$ per km of network length** | 11.94 | 12.24 |
| **Intensity metric: Total emissions /$tCO_2e$ per £m turnover** | 659.60 | 645.81 |
| **Intensity metric: Total emissions /$tCO_2e$ per GWh throughput** | 4.98 | 5.07 |
| Background | | |

## Streamlined Energy and Carbon Reporting (SERC) methodology

Data for Scope 1 and 2 provided here is in line with annual Business Carbon Footprint reporting using the 2021 DEFRA conversion factors. Conversion factors are updated annually for reporting. Shrinkage is calculated using GWP25 (for methane) inline with Ofgem RIG guidance. Additional lines for scope 3 reporting, such as contractor vehicles have been added here for full disclosure and in line with annual returns to Ofgem. In 2021/22 Private vehicle use is now reported as scope 3, and not scope 1 as per the Greenhouse Gas Protcol and Ofgem guidance for RIIO-2. Where market-based factors are stated these are provided annually by our electricity suppliers. Total annual net emissions figure uses location-based methodology. Intensity metrics have been agreed via the Energy Networks Association (ENA).

## Greenhouse gas emission reduction

-3% reduction

Compared to 2020/21

## Biodiversity Phase 1 Surveys completed

8

across all our networks

## Streamlined Energy and Carbon Reporting (SERC) continued

The main contributing source of our BCF is the emissions (leakage) of methane from the gas network. By replacing old iron mains with new polyethylene (PE) pipe reduces methane leakage from the network.

Due to the continued hybrid working, we have seen a reduction in emissions associated with business travel (company owned vehicles), and heating and lighting our offices. This new approach to working remotely has continued during 2021/22 and with the new Company Car policy, launched in April 2021 we continue to embark on the road to a greener future. Now only zero emission vehicles and a limited number of ultra-low emissions vehicles are available for employees. We are incredibly proud to be one of the first companies moving towards an EV company car scheme and to be making a significant contribution towards our sustainability commitments

In addition, the electricity procured and consumed is 100% renewable, and is supported by Renewable Energy Guarantees of Origins (REGO), greatly reducing our emissions under Scope 2 if following the market-based methodology.

Scope 3 emissions, such as embodied carbon in PE pipe and contractor travel.

## Sustainability benchmarks

Now into our third year of reporting, we submitted environmental, social and governance data to the Global Real Estate Sustainability Benchmark (GRESB) Assessment. GRESB is the environmental, social and governance (ESG) benchmark for infrastructure. We have successfully improved our 2021 score of 75% by eight percentage points to 83% in 2021 and maintained AAA rating for MSCI. We also widened our ESG reporting in 2021/22 to include Sustainalytics and MSCI benchmarks.

## Biodiversity improvements

We have increased our focus on biodiversity, mitigating ecosystem loss and improvement projects to meet the growing need to manage biodiversity in our local communities and reduce associated impacts from our activities. Since the launch of our biodiversity strategy in 2021, we have developed and implemented an ecological scope of works to establish the baseline DEFRA Biodiversity Metric. This is a measurable score that can be used across our sites to measure net gain and track improvements. In 2021/22 we conducted several phase 1 habitat surveys across our sites to allow us to improve and protect our habitats and species across our sites.

We are working with the Wildlife Trust to increase biodiversity protection and mitigation into our policy and procedures. This is to help our colleagues to improve biodiversity across our sites. We have completed two workshops and been able to create a number of action plans to address the findings. The Wildlife Trust Biodiversity Benchmark is designed to complement ISO14001 and tests the design and implementation of a business's management system to achieve continual improvements and protection of our sites. More information will be available in the Annual Environmental Report 2021/22.

# Our year in review
# Transforming the environment continued

## Sustainable actions

During 2021/22, the environmental teams have worked closely with our supply chain to minimise the waste we generate and improve waste segregation at source. Several projects on waste management across the networks has helped improve our waste segregation, reduce general waste, and improve cost efficiencies.

We introduced a new environmental improvement target to incentivise colleagues to reduce the overall total tonnage of general waste generated across our non-operational sites. This was supported by a culture to think about waste generation at source. Through collaborative work across several teams and sites, we achieved an estimated 14% reduction in the waste generated. We also saw an increase in recycling rates across several waste areas, such as metal, wood, and dry mixed recycling.

We are focused on the volume of waste sent to landfill. This is waste that cannot be reused, recycled, or diverted. Since the introduction of our zero avoidable waste to landfill target in 2016, we have made great progress. We acknowledge that landfill is the only option for a small proportion of our waste. In 2021/22 we sent 105.69 tonnes to landfill from our non-operational sites, which was a great improvement by 14.41% compared to 2020/21.

## Our supply partners

We have been working closely with our supplier chain partners to target the removal of single use plastics. In 2021/22 we analysed over 30 suppliers delivering to our National Distribution Centre that accounted for 97% of total deliveries.

Our Local Delivery Partners for the Mains Replacement work are incentivised to recover, reuse, or recycle 95% of the spoil they generate from excavations and street works. They are also incentivised to use less than 5% of first use virgin aggregate for backfilling in the West Midlands and North London networks, and less than 10% in the North West and Eastern networks.

We also attend the Waste and Resource Efficiency Working Group which provides us with an opportunity to increase or knowledge and share learning practices with other companies. Supply Chain Sustainability School.

We joined the Supply Chain Sustainability School in July 2020, and have worked closely with them and our supply chain to use resources and membership to upskill colleagues and partners. We successfully maintained our Gold membership and introduced the Action Sustainability reporting tool, used by our suppliers for material, waste and carbon reporting.

We are taking the lead by adopting a collaborative, innovative approach when engaging with the School. They offer a coordinated approach within the Construction and Infrastructure sector to assess our sustainability competence and develop our supplier's knowledge. We have regular access to resources such as articles, seminars, e-learning modules, workshops, and dashboards. All of these resources help to support our RIIO-2 delivery and transform our business to become more sustainable.

## Part coil initiative

Polyethylene (PE) pipe used in our mains replacement programme is our number one raw material. We purchase 5,000 tonnes per year, and in kilograms it takes more than twice the carbon to manufacture than the finished pipe weighs.

PE coils come in standard lengths and we have unavoidable offcuts or 'part-coils' in sizeable quantities – an average of 650 tonnes a year goes to waste, which also has a waste carbon footprint.

Since the launch of the part-Coil re-utilisation initiative in April 21, we have saved over 25,000 meters (38.6 tonnes) in pipe length from having to be purchased and 101.2 tonnes $tCO_2e$ of embedded carbon in the year so far.

An innovative new tool shows our engineers and Local Delivery Partners where and how much of each specific diameter and length of pipe is available as 'part-coils' based on a 'Tracker' and 'Finder'. By using 'part-coils', we can reduce waste, our environmental footprint, and the use of new coils by using the available offcuts in stock. The Tracker is populated and managed by the Logistics team. It holds all the data, generated at our secondary stores when a part-coil is returned, scrapped, or issued. The Finder is available to all users of PE pipe and all data is refreshed hourly during the working day. It shows the status of part-coils from the Tracker. It's fully automated and accessible on mobile devices and laptops.

**"From start to finish, this project was put in place in just three months. This is an exciting initiative, and the solution is simple and easy to use. It reduces waste, eliminates carbon, saves us money, and even helps us keep our depots tidy."**

**Raj Neelakantan**
Procurement Operations Manager

# *Going beyond* to create future warmth for everyone

**The Hydrogen Village**

Throughout 2021, our programme has explored the potential options for the UK's first hydrogen village which culminated in a bid to Ofgem in December 2021.

We are very proud of the local engagement and support that we have received for the project and in May 2022 announced that our first 'hydrogen village' project in Whitby, Ellesmere Port could be critical to helping solve the global climate crisis.

Up to 2,000 properties in the Whitby area of the town will stop using natural gas for heating and cooking, and instead use hydrogen.

The proposal, put forward by us and British Gas, and supported by Cheshire West and Chester Council, has been confirmed in a shortlist of two locations hoping to be the first to use hydrogen on this scale.

The chosen location will start being supplied with hydrogen in 2025. In addition to the hydrogen village, we continue to co-fund other projects that form some of the underlying evidence needed to convert to 100% hydrogen. This includes projects like H21, a Northern Gas Networks project looking at the impact of 100% hydrogen on network components and H100, a SGN project exploring the conversion of homes in Fife via a new gas network.

**"The ability to demonstrate a conversion to 100% hydrogen is a key milestone in our future of gas programme and on the critical path for the Government in demonstrating the first village conversion by 2025."**

**Marc Clarke**
Head of Hydrogen Consumer

# Our year in review
## Creating future warmth for everyone

**"Blending hydrogen into Britain's gas grid reduces our household emissions, without people having to change the way they use their energy."**

**Dr Angela Needle**
Director of Strategy

### UK's hydrogen strategy becomes clear

The future of gas and hydrogen has continued to receive a great deal of attention over the past year, with the launch of the Government's Ten Point Plan, the Energy White Paper, the Hydrogen Strategy and the Heat and Buildings Strategy. All these publications propose a significant role for the gas infrastructure and particularly hydrogen in supporting delivery of the UK's net zero ambition. It is not the only solution and will be used in combination with other technologies, such as renewable electricity, heat pumps, heat networks and biomethane. It is clear though that net zero presents a significant challenge for all electricity and gas energy networks to ensure we manage a transition to low carbon technologies in a manageable and affordable way.

The Government has set out some near-term ambitions on hydrogen. The Ten Point Plan and subsequent strategy documents set out several key areas intended to propel the UK toward its net zero target, whilst simultaneously boosting the number of jobs involved in the green economy. For hydrogen, the plan focuses on an ambition to deliver 10 Gigawatts of hydrogen production capacity by 2030 with supporting business models. The aim to complete the necessary tests to enable blending hydrogen into the gas network by 2023; a pioneering conversion of a village and a town to hydrogen by 2025 and 2030 respectively; and supporting this was a proposal to mandate hydrogen-ready appliances by 2026.

To support these ambitions, our Future of Gas programme has continued to progress its activity across the three key themes of Advocacy, Technical and Safety, and Transition, to ensure that we can demonstrate how the gas network can be repurposed to deliver hydrogen in the future, and that we can do it safely and affordably. Our ongoing delivery of the Future of Gas programme, coupled with our work to develop our long-term strategy, enables us to have a stronger strategic narrative – and in due course help shape the policy framework for the future gas sector.

### Sharing our knowledge about hydrogen

Throughout 2021/22, we have continued to be proactive with a range of activities to support the wider understanding and engagement around hydrogen, which culminated in our attendance at COP26. Our own consumer research over the year has demonstrated just how little understanding there is about net zero, the role of natural gas today and the options for the future. Hydrogen as a specific topic requires continuous effort to share learnings and provide education both to the public and to key stakeholders and decision-makers. We do this both separately as Cadent and collaboratively with organisations such as the Energy Networks Association, Energy Utilities Alliance, Hydrogen UK and the Confederation of British Industries.

We have for some time also been a member of the Hydrogen Taskforce along with other key companies including BP, Shell, Orsted, Centrica, ARUP, Equinor and SSE. We have been effective in influencing hydrogen strategy via this group of companies and regularly engage with BEIS and Ministers on timings and concepts. Given the success of the Taskforce, and the need to take our influencing work on into the next phase of advocacy work, it has now been re-established as a trade organisation Hydrogen UK.

Dr Angela Needle, our Strategy Director, has been appointed as the Vice President for the first two-year term of the organisation.

This year we attended both the Labour and Conservative party conferences and spoke at the All Party Parliamentary Group Hydrogen fringe and the Hydrogen Industry Reception. We have also spoken at key events in the energy calendar such as the World Hydrogen Congress and the Bloomberg New Energy Forum, as well as the All-Party Parliamentary Group on Hydrogen, the Science Museum, University of Birmingham, Imperial College and the Industry and Parliamentary Trust.

At a regional level, we engage with a wide variety of local authorities, combined authorities and Local Enterprise Partnerships to share our work and highlight the opportunities that a hydrogen economy could bring to each region. One of our Regional Development Managers is the Low Carbon Hydrogen Lead on the Midlands Engine's Green Growth Board, which was set up to deliver their Ten Point Plan for Green Growth and to deliver against their new Hydrogen Technologies Strategy.

We also run large engagement groups to inform and seek feedback from regional stakeholders on the progress being made on the HyNet and East Coast Hydrogen Programmes.

# Gas sector policy *framework*

## 2021-2025

### 2021

**August**

Publication of the Hydrogen Strategy, consultation on Government's preferred business models for hydrogen (TPP): Published in August 21.

**October**

Set out Heat and Buildings Strategy (EWP) Published in Oct 21.

Launch a world class energy-related products policy framework. We will push for products to use less energy, resources, and materials, saving carbon and helping households and businesses to reduce their energy bills with minimum effort (EWP).

Consultation on the role of hydrogen-ready appliances (EWP).

Start of a Green Jobs Taskforce and National Skills Fund to support the growth of the supply chains needed to deliver all of this (EWP).

Publication of the HMT Net Zero Review, setting out the economic opportunities from net zero and, more broadly, how the costs associated with net zero should be met and how to ensure an equitable balance of costs and benefits across society.

Publication of cross-departmental Net Zero Strategy Published Oct 21.

### 2022

Finalise hydrogen business models (TPP).

Energy Company Obligation extended to 2026, supporting fuel poor households (EWP).

### 2023

Work with industry to complete testing necessary to allow up to 20% blending of hydrogen into the gas distribution grid for all homes on the gas grid (TPP).

By 2023 we will support industry to begin hydrogen heating trials in a local neighbourhood (TPP).

### 2025

Potential ban on new fossil gas connections for new homes (EWP).

*2GW*

of Hydrogen production capacity (TPP).

Begin a large village hydrogen heating trial, and set out plans for a possible pilot hydrogen town before the end of the decade (TPP).

Local Authority zoning for heat networks implemented (EWP).

## 2026-2030

### 2028

*600,000*

heat pumps installations per year by 2028 (TPP).

### 2030

*10GW*

hydrogen production capacity (TPP).

Improved energy efficiency in 2.8 million homes from Green Finance Initiative, bringing around 1.5 million homes to EPC C standard (TPP).

All rented non-domestic premises to be EPC B where cost-effective (EWP).

## 2031-2040

### 2032

Public sector has reduced its direct emissions by 50% compared to a 2017 baseline (EWP).

### 2035

As many existing homes as possible hitting EPC C where practical (EWP), UK reaches 78% emissions reductions compared to 1990.

Phase out of fossil gas boilers.

2021 2022 2023 2024 2025 2026 2030 2040

# Our year in review
# Creating future warmth for everyone continued

## Our Green Print – Future Heat for Everyone

In July 2021, we published our first thought leadership publication on the future of heat called 'Our Green Print – Future Heat for Everyone'. This is an 80-page publication that is our first thought leadership document. This outlines the key technical, economic and consumer considerations associated with decarbonising heat. We talk candidly about the pros and cons of both electrification and hydrogen. We strongly advocate a view that consumer engagement is paramount and somewhat missing in the net zero thinking to date. The report closes with a series of actions – our Green Print – that industry, government and regulators should consider. This has helped us to consolidate our perspective on where the specific gaps are for future strategic research and where we should develop further thought leadership positions.

https://documents.cadentgas.com/view/908325570/

## The Hydrogen Ten Point Plan

In October 2021, we launched our Hydrogen Ten Point Plan, detailing the actions we are taking to prepare and support to scale up hydrogen production, invest in jobs and skills as well as look after colleagues and consumers. This plan has been used to both educate our employees and external stakeholders on the scale of our ambition and commitment to a hydrogen future.

https://documents.cadentgas.com/view/962033428/

## The Hydrogen Home

We competed to secure funding from BEIS to construct the first hydrogen show homes in the country. This bid was jointly submitted with Northern Gas Networks (NGN) and we are pleased that we were successful in this. The homes have been constructed at Lower Thornley (near Gateshead) and fitted out with hydrogen appliances including cookers, fires and boilers that enable visitors to experience hydrogen appliances in a real setting. The show homes were opened by the Energy Minister Anne-Marie Trevelyan and Lord Callanan in July and we have had a steady stream of visitors throughout the year.


## COP26

The COP26 conference in Glasgow presented a unique opportunity for the gas sector to showcase the possibilities that hydrogen creates. We were pleased to be present for the full duration of the conference, to sponsor and speak at a series of events surrounding the main conference activities and within the Innovation Zone. This included sponsorship of the Hydrogen Transition Summit, and events with the Confederation of British Industries and Bright Blue on the role of hydrogen in home heating. Other meetings were held with public and private non-governmental bodies from across the political spectrum, regional government agencies, major industrial energy users and multi-national energy companies with interests in hydrogen infrastructure. We hosted a roundtable with the Climate Change Committee with participants from across industry and government (including Ofgem and BEIS).

In the North West, we supported the launch of the Road to COP26 event which was held in the lead up to COP26. This was built upon the relationships we have established with Manchester and Liverpool, Electricity North West and Scottish Power Energy Networks over the past year. In South Yorkshire, we joined a panel on industrial decarbonisation at the Regional COP 26 Roadshow, which was held at ITM Power's new electrolyser factory.

## Demonstrating a safe transition to hydrogen

Government have made it clear that gas networks must demonstrate that today's gas infrastructure can be safely repurposed to carry hydrogen before decisions will be made on its role in domestic heating. Our technical programme that is managed in collaboration with the other gas networks continues to provide key evidence along this journey. This includes both projects looking at blending hydrogen into the gas networks under our HyDeploy programme and the range of projects exploring the full conversion to 100% hydrogen.

We continue to be the overall lead for hydrogen blending projects across the gas distribution networks. The HyDeploy blending trial at Keele University successfully ran on hydrogen blends of up to 20% over winter 2020 and ceased blending in March 2021. Consumers did not detect any apparent difference with their heating or appliance for the duration of the trial and there were no differences detected between appliances that had been run on blends versus those that had not. The next phase of the programme, called HyDeploy2, moved to a public network at Winlaton operated by Northern Gas Networks which started blending hydrogen to 600 homes in September 2021 following approvals from the Health and Safety Executive. There has been significant and positive engagement with the residents in Winlaton. Cadent are also testing blended hydrogen and methane on a range of commercial and industrial appliances as part of the programme.

## A net zero pathway for the city of Liverpool

In collaboration with Scottish Power Energy Networks we delivered the final report on the Liverpool City Region, Cheshire West and Chester and Warrington Net Zero Pathway, setting out the actions the region will need to take to achieve their aspirational target of net zero by 2040. The projects set out in the report cover all aspects of decarbonisation including electricity and hydrogen and their future application across, transport, buildings and industry. We have now disseminated this work with stakeholders across the region and are now focused on combining it with the plan for the Greater Manchester Combined Authority to create a full decarbonisation pathway for the North West combined authorities. A formal launch of the plan is being scheduled for the near future.

# Our year in review
# Creating future warmth for everyone continued

## Supporting transport decarbonisation through hydrogen innovation

We continue to lead on aspects of transport decarbonisation that can utilise the gas grid, including where grid-delivered hydrogen and biomethane can play a role in transport fuels. In March, we completed and launched our Network Innovation Allowance-funded work on the green gas transport pathway. We had over 100 attendees at the launch with speaking support from MP Rachel Maclean (MP for Redditch and the Parliamentary Under Secretary of State at the Department of Transport) and Andy Street (Mayor of the West Midlands Combined Authority). The report establishes where and how hydrogen and biomethane can play a role, specifically in the delivery of low carbon transport. It addresses what actions policy makers and the private sector can make to maximise the opportunity and how to carefully manage the transition to hydrogen where it is needed.

We have also been awarded £300k of BEIS funding from the Low Carbon Hydrogen Supply 2 competition to conduct our Hy4Transport Project Feasibility Study (to be delivered in September 2022). We plan to explore any necessary purification technology to enable fuel-cell grade hydrogen to be distributed through our network. The aim is to leverage the outputs from the Feasibility Study to bid for a further £6m of BEIS funding to conduct a full three-year demonstration of the proposed purification technology (delivered by 2026).

## Planning new hydrogen infrastructure

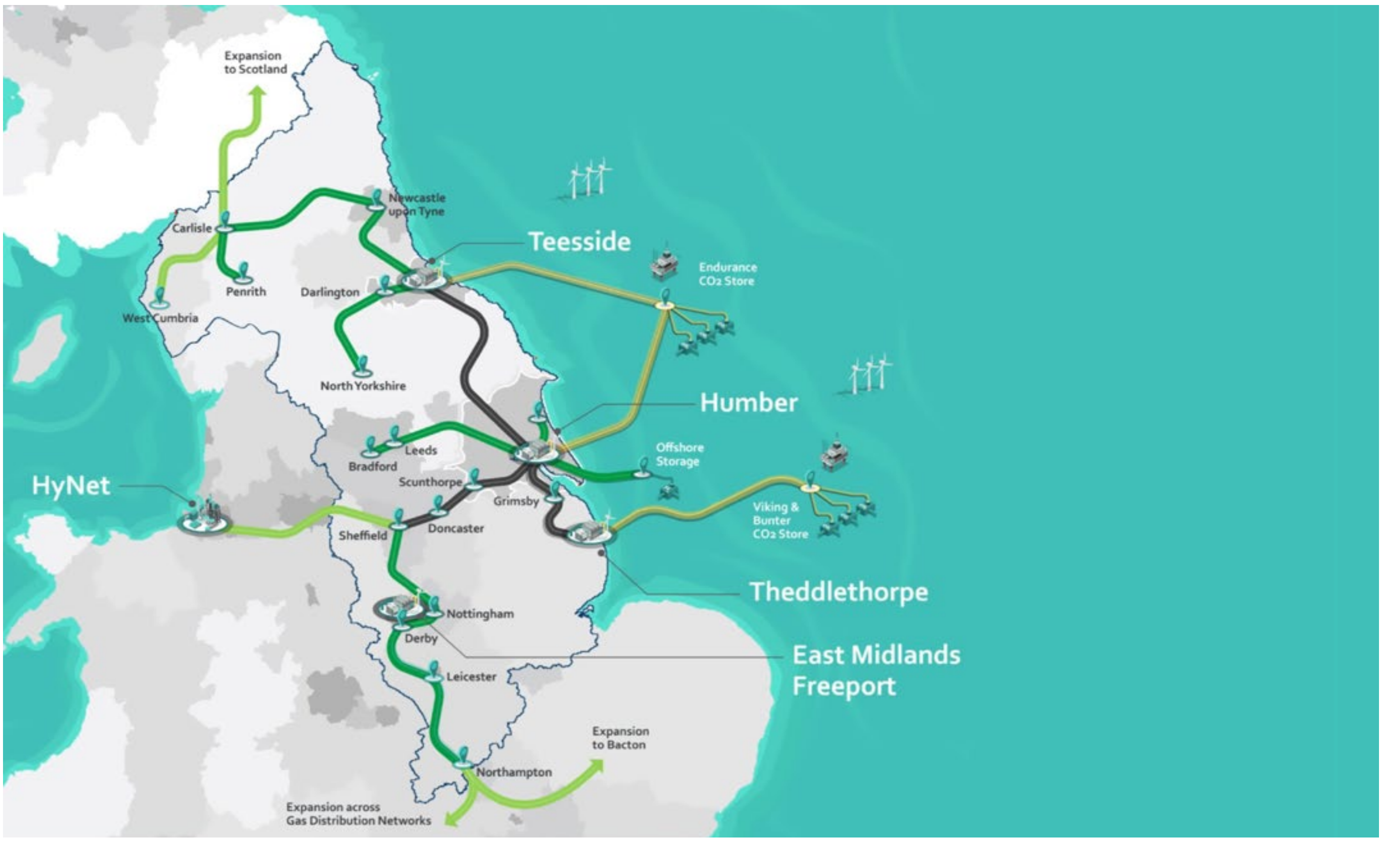
The impact that industrial clusters can have on kick-starting the hydrogen economy in the UK gathered further support during 2020/21. This has translated into firm policy commitments, grant funding awards to each cluster and the publication of the first tranche of business models. Over 2020/21, we focused upon developing HyNet as our flagship hydrogen project.

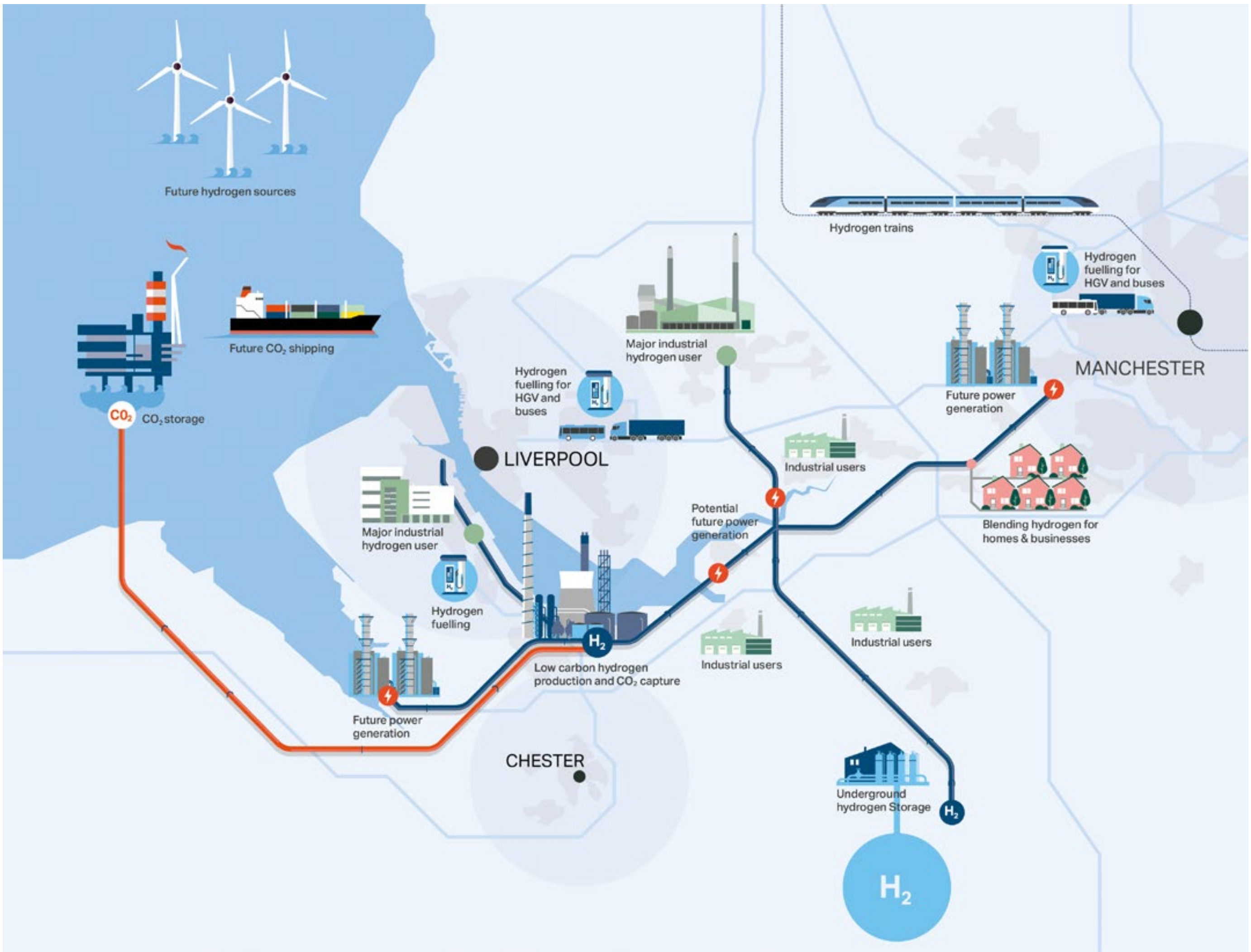
As part of our city propositions research last year, we also identified the need to boost our presence in our other networks and establish both a higher understanding of hydrogen and establish where future hydrogen producers, demand centres and therefore infrastructure might originate from.

We have progressed a range of feasibility projects close to the industrial clusters that will develop into pre-FEED (Front End Engineering Design) and FEED programmes over the next few years to influence our capital delivery programme in support of new hydrogen infrastructure. These programmes are supported by funding from Ofgem in RIIO-2.

## East Coast Hydrogen

We have established a new project called East Coast Hydrogen. This is a joint programme with Northern Gas Networks, and National Grid to develop the feasibility and plans for UK's Eastern hydrogen infrastructure. New and repurposed pipelines might be needed to deliver hydrogen to industrial users, homes, and businesses. This project was formally launched with our partners via a digital event attended by over 250 individuals as well as with a more formal in-person event at the Houses of Parliament, following the release of the feasibility report. With the feasibility work completed, we will next move to the pre-FEED stage (Front End Engineering Design), where we will establish the potential routes for pipelines to deliver hydrogen from the Humber and Teesside region to key industrial users. When complete, this project could enable hydrogen to be delivered to up to 39,000 commercial sites and as many as 4.4m domestic premises across the Humber and East Midlands.






## HyNet

HyNet plans to deliver decarbonisation of the industrial cluster in the North West of the UK. It consists of a consortium of organisations integrating hydrogen production with carbon capture and storage that enables energy-intensive industries to reduce their carbon emissions. Consortium partners are Progressive Energy, Essar, ENI, Inovyn, Hanson, CF Fertilisers, University of Chester and Cadent, with Cadent currently delivering the design and land consenting for the hydrogen pipeline part of the project. The pipeline when complete will take hydrogen from the production facility at Ellesmere Port to industrial users in the region and to blending points for adding hydrogen into the local gas network.

HyNet contains unique attributes that to date has enabled it to successfully secure funding. These include a low-cost route to decarbonisation through the repurposing of offshore assets; the inclusion of industrial users within the consortium who are driving the fuel switching and hydrogen demand aspects; and the integration of the full value chain of hydrogen to include storage and blending into the gas grid. We already learnt in January 2021 that we had been awarded funding from the Industrial Decarbonisation Challenge (IDC) fund together with funding provision from Ofgem in our Final Determination to progress our pipeline design which could lead to further investment to build over RIIO-2 and RIIO-3. The management of delivery of this work has moved into our Capital Delivery team.

With the establishment of the 10GW production target set out in the Hydrogen Strategy, BEIS set out a competition to provide financial support for the carbon capture and storage components of two industrial clusters by 2025. Our wider team have provided fantastic support for the project over the year, sharing both why this project was crucial to the decarbonisations plans for the country and its impact on jobs and the local economy. We are pleased that HyNet secured Track 1 cluster status in October enabling the project to proceed as planned.

# Our year in review
# Creating future warmth for everyone continued

## Growing biomethane connections

We continue to work proactively to connect new green gas supplies to our network. Biomethane production is increasing and will be an important component of plans to deliver net zero. By turning food, farm and other wastes, otherwise destined for landfill, into a gas to fuel homes and HGVs. We now have 41 biomethane producing plants on our networks, with volumes entering our network equivalent to the heating demands of as many as 261,395 homes. We are encouraged that we have seen an increase in enquiries from our customers for connection of plants, with several plants confirmed for connection during 2021/22. This is driven from the certainty of a continued subsidy mechanism through the Green Gas Support Scheme. Specifically, we are seeing a move of existing Anaerobic Digestion sites, from a sole CHP to a combined, with a new gas to grid connection.

### Total Connections

| RIIO Plan | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/2 |
|---|---|---|---|---|---|---|---|---|---|
| No. projects connected (actual) | 1 | 10 | 22 | 28 | 29 | 32 | 35 | 36 | **39** |
| TWh Actual | 0.07 | 0.64 | 1.44 | 1.78 | 2.03 | 2.38 | 2.52 | 2.63 | **2.87** |

### Connections by type

| Connection Type | East Anglia | East Midlands | North West | West Midlands | North London | Total |
|---|---|---|---|---|---|---|
| Biomethane | 12 | 14 | 3 | 11 | 1 | **41** |
| CNG Fuelling Stations | 1 | 3 | 4 | 1 | 2 | **11** |
| Power Generation Plants | 20 | 45 | 50 | 11 | 14 | **140** |

# Climate-related financial disclosures
## Our strategy for responding to climate change

# Cadent's Net Zero Roadmap

## Our path to decarbonising our business operations for future generations

Solving the problem means identifying it first. In 2019/20 Cadent emitted 1.66m tonnes of greenhouse gas emissions (scope 1 and 2).

Our own net zero strategy is split into three distinct areas. 1) Decarbonising our business operations, 2) Reducing our environmental impact, 3) Facilitating the low emissions energy system transition. Our Environmental Action Plan states our ambition and targets for our current price control period, RIIO-2.

We know that as we grow our emissions will grow and that's why we're aligned to becoming net zero by 2050 based on our 2019/20 baseline, no matter how much our company grows.

The delivery of Net Zero by 2050 requires an unprecedented amount of change, investment and collaboration. Hydrogen will play an important role as an energy source for industry, transport, power generation and heating buildings and homes, that's why we're acting now.

## Moving faster

### Carbon

- Procure 100% certified renewable energy
- Operate a fully electric company car scheme
- Zero emissions first responder vehicle fleet across all our networks
- Reduce all utility energy consumption by at least 10% by 2024
- Deliver a 15% reduction in business mileage emissions intensity
- Work with our suppliers to extend the measurement of, and continually reduce, Scope 3 indirect emissions

### Biodiversity

- Baseline biodiversity surveys c1000 sites, create a site by site biodiversity opportunity map
- Demonstrate 30% biodiversity net gain by 2030 across the networks

### Construction

- Introduce net zero construction sites from 2023

### Waste

- Minimise the use of first time aggregate with less than 10% backfill will be first use aggregate in the North West and East of England, and 5% in the West Midlands and North London
- Less than 5% of our waste from excavations will be sent to landfill

### Shrinkage

- Outperform our reputational shrinkage incentive target

### Hydrogen

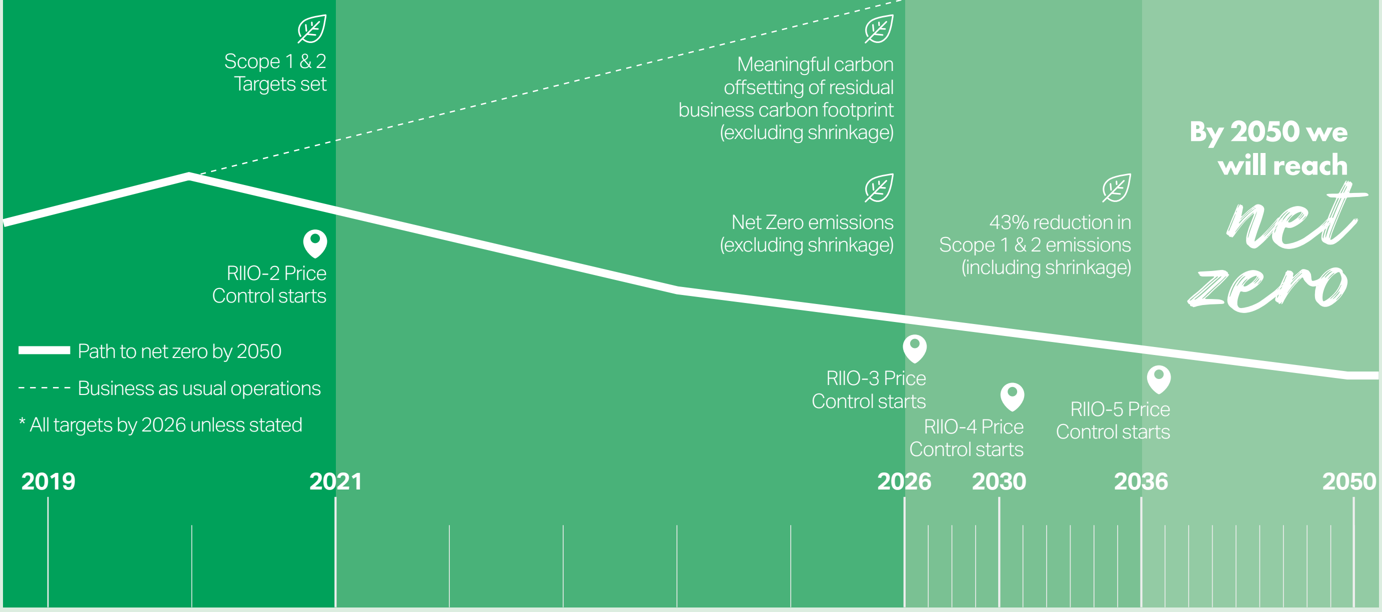
- Launch a Hydrogen Skills Academy and a hydrogen education programme by 2024
- Put pace into the adoption of hydrogen vehicles from 2025
- Installing hydrogen-ready appliances by 2026 or sooner
- Publish plans to demonstrate heat decarbonisation of whole communities by 2025

## Scaling up

- We will reduce our methane emission rates by more than the UK's 30% target by 2030
- We will demonstrate hydrogen at scale through a range of initiatives by 2035 such as:
  - Deliver the first scaled hydrogen blending facility from 2025
  - Deliver the UK's first 100% hydrogen pipeline by 2027
- Enable 5GW of hydrogen production in our region by 2030

## Delivering our promise

Our ambition is to make hydrogen a safe, fair and reliable choice for consumers.



# Climate-related financial disclosures
# Our strategy for responding to climate change continued

Compliance with the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) becomes mandatory for Cadent in the 2023/24 financial year. We recognise and embrace the importance of the recommendations, and last year began our journey towards full disclosure. This year we continue to enhance and develop our disclosures to represent our progress in responding to climate change. We are committed to making disclosures that provide all stakeholders with an accurate representation of our climate-related risks and opportunities.

## Governance

| TCFD Recommended disclosures | Further information |
|---|---|
| a) Describe the Board's oversight of climate-related risks and opportunities | Corporate Governance Report Pages 83 to 87 |
| b) Describe management's role in assessing and managing climate-related risks and opportunities | How we manage risk Pages 56 to 73 |

Consideration of climate-related issues is fully integrated into Cadent's governance oversight and engagement at Board and Senior Management levels.

The Board maintains oversight of key climate-related risks and opportunities, reflecting the government's commitment to decarbonise all sectors of the UK economy by 2050, such oversight includes the company's Future of Gas Programme designed to decarbonise Cadent's business and develop pathways that will contribute to achieving net zero.

At each Board meeting, the CEO updates the Board on progress in relation to the Future of Gas, Sustainability and Social Responsibility. This standing item is supplemented by focussed papers and presentations from members of the Executive and Senior Leadership Team, which are thoroughly considered and discussed by the Board, the results of which are integrated into the company's strategic planning. The subject matter of these included our Hydrogen Village bid see page 47; our proposed approach to the assessment of net-zero related opportunities falling outside the scope of the core business, an overview of our engagement and participation in COP26 and proposals for further development of our net zero strategy.

In addition, recognising the significance of our Future of Gas Programme in response to climate-related risks and opportunities, bi-annual strategy days are held providing time for in depth reflection and consideration of our net zero strategy. These sessions are led by our Strategy and Regulation Team and include presentations and input from external specialist speakers and consultants to inform a wide-ranging discussion.

The Board is supported by the work of its committees, in particular Audit & Risk, Sustainability, Nominations and Remuneration:

| Audit & Risk Committee | Sustainability Committee |
|---|---|
| Duties include reviewing and reporting to the Board on the adequacy and effectiveness of the company's internal controls and the procedure for the identification, assessment and reporting of business risks, including climate-related risks. | Provides scrutiny and oversight of the scope, adequacy, and effectiveness of the company's approach to setting and delivering against its sustainability strategy. It also monitors environmental key performance indicators including $CO_2$ reduction , associated trend data analysis, progress against our RIIO-2 Environmental Action Plan and implementation of our 'Force for Good' strategy. |
| **Nominations Committee** | **Remuneration Committee** |
| Ensures sustainability-related skills and experience form part of executive director and executive recruitment and succession planning considerations. | Duties include the consideration and approval of short-term and long-term incentive plan measures, which include environmental performance measures. |

Committee Chairs report to the Board following each meeting. Doing so ensures that the detailed consideration of matters by committees are factored into the Board's thinking and decision-making. Committee members are appointed by reference to their relevant skills and expertise. You can read more about our Board members' experience at pages 78 to 82.

When making decisions and providing oversight and guidance on climate related issues, the Board operates in compliance with Directors' statutory duties under s.172 of the Companies Act 1986, and is in accordance with the Wates Corporate Governance Principles for Private Companies. You can read more about these on pages 62-66.

Cadent's climate-related risks and opportunities are identified, assessed and managed by our Executive Committee with specific focus areas delegated to the various sub-committees: Net Zero Transition, which oversees delivery of the Future of Gas Programme; Safety and Engineering; and the newly established Resilience Committee, which is responsible for direction and oversight of matters relating to all aspects of security, resilience and safeguarding within Cadent, including the impact of climate change. In addition, the RIIO-2 Environmental Steering Group provides oversight of progress against our RIIO-2 Environmental Plan. These groups meet monthly, led by Executive Members, to monitor progress of action plans making targeted remedial interventions where required, and provide assurance against commitments made to prepare the business for transition to net zero.

The Executive Committee receives an update from the Strategy and Regulation Function, detailing progress against our Future of Gas Programme, and from the Audit & Risk Team addressing identification, assessment and management of risks, controls and assurance activity, which includes climate-related risks. It is also regularly updated on matters considered at all sub-committees. Our organisational risk management practices are detailed on page 68.

Papers are tabled for discussion at our sub-committees and/or the Executive Committee before being presented to the Board/ Board Committees, ensuring thorough scrutiny of reporting and new proposals benefitting from wide-ranging operational input and debate.

## Strategy

| TCFD Recommended disclosures | Further information |
|---|---|
| a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. | Principal risks Page 69 |
| b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. | Strategic performance Page 69 |
| c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | Our strategy Page 73 |

Our core business activity is to transport natural gas from the national transmission system into millions of homes and businesses. Methane natural gas is a fossil fuel and a greenhouse gas. Both the leakage of methane from our network, and the burning of methane once delivered to customers, releases greenhouse gases and contributes to climate change. Our long-term focus is replacing the natural gas with low carbon alternatives, such as hydrogen, but in the shorter term we have aligned our ambition to support a greener society, one where we are driving the transition to net zero, improving the natural world and committed to supporting the Government's climate change ambitions pledging to achieve net zero before 2050. We have aligned our emissions reduction targets to science-based methodology whilst supporting biodiversity and eliminating waste.

# Climate-related financial disclosures
## Our strategy for responding to climate change continued

We are fully committed to tackling climate change seeing ourselves as an enabler for decarbonisation, with the future role of gas being an exciting part of a low emissions system solution. Our risk and opportunity assessments can be seen in the table below.

| Risk/opportunity type and description | Our response | Timeframe |
|---|---|---|
| **Facilitating the low carbon/emission system transition** – opportunities from the transition towards net zero will continue to shape our strategy. | Our Environmental Action Plan details how we're decarbonising our operations to deliver net zero. 28 funded commitments shape our strategy on our journey to becoming net zero and their success will inform the RIIO-3 price control submissions and future strategy. We're applying whole energy system thinking to support decarbonisation and energy system transition, as well as wider stakeholder-driven environmental and economic considerations, including clean air, affordability and promoting economic growth.<br><br>Our Future of Gas programme continues to progress in the three areas of Advocacy, Technical and Safety, and Transition, demonstrating how the gas network can be repurposed to deliver safe and affordable hydrogen in the future. Ongoing delivery of this programme, integrated with long-term corporate strategy, enables our contribution to shaping policy framework for the future gas sector. | Short, Medium & Long term |
| **Facilitating the low carbon/emission system transition** – opportunities to be successful in developing a hydrogen future, and to share our knowledge about Hydrogen. | Hydrogen education requires continuous effort to inform stakeholders. We do this both independently and collaboratively with the Energy Networks Association, Energy Utilities Alliance, Hydrogen UK and the Confederation of British Industries. We are a member of the Hydrogen Taskforce which has been re-established as a trade organisation, 'Hydrogen UK'. We continue to raise awareness of hydrogen with customers and key stakeholders, demonstrating its benefits (over alternative low carbon energy solutions) and increasing the future demand profile for hydrogen, enabled in part through our network of pipes.<br><br>Cadent's Green Print (published July 2021) / Cadent's Hydrogen ten-point plan (published October 2021) / The Hydrogen Show Home in collaboration with Northern Gas Networks (opened July 2021) / COP26 (October 2021). | Short, Medium & Long term |
| **Decarbonising our business operations** – A risk that regulatory funding outcomes affect our ability to deliver on our investment programme and in turn our net zero commitments. | Proven reduction in our Carbon Footprint through our current strategy in the current price control period together with open dialogue and engagement with Ofgem will enhance our ability to influence regulatory funding aimed at decarbonisation for the RIIO-3 period. We'll demonstrate the positive environmental outcomes delivered through our Environmental Action Plan and innovation projects in this space to justify additional regulatory incentivisation to go further in subsequent price controls. | Short, Medium & Long term |
| **Facilitating the low carbon/emission system transition** – There is a risk that we are unable to deliver against our net zero targets, impacting our reputation, business model and in turn hindering others' ability to meet net zero targets. | We continue to work with the HSE and other stakeholders to demonstrate the safe and efficient use of hydrogen at ever-increasing scale. In 2021/22 we delivered a programme of Council, MP, Ministerial, Civil Service and Civic Society engagement. We launched our Green Print, a viable pathway to transition 22 million homes to hydrogen-fuelled, low carbon heating by 2050. Alongside Northern Gas Networks, we constructed the UK's first 'hydrogen home' to demonstrate how, in 2022, a hydrogen home is convenient, deliverable and should be supported. | Short, Medium & Long term |

| Risk/opportunity type and description | Our response | Timeframe |
|---|---|---|
| **Changing/Extreme weather** – Physical impacts from extreme weather events such as storms and flooding. | Our Resilience Policy Statement sets out our framework for both business and gas supply resilience and signposts Gas Safety Management Regulations and Safety Case (as accepted by the HSE and reviewed every three years) as the primary repository of risk control for gas supply. The environmental risks covered in the policy are: temperature extremes, natural severe weather damage and subsidence/ground movement. Our Environmental Team educate on physical climate risks to enable the business to develop appropriate and robust mitigation plans.<br><br>We're developing a Flooding Resilience Framework which will be tested through the BEIS Gas Taskforce Group. We learn and share best practice with WestNetz in Germany whose gas networks were affected by the flooding in 2021 and our Resilience Committee provides assurance that appropriate mitigation is built into our framework.<br><br>In 2021 we published our updated Climate Change Adaptation Report; this was a third-round DEFRA report and our first as Cadent. We use the Met Office UK Climate Projection (UKCP18) tool and consider projections to the end of this century, as much of the network infrastructure generally has an operational life expectancy of 30-80 years. Flooding and predicted temperature increases remain the main risks to gas networks. | Short, Medium & Long term |
| **Reducing our environmental impact** – The loss of biodiversity is increasing. This is accelerating the impacts of climate change, including the frequency and severity of natural disasters and heightening the challenge to reach net zero. There is an opportunity to enhance biodiversity within the communities where we operate to mitigate the risk of biodiversity. | We're committed to improving the biodiversity of land impacted by our operations to help mitigate negative impacts of climate change and improve the quality of habitats in the communities where we work. Our focus areas include: working within current licence conditions to deliver commitments we've made in our EAP, to seek innovative and creative ways to enhance biodiversity in our day-to-day operations, and to engage early with Ofgem on our future ambition to inform RIIO-3.<br><br>Cadent colleagues are permitted two volunteering days a year and available biodiversity options include planting woodland trees or wildflower meadows. | Short, Medium & Long term |
| **Reducing our environmental impact** – resource scarcity (waste). Opportunity to reduce, reuse and recycle materials. | We're committed to becoming more resource-productive, to manage consumption of finite natural resources, and reduce the amount of waste material that we dispose of. We have a highly effective environmental management system which has been certified to ISO14001 for over 20 years, that supports control measures to avoid or mitigate environmental impacts. Recycling helps to tackle climate change and promote sustainable economic growth. Less energy is required in the manufacturing of products using recyclable raw materials, fewer materials are incinerated saving carbon emissions and less waste is sent to landfills decreasing in greenhouse gases released into the atmosphere. | Short, Medium & Long term |

# Climate-related financial disclosures
# Our strategy for responding to climate change continued

## Risk management

| TCFD Recommended disclosures | Further information |
|---|---|
| a) Describe the organisation's processes for identifying and assessing climate related risks. | Principal risks Page 69 |
| b) Describe the organisation's processes for managing climate-related risks. | Principal risks Page 69 |
| c) Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organisation's overall risk management. | Principal risks Page 69 |

The risk that we 'fail to respond to climate change and biodiversity' is one of our 'Principal Risks', overseen by our Executive and Board Committees.

### Identifying and assessing climate change risks

Climate change risks are managed in line with our overall risk management framework. Although the Board have an overall responsibility for risk management, the responsibility for identifying and assessing Climate Change risks is delegated to management. Each department undertakes regular risk reviews, to identify energy risks and update mitigation actions.

When a risk is identified it is assigned an owner who is responsible for assessing the risk. This risk assessment is undertaken in our enterprise risk management system to ensure that all the necessary information is documented, and a consistent risk assessment is performed. Risk is assessed at three levels, the inherent risk, the residual risk and the target risk. The inherent risk assesses the risk before controls have been applied, the residual risk is informed by the status of our current controls and the target risk is informed by our risk appetite. We have an open appetite for pursuing the opportunities associated with climate change risks to extend the life of our networks, such as through the repurposing of existing gas networks to hydrogen. This is an area of strategic focus for the business as is demonstrated by both our advocacy regarding the future role of gas and our large-scale demonstration programmes.

Our climate-related risks and opportunities can be categorised as having one of two main causes:

- Physical impacts that need to be adapted to, such as increased severity of extreme weather events (acute) including storms, droughts and floods or longer term shifts in weather patterns (chronic). We also consider the steps necessary to minimise our impact on the climate and the natural environment; and
- Transitional impacts associated with the transition to a low carbon economy, for instance from changes to policy and legal actions, technology, stranded asset market and reputational concerns.

The move away from fossil fuels to low carbon alternatives presents a risk to our current business model. The UK government's aspiration for net zero means there will be no need for a natural gas distribution network at a point in the future. However, we are confident that there will be a need for hydrogen in the future to support the UK's heating and transport needs. This creates an opportunity for us to repurpose and extend the life of our existing network to support the UK's transition to a low carbon economy. These climate-related risks and opportunities, together with a summary of our mitigations, are detailed on page 55.

### Managing climate change risks

Once a new climate change risk has been identified and assessed the appropriate risk management response will be determined. For some risks, where there is a high level of uncertainty and a long time horizon, this may be to simply monitor the risk until such time as more information is available to determine a more appropriate way to actively manage the risk. Where firm mitigation actions can be taken these are recorded alongside the risk in our enterprise risk management system. This allows both the risk and associated action plans to be monitored through future risk reviews and reported through our broader governance structure. Where appropriate, climate change risks will be escalated through our Executive Committee to the Board or its relevant sub-committees. As climate change and maintaining biodiversity has been recognised as one of our principal risks it is reviewed at the highest level each year.

### Integration of climate risk management into the overall risk management framework

Climate change risks are managed in line with our overarching risk management policy. This includes a thorough, consistent and documented approach to identifying, assessing, treating, monitoring and reporting risks, as outlined above. All our risks are recorded in our enterprise risk management system, and are scored on a unified scoring scale, providing consistency, comparability and visibility of risks and how they are being managed. Risks, including climate risks, are each assigned an owner who is responsible for managing it, within our overall governance structure. The risk that we 'fail to respond to climate change and threats to biodiversity' is one of our 'Principal Risks', and it is overseen by our Executive and Board Committees.

These committees review the risk and its management and consider performance against targets and changes in the business environment that impact or present us with new climate-related risks. These are then reported to and reviewed by the Board/relevant Board Committee as appropriate. Further details of our overall risk management process can be found on page 68.

## Metrics and targets

| TCFD Recommended disclosures | Further information |
|---|---|
| a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. | Key performance indicators Pages 60-61 |
| b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks. | Page 44 |
| c) Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets. | Page 42 |

Climate change is a key part of our strategy and our targets enable us to drive our sustainability performance through monitoring and continuous improvement to ensure we reduce our environmental impact and deliver our strategic ambition of becoming a net zero organisation consistent with the UK Government's 2050 target. Our current stretching targets were developed through consultation with our regulator, expert advisers and wider stakeholders, including customer and have Cadent Board-level oversight.

Our metrics and targets are monitored monthly through the Safety and Engineering Committee and Executive Committee, the Sustainability Committee also has oversight of the metrics and targets at each committee meeting. Our Environmental Action Plan commitments are monitored monthly by our RIIO-2 Environmental Steering Group which is led by a member of the Executive team and progress on this plan will be published each October in a published Annual Environmental Report.

Our existing Greenhouse Gas reduction target is to reduce Scope 1 and 2 emissions, by 43% by 2036 (with a 2019/20 base year). Our targets were set in line with a well below 2-degree pathway. We are on track to achieve this reduction and commit to reviewing, and updating it if necessary, every five years as we recognise the future energy landscape will change at pace during this period. We've also ensured our executive renumeration is aligned to our long-term sustainability ambition, a bold move approved by the Cadent Gas Board.

## Metrics used to assess Climate Related Risks and Opportunities

Metrics used to assess climate Related Risks and Opportunities

We collect and measure data for the following scope 1, 2 and 3 emissions:

**Scope 1:** Own use gas consumption, utility gas consumption, business mileage, commercial fleet fuel use/ methane leakage and theft of gas from the network

**Scope 2:** Electricity consumption.

**Scope 3:** In 2021, we invested in a carbon and material recording tool through the Supply Chain Sustainability School and Action Sustainability. This allows us to capture the recording and reporting of scope 3 emissions in the supply chain from work they do on behalf of Cadent. Currently 80 of our mains replacement work suppliers are using the tool. The tool is set up to record over 100+ metrics across categories including, company travel, electricity, fossil Fuels, materials and waste amongst others.

## Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions

In 2020/21 we set a target to reduce our Scope 1 and 2 emissions (excluding shrinkage) by 1.5% compared to the previous year, we have reduced over overall Greenhouse Gas emissions (including Shrinkage by) 3% compared to 2020/21.

We have widened the capture of our scope 3 data which accounted for 50% of BCF (excluding shrinkage) in 2021/22. This is due to a change in methodology and aligning business mileage in private cars to the GHG protocol, and updated reporting and recording information for RIIO-2.

## Targets used to manage climate-related risks and opportunities and performance against targets.

Our emission reduction targets for scope 1 & 2, which were developed with The Carbon Trust and internally approved in early 2021, align with a 2.0°C climate scenario. Whilst this doesn't yet align to the more ambitious 1.5°C ambition level, we're committed to reviewing our targets every five years as we continue on our journey to net zero.

Our interim target is to reduce our scope 1 & 2 emissions by 43% by 2036 based on a 2019/20 baseline year. These targets are set and based on our current RIIO-2 regulatory settlement, will be reviewed every five years and are supported by initiatives and commitments made in our Environmental Action Plan.

To progress on our own journey to decarbonise our business operations we have the following targets and commitments for the current price control period (2021 – 2026) which are detailed within our Environmental Action Plan:

### Carbon

- Procure 100% certified renewable energy.
- Operate a fully electric company car scheme.
- Zero emissions first responder vehicle fleet across all networks.
- Reduce all utility energy consumption by at least 10% by 2024.
- Deliver a 15% reduction in business mileage emissions intensity.
- Work with our suppliers to extend the measurement of, and continually reduce, scope 3 indirect emissions.

### Waste

- Minimise the use of first time aggregate with less than 10% backfill will be first use aggregate in the North West and East of England, and 5% in the West Midlands and North London.
- Less than 5% of our waste from excavations will be sent to landfill.

### Biodiversity

- Baseline biodiversity surveys c1000 sites, create a site by site biodiversity opportunity map.
- Demonstrate 30% biodiversity net gain by 2030 across the networks.

### Shrinkage

- Outperform our reputational shrinkage incentive target.

We detail many enabling commitments to the low emissions energy system transition such as funding, hydrogen conversion, gas connections and reporting.

We have also included enhanced disclosures in the financial statements prepared under IFRS to explain how we have considered the financial impacts of climate change, in particular evaluating the impact of new net zero commitments in our territories, and the effect this has had on judgements and estimates such as the useful economic life of our gas assets. See note 2 to the financial statements for details. This remains a recurring area of focus for the Audit Committee.

# Section 172 statement

This statement describes how the Directors have complied with and are discharging their duty to have regard to the matters in section 172(1) (a)-(f) of the Companies Act 2006 to promote the success of the company for the benefit of its stakeholders and to achieve the company's purpose. The statement also provides details on employee and stakeholder engagement.

## Key stakeholders

The Board's assessment of the company's key stakeholders and its interactions with them are as follows:

| Stakeholder | Why they matter to Cadent | What matters to them | How the Board interacts |
|---|---|---|---|
| **Customers** | Delivering for our customers defines our purpose.<br>Generate the Company's revenue and profit. | Reliable safe and economical supply of gas.<br>Customer focused, responsive, and timely service. | Reports and presentations from our Chief Operating Officer and Network Directors, including regular review of customer satisfaction scores, to assist to strive for enhanced performance. |
| **Employees** | Our people execute our strategy for delivering our services for our customers.<br>Source of innovation and ideas for business improvement. | Recognition, reward, and development opportunities.<br>Safe, supportive, and inclusive environment.<br>Employee engagement with management and effective internal communications. | Reports upon employee-related matters and regular internal communications updates from the Chief Executive Officer, Chief People Officer and Chief Operating Officer are provided to Board meetings, ensuring that employee-related issues and perspectives are factored into relevant decisions.<br>Site visits. |
| **Shareholders** | Provision of equity finance.<br>Provision of Non-Executive Directors. | Predictable, sustainable financial returns.<br>Responsible and compliant business management and conduct.<br>Governance, safety, and transparency.<br>Clear strategic direction. | Board members and Board Committee members who are shareholder-appointed nominees.<br>AGM and annual report. |
| **Communities and the Environment** | The Company's activities impact local communities and the environment. By working to make these social impacts more positive and environmental impacts less harmful, the company earns its right to operate in accordance with its values and environmental and social responsibilities and collaborate where appropriate. | Engagement with the community; understanding of environmental objectives and support where possible.<br>Sponsorship, charitable donations, and volunteering to further social and environmental causes.<br>The company demonstrating its environmental and social responsibilities. | Reports from the Chief Executive Officer, Chief Operating Officer, and members of the Senior Leadership Team on engagement with community leaders with reference to net zero strategy objectives; engagement with local authorities in response to, and working during, COVID-19; local community and environmental initiatives, including customer feedback received; feedback from the Critical Friends Panel and the public.<br>Reports received on the work of the Cadent Foundation (see the Cadent Foundation Impact Assessment Report, available at www.cadentgas.com). |
| **Shippers** | Generate the Company's revenue and profit. | Reliable transportation of gas. | Reports on relevant matters from the Chief Financial Officer. |
| **Suppliers** | Provide the operational services, business support services, and materials required to operate the business. | Trusted partnerships and prompt payments.<br>Profitable workstreams. | Business updates on supplier relationships, including the commencement and embedding of the new mains replacement contracting model, from the Chief Executive Officer, Chief Operating Officer and Network Directors.<br>Non-Executive director assigned to oversee and feedback to Board on contracting strategy procurement process. |

| Stakeholder | Why they matter to Cadent | What matters to them | How the Board interacts |
|---|---|---|---|
| **Ofgem** | Regulates the company's conduct under its Licence and approves its business plans under the regulatory framework and price control regime. | Execution of the business plan.<br><br>Compliance with Licence conditions and responsible behaviour.<br><br>Constructive engagement on business and sector-wide matters. | Regular reports from the Chief Executive Officer and company's Strategy and Regulation team on areas of focus and engagement.<br><br>Sufficiently Independent Directors' round table meetings. |
| **Health & Safety Executive** | Regulates and enforces the company's obligations in relation to workplace health, safety, and welfare. | Safe operation and maintenance of the network for customers, employees, and the public.<br><br>Compliance with health and safety legislation and regulations and good working practices.<br><br>Regular and constructive operational engagement. | Regular reports from the Chief Executive Officer, Chief Operating Officer and Director of Safety and Sustainability on performance and improvement initiatives. In-depth review by the Board Safety Committee. |
| **UK Government** | The future role of gas in UK Government's energy policies and strategy directly impacts the company's longer-term prospects and strategy. | Security of affordable energy supplies to UK consumers and businesses.<br><br>Industry input to help shape policy and strategy. | Regular updates from the Chief Executive Officer and the company's Strategic and Regulation Team on engagement, with particular reference to the future role of gas in the journey to net zero and latterly the response to rising energy prices.<br><br>Direct engagement with BEIS and UK Treasury. |
| **Debt providers** | Provision of access to affordable debt funding to support the company's liquidity and investment needs from time to time. | Predictable, sustainable financial returns. | The Group's financing arrangements are overseen by the Board, supported by detailed review and feedback from the Finance Steering Committee. Both receive presentations from the Head of Treasury describing engagement with the holders of debt instruments and associated strategy. |
| **Citizens** | The support and tolerance of the public is important when the company responds to incidents and/or its operations cause necessary disruption and/or in relation to working during the COVID-19 pandemic. | Gas safety and being protected from harm to individuals and their property.<br><br>Minimal disruption to their daily lives and business activities. | Debriefs on major incidents including customer feedback and the steps taken by management to engage with the households, businesses and wider communities affected by any such incidents.<br><br>Regular updates from the Chief Executive Officer, Chief Operating Officer and Network Directors on safe working systems; support and associated messaging including in relation to COVID-19. |

# Section 172 statement continued

## Key decisions

The key decisions taken by the Board during the year were as follows:

- Approval to accept the decision of the Competition and Markets Authority in the appeal against Ofgem's Final Determination in the RIIO-2 price control
- Approval of interim and year-end financial statements and the company's annual report
- Approved the annual review and update to the EMTN Programme and listing of the Prospectus
- Approved the second tranche of inflation linked CPI swaps under the company's Inflation Hedging Strategy
- Approved the financing strategy for the financial year 2022/23
- Approved the Financial Plan 2022 and the Budget for the financial year 2022/23 including donation to Cadent Foundation
- Endorsed company's pay negotiation mandate with trade unions.
- Approved the 2022/23 Short Term Incentive Plan Measures and 2022 Long Term Incentive Plan Measures
- Approved payment of an interim dividend to the sole shareholder of the company
- Approval of submission of the Hydrogen Village Stage 2 bid
- Reviewed and approved our Principal Risks and the proposed Risk Appetite
- Approved the appointment of Chief Operating Officer, Howard Forster, as an executive director and approved the appointment of Anthony Bickerstaff as Chief Financial Officer and as an executive director.

In addition to decisions made, the Board provided oversight and stewardship of the company's approach to the execution and performance of the previously approved strategy. The Board considers that, in providing such oversight and stewardship and taking the above decisions, the long-term interests of the company and the interests of relevant stakeholders were considered, some examples of which are set out below.

## Having regard to the likely consequence of decisions in the long term

The nature of our business, as the owner of a national infrastructure asset with its activities and pricing regulated by Ofgem, requires that the Board always considers the longer term consequences of our decisions. Its shareholders have invested in the company precisely because of its long term regulated nature, delivering to them relatively predictable, sustainable returns over a lengthy period. The shareholders are represented on the Board by their respective Shareholder Nominate Directors, and these Directors help the Board to keep the long term interests of the company front of mind.

As we entered the new financial year, the Board had taken the decision to appeal to the Competition and Markets Authority against aspects of Ofgem's RIIO-2 Final Determination. The decision issued in October 2021 upheld three of the five grounds raised. After careful consideration the Board decided not to challenge the unsuccessful finding, recognising that the outcome of the appeal would support Cadent in delivering for customers in the RIIO-2 period; confirmed that when properly assessed, Cadent's networks are setting Ofgem's defined efficiency benchmark for the sector; and provided a sound basis to plan for RIIO-3.

The Board continued to focus on the company's net zero strategy and, in particular, its Future of Gas Programme which is fundamental to the long term interests of the company. You can read more about the Board's deliberations under 'Having regard to the impact of the company's operations on the community and the environment' below and on 'Purpose' and 'Strategy' at page 83.

The decision to pay a dividend to the sole shareholder of the company in January 2022 was a matter of careful consideration for the Board. To assist the Board in its deliberations it considered the legitimacy of paying a dividend. In doing so, it considered the wide-ranging work undertaken by Cadent to establish it as socially purposeful and a Force for Good. It also considered, having regard to the likely consequences of the decision in the long term, the significant investment needed to support the running of the gas networks in relation to which investors required a stable and predictable return on their investment to enable them to commit to the scale of the investment including the fact that no dividend had been paid in 2021. Finally, it considered the position of the customer in the context of these factors. In making its decision, all of the above was taken into account, as well as reviewing the dividend policy; and satisfying itself that operational performance could be demonstrated, and a series of economic tests met.

The Board also reviewed and approved the Principal Risks, which was revised to provide greater clarity on the areas of climate change, external policy landscape and resilience. An overview of the process undertaken by the Executive Team to consider and refine the Principal Risks prior to presentation to the Board was provided by the Director of Audit & Risk. The Board considered and satisfied themselves that there was appropriate clarity, transparency and structure in relation to the risks, given their potentially far-reaching impact on the future success of the company in the long term.

## Having regard to the interests of the company's employees

Having considered and endorsed the People Plan in the previous year, the Board monitored the implementation of this important aspect of Cadent's transformation through regular reports and updates. Progress reported included moving to a newly created structure with a simpler organisational model; the launch of the new purpose and values, which was fundamental to creating a people centric culture that would support the success of the company over the coming years; and the introduction of career pathways and improved talent and succession management. It also included a review of ways of working to create a more flexible workforce which advanced equality, diversity and inclusion ambitions. Through careful review of such updates the Board was assured of the positive impact of the People Plan strategy for Cadent employees.

The company's approach to protecting the safety and wellbeing of its employees remained an area of priority for the Board. Through a series of presentations, the Board considered a range of safety-related challenges encountered by the company's operational workforce whilst undertaking routine activities and the initiatives implemented to address them and in doing so gained assurance of the company's commitment to continuously improve the safety of employees. Further, the Board's approval of the introduction of a new leading safety performance measure (a substantial programme of safety engagement visits) to the Short Term Incentive Plan reflected the Board's consideration and endorsement of the company's proactive approach to improving employee safety. The Board was also updated on the company's response to the scrutiny of the Health and Safety Executive in relation to Hand Arm Vibration. Additionally, through reports from the Safety Committee, the Board considered the positive outputs from the decision to insource the company's occupational health services and the plans to grow and supplement that support, providing trusted network aligned resources for the benefit of employees. It also received an overview of the work undertaken by the newly appointed human factors specialist and an appraisal of the benefits to employee well-being and culture to be derived from such specialist input.

The Board also endorsed the company's pay negotiation mandate with trade unions, which had been the subject of detailed review and careful consideration by the Remuneration Committee; and was kept updated with developments in the ongoing negotiations.

## Having regard to the need to foster the company's business relationships with suppliers, customers, and others

With regard to supplier relationships, the Board placed particular emphasis on the commencement of the company's relationships with the construction management organisations appointed to deliver the mains replacement programme for the RIIO-2 period. Through review of reports provided, the Board and the Safety Committee gained insight of the success with which the contracts had mobilised and were embedding, including the outputs achieved and safety standards in place. Such oversight is key to future performance of the mains replacement programme, the contract awards being for an initial five years from April 2021, with a second five-year term. An additional construction management organisation award was made following the decision to split the Eastern Network into two separate operational networks with effect from April 2022. As with the original awards, oversight of the award of the new contract required was provided by a sub-committee of the Executive Committee, under the delegations of authority in place, with Mark Mathieson having oversight for the non-executive board members.

The Board has continued its focus on driving improvement of customer satisfaction scores, with the new contracting model in place and initiatives introduced by the network directors and their operational managers, resulting in tangible improvements. Regular reports are presented by the chief operating officer and network directors to provide the Board with oversight of the steps undertaken to increase customer satisfaction and how progress made will be maintained and further improved.

Over the course of the year the Board, and Sustainability Committee, maintained oversight of the development and implementation of the Force for Good strategy. Progress against the three themes of 'Easier Warmth', 'Fairer Opportunities' and 'Greener Society' was monitored through a performance dashboard with key elements considered being action-undertaken to tackle fuel poverty and to provide support for vulnerable customers; and progress against our employee volunteering and matched giving, all of which serve to make a positive difference to customers and the communities in which Cadent operates. This is all the more important in times of economic uncertainty and will remain an area of key focus for the Board in the coming year.

In Autumn 2021 the increase in gas prices within the energy retail market led to engagement with Ofgem, along with other gas distribution networks and distribution network operators, to discuss options under consideration to support the energy retail market and how the supplier of last resort mechanism prescribed by the respective licences would take effect. The Board was kept closely updated regarding the ongoing dialogue and maintained an overview of developments.

The Board continues to provide oversight and support for Cadent's aim of taking the lead on hydrogen in the sector. To assist with oversight, and individual board members' own direct interactions with stakeholders, the Board received regular reports of advocacy and engagement initiatives undertaken. This included engagement across all parties and political stakeholders, with the launch of Cadent's Green Print for Hydrogen and Ten Point Plan supporting stakeholder discussions and setting out the company's ambitious and long-term commitment to decarbonising energy in homes and businesses. The Board also considered and guided plans for Cadent's participation in COP26 at which it showcased how the gas industry can and will tackle climate change.

## Having regard to the impact of the company's operations on the community and the environment

The impact of Cadent's operations on the environment are an essential factor in the Board's decision-making and oversight. Given its inherent positive environmental impact, the future of gas programme is a key element of this, and an area of significant focus for the Board. To ensure sufficient time is afforded for detailed debate and discussion on this important area, in addition to reports and papers tabled at regularly scheduled Board meetings, two additional strategy days are scheduled. These sessions are run by the Strategy and Regulation Team with additional input and presentations from specialist guest speakers and stakeholders. The July Strategy Day focused on the time horizon for the next five years and included an energy policy overview; an update on future of gas activities (including Hynet); a summary of consumer engagement and the interaction of the Force for Good framework with the future of gas programme. The focus for the December Strategy Day was the economics of hydrogen for heating, which included consideration of customer preferences. Through these strategy sessions the Board is provided with the information and understanding it needs to enable it to steer and guide strategic direction.

# Section 172 statement continued

With regard to day-to-day operational performance, the Board has received reports on, and encouraged the company's use of, technologies and new innovations to minimise disruption to customers and to the environment and communities in Cadent's network.

Through the Sustainability Committee, the Board has considered the company's environmental performance and the steps it is taking to minimise the impact of operations on the environment. This has included detailed consideration and continued oversight of the company's strategy to reduce methane emissions and its waste management strategy, where its ambition is to eliminate waste from all aspects of operations. Consideration has also been given to network resilience to climate-related risks, with particular focus on the risks presented by flooding, with the Committee being assured of Cadent's preparedness to respond.

The Board received regular updates from the Foundation Advisory Board on the support provided to people in vulnerable situations and fuel poor communities in pursuance of its objective to make a positive and lasting difference to local communities and wider society within Cadent's network. In approving the annual donation to the Cadent Foundation, the Board had considered the continuing development of the Cadent Foundation and its plans to adopt a more focused approach to working with charities and partners to maximise the positive impact of projects.

## Having regard to the desirability of the company maintaining a reputation for high standards of business conduct

The importance of earning and maintaining public confidence in all aspects of company operations was a recurring theme for consideration by the Board during the course of the year. Inevitably, there was a retained focus on the company's approach to the COVID-19 pandemic, both regarding adherence to government guidance and the way such adherence was visibly demonstrated to reassure and engender confidence. The Board received and considered regular reports on how the company rigorously observed government guidance and its interactions and engagement with customers, colleagues, and stakeholders in relation to this, and in doing so gained assurance that the company was operating to the highest standards to safeguard customers, colleagues, and the public alike. The Board also considered lessons that could be learnt from public criticism of other utilities arising from their failings in relation to incidents in which they were involved (both safety and climate-related) so as to inform future thinking and strategy impacting customers, communities, and the environment.

The Board spent time considering and ensuring that the governance framework in place between the Board and company management remained appropriate, including reviewing the authority and permissions delegated to the company by the Statement and Matrix of Delegations of Authority. It also received reports on the progress made with embedding the new set of values and behaviours introduced which support and enhance the company's ethical code of conduct 'Always Doing the Right Thing'. Additionally, through the Audit & Risk Committee, the Board continued to monitor and satisfy itself that required behaviours were understood and that business conduct and ethics guidance was observed.

The Board also considered lessons that could be learnt from public criticism of other utilities arising from their failings in relation to incidents in which they were involved (both safety and climate-related) so as to inform future thinking and strategy impacting customers, communities, and the environment.

## Having regard to the need to act fairly as between members of the company

The Group is ultimately owned by a consortium of infrastructure investment funds with each consortium member having nominated representation on the Board. The relationship between the shareholders and their respective rights are governed by private agreement. The Board does not afford any one shareholder or group of shareholders any special rights or privileges and seeks to always act fairly between them and treat them equally, including ensuring that there are procedures in place to address any conflicts of interests that could arise and ensuring equal access to information, the latter continuing the enhanced practices for the sharing of Board Committee information adopted following the previous externally facilitated Board effectiveness review.




# Risk management

**"Effective management of risk is a fundamental aspect of our business."**

**Brett Stevenson**
Director of Audit & Risk

# How we manage risk

## Risk management overview

The Board is committed to protecting and developing our reputation and business interests. It has overall responsibility for risk management within the business.

The Board refreshed our risk appetite, in March 2022, which is summarised as follows:

"The Board has considered the relevant risk appetite across our operations and assessed the following:

Our appetite is low for risks relating to: safety and compliance objectives including employee and public health and safety, and delivery of our services to customers and regulatory obligations and commitments.

Where there are strategic opportunities in relation to the future role of gas and opportunities to improve climate change and biodiversity, we have a more open appetite for risk which we will apply on a case-by-case basis. This aligns to our purpose for 'Keeping people warm, while protecting the planet'."

There is a central team who set the risk management framework, facilitate reporting and provide advice and challenge to the business.

Responsibility for actively managing risks lies firmly with the business. Executive Committee members manage their risks by assessing their current status, including impact and likelihood, progress of mitigation plans and to identify emerging or developing risks. This discipline is followed by all risk owners, embedded through regular functional risk reviews. These reviews are supported by our enterprise risk management system to manage risks, assurance issues and associated action plans providing full visibility to the central team to provide review and challenge to business owners. The Executive Committee also reviews the company's risk profile as a collective on a regular basis, bringing together top down and bottom up risk management.

We have adopted the internationally recognised 'Lines of Defence Model' to assure the Executive, Audit & Risk Committee and Board that risks have been identified and are being suitably managed. Each function is responsible for providing assurance over the effectiveness of the financial and non-financial controls they operate. Our in-house Internal Audit Team are supported by external co-source providers to form the Third Line of Defence. They have an independent reporting line directly to the Audit & Risk and Safety Committees to ensure that they can provide an expert, independent and objective opinion on the current state of controls.

The Board discharges its responsibility for monitoring the effectiveness of the risk management process and internal controls through the Audit & Risk Committee's annual review of the risk and assurance processes and regular assurance reports. This includes compliance with our licence conditions which is recognised as part of our 'legal and regulatory compliance' principal risk.

Our principal risks and uncertainties are described in alphabetical order on pages 69 to 73.

## Climate Change risk management

We support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). This is fully explained on page 60.

## Our principal risks and uncertainties include:

The trend indicates whether our residual risk has increased, reduced or remained the same, taking account of both changes in the underlying risk and controls in place to manage it.

**Trend:** ⬆ Increased risk, ⬇ Reduced risk, ⬅➡ No change

### Changes in the external policy landscape

| Potential Impact | Mitigation | Trend |
|---|---|---|
| There is a risk that changes in the external policy landscape, due to factors such as geo-political or domestic events and subsequent political pressures lead to either inertia in decision-making or decision-making which does not support our strategic priorities, such as supporting the achievement of net zero through the use of hydrogen for heating and/ or transport. | • Monitor external developments to understand potential disruptive forces, to ensure that we proactively manage them.<br>• National and regional stakeholder engagement to understand policy, customer drivers and the regulatory landscape.<br>• 'Future Role of Gas' (Hydrogen) Strategy in place, along with a governance structure to ensure that we can react quickly to new developments.<br>• Providing thought leadership to influence the RIIO-3 price control framework.<br>• Play a leading role in the net zero transition debate.<br>• Work with partners through the Energy Networks Association, Energy Innovation Centre and with BEIS, Ofgem and third parties to share innovations and implement best practice. | ⬅➡<br>Progress in the role of hydrogen in the future energy mix.<br>Uncertainty will remain until publication of the Heat and Buildings strategy, expected in 2026. |

### Climate change and biodiversity

| Potential Impact | Mitigation | Trend |
|---|---|---|
| The substantial existential risk and opportunity of climate change and biodiversity present themselves in three ways:<br>1. There is an opportunity, given the nature of our infrastructure to help drive forward the UK's hydrogen economy to decarbonise our heat and transport systems.<br>2. There is a risk that our own operations contribute to climate change, which we are actively seeking to reduce.<br>3. There is a risk that our own operations may be impacted by climate change – for example more extreme flooding may put strain on our operations.<br>The loss of biodiversity is increasing. This is accelerating the impacts of climate change, including the frequency and severity of natural disasters. | • 'Future of Gas' programme looks at future scenarios and how we can support the delivery of the UK's hydrogen economy.<br>• Environmental Action Plan outlines our commitments and targets on climate change and biodiversity loss protection.<br>• Innovation projects demonstrate the viability of hydrogen networks through large scale demonstration projects such as HyNet and the proposed Hydrogen village.<br>• By connecting more sustainable sources of gas, such as biomethane, we are already providing consumers with more sustainable energy.<br>• Steps to reduce our own carbon footprint include our mains replacement to reduce leakage and electric vehicles, biomethane powered HGVs and hybrid working to reduce our energy consumption.<br>• New flood resilience standards are being developed to ensure we remain resilient.<br>• Working with The Wildlife Trust to further embed biodiversity protection. | ⬆<br>The underlying threat of climate change has increased, outweighing the significant progress made in developing in the 'Future role of gas' and improvements in our own environmental performance. |

# How we manage risk continued

**Trend:** ⬆ Increased risk, ⬇ Reduced risk, ⬅➡ No change

## Cyber breach, data issues or critical system failure

| Potential Impact | Mitigation | Trend |
|---|---|---|
| There is a risk that the systems and data we rely on to support our operations may be a potential target for cyber threats, suffer from system failures or be subject to data issues. Such events could lead to potential safety consequences, loss of supply and potentially enforcement action from regulators and reputational damage. | • Critical processes and systems are understood, and security controls are designed on a risk-based approach.<br>• Comprehensive framework of protective, detective, responsive and recovery controls operate across our network and services.<br>• Cyber Security response processes and Business Continuity Management (BCM) plans are in place for critical processes and routinely tested.<br>• Cyber security policies, processes and technologies are benchmarked to best practice and continually improved to reflect the changing threat landscape, to meet regulatory requirements and support our business outcomes.<br>• Collaborate with Ofgem, Business, Energy and Industrial Strategy (BEIS) and the National Cyber Security Centre on key cyber risks and development of an enhanced Critical National Infrastructure security strategy.<br>• Engagement with the appropriate agencies to ensure suitable controls are in place to manage our obligations under the Network Information Security Regulations.<br>• Data Management Framework in place to ensure there is effective data governance across the organisation. | ⬆<br>External threat has increased, particularly following the Russian invasion of Ukraine. |

## Effectively managing assets and maintaining network reliability

| Potential Impact | Mitigation | Trend |
|---|---|---|
| There is a risk that our asset management framework does not deliver the right service to our customers and stakeholders.<br>Failure to effectively manage individual assets or our networks could lead to asset failures which may result in customer service failures, a safety or environmental incident or failure to meet our regulatory standards of service. This could also damage our reputation and may lead to additional costs, enforcement action and financial penalties. | • Asset management framework in place that is independently accredited to ISO55001 standard.<br>• Engineering and asset management teams in place to manage the framework and ensure good quality asset decisions and investments are made.<br>• Support tools to aid complex decision-making and ensure resilience is maintained.<br>• Suite of policies and standards in place to ensure that asset data is managed appropriately.<br>• A replacement programme is in place to ensure that ageing assets are replaced.<br>• In the event of third-party asset damage or asset failure, insurance is in place to compensate for damage arising.<br>• Well-practiced response procedures in place. | ⬇<br>Risk reduction continues through our mains replacement programme. |

**Trend:** ⬆ Increased risk, ⬇ Reduced risk, ⬅➡ No change



## Health, safety, environment and security

| Potential Impact | Mitigation | Trend |
|---|---|---|
| Safety will always be a top priority and whilst major incidents are rare, human factors, asset and system malfunctions carry an inherent risk of harm to those who work for us and the communities we serve.<br>The wellbeing of employees is also critical, as is the impact that our operations could have on the environment. | • An integrated Health, Safety and Environmental Management System, accredited to 14001, which is underpinned by a Health & Safety Executive accepted safety case.<br>• Visible leadership and commitment to health, safety, environmental and security matters, including regular leadership safety visits, which reinforces the strong safety culture throughout the organisation.<br>• Process safety controls in place.<br>• Incident response, investigation and review processes.<br>• Long-term, risk-based investment and replacement programmes to ensure that we maintain a safe, secure and efficient network.<br>• Safety assurance programme identifies opportunities to strengthen and enhance our existing controls.<br>• There are structures in place for cross-industry sharing of good practice and learning, to support continual improvement across the industry. | ⬅➡<br>No fundamental changes in our inherent risks or controls. |

## Legal and regulatory compliance

| Potential Impact | Mitigation | Trend |
|---|---|---|
| Failure to comply with legal and regulatory requirements could result in disruption to the operational business, penalties and damage to our reputation.<br>We set high standards of ethics and compliance that we expect those working for us to follow. As a regulated business, compliance with legislative and regulatory requirements is fundamental to our ability to operate. | • Dedicated operational teams focus on the delivery of our standards of service, mains replacement programme and upgrading our network assets.<br>• A governance framework closely monitors our regulatory output delivery and ensures that emerging risks and issues are escalated and managed in a timely manner.<br>• There is a strong ethical and compliance culture. This is underpinned by our value of 'We take responsibility' and reinforced through our guide to ethical conduct 'Always doing the right thing', ethical training and communications including a strong 'tone from the top'. High standards are also set for our suppliers in our supplier code of conduct.<br>• An assurance process which includes the review of our compliance with legal and regulatory obligations and is reported through the organisation to our Audit & Risk Committee and Board.<br>• Horizon scanning to identify, and ensure we prepare, for legal and regulatory changes and developments.<br>• Licence obligation matrix ensures clear ownership of each licence condition, which is continually updated to ensure clear accountability. | ⬅➡<br>The legal and regulatory regime remains stable. |

# How we manage risk continued

**Trend:** ⬆ Increased risk, ⬇ Reduced risk, ⬅➡ No change

## Macroeconomic and financial risk

| Potential Impact | Mitigation | Trend |
|---|---|---|
| **Liquidity risk** is the risk that the Group does not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. | • Appropriate cashflows are achieved through maintaining a prudent level of liquid assets and committed funding facilities.<br>• As at 31 March 2022, liquidity was provided by a combination of immediately available cash (£94m) and committed bank facilities.<br>• The Board is responsible for monitoring the policies, setting limits on the maturity of liquidity and deposit funding balances and taking any action as appropriate. | ⬆<br>External events are driving inflation and market volatility.<br>We have seen an increase in customer defaults this year, however, due to the regulatory protections in place, the impact is primarily a delay, rather than loss in revenue collection. |
| **Credit risk** is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade finance and treasury activities. In accordance with IFRS 9, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required. | • Dedicated standards, policies and procedures are in place to control and monitor credit risk.<br>• Creditworthiness of each of our 84 principal shippers (direct customers) is closely monitored in line with industry wide parameters. There are regular credit rating reviews of counterparties and exposure limits set for any one party.<br>• Access to Revolving Credit Facilities (RCFs) from our relationship banking group for drawings of up to £500m by Cadent Gas Limited – undrawn as at 31 March 2022. With a further RCF facility of £200m being available from the immediate holding company Quadgas Midco Limited with £110m available as at 31 March 2022.<br>• Exposure to shipper credit losses would be mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract), as has been seen this year with the default of 12 Shippers. The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a supplier of last resort process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities. | |
| **Market risk** is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk, inflation risk and exchange risk in relation to debt issued in foreign currency.<br>The Group has no significant transactional foreign exchange or equity exposure. The Group is exposed to commodity price volatility, particularly gas prices. | • The Board reviews and approves policies for managing market risks on an annual basis. The Board also approves all new hedging instruments.<br>• The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Director of Treasury under delegated authority from the Board.<br>• Regulatory mechanisms are in place to ensure recovery of these costs driven by changes in market prices over time.<br>• The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest. Volatility associated with these markets is managed using derivatives, where appropriate, to generate the desired exposure. | |
| **Financial management risk** is the risk that we could be exposed to loss, fraud or inefficiency if there are weakness in our day-to-day financial management controls. | • We operate a comprehensive financial controls framework across the business that seeks to identify and mitigate the risk of loss, fraud or misstatement of our financial performance.<br>• We undertake cyclical reviews of the controls over our key financial processes to ensure that they remain relevant, fit for purpose and are operating as expected.<br>• Dedicated 2nd and 3rd line resources undertake assurance activities over the controls framework to provide confidence in its ongoing operation. | |

Trend: ⬆ Increased risk, ⬇ Reduced risk, ⬅➡ No change



## Protecting customers' interests

**Potential Impact**

There is an opportunity that we could be doing more to keep both current and future customers safe and warm with access to affordable energy which we must exploit.

**Mitigation**

- Clear customer targets are closely monitored, with improvement plans in place where necessary.
- There is a commitment, at all levels of the organisation, to improve customer performance.
- Investment in our networks to maintain and improve service levels.
- A culture of continuous improvement to drive down cost and better serve our customers.
- Special measures are in place for customers identified by the Priority Services Register.
- Encourage each employee to take two volunteering days a year.
- Matched giving programme on charitable fundraising.
- Special programmes are in place to ensure that both connected and unconnected customers in fuel poverty are supported. Financial support allows qualifying customers to connect to our network to enable a stable and relatively cheaper heat source. Support is also available to existing fuel poor customers to provide advice and education on energy efficiency, carbon monoxide safety and assistance in restoring or replacing faulty appliances.

**Trend**

⬅➡

External pressures on customers are mounting.

Measures implemented to improve our customer performance.

## Resilience

**Potential Impact**

As a provider of critical national infrastructure and essential services, our customers rely on our ability to provide a 24/7 service.

The impact of such risks include:

Operational impacts – non-availability of people and critical supplies which may be interrupted and impact our ability to carry out essential works.

Macroeconomic impacts – significant uncertainty impacting inflation, the cost of debt and the stability of suppliers.

The risk from COVID-19 is now reducing.

**Mitigation**

- Critical processes are subject to review and reassessment with contingency plans in place which are regularly tested.
- Targeted investment, such as secondary sites, to ensure essential services can be maintained.
- A crisis management framework is in place to manage incidents.
- Network design standards set out minimum resilience requirements.
- Immediate scenario modelling available, particularly in relation to work force planning and liquidity.
- Deep and wide experience within the leadership team of incident and crisis response.
- Strong links to stakeholders including those within Government, Ofgem and the HSE.
- Resilience Committee to ensure there is suitable resilience focus and plans in place across the business.
- An external threat scanning process to alert us to any developing widespread health issues.
- Financial structuring that can adapt to short-term 'shocks' in the wider economic environment and regulatory support to sustain the business during prolonged impact.

**Trend**

⬇

The operational impact of the COVID-19 pandemic has reduced significantly this year.

## Securing critical resources and engagement

**Potential Impact**

There is a risk that we cannot secure or do not maintain the engagement with our direct workforce and those engaged through our partners and supply chain.

We rely on stocks and supplies being available when they are most needed, if they were not this would significantly impact the service that we are able to provide to our customers.

**Mitigation**

- Strategic workforce planning is in place to understand long-term resource requirements.
- Competitively benchmarked rewards packages incentivise performance aligned to the company's objectives.
- Succession plans are in place for operationally critical roles.
- Support the development of the STEM subjects through associated bodies such as the ENA to overcome the industry wide skills shortage.
- Talent and training programmes, including those for graduates and apprentices.
- Monitor the availability of skilled teams with our partners and have targeted supplier development programmes where required.
- Work closely with our suppliers to identify critical supplies and closely monitor and manage stock levels.

**Trend**

⬆

External labour market conditions are challenging attraction and retention.

Increase in geopolitical threats to our supply chain.

# Governance

**"This report provides an overview of our strong governance regime."**

**Sir Adrian Montague CBE**
Chairman

# How the company delivers for customers is a key focus area for the Board

**"The Board has oversight of operational performance and future strategy."**

**Sir Adrian Montague CBE**
Chairman

In accordance with our requirement to provide a statement of corporate governance arrangements, I confirm that Cadent has adopted the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles"). The pages that follow describe how we have applied those principles through the year. Details of the Directors' performance of their duty under Section 172 of the Companies Act 2006, which complements the Wates Principles approach, are set out on pages 114 to 116.

During the year, areas of focus for the Board have included oversight of the conclusion of the appeal to the Competition and Markets Authority against aspects of Ofgem's Final Determination; the company's operational performance in the first year of RIIO-2; progress made against the Future of Gas Programme, which is essential to the long term success of the company; and some noteworthy areas meriting additional consideration including cyber security and data management. Underpinning all of this has been careful review and monitoring of how the company is delivering for and supporting its customers. This has included understanding actions taken and initiatives in place to improve customer satisfaction as well as overseeing progress made against the Force for Good framework and the company's aim to make a positive social impact for customers and network communities.

Our Board Committees have had another busy year. The Board appreciated the detailed scrutiny of strategy and operational performance that they undertook and the insights this provided to support and inform Board thinking. You can read more about the work of the Committees at pages 88 onwards.

Regarding how we work together, the lifting of COVID restrictions allowed for the welcome return of in-person Board meetings and the opportunity to undertake site visits enabling Board members to engage with members of the workforce and see the company in action. We are all keen to do more of this over the coming year.

The year's evaluation of Board effectiveness focused on the changes implemented following the previous year's externally facilitated assessment. All changes were viewed positively, in particular our decision to form separate Safety and Sustainability Committees, with both committees benefitting from the time afforded for additional discussion and debate on these important areas. Other changes we had made also received positive feedback and suggestions made for further improvements are being progressed.

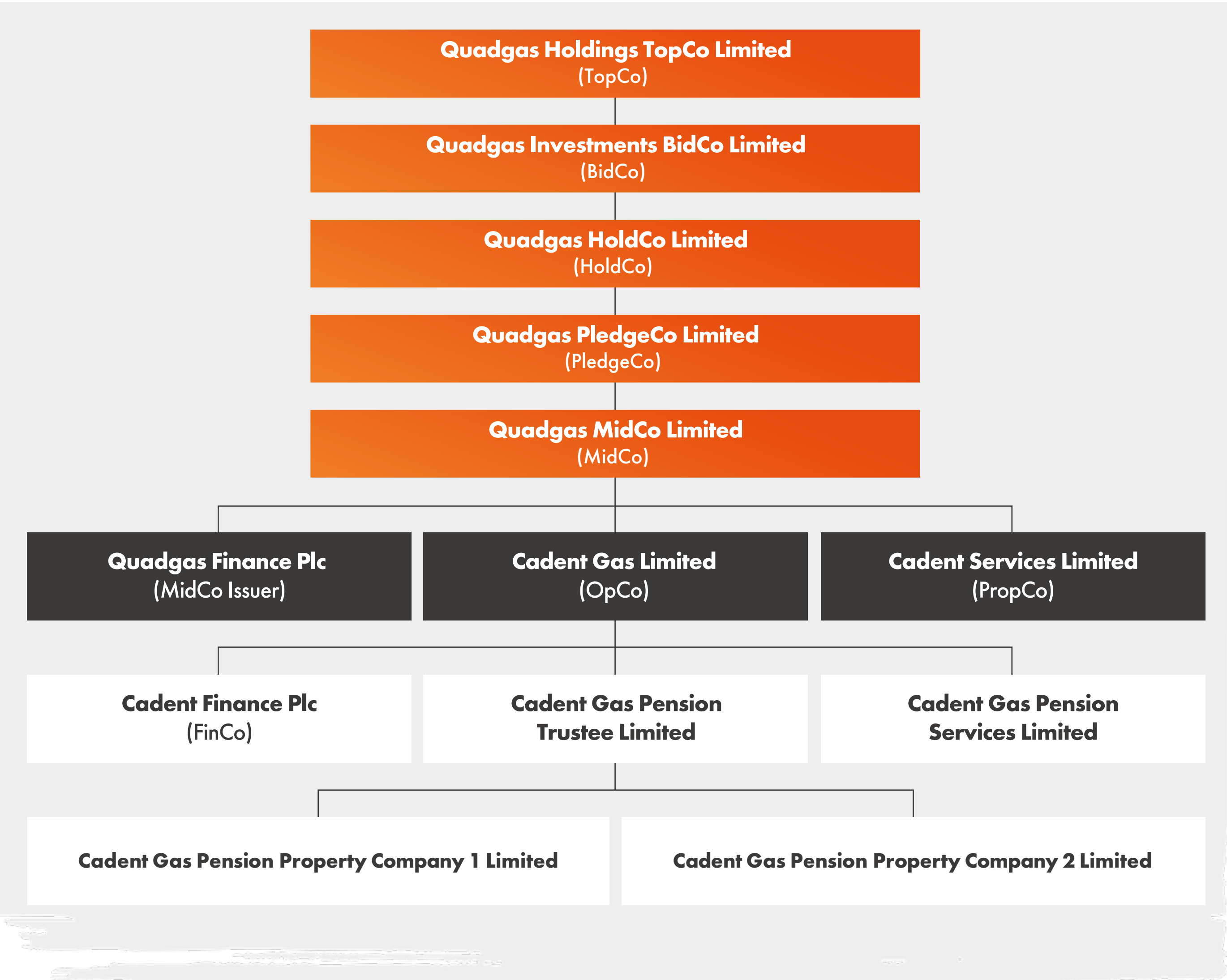
Finally, I would like to acknowledge the contribution to Cadent made by Steve Hurrell, who left Cadent in December 2021. I am pleased to welcome Anthony Bickerstaff who joined Cadent, and the Board, as Chief Financial Officer in February 2022. Anthony has a wealth of financial and commercial experience which will assist us as we take the business through to the next stage of its strategy. I am also pleased to welcome Howard Forster to the Board as an additional Executive Director and Andrew Marsden as a Non-Executive Director. I look forward to their contributions to the Board over the coming year.

**Sir Adrian Montague CBE**
Chairman

26 July 2022

# Group structure

**The ultimate parent company of the Group is Quadgas Holdings TopCo Limited ('TopCo'). The chart below sets out the ownership structure of the companies within our Group as at 31 March 2022.**




## Our owners

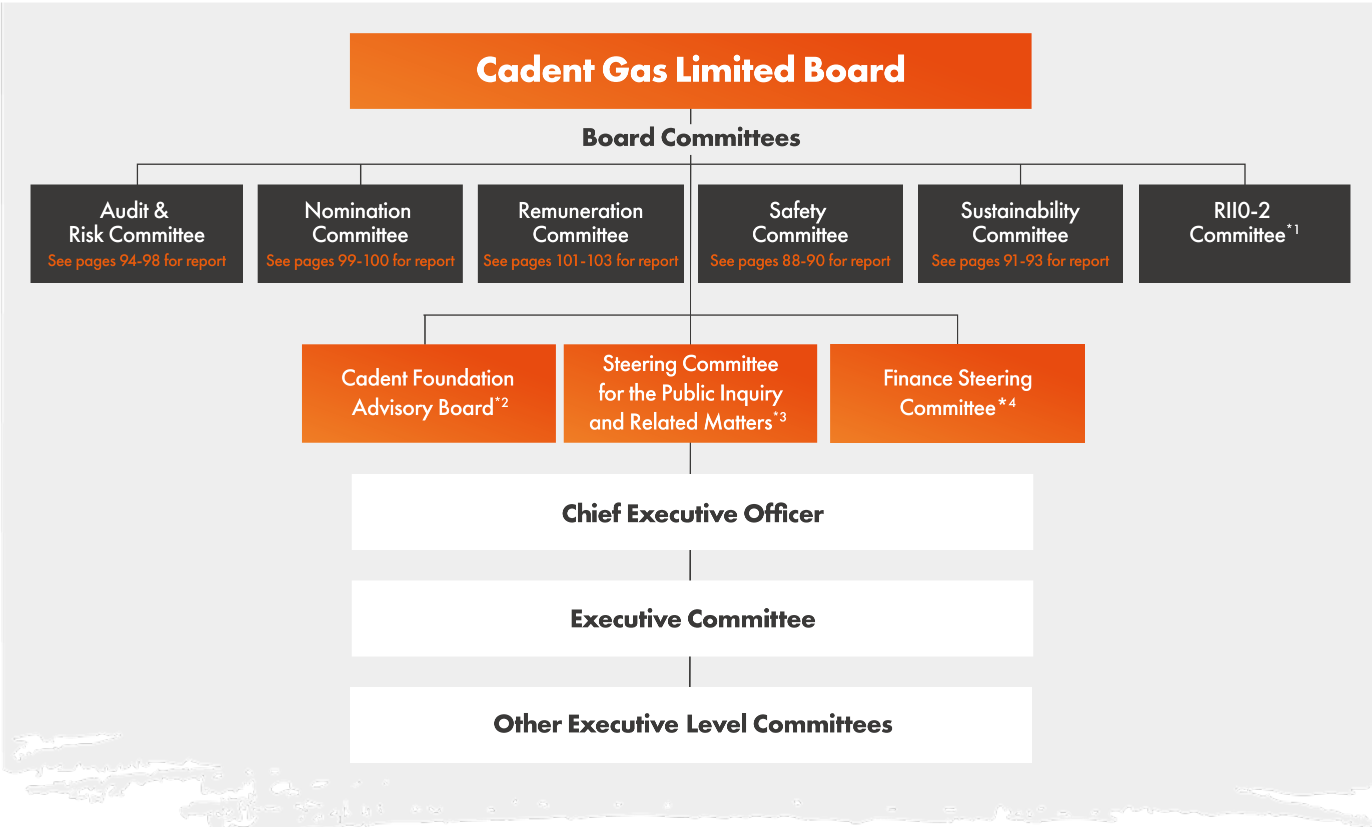
The Quadgas Group is owned by a consortium of investors (the 'Shareholders') who hold shares in Quadgas Holdings TopCo Limited.

## Shareholders' Agreement

The company is a party to a private agreement between the shareholders of TopCo (the 'Shareholders' Agreement'), which governs how the shareholders manage their investment in the Quadgas Group. This includes a schedule of matters reserved to the TopCo shareholders and to the TopCo board of Directors, as well as rights in relation to the appointment and removal of Directors of the company and procedural provisions relating to the administration of meetings. The Board operates within the provisions of this agreement and seeks to ensure that its requirements are met at all times.

# Governance framework

## Within Cadent Gas Limited, our governance structure is set out below:




*1 Committee for the RIIO-2 Appeal – established to provide oversight on aspects of the appeal to the Competition and Markets Authority on aspects of the RIIO-2 Final Determination. Disbanded in November 2021 following conclusion of the appeal.

*2 Providing oversight to the Cadent Foundation.

*3 Overseeing Cadent's involvement, as a core participant, in the Grenfell Public Inquiry.

*4 A specialist forum for review and discussion on financing matters to inform Board decision-making.

# Board of Directors

**The following pages show details of the Directors of Cadent Gas Limited and their membership on Board Committees, for the 2021/22 financial year.**

Our Board consists of three Executive Directors, three Sufficiently Independent Directors* (including the Chairman) and eleven Shareholder Nominated Directors. Collectively, the Sufficiently Independent Directors and Shareholder Nominated Directors are the Non-Executive Directors on the Board. All the Non-Executive Directors (including the Chairman) have been appointed by Quadgas Holdings TopCo Limited ('TopCo'), the ultimate parent company of Cadent Gas Limited.

Details of Alternate Directors appointed from time to time, in accordance with the company's articles of association and the agreement between the shareholders of TopCo, to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend, are available in the Directors' report on page 114.

* See page 84.

## Executive Directors

### Steve Fraser
Chief Executive Officer

**Appointed:**
September 2019

**Skills and experience**

Accountable for serving c.11m customers across four gas distribution networks by operating the system and maintaining it safely as well as running the National Gas Emergency Number on behalf of all distribution networks.

Over 20 years' experience of managing and transforming infrastructure businesses latterly as Chief Operating Officer and a main Board Director of the FTSE100 water company United Utilities.

A degree in Management Studies and a Masters in Engineering Management from UMIST, he holds a diploma in Advanced Management from Harvard University.

After leaving education, Steve trained in utilities operations working across water, electricity, and latterly high-pressure Gas pipelines.

He became a Director of Bethell Group where he worked to establish them as a leading player in the energy services sector prior to joining United Utilities in 2005 to run the global outsourcing division Energy and Contracting Services working across the UK, Europe and The Middle East.

### Anthony Bickerstaff
Chief Financial Officer

**Appointed:**
February 2022

**Skills and experience**

Anthony was appointed as Chief Financial Officer in February 2022.

Anthony brings with him extensive financial and commercial experience from across a number of sectors. He was Chief Financial Officer at FTSE listed Costain Group PLC for 14 years, playing a key role in the transformation of the Group into a focused provider of infrastructure services in the Energy, Water and Transportation sectors in the UK. Prior to that Anthony held a number of senior financial and operational roles at the Taylor Woodrow Group both in the UK and overseas. Anthony was also a Non-Executive Director for the Low Carbon Contracts Company, set-up to administer the Government's investment in the generation of low carbon electricity.

**Other key external appointments**

He is currently a Non-Executive Director at Wincanton PLC.

### Howard Forster
Chief Operating Officer

**Appointed:**
July 2021

**Skills and experience**

Howard was appointed to the Board in July 2021.

Howard joined Cadent as Chief Operating Officer in March 2019. He has operational responsibility for all of Cadent's networks, as well as all asset investment and construction programmes, new connections business, and engineering and asset management functions with operational oversight and responsibility for all of Cadent's work in the field, from planning, dispatching emergency engineers, maintaining the supply and balance of the network and leading end to end the programmed investment across the 135,000km of network infrastructure, serving 11m homes and businesses.

Prior to joining Cadent, he was the Operations Director of Northern Gas Networks for over eight years, joining prior to the development of the RIIO-1 Ofgem regulatory framework, and therefore was involved in the regulatory engagement process for RIIO-GD1. Prior to that, he was a partner at EC Harris (now part of Arcadis) for more than ten years, leading the power distribution sector and primarily involved in construction project management and controls for major investment programmes, assisting in several utility company acquisitions in the sector across the world.

# Sufficiently Independent Directors

## Sir Adrian Montague CBE

Chairman

**Appointed:**
July 2017

**Committee membership**

Nomination (Chair)

**Skills and experience**

Sir Adrian's previous roles include Chairman of TheCityUK Advisory Council, Aviva Group plc, 3i Group, Anglian Water Group, Michael Page International plc, London First, British Energy Group plc, Friends Provident plc, Cross London Rail Links Ltd and Hurricane Exploration plc. He is a former Deputy Chairman of Network Rail Ltd, Partnerships UK plc and UK Green Investment Bank plc.

From 1999-2001 he held senior positions connected with the implementation of Government's policies to expand the use of private finance in the provision of public infrastructure, first as the Chief Executive of the Treasury Taskforce, then as Deputy Chairman of Partnerships UK plc. Before 1999, he was the Global Head of Project Finance at Dresdner Kleinwort Benson, having joined the bank in 1993, after 20 years as a lawyer with Linklaters & Paines.

Sir Adrian was awarded a CBE in 2001 and is a law graduate of Cambridge University.

**Other key external appointments**

Sir Adrian is currently the non-executive Chairman of Manchester Airports Group and Porterbrook Trains and a Trustee of the Commonwealth War Graves Foundation.

## Dr Catherine Bell CB

**Appointed:**
September 2016

**Committee membership**

Audit & Risk; Nomination; Remuneration; Safety; Sustainability

**Skills and experience**

Catherine had an extensive executive career in the Civil Service including in the Department for Business, where she led work on a wide range of trade, industry and regulatory issues, including high level reviews of competition policy and utility regulation. She led the Department as Permanent Secretary.

In 2005 Catherine moved to non-executive roles, building up wide experience in the public, private and regulated sectors including the Department of Health, the Civil Aviation Authority, Swiss Reinsurance GB Limited, United Utilities Group plc, National Grid Gas Limited and National Grid Electricity Limited.

Catherine was awarded a CB ('Companion of the Order of Bath') in 2003.

**Other key external appointments**

Catherine currently sits on the Board of Horder Healthcare and is a Member of the Competition Appeals Tribunal.

## Paul Smith

**Appointed:**
February 2021

**Committee membership**

Nomination; Remuneration (Chair); Safety; Sustainability

**Skills and experience**

Paul is an experienced Executive with a portfolio of Non-Executive Director appointments across the Utility, Energy and Infrastructure sectors.

Prior to these he was Managing Director of SSE's Generation and Gas Storage business – with responsibility for one of the largest portfolios of power generation assets in the UK and Ireland. Earlier in his career he worked in the Chemical Industry for ICI plc and Dupont in a range of senior production, engineering and project roles.

A Chartered Chemical Engineer, he is a Fellow of the Institution of Chemical Engineers and also a Fellow of the Energy Institute.

**Other key external appointments**

Paul is currently the non-executive chair of Capstone Infrastructure Corporation, an independent power producer in Canada; the non-executive chair of Diversified Energy-from-Waste Management Ltd, a company overseeing the interests of a group of joint venture Energy from Waste businesses; and a non-executive of Orbital Marine Ltd, a renewable energy company with the most powerful tidal generator in the world.

# Board of Directors continued




## Shareholder Nominated Directors

### Mark Braithwaite

**Appointed:**
March 2017

**Alternate:** Richard Greenleaf (appointed November 2018)

**Committee membership**

Audit & Risk (Chair); Nomination; Remuneration

**Skills and experience**

Mark is a Senior Managing Director in Macquarie Asset Management Real Assets ('MAM'). Mark was previously Chief Financial Officer of Thames Water, the UK's largest water and wastewater services company.

Prior to joining Thames Water, Mark was Finance Director of the customer and energy divisions at EDF Energy plc, and before that held a number of senior finance positions at Seeboard plc. Mark is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Association of Corporate Treasurers.

**Other key external appointments**

Mark holds numerous other non-executive directorship roles for companies within MAM's investment portfolio.

### Howard Higgins

**Appointed:**
March 2017

**Alternate:** Richard Greenleaf (appointed November 2018)

**Committee membership**

Safety; Sustainability

**Skills and experience**

In his role as Senior Advisor at Macquarie Asset Management ('MAM'), Howard provides specialist support across the regions on the acquisition, transition and management of energy and utility businesses.

Howard has played a key role in most global energy and utility transactions and transitions undertaken by MAM since he joined in 2003.

Prior to joining MAM, Howard held several executive positions at energy and utility companies, including CEO of BG Storage and Operations Director of Transco, then the GB gas transmission and distribution company.

Howard is a Chartered Engineer and a member of the Institution of Mechanical Engineers.

**Other key external appointments**

Howard holds other non-executive directorship roles for companies and funds within MAM's investment portfolio.

### Mark Mathieson

**Appointed:**
November 2018

**Alternate:** Richard Greenleaf (appointed November 2018)

**Committee membership**

Safety (Chair)

**Skills and experience**

Mark was appointed as a Managing Director in Macquarie Infrastructure and Real Assets ('MIRA') in October 2018. Mark has over 30 years' experience in utility infrastructure at both Executive and Non-Executive levels. He spent 26 years at SSE, one of the UK's largest energy companies including ten years as a member of the Executive team, where he was MD of the Networks Division with full P&L responsibility for managing 3-regulated electricity. He was also CEO at Green Highland Renewables, the UK's largest developer and owner of run-of-river hydroelectric schemes.

Mark has a Bachelor of Engineering in Electrical and Electronic Engineering from Heriot-Watt University in Scotland and he is a Chartered Engineer and a Fellow of the Institution of Engineering and Technology.

**Other key external appointments**

Mark holds several other non-executive directorship roles for companies and funds within MIRA's investment portfolio.

### Jaroslava Korpancova

**Appointed:**
March 2017

**Committee membership**

Audit & Risk; Nomination; Remuneration

**Skills and experience**

Jaroslava joined Allianz Capital Partners in 2008 and was, among other transactions, a key participant in the following acquisitions: the 75-year concession to own, manage and operate the on-street parking system of the city of Chicago; stakes in the Norwegian offshore gas system, Gassled; the gas transmission and transport system in the Czech Republic, Net4Gas; Porterbrook, one of the major UK rolling stock leasing companies; Thames Tideway Tunnel, the £4.2bn project to construct a new super sewer under the River Thames; Affinity water, the UK largest only water company; Gaznet, the gas distribution business in Czech Republic as well as GGND, the gas distribution business in Portugal.

Jaroslava was awarded a Master of Arts degree in law from Cambridge University, is a member of the New York Bar and a solicitor of the Supreme Court of England and Wales.

**Other key external appointments**

Jaroslava is a Director of Affinity Water Limited and a number of its group companies and Net4Gas s.r.o. and Managing Director of Allianz Capital Partners GmbH.

## Eduard Fidler

**Appointed:**
November 2018 as Alternate Director

June 2019 as a Director

**Committee membership**

Sustainability

**Skills and experience**

Eduard is a Director at Allianz Capital Partners. He leads asset management activities for a number of Allianz's direct infrastructure investments. Eduard has over 15 years' experience in energy and infrastructure investment and asset management. Prior to joining Allianz, Eduard was a senior member of Blackrock's Global Energy & Power team (formerly part of First Reserve), and before this investing and managing utility investments at Macquarie Infrastructure and Real Assets. He began his professional career at AMEC plc in corporate strategy and project engineering. Eduard is a CFA® Charterholder, and a graduate of Mechanical Engineering from the University of British Columbia.

**Other key external appointments**

Eduard is a non-executive director of Elenia Oy, and Delgaz Grid SA.

## Perry Noble

**Appointed:**
April 2017 as Alternate Director

March 2020 as a Director

**Alternate:** Desmond Wilkins (appointed August 2021)

**Committee membership**

Audit & Risk; Nomination; Safety; Sustainability (Chair)

**Skills and experience**

Perry joined Federated Hermes Infrastructure in 2012 becoming a Partner in 2013 and Head of Infrastructure in 2021. He is responsible for setting the strategy for the infrastructure team of Federated Hermes, chairs the Infrastructure Investment Committee and oversees all aspects of portfolio investment and asset management activity. Perry started his career as a transaction lawyer at a leading London law firm, where he was also Asia Managing Partner, Global Head of Finance and a member of the firm's executive committee. Between 2010 and 2014, Perry was Independent Chairman of the M25 Private Public Partnership, the UK's largest PPP. He is a qualified solicitor.

**Other key external appointments**

Perry holds various non-executive directorships for other companies in the Federated Hermes' investment portfolio.

## Andrew Marsden

**Appointed:**
January 2022 as a Director

**Committee membership**

Audit & Risk; Nomination

**Skills and experience**

Andrew is a Managing Director of Dalmore Capital in their General Infrastructure group. He has more than 30 years of infrastructure experience, with 18 years in senior leadership roles, investing in infrastructure companies and projects with a particular focus on power, energy and utilities. He has held various non-executive Board positions in companies across Europe.

Prior to Dalmore, Andrew was a Managing Director in CDPQ's Infrastructure investment group. Previously, he was a Managing Director at GE Capital where he headed up the European investment activities of their energy investment group from 2004 to 2017 having joined from Henderson Private Capital where he was a Partner and Head of Infrastructure, Europe.

Andrew has an MA Honours degree from the University of Edinburgh.

## Simon Fennell

**Appointed:**
May 2019 as Alternate Director

June 2019 as a Director

**Committee membership**

Nomination; Sustainability

**Skills and experience**

Simon is an Investment Director at Amber Infrastructure, a leading sponsor, developer, fund and asset manager of infrastructure, real estate, and sustainable energy projects. During his time at Amber he has contributed to the origination and asset management of a wide variety of infrastructure assets in the water and energy sectors.

Simon started his career working on combined cycle gas turbine power station build projects in the UK and subsequently went on to qualify as a chartered accountant. Prior to Amber, Simon worked at PwC where he primarily focused on construction and real estate clients.

Simon is a fellow of the Institute of Chartered Accountants in England and Wales.

**Other key external appointments**

Simon holds other directorship roles within Amber Infrastructure's investment portfolio.

# Board of Directors continued

## Shareholder Nominated Directors

### Deven Karnik

**Appointed**

March 2017

**Alternate**: Abdulla Al-Ansari (appointed May 2018)

**Skills and experience**

Deven is the Head of Infrastructure at Qatar Investment Authority ('QIA'). He has over 25 years of principal investing and investment banking experience in power, utilities and infrastructure. Prior to joining QIA in 2013, Deven was a Managing Director at Morgan Stanley and before that he was a Managing Director at Dresdner Kleinwort. He has also worked at Jardine Fleming and Binder Hamlyn. Deven has previously served as a Director of Affinity Water Limited.

Deven is a member of the Institute of Chartered Accountants in England and Wales.

**Other key external appointments**

Deven is a non-executive director of HK Electric Investments Limited and an alternate non-executive director of Heathrow Airport Holdings Limited.

### David Xie

**Appointed**

May 2017 as Alternate Director

August 2018 as a Director

**Alternate**: Minzhen (Orlando) Wang (appointed May 2021)

**Skills and experience**

David is a Director of CIC Capital Corporation ('CIC Capital'), a wholly-owned subsidiary of China Investment Corporation ('CIC'). He is responsible for CIC Capital's infrastructure investments globally, in particular in the transport, utilities and energy sectors. David worked for 11 years in various capacities at Merrill Lynch.

David is a graduate of the Pennsylvania State University and has an MBA degree from Georgetown University.

**Other key external appointments**

David is a non-executive director of Heathrow Airport Holdings Limited.

### Hua (Helen) Su

**Appointed**

August 2018 as Alternate Director

May 2021 as a Director

**Alternate**: Minzhen (Orlando) Wang (appointed May 2021)

**Skills and experience**

Helen Su is currently a Vice President at CIC Capital Corporation ('CIC Capital'), focusing on the infrastructure sector. Prior to joining CIC, Helen worked in the Investment Banking Department at Credit Suisse in Hong Kong.

# Corporate Governance report

## Purpose and leadership

Pursuant to the Companies (Miscellaneous Reporting) Regulations 2018, the company applied the Wates Corporate Governance Principles for Large Private Companies during the year. Our Board has therefore continued throughout the year, to build upon best practice corporate governance appropriate to a company of our size, recognising that robust corporate governance practices underpin effective management of the business which are in the best interests of all our stakeholders. The Board is focused on its principal role to promote the success of the company. In doing so, the Board considers a range of factors and stakeholder interests.

### Purpose

Cadent's new purpose "Keeping people warm, while protecting the planet" is true to the heart of the service Cadent provides whilst focusing on the company's commitment to sustainability and net zero; helping to meet the dual social needs and environmental needs of the customers and communities that Cadent serves. The Board is satisfied that this is readily understandable to our customers, our stakeholders and our workforce. Every aspect of Cadent's operations serve to achieve the purpose. This includes Cadent's ongoing transformation which this year has seen the mobilisation of our new contracting model for mains replacement and continuing progress against the People Framework introduced in 2021 to facilitate a happy, engaged workforce to deliver for our customers. The Board receives regular reports and presentations from the Executive Team and Network Directors in relation to this to enable it to provide stewardship over the manner in which the workforce is directed to fulfil the purpose.

Fundamental to realising the purpose is delivery of the Future of Gas Programme, which encompasses the company's strategy to decarbonise energy and develop pathways that will help the UK to achieve net zero. In playing a leading role on the path to net zero Cadent will provide future benefit to its customers as well as promoting the long-term sustainability of the company. The Board maintains oversight through regular reports and presentations from the Chief Executive Officer, Chief Operating Officer, Chief Strategy and Regulation Officer and their teams. Additionally, the Board, through its commitment to additionally scheduled strategy days, is able to build on existing knowledge and provide considered input to steer and guide the company in pursuance of the programme.

### Values and Culture

Cadent's values and culture reflect the positive attitude and approach we expect our employees to adopt in all that they do in assisting the company to deliver its commitments. Establishing the right culture and values has been an integral part of Cadent's transformation journey.

Our new purpose is underpinned by a new set of values – we work together; we take responsibility; we drive performance; we shape the future – and behaviours that support them. In addition, the Force for Good framework makes clear the social impact we aim to achieve and the way in which our employees can contribute to this through our initiatives and targets to assist vulnerable customers and those facing fuel poverty; focus on equality, diversity and inclusion ambitions (supported by our employee communities); fundraising for our employee chosen charitable partner and employee volunteering days; as well as our environmental targets with the management of general waste being an area where all employees can make a difference. Our ethical framework, 'Always Doing the Right Thing' remains as a clear indicator of the high standards of conduct expected.

The Board has spent time considering Cadent's evolving values and culture and the approach taken by management to encourage and promote employee engagement. In doing so, it has received updates on the significant programme of workshops underway to embed the new values and behaviours into Cadent culture and, through the Sustainability Committee, has been able to monitor progress made against the Force for Good framework through regular performance reporting.

The Board welcomes the clear direction provided by management on employee culture and values which builds on and complements the ethical framework in place. The Board will continue to provide oversight as the new aspects of Cadent's culture and values are further embedded.

### Strategy

One of the Board's key leadership roles is to help develop the company's strategy and business model to generate long-term sustainable value. The Company's strategy for the RIIO-2 period was set through the RIIO-2 price control process, with the Board overseeing the formulation of the ambitious business plan submitted to Ofgem, which was ultimately the subject of Ofgem's Final Determination as modified by the outcome of the company's appeal to the Competition and Markets Authority. In this first year of the RIIO-2 period, the Board monitored progress against the strategic objectives set: delivering a quality experience for all of our customers; providing a resilient network to keep the energy flowing; tackling climate change and improving the environment; being trusted to act for our communities and turning insight into action through reports and presentations from the members of the Executive and Senior Management teams. In doing so, it was able to gain assurance of the company's delivery against the strategic objectives set. Strategic thinking and planning for the RIIO-3 period is already underway. A plan for Board engagement has been reviewed and endorsed by the Board, which as before, will engage with the company at every step of the process.

The Board has also continued to provide input and oversight to the company's future of gas programme, which is key to the company's long-term success and net zero ambitions. You can read more about this under 'Purpose' above.

The strategy, along with the company's values, supports appropriate behaviours and practices within the workforce. Board oversight and stewardship is facilitated by the presence and experience of the combination of our Nominated Non-Executive Directors and Sufficiently Independent Directors.

See pages 62 to 66 under the section 172 statement for further details of purpose and leadership.

## Board composition

Each of our Directors bring a wealth of experience, knowledge and expertise to the company. They have a balance and depth of skills and diverse backgrounds which are critical for the effective leadership of the company for all stakeholders and to mitigate against 'group thinking'.

### Chair

Our Board is led by our Independent Chairman, Sir Adrian Montague CBE, who is responsible for the effective running and management of the board.

# Corporate Governance report continued

Our Chairman works closely with the General Counsel and Company Secretary to ensure all Directors have appropriate information for each board meeting and sufficient time is allocated for meaningful and constructive discussions.

The roles of Chairman and Chief Executive Officer are separate, with clear divisions in responsibilities.

## Balance and diversity

The composition of the Board is partly determined by the Shareholders' Agreement. Of particular note is the experience the Board has in the areas of the regulated utility sector, infrastructure, safety, sustainability, government and regulation. To read more about our Directors' skills and experience, please read their biographies on pages 78 to 82. For further reading about diversity and inclusion within our company please refer to page 36.

We acknowledge that the Board may benefit from more gender diversity, however the Board does not operate a formal Board Diversity policy or set targets for gender representation on the Board, since Board appointments are a matter reserved to the shareholders of TopCo, under the Shareholders' Agreement. Our shareholders are, of course, encouraged within their own organisations to consider Board diversity when nominating Directors to the Board.

## Size and structure

### Our Board Composition

The names and biographies of all the Board of Directors on the company are published on pages 78 to 82. As at 31 March 2022, the company Board comprised the following:

**Non-Executive Chairman and Sufficiently Independent Director*:** Sir Adrian Montague CBE. Appointed in accordance with the agreement between the shareholders of the company's ultimate parent company, Quadgas Holdings TopCo Limited ('TopCo').

**Sufficiently Independent Directors*:** (2) Dr Catherine Bell and Paul Smith. It is a requirement of our Gas Transporter Licence to appoint two "sufficiently independent directors", to provide independent challenge and input to the Board. (Our Chairman is also a sufficiently independent director).

**Executive Directors:** (3) Chief Executive Officer – Steve Fraser, Chief Financial Officer – Anthony Bickerstaff and Chief Operating Officer – Howard Forster.

**Shareholder Nominated Non-Executive Directors:** (11) nominated by TopCo, representing members of the consortium of investors in TopCo.

**General Counsel and Company Secretary:** Diane Bennett.

**Alternate Directors:** (4) appointed in accordance with the agreement between the shareholders of TopCo Limited to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend.

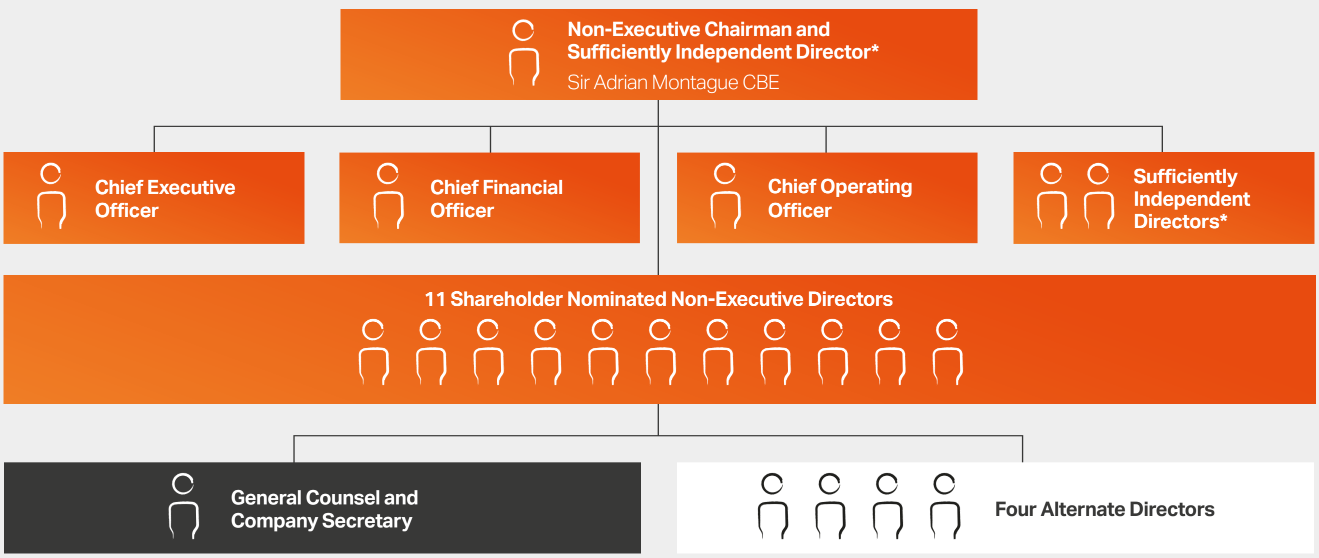
### Board Activities

The Board planned and held seven formal meetings during the year and the following ad hoc meetings:

- Strategy days in July and December 2021, focusing on Cadent's Future of Gas Programme.
- Two meetings to provide updates on the appeal to the Competition and Markets Authority against aspects of the RIIO-2 Final Determination.
- Two strategic sessions on Cyber Security.

Several of the Board members, in particular the Committee Chairs, also devote significant time to their role outside of, and between, the scheduled Board and Committee meetings. This includes meeting with members of the management team and the company's external advisers to guide and support the work discussed at the formal meetings.

## Our Board composition




*As defined in the Ofgem Gas Transporter Licence, under Standard Special Condition A42.

## Effectiveness

In September 2021 the Board commenced a review of Board effectiveness. This exercise, led by the Chairman, focused on the effectiveness of changes to Board and committee structure and processes implemented following the externally facilitated internal self-assessment undertaken in May 2020 as well as inviting Board members to raise any other matters of Board management which they wished to be included.

Following receipt and consideration of feedback, the Chairman presented his report to the Board in November 2021. There was general agreement that the formation of independent Safety and Sustainability Committees had been a positive step forward, allowing the right level of time and attention for consideration of these important areas. A number of suggestions had been made to improve further the functioning of the two new committees through additional agenda items as well as the resumption of site visits following the relaxation of COVID restrictions, all of which were being actioned by the Committee Chairs.

With regard to the Finance Steering Committee (reconstituted from the Finance Committee), the Board considered whether finance matters should be dealt with exclusively at the Board. However, recognising the benefit of technical scrutiny of matters such as the inflation hedging programme, before they are brought to the Board for decision, it was agreed that review by the Steering Committee should continue.

All new processes introduced to further enhance information sharing had worked well. Some further items were added as a result of the review, including the introduction of a narrative Chief Operating Officer's report to supplement the extensive operational data provided. The Board also considered how further engagement with operational managers might be achieved and suggested steps to address this.

In addition, all committee terms of reference were reviewed, and proposed amendments approved.

### Development and training

During the year, our Directors continued to develop their knowledge of the business and kept abreast of their duties as Directors. Development was achieved through a combination of the following:

- briefings and technical detail provided throughout the year in papers and presentations at Board and Committee meetings;
- a cyber security briefing session in June 2021;
- two Strategy days, in July 2021 and December 2021; and
- safety-oriented site visits, a deep dive session on cyber security and ESG training; all in September 2021.

In addition, an induction programme was arranged for the new Chief Financial Officer, Anthony Bickerstaff and new Non-Executive Director, Andrew Marsden.

We recognise that the Directors, in their roles as Directors or members of a committee, may need to take independent professional advice to perform their duties, and this option is available to them if required.

# Director responsibilities

The Board and each Director understand their accountability and responsibilities, and work with executive management to ensure that company policies and practices support effective decision-making to deliver long-term value.

## Accountability

### Board responsibilities

The roles of Chairman and Chief Executive Officer are separate, with clear divisions in responsibilities:

- The Chairman is responsible for the effective running and management of the Board; working collaboratively with the shareholders and management team.
- The Chief Executive Officer is responsible for the day-to-day management of the business.

The key roles and responsibilities of the remaining Directors are as follows:

- The Chief Financial Officer is responsible for the financial objectives and performance of the company.
- The Chief Operating Officer is responsible for operational performance.
- The Sufficiently Independent Directors are responsible for providing independent judgement on issues and constructive challenge on Board decision-making processes, particularly in the following key elements:
  - **strategy:** to challenge constructively and to contribute to the development of strategy including in relation to the increasing importance of the UK's move toward carbon net zero and the future of gas in that context;
  - **performance:** to scrutinise the performance of management in meeting agreed goals and objectives and to monitor the reporting of performance;
  - **risk:** to scrutinise and challenge accuracy of financial information, and access whether the financial controls and systems of risk management seem robust and defensible, based upon the presentations and information made available to them by management and the company's internal and external auditors;
  - **safety and ethics:** to support and promote a positive 'tone from the top' on health and safety and ethical leadership; and
  - **people:** to be responsible for determining appropriate levels of remuneration of Executive Directors and to have a role in appointing, and where necessary removing, senior management and in succession planning.
- The Non-Executive Shareholder Directors are appointed in accordance with the Shareholders' Agreement and are responsible for providing constructive challenge to the Board's decision-making process including in respect of those areas which the sufficiently independent directors focus on. An additional key part of the Non-Executive Directors' role is to support executive management in developing and remaining focused on the longer term strategy for the business, including the future of gas, as well as to keep under review the principal and emerging risks to the successful execution of the strategy.

# Corporate Governance report continued

The Board is supported by the General Counsel and Company Secretary who provides advice on corporate governance matters as well as legal advice. The Board continually reviews our internal corporate governance practices and external developments in corporate governance and seeks the advice of the General Counsel and Company Secretary implementing sound and effective corporate governance practices.

**Conflicts of interest**

Given the composition of the Board, with Non-Executive Shareholder Nominated Directors, we are aware that potential conflicts of interest may arise. Our Directors are conscious of their statutory duties in relation to conflicts of interest and their duty to make the Board aware of any situations which may create a conflict of interest. The General Counsel and Company Secretary maintains a register of Directors' interests and the Board reviews and considers any potential conflicts of interest as they arise.

**Commitment**

During their employment with the company, the Executive Directors are required to gain the prior agreement of the Board before accepting and providing any services or agreeing to provide any Directorships to any other business.

The Chairman and other Sufficiently Independent Directors serve under letters of appointment, where they have confirmed that they are able to devote sufficient time to meet the expectations of their roles.

**Group policies framework**

An executive-level Policy Committee oversees the operation of the policy framework and ensures policy review at the appropriate frequency and forum (including the Board for several Group policies). The company operates several Group policies that reflect appropriate governance for a company of its size and standing; these include ethical business conduct, anti-corruption and bribery; whistleblowing; data protection; social media; records management; health and safety; environmental; gifts and hospitality and HR policies and processes. The Board has also approved the Group's tax strategy statement for the year, which has been published on the company's website: https://cadentgas.com/about-us/our-company/corporate-governance

**Delegations of Authority**

The Board has approved a matrix of Delegations of Authority that sets out which key matters (within clearly defined monetary limits) may be authorised at various levels of the governance framework, from those matters reserved to the investor shareholders of TopCo, to those reserved to the Board, or delegated to the Chief Executive Officer and Chief Finance Officer and sub-delegated to other members of management.

**Committees**

The Board has established several committees to carry out specific duties. This allows the Board to operate more efficiently, concentrating on providing leadership and decision-making for the business. We are dedicated to making sure that both the Board and its committees are clear on their roles and are supported to ensure the Board can provide an appropriate level of focus and consideration to relevant matters. Each of our committees has Board-approved terms of reference setting out their respective remits, and these terms of reference are kept under regular review including to reflect emerging best practice. The Board and Committee governance framework can be found on page 77. You can read about each committee in the committee reports that follow this section.

**Integrity of information**

We recognise the importance of providing the Board with timely, concise and quality information to enable them to provide leadership and decision-making for the company, taking account of its long-term interests and its stakeholders. We see this as a two-way information flow between the Board and business and to be effective we have put in place good governance practices around the Board meetings and the information provided to those Board meetings. It is important to the Board and business that information is shared at the appropriate time to gain effective input from the Board.

Our Chairman is supported by the Company Secretariat to arrange the annual schedule of Board and Committee meetings and the business to be considered. Before each meeting, typically a week ahead, the Board and Committees receive a detailed agenda and papers. The papers are drafted and sponsored by Senior Executives within the company and, where required, Senior Executives will be invited to the meeting to present and discuss the matters contained in their paper. We follow a pre-set template for Board papers to allow consistency of reporting, enable a focus on the key matters and for the Board to be clear about what is being asked of them. During our meetings, the Directors may request additional actions to be taken and those actions are agreed by the Board and a follow-up procedure, managed by the Company Secretariat team, ensures their completion. Outside of the formal Board and Committee meeting cycle, two strategy days are scheduled to allow appropriate time for consideration and oversight of the company's net zero ambitions and future of gas programme. Also, additional briefings and meetings are scheduled, as and when necessary, as was the case this year given the importance of ensuring the Board was appropriately briefed in relation to the appeal to the Competition and Markets Authority on aspects of the RIIO-2 Final Determination and for the purpose of deep dives on areas of focus, such as cyber security.

The Board also engages with and obtains information directly from certain stakeholders to complement and provide independent assurances, to balance the information in the reports of management – see our Section 172 Statement on pages 62 to 66 for more information.

## Opportunity and risk

The Board continues to focus on the long-term opportunities of success for the business, by identifying the key role it plays in helping to shape the future of its industry.

### Opportunity

The Board has considered how the company, in fulfilling its purpose, creates and preserves value over the long term. Our business model is set out on pages 6 to 7 and the Board keeps this under periodic review.

The Board retains strategic oversight of the company's future of gas programme as it plans for a hydrogen future and the manner in which this contributes to meeting the overriding challenge of UK Government's ambitions on net zero. Stewardship is provided by the Board to encourage the company to create, pursue and utilise opportunities to move the company in a way which will help secure long-term value. You can read more about the way in which we are supporting the energy transition, over which the Board has stewardship, and the key collaborative projects with which we are involved at pages 48 to 54. At the same time the Board remains fully cognisant of the need to balance these ambitions with the fundamental business requirement to deliver for our customers today by ensuring our infrastructure is operated and maintained safely, and that our response services are still effective and efficient as possible, all within the agreed price control framework.

Our Delegations of Authority (described on page 86 above) set authority limits on significant capital and operational expenditure.

### Risk

The Board has responsibility for the company's overall approach to strategic decision-making, setting the company's appetite for risk and effective risk management (financial and non-financial), including reputational risk. The Board assigns its responsibility for ensuring that risk management and internal control systems are effective across the business, to the Audit & Risk Committee. The Committee annually reviews the company's risk appetite and profile, risk management processes, internal controls and receives regular internal audit and related compliance reports. (These include compliance with our licence conditions which is recognised as a principal risk and reviewed as part of the routine compliance process. The Audit & Risk Committee also receives regular reports on specific and emerging risks and how these are managed, through the operation of the risk management system. To read more about our risk management model and our principal risks and uncertainties, please read the Financial Review and risk management section of the Strategic report on pages 12 to 16 and 68 to 73.

### Responsibilities

The Board, supported by the Audit & Risk Committee, maintains oversight over the company's internal control framework and is supportive of management's ongoing plans to enhance this and strive for continuous improvement of the framework. As stated above, regular reports are provided to enable the Audit & Risk Committee and Board to gain an understanding of the principal and emerging risks and to make robust decisions and plans monitored to conclusion.

For more information see pages 94 to 98 on the Audit & Risk Committee report.

## Remuneration

A separate Directors' Remuneration Committee report is set out on pages 101 to 103 and provides details of the Remuneration policy, level and components of remuneration and procedure for fixing the individual remuneration packages of Executive Directors and members of the Executive Committee. The Board has established a Remuneration Committee to support its decisions with regard to remuneration, and you can read about the work of the Committee in the Directors' Remuneration Committee report on pages 101 to 103.

## Succession

The Board has an established Nomination Committee to consider and make recommendations to the Board for the long- and short-term strategy plans for succession of our Executive Directors, members of our Executive Committee, other senior Executives reporting to the Chief Executive Officer, our Chairman and Sufficiently Independent Directors. For more information see pages 97 to 100 on the Nomination Committee report.

## Stakeholder relationships and engagement

The Board is committed to stakeholder engagement and the Directors take their responsibilities and duty to them under Section 172 of the Companies Act 2006 seriously. You can read more about the Board's approach to stakeholder engagement in our Section 172 Statement in the Strategic report on pages 62 to 66.

# Safety Committee report

## The Committee was pleased to see the progress that has been made in *safety* performance

### Key highlights of the year

**Safety Assurance:**
- Oversight of safety performance
- Deep dives on key focus areas
- Review of operational impact of COVID-19

**Safety internal audit:**
- Approval of safety internal audit plan 2022/23
- Review of external audit of new mains-replacement contracting model

**Wellbeing of our employees:**
- Review of work of human factors' specialist appointed
- Review of insourcing of occupational health service
- Oversight of progress on fatigue project
- Oversight of action plan in relation to Hand-Arm Vibration Syndrome ("HAVS")

**Framework and business plan:**
- Retained overview of third annual Safety and Sustainability Report for publication
- Approved safety performance targets for 2022/23

**"The Safety Committee provides oversight and direction on management's delivery of Cadent's safety performance. We also conducted a number of deep dives on high risks."**

**Mark Mathieson**
Chair of the Safety Committee

Safety remains at the heart of Cadent's business with the aim being to ensure that every aspect of work undertaken is as safe as it can be for employees, customers and the communities in which Cadent operates. In its first year as a standalone committee, the greater time available was put to good use by the Committee for detailed consideration of a number of key focus areas as well as retaining oversight of operational safety performance.

An area of ongoing focus for Cadent and the Committee is the work being undertaken to improve asset data quality. The Committee carefully considered a report on safety stand down days which focused on promoting a culture where employees perceived every job as an opportunity to improve asset records.

The Committee sought, and received, assurance on the processes in place in relation to asset data and noted the proactive steps being taken by the company to address this issue. This was one of a number of 'deep dives' undertaken by the Committee, which also included a review of working in confined spaces and Cadent permitry.

The impact of COVID-19 inevitably featured in the Committee's deliberations. The Committee received regular reports on the impact it had had on Cadent operations, and reviewed the approach taken to ensure the wellbeing of employees, customers and the wider community. The Committee also considered the impact the pandemic had had on the rolling survey programme for multi-occupancy buildings, satisfied itself of the risk assessment in place and challenged the business to improve on the dates for completion of deferred surveys approved by the Health and Safety Executive ("HSE").

A key step for Cadent this year was the appointment of a human factors' specialist to provide expert guidance and a human factors' lens to operations. The Committee requested a report on progress made in the first six months from appointment and was pleased to note the work already undertaken, which included fatigue, culture, safety critical task analysis and human factors awareness, and plans for the following 12 months. The Committee will retain careful oversight of this important addition to the work of the safety team.

A core objective for the Committee is to ensure the continuing progression of Cadent's approach to safety. With this in mind, at each meeting, the Committee receives reports on safety incidents, a key focus of which is the learnings to be derived and how those learnings will be applied to future operations.

As the year progressed, the Committee was pleased to be able to resume site safety visits, which were undertaken in line with the government's COVID-19 guidance. Insights and reflections from visits undertaken were discussed and feedback was provided to management to share with and inform the work of their teams.

Consideration of audit reports from both internal and external audits assisted the Committee to identify areas requiring focus and input. In particular, the Committee undertook a detailed review of the external audit conducted on the new contracting model put in place to deliver the RIIO-2 mains replacement programme. The Committee reviewed the action plan developed to respond to the audit recommendations, which it will monitor to completion, and sought (and received) assurance on implementation of improvements across Cadent's sites.

In the March 2022 meeting, the Committee approved safety targets for the 2022/23 financial year for the companywide short term incentive plan. It was pleased to add a leading measure of proactive safety engagement visits to the previously adopted measure on lost time injury frequency rates. The Committee also received and considered an update on the action plan in place to deliver the outcomes required to satisfy the improvement notice in relation to HAVs* issued by the HSE as part of its scrutiny of sector performance in this area.

Throughout the year, the Committee monitored, reviewed and sought assurance on operational safety performance through review of the Safety Performance Report which covers progress against the Safety Improvement Plan, lagging and supporting indicators and process safety performance.

In the year ahead, the Committee will continue to report to the Board and provide input and oversight to the business through its review and consideration of strategic safety issues and operational safety performance, including process safety which is an area of continuing priority. The Committee also looks forward to working with the new Director of Safety and Sustainability, who joined in February 2022, to understand the support and direction it can provide to him to further enhance safety performance.

## Role and composition of the Safety Committee

The role of the Safety Committee is to assist the Board by providing assurance regarding the scope, adequacy and effectiveness of the Company's management of safety.

The Committee reports to the Board on its proceedings and makes recommendations it deems appropriate on any area within its remit.

The Committee is appointed by the Board and comprises three Shareholder Nominated Directors and two Sufficiently Independent Directors.

On behalf of the Safety Committee:

**Mark Mathieson**
Chair of the Safety Committee

26 July 2022

* On 3rd May 2022, following receipt of Cadent's submissions on 29th April 2022, the HSE confirmed Cadent had satisfactorily complied with the requirements of the Improvement Notice.

# Safety Committee report continued

## Meetings

During the year four meetings were held.

### May 2021

**Main purpose**

- Received an update on progress made with the Safety Improvement Strategy
- Received an overview of the COVID-19 risk assessment for Multi Occupancy Buildings
- Reviewed the Board Incident Notification Process
- Reviewed the Safety Performance Report.
- Received and discussed presentations in relation to two on-going incident investigations
- Received an internal audit update

**Key additional attendees**

Chairman of the Board; one non-executive investor appointed director; Chief Executive Officer; Chief Operating Officer; General Counsel & Company Secretary, Director of Safety and Sustainability; Director of Network Strategy, Director of Audit & Risk

### June 2021*

**Main purpose***

- Received an update on safety stand down relating to asset data
- Received and discussed a report on Operator Licence obligations and compliance.
- Reviewed the Safety Performance Report.

**Key additional attendees**

Chairman of the Board; one Non-Executive investor appointed Director; Chief Executive Officer; Chief Operating Officer; General Counsel & Company Secretary, Director of Safety and Sustainability.

* Safety visits planned as part of the June 2021 meeting were deferred due to continuing COVID-19 restrictions

### November 2021

**Main purpose**

- Shared reflections on safety site visits
- Reviewed and noted the Winter Plan Summary 2021/22
- Received an update on the Fatigue Project
- Received a report on the insourcing of the occupational health service
- Received the final draft of the Safety and Sustainability Report for review and noting
- Reviewed an incident, the investigation approach, and learnings
- Received a report on working in confined spaces
- Reviewed the Safety Performance Report.
- Received an update on internal safety audits.
- Received a report on key themes arising from an external audit on Cadent's new contracting model

**Key additional attendees**

Chairman of the Board; Chief Executive Officer; Chief Operating Officer; General Counsel and Company Secretary; Director of Audit and Risk; Head of Safety; Director of Operational Performance

### March 2022

**Main purpose**

- Received an overview of human factors – culture and fatigue
- Received an update on an HSE intervention visit
- Reviewed the safety targets for 2022/23
- Received an overview of Cadent permitry
- Received an update on actions arising from an external audit of Cadent's new contracting model
- Reviewed the Safety Performance Report
- Reviewed an incident and associated learnings
- Received an update on internal safety audits and proposed audit plan (for safety audits) for 2022/23

**Key additional attendees**

Chairman of the Board; a Non-Executive investor appointed Director; Chief Executive Officer; Chief Operating Officer; Chief Regulation Officer; General Counsel & Company Secretary, Assistant Company Secretary, Director of Safety and Sustainability and Director of Customer Strategy.



# Our sustainability strategy is making a positive *impact*

## Key highlights of the year

**Oversight of Cadent's Social Impact**

- Oversight of Social Impact Framework monitoring performance against commitments and highlighting emerging challenges

**Sustainable Operations**

- Deep dive on shrinkage (gas passing through the network which does not reach its intended destination)
- Review of methane strategy and oversight of implementation
- Review of waste management strategy and oversight of implementation

**Resilience**

- Reviewed network resilience, focusing on flooding impacts

**Sustainability Internal audit:**

- Reviewed and approved sustainability aspects of internal audit plan 2022/23

**Performance targets:**

- Approved environmental related performance targets for 2022/23
- Oversight of the preparation of Cadent's third Safety and Sustainability report for publication.

**"The Committee has provided strategic oversight of, and inputted to, Cadent's sustainability and corporate social responsibility agenda."**

**Perry Noble**
Chair of the Sustainability Committee

I am pleased to present the report of the Sustainability Committee. In its first full year as a standalone body, the Committee has supported the Board by the scrutiny and oversight of Cadent's sustainability and corporate social responsibility agenda. It has done so through detailed review of key elements of Cadent's strategy, whilst maintaining an overview of operational sustainability including environmental performance.

During the year, a significant priority for the Committee was to oversee work underway by Cadent to reduce methane emissions. This included a deep dive on shrinkage (representing 97% of Cadent's greenhouse gas emissions), and a subsequent re-visiting of Cadent's strategy for methane emissions' reduction following the initiatives on methane agreed at the COP26 global climate summit in November 2021. Having carefully considered the subject in-depth, the Committee endorsed management's conclusions that the ongoing mains replacement programme represented the principal contributor to reduction in shrinkage gas, and that there were limited other practical options for further reducing methane emissions in the short term.

# Sustainability Committee report continued

However, the Committee urged management to prioritise methane reduction when devising the mains replacement programme; encouraged engagement with the regulator on this important issue in advance of commencement of the formal RIIO-3 process; and requested that management continue to seek radical solutions for methane reduction, keeping all potential options under review.

Cadent's waste management strategy was also a key area of consideration by the Committee, reflecting the importance placed on Cadent's ambition to achieve leading waste management performance and eliminate waste from all aspects of operations. The Committee reviewed improvement plans and initiatives in place, seeking assurance that such measures met, and where possible exceeded, current and future legislative, societal and regulatory requirements for waste reduction and management, without further harming the environment.

An additional area of focus for the Committee during the past year has been the resilience of Cadent's network to the impact of climate change, with particular emphasis on the risks presented by flooding, which were brought into sharp relief by significant flood events occurring globally in 2021. Through detailed consideration of Cadent's Flooding Resilience Framework, the Committee was assured of the company's systematic and robust approach to the management of this evolving risk and was encouraged by the proactive work being undertaken to capture and apply wider learnings to the Cadent network and inform future investment plans.

Cadent strives to be a force for good in society and to make a positive social impact on its communities while delivering a vital public service. The social impact framework reflects Cadent's ambition to 'fuel a thriving world' through making things 'easier', 'fairer' and 'greener'. Through regular review of the newly developed Force for Good dashboard, the Committee is able to monitor progress against targets and goals that underpin that ambition, which include tackling fuel poverty and customer vulnerability; promoting equality, diversity and inclusion as well as employee volunteering; and progress against environmental targets. (You can read more about how Cadent is delivering its ambition in its Social Impact Report at https://cadentgas.com/positiveimpact). In considering Cadent's social impact, the Committee was sensitive to the affordability challenges represented by rising energy prices and encouraged management to explore opportunities to collaborate with the Cadent Foundation on initiatives to support those in fuel poverty.

In all areas within its remit, the Committee has sought and received assurance of the manner in which employee engagement is promoted and achieved.

Business performance is further monitored through the work of the Internal Audit Team, who consult with the Committee about sustainability related audits to be included in their Audit Plan, and report back on audit outcomes, identifying areas that may benefit from Committee input.

In the last meeting of the year, the Committee approved environmental related targets for the 2022/23 financial year, to be included in the companywide short term incentive plan. The focus on education in general waste generation and carbon emissions reduction, were consistent with the company's Environmental Action Plan for RIIO-2. Importantly, the output for waste reduction was something all Cadent employees could influence; driving engagement with Cadent's commitments and further embedding everyday sustainable practices across the employee population.

In the coming year, the Committee will continue to proactively review, challenge and provide guidance on the company's sustainability and corporate social responsibility strategy and performance; reporting into the Board. This is expected to emphasise Cadent's social impact framework and how meeting the stated goals and commitments can make a difference to our customers, particularly those experiencing fuel poverty. In addition, there will be continued focus on climate resilience, Cadent's strategy for reducing methane emissions and wider environmental performance.

## Role and composition of the Sustainability Committee

The role of the Sustainability Committee is to assist the Board by providing assurance regarding the scope, adequacy and effectiveness of the Company's sustainability strategy, and to oversee its efficient implementation.

The Committee regularly reports to the Board on its proceedings and makes recommendations it deems appropriate on any area within its remit.

The Committee is appointed by the Board and comprises four Shareholder Nominated Directors and two Sufficiently Independent Directors.

On behalf of the Sustainability Committee:

**Perry Noble**
Chair of the Sustainability Committee

26 July 2022

## Meetings

During the year four meetings were held.

### May 2021

**Main purpose**

- Received an update on progress with the Force for Good strategy.
- Received a presentation on biodiversity and environmental enhancement strategy.
- Undertook a deep dive on shrinkage
- Reviewed the Sustainability Performance Report.
- Received an update on progress with the annual Safety and Sustainability Report.
- Received an update on internal audit progress

**Key additional attendees**

Chairman of the Board; a non-executive investor appointed director; Chief Executive Officer; Chief Operating Officer; General Counsel and Company Secretary; Director of Safety and Sustainability; Director of Customer Strategy, Director of Network Strategy and Director of Audit & Risk.

### September 2021

**Main purpose**

- Reviewed the Sustainability Performance Report.
- Received a report on Cadent's waste management strategy
- Reviewed environmental management for the preceding 12-month period
- Received an update on progress with the Force for Good Strategy
- Received an update on the progress with the Safety and Sustainability Report
- Received an overview of sustainability measures to be incorporated in the new head office development

**Key additional attendees**

Chairman of the Board; one non-executive investor appointed director; Chief Executive Officer; Chief Financial Officer, Chief Operating Officer; Chief Regulation Officer, Director of Safety and Sustainability; General Counsel and Company Secretary and Sustainability Manager.

### January 2022

**Main purpose**

- Received an overview of ESG benchmarking assessments
- Received a presentation on developing our methane strategy.
- Received a report on network resilience to flooding
- Received an update on progress with the Force for Good strategy.
- Received a new format Performance Dashboard and reviewed sustainability performance.
- Noted the Climate Adaptation Report issued to Defra and proposed approach to TCFD reporting.

**Key additional attendees**

Chairman of the Board; a non-executive investor appointed director; Chief Executive Officer; Chief Operating Officer; Chief Regulation Officer, General Counsel and Company Secretary; Director of Customer Strategy, Head of Engineering and Sustainability Manager.

### March 2022

**Main purpose**

- Reviewed the environmental targets for the 2022/23 financial year.
- Received an update on our methane strategy.
- Discussed potential alignment of Cadent Foundation messaging with that of Cadent

**Key additional attendees**

Chairman of the Board; a non-executive investor appointed director; Chief Executive Officer; Chief Operating Officer; Chief Regulation Officer; General Counsel & Company Secretary, Assistant Company Secretary, Director of Safety and Sustainability and Director of Customer Strategy

# Audit & Risk Committee report

# Focus areas for the Committee included management of and *resilience* to risk

## Key highlights of the year

**Financial Reporting:**

- Reviewed and recommended to the Board the approval of the 2020/21 annual report and financial statements.
- Reviewed and recommended to the Board the approval of the interim financial statements.

**Internal control, risk and assurance:**

- Oversaw enhancements to risk and assurance processes and supported the Board's review of the company's risk appetite.
- Reviewed newly developed Catastrophic Risk Register.
- Continuing focus on cyber controls and assurance.
- Continuing oversight on data management and quality.

**Internal audit:**

- Reviewed outcomes of 2021/22 internal audits and approved the proposed Internal Audit plan for 2022/23.
- Reviewed positive Institute of Internal Auditors Audit of Internal Audit Team.

**External audit:**

- Recommended the reappointment of the external auditors for 2021/22.
- Reviewed the external audit plan on the 2021/22 financial statements.
- Reviewed the external auditors' report on the 2021 interim financial statements.
- Reviewed the external auditors' report on the 2020/21 financial statements.

**"The Committee focused on ensuring management started the RIIO-2 period successfully, whilst continuing to respond to fast paced political and economic developments."**

**Mark Braithwaite**
Chair of the Audit & Risk Committee

During the year, the Committee has had a strong focus on management's delivery against its strategic plans in the first year of RIIO-2, particularly in relation to the performance of the new mains replacement contracting model. The Committee also focused on risks related to global supply chains, resourcing and the increasing price of gas on the world market. The year has also seen a continuation of the Committee's ever-present focus on cyber risk, the ongoing efforts to improve data, and how innovation can be utilised to provide insight and drive performance. Latterly, the Committee also discussed with management the potential implications of the invasion of the Ukraine.

The Committee continued to review risks to Cadent, and the company's risk management process. It has taken an active role in challenging management to gain assurance that risk, including opportunity risk, is being responded to in line with the company's risk appetite, using the three lines of defence model. The Committee has continued to require and support improvements to Cadent's risk maturity. It was pleased to note continued development in this area, with the introduction of a Catastrophic Risk Register (developed for presentation to the Committee through detailed consultation with the Executive team) and Cadent's levels of resilience to these and other risks.

Whilst Cadent responded admirably to the COVID-19 pandemic, the effects of which have reduced over the year, the Committee took time to reflect and seek to learn lessons from how the world responded to COVID-19. The thought-provoking discussion showed the value of the range of experiences and perspectives brought by different committee members. This review was instructive in relation to risk and resilience, not just with regard to pandemic risk, but in relation to all risks. For example, the ability to identify positives from risk events such as the move to hybrid working.

The Committee was pleased to see the development of Cadent's new purpose and values and how these linked to the priority Cadent puts on 'Always Doing the Right Thing' and its ethical framework. The Committee regularly discussed ethics and reviewed how the positive 'tone from the top' set by the Board was translated throughout the organisation. It also oversaw and supported management's engagement with the Institute of Business Ethics and the Association of Risk and Insurance Managers (AIRMIC) on engendering a positive ethical culture, as noted in the positive external audit of Cadent's ethics and ethical framework.

The Committee received regular reports from both second line assurance teams and the Internal Audit team. Management were challenged on control weaknesses when these were identified, but equally praised when good practise was noted. The Committee was particularly pleased to note the positive outcome of the Institute of Internal Auditors five-yearly assessment of Cadent's Internal Audit Team. The Committee also had regular updates and engagement with Cadent's external auditors.

Looking to the year ahead, the Committee's priorities will be on how management can use Cadent's strong foundations to respond and adapt to global risks, uncertainties and volatility across a range of landscapes. The Committee will both support and challenge management on the ongoing need to support customers, especially those in vulnerable situations, as it delivers on its RIIO-2 commitments; and the huge contribution it has to make to the country's net zero commitments, by advancing the transition to hydrogen.

## Role and composition of the Audit & Risk Committee

The Audit & Risk Committee plays an important governance role on behalf of the Board, dedicated to giving assurance to the Board that internal control and risk management systems are reliable and that Cadent reports appropriately on financial performance.

The Committee is appointed by the Board, with a minimum requirement of three Non-Executive Directors, two of whom shall be Investor nominated Non-Executive Directors; and one member must be a Sufficiently Independent Director, bringing independent challenge. Dr Catherine Bell CB performs this latter role. Key to the successful operation of the Committee is the requirement that one member is a financial expert with recent and relevant experience and Mark Braithwaite, as Chair, brings this experience to the Committee.

For the remaining key judgements and estimates, the Committee was satisfied with the assumptions made and the accounting treatments adopted.

# Audit & Risk Committee report continued

## Meetings

The Committee is required to meet and make recommendations to the Board, before the Board is asked to approve interim financial statements and the annual report and accounts. During the year four meetings were held.

### May 2021

**Main purpose**

- Risk management: Reviewed the executive risk profile.
- COVID-19 lessons learnt for risk management – reflected on risk-related learnings arising from pandemic.
- Assurance update: Reviewed the internal audit assurance report detailing issues for the six month period to 31 March 2021.
- Business conduct: Reviewed ethics and business conduct reporting and case management.
- Internal audit: Reviewed the internal audit activity update.
- Governance – approved sign-off process for 2020/21 STIP and LTIP.

**Key additional attendees**

Chairman of the Board, a Non-Executive investor appointed Director, Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; General Counsel and Company Secretary; Head of Audit & Risk; Director of Finance; External Auditors.

### July 2021

**Main purpose**

- Internal Audit Update and Audit Charter: Reviewed the internal audit team's annual review, activity update for the period and audit plan progress update; approved the audit charter.
- External audit: Reviewed Deloitte's final audit report, on their audit of the company and other Group companies for year ending 31 March 2021. Satisfied itself of the auditors' independence and recommended the reappointment of Deloitte as auditors for 2021/22 to the Board and the company's shareholders at its Annual General Meeting.
- Financial statements: Reviewed and recommended to the Board for approval of the 2020/21 annual report and financial statements, including the adoption of the going concern assumption.

**Key additional attendees**

Chairman of the Board, a Non-Executive investor appointed Director, Chief Executive Officer; Chief Financial Officer; Chief Operating Officer, General Counsel and Company Secretary; Director of Audit & Risk, Director of Finance; External Auditors.

### November 2021

**Main purpose**

- Data management – received detailed update on progress following the previous year's deep dive consideration of this area.
- Cyber Security – received an update on cyber security and a report from external specialist advisers to the Board on cyber, FTI Consulting following a Board cyber strategy session held in September.
- Risk management: Reviewed the company's risk profile and the effectiveness of the risk management process during the year. Reviewed a newly developed Catastrophic Risk Register.
- Reviewed the Executive risk profile, including the rescoring of risks in alignment with a new scoring scale based on the 'most likely risk outcome'.
- Assurance update: Reviewed the internal audit assurance report detailing issues up to end-September 2021.
- Business conduct: Reviewed ethics and business conduct reporting and case management.
- Internal Audit Update and Audit Charter: Reviewed the internal audit activity update and audit plan update; approved the audit charter.
- External audit: Considered the report on the 2021 interim financial statements and the audit interim review report for the six months ended 30 September 2021.
- Financial statements: Reviewed and recommended the six months ended 30 September 2021 interim financial statements to the Board for approval.

**Key additional attendees**

Chairman of the Board; two Non-Executive investor appointed Directors; a sufficiently independent Director; Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; General Counsel and Company Secretary; Director of Audit & Risk; Director of Finance; External Auditors; Chief Information Officer; Director of Operational Performance.

### March 2022

**Main purpose**

- Cyber Security: Received an update on cyber security.
- External audit: Reviewed external auditor's audit plan and considered the significant accounting matters.
- Auditor Independence Review: received report assessing external auditor independence.
- Non-audit services policy: approved the non-audit services policy for the year.
- Risk: Reviewed a paper on catastrophic risk and progress made in managing those risks.
- Internal audit: Reviewed progress against the 2021/22 internal audit plan and approved the proposed 2022/23 internal audit plan*.

**Key additional attendees**

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; General Counsel and Company Secretary; Assistant Company Secretary, Director of Audit & Risk; External Auditors; Chief Information Officer; and Director of Finance.

* Proposed safety audits were approved by the Safety Committee – see page 92.

## Financial reporting and summary of significant issues reviewed

The Committee's review of the financial statements included reviews of the accounting policies, significant financial reporting issues and key judgements and estimates underpinning the financial statements, as disclosed within notes 1 and 2 of the financial statements on pages 127 to 138. The significant financial reporting issues considered in relation to the accounts are detailed in the table below.

| Areas of focus | Conclusions |
|---|---|
| **Going concern basis for the financial statements** | The Committee reviewed the evidence and assumptions underpinning the use of the going concern basis in preparing the accounts and in making the statements in the Strategic Report on going concern particularly in light of the impact of high gas prices and the ongoing conflict in Ukraine.The assessment involved consideration of the extent of any operational disruption, inflationary pressures, demand for the company's services, the extent of any contractual obligations due or anticipated within one year, any potential liquidity and working capital shortfalls and access to existing sources of capital. On the basis of the limited operational disruption, long-term regulatory framework and associated cash flows and the liquidity arrangements in place through the company's financing facilities, the Committee was satisfied that it was appropriate to recommend to the Board that the company continues to adopt the going concern assumption in its financial statements. |
| **Supplier and Shipper failures** | The Committee reviewed the accounting issues presented which arose from the financially significant Supplier of Last Resort ("SoLR") claims received within the current financial year, including the timing of the recognition of the liability and tax implications, as a result of supplier failures due to increasing gas prices. The accounting treatment proposed by management was scrutinised, noting that the liability for the claims only arises when the associated revenue is raised, and also that the revenue and costs would be presented net within the financial statements in the relevant year. The Committee also noted that as a result of the proposed treatment, the financial impact of such claims would not be seen until the 2023 financial year, although the disclosures to be included in these financial statements were reviewed. The Committee concluded that the accounting treatment proposed was appropriate and disclosures this year were adequate. |
| **Climate change** | The Committee considered the increased focus upon climate-related risks and disclosures, particularly those required by the Task Force on Climate-related Financial Disclosures ("TCFD"). It was noted that this continued to be an important area of focus for the business, and the business was taking measures such as replacing cast iron pipes, making the network hydrogen-ready and reducing leakage, all of which contributed to an improved future environment and increased safety. The business was also working to develop a pathway to the transition to green gases that makes sense economically. The Committee concluded that appropriate disclosures were required for climate-related risks to reflect the work carried out in these areas and these have been included in these financial statements. Whilst full compliance with the TCFD disclosures was not achieved this year, the noted that the company continues to work towards full compliance for the 2024 financial year. |
| **Pension valuation and assumptions** | The Committee considered whether the recognition of the surplus was appropriate following consideration of legal and actuarial advice and the guidance in accounting standards. The Committee questioned the key assumptions adopted in the calculation of the surplus and concluded the assumptions were appropriate. |
| **Exceptional items** | The Committee considered the application of the Group's accounting policy during the year and reviewed the items included within exceptional items to challenge whether they were appropriate to be included. The Committee confirmed that management's classification of exceptional items associated with restructuring activities was appropriate and in line with the company's policy. |
| **Fixed assets** | The Committee concluded that management had appropriately considered the useful lives and carrying values of property, plant and equipment and intangible assets, including reviewing any contractual arrangements and operational requirements relating to particular assets. This review included consideration of any impact that climate change may have on the future use of our network. They also considered management's review of classification between capex and opex, given that this has been raised as a significant audit risk by the external auditors. |
| **Provisions** | The Committee reviewed the level of provisions including the provision for claims and the environmental provision held by the company for the estimated restoration and remediation costs relating to old gas manufacturing sites. There are a number of judgements impacting both calculations in relation to the underlying cash flows and discount rate applied. Regarding the provision for claims the Committee confirmed that through use of independent actuaries, the company employed techniques and assumptions that were appropriate to project the liabilities. The Committee also reviewed the calculation of the environmental provision including judgements concerning the impact of climate change regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs and the impact of alternative technologies on the underlying cash flows. The Committee confirmed the discount rate applied in each case was appropriate. |
| **LIBOR transition** | The Committee received updates throughout the year regarding the progress made by management in their assessment of the impact on the debt and derivative instruments that use LIBOR either as a reference rate or in their valuation. The judgements applied by management were confirmed as appropriate by the Committee, and it was noted that were no changes to contractual cash flows other than directly from the consequence of the transition and that the existing hedge relationships continue to apply, and as a result there has been minimal impact on the accounting for debt and derivatives following the change. |

# Audit & Risk Committee report continued

## Financial reporting and summary of significant issues reviewed continued

| Areas of focus | Conclusions |
| --- | --- |
| **Software as a Service** | The Committee noted the guidance issued by the IFRS Interpretations Committee agenda decision in April 2021 in relation to cloud computing arrangements which clarified how customisation and configuration costs should be accounted for when utilising software as a service ('SaaS'), and reviewed management's impact assessment and associated disclosures within the Financial Statements. The Committee deemed that the change in accounting policy applied by management was in line with the updated guidance, and that the policy change had been applied and disclosed appropriately within the accounts as a retrospective restatement. |
| **IT controls** | The Committee reviewed the operation of Cadent's IT controls following the significant system changes which have taken place in the current and prior year, and challenged management to continue the focus on IT controls. |

## External Auditor

The Committee continued to seek input and guidance from the external Auditor where appropriate. The Committee has the responsibility for overseeing the relationship with the External Auditor. The External Auditor is invited to attend all Audit & Risk Committee meetings, irrespective of whether it is presenting matters. The External Auditor has the opportunity to meet with the Chair of the Committee, without management present, giving both parties the opportunity to raise any matters. To be assured of the work performed by the External Auditor in the audit of our financial statements, it is important that the Committee obtains confirmation of their independence, which it does for each audit undertaken.

The Committee reviews and challenges the proposed external audit plan, including its scope and materiality prior to approval, to ensure all key risks have been identified and the audit process is robust. On a continuous basis throughout the year the Committee considers the quality of the External Auditor's reports and management's response to any issues that may arise.

The Committee has no set policy on the tendering frequency of the External Auditor or of the tenure of the External Auditor (other than for the listed financing companies within the Group where there is a ten-year mandatory tendering process and a five-year rotation requirement for the audit partner) but will ensure that good corporate governance is maintained in reviewing the tenure of the External Auditors. The Committee annually considers whether the External Auditor has met its obligations regarding auditor independence under the Financial Reporting Council's (FRC) Revised Ethical Standard (2019), including requirements for audit staff rotation.

The Committee regularly considers the marketplace, benchmarking the current level of service the company receives along with the fees paid, and the value delivered. There were no contractual obligations that acted to restrict the Committee's choice of External Auditor.

Following completion of the 2021/22 audit process, the Committee was satisfied with the performance of Deloitte LLP as External Auditor and recommended to the Board the reappointment of Deloitte LLP for the coming year and propose to shareholders at the company's Annual General Meeting for approval.

## Non-audit services

On the recommendation of the Committee and approval by the Board, we have adopted a Group non-audit services policy. The policy is reviewed annually by the Committee and was approved for the year in March 2022. This policy is in line with the recommendations set out in the FRC's Guidance on Audit Committees (2016) and requirements of the FRC's Revised Ethical Standard (2019), regarding auditor independence. For services which are non-recurring in nature, prior approval must be sought from this Committee.

On behalf of the Audit & Risk Committee:

**Mark Braithwaite**
Chair of the Audit & Risk Committee

26 July 2022



# Talent and succession planning were areas of *focus*

### Key highlights of the year

- Recommended appointment of Chief Operating Officer as Executive Director.
- Recommended appointment of Chief Financial Officer.
- Considered talent and succession planning at executive and senior management level.

**"The Committee was pleased to recommend the appointment of two Executive Directors."**

**Sir Adrian Montague CBE**
Chair of the Nomination Committee

The Committee's work this year has included consideration and recommendation to the Board of two Executive Director appointments. It has also maintained oversight of talent and succession planning at executive and senior management level. This is key to support the continuing transformation of the business and the critical requirement of having the right individuals in place to lead the business through and beyond RIIO-2 and to implement the company's net zero strategy.

The first of the two director appointments recommended by the Committee related to the Chief Operating Officer, Howard Forster. In considering Howard's appointment, the Committee members were unanimous in their recognition of the step change Howard had made to operational performance, which he continued to drive forward, and the valuable contribution he would make as an Executive Director. The Committee were accordingly pleased to recommend Howard's appointment to the Board, which was approved with effect from July 2021.

Next, the Committee turned its attention to a search for a new Chief Financial Officer, the incumbent CFO, Steve Hurrell, having indicated his intention to leave the business. A key element of the search criteria, which was supported by external consultants, was the individual's ability to contribute to Cadent's hydrogen future and to promote strong organisational performance. Following an extensive search, the Committee was unanimously of the opinion that Anthony Bickerstaff fulfilled the role criteria and skills required to take the business through the next stage of its strategy. The Committee was delighted to recommend Anthony's appointment as CFO to the Board, which was approved with effect from February 2022.

# Nomination Committee Report continued

The Committee also received a report on implementation of the new talent and succession planning framework introduced in the previous year. The Committee welcomed and endorsed the framework's focus on the creation of opportunities for employees so as to develop and strengthen the employee population working to achieve Cadent's strategic plans and ambition.

Looking forward, the Committee's focus on talent and succession planning will continue, ensuring that effective planning and development is in place for executive and senior management teams to promote the success of the company.

## Role and composition of the Nomination Committee

The Nomination Committee is responsible for reviewing the long- and short-term strategy and plans for succession of all Executive Directors, members of the Executive Committee, senior Executives reporting to the Chief Executive, the Chairman and the Sufficiently Independent Directors, in conjunction with our investors. In doing so, the Committee keeps under review the balance and diversity of skills, knowledge, experience of Board members and those in these roles.

The Committee has three categories of business, upon which it makes recommendations to the Board. Firstly, in respect of potential candidates to fill Executive and Sufficiently Independent Director roles as and when they arise, or to fill strategic appointment requirements, secondly in relation to the terms of the proposed service contracts of Executive Directors or Sufficiently Independent Directors, including their initial remuneration package (in line with existing approved remuneration policies and in conjunction with the Remuneration Committee ); and thirdly, on any matters relating to the continuation in office of any Executive Director or Sufficiently Independent Director (including the suspension or termination of service). In conducting its business, the Committee will take soundings from the Chief Executive Officer and seek guidance from the Chief People Officer, General Counsel and Company Secretary and outside advisers and consultants, as appropriate.

The Committee is made up of a minimum of three Non-Executive Directors, one of whom is required to be a Sufficiently Independent Director, two of whom shall be Investor nominated Non-Executive Directors, and none of whom are Executive Directors. The Committee's membership is available on pages 79-81.

## Meetings

During the year seven meetings were held.

The company's commitment to inclusion and diversity can be found in the Strategic report on page 36, under the heading 'Creating a culture of equality and inclusivity for all'.

On behalf of the Nomination Committee:

**Sir Adrian Montague CBE**
Chair of the Nomination Committee

26 July 2022



# A year of exceptional *transformation* and delivery for our customers has been recognized through our Remuneration policies

## Key highlights of the year

**New Joiners**

- Approved remuneration arrangements for the new Chief Financial Officer.

**Salary review**

- Reviewed Executive Directors' salaries in the context of delivery of a high quality service for our customers, the external market, wider stakeholders and salary review across the wider business.

**Incentive plans**

- Set incentive targets for STIP and LTIP awards made during the year, with a focus on supporting customers in fuel poverty, increasing numbers on the Priority Services Register, sustainability and driving the future energy transition to net zero.
- Reviewed impact of extraordinary increase in wholesale gas prices on the financial measures within the Short Term Incentive Plan.
- Formalisation of Incentive Plan rules.

**"The Committee has ensured remuneration outcomes and measures are fair and appropriate for all stakeholders in light of the significant increase in the cost of living."**

**Paul Smith**
Chair of the Remuneration Committee

# Directors' Remuneration Committee report continued

## Introduction

I am delighted to present the Directors' Remuneration Report for 2021/22.

This year there has been a strong focus in the remuneration regime in promoting excellence in customer service; supporting households out of fuel poverty (which includes the company's commitment to ensure our portion of the bill is smaller than it was in RIIO-1) and ensuring that customers in the most vulnerable situations are on the Priority Services Register and receive the support they need. In addition to ensuring strong operational delivery of a high quality service to our customers, there is also a strong focus on safety and ensuring remuneration is closely linked to sustainability; through reducing waste, reducing Scope 1 and Scope 2 carbon emissions and taking a leading role in the future energy system transition to net zero.

The Committee has taken careful consideration of the broader landscape when assessing remuneration outcomes. This includes the exceptional increase in the wholesale gas prices and in overall cost of living, along with the challenging impacts of COVID-19.

## Business context and performance

In what has been another extraordinary year, our business has responded to the ongoing impact of the Covid-19 pandemic by continuing to deliver for customers, maintaining Emergency Standards of Service and maintaining a secure, reliable, safe system, whilst tackling climate change and improving the environment.

When considering the incentives outcomes linked to our remuneration policies, the Committee has taken into consideration the delivery of an efficient, quality service for our customers, along with the interests of our wider stakeholders, as follows:

- **Employees:** All employees are vital and have been supported from a financial, wellbeing and safety perspective throughout the Covid-19 pandemic.
- **Communities:** The company has launched a new volunteering programme, offering 2 days' paid volunteering per employee per year, in order to support the communities we serve. Cadent has also engaged with a new charity partner, Emmaus, supporting communities and providing a home and meaningful work for those in need.
- **Domestic Gas Consumers:** in 2021/22 a typical domestic customer paid £132 towards the cost of our services, down from £158 at the start of RIIO-1 adjusting for the impact of inflation, (further details can be found on page 2). This reduction in cost has been achieved through an increased focus on innovation and efficiency improvements.
- **Government:** Cadent has not accessed the Coronavirus Job Retention Scheme or the Coronavirus Corporate Financing Facility.

The Committee has taken the company's response to COVID-19 and the strong performance during the challenging year into account when determining appropriate targets and remuneration outcomes. The Committee has also taken into account the impact of the unforeseen increase in wholesale gas prices.

## Incentive outcomes for the year 2021/22

At the outset of the performance year the Remuneration Committee recognised that the COVID-19 pandemic may continue to have an impact upon the targets and measures set for both the short term and long term incentive plans for the year. The impact has been reviewed throughout the year, and whilst no adjustments to targets were necessary for the STIP, there were small adjustments made in the LTIP for targets related to 2019/20 and 2020/21 which were no longer appropriate in the context of the impact of the pandemic, as set out below. All decisions have taken into account the quality of Cadent's response to the COVID-19 situation in continuing to deliver for customers and maintaining a secure, reliable, safe system during this period.

## STIP

Performance under the STIP is assessed against a scorecard of measures, including customer, safety, economic, sustainability and business metrics.

The Remuneration Committee has carefully considered the significant adverse impact that the unforeseen increase in wholesale gas prices, described by Ofgem as a once in 30 year event, has had on the economic measures within the STIP. The most immediate impact of the movement in price is associated with Shrinkage costs (the cost of gas notionally used or lost from the network as determined by Ofgem approved network models), along with bad debt due to the significant volume of supplier and shipper failures across the industry. As a consequence, the actual EBITDA performance is lower than the threshold STIP target set at the beginning of the financial year.

The Committee has recognised that these macroeconomic cost factors are exceptional and also outside of the control of management. It was also recognized that the regulatory model (as set by Ofgem) meant that there is no lasting economic detriment to the business as these exceptional costs can be recovered in future years. The impact of recovering these allowable costs in future years on our customers has also been assessed and has been shown to not be material.

As such the judgement of the Committee at the March 2022 meeting was that the target STIP for 2021/22 should be adjusted to reflect the economic factors that the management team can control. This more accurately reflected the strong underlying financial and operational performance that has been demonstrated in the year, whilst balancing the impact on all stakeholders.

The Committee has also considered how to reflect the impact (and movement) of pass through costs on the EBITDA measures in the future STIP targets. It has been decided that in order to more accurately reflect management performance the financial STIP targets should be adjusted to account for movement in pass through costs (as set out by Ofgem in the regulations) prior to assessing any award. It should be noted that movements in these costs can adjust the target up as well as down.

The Company performed well against customer, safety, sustainability and strategic targets. The scorecard outcomes, together with the Remuneration Committee's assessment of the individual performance element, resulted in a payout equal to 81.7%, 77.7% and 76.7% of the maximum STIP opportunity for Steve Fraser, Howard Forster's and Anthony Bickerstaff's respectively (equivalent to £598,073, £140,000 and £33,786 respectively). Howard Forster's and Anthony Bickerstaff's STIP value has been prorated to reflect the period on the Board.

The Committee noted that the STIP scorecard result is used for all employees who participate in the bonus plan and therefore the adjustment has been applied to a broad group of employees. The Committee is satisfied that the resulting outcome is appropriate and fair, being between target and maximum given the exceptional performance during a very challenging year.

Further details of the STIP are provided on pages 106 and 109.

## LTIP

The 2019-22 LTIP award granted in 2019/20 is due to vest in 2022/23 based on performance during the three years to 31 March 2022.

The RIIO-1 Regulatory Price Control period completed its 8 year cycle in March 2021, meaning that the performance period for the 2019 LTIP comprises of 2 years within the RIIO-1 price control period and 1 year in the RIIO-2 period. This gave rise to a challenge setting meaningful targets over a full 3 year LTIP performance period at the beginning of the 2019 LTIP period. A decision was taken to split the performance period, such that two thirds of the LTIP are based on performance against a scorecard of targets for Years 1 and 2; with one third being based on performance against targets for Year 3.

Performance under the LTIP was assessed by the Committee against these two scorecards of measures. The Committee exercised discretion in relation to two of the LTIP measure outcomes for Years 1 and 2 in light of the impact of COVID-19, as follows:

(i) Environmental shrinkage and emissions – adjusted to reflect the impact of the reduced levels of mains replacement on the reduction in shrinkage.

(ii) Social obligations – outcome adjusted to reflect the shortfall in connections that was due to COVID-19 restrictions, including requests from customers to postpone works. Cadent were on track to meet the target level in the absence of COVID-19 and has demonstrated strong delivery in this post the lifting of a number of COVID-19 restrictions.

This resulted in an outcome for Years 1 and 2 of 62.21%.

Year 3 of the 2019 LTIP related to a scorecard of measures within the RIIO-2 period focusing on Customer Strategy, Economic Outcome, Sustainability and progress on energy system transition towards net zero. Performance in all areas has been strong with a sharp focus on supporting our most vulnerable customers and communities and in tackling climate change. The outcome for Year 3 was 86.3%, which the Remuneration Committee felt was appropriate and reflective of overall performance, not requiring the exercise of any discretion in relation to the targets.

This has resulted in a payout equal to 70.24% of the maximum LTIP opportunity for Steve Fraser and Howard Forster. (equivalent to £847,563 and £345,262 respectively.) Further details of the LTIP are provided on pages 106 and 113.

## Executive Director changes

Howard Forster, Chief Operating Officer joined the Board on 14 July 2021 and details of his remuneration from this date are included in this report.

Steve Hurrell stepped down from the role of Chief Financial Officer and the Board on 23 December 2021.

Anthony Bickerstaff was appointed as Chief Financial Officer and joined the Board on 7 February 2022. Further details on the treatment of his remuneration are set out on pages 109 to 113.

## Annual salary review and policy application for 2022/23

The Committee carried out a review of salaries for the Executive Directors during the year, taking into account the proposed salary increases across the workforce, and external factors such as market data on salary increases and inflation data.

It was agreed that the salaries of Steve Fraser and Anthony Bickerstaff should be increased by 4% with effect from 1 June 2022 and Howard Forster by 10% with effect from 1 June 2022. The increase for Howard Forster reflects the increase in his responsibilities following his appointment to the Board in 2021. The resulting salary will therefore be £636,480 for Steve Fraser, £346,698 for Howard Forster and £384,800 for Anthony Bickerstaff.

## Activities of the Committee 2021/22

The Committee held five scheduled meetings during the year. Activities of the Committee during the year included approving the remuneration arrangements for the new Chief Financial Officer, outcomes of the 2021/22 STIP awards, salary reviews for the Executive Directors, setting targets for the 2022/23 STIP and 2022 LTIP and introducing new Incentive Plan rules.

## Disclosure enhancements

As a private limited company, Cadent is not required to produce a formal Directors' Remuneration Report. However, the Committee is keen to provide transparency and also recognises evolving best practice regarding detailed disclosure. To this end, the Committee believes that the continued provision of a Remuneration Report is appropriate and that the contents of the report will be of interest to our stakeholders.

## Conclusion

For the 2021/22 financial year, the Committee believes that it has operated remuneration as intended under the policy and that it has appropriately and reasonably exercised its judgement as outlined above.

**Paul Smith**
Chair of the Remuneration Committee

26 July 2022

# Directors' Remuneration Policy

The following section provides details of our remuneration policy, which we intend to continue to apply over the course of the next year. The policy is reviewed on an ongoing basis and is approved by the Remuneration Committee and the Board.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of this policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the policy.

## Our peer groups

The Committee reviews its remuneration practices against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is general industry and utilities sector companies with similar levels of revenue. These peer groups are considered appropriate for a complex regulated business of our size.

**The remuneration regime provides a balance between incentivising great customer service today and shaping the future of the UK's energy mix to achieve our net zero ambitions.**

## Reward principles

The following principles govern our approach to remuneration policy for our Executive Directors, and are unchanged since last year:

- **Alignment with Cadent's strategy:** the Executive Directors' remuneration package should be strongly linked to the achievement of stretch targets that are seen as indicators of the execution of Cadent's strategy in the short and long term. Targets should be set with an emphasis on providing long term and sustainable positive outcomes for our stakeholders, in particular our customers.
- **Pay for performance:** the majority of the Executive Directors' remuneration should be linked directly to Cadent's performance through variable pay schemes. The structures should incentivise both collective and individual performance, reinforcing the skills, behaviours and values which underpin our future success.
- **Competitiveness:** remuneration levels should be determined by reference internally against Cadent senior management and externally against companies of comparable size, complexity and scope to enable Cadent to attract and retain key talent.
- **Consistency**: the remuneration structure for Executive Directors should generally be consistent with the remuneration structure for Cadent's senior management, whilst retaining flexibility to react to necessary changes within the organisation and externally. This consistency builds a culture of alignment with Cadent's purpose and a common approach to sharing in Cadent's success.
- **Simplicity:** remuneration arrangements should be simple, clear, valued and easy to understand (both by participants and external stakeholders in relevant remuneration disclosures). This includes the structure and associated performance targets.

### Remuneration principles

**A. Alignment with Cadent's strategy**

**B. Pay for performance**

**C. Competitiveness**

**D. Consistency**

**E. Simplicity**

### Cadent's executive remuneration

**Base Salary (C)**
To attract and retain high-calibre individuals while not overpaying

**Benefits and pension (C)**
To provide competitive and cost-effective benefits and pension contributions to attract and retain high-calibre individuals

**Annual bonus (A, B, C, D, E)**
To incentivise and provide market levels of reward for the achievement of annual strategic business targets and the delivery of individual objectives

**Long-term incentive (A, B, C, D, E)**
To drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests

### Strategic priorities

| 1. | 2. | 3. | 4. | 5 | 6. | 7. |
|---|---|---|---|---|---|---|
| Delivering a safe and reliable network | Performing for our customers and communities | Driving efficiencies | Sustainability | Shaping the future of gas | Engaging our people | Driving excellent financial performance |

## **Salary** (to attract, motivate and retain high-calibre individuals while not overpaying)

| Operation | Maximum levels | Performance metrics, weighting and time period applicable |
|---|---|---|
| Salaries are targeted broadly at mid-market level and reviewed annually taking into account:<br>• business and individual contribution;<br>• the individual's skills and experience;<br>• scope of the role, including any changes in responsibility; and<br>• market data in the relevant comparator group. | No prescribed maximum increase.<br>Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression in the role and alignment to market level. | Not applicable. |

## **Benefits** (to provide competitive and cost-effective benefits to attract and retain high-calibre individuals)

| Operation | Maximum levels | Performance metrics, weighting and time period applicable |
|---|---|---|
| Benefits provided include:<br>• company car or a cash alternative;<br>• private medical insurance;<br>• annual health screening;<br>• life assurance;<br>• personal accident insurance; and<br>• opportunity to purchase additional benefits under flexible benefits schemes available to all employees. | Benefits have no predetermined maximum, as the cost of providing these varies from year to year. | Not applicable. |

## **Pension** (to reward sustained contribution and assist attraction and retention)

| Operation | Maximum levels | Performance metrics, weighting and time period applicable |
|---|---|---|
| Pension for a new Executive Director will reflect whether they were internally promoted or externally appointed.<br>For internally promoted Executive Directors:<br>• retention of existing Defined Benefits (DB) benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or<br>• retention of existing Defined Contribution (DC) benefits with discretion to enhance contribution rate to up to 15% of salary; or<br>• cash in lieu of pension up to 15% of salary.<br>If externally appointed:<br>• DC benefits (or equivalent cash in lieu of) equal to the pension available to the workforce (currently up to 12% of salary).<br>In line with market practice, pensionable pay for Executive Directors includes salary only. | Steve Hurrell received a DC pension contribution or cash in lieu of pension equal to 20% of salary.<br>Steve Fraser, Howard Forster and Anthony Bickerstaff receive a DC pension contribution or cash in lieu of pension equal to 12% of salary.<br>For internally promoted Executive Directors:<br>DB: retention of a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided.<br>DC: retention of annual contributions of up to 15% of salary. Life assurance provision of eight times pensionable salary is provided on death in service. Group income protection is also provided.<br>Cash in lieu: retention of annual payments of up to 15% of salary. Life assurance and group income protection in line with DC (or DB where the Director was previously a member of a DB scheme). | Not applicable. |

# Directors' Remuneration Policy continued

**Short-Term Incentive Plan (STIP)**
(to incentivise and reward the achievement of strategic business targets and the delivery of annual individual objectives).

| Operation | Maximum levels | Performance metrics, weighting and time period applicable |
|---|---|---|
| Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the business plan. Awards are paid in cash in July.<br>Awards are subject to clawback and malus provisions.* | The maximum award for the Chief Executive Officer is 150% of salary.<br>The maximum award for the Chief Financial Officer and the Chief Operating Officer is 80% of salary. | A majority of the STIP is based on performance against corporate measures (both financial and non-financial), with the remainder based on performance against individual objectives. Individual objectives are role-specific.<br>The Committee sets measures that it considers appropriate in each financial year and has discretion to increase or reduce the amount payable, taking account of overall business performance, significant safety or customer service standard incidents, environmental and governance issues.<br>The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% of the maximum award, respectively. |

**Long-Term Incentive Plan (LTIP)**
(to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests).

| Operation | Maximum levels | Performance metrics, weighting and time period applicable |
|---|---|---|
| Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities over a three-year period, reflecting the creation of long-term value within the business. Targets are set with reference to the Business Plan. Awards are paid in cash.<br>Awards are subject to clawback and malus provisions.* | The maximum award for the Chief Executive Officer is 200% of salary.<br>The maximum award for the Chief Financial Officer and the Chief Operating Officer is 160% of salary. | The LTIP is based on performance against corporate measures (both financial and non-financial), set over a three-year period.<br>The Committee sets measures that it considers appropriate in each financial year and has discretion to increase or reduce the amount payable, taking account of overall business performance, significant safety or customer service standard incidents, environmental and governance issues.<br>The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% of the maximum award, respectively. |

* The Company may reduce performance-related remuneration prior to payment ("malus"), or require repayment of payments already made to an individual, ("clawback"). In the case of clawback, this may be dealt with by way of deduction from any sums due in the future (including salary and future cash bonus). Circumstances under which malus or clawback provisions may be enacted include if a material misstatement of the Company's financial results has occurred which has resulted in an overpayment (irrespective of fault) or if a Director engages in misconduct in the period between the award date and payment date.

**Fees for NEDs** (to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.)

NEDs, other than the Chairman and Sufficiently Independent Directors (SIDs), receive no fees. No Shareholder Nominated Directors are separately remunerated by the Company in their capacity as Directors of the Company. SID fees are recommended by the Remuneration Committee and approved by the Board; the Committee is authorised by the Board to approve the Remuneration of the Chair.

NEDs do not participate in incentive, pension or benefit plans. However, they are eligible for reimbursement for all Company-related expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-Executive Directors through a PAYE settlement agreement with HMRC.

NEDs, including the Chairman, do not have employment contracts. The SIDs' appointments are subject to Letters of Appointment.

There is no provision for termination payments.

## Differences in remuneration policy for all employees

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Company as a whole. However, there are some differences in the structure of remuneration policy for the senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for our various employee categories. They also reflect the fact that, in the case of the Executive Directors, a greater emphasis tends to be placed on performance-related pay in the market, in particular long-term performance-related pay. This reflects the longer term nature of the business, in particular in relation to outcomes over the RIIO regulatory periods.

All employees are entitled to base salary, benefits and pension contributions. Many employees are eligible for a STIP award based on Company and individual performance. Eligibility and the maximum opportunity available is based on market practice for the employee's job band. In addition, around 40 senior management employees are eligible for the LTIP scheme.

## Consideration of remuneration policy elsewhere in the Company

In setting the remuneration policy the Committee considers the remuneration packages offered to employees across the Company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are assessed regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessment our aim is to be at mid-market level for all job bands, including those that are subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration being considered.

## Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the remuneration policy at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the remuneration policy at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the remuneration policy at the time of appointment.

Ongoing incentive pay (STIP and LTIP) for new Executive Directors will be in accordance with the remuneration policy at the time of appointment.

For an externally appointed Executive Director, the Company may offer additional cash payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to Cadent. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost. In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible.

In exceptional circumstances, the Committee may use discretion to grant an additional short or long term incentive award on joining, where it believes such an award is necessary to secure the recruitment of an Executive Director.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-Executive Director will be set in line with the policy at the time of appointment.

# Directors’ Remuneration Policy continued

## Service contracts and policy on payment for loss of office

Executive Directors have service contracts which are terminable by either party, normally with six months’ notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. Such payments would be phased on a monthly basis, over a period not greater than six months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period.

In the event of a Director being made redundant, a minimum of statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension. For the avoidance of doubt, such compensation would be made in addition to any contractual payments.

On termination of employment, no STIP or LTIP award would generally be payable. However, the Committee has the discretion to deem an individual to be a ‘good leaver’, in which case a STIP or LTIP award would be payable on the termination date, based on performance during the financial year up to termination. Examples of circumstances in which a Director would be treated as a ‘good leaver’ include redundancy, retirement, illness, injury, disability and death. Any STIP or LTIP award would be prorated and would be subject to performance achieved against the objectives for the scheme performance period.

Sufficiently Independent Directors’ (including the Chairman) appointments are subject to three months’ notice by either party. No compensation is payable to SIDs if they are required to stand down.

## External appointments

Executive Directors may, with the approval of the Board, accept external appointments as Non-Executive Directors of other companies and retain any fees received for the appointment. Experience as a Board member of another company is considered to be valuable personal development, that in turn is of benefit to the Company.

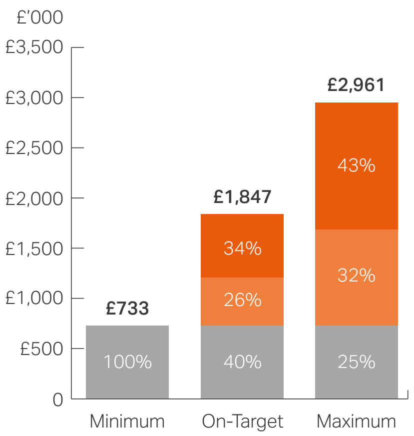
## Total remuneration opportunity

**“Our reward structure is strongly incentivised on delivering for our customers and communities.”**

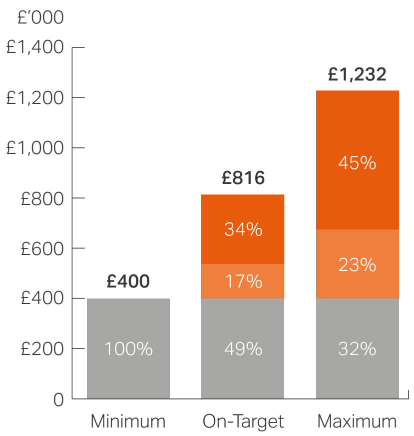
The total remuneration for Steve Fraser, Howard Forster and Anthony Bickerstaff that could result from the current remuneration policy for the year.

2022/23 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below.

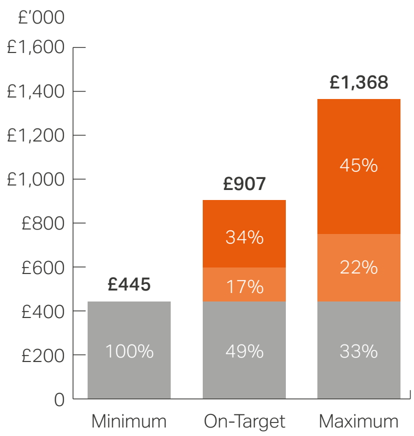
**Steve Fraser**




**Howard Forster**




**Anthony Bickerstaff**




**Notes**

1. ‘Fixed pay’ consists of salary, pension and benefits as provided under the remuneration policy.
2. Salary for 2022/23.
3. For Howard Forster and Anthony Bickerstaff these relate to a full year. Benefits are as shown in the Single Total Figure of Remuneration table for 2021/22 on page 112.
4. Pension of 12% of salary for Steve Fraser, Howard Forster, Anthony Bickerstaff.
5. STIP calculations are based on 150% of salary for Steve Fraser and 80% of salary for Howard Forster and Anthony Bickerstaff.
6. LTIP calculations are based on 200% of salary for Steve Fraser and 160% of salary for Howard Forster and Anthony Bickerstaff.
7. LTIP and STIP payout is 50% of maximum for on-target performance

**Key**

- LTIP
- STIP
- Fixed Pay

# Annual Report on Remuneration

## Role of the Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulator's interests.

## Single total figure of remuneration – Executive Directors

The following table shows a single total figure of remuneration earned in respect of qualifying service for 2021/22, together with comparative figures for 2020/21.

| | Salary £000 | | Benefits-in-kind £000 | | STIP £000 | | LTIP £000 | | Pension £000 | | Other £000 | | Total £000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021/22** | 2020/21 | **2021/22** | 2020/21 | **2021/22** | 2020/21 | **2021/22** | 2020/21 | **2021/22** | 2020/21 | **2021/22** | 2020/21 | **2021/22** | 2020/21 |
| Steve Fraser | **610** | 600 | **20** | 20 | **598** | 573 | **848** | – | **73** | 72 | **372** | 163 | **2,521** | 1,428 |
| Steve Hurrell | **235** | 308 | **12** | 16 | **–** | 186 | **–** | 195 | **47** | 62 | **–** | – | **294** | 767 |
| Howard Forster | **225** | – | **12** | – | **140** | – | **345** | – | **27** | – | **–** | – | **749** | – |
| Anthony Bickerstaff | **55** | – | **2** | – | **34** | – | **–** | – | **6** | – | **–** | – | **97** | – |

**Notes:**

**Salary:** Steve Fraser's salary increased from £600,000 to £612,000 with effect from June 2021. Steve Hurrell's salary was increased from £309,000 to £315,180 with effect from June 2021 prorated until he left in December 2021. Steve Hurrell's earnings are up until 23rd December 2021, when he stepped down from the Board. Howard Forster earnings from 14 July 2021 when appointed to the Board. Anthony Bickerstaff earnings from 7 February 2022 when appointed to the Board.

**Benefits-in-kind:** Benefits-in-kind include private medical insurance, life assurance, and a cash alternative to a car.

**STIP:** STIP outcome based on performance assessment of 81.70% , 77.7% and 76.7% of maximum for Steve Fraser, Howard Forster and Anthony Bickerstaff respectively. The maximum STIP opportunity was 120% of salary for Steve Fraser and 80% of salary for Howard Forster and Anthony Bickerstaff. Further details are set out on page 110. The STIP value for Howard Forster has been prorated to reflect his time on the Board. The STIP value for Anthony Bickerstaff reflects his STIP from 7 February 2022 when appointed to the Board.

**LTIP:** LTIP outcome based on performance assessment of 70.24% of maximum for Steve Fraser and Howard Forster, calculated with reference to average eligible earnings over the performance period. The LTIP earned relates to the performance for the 3 years from 2019/20 to 2021/22 inclusive.

**Pension:** Steve Hurrell received a cash allowance, based on 20% of salary, in lieu of participation in a pension arrangement payment. Steve Fraser, Howard Forster and Anthony Bickerstaff all received a cash allowance, based on 12% of salary, in lieu of participation in a pension arrangement payment.

**Other:** This element is in respect of the amount paid to Steve Fraser under buyout arrangements provided in connection with long term incentive awards granted by his previous employer that were forfeited on joining Cadent. Further details are set out on page 112.

## Performance against targets for STIP 2021/22

STIP awards are earned by reference to the financial year and paid in July. In relation to the bonus measures, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and target and stretch performance.

Performance under the STIP is assessed against a scorecard of measures, including customer, economic, sustainability and business metrics.

The Remuneration Committee has carefully considered the significant adverse impact that the unforeseen increase in wholesale gas prices, described by Ofgem as a once in 30 year event, has had on the economic measures within the STIP. The most immediate impact of the movement in price is associated with Shrinkage costs (the cost of gas notionally used or lost from the network as determined by Ofgem approved network models), along with bad debt due to the significant volume of supplier and shipper failures across the industry. As a consequence, the actual EBITDA performance is lower than the threshold STIP target set at the beginning of the financial year.

The Committee has recognised that these macroeconomic cost factors are exceptional and also outside of the control of management. It was also recognized that the regulatory model (as set by Ofgem) meant that there is no lasting economic detriment to the business as these exceptional costs can be recovered in future years. The impact of recovering these allowable costs in future years on our customers has also been assessed and has been shown to not be material.

As such the judgement of the Committee at the March 2022 meeting was that the target STIP for 2021/22 should be adjusted to reflect the economic factors that the management team can control. This more accurately reflected the strong underlying financial and operational performance that has been demonstrated in the year, whilst balancing the impact on all stakeholders.

The Company performed well against customer, safety, sustainability and strategic targets. The scorecard outcomes, together with the Remuneration Committee's assessment of the individual performance element, resulted in a payout equal to 81.7%, 77.7% and 76.7% of the maximum STIP opportunity for Steve Fraser, Howard Forster and Anthony Bickerstaff respectively (equivalent to £598,073, £140,000 and £33,786 respectively).

The Committee noted that the STIP scorecard result is used for all employees who participate in the bonus plan and therefore the adjustments have been applied to a broad group of employees. The Committee is satisfied that the resulting outcome is appropriate and fair, being between target and maximum given the exceptional performance during a very challenging year.

# Annual Report on Remuneration continued

The resulting outcomes of STIP awards for 2021/22 are shown in the table below:

| | Weighting | Threshold (0% of max) | Target (50% of max) | Stretch (100% of max) | Actual | Outcome (% of max) Steve Fraser | Howard Forster | Anthony Bickerstaff |
|---|---|---|---|---|---|---|---|---|
| EBITDA | 16% | £1,479m | £1,490m | £1,495m | £1,519m | **100** | **100** | **100** |
| Cash flow: Funds from Operations (FFO) to Net Debt | 12% | 14.81% | 14.9% | 14.95% | 13.70% | **0** | **0** | **0** |
| Customer Service | 16% | See commentary below | | | | **65.7** | **65.7** | **65.7** |
| Lost Time Incident Performance | 8% | 0.80 | 0.65 | 0.55 | 0.55 | **100** | **100** | **100** |
| Sustainability – % waste reduction | 8% | 2% | 5% | 7% | 12.78% | **100** | **100** | **100** |
| Sustainability – Tier 1 Replacement | 12% | 1474km | 1506km | 1538km | 1545.4 km | **100** | **100** | **100** |
| Business Outcomes | 8% | Assessment by Remuneration Committee | | | | **90** | **90** | **90** |
| Individual Performance | 20% | Assessment by Remuneration Committee | | | | **100** | **80** | **75** |
| Total | 100% | | | | | 81.7 | 77.7 | 76.7 |

**Notes:**

**EBITDA (Group):** Group EBITDA excludes the impact associated with the implementation of IFRS 15 and IFRS 16. Group EBITDA is before exceptionals and remeasurements. This excludes all pass through costs agreed as part of the RIIO2 settlement with Ofgem.

**Funds from Operations to Net Debt:** This is a measure of cash-flow generation used in determining Cadent's credit ratings.

**Sustainability – Tier 1 Replacement:** Delivery of Tier 1 mains replacement programme (HSE output).

**Sustainability – % waste reduction:** Targets based on the % waste reduction against a baseline of 1,640 tonnes per year (excludes spoil, PE pipe and recycled waste).

**Customer Service:** Targets and stretch targets were put in place for each of Cadent's 4 networks for Customer Satisfaction (Emergency Response & Repair and Planned work) and Complaints handling. A separate measure was put in place for Customer Satisfaction for Connections based on comparative position of Cadent networks compared to all Gas Distribution Networks (with target being 1 network in the top 4 and stretch having 2 networks in the top 4). We have seen unprecedented changes in our Customer Satisfaction league table achievements over the course of 2021/22.

**Lost Time Incidents:** Lost Time Injury Frequency Rate calculated by reference to number of incidents divided by aggregate hours worked (on a rolling 12-month basis).

**Business Outcomes:** Transformation activity to ensure Cadent is fit for RIIO-2.

## 2021/22 STIP as proportion of base salary

| | Max STIP | Outcome | STIP £000 |
|---|---|---|---|
| Steve Fraser | 120% of salary | 81.7% of max | **598** |
| Howard Forster | 80% of salary | 77.7% of max | **140** |
| Anthony Bickerstaff | 80% of salary | 76.7% of max | **34** |

## Performance against targets for 2019-22 LTIP

LTIP awards are earned by reference to rolling three-year financial periods and paid in the July following the end of the third year. The performance period for the 2019-22 LTIP award ended on 31 March 2022 and this award will vest in July 2022. In relation to the bonus measures and in the same way as for the STIP, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and between target and stretch performance. The RIIO-1 Regulatory Price Control period completed its 8 year cycle in March 2021, meaning that the performance period for the 2019 LTIP comprises of 2 years in RIIO-1 and 1 year in RIIO-2. This gave rise to a challenge setting meaningful targets over a full 3 year LTIP performance period at the beginning of 2019. A decision was taken to split the performance period, such that two thirds of the LTIP are based on performance against a scorecard of targets for Years 1 and 2; with one third being based on performance against metrics for Year 3.

The performance targets for the LTIP 2019-2022 Years 1 and 2 awards are shown in the table below:

| | Weighting | Threshold (0% of max) | Target (50% of max) | Stretch (100% of max) | Actual | Outcome (% of max) |
|---|---|---|---|---|---|---|
| Economic Outcome | 25% | -12.2% | -10.2% | -8.2% | -13% | 0% |
| Long Term Asset Health | 15% | – | Within +/- 5% of target | Within +/- 4% of target | Within +/- 4% of target for 3 networks | 75% |
| Environmental | 10% | 1,176 GWh | 1,120 GWh | 1,064 GWh | 1,121.4 GWh | 59.6% |
| Social Obligation | 10% | 8,248 | 8,683 | 9117 | 6,471 | 50% |
| RIIO-2 Customer Business Plan(1) | 20% | Commercially Sensitive Information | | | | 100% |
| RIIO-2 Customer Business Plan(2) | 20% | Assessment by Remuneration Committee | | | | 100% |
| **Total** | **100%** | | | | | **62.21%** |

**Notes:**

**Economic outcome:** The average totex outperformance is measured against allowances during the LTIP period.

**Long Term Asset Health:** This is a measure of the risk removed from Cadent's networks through the management of our assets, expressed as being within a % tolerance of a monetary figure.

**Environmental:** .Shrinkage measures expressed as a GWh target at the end of the 2 year period.

**Social Obligation:** fuel poor connections, measured by number of connections.

**RIIO2 Customer Business Plan(1):** Commercially sensitive information.

**RIIO2 Customer Business Plan(2):** Assessment by the Remuneration Committee of the quality of Cadent's RIIO2 Customer Business Plan.

The Committee exercised discretion in relation to two of the LTIP measure outcomes in light of the impact of COVID-19, as follows:

(i) Environmental shrinkage and emissions – outcome increased to adjust for the impact of the reduced levels of mains replacement on the reduction in shrinkage.

(ii) Social obligations – outcome adjusted upwards to reflect that shortfall in connections was ascribed to COVID-19 restrictions, including requests from customers to postpone works. Cadent were on track to meet the target level in the absence of COVID-19 and has demonstrated strong delivery in this post the lifting of a number of COVID-19 restrictions.

The performance targets for the LTIP 2019 – 2022 Year 3 of the award are shown in the table below:

| | Weighting | Threshold (0% of max) | Target (50% of max) | Stretch (100% of max) | Actual | Outcome (% of max) |
|---|---|---|---|---|---|---|
| Economic Outcome | 25% | Target +2% | Opex, Repex and Capex as per approved business plan | Target -2% | Target -0.21% | 55.2 |
| Customer & Social Obligation: RIIO2 Customer Strategy – Fuel Poor Network Extension scheme | 10% | – | 1250 | 1313 | 3234 | 100 |
| Customer & Social Obligation: Social Return on Investment | 15% | 1:1 | 1:2 | 1:4 | 1:10 | 100 |
| Sustainability – Tier 1 Mains Replacement Programme | 25% | 1474 | 1506 | 1538 | 1545.4 | 100 |
| Sustainability – Environmental Plan | 10% | -0.8% | -1.5% | -2.3% | -7.6% | 100 |
| Energy System Transition | 15% | Assessment by Remuneration Committee | | | | 83.3 |
| **Total** | **100%** | | | | | **86.3%** |

The overall outcome for the 2019-22 LTIP was 70.24% of maximum. Steve Fraser's maximum opportunity was 200% of salary and Howard Forster's maximum opportunity was 160% of salary, and therefore the outcome corresponds to a 140.48% and 112.38% of salary respectively (for this purpose, salary is based on the average eligible earnings earned over the performance period).

## 2019-22 LTIP as proportion of base salary

| | Max opportunity | LTIP outcome | LTIP £000 |
|---|---|---|---|
| Steve Fraser | 200% of salary | 70.24% of max | **848** |
| Howard Forster | 160% of salary | 70.24% of max | **345** |

# Annual Report on Remuneration continued

## Buyout arrangements for Steve Fraser

On 1 September 2019, Steve Fraser joined the board as an Executive Director and was appointed Chief Executive Officer. As previously reported, the Committee agreed to buy out Long Term Incentive Plan awards as compensation for awards forfeited from his previous employer United Utilities on joining Cadent. The second and final award completed its performance period on 31 March 2021 and a payment of £372,433 was made in relation to this (£245,752 was paid in August 2021 and £126,681 in October 2021), calculated as follows:

- The vesting level of 97.9% was the same as the vesting applied to United Utilities Directors, as determined by the United Utilities Remuneration Committee.
- The award was pro-rated for the proportion of the performance period during which Steve Fraser worked at United Utilities (17 months out of 36 months).
- An allowance for dividends accrued up to 31 March 2019 was included.
- The share price used to determine the payout was based on the United Utilities' closing share price of £10.52 on the anticipated vesting date (24 July 2021).

## Single total figure of remuneration – Non-Executive Directors

The following table shows the single total figure of remuneration earned for Sufficiently Independent Directors in respect of qualifying service for 2021/22 and for 2020/21.

| | Fees £000 | |
|---|---|---|
| | **2021/22** | 2020/21 |
| Sir Adrian Montague CBE | **325** | 325 |
| Dr Catherine Bell CB | **60** | 63 |
| Paul Smith | **70** | 10 |

**Notes:**

Dr Catherine Bell CB received an additional fee of £2,500 in respect of her role as interim Chair of the Remuneration Committee from 1 January 2021 to 31 March 2021.

Paul Smith was appointed to the Board on 8 February 2021.

## Payments for loss of office

There were no payments for loss of office during the year.

## Payments to past Directors

There were no payments to past Directors during the year.

## Advisors to the Remuneration Committee

In 2018/19, the Committee appointed PwC as advisors to the Committee following a competitive selection process.

PwC's fees for advice to the Committee in 2021/22 were £55,750.

As founder members of the Remuneration Consultants Group, PwC operate under the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK.

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the Chief Executive Officer, and of the Chief Executive Officer on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the General Counsel and Company Secretary who acts as Secretary to the Committee, the Chief People Officer and HR Director, Centre of Expertise. No other advisors have provided significant services to the Committee in the year.

## Statement of implementation for 2022/23

Remuneration policy will be implemented during 2022/23 as described below.

## Salary

The Committee carried out a review of salaries for the Executive Directors during the year, taking into account the proposed salary increases across the workforce, and external factors such as market data on salary increases and inflation data.

It was agreed that the salaries of Steve Fraser and Anthony Bickerstaff should be increased by 4% with effect from 1 June 2022 and that Howard Forster's salary should be increased by 10% with effect from 1 June 2022 to reflect the increase in responsibilities and appointment to the Board. The table below sets out the resulting rates of salary:

| | **From 1 June 2022** | From 1 June 2021 |
|---|---|---|
| Steve Fraser | **£636,480** | £612,000 |
| Howard Forster | **£346,698** | £315,180 |
| Anthony Bickerstaff | **£384,800** | £370,000 |

**Notes:**

1. Anthony Bickerstaff joined in February 2022.
2. Howard Forster joined the Board in July 2021.
   Both salaries reflect date of joining Board.

## STIP measures for 2022/23

The STIP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2022/23 annual report on remuneration. The structure of the scheme will remain largely the same as that of 2021/22.

| | Weighting |
|---|---|
| EBITDA (excluding pass through costs) | 28% |
| Mains Replacement Programme | 12% |
| Lost Time Injury Frequency Rate (LTIFR) performance | 4% |
| Proactive Safety Engagement Visits | 4% |
| Waste Reduction | 8% |
| Customer Service | 12% |
| Complaints Handling | 4% |
| Specified Business Outcomes | 8% |
| Individual Performance | 20% |

Steve Fraser's target STIP will be at 75% of salary (maximum of 150% of salary), while Anthony Bickerstaff and Howard Forster's target STIP will be 40% of salary (maximum 80% of salary).

The targets have been set in the context of the business plan and external factors such as the ongoing COVID-19 pandemic. The Remuneration Committee retains discretion over the 2022/23 measures and targets.

## LTIP to be awarded in 2022/23

The LTIP targets are considered commercially sensitive and consequently will be disclosed after the end of their performance period in the 2024/25 annual report on remuneration. Measures to be used for the 2022/23 award are shown in the table below:

| | Weighting |
|---|---|
| RIIO-2 Customer Strategy | 20% |
| Opex and Capex Performance | 20% |
| Sustainability | 20% |
| RIIO-2 Commitment (Resilient Network) | 10% |
| Energy System Transition | 30% |

For the 2022/23 award, the target and maximum will be 100% and 200% of salary respectively for Steve Fraser, and 80% and 160% of salary respecitvely for Howard Forster and Anthony Bickerstaff.

## Fees for NEDs (SIDs)

Sufficiently Independent Directors' fees for the forthcoming year remain unchanged and are detailed in the table below.

| | Fee |
|---|---|
| Chairman | £325,000 |
| Sufficiently Independent Director | £60,000 |
| Additional fee for Chair of Remuneration Committee | £10,000 |

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

**Paul Smith**
Chair of the Remuneration Committee

26 July 2022

# Directors' report

## Principal activities and business review

A full description of the Group's and company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic report on pages 1 to 73, which are incorporated by reference into this report.

## Directors

The Directors of the company during the period and up to the date of signing of the financial statements were:

| Current Directors | |
|---|---|
| Sir A Montague CBE (Chairman)* | |
| A M Al-Ansari** | |
| Dr C E D Bell CB* | |
| A Bickerstaff | (Appointed 7 February 2022) |
| M W Braithwaite | |
| N Corrigall | (Appointed 24 May 2022) |
| S Fennell | |
| E B Fidler | |
| S R Fraser | |
| H N Forster | (Appointed 14 July 2021) |
| R Greenleaf** | |
| D A Karnik | |
| J Korpancova | |
| A Marsden | (Appointed 28 January 2022) |
| M W Mathieson | |
| P D Noble | |
| P R Smith* | |
| H Su | |
| M Wang** | (Appointed 26 May 2021) |
| D L Wilkins | (Appointed 31 August 2021) |
| D J Xie | |

| Former Directors who resigned during the period | |
|---|---|
| N J Axam | (Resigned 28 January 2022) |
| J Bao | (Resigned 26 May 2021) |
| H N M De Run** | (Resigned 31 August 2021) |
| S G Hurrell | (Resigned 23 December 2021) |
| H C Higgins | (Resigned 24 May 2022) |

* Sufficiently Independent Director
** Alternate Director

## Corporate governance

A full report on corporate governance can be found on pages 83 to 87. Incorporated by reference into this report.

## Future developments

Details of future developments have been included within the Strategic report on pages 1 to 73.

## Dividends

During the year, the company paid ordinary dividends totalling £195m (2021: ordinary dividends totalling £0m).

## Charitable and political donations

Charitable donations made by the company during the year totalled £134,000 (2020/21: £167,000). Further information about our new chosen charity the Emmaus can be found on page 27.

The company made no political donations during the year (2020/21: £Nil).

## Research and development

Expenditure on research and development was £16m during the period (2020/21: £10m).

## Employees

Information on the Group's employment policies (including on the selection, employment, training, career development and promotion of disabled employees) and employee involvement can be found in the Our year in review, Going Beyond to Create a Culture of Equality and Inclusivity for All pages 34-40. Details of how the Directors have engaged with employees can be found in the section 172 statement on page pages 62 to 67.

## Stakeholder Engagement

Details of how the Directors have engaged with suppliers, customers and other stakeholders can be found in the Strategic report under Our Year in Review on pages 20 to 54, and in the section 172 statement on pages 62 to 67.

## Environmental policy

Information on the Group's environmental initiatives can be found in the Tackling climate change and improving the environment section on page 41, and in the Transforming the environment, our future and social purpose section on pages 42 to 47, where you will find our environmental responsibility reports, policies and other information, which is incorporated into this Directors' report by reference.

## Directors' indemnity

Cadent Gas Limited gives Directors' indemnities to Cadent Gas Officers. Quadgas HoldCo Limited gives indemnities to Officers of other Group companies. Separately there is a Directors' and Officers' liability insurance policy for the benefit of the Group's Directors.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in this Strategic Report on pages 1 to 73. In addition, note 28 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas. As a consequence, the Directors believe that the company is well placed to manage its business risks successfully despite ongoing current factors including increased energy prices and the ongoing conflict in the Ukraine.

The Board's consideration of the going concern status of the company is an extension of the 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. The business strategy aims to enhance the Group's long-term prospects by making sure our operations and finances are sustainable.

The process includes testing the resilience of our financial plans and modelling a reasonable worst case scenario cash flow forecast that factors in inflationary pressures, reduced revenues as a result of lower gas consumption, contractual obligations falling due within one year, liquidity and working capital requirements, access to existing financing facilities, unexpected one-off costs and breach of financial covenants.

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 Cadent Gas Limited would be unable to continue as a going concern. After due consideration, it was recommended to the Board in July 2022 that the financial statements be prepared on the going concern basis.

Having made enquiries and reviewed management's assessment of going concern, the Directors consider it appropriate to prepare the financial statements on a going concern basis, having concluded that there are no material uncertainties. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

## Control and risk management

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- The risk assurance function and management conduct various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and, where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit & Risk Committee is also kept appraised of such developments.
- The financial statements are subject to review by the financial reporting function for unusual items, unexplained trends and completeness. Any unexplained items are investigated.
- The financial reporting function compares the financial statements to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the financial reporting function.
- The Audit & Risk Committee and the Board review the draft consolidated financial statements. The Audit & Risk Committee receives reports from management on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

## Post balance sheet events

There are no post balance sheet events.

## Treasury management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the company's material financial risks, including liquidity, credit, interest rate risks and foreign currency risks. These risks are monitored through a treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for the Group. Details on our financial risk management are set out in note 28 on pages 159 to 166.

## Major shareholdings

As at 31 March 2022, 100% of the company's share capital was held by Quadgas MidCo Limited.

## Auditor

A resolution to reappoint Deloitte LLP as auditor of the company will be proposed at the Annual General Meeting for shareholder approval.

## Disclosure of information to auditor

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditor is unaware, and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

# Directors' report continued

## Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards (IFRS Standards) as issued by the International Accounting Standards Board (IASB), and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as issued by the IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors' report was approved by the Board and signed on its behalf by:

**Steve Fraser**
Chief Executive Officer

26 July 2022

# Financial statements

> "We are in a strong financial position to deliver on our RIIO-2 objectives."

**Anthony Bickerstaff**
Chief Financial Officer





# Independent auditors report to the members of Cadent Gas Limited

## Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements of Cadent Gas Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 34 to the consolidated financial statements; and,
- the related notes 1 to 23 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluation of financing facilities including nature of facilities, repayment terms and covenants;
- assessment of linkage to business model and medium-term risks;
- evaluation of assumptions used in the forecasts;
- assessment of the amount of headroom in the forecasts (cash and covenants);
- evaluation of the sensitivity analysis; and,
- assessment of sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management..

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and in-house legal counsel about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies Act 2006, pensions legislation and tax legislation; and,
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

Judgement over the classification of non-LDP expenditure as being capital or operational

The group invests heavily in fixed assets and specifically in infrastructure and their gas network annually, ranging from major replacement projects to minor repair and maintenance works. The mains replacement works are primarily delivered by operational partners ('Local Delivery Partners' or 'LDPs') with the remaining works being delivered by the direct workforce of the company and subcontractors ('non-LDP'). During the year the group has invested £760m in property, plant and equipment (2021: £967m).

# Independent auditors report to the members of Cadent Gas Limited continued

We have identified a risk that expenditure which is operating in nature is capitalised into fixed assets for non-LDP projects, where expenditure includes internal staff costs. Incorrect identification and mapping of activities in the financial accoutning and reporting software platfrom, may lead to the overstatement of fixed assets and operating profit.

As the classification of such capital expenditure and operating expenditure directly affects the group's financial performance, we identified that there was a potential for fraud through manipulation of this balance.

We have performed the following procedures in response to the risk identified:

- tested relevant controls related to the fixed asset cycle;
- challenged management's judgement and their policies relating to the classification of capital expenditure, operating expenditure and infrastructure maintenance expenditure;
- performed an analytical review of the expenditure capitalised and expensed during the year;
- tested a sample of capital projects by inspecting supporting documentation from subcontractors regarding the works completed and assessed whether such works were capitalised or expensed appropriately;
- for internal payroll costs capitalised, on sample basis, inspected the timesheets and chargeable rates for employees and ascertained that the employees worked on capital projects; and
- completed a reconciliation between the fixed assets register and the general ledger.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and,
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Jacqueline Holden FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

26 July 2022

# Consolidated income statement

For the year ended 31 March 2022

| | Notes | 2022 £m | 2022 £m | 2021 (restated)[1] £m | 2021 (restated)[1] £m |
|---|---|---|---|---|---|
| Revenue | 4 | | 1,984 | | 2,075 |
| Operating costs | | | (1,287) | | (1,163) |
| **Operating profit** | | | | | |
| Before exceptional items | 5 | 697 | | 912 | |
| Exceptional items | 6 | (12) | | (10) | |
| **Total operating profit** | 5 | | 685 | | 902 |
| Finance income | 9 | | 10 | | 22 |
| Finance costs | | | | | |
| Before exceptional items and remeasurements | 9 | (248) | | (144) | |
| Exceptional items and remeasurements | 6/9 | (78) | | (1) | |
| Total interest payable and similar charges | | | (326) | | (145) |
| **Profit before tax** | | | | | |
| Before exceptional items and remeasurements | | 459 | | 790 | |
| Exceptional items and remeasurements | 6 | (90) | | (11) | |
| Total profit before tax | | | 369 | | 779 |
| Tax | | | | | |
| Before exceptional items and remeasurements | 10 | (96) | | (150) | |
| Exceptional items and remeasurements | 10 | (366) | | 2 | |
| Total tax | | | (462) | | (148) |
| Profit after tax | | | | | |
| Before exceptional items and remeasurements | | 363 | | 640 | |
| Exceptional items and remeasurements | 6 | (456) | | (9) | |
| **(Loss)/profit for the year** | | | (93) | | 631 |

1 See note 1(c).

The results reported above relate to continuing activities.

The notes on pages 127 to 170 are an integral part of the financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 March 2022

| | Notes | 2022 £m | 2021 (restated)[1] £m |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(93)** | 631 |
| **Other comprehensive income/(loss):** | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurements of post-employment benefit obligations | 27 | **629** | (513) |
| Tax on remeasurements of post-employment benefit obligations | 10 | **(157)** | 98 |
| Deferred tax charge arising from changes in UK corporation tax rate | 10 | **(26)** | – |
| **Total items that will not be reclassified to profit or loss** | | **446** | (415) |
| Items that may be reclassified subsequently to profit or loss | | | |
| Net gains/(losses) in respect of cash flow hedges | | **4** | (6) |
| Net losses in respect of cost of hedging reserve | | **(6)** | – |
| Amortisation of cost of hedging reserve | | **4** | 4 |
| Tax on net (gains)/losses in respect of cash flow hedges | 10 | **(1)** | 1 |
| **Total items that may be reclassified subsequently to profit or loss** | | **1** | (1) |
| **Other comprehensive income/(loss) for the year, net of tax** | | **447** | (416) |
| **Total comprehensive income for the year** | | **354** | 215 |

1 See note 1(c).

The results reported above relate to continuing activities.

The notes on pages 127 to 170 are an integral part of these financial statements.

# Consolidated statement of financial position

As at 31 March 2022

| | Notes | 2022 £m | 2021 (restated)[1] £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 12 | 70 | 88 |
| Property, plant and equipment | 13 | 10,811 | 10,413 |
| Investments in associates | 14 | – | – |
| Pension and other post-retirement benefit assets | 27 | 1,083 | 426 |
| Derivative financial assets | 17 | 7 | – |
| Trade and other receivables | 16 | 1 | 2 |
| Total non-current assets | | 11,972 | 10,929 |
| **Current assets** | | | |
| Derivative financial assets | 17 | 1 | – |
| Inventories | 15 | 11 | 12 |
| Corporation tax | | 6 | 3 |
| Trade and other receivables | 16 | 179 | 216 |
| Current asset investments | 18 | 80 | 815 |
| Cash and cash equivalents | | 13 | 17 |
| Total current assets | | 290 | 1,063 |
| **Total assets** | | 12,262 | 11,992 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | (418) | (570) |
| Borrowings | 21 | (43) | (297) |
| Lease liabilities | 22 | (10) | (8) |
| Provisions | 23 | (11) | (12) |
| Total current liabilities | | (482) | (887) |
| **Net current (liabilities)/assets** | | (192) | 176 |
| Total assets less current liabilities | | 11,780 | 11,105 |
| **Non-current liabilities** | | | |
| Derivative financial liabilities | 17 | (269) | (115) |
| Borrowings | 21 | (6,924) | (7,178) |
| Lease liabilities | 22 | (69) | (16) |
| Deferred tax liabilities | 10 | (1,929) | (1,368) |
| Provisions | 23 | (59) | (65) |
| Accruals and deferred income | 20 | (16) | (8) |
| Total non-current liabilities | | (9,266) | (8,750) |
| **Total liabilities** | | (9,748) | (9,637) |
| **Net assets** | | 2,514 | 2,355 |
| **Equity** | | | |
| Share capital | 24 | – | – |
| Cash flow hedge deficit | | (15) | (18) |
| Cost of hedging reserve | | 8 | 10 |
| Retained earnings | | 7,814 | 7,656 |
| Other deficit | | (5,293) | (5,293) |
| **Total equity** | | 2,514 | 2,355 |

1 See note 1(c).

The notes on pages 127 to 170 are an integral part of these financial statements.

The consolidated financial statements on pages 122 to 170 were authorised and approved for issue by the Board of Directors on 26 July 2022 and were signed on its behalf by:

**A O Bickerstaff**
Director
Cadent Gas Limited

26 July 2022

Company registration number: 10080864

# Consolidated statement of changes in equity

For the year ended 31 March 2022

| | Share Capital £m | Cash flow Hedge Deficit £m | Cost of Hedging Reserve £m | Other Deficit £m | Retained Earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 April 2021 (restated)[1] | – | (18) | 10 | (5,293) | 7,656 | 2,355 |
| Loss for the year | – | – | – | – | (93) | (93) |
| Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve | – | 3 | (6) | – | 446 | 443 |
| Amortisation of cost of hedging reserve | – | – | 4 | – | – | 4 |
| Total comprehensive income for the year | – | 3 | (2) | – | 353 | 354 |
| Equity dividends (note 11) | – | – | – | – | (195) | (195) |
| **At 31 March 2022** | **–** | **(15)** | **8** | **(5,293)** | **7,814** | **2,514** |

| | Share Capital £m | Cash flow Hedge Deficit £m | Cost of Hedging Reserve £m | Other Deficit £m | Retained Earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 April 2020 | – | (13) | 6 | (5,293) | 7,453 | 2,153 |
| Adjustment for SaaS[1] | – | – | – | – | (13) | (13) |
| At 1 April 2020 (restated)[1] | – | (13) | 6 | (5,293) | 7,440 | 2,140 |
| Profit for the year (restated)[1] | – | – | – | – | 631 | 631 |
| Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve | – | (5) | – | – | (415) | (420) |
| Amortisation of cost of hedging reserve | – | – | 4 | – | – | 4 |
| Total comprehensive income for the year (restated)[1] | – | (5) | 4 | – | 216 | 215 |
| Equity dividends (note 11) | – | – | – | – | – | – |
| At 31 March 2021 (restated)[1] | – | (18) | 10 | (5,293) | 7,656 | 2,355 |

1 See note 1(c).

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

Other deficit comprises the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas Plc. This merger reserve will reduce distributable profits. As the amounts included in other deficits are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

The notes on pages 127 to 170 are an integral part of these financial statements.

# Consolidated statement of cash flows

For the year ended 31 March 2022

| | Notes | 2022 £m | 2021 (restated)[1] £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Total operating profit | | 685 | 902 |
| Adjustments for: | | | |
| Exceptional items | 6 | 12 | 10 |
| Depreciation and amortisation | 12/13 | 400 | 374 |
| Decrease/(increase) in inventories | 15 | 1 | (2) |
| Decrease in trade and other receivables | | 41 | 54 |
| (Decrease)/increase in trade and other payables | | (6) | 15 |
| Capital contribution income | | (46) | (125) |
| Changes in provisions | | (3) | (17) |
| Gain on disposal of property, plant and equipment | | (2) | (1) |
| Changes in pensions and other post-retirement obligations | | (28) | (6) |
| Capital contributions received | | 52 | 102 |
| Cash flows relating to exceptional items | | (8) | (9) |
| Cash generated from operations | | 1,098 | 1,297 |
| Tax paid | | (85) | (145) |
| **Net cash inflow from operating activities** | | 1,013 | 1,152 |
| **Cash flows from investing activities** | | | |
| Purchases of intangible assets | | (5) | (45) |
| Purchases of property, plant and equipment | | (856) | (1,000) |
| Disposals of property, plant and equipment | | 2 | – |
| Interest received | | – | 1 |
| Net decrease/(increase) in financial investments | | 735 | (488) |
| **Net cash flow used in investing activities** | | (124) | (1,532) |
| **Cash flows from financing activities** | | | |
| Proceeds received from loans | | – | 537 |
| Repayment of loans | | (550) | – |
| Repayment of lease liabilities | 22 | (11) | (11) |
| Interest paid | | (133) | (143) |
| Dividends paid to shareholders | 11 | (195) | – |
| **Net cash (used in)/inflow from financing activities** | | (889) | 383 |
| **Net increase in cash and cash equivalents** | | – | 3 |
| Net cash and cash equivalents at the start of the period | | 12 | 9 |
| **Net cash and cash equivalents at the end of the period** | | 12 | 12 |
| Comprising: | | | |
| – Cash[2] | | 13 | 17 |
| – Overdraft | | (1) | (5) |

1 See note 1(c).

2 Cash of £13m includes £11m which has specific restrictions over its use. See Note 1(s) for details.

# Notes to the consolidated financial statements

As at 31 March 2022

## 1 Summary of significant accounting policies

Cadent Gas Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom and is registered in England and Wales. The address of its registered office is Pilot Way, Ansty, Coventry, CV7 9JU, United Kingdom.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

### (a) Basis of preparation

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

### Going Concern

The financial statements for the Group have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value.

Having considered the reasonable worst-case scenario (more detail can be found in the Directors' report), the Group continues to have headroom against the Group committed facilities disclosed in note 21. In addition, the ability to raise new financing was considered and it was concluded that the Group has the ability to continue to have access to the debt capital markets if needed.

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 these consolidated financial statements. 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 financial statements.

### Consolidated financial statements

The consolidated financial statements of Cadent Gas Limited have been 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 Standards) as issued by the International Accounting Standards Board (IASB).

### (b) Basis of consolidation

The consolidated financial statements include the results of Cadent Gas Limited and its subsidiaries, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited, Cadent Gas Pension Services Limited, Cadent Finance Plc and associate undertakings. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

Associates are accounted for on an equity basis where the Group holding is 20% or more and the Group has the power to exercise significant influence.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

Cadent has an agreement with the Charities Trust to contribute at least 1% of profit after tax into a Donor Advised Fund ("DAF"). We have concluded that the DAF is not controlled by the Group as the Charities Trust have the power to overrule decisions that do not align with the objectives of the Foundation and the requirements of IFRS 10 have not been met in respect of (1) rights to variable returns and (2) its ability to affect the amount of investor returns. Therefore this has not been consolidated as part of the Cadent Group.

### (c) New IFRS accounting standards and interpretations

In the 2022 financial year, the Cadent Group has changed its accounting policy related to the capitalisation of certain software costs. This change follows the IFRS interpretations committee agenda decision in relation to cloud computing arrangements which clarified how customisation and configuration costs should be accounted for when utilising software as a service ('SaaS').

Following the adoption of the IFRIC guidance, management identified SaaS arrangements and assessed them to determine if they meet the definition of an intangible asset. For arrangements where the definition was not met, costs previously capitalised have been derecognised. As required by IAS 8 Accounting Policies, Changes in Accounting Estimates and errors, the change in accounting policy has been applied retrospectively resulting in a restatement of comparative figures.

The change in accounting policy has resulted in the net book value of the intangible assets recognised as at 1 April 2020 and 31 March 2021 by £16m and £15m respectively with associated increase in the corporation tax asset of £3m. The comprehensive income reported for the year ended 31 March 2021 has increased by £1m as a result of a corresponding decrease in operating expenses.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 1 Summary of significant accounting policies continued

### (c) New IFRS accounting standards and interpretations continued

The following adjustments were made to the consolidated income statement:.

| | 2021 £m | Adjustment £m | 2021 (restated) £m |
|---|---|---|---|
| Operating costs | (1,164) | 1 | (1,163) |
| Total operating profit | 901 | 1 | 902 |
| **Profit before tax** | | | |
| Before exceptional items and remeasurements | 789 | 1 | 790 |
| **Total profit before tax** | **778** | **1** | **779** |
| **Profit for the year** | **630** | **1** | **631** |

The following adjustments were made to the consolidated statement of financial position:

| | At 1 April 2020 £m | Adjustment £m | At 1 April 2020 (restated) £m | At 31 March 2021 £m | Adjustment £m | At 31 March 2021 (restated) £m |
|---|---|---|---|---|---|---|
| Intangible assets | 90 | (16) | 74 | 103 | (15) | 88 |
| Corporation tax asset | – | 3 | 3 | – | 3 | 3 |
| **Net assets** | **2,153** | **(13)** | **2,140** | **2,367** | **(12)** | **2,355** |
| Retained earnings | 7453 | (13) | 7,440 | 7,668 | (12) | 7,656 |
| **Total equity** | **2,153** | **(13)** | **2,140** | **2,367** | **(12)** | **2,355** |

The following adjustments were made to the consolidated statement of cash flows:

| | 2021 £m | Adjustment £m | 2021 (restated) £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | 901 | 1 | 902 |
| Depreciation and amortisation | 376 | (2) | 374 |
| **Cash generated from operations** | **1,298** | **(1)** | **1,297** |
| **Cash flows from investing activities** | | | |
| Purchases of intangible assets | (46) | 1 | (45) |
| **Net cash flow used in investing activities** | **(1,533)** | **1** | **(1,532)** |

See note 1(d ) for further detail on the updated policy.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16- Interest rate benchmark reform (phase 2);
- Amendments to IFRS 16- COVID-19 related rent concessions

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IFRS 17 and IFRS 4, Insurance contracts, deferral of IFRS 9
- Amendments to IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform (phase 2)
- Amendments to IAS 12, Deferred tax*
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities*
- Amendments to IAS 16, Proceeds before intended use
- A number of narrow-scope amendments to IFRS 3, IFRS 3, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8

* Denotes that the standard or interpretation has not yet been adopted by the UK (United Kingdom).

## 1 Summary of significant accounting policies continued

### (c) New IFRS accounting standards and interpretations continued

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below.

**Interest rate benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16**

The replacement of key interest rate benchmarks such as the London Inter-bank Offered Rate (LIBOR) with alternative benchmarks in the UK, EU, US and other territories occurred at the end of 2021 for most benchmarks, with remaining USD LIBOR tenors expected to cease in 2023.

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16' Phase I and Phase II were issued by the IASB in September 2019 and August 2020, and adopted by the UK Endorsement Board on 5 January 2021 to provide practical expedients and reliefs when changes are made to contractual cash flows or hedging relationships because of the transition from Inter-bank Offered rates to alternative risk-free rates. Phase I of the amendment modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms. Phase II also provided that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform should be reflected by adjusting their effective interest rate and no immediate gain or loss should be recognised. The Group adopted these amendments from 1 April 2021 and they were applied prospectively from that date.

During the year, the Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. The Group transitioned 2 out of 3 of the instruments that referenced LIBOR to SONIA with the other instrument being repaid prior to the replacement of LIBOR.

Cadent Gas Limited had 2 instruments with direct exposure to LIBOR. The below table summarises their current position.

| Instrument | Nominal Amount (£m) | Exposure (£m) | Maturity | Details |
|---|---|---|---|---|
| RCF facility | 500 | – | Jul-24 | Cadent Gas Limited currently does not have exposure under this RCF line but the line has been transitioned from LIBOR to SONIA for future use. |
| EIB loan and swap agreement | 400 | 400 | Mar-27 | Cadent Gas Limited's exposure is linked to LIBOR in the loan and the derivative was a swap from LIBOR to RPI. Both contracts have been amended to include a SONIA provision. |

Our current portfolio of derivatives consist of those in a designated hedge relationship (cross-currency interest rate swaps) and those not designated in a hedge relationship (our RPI and CPI swaps). The cross-currency interest rate swaps and underlying hedged items designated in hedge relationships all pay/receive fixed rates of interest, so there was no impact in this context. However, the valuation of our derivatives have been updated following the LIBOR transition, owing to changes in the market convention of arriving at a discounted fair value.

As at 31 March 2022, the Group was not directly exposed to interest rate benchmark reform as it held no interest rate derivatives or floating rate debt that continued to reference LIBOR.

### (d) Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets, other than goodwill and those assets with indefinite useful lives (the gas distribution Licence), are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired. Software customisation and configuration costs relating to software not controlled by the Group are expensed over the period such services are received.

Impairment of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 1 Summary of significant accounting policies continued

### (d) Intangible assets continued

Internally generated intangible assets, such as software, are recognised only if all of the following criteria are satisfied: an asset is created that can be identified; the technical feasibility of completing the intangible asset so that it will be available for use; the intention to complete the intangible asset and use it; the ability to use the intangible asset; it is probable that the asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

**Amortisation Periods**
Computer software – 5 years
Computer licenses – 3 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

### (e) Property, plant and equipment and depreciation

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. We also continue to invest in research and innovation to support the energy transition to net zero. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment assets includes assets which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets. Continued investment and future forecasted spend will be incurred with an aim to make the network usable for alternative technologies and energies.

Contributions received towards the cost of altering, diverting or relocating a tangible fixed asset are included in trade and other payables as deferred income and credited to revenue once the performance obligation has been met for example the alteration, diversion or relocation has been completed.

Contributions received towards the cost of tangible assets from customers for connections to the gas distribution networks are initially recognised as deferred income and credited to revenue once the performance obligation has been met for example the connection has been completed.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually and consideration is given to the impact of climate change particularly the impact that a move to low and zero carbon gases will have. The UK's target of reducing all greenhouse gas emissions to net zero in the future will impact how our network can be used. In preparing these financial statements we have assumed that we can use our existing network to deliver greener gases like biomethane and hydrogen which means our network can be used until our transition to net zero and beyond and hence our assets have useful lives that extend beyond 2050 in line with our policy. See Note 2 for our critical accounting judgements and key sources of estimation uncertainty. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

| Depreciation periods | Years |
|---|---|
| Freehold and leasehold buildings | Up to 50 |
| Plant and machinery | 30 to 50 |
| Motor vehicles and other equipment | Up to 10 |

## 1 Summary of significant accounting policies continued

### (e) Property, plant and equipment and depreciation continued

Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting effect of climate change by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target of reducing all greenhouse gas emissions to net zero in the future will impact how our network can be used. In preparing these financial statements we have assumed that we can use our existing network to deliver greener gases like biomethane and hydrogen which means our network can be used until our transition to net zero and beyond. See Note 2 for our critical accounting judgements and key sources of estimation uncertainty.

### (f) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

### (g) Financial instruments

**Initial recognition**

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Classification and measurement**

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost; or
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. Impairments are calculated using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Accretion on inflation linked borrowings is accounted for on an accrual basis to the income statement, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 1 Summary of significant accounting policies continued

### (g) Financial instruments continued

#### Classification and measurement continued

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

#### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

#### Impairment of financial assets

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. The Group has taken default to be defined as a counterparty that has entered administration.

The Group recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- trade receivables; and
- loan receivables; and
- other receivables.

The Group measures the loss allowances at an amount equal to the 12 month expected credit loss. The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the Group recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the Group recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the Group recognises the lifetime expected credit loss.

A significant increase in credit risk would by any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

Evidence that the financial asset is credit impaired includes the following:

- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the Group that the Group would not consider otherwise; or
- it is probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for an associated security because of financial difficulties.

### (h) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which has not yet been invoiced.

Trade receivables and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

## 1 Summary of significant accounting policies continued

### (i) Trade and other payables

Trade payables are initially recognised at amortised cost and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book values. Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the statement either:

- Once the project is complete; or
- Over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further details on assessment of performance obligations see note 1(n) Revenue.

### (j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

### (k) Tax

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authorities and the company intends to settle their current tax assets and liabilities on a net basis.

### (l) Provisions for liabilities

Provisions for liabilities are recognised where a legal or constructive obligation exists at the reporting date, as a result of past events where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditure, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

Other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions related to the operation of our gas networks. Where amounts are material, third party valuations are performed.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 1 Summary of significant accounting policies continued

### (m) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

### (n) Revenue

Revenue largely comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year (capacity revenue), and the amount of gas transported for the year (commodity revenue), evaluated at contractual prices on a monthly basis. The customers for the distribution of gas are Shippers. The single performance obligation for these revenue streams was deemed to be the provision of a safe gas transportation network between the National Gas Transmission network to end consumers (customers of the shippers) and being able to transport gas around the network. The performance obligation is satisfied over time as the shippers immediately control and consume the benefits that Cadent Gas provides over time by having a network available to shippers (capacity) and transporting the gas around the network (commodity). Although capacity and commodity revenue are invoiced separately, the services are not distinct (the nature of the promise is to transfer a combined service) and only one performance obligation exists.

Income from shippers is governed by the credit rules within the Uniform Network Code (the Industry Code by which we are bound). These set out the level of credit relative to our RAV for each counterparty's credit rating. The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit ratings, letters of credit from a financial institution, parent company guarantees, independent assessment, payment history allowance and advanced cash deposits. Typical payment terms are 14 days.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised, as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Other income comprises all activities outside the regulated business principally relating to cash fees paid by customers, typically property owners / developers, for connections fees and typically developers or large infrastructure projects for altering, diverting or relocating part of our existing network. There are also non material revenue streams for call handling services (emergency telephone service for all gas distribution networks) and metering services (the provision of meter installation and repair services).

For fees paid by customers the performance obligation is satisfied when either the new connections to our network or alteration / diversion of our network is completed and control passes to the customer on this completion of the physical installation ready for the first flow of gas. Significant judgment was applied for connections to determine whether the connection service was distinct from the provision of future network services. Cadent judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available. For call handling services, the performance obligation is satisfied over time with the provision of an emergency call handling service to customers. For metering services, the performance obligation is satisfied on completion of the installation or the repair and control passes when the meter is operational. Customers for metering services are typically the gas supplier and distinct from the ongoing supply of gas. Typical payment terms are 30 days for our other revenue.

Where we receive amounts from customers in relation to Supplier of Last Resort (SoLR) claims, we have deemed that we are operating as an agent in this transaction as we pay the amounts collected directly onto the SoLR with no control over the amount and we do not receive any commission. We therefore present the amounts collected and amounts paid on a net basis per the requirements of IFRS 15.

The UK's target of reducing all greenhouse gas emissions to net zero by 2050 will impact how our network can be used in the future, and how we generate revenue. See note 2.

### (o) Exceptional items and remeasurements

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

Management utilises an exceptional 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 spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items 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 deferred tax rate changes.

## 1 Summary of significant accounting policies continued

### (o) Exceptional items and remeasurements continued

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

### (p) Pensions

The company operates both a defined benefit (DB) and a defined contribution (DC) pension scheme.

For the DC pension scheme, the company pays contributions into a Master Trust on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

### (q) Leases

The company land and building leases offices, operational buildings, land, equipment and vehicles. Rental contracts typically range from 6 months to 10 years, however land and building leases can be significantly longer.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

IFRS 16 has been applied for all leases (except as noted below), the company:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16;

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (with a lease term of 12 months or less) and leases of low-value assets (deemed less than £3,500) the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

#### Measurement

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and
- lease payments to be made under reasonably certain extension options.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 1 Summary of significant accounting policies continued

### (q) Leases continued

**Measurement** continued

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee of a term similar to that of the lease contract.

The lease liability is presented as a separate line in the consolidated statement of financial position, split between current and non-current liabilities.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification"

**Variable lease payments**

- Some leases contain variable payment terms. These include:
- Leases for equipment which contain fixed value increases over the life of the lease e.g. final balloon payments. These are included in the lease liability as the amounts are known;
- A gas storage facility for which the rental payments are linked to RPI, and potential future increases in lease payments are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset; and
- Leased equipment where the lease payments are variable as they are based on usage. These costs are not included in the lease liability in line with IFRS 16 because the payments do not meet the definition of a liability until the use occurs. Instead these are recognised in the profit and loss account as and when the expense is incurred."

**Right-of-use assets**

Right-of-use assets are measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. The right-of-use assets are presented within property, plant and equipment in the consolidated statement of financial position.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

**Finance leases under IAS 17**

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

### (r) Other reserves

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. On 1 October 2016 Cadent Gas Limited acquired the trade and assets of the Gas Distribution business from National Grid Gas plc. This acquisition was accounted for as a business combination under common control as the entities were under the common control of National Grid plc. As such, Cadent Gas Limited selected to apply predecessor accounting and this resulted in the excess of the consideration paid over the carrying value of the net assets, being recorded as a separate component of equity and a merger reserve of £5,165m was recognised. Subsequent to this, Cadent Gas Limited recognised its share of the pension sectionalisation and the recognition of pension deficit of £128m net of deferred tax was recognised against the merger reserve. This merger reserve will reduce distributable profits. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

## 1 Summary of significant accounting policies continued

### (s) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

The Group classifies cash flows as either operating, investing or financing as per the requirements of IAS 7-Statement of cash flows. In determining the classification the Group considers what is most appropriate to the business.

The Group receives monies in the form of grants. The use of this cash is restricted by the specific terms and conditions of each grant and therefore is not available for general use.

## 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**, 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.

### Critical accounting judgements

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- The determination and judgement that connections and supply services are not distinct services and therefore there is only one performance obligation for revenue from the distribution of gas. We judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available, and hence the performance obligation is distinct and revenue is recognised once the new connection is completed;
- The recognition of a surplus in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. We have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up – **note 27**;
- The categorisation of restructuring costs as an exceptional item under the exceptional framework. In making this determination, management have concluded that, after taking into account the facts and circumstances, the restructuring programme is within our control and occurs reasonably frequently, and therefore have applied a materiality threshold consistent with our accounting policies. This is consistent with judgements made in previous years relating to this and other restructuring programmes – **note 6**; and
- The judgement that the network can be used for alternative technologies beyond 2050. Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting effect of climate change by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how our network is used. The UK Government's current plans include the production and use of Hydrogen and to achieve net-zero, although there remains uncertainty about significant aspects of the UK energy sector plans under net-zero. Given the information currently available regarding these plans and the initial feasibility studies completed regarding the use of alternative gases through our network and the large scale production of these gases, we have judged that our network will continue to be used to transport gas (methane, hydrogen, other alternatives such as biomethane or a combination of these) beyond 2050, and that these gases will be available in sufficient quantities. See below for the estimates we have made regarding useful lives when applying this judgement to our financial statements – **notes 12 & 13**.

IFRS provides certain options available within accounting standards. We have made the choice to apply hedge accounting to financial instruments in most cases where this is permitted.

### Key sources of estimation uncertainty

Key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

- Determination of useful lives and carrying values of property, plant and equipment and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. Changes made to the UELs could have a material impact on the depreciation recognised in the next financial year. 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. Given the information currently available about how the UK will achieve net-zero using alternative technologies (particularly greener gases such as hydrogen and biomethane) 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. Management have therefore assumed that our network assets can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy. However, if future developments in technology or the climate change agenda indicate that the UELs of our network assets are limited to 2050, the depreciation charge recognised in future periods would increase by a material amount – **notes 12 & 13**; and

# Notes to the consolidated financial statements continued

As at 31 March 2022

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

**Key sources of estimation uncertainty** continued

- The estimation of liabilities for pensions and other post-retirement benefits include a number of key assumptions which include life expectancy of members, expected salary and pension increases, and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied – **note 27**.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in **note 29**.

## 3 Segmental analysis

The Directors believe that the whole of the company'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 company's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The company's assets are all located within the United Kingdom.

## 4 Revenue

| | 2022 £m | 2021 £m |
|---|---|---|
| Revenue from distribution of gas | 1,926 | 1,924 |
| Other income | 58 | 151 |
| | 1,984 | 2,075 |

Geographical analysis of revenue is not provided as the company's operations are all undertaken in the UK for customers based in the UK.

| | 2022 £m | 2021 £m |
|---|---|---|
| **Analysis of revenue by major customer** | | |
| Customer A | 445 | 463 |
| Customer B | 238 | 183 |
| | 683 | 646 |

Two customers contributed 10% or more to the Group's revenue during the year to 31 March 2022 (2021: one).

## 5 Operating Profit

| | 2022 £m | 2021 (restated)[1] £m |
|---|---|---|
| **Operating profit is stated after charging:** | | |
| Depreciation and amortisation | 400 | 374 |
| Payroll costs (see note 7) | 244 | 213 |
| Inventory consumed | 12 | 9 |
| Shrinkage | 58 | 12 |
| Rates | 212 | 212 |
| Research and development expenditure | 13 | 10 |

1 See note 1(c).

Shrinkage is the leakage of methane from our gas networks and is addressed through the mains repair, maintenance and replacement programme. This activity means we replace damaged or low-quality pipes with new plastic alternatives which means lower leakage from the network.

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Services provided by the company's auditor** | | |
| Audit services | | |
| Fees payable to the Group's auditors for the audit of the financial statements | 734 | 633 |
| Fees payable for the audit of the subsidiary company financial statements | 49 | 53 |
| Other services | | |
| Fees payable to the company's auditors for audit-related assurance services | 85 | 82 |
| Other non-audit services | 201 | 116 |

## 5 Operating Profit continued

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditors such as interim reviews. Other non audit services in 2022 relate to services provided in connection with the raising of debt, grant claims or required by the regulator.

## 6 Exceptional items and remeasurements

Exceptional items and remeasurements are items of income and expenditure that, in the judgement 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 exceptional items may not be comparable between companies, and the exclusion of exceptional items impacts the presentation of financial performance and cash flows.

| | 2022 £m | 2021 £m |
|---|---|---|
| **Exceptional items included within operating costs:** | | |
| Separation activities (i) | – | 7 |
| Restructuring costs (ii) | 12 | 3 |
| | 12 | 10 |
| **Remeasurements included within finance costs:** | | |
| Net losses on derivative financial instruments (iii) | 78 | 1 |
| **Total included within profit before tax** | 90 | 11 |
| **Included within taxation:** | | |
| Exceptional charge arising | | |
| Deferred tax charge arising from changes in UK corporation tax rate (iv) | 388 | – |
| Tax on other exceptional items and remeasurements | | |
| Tax on separation activities | – | (1) |
| Tax on restructuring costs | (2) | (1) |
| Tax on remeasurements | (20) | – |
| | 366 | (2) |
| **Total exceptional and remeasurements after tax** | 456 | 9 |
| **Analysis of total exceptional items and remeasurements after tax** | | |
| Total exceptional items after tax | 398 | 8 |
| Total remeasurements items after tax | 58 | 1 |
| | 456 | 9 |

(i) As a result of the acquisition of the company by Quadgas MidCo Limited from National Grid Plc, a number of separation activities arose in the prior year which were exceptional by nature as this is not in the ordinary course of the business, and the associated costs have been material in total across the periods in which they have been undertaken.

(ii) The Group is undergoing a reorganisation exercise with the programme still ongoing. Costs totalling £12 million have been recognised, which mainly relate to redundancy costs (£8 million) and pension strain (£4 million). Cumulative costs of £52 million have been recognised since the beginning of the restructure in 2019, with the programme largely complete. These activities are infrequent and exceptional in nature, and are financially material over the course of the exercise

(iii) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the income statement. This excludes any amounts relating to accretion which is included within interest and this excludes 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.

(iv) In the March 2021 Budget it was announced that legislation would be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%. The Finance Bill 2021-22 received Royal Assent in June 2021 and therefore deferred tax balances forecast to reverse in the period from 1 April 2023 have been restated to 25% of temporary differences, resulting in an increase to the deferred tax liability for the company of £414 million, with an exceptional charge of £388 million recognised in the income statement and £26 million recognised in other comprehensive income. Deferred tax balances which are forecast to reverse prior to this remain at 19%.

## 7 Employment numbers and costs

The average number of persons (including Executive Directors) employed by the Group was 5,945 (2021: 5,258) and can be analysed as follows:

| | 2022 | 2021 |
|---|---|---|
| Field force | 2,804 | 2,152 |
| Office and other administrative staff | 3,141 | 3,106 |
| **Total** | 5,945 | 5,258 |

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 7 Employment numbers and costs continued

| | 2022 £m | 2021 £m |
|---|---|---|
| Wages and salaries | **269** | 235 |
| Social security costs | **31** | 27 |
| Other pension costs | **48** | 42 |
| | **348** | 304 |
| Less: payroll costs capitalised | **(104)** | (91) |
| | **244** | 213 |

Key management comprises the Board of Directors of the company including Executive and Non-executive Directors who have managerial responsibility for the businesses of Cadent Gas Limited.

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Salaries and other short-term employee benefits | **3,963** | 2,459 |
| Post-employment benefits | **153** | 134 |
| | **4,116** | 2,593 |

## 8 Directors' emoluments

The Directors' emoluments were as follows:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Aggregate emoluments (including salary, fees, bonuses and benefits in kind) | **3,963** | 2,459 |
| Pension schemes | **153** | 134 |
| | **4,116** | 2,593 |

There were no amounts paid to third parties for Directors' services. Amounts of £nil (2021: £69,000) were due to one past Director.

### Highest paid Director

The highest paid Director's emoluments were as follows:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes | **2,448** | 1,356 |
| Defined benefit pension scheme | | |
| – accrued pension at end of period | **73** | 72 |

## 9 Finance income and costs

| | 2022 £m | 2021 £m |
|---|---|---|
| **Finance income** | | |
| Interest income from pensions | 9 | 21 |
| Interest income from financial instruments | 1 | 1 |
| Finance income | 10 | 22 |
| **Finance costs** | | |
| Interest expense on financial liabilities held at amortised cost: | | |
| Bank loans and overdrafts | 35 | 11 |
| Bonds (i) | 143 | 123 |
| Derivatives (ii) | 69 | 9 |
| Unwinding of discounts on provisions and lease liabilities | 1 | 1 |
| Finance costs | 248 | 144 |
| **Remeasurements** | | |
| Net losses on derivative financial instruments included in remeasurements (iii): | | |
| Cash flow hedges | – | – |
| Derivatives not designated as hedges or ineligible for hedge accounting | 77 | 1 |
| Other | 1 | – |
| Remeasurements included within finance costs | 78 | 1 |
| **Finance costs** | 326 | 145 |
| **Net finance costs** | 316 | 123 |

(i) Included within finance costs in bonds is £37m of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £162m) and £22m of accretion on RPI-linked debt instruments of >10 years tenor (cumulative: £172m).

(ii) Included within finance costs in derivatives is £34m of accretion on RPI-linked swaps with tenor>10 years (cumulative: £77m), accretion of £39m on CPI-linked swaps (cumulative: £39m) with 7-10 years tenor and £10m on CPI-linked swaps (cumulative:£10m) with tenor >10 years.

(iii) Includes a net foreign exchange loss on financing activities of £3m (2021: £75m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

## 10 Taxation

### Tax charged /(credited) to the income statement

| | 2022 £m | 2021 £m |
|---|---|---|
| Tax before exceptional items and remeasurements | 96 | 150 |
| Exceptional tax relating to UK tax rate change (see note 6) | 388 | – |
| Tax on other exceptional items and remeasurements | (22) | (2) |
| Total tax expense | 462 | 148 |

### Taxation as a percentage of profit before tax

| | 2022 % | 2021 % |
|---|---|---|
| Before exceptional items and remeasurements | 20.9 | 19.0 |
| After exceptional items and remeasurements | 125.2 | 19.0 |

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

| | 2022 £m | 2021 £m |
|---|---|---|
| Current tax | | |
| UK corporation tax at 19% (2021: 19%) | 85 | 148 |
| UK corporation tax adjustment in respect of prior years | (2) | – |
| Total current tax | 83 | 148 |
| Deferred tax | | |
| UK deferred tax current year | (10) | – |
| UK deferred tax arising as a result of the increase in the tax rate | 388 | – |
| UK deferred tax adjustment in respect of prior years | 1 | – |
| Total deferred tax | 379 | – |
| Total tax charge | 462 | 148 |

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 10 Taxation continued

### Total tax charged/(credited) to other comprehensive income and equity

| | 2022 £m | 2021 £m |
|---|---|---|
| Deferred tax | | |
| Financial instruments | (1) | – |
| Remeasurements of post- employment benefit obligations (i) | 183 | (98) |
| Total tax credited/(charged) to other comprehensive income and equity | 182 | (98) |

(i) £26m of the tax charge in 2022 (2021: £Nil) relates to the impact of the enacted increase in the UK tax rate.

The tax charge for the year after exceptional items and remeasurements is higher than (2021: the same as) the standard rate of corporation tax in the UK of 19% (2021: 19%):

| | Before Exceptional Items and Remeasurements 2022 £m | After Exceptional Items and Remeasurements 2022 £m | Before Exceptional Items and Remeasurements 2021 £m | After Exceptional Items and Remeasurements 2021 £m |
|---|---|---|---|---|
| Profit before tax | | | | |
| Before exceptional items and remeasurements (restated)[1] | 459 | 459 | 790 | 790 |
| Exceptional items and remeasurements | – | (90) | – | (11) |
| Profit before tax | 459 | 369 | 790 | 779 |
| Profit before tax multiplied by UK corporation tax rate of 19% (2021: 19%) | 87 | 70 | 150 | 148 |
| Effect of: | | | | |
| Expenses not deductible for tax purposes | 3 | 3 | 2 | 2 |
| Non-taxable income | (1) | (1) | (1) | (1) |
| Corporation tax/deferred tax rate differential | 9 | 4 | – | – |
| Deferred tax impact of change in UK tax rate | – | 388 | – | – |
| Super deduction capital allowances | (1) | (1) | – | – |
| Prior year adjustments | (1) | (1) | (1) | (1) |
| **Total tax** | 96 | 462 | 150 | 148 |

1 See Note 1(c).

### Factors that may affect future tax charges

In the March 2021 Budget it was announced that legislation would be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%. The Finance Bill 2021-22 received Royal Assent in June 2021. As a result, the main rate of UK corporation tax will increase from 19% to 25%, effective 1 April 2023, resulting in an increase to the deferred tax liability for the company of £414 million, with an exceptional charge of £388 million recognised in the income statement and £26 million recognised in other comprehensive income. Deferred tax balances which are forecast to reverse prior to this remain at 19%.

## 10 Taxation continued

**Taxation included within the statement of financial position**

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current reporting period:

| | Accelerated Tax Depreciation £m | Pensions £m | Financial Instruments £m | Other Net Temporary Differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 April 2021 | 1,306 | 79 | (8) | (9) | 1,368 |
| Charged/(credited) to income statement | 396 | 7 | (21) | (3) | 379 |
| Charged to other comprehensive income and equity | – | 183 | (1) | – | 182 |
| **At 31 March 2022** | **1,702** | **269** | **(30)** | **(12)** | **1,929** |
| Deferred tax assets | **–** | **–** | **(30)** | **(12)** | **(42)** |
| Deferred tax liabilities | **1,702** | **269** | **–** | **–** | **1,971** |
| **At 31 March 2022** | **1,702** | **269** | **(30)** | **(12)** | **1,929** |

| | Accelerated Tax Depreciation £m | Pensions £m | Financial Instruments £m | Other Net Temporary Differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 April 2020 | 1,311 | 172 | (8) | (9) | 1,466 |
| Charged/(credited) to income statement | (5) | 5 | – | – | – |
| Charged/(credited) to other comprehensive income and equity | – | (98) | – | – | (98) |
| **At 31 March 2021** | 1,306 | 79 | (8) | (9) | 1,368 |
| Deferred tax assets | – | – | (8) | (9) | (17) |
| Deferred tax liabilities | 1,306 | 79 | – | – | 1,385 |
| **At 31 March 2021** | 1,306 | 79 | (8) | (9) | 1,368 |

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £1,929m (2021: £1,368m).

## 11 Dividends

| | 2022 £m | 2021 £m |
|---|---|---|
| Interim dividend of £1,153.64 per ordinary share amounting to £195,000,000 was declared on 20 January 2022 and paid on 21 January 2022 | **195** | – |
| | **195** | – |

No further dividends were proposed for the current financial period.

Financial statements

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 12 Intangible assets

| | Software £m |
|---|---|
| **Cost:** | |
| At 1 April 2021 (restated)[1] | **199** |
| Additions | **3** |
| Disposals | **–** |
| **At 31 March 2022** | **202** |
| **Accumulated amortisation:** | |
| At 1 April 2021 (restated)[1] | **(111)** |
| Amortisation charge for the period | **(21)** |
| Disposals | **–** |
| **At 31 March 2022** | **(132)** |
| **Net book value:** | |
| **At 31 March 2022** | **70** |
| At 31 March 2021 (restated)[1] | 88 |

| | Software £m |
|---|---|
| Cost: | |
| At 1 April 2020 | 183 |
| Adjustment for SaaS[1] | (16) |
| At 1 April 2020 (restated)[1] | 167 |
| Additions (restated)[1] | 33 |
| Disposals | (1) |
| At 31 March 2021 (restated)[1] | 199 |
| Accumulated amortisation: | |
| At 1 April 2020 | (93) |
| Adjustment for SaaS[1] | – |
| At 1 April 2020 (restated)[1] | (93) |
| Amortisation charge for the period (restated)[1] | (18) |
| Disposals | – |
| At 31 March 2021 (restated)[1] | (111) |
| Net book value: | |
| At 31 March 2021 (restated)[1] | 88 |
| At 31 March 2020 (restated)[1] | 74 |

1 See note 1(c).

## 13 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 2021 | 119 | 11,382 | 60 | 183 | 47 | 11,791 |
| Additions | 14 | 629 | 61 | 18 | 56 | 778 |
| Reclassifications | 45 | 30 | (77) | 2 | – | – |
| Disposals | (7) | (8) | – | (6) | (4) | (25) |
| **At 31 March 2022** | **171** | **12,033** | **44** | **197** | **99** | **12,544** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 April 2021 | (28) | (1,216) | – | (112) | (22) | (1,378) |
| Charge for the period | (11) | (332) | – | (27) | (9) | (379) |
| Disposals | 7 | 7 | – | 6 | 4 | 24 |
| **At 31 March 2022** | **(32)** | **(1,541)** | **–** | **(133)** | **(27)** | **(1,733)** |
| **Net book value:** | | | | | | |
| **At 31 March 2022** | **139** | **10,492** | **44** | **64** | **72** | **10,811** |
| At 31 March 2021 | 91 | 10,166 | 60 | 71 | 25 | 10,413 |

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(e) for the estimated useful lives of each asset category, and note 29 for sensitivity analysis over the residual lives of assets.

The cost of property, plant and equipment at 31 March 2022 included £1,462,000 (2021: £1,462,000) relating to interest capitalised, with £Nil capitalised during the year (2021: £Nil).

**The net book value of right-of-use assets comprises:**

| | 2022 £m | 2021 £m |
|---|---|---|
| Land and buildings | **64** | 16 |
| Plant and Machinery | **1** | 1 |
| Motor vehicles and other equipment | **7** | 8 |
| | **72** | 25 |

**The net book value of land and buildings comprises:**

| | 2022 £m | 2021 £m |
|---|---|---|
| Freehold | **107** | 77 |
| Long leasehold (over 50 years) | **22** | – |
| Short leasehold (under 50 years) | **10** | 14 |
| | **139** | 91 |

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 13 Property, plant and equipment continued

| | 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 2020 | 76 | 10,427 | 100 | 152 | 43 | 10,798 |
| Additions | 11 | 842 | 110 | 28 | 4 | 995 |
| Reclassifications | 32 | 114 | (150) | 4 | – | – |
| Disposals | – | (1) | – | (1) | – | (2) |
| At 31 March 2021 | 119 | 11,382 | 60 | 183 | 47 | 11,791 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 April 2020 | (21) | (908) | – | (84) | (10) | (1,023) |
| Charge for the period | (7) | (308) | – | (29) | (12) | (356) |
| Disposals | – | – | – | 1 | – | 1 |
| At 31 March 2021 | (28) | (1,216) | – | (112) | (22) | (1,378) |
| Net book value: | | | | | | |
| At 31 March 2021 | 91 | 10,166 | 60 | 71 | 25 | 10,413 |
| At 31 March 2020 | 55 | 9,519 | 100 | 68 | 33 | 9,775 |

## 14 Investments in associates

The Group's only associate is in respect of its 45.57% equity stake in Xoserve Limited, which was previously fully impaired.

| Company | Class of share held | Place of business and country of incorporation | Percentage held | Principal activities |
|---|---|---|---|---|
| Xoserve Limited | Convertible redeemable, ordinary share of £0.01 designated as an A Share in the capital of the company | Registered address Lansdowne Gate, 65 New Road, Solihull, B91 3DL. Incorporated in England and Wales | 45.57% | Gas transportation transaction services |

Outstanding balances with associates are shown in note 31.

## 15 Inventories

| | 2022 £m | 2021 £m |
|---|---|---|
| Raw materials and consumables | **11** | 12 |
| | **11** | 12 |

Inventories are stated after provisions for impairment of £720,000 (2021: £938,000).

## 16 Trade and other receivables

| | 2022 £m | 2021 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade debtors | 12 | 17 |
| Other debtors | 2 | 33 |
| Prepayments | 6 | 11 |
| Accrued income | 159 | 155 |
| | 179 | 216 |
| **Amounts falling due after more than one year:** | | |
| Prepayments | 1 | 2 |
| | 1 | 2 |

In determining the recoverability of trade and other receivables the group considers any change in credit worthiness of the counterparty from the date credit was initially granted up to the reporting date.

The movement in loss allowance for the year was as follows:

| | 2022 £m | 2021 £m |
|---|---|---|
| At 1 April | 4 | 3 |
| Amounts utilised/written off in the year | – | – |
| Amounts charged to the income statement | 7 | 1 |
| At 31 March | 11 | 4 |

When judging if a financial asset should be valued using the lifetime expected loss calculation the Group needs to assess if there has been a significant increase in credit risk.

The Group takes a simplified approach and considers all receivables to be in stage 2 immediately. When assessing if a financial asset has reached level 3 (credit impaired), the following information is considered:

- existing or anticipated adverse changes in economic conditions that are expected to lead to a significant decrease in the counterparty's ability to meet its debt obligations;
- actual or expected significant reduction of the profitability of the counterparty; and
- significant movement in credit risk derived from observable market data relating to the same or similar counterparty.

The Group has assessed whether there is any impact of the effects of rising gas prices and the current conflict in Ukraine on the recoverability of trade and other receivables. The impact was deemed to be limited given the nature of the business in that our principal commercial exposure relates to shipper income which is governed by Section V of the Gas Transportation Uniform Network Code. There are a number of actions the Group takes to mitigate credit risks and any changes to the Uniform Network Code will need to be agreed across the gas industry with involvement from Ofgem. These include holding security in the form of cash, obtaining letters of credit and ensuring major diversionary work is invoiced in advance of the work commencing.

The impairment under the expected credit loss has been calculated by grouping customers into two distinct segments with significantly different customer bases and customers credit profiles. These segments are distinguished as follows:

- other income: diversions receivables, damages receivables, emergencies receivables, and other receivables; and
- shipper income: capacity accrued income, commodity accrued income.

### Other income

Other income included within trade debtors relates to any income stream which involves rechargeable construction work done on the network where the costs can be charged to another party. Examples include diversions income for diversions of gas pipes, charges for damages to gas pipes and rechargeable emergency repairs.

The loss allowance of the receivable balance is calculated using the expected loss model and is calculated using a matrix based on the number days past due plus any specific adjustments. Specific adjustments have been made based on forward looking information specific to any counterparty or counterparty segment which would lead the Group to adjust the normal matrix based calculation.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 16 Trade and other receivables continued

**Other income** continued

| 2022 | Not due £m | Current £m | 1-6 months £m | 6-12 months £m | Over 1 year £m | Total £m |
|---|---|---|---|---|---|---|
| Total balance | 3 | 2 | 6 | 1 | 3 | 15 |
| Expected credit loss | – | – | – | (1) | (2) | (3) |
| Balance after loss allowance | 3 | 2 | 6 | – | 1 | 12 |

| 2021 | Not due £m | Current £m | 1-6 months £m | 6-12 months £m | Over 1 year £m | Total £m |
|---|---|---|---|---|---|---|
| Total balance | 4 | 2 | 9 | 1 | 4 | 20 |
| Expected credit loss | – | – | (1) | – | (2) | (3) |
| Balance after loss allowance | 4 | 2 | 8 | 1 | 2 | 17 |

**Shipper Income**

Shipper income relates to all income received from gas shippers and is included within accrued income. These amounts relate to two different elements: capacity and commodity income. Typically shippers will settle within 14 days.

The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit rating, letter of credit from a financial institution, parent company guarantee, independent assessment, payment history allowance and advanced cash deposits.

The shippers are required to pay on strict schedules and failure to pay on the predetermined date will result in sanctions being placed on the customer account which are designed to reduce the Group's risk, such as refusal to give more credit.

The increase in gas prices had a wide impact our industry and a number of shippers and gas suppliers ceased trading in the year. 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). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a supplier of last resort (SoLR) process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities. At 31 March 2022 the outstanding debt with these failed customers was £8 million, which remains outstanding and is subject to our existing credit procedures.

| 2022 | Not due £m | Current £m | 1-6 months £m | 6-12 months £m | Over 1 year £m | Total £m |
|---|---|---|---|---|---|---|
| Total balance | 159 | – | | 6 | 2 | 167 |
| Expected credit loss | – | – | – | (6) | (2) | (8) |
| Balance after loss allowance | 159 | – | – | – | – | 159 |

| 2021 | | | | | | |
|---|---|---|---|---|---|---|
| Total balance | 152 | – | 4 | – | – | 156 |
| Expected credit loss | – | – | (1) | – | – | (1) |
| Balance after loss allowance | 152 | – | 3 | – | – | 155 |

## 17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

| | 2022 Assets £m | 2022 Liabilities £m | 2022 Total £m |
|---|---|---|---|
| Amounts falling due within one year | 1 | – | 1 |
| Amounts falling due after more than one year | 7 | (269) | (262) |
| | 8 | (269) | (261) |

| | 2021 Assets £m | 2021 Liabilities £m | 2021 Total £m |
|---|---|---|---|
| Amounts falling due after more than one year | – | (115) | (115) |
| | – | (115) | (115) |

## 17 Derivative financial instruments continued

For each class of derivative the notional contract amounts* are as follows:

| | 2022 £m | 2021 £m |
|---|---|---|
| Cross-currency interest rate swaps | 1,831 | 1,831 |
| Forward rate agreements | 1 | – |
| Inflation linked swaps | 1,400 | 400 |
| Foreign exchange forward currency | 2 | 3 |
| | 3,234 | 2,234 |

* The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

## 18 Current asset investments

| | 2022 £m | 2021 £m |
|---|---|---|
| Investments in short-term money funds | 80 | 815 |
| | 80 | 815 |

## 19 Trade and other payables

| | 2022 £m | 2021 £m |
|---|---|---|
| Trade creditors | 132 | 269 |
| Amounts owed to immediate parent company | 2 | 1 |
| Other tax and social security | 39 | 46 |
| Other creditors | 51 | 56 |
| Accruals | 95 | 90 |
| Deferred income | 99 | 108 |
| | 418 | 570 |

Due to the short-term nature of trade creditors, the fair value approximates its book value.

## 20 Accruals and deferred income (due after more than one year)

| | 2022 £m | 2021 £m |
|---|---|---|
| Accruals and deferred income (due after more than one year) | 16 | 8 |
| | 16 | 8 |

Accruals and deferred income mainly comprise fees received from customers for capital projects.

## 21 Borrowings

| | 2022 £m | 2021 £m |
|---|---|---|
| **Amounts falling due within one year** | | |
| Bank loans | 2 | 3 |
| Bank overdrafts | 1 | 5 |
| Bonds | 40 | 289 |
| | 43 | 297 |
| **Amounts falling due after more than one year** | | |
| Bank loans | 950 | 1,224 |
| Bonds | 5,974 | 5,954 |
| | 6,924 | 7,178 |
| Total borrowings are repayable as follows: | | |
| Less than one year | 43 | 297 |
| In one – two years | 93 | – |
| In two – three years | 1,093 | 89 |
| In three – four years | – | 1,371 |
| In four – five years | 400 | – |
| More than five years | 5,338 | 5,718 |
| | 6,967 | 7,475 |

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 21 Borrowings continued

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

| Currency | Listing Status | Notional (including accretion)* £m | Rate | Maturity | Book value (£m) | Fair Value £m |
|---|---|---|---|---|---|---|
| EUR** | Listed | 643 | Fixed | 23-Sep-24 | 637 | 637 |
| GBP | Listed | 850 | Fixed | 22-Sep-28 | 856 | 828 |
| GBP | Listed | 700 | Fixed | 22-Sep-38 | 705 | 641 |
| GBP | Listed | 800 | Fixed | 24-Sep-46 | 800 | 720 |
| GBP | Listed | 300 | Fixed | 21-Mar-40 | 296 | 287 |
| JPY*** | Listed | 68 | Fixed | 19-Jul-33 | 62 | 66 |
| GBP | Listed | 100 | Fixed | 19-Mar-31 | 100 | 99 |
| USD**** | Listed | 151 | Fixed | 19-Mar-31 | 152 | 151 |
| GBP | Listed | 200 | Fixed | 20-Mar-34 | 200 | 195 |
| GBP | Listed | 225 | Fixed | 21-Mar-39 | 225 | 215 |
| GBP | Listed | 300 | Fixed | 10-Oct-35 | 298 | 266 |
| EUR***** | Listed | 439 | Fixed | 11-Mar-32 | 418 | 378 |
| EUR****** | Listed | 537 | Fixed | 19-Mar-30 | 530 | 481 |
| | | **5,313** | | | **5,279** | **4,964** |
| **Index-linked** | | | | | | |
| GBP | Listed | 156 | RPI-linked | 02-May-39 | 229 | 244 |
| GBP | Listed | 158 | RPI-linked | 10-Aug-48 | 255 | 274 |
| GBP | Listed | 158 | RPI-linked | 14-Aug-48 | 252 | 270 |
| GBP | Unlisted | 88 | RPI-linked | 02-Oct-23 | 92 | 99 |
| GBP | Unlisted | 86 | RPI-linked | 18-Jun-24 | 91 | 95 |
| GBP | Unlisted | 86 | RPI-linked | 25-Jun-24 | 91 | 95 |
| GBP | Unlisted | 88 | RPI-linked | 29-Apr-24 | 93 | 97 |
| GBP | Unlisted | 87 | RPI-linked | 30-Apr-24 | 92 | 96 |
| GBP | Unlisted | 87 | RPI-linked | 07-May-24 | 92 | 96 |
| | | **994** | | | **1,287** | **1,366** |
| **Floating Rate** | | | | | | |
| GBP | Unlisted | 400 | SONIA | 23-Mar-27 | 400 | 403 |
| | | **400** | | | **400** | **403** |
| **Overdraft** | | 1 | | | 1 | 1 |
| **Total** | | **6,708** | | | **6,967** | **6,734** |

* Indexed linked debt notional is the accreted value.
** Euro amount is 750m.
*** Yen amount is 10bn.
**** Dollar amount is 200m.
***** Euro amount is 500m.
****** Euro amount is 625m.

On 14 April 2021 Cadent Gas Limited repaid £300 million of its existing syndicated term loan using available cash and committed bank facilities. On 22 September 2021 Cadent Finance Plc, a subsidiary of Cadent Gas Limited, repaid £250 million of loan notes, fully repaying this issuance, using existing funds. The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

The fair value of borrowings at 31 March 2022 was £6,734m (2021: £7,702m). Where market values were available, the fair value of borrowings (Level 1) was £4,238m (2021: £4,916m). Where market values were not available, the fair value of borrowings (Level 2) was £2,496m (2021: £2,786m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2022 was £6,708m (2021: £7,202m) (including accretion).

## 22 Lease liabilities

| | 2022 £m | 2021 £m |
|---|---|---|
| Current | 10 | 8 |
| Non-current | 69 | 16 |
| | 79 | 24 |

| | 2022 £m | 2021 £m |
|---|---|---|
| Lease liabilities are repayable as follows: | | |
| Year 1 | 10 | 8 |
| Year 2 | 8 | 4 |
| Year 3 | 7 | 3 |
| Year 4 | 6 | 2 |
| Year 5 | 4 | 1 |
| More than 5 years | 44 | 6 |
| | 79 | 24 |

The Group does not face a significant liquidity risk with regard to its lease liabilities. See note 28 (financial risk management) for further analysis.

All lease liabilities are denominated in sterling.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on was 2.20% for the current financial year (2021: 1.50%).

At 31 March 2022 the Group had committed to leases which had not commenced. The total future cash outflows for leases that had not yet commenced was £10m, relating to land and buildings.

In line with IFRS 16 leases, short-term leases (less than 12 months) and low value leases (less than £3,500) will continue to be recognised on a straight-line basis as an expense in profit or loss. The value of such payments can be seen in the table below.

**b) Amounts recognised in the statement of profit or loss**

| | 2022 £m | 2021 £m |
|---|---|---|
| Depreciation of right-of-use assets (see note 13) | 9 | 12 |
| Expense relating to short-term leases (included within operating expenses) | 4 | 2 |
| Expense relating to variable lease payments not included in lease liabilities (included within operating expenses) | 1 | 16 |

The total cash outflow for leases for the year to 31 March 2022 was £11m (2021: £11m).

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 23 Provisions for liabilities

| | Environmental £m | Restructuring £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 April 2021 | 28 | – | 49 | 77 |
| Charged to the income statement | 3 | 5 | 2 | 10 |
| Utilised | (1) | (4) | (5) | (10) |
| Released to the income statement | – | – | (7) | (7) |
| Unwinding of discount | – | – | – | – |
| **At 31 March 2022** | **30** | **1** | **39** | **70** |

| | Environmental £m | Restructuring £m | Other £m | Total £m |
|---|---|---|---|---|
| Current | 1 | 1 | 9 | 11 |
| Non-current | 29 | – | 30 | 59 |
| **At 31 March 2022** | **30** | **1** | **39** | **70** |

### Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0% (2021: 1.0%)). Cash flows are expected to be incurred between 2022 and 2082.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and climate change regulations, and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact on the calculation of the provision.

The undiscounted amount of the provision at 31 March 2022 is £38m (2021: £34m) being the undiscounted best estimate liability having regard to these uncertainties. See note 29 for analysis of the sensitivities associated with our estimate.

### Restructuring

The constructive obligation to restructure arose when Cadent announced the formal restructuring plan to those affected by it on 19 April 2021. The provision is based on the most likely payouts for individuals at risk. The associated costs are expected to be settled within 1 year.

### Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions relating to the operation of our gas networks.

The estimation of the provision for claims (whether insured or not) is based on projections of liabilities that are subject to potentially large amounts of estimation, since the ultimate liability of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes and social/economic conditions such as inflation. In our judgement, through the use of independent actuaries we have employed techniques and assumptions that are appropriate to project the liabilities.

Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The provision has been discounted based on future cash flows. The majority of claims are expected to be settled within 10 years.

## 24 Share capital

| | 2022 £m | 2021 £m |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 169,030 ordinary shares of £1 each | – | – |

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

## 25 Net debt

Net debt is a measure which shows the overall debt situation. Net debt is calculated by netting the value of a company's liabilities and debts with its cash and other similar short-term financial assets.

| | 2022 £m | 2021 £m |
|---|---|---|
| Increase in cash and cash equivalents | – | 3 |
| (Decrease)/increase in financial investments | (735) | 488 |
| Decrease/(increase) in borrowings and related derivatives | 550 | (537) |
| Repayment of lease liabilities | 11 | 11 |
| Net interest paid on the components of net debt | 133 | 142 |
| Change in net debt arising from cash flows | (41) | 107 |
| Changes in fair value of financial assets and liabilities and exchange movements | (79) | (9) |
| Other non-cash changes | (66) | (4) |
| Net interest charge on the components of net debt | (246) | (142) |
| Movement in net debt (net of related derivative financial instruments) | (432) | (48) |
| Net debt (net of related derivative financial instruments) at the start of the year | (6,782) | (6,734) |
| Net debt (net of related derivative financial instruments) at the end of the year | (7,214) | (6,782) |

Composition of net debt:

| | 2022 £m | 2021 £m |
|---|---|---|
| Cash, cash equivalents and financial investments | 93 | 832 |
| Borrowings and bank overdrafts | (6,967) | (7,475) |
| Derivatives | (261) | (115) |
| Lease liabilities | (79) | (24) |
| Total net debt | (7,214) | (6,782) |

Analysis of changes in net debt:

| | Cash and Cash Equivalents £m | Bank Overdrafts £m | Net Cash and Cash Equivalents £m | Financial Investments £m | Borrowings £m | Derivatives £m | Lease Liabilities £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 April 2021 | 17 | (5) | 12 | 815 | (7,470) | (115) | (24) | (6,782) |
| Cash flow | (4) | 4 | – | (735) | 682 | 1 | 11 | (41) |
| Fair value gains and losses and exchange movements | – | – | – | – | (1) | (78) | – | (79) |
| Interest charges | – | – | – | – | (177) | (69) | – | (246) |
| Other non-cash changes | – | – | – | – | – | – | (66) | (66) |
| **At 31 March 2022** | **13** | **(1)** | **12** | **80** | **(6,966)** | **(261)** | **(79)** | **(7,214)** |

Balances at 31 March 2022 comprised:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Non-current assets | – | – | – | – | – | 7 | – | 7 |
| Current assets | 13 | – | 13 | 80 | – | 1 | – | 94 |
| Current liabilities | – | (1) | (1) | – | (42) | – | (10) | (53) |
| Non-current liabilities | – | – | – | – | (6,924) | (269) | (69) | (7,262) |
| **At 31 March 2022** | **13** | **(1)** | **12** | **80** | **(6,966)** | **(261)** | **(79)** | **(7,214)** |

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 25 Net debt continued

| | Cash and Cash Equivalents £m | Bank Overdrafts £m | Net Cash and Cash Equivalents £m | Financial Investments £m | Borrowings £m | Derivatives £m | Lease Liabilities £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| At 1 April 2020 | 17 | (8) | 9 | 327 | (7,006) | (33) | (31) | (6,734) |
| Cash flow | – | 3 | 3 | 488 | (398) | 3 | 11 | 107 |
| Fair value gains and losses and exchange movements | – | – | – | – | 67 | (76) | – | (9) |
| Interest charges | – | – | – | – | (133) | (9) | – | (142) |
| Other non-cash changes | – | – | – | – | – | – | (4) | (4) |
| At 31 March 2021 | 17 | (5) | 12 | 815 | (7,470) | (115) | (24) | (6,782) |
| Balances at 31 March 2021 comprised: | | | | | | | | |
| Non-current assets | – | – | – | – | – | | – | – |
| Current assets | 17 | – | 17 | 815 | – | – | – | 832 |
| Current liabilities | – | (5) | (5) | – | (292) | – | (8) | (305) |
| Non-current liabilities | – | – | – | – | (7,178) | (115) | (16) | (7,309) |
| At 31 March 2021 | 17 | (5) | 12 | 815 | (7,470) | (115) | (24) | (6,782) |

## 26 Capital and other commitments

| | 2022 £m | 2021 £m |
|---|---|---|
| Contracts for future capital expenditure not provided in the financial statements | 304 | 255 |
| Letters of credit facility | 300 | 300 |
| | 604 | 555 |

Not included in the above is £10m for the expected future cash outflows relating to leases which the Group is committed to, but had not yet commenced as at 31 March 2022.

## 27 Pensions

The Group operates two pension schemes for its employees.

### Defined contribution (DC) scheme

For the DC pension arrangement, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

MyPension, the company's DC arrangement, was established on 1 February 2019 under Master Trust and received a bulk transfer from National Grid's YouPlan in August 2019. Under the standard contribution structure, the company double matches member contributions to MyPension up to a maximum member contribution of 6%. MyPension is the qualifying scheme used for automatic enrolment and new hires are enrolled into MyPension.

The amount recognised as an expense for the defined contribution scheme was:

| | 2022 £m | 2021 £m |
|---|---|---|
| Current period contributions | 27 | 23 |

### Defined benefit (DB) scheme

The Cadent Gas Pension Scheme (CGPS- 'the Scheme') was established to receive a transfer from Section C of the National Grid UK Pension Scheme. The bulk transfer took place in 30 September 2020 and Section C has now been wound up.

The company has an accrual for the NGUKPS Trustees' expenses associated with the transfer to CGPS which, under the transfer agreement, will be paid by CGPS. This payment is expected to be £2.7m and will be paid within a year.

Members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The company underwrites both financial and demographic risks associated with this type of scheme.

The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

## 27 Pensions continued

### Defined benefit (DB) scheme continued

The company's obligation in respect of the Scheme is calculated by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net asset recognised in the statement of financial position. For sensitivity analysis, see note 29.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

The Scheme is funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a board consisting of company appointed and member nominated directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with the company, the qualified actuary certifies the ongoing rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable.

The last full actuarial valuation for the Scheme was carried out at 31 March 2019. As part of this valuation, based on long-term financial assumptions, a contribution rate to meet future benefit accrual was agreed of 52.1% of pensionable earnings less any member contributions. In addition, the company makes payments to the Scheme to cover administration costs and the Pension Protection Fund levy.

The results of the 2019 valuation are shown below:

| Last full actuarial valuation | 31-Mar-2019 | 31-Mar-2017 |
|---|---|---|
| Actuary | Willis Towers Watson | Willis Towers Watson |
| Market value of scheme assets at latest valuation | £6,674 | £7,004 |
| Actuarial value of benefits due to members | £6,755 | £7,233 |
| Market value as percentage of benefits | 99% | 97% |
| Funding deficit | £81m | £229m |

### Cadent Gas Pension Scheme

The company and the Trustees have agreed a schedule of contributions with payments of £22m paid during FY22 and a further £22m agreed in FY23. These will be made quarterly from April 2022.

The company has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to the company's credit rating or gearing levels. At 31 March 2022 the value of this was required to be £144m. This was provided via £144m in letters of credit. The assets held as security will be paid to CGPS in the event that the company is subject to an insolvency event, if the company is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, if the company fails to make the required contributions in relation to the Scheme, if the company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days, or if the company grants any charges over its assets other than where agreed with the trustees. In addition, the company will make a further payment of £100m (increased in line with RPI) into CGPS if the company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The Scheme ceased to allow new hires to join from 1 April 2002, with new hires since that date having the option of joining the DC arrangement.

### Risks

The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the UK debt markets and will fluctuate as yields change. Scheme funds are invested in a variety of asset classes, principally: government securities, corporate bonds and property. Consequently, actual returns will differ from the underlying discount rate adopted and therefore have an impact on the net balance sheet liability.

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

On 25 November 2020, the Government and UK Statistics Authority's joint consultation response on RPI reform was published. This confirmed their intention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI including housing (known as CPIH) with effect from 2030.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 27 Pensions continued

**Risks** continued

The markets have adjusted since the announcement and the RPI inflation adopted is based on market implied RPI inflation less an inflation risk premium adjustment of 0.3% per annum to allow for some but not all the expectation that RPI inflation will be lower in the future.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

The Scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure.

Changes in the underlying market conditions during 2021/22 has resulted in a increase to both the discount rate and inflation assumptions used in valuing Cadent's pension liabilities. These changes, amongst other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2022 decreasing to £5,476m (2021: £6,020m). Coupled with an increase in the fair value of the scheme assets in the year to £6,559m (2021: £6,446m), the net pension surplus has increased by 154%.

The recognition of the net defined benefit asset in relation to CGPS reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. We have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up. The Trustees must seek the agreement of the company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

**Amounts recognised in the statement of financial position**

The following tables represent the amounts in the financial statements.

| | 2022 Total £m | 2021 Total £m |
|---|---|---|
| Present value of funded obligations | (5,472) | (6,016) |
| Fair value of plan assets | 6,559 | 6,446 |
| | 1,087 | 430 |
| Present value of unfunded obligations | (4) | (4) |
| **Net defined benefit asset** | 1,083 | 426 |

| | 2022 Total £m | 2021 Total £m |
|---|---|---|
| Represented by: | | |
| Liabilities | (5,476) | (6,020) |
| Assets | 6,559 | 6,446 |
| | 1,083 | 426 |

## 27 Pensions continued

**Amounts recognised in the income statement and statement of other comprehensive income**

| | 2022 Total £m | 2021 Total £m |
|---|---|---|
| **Included within operating costs** | | |
| Administration costs | 4 | 5 |
| Defined contribution scheme costs | 27 | 23 |
| Defined benefit scheme costs: | | |
| Current service cost | 13 | 12 |
| Past service cost | 4 | 2 |
| | 48 | 42 |
| **Included within finance costs** | | |
| Net interest credit | (9) | (21) |
| **Total included in income statement** | 39 | 21 |
| Remeasurements of net retirement benefit obligations | (359) | 668 |
| Return on plan assets greater or less than discount rate | 271 | (155) |
| **Total included in the statement of other comprehensive income** | (630) | 513 |

**Reconciliation of the net defined benefit asset**

| | 2022 Total £m | 2021 Total £m |
|---|---|---|
| Opening net defined benefit asset | 426 | 917 |
| Costs recognised in the income statement | (12) | 2 |
| Employer contributions | 39 | 20 |
| Other movements | 630 | (513) |
| **Closing net defined benefit asset** | 1,083 | 426 |

**Changes in the present value of defined benefit obligations (including unfunded obligations)**

| | 2022 Total £m | 2021 Total £m |
|---|---|---|
| Opening net defined benefit liability | 6,020 | 5,575 |
| Current service cost | 13 | 12 |
| Interest cost | 114 | 121 |
| Past service cost | 4 | 2 |
| Actuarial losses/(gains) – experiences | 63 | (105) |
| Actuarial (gains) – demographic assumptions | (92) | (10) |
| Actuarial (gains)/losses – financial assumptions | (330) | 783 |
| Benefits paid | (316) | (358) |
| **Closing net defined benefit liability** | 5,476 | 6,020 |

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 27 Pensions continued

### Changes in the fair value of plan assets

| | 2022 Total £m | 2021 Total £m |
|---|---|---|
| Opening fair value of plan assets | 6,446 | 6,492 |
| Interest income | 123 | 142 |
| Return on assets greater than assumed | 271 | 155 |
| Administration costs | (4) | (5) |
| Employer contributions paid | 39 | 20 |
| Benefits paid | (316) | (358) |
| **Closing fair value of plan assets** | 6,559 | 6,446 |
| **Actual return on plan assets** | 394 | 297 |
| **Expected contributions to plans in the following year** | 35 | 32 |

### Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

| | 2022 Quoted £m | 2022 Unquoted £m | 2022 Total £m | 2021 Quoted £m | 2021 Unquoted £m | 2021 Total £m |
|---|---|---|---|---|---|---|
| Equities | 1 | 229 | 230 | 202 | 209 | 411 |
| Corporate bonds | 2,867 | – | 2,867 | 2,210 | – | 2,210 |
| Property | – | 355 | 355 | – | 274 | 274 |
| Government securities | 2,476 | – | 2,476 | 3,089 | – | 3,089 |
| Diversified alternatives (i) | – | 579 | 579 | – | 443 | 443 |
| Other | – | 52 | 52 | – | 19 | 19 |
| Total | 5,344 | 1,215 | 6,559 | 5,501 | 945 | 6,446 |

i) Includes return seeking non-conventional asset classes of £202m (2021:£84m), secure income assets of £377m (2021:£359m).

The investment strategy for CGPS is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments.
The asset allocation at 31 March 2022 is as follows:

| | 2022 % | 2021 % |
|---|---|---|
| Equities | 3 | 6 |
| Other | 97 | 94 |
| | 100 | 100 |

### Actuarial assumptions

Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

| | 2022 % | 2021 % |
|---|---|---|
| Discount rate – Past service (i) | 2.65 | 1.95 |
| Discount rate – Future service (i) | 2.60 | 2.00 |
| Rate of increase in salaries (ii) | 2.65 | 2.50 |
| Rate of increase in RPI – Past service (iii) | 3.65 | 3.25 |
| Rate of increase in RPI – Future service (iii) | 3.40 | 3.10 |

(i) The discount rate for pension liabilities has been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK debt market at the reporting date. Future and past discount rates are set based on the expected duration of scheme liabilities.

(ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service before 1 April 2013. The assumption for the rate of increase in salaries for service before this date is 3.55% (2021: 3.15%).

(iii) This is the key assumption that determines assumed increases in pensions in payment and deferment. Consistent with the derivation of the discount rate, the RPI assumption reflects the duration of the active liabilities to be adopted in the calculation of future service obligations.

For sensitivity analysis, see note 29.

## 27 Pensions continued

**Actuarial assumptions** continued

Assumed life expectations for a retiree age 65:

| | 2022 years | 2021 years |
|---|---|---|
| **Today** | | |
| Males | 20.9 | 21.3 |
| Females | 24.3 | 24.6 |
| **In 20 years** | | |
| Males | 22.1 | 22.6 |
| Females | 25.7 | 26.0 |

**Maturity profile of DB obligations**

The weighted average duration of the DB obligation for future service obligations of the scheme is 26 years and 16 years for past service obligations.

## 28 Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures, (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Currency risk; and
- Capital risk.

**(a) Credit risk**

Credit risk refers to the risk that a counterparty will default on their contractual obligations resulting in a financial loss to the Group. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The increase in gas prices had a wide impact our industry and a number of shippers and gas suppliers ceased trading in the year. The Group assessed whether there is any impact of on credit risk and it was deemed to be limited given the nature of the business. 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). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a supplier of last resort (SoLR) process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 28 Financial risk management continued

### (a) Credit risk continued

The carrying amount of financial assets and loss allowance are as follows:

For year ended 31 March 2022

| | Notes | Gross Carrying Amount £m | Loss Allowance £m | Net Carrying Amount |
|---|---|---|---|---|
| Cash and cash equivalents | | **13** | **–** | **13** |
| Derivative financial assets | 17 | **8** | **–** | **8** |
| Trade receivables | 16 | **15** | **(3)** | **12** |
| Accrued income | 16 | **167** | **(8)** | **159** |
| Current asset investments | 18 | **80** | **–** | **80** |

For year ended 31 March 2021

| | Notes | Gross Carrying Amount £m | Loss Allowance £m | Net Carrying Amount |
|---|---|---|---|---|
| Cash and cash equivalents | | 17 | – | 17 |
| Derivative financial assets | 17 | – | – | – |
| Trade receivables | 16 | 20 | (3) | 17 |
| Accrued income | 16 | 156 | (1) | 155 |
| Current asset investments | 18 | 815 | – | 815 |

#### Counterparty credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. Our limits are managed by the central treasury department of the Group

As at 31 March 2022, we had exposure to various financial institutions. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Derivative financial assets are only entered into with banks with a strong Investment Grade Credit rating, which should reduce the likelihood of significant losses. Management does not expect any significant losses from non performance by these counterparties.

#### Customer credit risk

The Group's principal commercial exposure relates to income from shippers which is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the RAV for each credit rating. The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit rating, letter of credit from a financial institution, parent company guarantee, independent assessment, payment history allowance and advanced cash deposits.

| | 2022 £m | 2021 £m |
|---|---|---|
| Accrued income | **159** | 155 |
| Collateral held | **(26)** | (13) |
| **Exposure net of collateral** | **133** | 142 |

Collection activities are monitored on a daily basis and late payment will result in sanctions being placed on the relevant accounts. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 16.

#### Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present Cadent Gas's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

## 28 Financial risk management continued

### (a) Credit risk continued

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Cadent Gas has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

| | Gross Carrying Amounts £m | Gross Amounts Offset £m | Net Amount Presented in Statement of Financial Position £m | Financial Instruments £m | Cash Collateral Received/ Pledged £m | Net Amount £m |
|---|---|---|---|---|---|---|
| **As at 31 March 2022** | | | | | | |
| **Assets** | | | | | | |
| Derivative financial instruments | 8 | – | 8 | – | – | 8 |
| **Liabilities** | | | | | | |
| Derivative financial instruments | (269) | – | (269) | – | – | (269) |
| **Total at 31 March 2022** | (261) | – | (261) | – | – | (261) |

| | Gross Carrying Amounts £m | Gross Amounts Offset £m | Net Amount Presented in Statement of Financial Position £m | Financial Instruments £m | Cash Collateral Received/ Pledged £m | Net Amount £m |
|---|---|---|---|---|---|---|
| **As at 31 March 2021** | | | | | | |
| **Assets** | | | | | | |
| Derivative financial instruments | – | – | – | – | – | – |
| **Liabilities** | | | | | | |
| Derivative financial instruments | (115) | – | (115) | – | – | (115) |
| **Total at 31 March 2021** | (115) | – | (115) | – | – | (115) |

### (b) Liquidity risk

We determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in capital and other commitments in note 26 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining an investment grade credit rating. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 28 Financial risk management continued

### (b) Liquidity risk continued

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

| | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 3 years £m | Due 3 years and beyond £m | Total £m |
|---|---|---|---|---|---|
| **At 31 March 2022** | | | | | |
| **Non-derivative financial instruments** | | | | | |
| Borrowings | – | (99) | (1,129) | (6,307) | (7,535) |
| Lease liabilities | (10) | (8) | (7) | (54) | (79) |
| Interest on payments on borrowings (i) | (126) | (127) | (123) | (1,666) | (2,042) |
| Other non-interest bearing liabilities | (418) | – | – | – | (418) |
| **Derivative financial liabilities** | | | | | |
| Derivative contracts – receipts | 52 | 58 | 57 | 1,287 | 1,454 |
| Derivative contracts – payments | (20) | (20) | (20) | (1,841) | (1,901) |
| **Derivative financial assets** | | | | | |
| Derivative contracts – receipts | 10 | 10 | 648 | 190 | 858 |
| Derivative contracts – payments | (17) | (17) | (649) | (183) | (866) |
| **Total at 31 March 2022** | (529) | (203) | (1,223) | (8,574) | (10,529) |

i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the company can be required to settle.

| | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 3 years £m | Due 3 years and beyond £m | Total £m |
|---|---|---|---|---|---|
| **At 31 March 2021** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Borrowings | (250) | – | (90) | (7,458) | (7,798) |
| Lease liabilities | (8) | (4) | (3) | (9) | (24) |
| Interest on payments on borrowings (i) | (132) | (128) | (129) | (1,750) | (2,139) |
| Other non-interest bearing liabilities | (570) | – | – | – | (570) |
| **Derivative financial liabilities** | | | | | |
| Derivative contracts – receipts | 25 | 27 | 29 | 1,929 | 2,010 |
| Derivative contracts – payments | (37) | (37) | (37) | (2,149) | (2,260) |
| **Total at 31 March 2021** | (972) | (142) | (230) | (9,437) | (10,781) |

i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the company can be required to settle.

### (c) Interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps and forward rate agreements.

We hold some borrowings on issue and derivatives that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues. Since April 2021, we have entered into CPI-linked swaps, totalling £1 billion and maturing in 2028 and 2031, increasing the proportion of our debt book that is hedged to inflation, aligning our position more closely to the average exposure to inflation across our industry. These are in addition to the £400 million of RPI-linked swaps already held.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 21 (borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

## 28 Financial risk management continued

### (c) Interest rate risk continued

During 2022, net debt was managed using derivative instruments to hedge interest rate risk as follows:

| | Fixed rate £m | Floating rate £m | RPI £m | Other(i) £m | Total £m |
|---|---|---|---|---|---|
| **As at 31 March 2022** | | | | | |
| Financial investments (i) | – | 93 | – | – | 93 |
| Borrowings (ii) | (5,279) | (401) | (1,287) | – | (6,967) |
| Lease liabilities | – | – | – | (79) | (79) |
| **Pre-derivative position** | (5,279) | (308) | (1,287) | (79) | (6,953) |
| Derivative effect | 950 | 400 | (1,612) | 1 | (261) |
| **Net debt position (iii)** | (4,329) | 92 | (2,899) | (78) | (7,214) |

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.
ii) Index linked represents RPI and CPI derivative instruments.
iii) The impact of 2021/22 short-dated interest rate derivatives is included.

During 2021, derivative financial instruments were used to manage foreign currency risk as follows:

| | Fixed rate £m | Floating rate £m | RPI £m | Other(i) £m | Total £m |
|---|---|---|---|---|---|
| **As at 31 March 2021** | | | | | |
| Financial investments (i) | – | 832 | – | – | 832 |
| Borrowings(ii) | (5,527) | (706) | (1,242) | – | (7,475) |
| Lease Liabilities | – | – | – | (24) | (24) |
| **Pre-derivative position** | (5,527) | 126 | (1,242) | (24) | (6,667) |
| Derivative effect | (48) | 400 | (467) | – | (115) |
| **Net debt position (iii)** | (5,575) | 526 | (1,709) | (24) | (6,782) |

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.
ii) Index linked represents RPI derivative instruments.
iii) The impact of 2020/21 short-dated interest rate derivatives is included.

### (d) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.

Our policy for managing foreign exchange risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash forecasts are less certain, our policy is to hedge a proportion of the cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

During 2022, derivative financial instruments were used to manage foreign currency risk as follows:

| | Sterling £m | Euro £m | JPY £m | USD £m | Total £m |
|---|---|---|---|---|---|
| **As at 31 March 2022** | | | | | |
| Financial investments | 93 | – | – | – | 93 |
| Borrowings | (5,168) | (1,585) | (62) | (152) | (6,967) |
| Lease liabilities | (79) | – | – | – | (79) |
| **Pre-derivative position** | (5,154) | (1,585) | (62) | (152) | (6,953) |
| Derivative effect | (2,060) | 1,585 | 62 | 152 | (261) |
| **Net debt position** | (7,214) | – | – | – | (7,214) |

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 28 Financial risk management continued

### (d) Currency risk continued

During 2021, derivative financial instruments were used to manage foreign currency risk as follows:

| | Sterling £m | Euro £m | JPY £m | USD £m | Total £m |
|---|---|---|---|---|---|
| **As at 31 March 2021** | | | | | |
| Financial investments | 832 | – | – | – | 832 |
| Borrowings | (5,676) | (1,589) | (65) | (145) | (7,475) |
| Lease liabilities | (24) | – | – | – | (24) |
| **Pre-derivative position** | (4,868) | (1,589) | (65) | (145) | (6,667) |
| Derivative effect | (1,914) | 1,589 | 65 | 145 | (115) |
| **Net debt position** | (6,782) | – | – | – | (6,782) |

**Effect of hedge accounting on the financial position and performance**

a) The impact of hedging instruments designated in a hedge relationship as at 31 March 2022 are as follows:

| | Notional Amount (GBP m) | Carrying Amount of the Hedging Instrument | | Fair Value | Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported |
|---|---|---|---|---|---|
| | | Assets | Liabilities | | |
| **Cash flow hedges** | | | | | |
| Cross-currency interest rate swaps | **1,831** | **7** | **(57)** | **(2)** | **Derivative financial assets**<br>**Derivative financial liabilities** |

The impact of hedging instruments designated in a hedge relationship as at 31 March 2021 were as follows:

| | Notional Amount (GBP m) | Carrying Amount of the Hedging Instrument | | Fair Value Changes | Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported |
|---|---|---|---|---|---|
| | | Assets | Liabilities | | |
| **Cash flow hedges** | | | | | |
| Cross-currency interest rate swaps | 1,831 | – | (48) | (74) | Derivative financial liabilities |

b) The impact of hedged items designated in a hedge relationship as at 31 March 2022 are as follows:

| | Carrying Amount of the Hedged Item (GBP m) | | Fair Value Changes | Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported | Cash flow Hedge Deficit | Cost of Hedging Reserve |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | | | | |
| **Cash flow hedges** | | | | | | |
| Non GBP denominated debt | **–** | **(1,799)** | **(3)** | **Borrowings** | **(15)** | **8** |

The impact of hedged items designated in a hedge relationship as at 31 March 2021 were as follows:

| | Carrying Amount of the Hedged Item (GBP m) | | Fair Value Changes | Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported | Cash flow Hedge Deficit | Cost of Hedging Reserve |
|---|---|---|---|---|---|---|
| | Asset | Liabilities | | | | |
| **Cash flow hedges** | | | | | | |
| Non GBP denominated debt | – | (1,799) | 75 | Borrowings | (18) | 10 |

c) The impact of the hedging relationships on the consolidated income statement and other comprehensive income.

The above hedging relationships affected the consolidated income statements for year ended March 2022 are as follows:

| | Change in Value of Hedging Instrument Recognised in OCI | Hedge Ineffectiveness Recognised in Consolidated Income Statement | Line Item in Consolidated Income Statement where the Hedge Ineffectiveness is Reported | Amount Reclassified from Cash Flow Hedge Reserve to Consolidated Income Statement | Line Item in the Consolidated Income Statement |
|---|---|---|---|---|---|
| **Cash flow hedges** | | | | | |
| Interest rate risk & FX risk | **3** | **–** | **Exceptional items and remeasurements** | **3** | **Finance costs before exceptional items and remeasurements** |

## 28 Financial risk management continued

**Effect of hedge accounting on the financial position and performance** continued

**(d) Currency risk** continued

The above hedging relationships affected the consolidated income statements for year ended March 2021 were as follows:

| | Change in Value of Hedging Instrument Recognised in OCI | Hedge Ineffectiveness Recognised in Consolidated Income Statement | Line Item in Consolidated Income Statement where the Hedge Ineffectiveness is Reported | Amount Reclassified from Cash Flow Hedge Reserve to Consolidated Income Statement | Line Item in the Consolidated Income Statement |
|---|---|---|---|---|---|
| **Cash flow hedges** | | | | | |
| Interest rate risk & FX risk | (5) | – | Exceptional items and remeasurements | (75) | Finance costs before exceptional items and remeasurements |

**(e) Capital risk management**

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 25). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by RAV gearing calculated as adjusted net debt (statutory net debt adjusted for unamortised debt fees, unamortised fair value adjustments, accrued interest and derivatives) expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. The net debt to RAV ratio at 31 March 2022 is 61% (2021: 63%).

**(f) Fair value analysis**

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.

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **As at 31 March 2022** | | | | |
| **Assets** | | | | |
| Fair value through profit and loss ('FVTPL') instruments | 93 | – | – | 93 |
| Derivative financial instruments | – | 8 | – | 8 |
| **Liabilities** | | | | |
| Derivative financial instruments | – | (155) | (114) | (269) |
| **Total** | 93 | (147) | (114) | (168) |

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **As at 31 March 2021** | | | | |
| **Assets** | | | | |
| Fair value through profit and loss ('FVTPL') instruments | 832 | – | – | 832 |
| Derivative financial instruments | – | – | – | – |
| **Liabilities** | | | | |
| Derivative financial instruments | – | (115) | – | (115) |
| **Total** | 832 | (115) | – | 717 |

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.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 28 Financial risk management continued

### Effect of hedge accounting on the financial position and performance continued

#### (f) Fair value analysis continued

The Level 3 derivative financial instruments comprise £1bn 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 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 valuie. Conversely, a reduction in inflation forecasts will reduce the liability at maturity and positively impact the fair value.

Movements in the year to 31 March for assets and liabilities measured at fair value using Level 3 valuations inputs are as follows:

| | 2022<br>£m | 2021<br>£m |
|---|---|---|
| As 1 April | – | – |
| Net loss for the period | (114) | – |
| Settlements | – | – |
| **At 31 March** | **(114)** | – |

The net loss of the period is shown within interest cost in the income statement.

## 29 Sensitivity analysis

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the period end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the table below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

## 29 Sensitivity analysis continued

The sensitivities included in the table below all have an approximately equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 10% increase in unbilled revenue at 31 March 2022 would result in an increase in the income statement of £16m and a 10% decrease in unbilled revenue would have the equal but opposite effect.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Income statement £m** | **Net assets £m** | Income statement £m | Net assets £m |
| **As at 31 March** | | | | |
| One year average increase in useful economic lives (pre-tax) | | | | |
| Depreciation charge on property, plant and equipment | **17** | **17** | 18 | 18 |
| Amortisation charge on intangible assets | **4** | **4** | 3 | 3 |
| Additional depreciation charge if the useful lives of network assets end in 2050 due to UK net-zero target | **43** | **43** | 45 | 45 |
| Assets and liabilities carried at fair value change of 10% (pre-tax) | | | | |
| Derivative financial instruments (i) | **26** | **26** | 12 | 12 |
| Pensions and other post-retirement benefits (ii) (pre-tax) | | | | |
| Discount rate decrease of 0.5% (iii) | **(2)** | **(443)** | (2) | (487) |
| Discount rate increase of 0.5% (iii) | **2** | **394** | 2 | 433 |
| RPI rate change of 0.5% (iv) | **2** | **344** | 2 | 382 |
| Long-term rate of increase in salaries change of 0.5% | **1** | **42** | 1 | 44 |
| Change of one year to life expectancy at age 65 | **–** | **231** | – | 272 |
| Change in value of unquoted properties by 5% | **–** | **18** | – | 14 |
| Change in value of unquoted equities by 5% | **–** | **11** | – | 10 |
| Index-linked derivatives | | | | |
| Change in one year rate of inflation by 1% (v) | **12** | **12** | – | – |

i) The effect of a 10% change in fair value assumes no hedge accounting.

ii) The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.

iii) A change in the discount is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.

iv) The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

v) This represents the change in value of our index-linked derivatives of a modeled 1% adjustment in the market's forecast of the underlying inflation indices over the following twelve months.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 29 Sensitivity analysis continued

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Income statement £m | Net assets £m | Income statement £m | Net assets £m |
| **As at 31 March** | | | | |
| No hedge accounting for our derivative financial instruments (post tax) | 3 | 3 | 5 | 5 |
| Financial risk (post-tax) | | | | |
| UK RPI rate change of 0.5% | 7 | 7 | 7 | 7 |
| UK CPI rate change of 0.5% | 5 | 5 | – | – |
| UK interest rate change of 0.5% | – | – | 2 | 2 |

### Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI. The changes in market variables impacts the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2022;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and FVTPL investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

## 30 Contingent liabilities

### (a) Environmental claims

The environmental provision (see note 23) has been set up to deal with the costs of statutory decontamination of the 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.

### (b) 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.

### (c) 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.

## 31 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.

| | 2022<br>£m | 2021<br>£m |
|---|---|---|
| Income: | | |
| Goods and services supplied to other related parties | – | – |
| | – | – |
| Expenditure: | | |
| Services rendered from associates | 16 | 10 |
| | 16 | 10 |
| Outstanding balances at 31 March in respect of income and expenditure: | | |
| Amounts payable to other related parties | 2 | – |
| Amounts receivable from associates | – | 2 |

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Amounts of £Nil have been provided at 31 March 2022 and recognised as an expense (2021: £Nil) during the period in respect of bad or doubtful debts for related party transactions.

Information relating to dividends and pension fund arrangements are disclosed in notes 11 and 27 respectively. For details of Directors' and key management remuneration, refer to note 7.

## 32 Subsequent events

There have been no subsequent events.

## 33 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings Topco Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings Topco Limited and Quadgas MidCo Limited respectively. Quadgas Holdings Topco Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Pilot Way, Ansty Park, Coventry, United Kingdom, CV7 9JU.

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.

# Notes to the consolidated financial statements continued

As at 31 March 2022

## 34 Subsidiary undertakings

The list below contains all subsidiaries included within the Cadent Gas Group.

| Name of subsidiary | % Holding | Principal activity | Country of incorporation |
|---|---|---|---|
| Cadent Finance Plc | 100 | Provision of long-term finance | England and Wales |
| Cadent Gas Pension Trustee Limited | 100 | Trustee of occupational pension scheme | England and Wales |
| Cadent Gas Pension Property Company 1 Limited | 100* | Trustee of property assets of occupational pension scheme | England and Wales |
| Cadent Gas Pension Property Company 2 Limited | 100* | Trustee of property assets of occupational pension scheme | England and Wales |
| Cadent Gas Pension Services Limited | 100 | Management of pension services | England and Wales |

* Indirect ownership

The registered address for all subsidiaries is Cadent, Pilot Way, Ansty Park, Coventry, United Kingdom, CV7 9JU.

# Company statement of financial position

As at 31 March 2022

| | Notes | 2022 £m | 2021 (restated)[1] £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 7 | 70 | 88 |
| Property, plant and equipment | 8 | 10,742 | 10,392 |
| Investments | 9 | – | – |
| Pension and other post-retirement benefit obligations | 6 | 1,083 | 426 |
| Derivative financial assets | 12 | 7 | – |
| Debtors | 11 | 1 | 2 |
| Total non-current assets | | 11,903 | 10,908 |
| **Current assets** | | | |
| Derivative financial assets | 12 | 1 | – |
| Inventories | 10 | 11 | 12 |
| Debtors | 11 | 180 | 217 |
| Corporation tax | | 6 | 3 |
| Financial and other investments | 13 | 80 | 815 |
| Cash at bank and in hand | | 13 | 17 |
| Total current assets | | 291 | 1,064 |
| **Total assets** | | 12,194 | 11,972 |
| **Current liabilities** | | | |
| Creditors | 14 | (443) | (835) |
| Borrowings | 16 | (4) | (9) |
| Provisions for liabilities | 17 | (11) | (12) |
| Total current liabilities | | (458) | (856) |
| **Net current assets/(liabilities)** | | (167) | 208 |
| **Total assets less current liabilities** | | 11,736 | 11,116 |
| **Non-current liabilities** | | | |
| Derivative financial liabilities | 12 | (269) | (115) |
| Borrowings | 16 | (951) | (1,228) |
| Provisions for liabilities | 17 | (1,794) | (1,289) |
| Creditors | 15 | (6,759) | (6,705) |
| Total non-current liabilities | | (9,773) | (9,337) |
| **Total liabilities** | | (10,231) | (10,193) |
| **Net assets** | | 1,963 | 1,779 |
| **Equity** | | | |
| Share capital | 18 | – | – |
| Cash flow hedge deficit | | (15) | (18) |
| Cost of hedging reserve | | 8 | 10 |
| Retained earnings | | 6,922 | 6,739 |
| Other deficit | | (4,952) | (4,952) |
| **Total equity** | | 1,963 | 1,779 |

1 See note 1(b).

The company has elected to take exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The loss for the year of £68m (2021: (restated) £544m profit) is disclosed in the statement of changes in equity.

The notes on pages 173 to 189 are an integral part of the financial statements.

The financial statements on pages 171 to 189 were approved by the Board of Directors on 26 July 2022 and signed on its behalf by:

**A O Bickerstaff**
Director
Cadent Gas Limited

Company registration number: 10080864

# Company statement of changes in equity

For the year ended 31 March 2022

| | Share Capital £m | Cash Flow Hedge Deficit £m | Cost of Hedging Reserve £m | Other Deficit £m | Retained Earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 April 2021 (restated)[1] | – | (18) | 10 | (4,952) | 6,739 | 1,779 |
| Loss for the year | – | – | – | – | (68) | (68) |
| Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve | – | 3 | (6) | – | 446 | 443 |
| Amortisation of cost of hedging reserve | – | – | 4 | – | – | 4 |
| Total comprehensive income/(loss) for the year | – | 3 | (2) | – | 378 | 379 |
| Equity dividends | – | – | – | – | (195) | (195) |
| **At 31 March 2022** | **–** | **(15)** | **8** | **(4,952)** | **6,922** | **1,963** |

| | Share Capital £m | Cash Flow Hedge Deficit £m | Cost of Hedging Reserve £m | Other Deficit £m | Retained Earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 April 2020 | – | (13) | 6 | (4,952) | 6,623 | 1,664 |
| Adjustment for SaaS[1] | – | – | – | – | (13) | (13) |
| At 1 April 2020 (restated)[1] | – | (13) | 6 | (4,952) | 6,610 | 1,651 |
| Profit for the year (restated)[1] | – | – | – | – | 544 | 544 |
| Other comprehensive income excluding amortisation of cost of hedging reserve | – | (5) | – | – | (415) | (420) |
| Amortisation of cost of hedging reserve | – | – | 4 | – | – | 4 |
| Total comprehensive income for the year (restated)[1] | – | (5) | 4 | – | 129 | 128 |
| Equity dividends | – | – | – | – | – | – |
| At 31 March 2021 (restated)[1] | – | (18) | 10 | (4,952) | 6,739 | 1,779 |

1 See note 1(b).

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

Other deficit comprises the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. This merger reserve will reduce distributable reserves each year by the amount amortised. In the year ended 31 March 2022 distributable reserves were reduced by an accumulated realisation of £627m (31 March 2021: £513m). As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

# Notes to the company financial statements

For the year ended 31 March 2022

## 1 Summary of significant accounting policies

We are required to include the stand-alone balance sheet of our parent company, Cadent Gas Limited, under the Companies Act 2006, and the statement of changes in equity under Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'). The following disclosures provide additional information to the stakeholders.

Cadent Gas Limited is a private company, incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is Cadent, Pilot Way, Ansty Park, Coventry, CV7 9JU, United Kingdom.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements for the company have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value. Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

The statement of financial position shows net assets of £1,963m at 31 March 2022 (2021: (restated) £1,779m) with a loss for the financial year of £68m (2021: (restated) £544m profit). The loss was largely attributable to exceptional tax charges recognised in the year as a result of restating the opening deferred tax liability following the increase in the corporation tax rate to 25%. Although the company is in a net current liability position, it has access to sufficient financing facilities to pay its liabilities as they fall due, if required.

The company has not been significantly impacted by the ongoing COVID-19 pandemic or the ongoing conflict in Ukraine. Having made enquiries and reviewed management's assessment of going concern, the Directors consider it appropriate to prepare the financial statements on a going concern basis, having concluded that there are no material uncertainties. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

The parent company financial statements have been prepared in accordance with applicable UK accounting and financial reporting standards (FRS) and the Companies Act 2006. The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit/(loss) for the year is disclosed in the statement of changes in equity.

As permitted by FRS 102, the company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, fair value disclosures, sensitivity analysis, standards not yet effective, related party transactions and statement of cash flows.

### (b) New accounting standards and interpretations

As noted above, the 2022 Annual Report and Financial Statements have been prepared under FRS 102.

In the 2022 financial year, the company has changed its accounting policy related to the capitalisation of certain software costs. This change follows the IFRS interpretations committee agenda decision in relation to cloud computing arrangements which clarified how customisation and configuration costs should be accounted for when utilising software as a service ('SaaS').

FRS 102 allows an entity to consider the requirements and guidance in adopted IFRS dealing with similar and related issues when developing an accounting policy, and therefore management has also chosen to apply the agenda decision to the company accounts under FRS 102.

Following the adoption of the IFRIC guidance, management identified SaaS arrangements and assessed them to determine if they meet the definition of an intangible asset. For arrangements where the definition was not met, costs previously capitalised have been derecognised. As required by IAS 8 Accounting Policies, Changes in Accounting Estimates and errors, the change in accounting policy has been applied retrospectively resulting in a restatement of comparative figures.

The change in accounting policy has resulted in the decrease of net book value of the intangible assets recognised as at 1 April 2020 and 31 March 2021 by £16m and £15m respectively with an associated increase in the corporation tax asset of £3m. The comprehensive income reported for the year ended 31 March 2021 has increased by £1m as a result of a corresponding decrease in operating expenses.

There are no other new accounting standards, or amendments to existing standards, which have a significant impact on the company accounts. The impact of the LIBOR reform has been disclosed in note 1(c) to the consolidated financial statements.

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 1 Summary of significant accounting policies continued

### (b) New accounting standards and interpretations continued

The following adjustments were made to the statement of financial position:

| | At 1 April 2020 £m | Adjustment £m | At 1 April 2020 (restated) £m | At 31 March 2021 £m | Adjustment £m | At 31 March 2021 (restated) £m |
|---|---|---|---|---|---|---|
| Intangible assets | 90 | (16) | 74 | 103 | (15) | 88 |
| Corporation tax asset | – | 3 | 3 | – | 3 | 3 |
| **Net assets** | 1,664 | (13) | 1,651 | 1,791 | (12) | 1,779 |
| Retained earnings | 6,623 | (13) | 6,610 | 6,751 | (12) | 6,739 |
| **Total equity** | **1,664** | **(13)** | **1,651** | **1,791** | **(12)** | **1,779** |

### c) Intangible assets

Intangible fixed assets which consist of software licences are carried at amortised historical cost less any provisions for impairment. Software licences are reviewed each year and where they are redundant an impairment charge is made to the income statement.

Intangible assets under development are not amortised. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

**Amortisation periods**
Computer software – 5 years
Computer licenses – 3 years

### (d) Property, plant and equipment and depreciation

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. We also continue to invest in research and innovation to support the energy transition to net zero. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment assets includes assets which the company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received towards the cost of tangible fixed assets from customers for connections to the gas distribution network are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the asset to which they relate.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually and consideration is given to the impact of climate change particularly the impact that a move to low and zero carbon gases will have. Management have concluded that our network can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy albeit at this stage there is insufficient information to determine how specific assets will be used. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

| Depreciation periods | Years |
|---|---|
| Freehold and leasehold buildings | Up to 50 |
| Plant and machinery | 30 to 50 |
| Motor vehicles and other equipment | Up to 10 |

## 1 Summary of significant accounting policies continued

### (e) Investments

Investments in subsidiary undertakings and associated companies are held at cost, less any provisions for impairment. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that investments are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed separately.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

### (f) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

### (g) Financial instruments

#### Initial recognition

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Classification and measurement

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost; or
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Accretion on inflation linked borrowings is accounted for on an accrual basis to the income statement, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 1 Summary of significant accounting policies continued

### (g) Financial instruments continued

**Classification and measurement** continued

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise, unless hedge accounting applies.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

For financial assets carried at amortised costs, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

**Derecognition**

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

**Impairment of financial assets**

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. The company has taken default to be defined as a counterparty that has entered administration.

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- trade receivables; and
- loan receivables; and
- other receivables.

The company measures the loss allowances on financial instruments at an amount equal to the 12 month expected credit loss (representing a stage 1 financial model). The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the company recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the company recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the company recognises the lifetime expected credit loss.

A significant increase in credit risk would by any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

Evidence that the financial asset is credit impaired includes the following:

- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the Group that the Group would not consider otherwise; or
- it is probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for an associated security because of financial difficulties.

## 1 Summary of significant accounting policies continued

### (h) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which has not yet been invoiced.

Trade receivables and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

### (i) Trade and other payables

Trade payables are initially recognised at amortised cost and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book values.

Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the statement either:

- Once the project is complete; or
- Over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further detail see note 1(n) Revenue."

### (j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

### (k) Tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### (l) Provisions for liabilities

Provisions for liabilities are recognised where a legal or constructive obligation exists at the reporting date, as a result of past events where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditure, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

### (m) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the company's shareholders.

### (n) Revenue

The UK's target of reducing all greenhouse gas emissions to net zero by 2050 will impact how our network can be used in the future, and how we generate revenue. See note 2.

Revenue largely comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 1 Summary of significant accounting policies continued

### (o) Pensions

The company operates both a defined benefit (DB) and a defined contribution (DC) pension scheme.

For the DC pension scheme, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

### (p) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Assets for use in the company's business where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, are included within creditors. The interest element of the rental obligation is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

Under IFRS there is no concept of a finance lease, and the majority of leases are recognised in the statement of financial position by capitalising a right-of-use asset and recognising an associated lease liability. Depreciation of right-of-use assets and interest on lease liabilities is recognised in the statement of profit or loss.

### (q) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet and are considered part of cash management.

The Group receives monies in the form of grants. The use of this cash is restricted by the specific terms and conditions of each grant and therefore is not available for general use.

### (r) Exceptional Items

Exceptional items and remeasurements are items of income and expenditure that, in the judgement 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 exceptional items may not be comparable between companies, and the exclusion of exceptional items impacts the presentation of financial performance and cash flows.

Management utilises an exceptional 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 companys 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 spread or gains earned and the commercial context for the particular transaction.

## 1 Summary of significant accounting policies continued

**(r) Exceptional Items** continued

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, 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 deferred tax rate changes.

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

In the application of the company's accounting policies, which are described in note 1, 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.

### Critical accounting judgements

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- The judgement that the network can be used for alternative technologies beyond 2050. Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting effect of climate change by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how our network is used. The UK Government's current plans include the production and use of Hydrogen and to achieve net-zero, although there remains uncertainty about significant aspects of the UK energy sector plans under net-zero. Given the information currently available regarding these plans and the initial feasibility studies completed regarding the use of alternative gases through our network and the large scale production of these gases, we have judged that our network will continue to be used to transport gas (methane, hydrogen, other alternatives such as biomethane or a combination of these) beyond 2050, and that these gases will be available in sufficient quantities. See below for the estimates we have made regarding useful lives when applying this judgement to our financial statements – **note 8**;
- The recognition of a surplus in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under FRS 102. We have concluded that the company has an unconditional right to a refund from the plan, in the event of a winding-up – **note 6**; and
- The categorisation of restructuring costs as an exceptional item under the exceptional framework. In making this determination, management have concluded that, after taking into account the facts and circumstances, the restructuring programme is within our control and occurs reasonably frequently, and therefore have applied a materiality threshold consistent with our accounting policies. This is consistent with judgements made in previous years relating to this and other restructuring programmes – **note 6** of the consolidated accounts.

### Key sources of estimation uncertainty

Key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

- Determination of useful lives and carrying values of property, plant and equipment and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. Changes made to the useful lives could have a material impact on the depreciation recognised in the next financial year. The UK's target to achieve net zero by 2050 may impact the useful economic lives 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. Given the information currently available about how the UK will achieve net-zero using alternative technologies (particularly greener gases such as hydrogen and biomethane) it is still reasonable to assume that the entire network will continue to be used in 2045 and beyond, in its current form or adapted to accommodate hydrogen or biomethane. Management have therefore concluded that our network can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy. However, if future developments in technology or the climate change agenda indicate that the UELs of our network assets are limited to 2050, the depreciation charge recognised in future periods would increase by a material amount – **notes 7 & 8**.
- The estimation of liabilities for pensions and other post-retirement benefits include a number of key assumptions which include life expectancy of members, expected salary and pension increases, and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied – **note 6**.

Sensitivities have been considered in note 29 of the consolidated accounts.

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 3 Auditors' remuneration

Auditor's remuneration in respect of the company is set out below:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Audit services** | | |
| Audit fee of company | 734 | 633 |
| Other services | | |
| Fees payable to the company's auditors for audit-related assurance services | 66 | 63 |
| Other non-audit services | 150 | 92 |

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditors such as interim reviews. Other non-audit services in 2022 relate to services provided in connection with the raising of debt, grant claims or required by the regulator.

## 4 Number of employees, including Directors

The average number of persons (including Executive Directors) employed by the company was 5,945 (2021: 5,258). Further details are provided in note 7 to the consolidated financial statements.

## 5 Key management compensation

Key management comprises the Board of Directors of the company, including Executive and Non-executive Directors who have managerial responsibility for Cadent Gas Limited. Details of key management personnel compensation are provided in note 7 to the consolidated financial statements.

## 6 Pensions

Substantially all the company's employees are members of either the defined benefit Cadent Gas Pension Scheme or the MyPension defined contribution scheme.

The disclosures required by FRS 102 are the same as those required by IAS 19 (revised) and are provided in note 27 to the consolidated financial statements.

## 7 Intangible assets

| | Software £m |
|---|---|
| **Cost:** | |
| At 1 April 2021 (restated)[1] | 199 |
| Additions | 3 |
| Disposals | – |
| **At 31 March 2022** | **202** |
| **Accumulated amortisation:** | |
| At 1 April 2021 (restated)[1] | **(111)** |
| Amortisation charge for the year | **(21)** |
| **At 31 March 2022** | **(132)** |
| **Net book value:** | |
| **At 31 March 2022** | 70 |
| At 31 March 2021 (restated)[1] | 88 |

| | Software £m |
|---|---|
| Cost: | |
| At 1 April 2020 | 183 |
| Adjustment for SaaS[1] | (16) |
| At 1 April 2020 (restated)[1] | 167 |
| Additions (restated)[1] | 33 |
| Disposals | (1) |
| At 31 March 2021 (restated)[1] | 199 |
| Accumulated amortisation: | |
| At 1 April 2020 | (93) |
| Adjustment for SaaS[1] | – |
| At 1 April 2020 (restated)[1] | (93) |
| Amortisation charge for the period (restated)[1] | (18) |
| Disposals | – |
| At 31 March 2021 (restated)[1] | (111) |
| Net book value: | |
| At 31 March 2021 (restated)[1] | 88 |
| At 31 March 2020 (restated)[1] | 74 |

1 See note 1(b).

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 8 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 | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2021 | 119 | 11,382 | 60 | 188 | 11,749 |
| Additions | 14 | 629 | 61 | 18 | 722 |
| Reclassifications | 45 | 30 | (77) | 2 | – |
| Disposals | (7) | (8) | – | (6) | (21) |
| **At 31 March 2022** | **171** | **12,033** | **44** | **202** | **12,450** |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 April 2021 | (28) | (1,216) | – | (113) | (1,357) |
| Charge for the year | (11) | (332) | – | (28) | (371) |
| Disposals | 7 | 7 | – | 6 | 20 |
| **At 31 March 2022** | **(32)** | **(1,541)** | **–** | **(135)** | **(1,708)** |
| **Net book value:** | | | | | |
| **At 31 March 2022** | **139** | **10,492** | **44** | **67** | **10,742** |
| At 31 March 2021 | 91 | 10,166 | 60 | 75 | 10,392 |

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(d) for the estimated useful lives of each asset category, and note 29 of the consolidated financial statements for sensitivity analysis over the residual lives of assets.

The net book value of motor vehicles and other equipment at 31 March 2022 includes £3,499,000 (2021: £4,117,000) relating to assets purchased under finance leases.

The cost of property, plant and equipment at 31 March 2022 included £1,462,000 (2021: £1,462,000) relating to interest capitalised, with £Nil (2021: £Nil) capitalised during the year.

The net book value of land and buildings comprises:

| | 2022 £m | 2021 £m |
|---|---|---|
| Freehold | **107** | 77 |
| Long leasehold (over 50 years) | **22** | – |
| Short leasehold (under 50 years) | **10** | 14 |
| | **139** | 91 |

| | Land and Buildings £m | Plant and Machinery £m | Assets in the Course of Construction £m | Motor Vehicles and other Equipment £m | Total £m |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 April 2020 | 76 | 10,427 | 100 | 157 | 10,760 |
| Additions | 11 | 842 | 110 | 28 | 991 |
| Reclassifications | 32 | 114 | (150) | 4 | – |
| Disposals | – | (1) | – | (1) | (2) |
| At 31 March 2021 | 119 | 11,382 | 60 | 188 | 11,749 |
| Accumulated depreciation and impairment | | | | | |
| At 1 April 2020 | (21) | (908) | – | (84) | (1,013) |
| Charge for the year | (7) | (308) | – | (30) | (345) |
| Disposals | – | – | – | 1 | 1 |
| At 31 March 2021 | (28) | (1,216) | – | (113) | (1,357) |
| Net book value: | | | | | |
| At 31 March 2021 | 91 | 10,166 | 60 | 75 | 10,392 |
| At 31 March 2020 | 55 | 9,519 | 100 | 73 | 9,747 |

## 9 Investments

| | Shares in subsidiary undertakings £m | Investments in associates £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2021 & 31 March 2022 | – | – | – |
| **Provision** | | | |
| At 1 April 2021 & 31 March 2022 | – | – | – |
| **Net book value:** | | | |
| At 1 April 2021 & 31 March 2022 | – | – | – |

The company's subsidiary undertakings as at 31 March 2022 were as follows:

| Name of subsidiary | % Holding | Principal activity | Country of incorporation |
|---|---|---|---|
| Cadent Finance Plc | 100 | Provision of long-term finance | England and Wales |
| Cadent Gas Pension Trustee Limited | 100 | Trustee of occupational pension scheme | England and Wales |
| Cadent Gas Pension Property Company 1 Limited | 100* | Trustee of property assets of occupational pension scheme | England and Wales |
| Cadent Gas Pension Property Company 2 Limited | 100* | Trustee of property assets of occupational pension scheme | England and Wales |
| Cadent Gas Pension Services Limited | 100 | Management of pension services | England and Wales |

* Indirect ownership.

The registered address of all subsidiaries is Cadent, Pilot Way, Ansty Park, Coventry, CV7 9JU, United Kingdom.

## 10 Inventories

| | 2022 £m | 2021 £m |
|---|---|---|
| Raw materials and consumables | 11 | 12 |
| | 11 | 12 |

Inventories are stated after provisions for impairment of £720,000 (2021: £938.000).

## 11 Debtors

| | 2022 £m | 2021 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade debtors | 12 | 17 |
| Other debtors | 2 | 33 |
| Prepayments | 7 | 12 |
| Accrued income | 159 | 155 |
| | 180 | 217 |
| **Amounts falling due after more than one year:** | | |
| Prepayments | 1 | 2 |
| | 1 | 2 |

Trade debtors and accrued income are initially stated at the transaction price and are subsequently measured after a loss allowance has been made of £11,00,000 (2021: £4,400,000). Amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable upon demand.

Financial statements

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 12 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

| | 2022 | | |
|---|---|---|---|
| | Assets £m | Liabilities £m | Total £m |
| Amounts falling due within one year | 1 | – | 1 |
| Amounts falling due after more than one year | 7 | (269) | (262) |
| | 8 | (269) | (261) |

| | 2021 | | |
|---|---|---|---|
| | Assets £m | Liabilities £m | Total £m |
| Amounts falling due after more than one year | – | (115) | (115) |
| | – | (115) | (115) |

For each class of derivative the notional contract amounts* are as follows:

| | 2022 £m | 2021 £m |
|---|---|---|
| Cross-currency interest rate swaps | 1,831 | 1,831 |
| Forward rate agreements | 1 | – |
| Inflation linked swaps | 1,400 | 400 |
| Foreign exchange forward currency | 2 | 3 |
| | 3,234 | 2,234 |

* The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

## 13 Financial and other investments

| | 2022 £m | 2021 £m |
|---|---|---|
| Investments in short-term money funds | 80 | 815 |
| | 80 | 815 |

## 14 Creditors: amounts falling due within one year

| | 2022 £m | 2021 £m |
|---|---|---|
| Trade creditors | 132 | 269 |
| Amounts owed to subsidiary undertakings | 42 | 291 |
| Other tax and social security | 39 | 46 |
| Other creditors | 51 | 56 |
| Accruals | 95 | 90 |
| Deferred income | 84 | 83 |
| | 443 | 835 |

## 15 Creditors: amounts falling due after more than one year

| | 2022 £m | 2021 £m |
|---|---|---|
| Amounts owed to subsidiary undertakings | 5,977 | 5,954 |
| Accruals and deferred income | 782 | 751 |
| | 6,759 | 6,705 |

Amounts owed to subsidiary undertakings reflect external debt raised by Cadent Finance Plc and passed on to Cadent Gas Limited. The amounts are usually passed on to Cadent Gas Limited on identical terms to the amounts raised in Cadent Finance Plc. The amounts are unsecured with phased repayments to August 2048. On 22 September 2021 Cadent Finance Plc repaid £250 million of loan notes, fully repaying this issuance, using existing funds.

Accruals and deferred income mainly comprises contributions received in respect of capital projects.

## 16 Borrowings

| | 2022 £m | 2021 £m |
|---|---|---|
| **Amounts falling due within one year** | | |
| Bank loans | 2 | 3 |
| Bank overdrafts | 1 | 5 |
| Finance leases | 1 | 1 |
| | 4 | 9 |
| **Amounts falling due after more than one year** | | |
| Bank loans | 949 | 1,225 |
| Finance leases | 2 | 3 |
| | 951 | 1,228 |

| | 2022 £m | 2021 £m |
|---|---|---|
| Total borrowings are repayable as follows: | | |
| Less than one year | 4 | 9 |
| In one – two years | 93 | 1 |
| In two – three years | 457 | 91 |
| In three – four years | – | 735 |
| In four – five years | 401 | – |
| More than five years | – | 401 |
| | 955 | 1,237 |

The notional amount outstanding of the debt portfolio at 31 March 2022 was £926m (2020:£1,195m) including accretion.

The company's borrowings comprise a mixture of unlisted floating rate and indexed-linked debt which has been issued out of or novated into the company. The table below summarises the bank debt, including their fair values.

| Currency | Type | Notional (including accretion)* £m | Rate | Maturity Date | Book value (£m) | Fair Value £m |
|---|---|---|---|---|---|---|
| **Index-linked** | | | | | | |
| GBP | Unlisted | 88 | RPI-linked | 02-Oct-23 | 92 | 99 |
| GBP | Unlisted | 86 | RPI-linked | 18-Jun-24 | 91 | 95 |
| GBP | Unlisted | 86 | RPI-linked | 25-Jun-24 | 91 | 95 |
| GBP | Unlisted | 88 | RPI-linked | 29-Apr-24 | 93 | 97 |
| GBP | Unlisted | 87 | RPI-linked | 30-Apr-24 | 92 | 96 |
| GBP | Unlisted | 87 | RPI-linked | 07-May-24 | 92 | 96 |
| | | 522 | | | 551 | 578 |
| **Floating Rate** | | | | | | |
| GBP | Unlisted | 400 | SONIA | 23-Mar-27 | 400 | 403 |
| | | 400 | | | 400 | 403 |
| **Overdraft** | | 1 | | | 1 | 1 |
| Finance Lease obligation less than one year | | 1 | | | 1 | 1 |
| Finance lease obligation more than one year | | 2 | | | 2 | 2 |
| **Total** | | 926 | | | 955 | 985 |

* Indexed linked debt notional is the accreted value.

Financial statements

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 16 Borrowings continued

On 14 April 2021 Cadent Gas Limited repaid £300 million of its existing syndicated term loan using available cash and committed bank facilities. The company continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

The fair value of borrowings at 31 March 2022 was £985m (2021: £1,247m). Where market values were available, fair value of borrowings (Level 1) was £Nil (2021: £Nil)

Where market values were not available, the fair value of borrowings (Level 2) was £985m (2021: £1,247m), calculated by discounting cash flows at prevailing interest rates

None of the company's borrowings are secured by charges over assets of the company.

### Obligation under finance leases

| | Minimum lease payments | |
|---|---|---|
| | 2022 £m | 2021 £m |
| Amounts payable under finance leases: | | |
| Within one year | 1 | 1 |
| In the second to fifth years inclusive | 3 | 3 |
| After five years | – | 1 |
| Less: future finance charges | (1) | (1) |
| Present value of lease obligations | 3 | 4 |

| | Present value of Minimum lease payments | |
|---|---|---|
| | 2022 £m | 2021 £m |
| Amounts payable under finance leases: | | |
| Within one year | 1 | 1 |
| In the second to fifth years inclusive | 2 | 2 |
| After five years | – | 1 |
| Present value of lease obligations | 3 | 4 |
| Analysed as: | | |
| Amounts due for settlement within 12 months (shown under current liabilities) | 1 | 1 |
| Amounts due for settlement after 12 months | 2 | 3 |
| | 3 | 4 |

It is the company's policy to lease certain items of its motor vehicles and other equipment under finance leases. The average lease length is eight years at inception. For the year ended 31 March 2022, the average effective borrowing rate was 3.48% (2021: 3.48%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

## 17 Provisions for liabilities

| | Environmental £m | Deferred tax £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 April 2021 | 28 | 1,224 | 49 | 1,301 |
| Charged to the income statement | 3 | 329 | 7 | 339 |
| Utilised | (1) | – | (9) | (10) |
| Released to the income statement | – | – | (7) | (7) |
| Unwinding of discount | – | – | – | – |
| Credited to other comprehensive income and equity | – | 182 | – | 182 |
| **At 31 March 2022** | **30** | **1,735** | **40** | **1,805** |

| | Environmental £m | Deferred tax £m | Other £m | Total £m |
|---|---|---|---|---|
| Current | 1 | – | 10 | 11 |
| Non-current | 29 | 1,735 | 30 | 1,794 |
| | **30** | **1,735** | **40** | **1,805** |

### Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0% (2021: 1.0%)). Cash flows are expected to be incurred between 2022 and 2082.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and climate change regulations, and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact on the calculation of the provision.

The undiscounted amount of the provision at 31 March 2022 is £38m (2021: £34m) being the undiscounted best estimate liability having regard to these uncertainties. See note 29 of the consolidated financial statements for analysis of the sensitivities associated with our estimate.

### Deferred tax

Deferred taxation comprises:

| | **2022 £m** | 2021 £m |
|---|---|---|
| Accelerated capital allowances | **1,508** | 1,161 |
| Other timing differences | **227** | 63 |
| Deferred tax liability | **1,735** | 1,224 |

### Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions relating to the operation of our gas networks. Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The majority of claims are expected to be settled within 10 years.

## 18 Share capital

| | **2022 £m** | 2021 £m |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 169,030 ordinary shares of £1 each | **–** | – |

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

# Notes to the company financial statements continued

For the year ended 31 March 2022

## 19 Capital and other commitments

| | 2022 £m | 2021 £m |
|---|---|---|
| Contracts for future capital expenditure not provided in the financial statements | 304 | 255 |
| Letters of credit | 300 | 300 |
| | 604 | 555 |

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| | 2022 £m | 2021 £m |
|---|---|---|
| Less than one year | 13 | 7 |
| In two-five years | 23 | 7 |
| More than five years | 44 | 5 |
| | 80 | 19 |

## 20 Related Parties

The following material transactions are with a subsidiary of the company which is not wholly owned by Quadgas Holdings TopCo Limited and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 102.

| | 2022 £m | 2021 £m |
|---|---|---|
| Income: | | |
| Goods and services supplied to other related parties | – | – |
| | – | – |
| Expenditure: | | |
| Services rendered from associates | 16 | 10 |
| | 16 | 10 |
| Outstanding balances at 31 March in respect of income and expenditure: | | |
| Amounts payable to other related parties | 2 | – |
| Amounts receivable from associates | – | 2 |

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No amounts have been provided at 31 March 2022 (2021: Nil) and no expense has been recognised during the year in respect of bad or doubtful debts from the above related party transaction.

Details of key management compensation are provided in note 7 to the consolidated financial statements.

## 21 Contingent liabilities

### (a) Environmental claims

The environmental provision (see note 23 of the consolidated financial statements) represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company. 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.

### (b) 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.

### (c) Guarantees and letters of credit

Fellow subsidiaries 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.

## 22 Subsequent events

There are no subsequent events.

## 23 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas MidCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Pilot Way, Ansty Park, Coventry, United Kingdom, CV7 9JU.

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.

# Glossary

| Term | Definition |
|---|---|
| **Adjusted EBITDA** | Earnings Before Interest, Tax, Depreciation and Amortisation, and Exceptional items |
| **AGI** | Above ground installation |
| **Annual report** | the company's annual report and accounts for the year ended 31 March 2022 |
| **articles** | the articles of association of the company |
| **AWS** | Affordable Warmth Solutions |
| **BAME communities** | Black, Asian and minority ethnic communities |
| **BEIS** | Department for Business, Energy and Industrial Strategy |
| **bioSNG** | bio-substitute natural gas |
| **Board** | Board of Directors of Cadent Gas Limited |
| **Cadent or company** | Cadent Gas Limited |
| **Cadent Military Community** | Our community group, a network to actively support service leavers entering the business, our current reservists and those that have previously served. |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **Chair** | Chairman of a Board Committee |
| **Chairman** | Chairman of the Board |
| **CISBOT** | A cast iron pipe-repair robot that seals the joints in natural gas pipelines from the inside |
| **CMA** | Competition and Markets Authority |
| **Complaints** | The algorithm is driven from % day 1 closures, % day 31 closures, repeated complaints and ombudsman complaints received |
| **COP26** | 26th UN Climate Change Conference of the Parties |
| **CNG** | Compressed Natural Gas |
| **Consumer** | A person who purchases goods and services for personal use |
| **CO Crew** | A schools' programme for Key Stage 2 children to educate them on the dangers of carbon monoxide poisoning |
| **CSAT** | Customer satisfaction |
| **Customer** | In the Strategic report and Governance sections when we refer to customer, we are referring to our consumers, suppliers and shipper. Within the Financial statements when we refer to customer, we are referring only to our direct customers |
| **DB** | Defined Benefit |
| **DC** | Defined Contribution |
| **DEFRA** | The Department for Environment, Food and Rural Affairs |
| **Directors** | the Directors of Cadent Gas Limited |
| **Embrace** | Our community group, a network to raise awareness of and drives discussion on issues affecting colleagues from an ethnic minority background, and of all religions. |
| **EWP** | Energy White Paper |
| **EIB** | European Investment Bank |
| **EIC** | Energy Innovation Centre |
| **ESG** | Environmental, Social, and Governance (ESG) – three central factors in measuring the sustainability and societal impact of an investment in a company or business |
| **FRC** | Financial Reporting Council |
| **Gigawatt** | A gigawatt is a unit of energy equal to a billion watts. There are 1,000 gigawatts in a terawatt |
| **GRESB** | GRESB (Global Real Estate Sustainability Benchmark) assesses and benchmarks Environmental, Social and Governance (ESG) performance |
| **Group** | The Group comprises Cadent Gas Limited, Cadent 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 |
| **GSCoC** | Global Supplier Code of Conduct |
| **GSOP** | Guaranteed Standards of Performance |
| **HMRC** | Her Majesty's Revenue and Customs |
| **HSE** | Health and Safety Executive |
| **HyDeploy** | A project to inject a blend of natural gas and hydrogen into the network at Keele University |

| Term | Definition |
|---|---|
| **HyNet** | A conceptual study to introduce hydrogen into the gas network in an industrial part of Manchester and Liverpool |
| **IAS** | International Accounting Standards |
| **IFRS** | International Financial Reporting Standards |
| **ISO** | International Organisation for Standardisation |
| **ISO 55001** | Asset management standard developed for the use of people or businesses involved in asset management |
| **LGBTQ+** | Lesbian, gay, bisexual, transgender and queer or questioning |
| **LTIFR** | Lost Time Injury Frequency Rate, the number of lost time injuries occurring in a workplace per 1 million hours worked |
| **LTIP** | Long-Term Incentive Plan |
| **Microsoft Power BI** | Unify data from sources to create interactive, immersive dashboards and reports that provide actionable insights |
| **National Gas Emergency Service** | 0800 111 999 a free emergency number that anyone can call if they smell gas or suspect carbon monoxide |
| **NEA** | National Energy Action is a fuel poverty charity that works to eradicate fuel poverty and campaigns for greater investment in energy efficiency |
| **NED** | Non-Executive Director |
| **NET ZERO** | Target to negate amount of greenhouse gases by reducing emissions by 2050 |
| **NGN** | Northern Gas Network |
| **NGUKPS** | National Grid UK Pension Scheme |
| **NIA** | Network Innovation Allowance |
| **NIC** | Network Innovation Competition |
| **Ofgem** | Office of Gas and Electricity Markets |
| **P&L** | Profit & Loss |
| **PC&S** | Pressure Control & Storage |
| **PE pipes** | Polyethylene pipes |
| **Pride at Work** | Our community group, a welcoming and safe space where our Lesbian, Gay, Bisexual, Transgender, Queer (LGBTQ+) and allied members can thrive and feel included. |
| **PSR** | The Priority Services Register is a service provided by energy suppliers and network operators to support customers in vulnerable situations. It provides extra support in emergencies or free services |
| **Regulatory controllable costs** | Those operating activity costs that are deemed as part of the price control allowances as being within the control of the licence holder |
| **RAV** | Regulated Asset Value |
| **Repex** | Replacement Expenditure |
| **RIIO** | Ofgem's regulatory framework (Revenue = Incentives + Innovation + Outputs) |
| **RIIO Stakeholder Incentive Submission** | A report made as part of Ofgem's Stakeholder Engagement Incentive Scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses |
| **RIIO-1** | The RIIO-1 price control set out the outputs that the Gas Distribution Networks ('GDNs') need to deliver for their consumers, and the associated revenues they are allowed to collect, for the eight year period from 1 April 2013 until 31 March 2021 |
| **RIIO-2** | RIIO-2 is the current price control for Cadent and the other three network companies, who own and operate the gas distribution networks in Great Britain. This is the second price control period using the RIIO framework and started in April 2021 |
| **RPI** | Retail Price Index |
| **Safety Seymour** | A schools' programme for Key Stage 1 children to educate them on the dangers of carbon monoxide poisoning |
| **Scope 1** | All Direct Emissions from owned or controlled sources |
| **Scope 2** | Indirect Emissions from the generation of purchased electricity, steam, heating and cooling |
| **Scope 3** | All Other Indirect Emissions that occur in a Cadent's value chain |
| **SEND** | Special Educational Needs and Disability |
| **SGN** | The gas distribution company that covers Scotland and a section of southern England including parts of Devon, Milton Keynes and South London |

Financial statements

# Glossary continued

| Term | Definition |
|---|---|
| **SHES** | Safety, Health, Environment and Security |
| **SID** | Sufficiently Independent Director |
| **SND** | Shareholder Nominated Director |
| **Stakeholder Engagement Incentive Scheme** | Ofgem's scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses |
| **STEM** | Science, Technology, Engineering and Mathematics |
| **STIP** | Short-Term Incentive Plan |
| **Supply Chain Sustainability School** | The School is a collaboration between clients, contractors and first tier suppliers who want to build the skills of their supply chains |
| **Thrive** | Our community group, a network to raise awareness of and support people with disabilities, making our workplace accessible and supportive to all. |
| **TPP** | Ten Point Plan |
| **TUPE** | Transfer of Undertakings (Protection of Employment) regulations |
| **TWh** | Terawatt hours, a measure of energy use |
| **UK GAAP** | United Kingdom Generally Accepted Accounting Practice |
| **USPP** | US Private Placement |
| **VCMA** | Vulnerability and Carbon Monoxide Allowance |
| **Wates Principles** | The six Wates Corporate Governance Principles for large private companies |
| **Women in Cadent** | Our community group, a network of colleagues from across our business, who are all committed to creating equality and supporting women's professional and personal development. |
| **WWU** | Wales & West Utilities |
| **2006 Act** | The Companies Act 2006 |

Your Gas Network

Cadent
Pilot Way
Ansty Park
Coventry
CV7 9JU

www.cadentgas.com