Company registration number: 10615396

Quadgas MidCo Limited

Annual Report and Financial Statements

For the year ended 31 March 2022

Quadgas MidCo Limited

Strategic Report

For the year ended 31 March 2022

The Directors present their annual report and the audited financial statements of the Group and the company for the year ended 31 March 2022.

Principal activities

Quadgas MidCo Limited (the company) holds investments in a number of subsidiary companies and obtains and provides finance to fellow subsidiary companies via intercompany transactions.

The Group comprises Quadgas MidCo Limited, Quadgas Finance Plc, Cadent Services Limited, Cadent Finance Plc, Cadent Gas Limited, 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. Cadent Gas Limited is the main trading company and operates four of the eight regional gas distribution networks in Great Britain. Using the Group's network, approximately 84 principal shippers and suppliers transport gas to 11 million homes and businesses. Cadent Gas also manages the national gas emergency service free phone line, taking calls and giving safety advice on behalf of the UK gas industry.

Strategy

The Group's strategy is to set new standards on the quality of the services we deliver to all of our customers (our consumers, suppliers and shippers), stakeholders and communities, particularly those that find themselves in vulnerable situations. We have developed a customer first approach that has an ethos of constantly maintaining availability of gas supplies to our customers by developing appropriate techniques and using innovative ways to achieve this goal. We will also push the boundaries on our role in supporting safety of customers in the home, helping alleviate fuel poverty and making our services more accessible to all types of customer. 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.

Future developments

As the UK's largest gas distribution network, Cadent Gas is the leading voice on the importance of hydrogen in the future energy mix. 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 widescale supply of hydrogen to achieve our net zero ambitions. 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.

Our HyNet project to introduce hydrogen into the gas network 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 the Department for Business, Energy and Industrial Strategy (BEIS) in developing their Heat and Building 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.

Business environment
The Group manages the gas distribution networks to keep the gas flowing safely and reliably to help keep our 11 million customers connected, safe and warm. The Group are incentivised through Ofgem's regulatory framework called RIIO (Revenue = Incentives + Innovation + Output) to operate efficiently and deliver services that our customers and stakeholders value. These are expressed as commitments across four key outcome areas (trusted to act for our communities, tackling climate change and improving the environment, providing a quality experience to all of our customers, stakeholders and communities and delivering a resilient network to keep the energy flowing safely and reliably).

Ofgem safeguards customers' interests by setting the level of charges we are allowed to recover associated with the output commitments we must deliver. Ofgem is able to make comparisons across all eight gas distribution networks. The output targets are defined such that Cadent Gas maintains safe and reliable networks; makes a positive contribution to sustainability and protects the environment; provides connections to supply new consumers and support new gas entry points into the network; meets social obligations such as reducing fuel poverty and raising awareness of the dangers of carbon monoxide; and provides an agreed standard of service to consumers and other stakeholders.

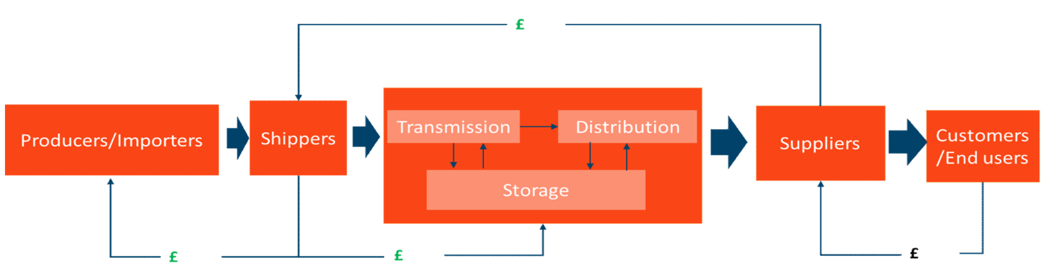
During the year our RIIO-2 price control was finalised and we have a clear plan to deliver on our objectives during the 5 year regulatory period. Our appeal to the Competition and Markets Authority (CMA) in relation to our RIIO-2 business plan was successfully concluded this year. Some of the important 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.

We are on track to deliver against our RIIO-2 business plan and have a strong focus on efficiencies for all our customers. 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.

Revenue
Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:
• investment in network assets;
• operational "run the business" costs (including tax and pensions);
• performance against incentives;
• regulatory return on equity and cost of debt; and
• inflation adjustments.

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet our output commitments as well as the efficiency and innovation targets included in the RIIO-2 price control.

We collect our revenue by levying charges on gas shippers, who will then recover these costs from energy suppliers, who in turn recover these costs through end user energy bills. Quite often, the shipper and supplier organisations are one and the same. The chart below summarises the fund flows.



Revenue (continued)
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.

Cash flow
Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business. Securing low-cost funding, carefully managing our cash flows and efficient development of our networks are essential to maintaining strong sustainable returns for our shareholders. Cash generation is underpinned by our charging methodology (part of the industry's network code) which being a capacity based regime provides stability and predictability of cash flows.

Investment
We invest efficiently in our networks to deliver strong regulated asset growth over the long-term. This drives additional future revenues, which in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our ultimate shareholders.

This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

Our plan for 2022-2026

Delivering a quality experience for all our customers and stakeholders	• Reduction in time interrupted for customers in multi-occupancy buildings • Offering a suite of targeted interventions • Raising awareness of the Priority Services Register through direct conversations, partnerships and colleague training • Raising awareness of the dangers of carbon monoxide across our networks
Trusted to act for our communities	• Commit to at least 1.0% of post-tax profit invested back into our communities through our charitable foundation - c. £6m p.a • More than 10% saving per annum in customer bills in real terms (excluding inflation) • Simple, clear and comprehensive reporting against all of our customer commitments • 60% of colleagues giving back to our communities through volunteering
Providing a resilient network to keep the energy flowing	• 99.9% reliability keeping customers on gas • 1,705 km of old metallic mains replaced each year • World-class emergency response service with average arrival time of 35 mins • More than £500m cost efficiency savings for customers embedded in our Plan
Tackling climate change and improving the environment	• Target a 14-17% reduction in leakage from our network • Significant step towards carbon neutrality in our operation by 2026 • Innovation to decarbonise the North West with hydrogen • Enabling capacity for greener resources

Consolidated Results

Income Statement

Revenue

Revenue was £1,984 million (2021: £2,074 million) 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. Revenue 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.

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.

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.

Operating profit

Operating profit was £631 million (2021: £850 million) with operational expenditure largely comprising charges associated with our usage of the National Grid Gas Transmission network, business rates and employment costs of our direct workforce and contract partners. Gas price increases during the year resulted in increased shrinkage costs of £58 million (2021: £12 million) and exit capacity charges of £164 million (2021: £127 million). The Ofgem mandated pricing formula ensures we are reimbursed for excess costs in a future period.

Loss for the year

The Group made loss for the year of £469 million (2021: profit £498 million). The loss for the year is due to the decrease in operating profit as described above together with an increase in finance costs of £219 million and an exceptional deferred tax charge and remeasurements of £610 million. These movements are described in detail below.

Exceptional items and remeasurements

Included within total operating profit of £631 million (2021: £850 million) are exceptional costs of £12 million (2021: £10 million). 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 £12 million have been recognised in the year, which mainly relate to pension and redundancy costs. Cumulative costs of £52 million 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.

Remeasurement losses of £75 million (2021: gain of £3 million) have been recognised within finance costs in relation to the remeasurement of derivatives. This is due to changes in the mark-to-market values of index-linked swaps, which have been affected by inflation and interest rate assumptions.

Net finance costs

Net finance costs before remeasurements of £392 million (2021: £239 million) 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 swaps.

Our regulated revenues and Regulated Asset Value (‘RAV’) are index-linked to the Consumer Prices Index including owner occupiers' housing costs (CPIH), and therefore inflation-linked liabilities act as a natural hedge against fluctuations in inflation rates. Since April 2021, the Group has 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.

Taxation

Our effective rate of corporation tax for the year, before exceptional items and remeasurements, is 17.5% (2021: 18.9%). After exceptional items and remeasurements the effective rate has increased to 386.0% (2021: 18.9%). There was an exceptional deferred tax charge of £610 million in the year arising as a result of the increase in the UK tax rate.

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 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 of £636 million, with an exceptional charge of £610 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%.

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.

Statement of Financial Position

The consolidated statement of financial position sets out all the Group's assets and liabilities at the period end. It is dominated by the value of our physical assets and the corresponding borrowings that fund our capital investment programmes.

Capital Investment
Capital investment was £725m (2021: £1,024m) and is primarily associated with the ongoing gas mains replacement programme which saw 1,679km 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.

Cash flow and net debt
Borrowings (both current and non-current) at 31 March 2022 were £10,160 million (2021: £10,585 million) 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 £10,389 million (2021: £9,877 million).

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

As at 31 March 2022, Quadgas MidCo Limited was rated BBB+ (stable outlook) by S&P, with any notes issued by the company rated BBB (stable outlook).

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 £1,100 million, £194 million 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 net cash flow used in investing activities was £112 million (2021: £1,540 million) of which £861 million (2021: 1,045 million) 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).

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.

Liquidity (continued)
The cash held in Money Market Funds was £81 million (2021: £828 million). 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 £200 million. As at 31 March 2022 £90 million had been drawn down. Included within cash of £21 million at 31 March 2022 is an amount of £11 million received in grants (2021: £9 million). 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 Bond programmes through Cadent Finance Plc and Quadgas Finance Plc, subsidiaries of the Group, 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.

Intangible assets
Goodwill of £1,713 million (2021: £1,713 million) has remained unchanged from the prior year. During the year, management completed the annual impairment test required for the goodwill and indefinite life intangibles that it holds on its balance sheet. The impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. Climate Change continues to result in uncertainty over the future use of the Cadent Gas assets for transporting natural gas to heat homes and power industry, and management have considered this uncertainty when performing the impairment test. The impairment review was completed following receipt of the Ofgem Final Determination, and the subsequent Final Determination by the Competition and Markets Authority ("CMA") following our appeal, and our internal business planning processes. These are all considered in light of their potential impact on goodwill valuation.

This calculation indicated that the recoverable amount was higher than the carrying amount with a significant amount of headroom, and therefore no impairment charge (2021: no impairment) was recognised. Key assumptions made by management in the calculation are described in detail in note 12, with sensitivity analysis performed in note 29.

The Group also holds a balance of £2,143 million (2021: £2,143 million) relating to the gas distribution licence and £70 million in relation to software (2021: £88 million (restated)).

Dividend

Our dividend policy balances the distribution of available funds to shareholders, which considers 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. During the year we paid dividends totalling £135 million (2021: £127.4 million).

Pensions
The Group operates pension arrangements on behalf of our employees many 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 £5,476 million (2021: £6,020 million). Coupled with an increase in the fair value of the scheme assets in the year to £6,559 million (2021: £6,446 million), the net pension surplus has increased by 154%.

Impact of new accounting standards

Our Group financial statements are prepared in accordance with International Financial Reporting standards.

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.

Performance summary

We believe that transparent disclosure of performance against our targets is essential. The KPIs for the Group are aligned with the Cadent Gas Limited KPIs. These are reviewed regularly by the Cadent Gas Limited Executive Committee and the Safety, Health, Environment and Security (SHES) Committee, who are accountable for environmental policy and performance. Some of our measures have been imposed by our regulator and are marked accordingly. See Cadent Gas Limited Annual Report and Accounts 2021/22 for further detail.

Risk Management and principal risks

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 its risk appetite, in March 2022.

The Board has considered the relevant risk appetite across the Group's operations and assessed that 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 within Cadent Gas Limited who set the risk management framework, facilitate reporting and provide advice and challenge to the business.

Responsibility for actively managing risks lies firmly within the business of Cadent Gas Limited. 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 assessment.

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.

Risk management overview (continued)

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.

Climate change risk management

We support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). Risk mitigations for physical and transition risks associated with climate change have been put in place and are explained further below.

Our principal risks and uncertainties include:

We have outlined below the principal risks and uncertainties facing the Group. The trend indicates whether our residual risk has increased or reduced, taking account of both changes in the underlying risk and controls in place to manage it.

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. • National and regional stakeholder engagement to understand policy, customer drivers and the regulatory landscape. • 'Future Role of Gas' (Hydrogen) Strategy in place, along with a governance structure to ensure that we can react quickly to new developments. • Providing thought leadership to influence the RIIO-3 price control framework. • Play a leading role in the net zero transition debate. • 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.	No change • Progress in the role of hydrogen in the future energy mix. • Uncertainty will remain until publication of the Heat and Buildings strategy, expected in 2026.

Risk management overview (continued)

Climate change and biodiversity

Potential impact	Mitigation	Trend
The substantial existential risk and opportunity of climate change and biodiversity present themselves in three ways: 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. 2. There is a risk that our own operations contribute to climate change, which we are actively seeking to reduce. 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. 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. • Environmental Action Plan outlines our commitments and targets on climate change and biodiversity loss protection. • Innovation projects demonstrate the viability of hydrogen networks through large scale demonstration projects such as HyNet and the proposed Hydrogen village. • By connecting more sustainable sources of gas, such as biomethane, we are already providing consumers with more sustainable energy. • 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. • New flood resilience standards are being developed to ensure we remain resilient. • Working with The Wildlife Trust to further embed biodiversity protection.	Increased risk • 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.

Risk management overview (continued)

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. • Comprehensive framework of protective, detective, responsive and recovery controls operate across our network and services. • Cyber Security response processes and Business Continuity Management (BCM) plans are in place for critical processes and routinely tested. • 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. • 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. • Engagement with the appropriate agencies to ensure suitable controls are in place to manage our obligations under the Network Information Security Regulations. • Data Management Framework in place to ensure there is effective data governance across the organisation.	Increased risk • 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. 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. • Engineering and asset management teams in place to manage the framework and ensure good quality asset decisions and investments are made. • Support tools to aid complex decision- making and ensure resilience is maintained. • Suite of policies and procedures in place to ensure that asset data is managed appropriately. • A replacement programme is in place to ensure that ageing assets are replaced. • In the event of third-party asset damage or asset failure, insurance is in place to compensate for damage arising. • Well-practiced response procedures in place.	Reduced risk • Risk reduction continues through our mains replacement programme.

Risk management overview (continued)

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. 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. • 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. • Process safety controls in place. • Incident response, investigation and review processes. • Long-term, risk-based investment and replacement programmes to ensure that we maintain a safe, secure and efficient network. • Safety assurance programme identifies opportunities to strengthen and enhance our existing controls. • There are structures in place for cross-industry sharing of good practice and learning, to support continual improvement across the industry.	No change 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. 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. • A governance framework closely monitors our regulatory output delivery and ensures that emerging risks and issues are escalated and managed in a timely manner. • 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. • 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. • Horizon scanning to identify, and ensure we prepare, for legal and regulatory changes and developments. • Licence obligation matrix ensures clear ownership of each licence condition, which is continually updated to ensure clear accountability.	No change The legal and regulatory regime remains stable.

Risk management overview (continued)

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. • As at 31 March 2022, liquidity was provided by a combination of immediately available cash (£94m) and committed bank facilities. The cash balance held in Money Market Funds totalled £81 million. All funds held with the Money Market Funds are immediately available. We also have access to Revolving Credit Facilities (RCFs) from our relationship banking group. This allows for drawings of up to £500 million at Cadent Gas Limited with a further RCF facility of £200 million being available at Quadgas Midco Limited. As at 31 March 2021 the £500 million Cadent Gas Limited facility was undrawn and £110 million was available from the Quadgas MidCo Limited facility that could be lent to Cadent Gas Limited. • 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.	Increased risk • External events are driving inflation and market volatility. • 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. • Creditworthiness of each of our 84 principal shippers (direct customers) is closely monitored in line with industry wider parameters. There are regular credit rating reviews of counterparties and exposure limits set for any one party. • Access to Revolving Credit Facilities (RCFs) from our relationship banking group which for drawings of up to £500m by the operating company Cadent Gas Limited – undrawn as at 31 March 2022. With a further RCF facility of £200m being available at Quadgas Midco Limited with £110m available as at 31 March 2022. • 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.	

Risk Management overview (continued)

Macroeconomic and financial risk (continued)

Potential impact	Mitigation	Trend
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. 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. • The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer of Cadent Gas Limited or Director of Treasury, Corporate Finance and Planning under delegated authority from the Board. • Regulatory mechanisms are in place to ensure recovery of these costs driven by changes in market prices over time. • 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. • 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. • Dedicated 2nd and 3rd line resources undertake assurance activities over the controls framework to provide confidence in its ongoing operation.	

Risk Management overview (continued)

Protecting customers' interests

Potential impact	Mitigation	Trend
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.	• There is an opportunity that we could be doing more to keep both current and future customers safe and warm, and with access to affordable energy. • 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.	No change • External pressures on customers are mounting. • Measures implemented to improve our customer performance.

Resilience

Potential impact	Mitigation	Trend
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.	• 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.	Reduced risk • The operational impact of the COVID-19 pandemic has reduced significantly this year.

Risk Management overview (continued)

Resilience (continued)

Potential impact	Mitigation	Trend
Macroeconomic impacts – significant uncertainty impacting inflation, the cost of debt and the stability of suppliers. The risk from COVID-19 is now reducing.	• 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.	

Securing critical resources and engagement

Potential impact	Mitigation	Trend
There is a risk that the Group 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.	• 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.	Increased risk • External labour market conditions are challenging attraction and retention. • Increase in geopolitical threats to our supply chain.

Climate related financial disclosures

Compliance with the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) becomes mandatory for Cadent Gas Limited in the 2023/24 financial year. We recognise and embrace the importance of the recommendations, and last year voluntarily 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

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

The Cadent Gas Limited's 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 Future of Gas, Sustainability and Social Responsibility. This standing item is supplemented by focussed papers and presentations from members of Cadent Gas Limited's 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; 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. See Cadent Gas Limited's Annual report and Accounts.

In addition, recognising the significance of the 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 the Cadent Gas Strategy and Regulation Team and include presentations and input from external specialist speakers and consultants to inform a wide-ranging discussion.

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

Audit & Risk 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.

Sustainability Committee

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 in current trends , associated trend data analysis progress against our RIIO-2 Environmental Action Plan and implementation of our 'force for good' strategy.

Nominations Committee

Ensures sustainability related skills and experience form part of executive director and executive recruitment and succession planning considerations.

Remuneration Committee

Duties include the consideration and approval of short term and long-term incentive plan measures, which include environmental performance measures.

Climate related financial disclosures (continued)

Governance (continued)

Committee Chairs report to the Cadent Gas Limited 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.

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, in accordance with the Wates Corporate Governance Principles for Private Companies. You can read more about these in the Cadent Gas Limited Annual report and Accounts.

Cadent's climate related risks and opportunities are identified, assessed and managed by the company's 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 the Future of Gas Programme, and from the Audit and 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 in the Cadent Gas Limited's Annual report and Accounts.

Papers are tabled for discussion at the sub-Committees and/or the Executive Committee before being presented to the Board/Board Committees.

Strategy

The strategy for responding to climate change

Overview of climate related risks and opportunities

Cadent Gas's 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 our end customers, releases greenhouse gases and contributes to climate change. The 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 with the latest science-based methodology to reduce emissions, support biodiversity and eliminate waste .

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. The Cadent Gas risk and opportunity assessments can be seen in the table overleaf.

Climate related financial disclosures (continued)

Strategy (continued)

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 RIIO3 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. • 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 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 have published our 'Green Print' and 'Hydrogen Ten-Point plan' to aid stakeholders in their knowledge and understanding of the role of gas as part of the low emissions energy system transition. A Hydrogen Show Home was opened in collaboration with Northern Gas Networks to demonstrate how a regular domestic property could be fuelled by hydrogen. We attended COP26 in November 2021 showcasing how we are playing a leading role in helping the UK reach its Net Zero target, by connecting greater levels of renewable gas and leading on new technologies and infrastructure to cut our carbon emissions across heat and transport.	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.	Short, Medium & Long term

Strategic Report (continued)

For the year ended 31 March 2022

Climate related financial disclosures (continued)

Strategy (continued)

Risk/opportunity type and description	Our response	Timeframe
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
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. • 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. • 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

Climate related financial disclosures (continued)

Strategy (continued)

Risk/opportunity type and description	Our response	Timeframe
Reducing our environmental impact - The loss of biodiversity is increasing. The risk is loss of habitat due to general human population growth and increased resource use. 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.	• 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 Environmental Action Plan (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. • 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

Risk Management

The risk that we 'fail to respond to climate change and biodiversity' is one of our 'Principal Risks', overseen by the Cadent Gas Limited's 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 Cadent Gas Limited Board has 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.

Climate related financial disclosures (continued)

Risk Management (continued)

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;

• 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 re-purpose 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 in the Cadent Gas Limited's Annual report and Accounts.

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 have 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 in the Cadent Gas Limited's Annual report and Accounts.

Climate related financial disclosures (continued)

Metrics and targets

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 advisors 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

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 54% of suppliers by spend 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.

Climate related financial disclosures (continued)

Metrics and targets (continued)

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^{o}C climate scenario. Whilst this doesn't yet align to the more ambitious 1.5^{o}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 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

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, amend 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 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 for details. This remains a recurring area of focus for the Audit Committee.

S172 Statement

The following statement describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172 of the Companies Act 2006.

The company has no operational activities and no employees, it is a financing company for bank debt and privately held subsidiary level debt. The company's main purpose is to remove the increased administrative burden and level of legal compliance required of a public company within the Group.

As a wholly owned subsidiary holding company the Directors consider the impact of the company's activities on its stakeholders, consisting of its shareholder, its subsidiaries and other stakeholders including (but not limited to) Ofgem (The Office of Gas and Electricity Markets), the UK Government, members of the consortium who together own the ultimate parent company, Quadgas Holdings TopCo Limited and external debt holders consisting of a consortium member and financial institutions. Whilst not directly regulated itself, the company maintains a close relationship with the Ofgem (The Office of Gas and Electricity Markets), via the subsidiary company Cadent Gas Limited. For detail on how the Directors have had regard for the interests of the employees of the Group, see the employee section within Directors report.

The company's stakeholders are consulted routinely on a wide range of matters including funding decisions, investment strategy, delivery of the Group's strategy, governance and compliance with Group policies and financing matters in relation to the company's investments, with the aim of maximising investment returns for the benefit of its shareholder and ensuring that the company maintains high standards of business conduct and governance. The Board considers the consequences of its decisions through these consultations to ensure that the long-term interests of the company are protected.

As an investment vehicle for the Group, the company obtains and provides finance to fellow subsidiary companies via intercompany balances. The Board considers the company's investments in light of the Group's corporate and social responsibility strategy, as such the Board receives information on these topics from management to make better informed Board decisions.

The Directors delegate authority for day-to-day management of the company and other subsidiaries in the Group to the Executive Committee and then engage management in setting, approving and overseeing execution of the business strategy, to ensure that company policies and practices support effective decision making to deliver long-term value.

The Directors continued to provide oversight governance of the company and its subsidiaries to ensure that they comply with the Group's policies and maintain high standards of business conduct. The company provides regular updates on its activities to the Directors.

For further information on the Group activities and disclosure please refer to the Cadent Gas Annual Report and Accounts 2021/22. Whilst not directly regulated itself, the company maintains a close relationship with the Ofgem (The Office of Gas and Electricity Markets), via the indirect subsidiary company Cadent Gas Limited.

The Strategic Report was approved by the Board and signed on its behalf by:

M W Braithwaite
Director
26 July 2022

Quadgas MidCo Limited

Directors' Report

For the year ended 31 March 2022

The Directors present their Report and the audited financial statements of the Group and the company for the year ended 31 March 2022.

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 which are incorporated by reference into this report.

Directors

The Directors of the company during the year and up to the date of signing of the financial statements were:

M W Braithwaite
J Korpancova
D Karnik
P D Noble
D J Xie
A M Al-Ansari
H Su
M W Mathieson
R Greenleaf
E B Fidler
S Fennell
M Wang (Appointed 26 May 2021)
D L Wilkins (Appointed 31 August 2021)
A Marsden (Appointed 28 January 2022)
N J Axam (Resigned 28 January 2022)
N R V Corrigall (Appointed 24 May 2022)
J Bao (Resigned 26 May 2021)
H N M De Run (Resigned 31 August 2021)
H C Higgins (Resigned 24 May 2022)

Future developments

Details of future developments have been included within the Strategic Report.

Dividends

Our dividend policy is to balance the distribution of available surplus funds to shareholders but after having the forward committed cash requirements of the business to support our investment programmes and importantly managing the appropriate level of gearing. During the year we paid dividends totalling £135 million (2021: £127 million).

Political donations and political expenditure

The Group did not make any political donations or political expenditure during the current year (2021: £Nil).

Research and development

Expenditure on research and development for the Group was £16 million during the current year (2021: £10 million).

Directors' indemnity

Quadgas HoldCo Limited (an indirect parent company) has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, Quadgas HoldCo Limited places Directors' and Officers' liability insurance for each Director.

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. 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 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 Quadgas MidCo 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.

The statement of financial position shows net assets of £3,862 million at 31 March 2022 (2021: £4,023 million) with a loss for the financial year of £469 million (2021: £498 million profit). The operating company for the Group, Cadent Gas Limited, continues to trade and operate as a going concern and as at 31 March 2022 was in a net asset position of £2,514 million (2021: £2,355 million) with reported loss for the financial year of £93 million (2021: £631 million profit). See Cadent Gas Limited Annual report and accounts for further details. The losses were 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%.

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.

Capital structure

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt.

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 conducts 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 and 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 and Risk Committee and the Board review the draft consolidated financial statements. The Audit and 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.

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.

Auditor
A resolution to re-appoint Deloitte LLP as auditor of the company will be proposed at the Annual General Meeting for shareholder approval.

Engagement with employees

Within the Group there is a subsidiary that exceeds the requirements for reporting on employee engagement (Cadent Gas Limited), with an average number of employees of 5,945 (2021: 5,258). Cadent Gas Limited has provided extensive disclosure in relation to employee engagement. For further information on these activities and disclosure, including principal decisions and the effect of engagement on them, please refer to the Cadent Gas Annual Report and Accounts 2021/22.

We are committed to equality, inclusion and diversity and aim to support employees in achieving and maintaining a good balance between their work and personal lives. We promote equality in the development and application of our policies, through our recruitment processes and in training and development opportunities.

It is our policy that people with disabilities are treated fairly in relation to job applications and opportunities for training, career development and promotion. When employees are unable to continue working in their current role due to disability during their employment, every effort is taken to make reasonable adjustments, provide suitable training and identify alternative roles, if required.

Read about our policies in relation to ethical conduct, gender pay, anti-corruption and bribery, modern slavery and other topics at https://cadentgas.com/about-us/corporate-governance.

Directors' Report (continued)
For the year ended 31 March 2022

Environmental Policy
We are committed to delivering high standards of environmental performance, protecting and enhancing the environment, and seeking new, innovative and sustainable ways to lighten our environmental footprint and create long-term value for our customers, our people and stakeholders.

Our environmental ambition is underpinned by three primary commitments:
• Reduce the impact of climate change by implementing mitigation and adaptation measures.
• Ensure environmental sustainability is considered in our decision making and inspire our people to consider it in everything they do.
• Improve our environmental management system to protect the environment and reduce the risk of environmental incidents.

We strive to innovate in our day-to-day operations, continuously improving and finding new ways to deliver the highest standards of environmental performance, embedding it as part of our everyday activities and decision making, whether in the office or in the field.

We are committed to leading on sustainable gas usage and have identified wider use of the renewable compressed natural gas as transport or heating fuel as a route to delivering a low carbon future. We are also at the forefront of developing and understanding the role that hydrogen will play as a low or zero-emission fuel for the future.

The table below quantifies the Groups business carbon footprint in tonnes of CO_2 equivalent :

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

Scope 1 and 2 (Direct emissions)	**Current reporting year 2021-2022**	**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 greyfleet /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	-	-
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	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

Environmental Policy (continued)

Methodology
Data for Scope 1 and 2 provided here is in line with annual Business Carbon Footprint (BCF) 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 Protocol 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).

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.

For more information please see the Groups Safety and Sustainability report within the Cadent Gas Limited Annual Report and Accounts 2021/22.

Statement of Directors’ responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The parent company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006. 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 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, including FRS 101, 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' Report was approved by the Board and signed on its behalf by:

M W Braithwaite
Director
26 July 2022

Registered office:
Pilot Way, Ansty park, Coventry, CV7 9JU, United Kingdom.

Registered in England and Wales
Company registration number: 10615396

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUADGAS MIDCO LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Quadgas MidCo 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 loss 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 101 "Reduced Disclosure Framework"; 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 statement 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 16 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, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. 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 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. 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 as applied to listed entities, 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of Goodwill and indefinite life intangible; • Judgement over the classification of non-Local Delivery Partner ('Non-LDP') expenditure as being capital or operational; and • The impact of climate change on the valuation of property, plant and equipment. Within this report, key audit matters are identified as follows: (!) Newly identified (<>) Similar level of risk
Materiality	The materiality that we used for the group financial statements was £33.2m (2021: £40.7m). This materiality was determined on the basis of a range of metrics including profit before tax, exceptional items and remeasurements as well as revenue and net assets (2021: profit before tax, exceptional items and remeasurements). Additionally, we capped materiality at 95% of the materiality used for the audit of the consolidated financial statements of the group's intermediate parent company Quadgas HoldCo Limited. Materiality of £33.2m represents approximately 13.2% of adjusted profit before tax, exceptional items and remeasurements, 1.7% of revenue and 0.9% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our approach continues to be largely consistent with the prior year. In addition, in the current year we have identified a separate key audit matter for the impact of climate change on the valuation of property, plant and equipment. Previously, this was incorporated within the key audit matter in respect of the judgement over the classification of non-Local Delivery Partner ('Non-LDP') expenditure as being capital or operational in the prior year.

4. 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:

- Analysis of the financial position of the group and its funding sources including the revolving credit facility;
- Analysis of covenants compliance during the going concern period;

- Assessment of the appropriateness of management's forecasted cash flows and covenants under the base case and the reasonable worst case scenario;
- Analysis of management's mitigating factors, such as reduced working capital and dividends distributions and re-profiling of their capital spend; and
- Assessment of the disclosures in the financial statements relating to going concern.

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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of goodwill and indefinite life intangible

Key audit matter description	The book value of goodwill and indefinite life intangible as at 31 March 2022 is £3,856m (2021: £3,856m) relating to the acquisition of Cadent Gas Limited, Cadent Finance Plc and Cadent Services Limited in previous years. Included within the balance is an intangible asset for the gas distribution licence of £2,143m (2021: £2,143m). No impairment loss has been recognised in the year ended 31 March 2022 (2021: £nil). These assets are required to be assessed annually for impairment. The impairment assessment involves management judgement in considering whether the carrying value of these assets is recoverable and we have identified a risk of material misstatement that the goodwill and the indefinite life asset are not recoverable, therefore we identified this as a key audit matter. The key assumptions and estimates underpinning the forecast cash flows, impairment reviews, and consequently, the value in use are: • discount rate; • inflation rate (CPIH); • future regulatory cost of equity; and • regulatory asset value ('RAV') exit multiple. The regulatory cost of equity represents the expected rate of return on investment that is required by a company's shareholders. The regulatory cost of equity is calculated by Ofgem and is set for five-year periods known as price control periods. The inflation indexation applied is the Consumer Price Index including owner occupiers' housing costs (CPIH).

	These assumptions are sensitive to publications by Ofgem regarding future price control periods from FY27 ('RIIO-GD3' and beyond). There have been no publications regarding future price control periods following the conclusion of the Competition and Markets Authority (CMA) appeal by Cadent Gas Limited over the Ofgem RIIO-GD2 Final Determination in the current year, that will apply for FY23 through to FY26. Furthermore, the UK Government has enacted legislation and established targets in respect of net zero carbon emissions by 2050 and, accordingly, climate related risks represent a strategic challenge to the group. As described in Note 12 to the financial statements and in the Strategic Report (page 22) management considered the potential uses for the group's gas assets as part of their consideration around whether developments in the UK towards binding carbon reduction targets should trigger any changes to the group's estimates, judgements or disclosures. Management's assessment included an overview of the risks and opportunities arising as a result of the UK Government's legislative changes in this regard. Having analysed the potential decarbonisation pathways, management has identified potential uses for the group's gas pipeline assets in a net zero energy system, including the opportunity to drive forward the UK's hydrogen economy. Management concluded that the group's gas network UK will continue to have an economic use beyond 2045. Further details on the key sources of estimation uncertainty relating to goodwill and indefinite life assets can be found in note 2 and note 12. Details on the sensitivity of the above impairment reviews to changes in key assumptions are disclosed in note 29 to the financial statements.
How the scope of our audit responded to the key audit matter	We, together with our internal valuations, regulatory and climate change specialists, have: • obtained an understanding of relevant controls around the value in use calculations, the discount rate and inflation forecasts, amongst other key assumptions; • understood and challenged management's method, data and key assumptions of the estimate for the RIIO-GD3 control period and beyond together with management's prepared sensitivity analysis. This included assessing the outcome of management's appeal to the CMA on Ofgem's RIIO-GD2 Final Determination and the associated estimates of forecast cash flows; • performed an independent sensitivity analysis; • assessed the appropriateness of the regulatory cost of equity, discount rate, forecast inflation (CPIH), and RAV exit multiple; • assessed the impact of climate change and sustainability risks on the cash flow forecasts, including reviewing comparable transactions to challenge the appropriateness of a terminal value; • evaluated the consistency of management's assumptions within the impairment model with those applied in the group's other valuation and forecast models (e.g. those used for operating the business and for going concern);

	• assessed the implied multiple of Enterprise Value to RAV against other comparable regulated businesses; • tested the arithmetical accuracy of management's model for inconsistencies and errors; and • assessed the disclosures included in the financial statements.
Key observations	Based on the work performed, we concluded that the key assumptions used to determine the recoverable amount of the goodwill and the indefinite life intangible asset are reasonable.

5.2. Judgement over the classification of non-LDP expenditure as being capital or operational

Key audit matter description	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 Cadent Gas Limited and subcontractors ('non-LDP'). During the year the group has invested £750m in property, plant and equipment, excluding motor vehicles and other equipment (2021: £967m). 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 accounting and reporting software platform, 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. Further details are included within note 1(e) and note 13 of the financial statements.
How the scope of our audit responded to the key audit matter	We have performed the following procedures in response to the key audit matter: • tested relevant controls related to the fixed assets 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 assessed whether the employees worked on capital projects; and

	• completed a reconciliation between the fixed assets register and the general ledger.
Key observations	Based on the work performed, we concluded that the classification of expenditure as capital and operational to be appropriate.

5.3. The impact of climate change on the valuation of property, plant and equipment

Key audit matter description	The UK government has enacted legislation and established targets in respect of net zero carbon emissions by 2050. Because natural gas, when burned, emits carbon dioxide and is considered a greenhouse gas, this creates a strategic challenge for the group in relation to the potential future use of its assets, which are used to facilitate gas distribution services in the UK, in the period approaching 2050 and beyond. The remaining useful economic lives ("UELs") of the group's gas assets is up to 50 years in the UK extending beyond the 2050 "net zero" commitment date. As the continued use of natural gas as a primary energy source beyond 2050 appears to be in conflict with "net zero" targets and the impact of shortening the useful lives of the gas assets to 2050 has a material impact on annual depreciation, there is a risk that management's judgements taken to determine the useful lives of gas assets are not reasonable in the context of the net zero commitments. There has been no determination by the group's regulators that these types of gas assets cannot be used beyond 2050. As described in note 29 of the financial statements, the impact of changing the UELs of all of the group's distribution assets, such that they would be fully depreciated by 2050, would increase the annual depreciation expense by £43m. Management have assessed the accounting impacts associated with climate change, including on the useful lives of the group's gas distribution assets, so that these are considered and reflected appropriately in the financial statements. Management have disclosed a key judgement in relation to the potential future use of gas assets post 2050, and identified the gas asset lives as a key estimate (note 2 to the financial statements), with sensitivity analysis (note 29 to the financial statements).
How the scope of our audit responded to the key audit matter	We have challenged management's judgement over the useful lives of gas assets extending beyond 2050 in light of the different goals, commitments and legislation relating to binding net zero commitments in the UK, which included: • evaluating management's potential strategic pathways to achieve net zero targets, and comparing these to government plans in the UK for achieving those targets;

	• assessing information from the group's regulators, including price controls in the UK, to consider whether they presented any contradictory evidence; • performing an assessment of the likelihood of occurrence of alternative scenarios for achieving net zero targets; • performing inquiries with Cadent's Director of Strategy and considering the potential for re-purposing the group's gas networks for alternative uses, and in particular for distributing hydrogen; and • reviewing a number of external reports including the Committee for Climate Change Hydrogen in a low carbon economy, Hydrogen taskforce report, The UK Integrated Energy and Climate Plan (NECP), produced by BEIS and Net Zero – Technical Report, produced by the UK Committee on Climate Change, and searching for contradictory evidence in respect of management's judgements.
Key observations	Based on the work performed, we concluded that on balance, it is probable that there will be a use for the group's gas networks beyond 2050 and in the absence of any determination by the group's regulators, it continues to be reasonable to use the UELs up to 50 years for the calculation of depreciation in accordance with IFRS.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£33.2m (2021: £40.7m)	£23.2m (2021: £28.4m)
Basis for determining materiality	The materiality that we used for the group financial statements was £33.2m (2021: £40.7m). This materiality was determined on the basis of a range of metrics including profit before tax, exceptional items and remeasurements as well as revenue and net assets. Additionally, we capped materiality at 95% of the materiality used for the audit of the consolidated financial statements of	Parent company materiality equates to approximately 0.4% of total assets (2021: 0.5%), which is capped at 70% of group materiality.

	the group's intermediate parent company Quadgas HoldCo Limited. Materiality of £33.2m represents approximately 13.2% of profit before tax, exceptional items and remeasurements, 1.7% of revenue and 0.9% of net assets In the prior year, materiality was based on approximately 6.5% of profit before tax, exceptional items and remeasurements. It also represented 2.0% of revenue and 1.0% of net assets.	
Rationale for the benchmark applied	We consider it appropriate to consider a range of metrics as this reflects the impact of the following factors on profit before tax, exceptional items and remeasurements: • an increase in pass through costs such as shrinkage costs and bad debts, which will be recovered in subsequent years; • lower revenues at the start of the RIIO-GD2 price control period; and • higher finance costs including accretion on debt and derivatives as a result of higher than expected inflation. Determining materiality on profit before tax before exceptional items and remeasurements (consistent with prior year) would have reduced materiality to a level which would not have reflected the size and scale of the group.	The entity acts as an intermediate holding and acquisition company with intercompany borrowings. Hence, total assets have been selected as the appropriate benchmark for calculation of materiality.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining	We have considered the following factors while determining the percentage to be applied to materiality to determine our performance materiality:	

performance materiality	a.	the low level of corrected and uncorrected misstatements identified in the prior period and management's willingness to make process improvements; and
	b.	our assessment of the group's overall control environment and understanding of internal controls across a number of areas of the audit.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £1.6m (2021: £2.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at a group level. All companies in the group were subject to full statutory audits.

The group comprises five statutory companies. There were audited using component materialities ranging from £0.7m to £31.5m (2021: £0.7m to £38.6m).

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

At the group level we also tested the consolidation process.

7.2. Our consideration of the control environment

The group's accounting records are held within the financial accounting and reporting software platform, SAP. We worked with our IT specialists to test key General Information Technology Controls (GITC) within the platform, including testing over controls for access, change management and segregation of duties.

We also gained an understanding over the controls and business process surrounding the significant risks of material misstatements and complex areas of estimation uncertainty within the group as well as testing controls related to the fixed assets cycle.

8. 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.

9. 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.

10. 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.

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and in-house legal counsel and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group and parent company's documentation of their policies and procedures relating to:

  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, climate change, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the judgement over the classification of non-LDP expenditure as capital or operational. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that 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.

11.2. Audit response to risks identified

As a result of performing the above, we identified the judgement over the classification of non-LDP expenditure as being capital or operational as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports; and,
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 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.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14.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

Jacqueline Holden, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Senior Statutory Auditor

London, United Kingdom

26 July 2022

Quadgas MidCo Limited

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**		2,074
Operating costs			**(1,341)**		(1,214)
Operating profit					
Before exceptional items	5	**643**		860	
Exceptional items	6	**(12)**		(10)	
Total operating profit	5		**631**		850
Finance income	9		**10**		22
Finance costs					
Before exceptional items and remeasurements	9	**(402)**		(261)	
Exceptional items and remeasurements	6/9	**(75)**		3	
Total interest payable and similar charges			**(477)**		(258)
Profit before tax					
Before exceptional items and remeasurements		**251**		621	
Exceptional items and remeasurements	6	**(87)**		(7)	
Total profit before tax			**164**		614
Tax					
Before exceptional items and remeasurements	10	**(44)**		(117)	
Exceptional items and remeasurements	10	**(589)**		1	
Total tax			**(633)**		(116)
Profit/(loss) after tax					
Before exceptional items and remeasurements		**207**		504	
Exceptional items and remeasurements	6	**(676)**		(6)	
(Loss)/profit for the year			**(469)**		498

[1] See note 1(c)

The results reported above relate to continuing activities.

The notes on pages 50 to 115 are an integral part of the financial statements.

Quadgas MidCo Limited

Consolidated statement of comprehensive income

For the year ended 31 March 2022

	Notes	2022 £m	2021 (restated)[1] £m
(Loss)/profit for the year		**(469)**	498
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	6/10	**(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 losses in respect of cash flow hedges		**(10)**	(9)
Net losses in respect of cost of hedging reserve		**(1)**	(5)
Amortisation of cost of hedging reserve		**6**	6
Tax on net losses in respect of cash flow hedges	10	**2**	1
Total items that may be reclassified subsequently to profit or loss		**(3)**	(7)
Other comprehensive income/(loss) for the year, net of tax		**443**	(422)
Total comprehensive (loss)/income for the year		**(26)**	76

[1] See note 1(c)

The results reported above relate to continuing activities.

The notes on pages 50 to 115 are an integral part of the financial statements.

Quadgas MidCo Limited

Consolidated statement of financial position

As at 31 March 2022

	Notes	2022 £m	2021 (restated)[1] £m
Non-current assets			
Intangible assets	12	**3,926**	3,944
Property, plant and equipment	13	**12,374**	12,036
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		**17,391**	16,408
Current assets			
Derivative financial assets	17	**1**	-
Inventories	15	**11**	12
Trade and other receivables	16	**179**	217
Corporation tax		**6**	3
Current asset investments	18	**81**	828
Cash and cash equivalents		**21**	22
Total current assets		**299**	1,082
Total assets		**17,690**	17,490
Current liabilities			
Trade and other payables	19	**(419)**	(572)
Borrowings	21	**(151)**	(358)
Lease liabilities	22	**(8)**	(6)
Provisions	23	**(21)**	(12)
Total current liabilities		**(599)**	(948)
Net current (liabilities)/assets		**(300)**	134
Total assets less current liabilities		**17,091**	16,542
Non-current liabilities			
Derivative financial liabilities	17	**(271)**	(120)
Borrowings	21	**(10,009)**	(10,227)
Lease liabilities	22	**(60)**	(16)
Deferred tax liabilities	10	**(2,806)**	(2,072)
Provisions	23	**(67)**	(76)
Accruals and deferred income	20	**(16)**	(8)
Total non-current liabilities		**(13,229)**	(12,519)
Total liabilities		**(13,828)**	(13,467)
Net assets		**3,862**	4,023
Equity			
Share capital	24	**1**	1
Cash flow hedge deficit		**(22)**	(14)
Cost of hedging reserve		**6**	1
Retained earnings		**3,877**	4,035
Total equity		**3,862**	4,023

[1] See note 1(c)

The notes on pages 50 to 115 are an integral part of the financial statements.

The consolidated financial statements on pages 45 to 115 were authorised and approved for issue by the Board of Directors on 26 July 2022 and were signed on its behalf by:

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

Quadgas MidCo Limited

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**	**Retained earnings £m**	**Total £m**
At 1 April 2021 (restated)[1]	**1**	**(14)**	**1**	**4,035**	**4,023**
Loss for the year	**-**	**-**	**-**	**(469)**	**(469)**
Other comprehensive income/(loss)loss excluding amortisation of cost of hedging reserve	**-**	**(8)**	**(1)**	**446**	**437**
Amortisation of cost of hedging reserve	**-**	**-**	**6**	**-**	**6**
Total comprehensive (loss)/income for the year	**-**	**(8)**	**5**	**(23)**	**(26)**
Equity dividends (note 11)	**-**	**-**	**-**	**(135)**	**(135)**
At 31 March 2022	**1**	**(22)**	**6**	**3,877**	**3,862**

	Share capital £m	Cash flow hedge deficit £m	Cost of hedging reserve £m	Retained earnings £m	Total £m
At 1 April 2020	1	(6)	-	4,092	4,087
Adjustment for SaaS[1]	-	-	-	(13)	(13)
At 1 April 2020 (restated)[1]	1	(6)	-	4,079	4,074
Profit for the year (restated) [1]	-	-	-	498	498
Other comprehensive loss excluding amortisation of cost of hedging reserve	-	(8)	(5)	(415)	(428)
Amortisation of cost of hedging reserve	-	-	6	-	6
Total comprehensive income/(loss) for the year (restated)[1]	-	(8)	1	83	76
Equity dividends (note 11)	-	-	-	(127)	(127)
At 31 March 2021 (restated)[1]	1	(14)	1	4,035	4,023

[1] See note 1(c)

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

The results reported above relate to continuing activities.

The notes on pages 50 to 115 are an integral part of the financial statements.

Quadgas MidCo Limited

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		**631**	850
Adjustments for:			
Exceptional items	6	**12**	10
Depreciation, amortisation and impairment	12/13	**450**	420
Decrease/(increase) in inventories	15	**1**	(2)
Decrease in trade and other receivables		**41**	54
(Decrease)/increase in trade and other payables		**(5)**	15
Capital contribution income		**(46)**	(125)
Changes in provisions		**2**	(14)
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		**1,100**	1,294
Tax paid		**(82)**	(124)
Net cash inflow from operating activities		**1,018**	1,170
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		**747**	(496)
Net cash flow used in investing activities		**(112)**	(1,540)
Cash flows from financing activities			
Proceeds received from loans		**40**	997
Repayment of loans		**(550)**	(240)
Repayment of lease liabilities		**(10)**	(8)
Interest paid		**(248)**	(253)
Dividends paid to shareholders	11	**(135)**	(127)
Net cash flow (used in)/from financing activities		**(903)**	369
Net increase/(decrease) in cash and cash equivalents		**3**	(1)
Net cash and cash equivalents at the start of the period		**17**	18
Net cash and cash equivalents at the end of the period		**20**	17
Comprising:			
Cash[2]		**21**	22
Overdraft		**(1)**	(5)
		20	17

[1] See note 1(c)

[2] Cash of £21m includes £11m which has specific restrictions over its use. See note 1(s) for details.

1 Summary of significant accounting policies

Quadgas MidCo 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 period 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. The financial statements have been prepared on an historical cost basis and modified to include certain items at fair value where applicable.

Going concern

The financial statements have been prepared on a going concern basis.

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of turnover and expenses during the reporting period. Actual results could differ from these estimates.

Climate change is a global challenge and an emerging risk to business, people and the environment across the world. As a holding company, Quadgas MidCo Limited's operations are not significantly impacted however those of Cadent Gas Limited, a direct subsidiary and the Group's operating company, is. It has a role to play in limiting warming by improving energy management, reducing carbon emissions and by helping its customers do the same. For further information on how climate change will impact the Group's operating company, refer to the Cadent Gas Annual Report and Accounts 2021/22.

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 Quadgas MidCo Limited have been prepared in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting standards Board (IASB).

1 Summary of significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements include the results of Quadgas MidCo Limited and its subsidiaries 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 Gas Limited 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 Quadgas MidCo Limited 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 a decrease in the net book value of intangible assets recognised as at 1 April 2020 and 31 March 2021 by £16 million and £15 million respectively, and an associated increase in corporation tax asset of £3 million. The comprehensive income reported for the year ended 31 March 2021 has increased by £1 million as a result of a corresponding decrease in operating expenses.

The following adjustments were made to the consolidated income statement:

	2021 £m	Adjustment £m	2021 (restated) £m
Operating costs	(1,215)	1	(1,214)
Total operating profit	859	1	860
Profit before tax			
Before exceptional items and remeasurements	620	1	621
Total profit before tax	**613**	**1**	**614**
Profit for the year	**497**	**1**	**498**

1 Summary of significant accounting policies (continued)

(c) New IFRS accounting standards and interpretations (continued)

The following adjustments were made to the consolidated statement of financial position:

	As at 1 April 2020	Adjust -ment	As at 1 April 2020 (restated)	As at 31 March 2021	Adjust -ment	As at 31 March 2021 (restated)
	£m	£m	£m	£m	£m	£m
Software	90	(16)	74	103	(15)	88
Corporation tax asset	-	3	3	-	3	3
Net assets	**4,087**	**(13)**	**4,074**	**4,035**	**(12)**	**4,023**
Retained earnings	4,092	(13)	4,079	4,047	(12)	4,035
Total equity	**4,087**	**(13)**	**4,074**	**4,035**	**(12)**	**4,023**

The following adjustments were made to the consolidated statement of cash flows:

	2021	Adjustment	2021 (restated)
	£m	£m	£m
Cash flows from operating activities			
Operating profit	849	1	850
Depreciation and amortisation	422	(2)	420
Cash generated from operations	**1,295**	**(1)**	**1,294**
Cash flows from investing activities			
Purchases of intangible assets	(46)	1	(45)
Net cash flow used in investing activities	**(1,541)**	**1**	**(1,540)**

See note 1 (d) for further detail on the updated policy

1 Summary of significant accounting policies (continued)

(c) New IFRS accounting standards and interpretations (continued)

In the current year, the Group has applied a number of other 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); and
• 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 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).

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 on the page 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, 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 5 out of 6 of the instruments that referenced LIBOR to SONIA with the other instrument being repaid prior to the replacement of LIBOR.

1 Summary of significant accounting policies (continued)

(c) New IFRS accounting standards and interpretations (continued)

Interest rate benchmark reform (phase 1 and phase 2) (continued)

The Group had 5 instruments with direct exposure to LIBOR. The below table summarises their current position.

Instrument	Nominal Amount (£m)	Exposure (£m)	Maturity	Details
RCF (Cadent Gas)	500	-	Jul-24	Quadgas MidCo currently does not have exposure under this RCF line. This facility has been amended to reference SONIA.
EIB Loan + Swap Agreement (Cadent Gas)	400	400	Mar-27	Cadent Gas exposure is linked to LIBOR in the loan and the derivative is a swap from LIBOR to RPI. Both have been amended to reference SONIA.
RCF (Quadgas MidCo)	200	90	Jul-24	Quadgas Midco was £90m drawn under this short-term RCF at 31 March 2022. This facility has been amended to reference SONIA.
DSR Liquidity Facility	120	-	Jul-24	Quadgas MidCo currently does not have exposure under this facility. This facility has been amended to reference SONIA.
USPP	77	77	Mar-37	This is a long term capital markets PP that has been amended to reference SONIA.

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. Instruments transitioned were on economically equivalent basis and therefore derecognition was not triggered.

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; goodwill, which represents the excess of what was paid to acquire businesses over the fair value of their net assets at the acquisition date; and the gas distribution Licence, which allows the operation of the four gas distribution networks.

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.

Goodwill is recognised as an asset and is not amortised as it has been deemed that it has an indefinite life, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

1 Summary of significant accounting policies (continued)

(d) Intangible assets (continued)

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 (other than goodwill) are reviewed for possible reversal of the impairment at each reporting date.

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 acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and earn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation. An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis with the asset being tested annually for impairment. The UK’s target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, hydrogen, or a mixture of the two and therefore an indefinite useful life remains appropriate.

Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

Amortisation Periods
Computer software - 5 years
Computer licences - 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.

1 Summary of significant accounting policies (continued)

(d) Intangible assets (continued)

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 economic 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.

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 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 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. 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	30-50
Motor vehicles and other equipment	Up to 10

1 Summary of significant accounting policies (continued)

(f) Fixed asset investments

Investments in subsidiaries and associated companies are carried at cost, less any provisions for impairment.

(g) 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.

(h) 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.

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Classification and measurement (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.

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.

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.

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

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 be as a result of 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.

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

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.

(i) 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.

(j) 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 on assessment of performance obligations see note 1(o) Revenue.

(k) 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.

(l) 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.

1 Summary of significant accounting policies (continued)

(l) Tax (continued)

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 or loss.

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 and jointly controlled entities 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.

(m) 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 record 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.

1 Summary of significant accounting policies (continued)

(n) 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.

(o) 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).

1 Summary of significant accounting policies (continued)

(o) Revenue (continued)

For fees paid by customers, the performance obligation is satisfied when either the new connection 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 judgement was applied for connections to determine whether the connection service was distinct from the provision of future network services. The Group 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.

(p) 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.

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 the impact on brought forward deferred tax balances arising from corporation tax rate changes.

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.

(q) Pensions

The Group operates both a defined benefit (DB) and a defined contribution (DC) pension scheme.

1 Summary of significant accounting policies (continued)

(q) Pensions (continued)

For the DC pension scheme, the Group 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 Group'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 Group 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.

(r) Leases

The Group 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 Group:

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.

1 Summary of significant accounting policies (continued)

(r) Leases (continued)

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.

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.

1 Summary of significant accounting policies (continued)

(r) Leases (continued)

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.

(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 and are considered as part of cash management.

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**;

• The allocation of goodwill to cash generating units that are expected to benefit from the business combination in which goodwill arose. We have judged that the Cadent business group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Management assess the performance of Cadent business group as a single business and key decisions are currently made regarding resources at that level - **note 12;** and

• For the purpose of valuing our investment in the Group, the judgement is that the Cadent Gas network can be used for alternative technologies beyond 2050. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how the network is used. The UK Government's current plans include the production and use of Hydrogen, 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 the 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 - **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.

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

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:

• The impairment of intangible assets with indefinite lives requires management to calculate the value-in use for these assets. The key assumptions for the value-in-use calculation are those regarding the underlying cash flows, discount rate, regulatory weighted average cost of capital, inflation and terminal value cash flow. The value is use is calculated by forecasting cash flows to 2045 and applying a terminal value at that date. The UK's target to achieve net zero by 2050 will impact how our network is used in the future and management have considered the impact of this in our underlying cash flows – **note 12;**

• Determination of useful lives and carrying values of property, plant and equipment. 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 – **note 13**;

• Determination of useful lives and carrying values of intangible assets. In assessing the useful economic life of the Gas Distribution Licences granted by Ofgem, an indefinite useful economic life has been assumed due to the daily renewing basis. The UK's target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, hydrogen, or a mixture of the two and therefore an indefinite useful life remains appropriate – **note 12;** and

• 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	2021
	£m	£m
Revenue from distribution of gas	**1,926**	1,924
Other income	**58**	150
	1,984	2,074

Geographical analysis of revenue is not provided as the company's operations are all undertaken in the UK for customers based in the UK.

Analysis of revenue by major customer

	2022	2021
	£m	£m
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	2021 (restated)[1]
	£m	£m
Operating profit is stated after charging		
Depreciation and amortisation	**450**	420
Payroll costs (see note 7)	**244**	213
Inventory consumed	**12**	9
Shrinkage	**58**	12
Rates	**212**	212
Research and development expenditure	**13**	10

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.

Services provided by the company's auditor	**2022**	2021
	£'000	£'000
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	**57**	84
Fees payable for the audit of the subsidiary company financial statements	**846**	754
Other services		
Fees payable to the company's auditors for audit-related assurance services	**131**	126
Other non-audit services	**201**	141

Fees payable to the company's auditor 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 debt, grant claims or required by the regulator.

[1] See note 1(c)

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	2021
	£m	£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/(gains) on derivative financial instruments (iii)	**75**	(3)
Total included within profit before tax	**87**	7
Included within taxation:		
Exceptional charge arising		
Deferred tax charge arising as a result of the increase of the UK tax rate (iv)	**610**	-
Tax on other exceptional items and remeasurements		
Tax on separation activities	**-**	(1)
Tax on restructuring costs	**(2)**	(1)
Tax on remeasurements	**(19)**	1
	589	(1)
Total exceptional and remeasurements after tax	**676**	6
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	**620**	8
Total losses/(gains) on remeasurements after tax	**56**	(2)
	676	6

(ii As a result of the acquisition of Cadent Gas Limited by the company 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 £636 million, with an exceptional charge of £610 million 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%.

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
	5,945	5,258

	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 compensation

Key management comprises the Board of Directors of the company and its principle subsidiary, Cadent Gas Limited, including Executive and Non-executive Directors who have managerial responsibilities of the business.

	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 for the Group 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	2021
	£m	£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	**39**	20
Bonds(i)	**234**	172
Interest payable on intercompany financing	**60**	60
Derivatives(ii)	**68**	9
Unwinding of discounts on provisions and lease liabilities	**1**	-
Finance costs	**402**	261
Remeasurements		
Net (gains)/losses on derivative financial instruments included in remeasurements(iii):		
Ineffectiveness on derivatives designated as:		
Cash flow hedges	**(3)**	(4)
Derivatives not designated as hedges or ineligible for hedge accounting	**77**	1
Other	**1**	-
Remeasurement (gains)/losses included within finance costs	**75**	(3)
Finance costs	**477**	258
Net finance costs	**467**	236

(i) Included within finance costs in bonds is £37m of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £162m) and £61m RPI-linked debt instruments of >10years tenor (cumulative: £258m).

(ii) Included within finance costs in derivatives is £34m of accretion on RPI-linked swaps with tenor>10 years (cumulative: £77m), £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 £7m (2021: £75m gain). These amounts are 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	**44**	117
Exceptional tax relating to UK tax rate change (see note 6)	**610**	-
Tax on other exceptional items and remeasurements (see note 6)	**(21)**	(1)
Total tax expense	**633**	116

Taxation as a percentage of profit before tax

	2022 %	2021 %
Before exceptional items and remeasurements	**17.5**	18.9
After exceptional items and remeasurements	**386.0**	18.9

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

	2022 £m	2021 £m
Current tax		
UK corporation tax at 19% (2021: 19%)	**81**	125
UK corporation tax adjustment in respect of prior years	**(1)**	(1)
Total current tax	**80**	124
Deferred tax		
UK deferred tax current year	**(57)**	(7)
UK deferred tax arising as a result of the increase in the tax rate	**610**	-
UK deferred tax adjustment in respect of prior years	**-**	(1)
Total deferred tax	**553**	(8)
Total tax charge	**633**	116

Total tax (credited)/charged to other comprehensive income and equity

	2022 £m	2021 £m
Deferred tax		
Financial instruments	**(2)**	(1)
Remeasurements of net retirement benefit obligations (i)	**183**	(98)
Total tax charged/(credited) to other comprehensive income and equity	**181**	(99)

(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 period after exceptional items and remeasurements is higher than (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

10 Taxation (continued)

	Before exceptional items and Remeasure-ments 2022 £m	**After exceptional items and Remeasure-ments 2022 £m**	Before exceptional items and Remeasure-ments 2021 £m	After exceptional items and Remeasure-ments 2021 £m
Profit before tax				
Before exceptional items and remeasurements (restated)[1]	**251**	**251**	620	620
Exceptional items and remeasurements	**-**	**(87)**	-	(7)
Profit before tax	**251**	**164**	620	613
Profit before tax multiplied by UK corporation tax rate of 19% (2021: 19%)	**48**	**32**	118	117
Effect of:				
Expenses not deductible for tax purposes	**3**	**3**	2	2
Non-taxable income	**(1)**	**(1)**	(1)	(1)
Corporate interest restriction	**-**	**-**	-	-
Corporation tax/deferred tax rate differential	**(3)**	**(8)**	-	-
Deferred tax impact of change in UK tax rate	**-**	**610**	-	-
Super deduction capital allowances	**(1)**	**(1)**	-	-
Land remediation	**(1)**	**(1)**	-	-
Prior year adjustments	**(1)**	**(1)**	(1)	(1)
Other	**-**	**-**	(1)	(1)
Total tax	**44**	**633**	117	116

Factors affecting 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 £636 million, with an exceptional charge of £610 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%.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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 and prior reporting periods:

	Accelerated Tax Depreciation £m	**Gas Distribution Licence £m**	**Pensions £m**	**Financial Instruments £m**	**Other net Temporary Differences £m**	**Total £m**
At 1 April 2021	**1,609**	**407**	**78**	**(10)**	**(12)**	**2,072**
Charged/(credited) to income statement	**478**	**129**	**7**	**(55)**	**(6)**	**553**
(Credited)/charged to other comprehensive income and equity	**-**	**-**	**183**	**(2)**	**-**	**181**
At 31 March 2022	**2,087**	**536**	**268**	**(67)**	**(18)**	**2,806**
Deferred tax assets	**-**	**-**	**-**	**(67)**	**(18)**	**(85)**
Deferred tax liabilities	**2,087**	**536**	**268**	**-**	**-**	**2,891**
At 31 March 2022	**2,087**	**536**	**268**	**(67)**	**(18)**	**2,806**

	Accelerated Tax Depreciation £m	Gas Distribution Licence £m	Pensions £m	Financial Instruments £m	Other net Temporary Differences £m	Total £m
At 1 April 2020	1,622	407	172	(11)	(11)	2,179
Charged/(credited) to income statement	(13)	-	4	2	(1)	(8)
Credited to other comprehensive income and equity	-	-	(98)	(1)	-	(99)
At 31 March 2021	1,609	407	78	(10)	(12)	2,072
Deferred tax assets	-	-	-	(10)	(12)	(22)
Deferred tax liabilities	1,609	407	78	-	-	2,094
At 31 March 2021	1,609	407	78	(10)	(12)	2,072

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 £2,806 million (2021:£2,072 million).

11 Dividends

	2022	2021
	£000	£000
Interim dividend of 2.50 pence per ordinary share amounting to £127,400,000 was declared on the 24 March 2021 and paid on the 26 March 2021	-	127,400
Interim dividend of 1.96 pence per ordinary share amounting to £100,000,000 was declared on the 20 January 2022 and paid on the 21 January 2022	100,000	-
Interim dividend of 0.69 pence per ordinary share amounting to £35,000,000 was declared on the 23 March 2022 and paid on the 28 March 2022	35,000	-
	135,000	127,400

No further dividends were proposed for the current financial period.

12 Intangible assets

	Goodwill	Licence	Software	Total
	£m	£m	£m	£m
Cost:				
At 1 April 2021 (restated)[1]	3,312	2,143	182	5,637
Additions	-	-	3	3
At 31 March 2022	**3,312**	**2,143**	**185**	**5,640**
Accumulated amortisation and impairment				
At 1 April 2021 (restated)[1]	(1,599)	-	(94)	(1,693)
Amortisation charge for the year	-	-	(21)	(21)
At 31 March 2022	**(1,599)**	**-**	**(115)**	**(1,714)**
Net book value:				
At 31 March 2022	**1,713**	**2,143**	**70**	**3,926**
At 31 March 2021 (restated)[1]	1,713	2,143	88	3,944

12 Intangible assets (continued)

	Goodwill	Licence	Software	Total
	£m	£m	£m	£m
Cost:				
At 1 April 2020	3,312	2,143	166	5,621
Adjustment for SaaS[1]	-	-	(16)	(16)
At 1 April 2020 (restated)[1]	3,312	2,143	150	5,605
Additions (restated)[1]	-	-	33	33
Disposals	-	-	(1)	(1)
At 31 March 2021 (restated)[1]	3,312	2,143	182	5,637
Accumulated amortisation and impairment				
At 1 April 2020	(1,599)	-	(76)	(1,675)
Adjustment for SaaS[1]	-	-	-	-
At 1 April 2020 (restated)[1]	(1,599)	-	(76)	(1,675)
Amortisation charge for the year (restated)[1]	-	-	(18)	(18)
At 31 March 2021 (restated)[1]	(1,599)	-	(94)	(1,693)
Net book value:				
At 31 March 2021 (restated)[1]	1,713	2,143	88	3,944
At 31 March 2020 (restated)[1]	1,713	2,143	90	3,946

[1] See note 1 (c)

Quadgas MidCo Limited holds a balance of £1,713m in relation to goodwill, and £2,143 million intangible asset for the gas distribution Licence following the acquisition of 100% of the share capital of Cadent Gas Limited including its subsidiary, Cadent Finance Plc on 31 March 2017.

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and earn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation. An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis. The UK's target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, hydrogen, other green gases or a mixture and therefore an indefinite useful life remains appropriate.

Goodwill is recognised as an asset and is not amortised but is tested for impairment annually or more frequently if events or circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash generating units that are expected to benefit from the business combination in which goodwill arose. The cash generating unit has been determined as the level of Cadent Gas Limited. Cadent was assessed to be a single reporting segment, since management assess the performance of Cadent as a single business and key decisions are made regarding resources at the Cadent level. This was considered to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill encompasses the management of the overall asset including delivery relative to incentive and financial targets, the benefit of a clean capital structure on acquisition and the established workforce.

12 Intangible assets (continued)

Impairment Testing of goodwill and intangibles with an indefinite life

The net carrying value of the investment held in Quadgas MidCo Limited and its subsidiaries was compared to its recoverable amount as part of the annual impairment review carried out by management.

The recoverable amount of the cash generating unit was determined from value in use calculations. The key assumptions for the value in use calculation are those regarding the underlying cash flows, discount rate, inflation and terminal value cashflow.

The impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. The impairment review was completed following receipt of the Ofgem Final Determination, and the subsequent Final Determination by the Competition and Markets Authority ("CMA") following the appeal, and the internal business planning processes. These are all considered in light of their potential impact on valuation.

Underlying cash flows

In the short-term, the differences between actual cash flows and prior projections and budgets for Cadent Gas Limited are small due to the stable and predictable nature of the business. With 92% of our revenue formula driven, there is a high level of predictability. This predictability of the cash flows and projections can be seen in the full year performance to 31 March 2022 where despite COVID-19 and increasing shrinkage and bad debt costs as a result of rising gas prices, the results were broadly in line with the budget. Further, both shrinkage and bad debt are cost neutral as future revenue allowances reflect these passthrough costs. The embedded debt outperformance provides c. 1% RORE outperformance in the medium term "guaranteeing" outperformance against the baseline allowed return.

The assumptions used in the Cadent Gas Financial Plan 2022 for the 4 years to March 2026 have been applied to the calculations undertaken in completing the impairment test, as detailed below. This Plan includes outturn data for the year to March 2022 and 4 years of forecast data.

The total expenditure (totex) forecasts included in the impairment model are a base case and assume the investment in the network will continue to 2045 and beyond. However, the base case does not include cash flows associated with the potential to re-purpose the network for hydrogen or other fuels. In the base case we continue to assume regulatory asset depreciation of 45 years and investment is fully capitalised into the RAV. This is consistent with the assumptions used for the Ofgem Final Determinations for RIIO-2.

We have determined the regulated weighted average cost of capital (WACC) and totex allowances using Ofgem's Final Determination and the outcome of the CMA appeal for the RIIO-2 period. The regulatory cost of equity for RIIO-2 is 4.55% (2021: 4.8%) and is forecast to increase in future price controls with forecasted increases in risk free rates.

Longer term, we have continued to assume that the Cadent Gas Repex programmes reduce in scale post-2032 following completion of the HSE mandated 30:30 replacement programme but the maintenance of the network and the service levels to customers is maintained. As noted above, we have not incorporated into the base case any investment in the network to make it hydrogen or biomethane-ready at this stage.

Discount rate

Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 5.4% (2021: 5.3%). Management estimates the discount rate using post-tax rates that reflect current market assessments of the time value of money and then converts to a pre-tax rate using an iterative calculative approach in the value-in-use methodology.

12 Intangible assets (continued)

Inflation

In the RIIO-2 period the CPIH assumption at March 2022 of 2.35% (2021: 1.7%) is broadly based on the Ofgem assumptions contained within the price control model used for price setting. Given current forecasts for inflation, these assumptions are conservative.

The longer-term CPIH assumption of 2.0% (2021: 2.0%) is consistent with the Bank of England target rate for the Consumer Price Index including owner occupiers' housing costs (CPIH) and external long run forecasts which show a range of potential outcomes between 1.9% - 2.3% by 2026. Given the range of potential outcomes, we have adopted the Bank of England target of 2.0% as our long run CPIH assumption from 2023 to 2045.

Terminal value cash flow

A terminal value cash flow is applied in 2045; the end of the forecast period. The terminal value is calculated based on a RAV forecast multiple at 2045. Management has derived a RAV multiple of 1.2x (2021: 1.2x) by reviewing external sources of information on similar transactions. There has been no change in the market to warrant a revision to this assumption.

IAS 36 states that projections based on budgets and forecasts should cover a maximum of five years whereas management have used projections out to 2045. However, management believe, whilst there is uncertainty when moving from one price control period into the next, there is otherwise a degree of predictability to the cash flows of the assets and therefore management consider that it is appropriate to project out to 2045 before a terminal value is applied.

Climate Change continues to result in uncertainty over the future use of the Cadent Gas assets for transporting natural gas to heat homes and power industry, and management have considered this uncertainty when performing the impairment test.

The government’s Green Industrial Revolution has hydrogen as number 2 on the top 10 priorities and the 2022 Queen’s Speech reiterated the importance of the British Hydrogen industry in the new Energy Security Bill. Cadent Gas continues to invest in programmes such as the Hydrogen Village, Hydrogen Home and HyNet to support its ambition to make hydrogen a safe, fair and reliable choice for consumers, and has a long-term commitment to decarbonise homes and businesses in a way that minimises the impact to the consumer and creates jobs across the UK. Given the information currently available, it is still reasonable to assume that the entire network will continue to be used in 2045 and beyond, in its current form, adapted to accommodate hydrogen or bio-methane, therefore we consider it appropriate to project out to 2045 before a terminal value is applied.

We have performed sensitivity analysis on the impairment test and concluded that there are no reasonable possible changes in the key assumptions that would reduce the existing significant headroom to nil. The following changes, considered in isolation, would reduce the headroom by the stated amount but would not result in an impairment to the goodwill balance. Note: in 2021 the below changes would have resulted in the goodwill impairments disclosed in Note 29.

	Decrease in valuation	
	2022	2021
	£m	£m
CPI decrease of 0.5%	**832**	1,330
Pre-tax discount rate increase of 0.5%	**999**	969
Terminal value change of 0.05 multiple	**286**	279
Cost of Equity within Regulatory WACC decrease of 0.5% (i)	**326**	370

(i) In 2021 this sensitivity was applied from RII0-2 onwards as the CMA appeal was still ongoing. For 2022 the sensitivity has been applied from RIIO-3 to reflect that the allowed cost of equity has been finalised for RIIO-2.

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	153	13,048	60	169	40	13,470
Additions	14	629	61	18	46	768
Reclassifications	45	30	(77)	2	-	-
Disposals	(7)	(8)	-	(6)	(4)	(25)
At 31 March 2022	**205**	**13,699**	**44**	**183**	**82**	**14,213**
Accumulated depreciation and impairment						
At 1 April 2021	(30)	(1,290)	-	(98)	(16)	(1,434)
Charge for the period	(14)	(397)	-	(10)	(8)	(429)
Disposals	7	7	-	6	4	24
At 31 March 2022	**(37)**	**(1,680)**	**-**	**(102)**	**(20)**	**(1,839)**
Net book value:						
At 31 March 2022	**168**	**12,019**	**44**	**81**	**62**	**12,374**
At 31 March 2021	123	11,758	60	71	24	12,036

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.

Included within plant and machinery cost is £1,785 million (2021: £1,785 million) and plant and machinery depreciation is £193 million (2021: £193 million) relating to fair value adjustments arising from the acquisition of Cadent Gas Limited.

The cost of property, plant and equipment at 31 March 2022 includes £1,462,000 (2021: £1,462,000) relating to interest capitalised, with £Nil (2021: £Nil) capitalised during the year.

The net book value of right-of-use assets comprises:

	2022 £m	2021 £m
Land and buildings	**54**	15
Plant and machinery	**2**	1
Motor vehicles and other equipment	**6**	8
	62	24

13 Property, plant and equipment (continued)

The net book value of land and buildings comprises:

	2022	2021
	£m	£m
Freehold	**136**	107
Long leasehold (over 50 years)	**22**	-
Short leasehold (under 50 years)	**10**	16
	168	123

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and other equipment	Right-of -use assets	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2020	110	12,093	100	138	36	12,477
Additions	11	842	110	28	4	995
Reclassifications	32	114	(150)	4	-	-
Disposals	-	(1)	-	(1)	-	(2)
At 31 March 2021	153	13,048	60	169	40	13,470
Accumulated depreciation and impairment						
At 1 April 2020	(22)	(934)	-	(70)	(7)	(1,033)
Charge for the period	(8)	(356)	-	(29)	(9)	(402)
Disposals	-	-	-	1	-	1
At 31 March 2021	(30)	(1,290)	-	(98)	(16)	(1,434)
Net book value:						
At 31 March 2021	123	11,758	60	71	24	12,036
At 31 March 2020	88	11,159	100	68	29	11,444

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.

	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	**-**

At the point of acquiring Cadent Gas Limited on 31 March 2017, its investment in Xoserve Limited of £456 had been fully impaired.

Details of the associate undertaking are set out below:

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	2021
	£m	£m
Amounts falling due within one year:		
Trade debtors	**12**	17
Other debtors	**2**	34
Prepayments	**6**	11
Accrued income	**159**	155
	179	217
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	2021
	£m	£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 customer credit profiles. These segments are distinguished as follows:

- other income: diversions receivables, damages receivables, emergencies receivables, and other receivables.
- shipper income: capacity accrued income, commodity accrued income.

16 Trade and other receivables (continued)

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.

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

16 Trade and other receivables (continued)

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	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
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**	**(271)**	**(264)**
	8	**(271)**	**(263)**

	2021 Assets £m	2021 Liabilities £m	2021 Total £m
Amounts falling due within one year	-	-	-
Amounts falling due after more than one year	-	(120)	(120)
	-	(120)	(120)

For each class of derivative the notional contract amounts* are as follows:

	2022 £m	2021 £m
Cross-currency interest rate swaps	**1,922**	1,922
Inflation linked swaps	**1,400**	400
Foreign exchange forward currency	**2**	3
	3,324	2,325

*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	**81**	828
	81	828

19 Trade and other payables

	2022 £m	2021 £m
Trade creditors	**132**	269
Amounts owed to immediate parent company	**1**	1
Other tax and social security	**39**	46
Other creditors	**53**	58
Accruals	**95**	90
Deferred income	**99**	108
	419	572

Due to the short-term nature of trade creditors, the fair value approximates its book value.

20 Accruals and deferred income

	2022 £m	2021 £m
Accruals and deferred income (due after more than one year)	**16**	8
	16	8

Accruals and deferred income mainly comprises fees received from customers for capital projects.

21 Borrowings

	2022 £m	2021 £m
Amounts falling due within one year		
Bank loans	**91**	53
Bank overdrafts	**1**	5
Bonds	**59**	300
	151	358
Amounts falling due after more than one year		
Bank loans	**950**	1,225
Bonds	**8,157**	8,100
Amounts owed to parent company	**902**	902
	10,009	10,227

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.

21 Borrowings (continued)

	2022 £m	2021 £m
Total borrowings are repayable as follows:		
Less than 1 year	**151**	358
In 1-2 years	**92**	-
In 2-3 years	**1,127**	89
In 3-4 years	**-**	1,400
In 4-5 years	**400**	-
More than 5 years	**8,390**	8,738
	10,160	10,585

On 14 April 2021 Cadent Gas Limited, a subsidiary of Quadgas Midco 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.

On 10 March 2022, £10 million was repaid under its Revolving Credit Facility. Two further repayments of £50m each were made on 14 March 2022 and 21 March 2022, using existing funds. As at 31 March 2022, £90m was drawn on the RCF with an undrawn balance of £610m.

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 £9,894 million (2021: £10,895 million). Where market values were available, the fair value of borrowings (Level 1) was £4,594 million (2021: £5,294 million). Where market values were not available, the fair value of borrowings (Level 2) was £5,300 million (£5,601 million), calculated by discounting cash flows at prevailing interest rates. The notional amount of borrowings outstanding as at 31 March 2022 was £9,842 million (2021: £10,282 million) including accretion.

Quadgas MidCo Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

21 Borrowings (continued)

Summary of Borrowings

Currency	Type	Notional (inc Accreton) £m*	Rate	Maturity	Book Value (£m)	Fair Value (£m)
Fixed Rate						
EUR	Listed	643	Fixed	22/09/2024	634	637
USD	Listed	38	Fixed	31/10/2024	38	39
GBP	Listed	149	Fixed	31/10/2027	150	148
GBP	Listed	850	Fixed	22/09/2028	853	828
GBP	Listed	350	Fixed	17/09/2029	353	354
GBP	Listed	103	Fixed	31/10/2029	103	102
EUR	Listed	537	Fixed	19/03/2030	530	481
GBP	Listed	70	Fixed	30/08/2030	71	70
GBP	Listed	100	Fixed	10/03/2031	100	96
USD	Listed	32	Fixed	10/03/2031	34	31
GBP	Listed	100	Fixed	19/03/2031	100	99
USD	Listed	151	Fixed	19/03/2031	152	151
EUR	Listed	439	Fixed	11/03/2032	418	378
GBP	Listed	40	Fixed	31/10/2032	40	39
GBP	Listed	206	Fixed	10/03/2033	207	196
EUR	Listed	19	Fixed	10/03/2033	19	19
JPY	Listed	68	Fixed	19/07/2033	62	66
GBP	Listed	225	Fixed	30/08/2033	227	223
GBP	Listed	200	Fixed	19/03/2034	200	195
GBP	Listed	300	Fixed	10/10/2035	298	266
GBP	Listed	100	Fixed	21/01/2036	100	91
GBP	Listed	125	Fixed	31/03/2037	125	123
GBP	Listed	700	Fixed	22/09/2038	699	641
GBP	Listed	225	Fixed	19/03/2039	225	215
GBP	Listed	300	Fixed	21/03/2040	296	287
GBP	Unlisted	902	Fixed	30/04/2042	902	902
GBP	Listed	800	Fixed	22/09/2046	800	720
		7,772			**7,736**	**7,397**
Index-linked						
GBP	Unlisted	60	RPI Linked	02/10/2023	93	99
GBP	Unlisted	88	RPI Linked	29/04/2024	94	97
GBP	Unlisted	87	RPI Linked	30/04/2024	92	96
GBP	Unlisted	87	RPI Linked	07/05/2024	92	96
GBP	Unlisted	86	RPI Linked	18/06/2024	90	95
GBP	Unlisted	86	RPI Linked	25/06/2024	91	95
GBP	Listed	47	RPI Linked	31/03/2037	47	50
GBP	Listed	88	RPI Linked	31/03/2037	90	91
GBP	Listed	156	RPI Linked	02/05/2039	236	244
GBP	Listed	313	RPI Linked	31/03/2042	311	329
GBP	Listed	88	RPI Linked	31/03/2042	89	89
GBP	Listed	158	RPI Linked	10/08/2048	268	274
GBP	Listed	158	RPI Linked	14/08/2048	264	270
		1,502			**1,857**	**1,925**
Floating Rate						
GBP	Unlisted	90	SONIA	21/09/2022	89	90
GBP	Unlisted	400	SONIA	23/03/2027	400	403
GBP	Listed	77	SONIA	31/03/2037	77	78
		567			**566**	**571**
Bank Overdraft		1			1	1
Total		**9,842**			**10,160**	**9,894**

*Index-linked debt notional is the accreted value.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

22 Lease liabilities

a) Amounts recognised in the balance sheet

	2022	2021
	£m	£m
Current	**8**	6
Non-current	**60**	16
	68	22

	2022	2021
Lease liabilities are repayable as follows:	**£m**	£m
Year 1	**8**	6
Year 2	**6**	4
Year 3	**4**	3
Year 4	**4**	2
Year 5	**3**	1
Onwards	**43**	6
	68	22

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 was 2.20% for the current financial year (2021: 1.40%)

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	2021
	£m	£m
Depreciation of right-of-use assets (see note 13)	**8**	9
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 £10 million (2021: £8 million).

23 Provisions for liabilities

	Environmental	Restructuring	Other	Total
	£m	£m	£m	£m
At 1 April 2021	39	-	49	88
Charged to the income statement	10	5	2	17
Utilised	(1)	(4)	(5)	(10)
Released to the income statement	-	-	(7)	(7)
At 31 March 2022	**48**	**1**	**39**	**88**

	Environmental	Restructuring	Other	Total
	£m	£m	£m	£m
Current	11	1	9	21
Non-current	37	-	30	67
At 31 March 2022	**48**	**1**	**39**	**88**

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the Group (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 was £59 million (2021: £48 million), being the undiscounted best estimate liability having regard to these uncertainties.

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.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 dilapidations, restructuring 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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

23 Provisions for liabilities (continued)
Other provisions (continued)

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		
5,105,581,781 ordinary shares of £0.0001 each	**1**	1

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**	(1)
(Decrease)/increase in financial investments	**(747)**	496
Decrease/(increase) in borrowings and related derivatives	**510**	(757)
Repayment of lease liabilities	**10**	8
Net interest paid on components of net debt	**248**	252
Change in net debt arising from cash flows	**24**	(2)
Changes in fair value of financial assets and liabilities and exchange movements	**(80)**	(9)
Other non-cash changes	**(56)**	(3)
Net interest charge on the components of net debt	**(400)**	(260)
Movement in net debt (net of related derivative financial instruments)	**(512)**	(274)
Net debt (net of related derivative financial instruments) at the start of the year	**(9,877)**	(9,603)
Net debt (net of related derivative financial instruments) at the end of the year	**(10,389)**	(9,877)

Composition of net debt:

	2022 £m	2021 £m
Cash, cash equivalents and financial investments	**102**	850
Borrowings and bank overdrafts	**(10,160)**	(10,585)
Derivatives	**(263)**	(120)
Lease liabilities	**(68)**	(22)
Total net debt	**(10,389)**	(9,877)

Quadgas MidCo Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

25 Net debt (continued)

Analysis of changes in net debt:

	Cash and cash equiva-lents £m	Bank Overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease Liabilities £m	Total £m
Cost								
At 1 April 2021	22	(5)	17	828	(10,580)	(120)	(22)	(9,877)
Cash flow	(1)	4	3	(747)	758	-	10	24
Fair value gains and losses and exchange movements	-	-	-	-	(5)	(75)	-	(80)
Interest charges	-	-	-	-	(332)	(68)	-	(400)
Other non-cash changes	-	-	-	-	-	-	(56)	(56)
At 31 March 2022	**21**	**(1)**	**20**	**81**	**(10,159)**	**(263)**	**(68)**	**(10,389)**
Balances at 31 March 2022 comprise:					-	-		
Non-current assets	-	-	-	-	-	7	-	7
Current assets	21	-	21	81	-	1	-	103
Current liabilities	-	(1)	(1)	-	(150)	-	(8)	(159)
Non-current liabilities	-	-	-	-	(10,009)	(271)	(60)	(10,340)
At 31 March 2022	**21**	**(1)**	**20**	**81**	**(10,159)**	**(263)**	**(68)**	**(10,389)**

	Cash and cash equiva-lents £m	Bank Overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease Liabilities £m	Total £m
Cost								
At 1 April 2020	26	(8)	18	332	(9,897)	(29)	(27)	(9,603)
Cash flow	(4)	3	(1)	496	(508)	3	8	(2)
Fair value gains and losses and exchange movements	-	-	-	-	76	(85)	-	(9)
Interest charges	-	-	-	-	(251)	(9)	-	(260)
Other non-cash changes	-	-	-	-	-	-	(3)	(3)
At 31 March 2021	22	(5)	17	828	(10,580)	(120)	(22)	(9,877)

Balances at 31 March 2021 comprised:

	Cash and cash equiva-lents £m	Bank Overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease Liabilities £m	Total £m
Non-current assets	-	-	-	-	-	-	-	-
Current assets	22	-	22	828	-	-	-	850
Current liabilities	-	(5)	(5)	-	(353)	-	(6)	(364)
Non-current liabilities	-	-	-	-	(10,227)	(120)	(16)	(10,363)
At 31 March 2021	22	(5)	17	828	(10,580)	(120)	(22)	(9,877)

26 Capital and other commitments

	2022	2021
	£m	£m
Contracts for future capital expenditure not provided in the financial statements	**304**	255
Letters of credit	**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 recieved 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	2021
	£ m	£ 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 on 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 Group'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 Group 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 March 2019**	31 March 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

27 Pensions (continued)

Cadent Gas Pension Scheme

The Group 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 Group 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.

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.

27 Pensions (continued)

Risks (continued)

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 have 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

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

Represented by:	**2022 Total £m**	2021 Total £m
Liabilities	**(5,476)**	(6,020)
Assets	**6,559**	6,446
	1,083	426

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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	**(370)**	668
Return on plan assets greater or less than discount rate	**(260)**	(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

27 Pensions (continued)

Changes in the fair value of plan assets

	2022	2021
	Total	Total
	£m	£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	**2022**	**2022**	2021	2021	2021
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£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

27 Pensions (continued)

Actuarial assumptions

The Group 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.

Assumed life expectations for a retiree age 65.

	2022	2021
	years	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 of its main operating company, Cadent Gas Limited. 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 assesed 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.

The carrying amount of financial assets and loss allowance are as follows:

For the year ended 31 March 2022

	Notes	Gross carrying amount	Loss allowance	Net carrying amount
		£m	**£m**	**£m**
Cash and cash equivalents		**21**	**-**	**21**
Derivative financial assets	17	**8**	**-**	**8**
Trade debtors	16	**15**	**(3)**	**12**
Accrued income	16	**167**	**(8)**	**159**
Current asset investments	18	**81**	**-**	**81**

28 Financial risk management (continued)

(a) Credit risk (continued)

For the year ended 31 March 2021

	Notes	Gross carrying amount	Loss allowance	Net carrying amount
		£m	£m	£m
Cash and cash equivalents		22	-	22
Derivative financial assets	17	-	-	-
Receivables	16	20	(3)	17
Accrued income	16	156	(1)	155
Current asset investments	18	828	-	828

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 Total	2021 Total
	£m	£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.

28 Financial risk management (continued)

(a) Credit risk (continued)

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 Quadgas MidCo'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.

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.

Quadgas MidCo 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	Gross amounts offset	Net amount presented in statement of financial position	Financial instruments	Cash collateral received/ pledged	Net amount
At 31 March 2022	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets						
Derivative financial instruments	**8**	**-**	**8**	**-**	**-**	**8**
Liabilities						
Derivative financial instruments	**(271)**	**-**	**(271)**	**-**	**-**	**(271)**
Total at 31 March 2022	**(263)**	**-**	**(263)**	**-**	**-**	**(263)**

28 Financial risk management (continued)

(a) Credit risk (continued)

At 31 March 2021	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
Assets						
Derivative financial instruments	-	-	-	-	-	-
Liabilities						
Derivative financial instruments	(120)	-	(120)	-	-	(120)
Total at 31 March 2021	(120)	-	(120)	-	-	(120)

(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 current rating levels. 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.

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:

At 31 March 2022	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
Non-derivative financial instruments					
Borrowings	**(91)**	**(99)**	**(1,167)**	**(9,948)**	**(11,305)**
Lease liabilities	**(7)**	**(6)**	**(4)**	**(50)**	**(67)**
Interest on payments on borrowings (i)	**(241)**	**(244)**	**(239)**	**(3,179)**	**(3,903)**
Other non-interest bearing liabilities	**(419)**	**-**	**-**	**-**	**(419)**
Derivative financial liabilities					
Derivative contracts - receipts	**53**	**59**	**58**	**1,349**	**1,519**
Derivative contracts - payments	**(22)**	**(22)**	**(22)**	**(1,906)**	**(1,972)**
Derivative financial assets					
Derivative contracts - receipts	**12**	**12**	**687**	**190**	**901**
Derivative contracts - payments	**(18)**	**(18)**	**(688)**	**(183)**	**(907)**
Total at 31 March 2022	**(733)**	**(318)**	**(1,375)**	**(13,727)**	**(16,153)**

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.

At 31 March 2021	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
Non-derivative financial instruments					
Borrowings	(300)	-	(90)	(10,986)	(11,376)
Lease Liabilities	(6)	(4)	(3)	(9)	(22)
Interest on payments on borrowings (i)	(244)	(243)	(244)	(3,308)	(4,039)
Other non-interest bearing liabilities	(572)	-	-	-	(572)
Derivative financial instruments					
Derivative contracts - receipts	28	29	32	2,028	2,117
Derivative contracts - payments	(39)	(39)	(39)	(2,253)	(2,370)
Total at 31 March 2021	(1,133)	(257)	(344)	(14,528)	(16,262)

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.

28 Financial risk management (continued)

(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.

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.

During 2022, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2022	**Fixed rate £m**	**Floating rate £m**	**RPI £m**	**Other (i) £m**	**Total £m**
Financial investments [i]	**-**	**102**	**-**	**-**	**102**
Borrowings[ii]	**(7,736)**	**(567)**	**(1,857)**	**-**	**(10,160)**
Lease Liabilities	**-**	**-**	**-**	**(68)**	**(68)**
Pre-derivative position	**(7,736)**	**(465)**	**(1,857)**	**(68)**	**(10,126)**
Derivative effect	**948**	**400**	**(1,612)**	**1**	**(263)**
Net debt position [ii]	**(6,788)**	**(65)**	**(3,469)**	**(67)**	**(10,389)**

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

ii) The impact of 2021/22 short-dated interest rate derivatives is included.

During 2021, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2021	Fixed rate £m	Floating rate £m	RPI £m	Other (i) £m	Total £m
Borrowings	(7,971)	(833)	(1,781)	-	(10,585)
Financial investments [i]	-	850	-	-	850
Lease Liabilities	-	-	-	(22)	(22)
Pre-derivative position	(7,971)	17	(1,781)	(22)	(9,757)
Derivative effect	(53)	400	(467)	-	(120)
Net debt position [ii]	(8,024)	417	(2,248)	(22)	(9,877)

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

ii) The impact of 2020/21 short-dated interest rate derivatives is included.

28 Financial risk management (continued)

(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	**Euro**	**Japanese Yen**	**Dollar**	**Total**
As at 31 March 2022	**£m**	**£m**	**£m**	**£m**	**£m**
Financial investments	**102**	**-**	**-**	**-**	**102**
Borrowings	**(8,273)**	**(1,601)**	**(62)**	**(224)**	**(10,160)**
Lease Liabilities	**(68)**	**-**	**-**	**-**	**(68)**
Pre-derivative position	**(8,239)**	**(1,601)**	**(62)**	**(224)**	**(10,126)**
Derivative effect	**(2,150)**	**1,601**	**62**	**224**	**(263)**
Net debt position	**(10,389)**	**-**	**-**	**-**	**(10,389)**

During 2021, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling	Euro	Japanese Yen	Dollar	Total
As at 31 March 2021	£m	£m	£m	£m	£m
Financial investments	850	-	-	-	850
Borrowings	(8,705)	(1,602)	(65)	(213)	(10,585)
Lease Liabilities	(22)	-	-	-	(22)
Pre-derivative position	(7,877)	(1,602)	(65)	(213)	(9,757)
Derivative effect	(2,000)	1,602	65	213	(120)
Net debt position	(9,877)	-	-	-	(9,877)

28 Financial risk management (continued)

(d) Currency risk (continued)

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 changes**	**Line item in consolidated statement of financial position where hedging instrument is reported**
		Assets	**Liabilities**		
Cash flow hedges					
Cross-currency interest rate swaps	**1,922**	**7**	**(59)**	**1**	**Derivative financial assets 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	1,922	-	(53)	(83)	Derivative financial liabilities

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

28 Financial risk management (continued)

b) The impact of hedged items designated in a hedge relationship as at 31st 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	**-**	**(1,887)**	**(7)**	**Borrowings**	**(22)**	**6**

The impact of hedged items designated in a hedge relationship as at 31st 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
	Assets	Liabilities				
Cash flow hedges						
Non GBP denominated	-	(1,880)	78	Borrowings	(14)	1

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 deficit to consolidated income statement	Line item in the consolid-ated income statement
Cash flow hedges					
Interest rate risk & FX risk	**(8)**	**3**	**Exceptional items and remeasurements**	**(1)**	**Finance costs before exceptional items and remeasurements**

The above hedging relationships affected the consolidated income statements for year ended March 2021 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 deficit to consolidated income statement	Line item in the consolid-ated income statement
Cash flow hedges					
Interest rate risk & FX risk	(8)	5	Exceptional items and remeasurements	(78)	Finance costs before exceptional items and remeasurements

28 Financial risk management (continued)

(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 main regulated operating company, Cadent Gas Limited, is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (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 Cadent Gas Limited level 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.

As at 31 March 2022	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	**102**	**-**	**-**	**102**
Derivative financial instruments	**-**	**8**	**-**	**8**
Liabilities				
Derivative financial instruments	**-**	**(158)**	**(114)**	**(271)**
Total	**102**	**(149)**	**(114)**	**(161)**

As at 31 March 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Fair value through profit and loss ('FVTPL') instruments	850	-	-	850
Derivative financial instruments	-	-	-	-
Liabilities				
Derivative financial instruments	-	(120)	-	(120)
Total	850	(120)	-	730

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.

28 Financial risk management (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 value. Conversely, a reduction in inflation forecasts will reduce the liability at maturity and positively impact the fair value.

	2022	2021
	£m	£m
At 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 shown are changes that management deem reasonably likely within the next 12 months.

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.

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, except for goodwill impairment as previous impairments cannot be reversed.

	2022		2021	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
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

29 Sensitivity analysis (continued)

	2022		2021	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments (i)	**26**	**26**	12	12
Goodwill impairment(ii)				
CPI decrease of 0.5%	**-**	**-**	1,273	1,273
Pre-tax discount rate increase of 0.5%	**-**	**-**	912	912
Terminal value change of 0.05 multiple	**-**	**-**	222	222
Cost of Equity within Regulatory WACC decrease of 0.5%	**-**	**-**	313	313
Pensions and other post-retirement benefits (iii) (pre-tax)				
Discount rate decrease of 0.5% (iv)	**(2)**	**(443)**	(2)	(487)
Discount rate increase of 0.5% (iv)	**2**	**394**	2	433
RPI rate change of 0.5% (v)	**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% (vi)	**12**	**12**	-	-

i) The effect of a 10% change in fair value assumes no hedge accounting.

ii) The changes in assumptions for goodwill in 2022, due to the significant headroom this year, will not lead to an impairment and therefore change in the income statement or net assets. See note 12 for more detail.

iii) The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.

iv) 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.

v) 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.

vi) This represents the change in value of our index-linked derivatives of a modelled 1% adjustment in the markets forecast of the underlying inflation indices over the following 12 months.

	2022		2021	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
No hedge accounting for our derivative financial instruments (post tax)	**9**	**9**	6	6
Financial risk (post-tax)				
UK RPI rate change of 0.5%	**10**	**10**	9	9
UK CPI rate change of 0.5%	**5**	**5**	-	-
UK interest rate change of 0.5%	**1**	**1**	3	3

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK CPI and 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.

29 Sensitivity analysis (continued)

Financial instruments assumptions (continued)

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 fellow subsidiaries, joint ventures, associated undertakings, investments and key management personnel.

	2022	2021
	£m	£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 receivable from associates	**-**	2
Amounts receivable from other related parties	**1**	-
Amounts payable to other related parties	**1**	

31 Related Party Transactions (continued)

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 year in respect of bad or doubtful debts for related party transactions.

Information relating to pension fund arrangements is disclosed in note 27. For details of dividends paid and Directors' and key management remuneration, refer to notes 11 and 7 respectively.

32 Subsequent events

There are no post balance sheet events.

33 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas PledgeCo 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 HoldCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas HoldCo Limited is registered in England and Wales.

Copies of Quadgas HoldCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas HoldCo 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.

34 Subsidiary undertakings

The list below contains all subsidiaries included within the Quadgas MidCo Group.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Gas Limited	100	Gas Distribution	England and Wales
Cadent Finance Plc	100*	Provision of long-term finance	England and Wales
Cadent Services Limited	100	Provision of services (including property management)	England and Wales
Quadgas 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 holding

The registered address for all subsidiaries is Pilot Way, Ansty Park, Coventry, CV7 9JU, United Kingdom.

Quadgas MidCo Limited

Company statement of financial position
As at 31 March 2022

	Notes	2022 £m	2021 £m
Non-current assets			
Trade and other receivables	7	**25**	-
Investments	6	**7,290**	6,401
Derivative financial assets	8	**1**	-
Total non-current assets		**7,316**	6,401
Current assets			
Trade and other receivables	7	**-**	27
Cash and cash equivalents		**1**	1
Current asset investments	9	**1**	14
Total current assets		**2**	42
Total assets		**7,318**	6,443
Current liabilities			
Borrowings	12	**(91)**	(51)
Trade and other payables	10	**(16)**	(14)
Total current liabilities		**(107)**	(65)
Net current liabilities		**(105)**	(23)
Total assets less current liabilities		**7,211**	6,378
Non-current liabilities			
Borrowings	12	**(737)**	(697)
Derivative financial liabilities	8	**(3)**	(5)
Deferred tax		**-**	(1)
Trade and other payables	11	**(2,328)**	(2,327)
Total non-current liabilities		**(3,068)**	(3,030)
Total liabilities		**(3,175)**	(3,095)
Net assets		**4,143**	3,348
Equity			
Share capital	13	**1**	1
Retained earnings		**4,142**	3,347
Total equity		**4,143**	3,348

The company has elected to take the exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The profit for the year of £930 million (2021: £221 million) is disclosed in the statement of changes in equity.

The notes on pages 118 to 131 are an integral part of the financial statements.

The financial statements on pages 116 to 131 were approved by the Board of Directors on 26 July 2022 and signed on its behalf by:

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

Quadgas MidCo Limited

Company statement of changes in equity
For the year ended 31 March 2022

	Share capital £m	**Cash flow hedge reserve £m**	**Cost of hedging reserve £m**	**Retained earnings £m**	**Total £m**
At 1 April 2021	**1**	**-**	**-**	**3,347**	**3,348**
Profit for the year	**-**	**-**	**-**	**930**	**930**
Total comprehensive income for the year	**-**	**-**	**-**	**930**	**930**
Equity dividend	**-**	**-**	**-**	**(135)**	**(135)**
At 31 March 2022	**1**	**-**	**-**	**4,142**	**4,143**

	Share capital £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Retained earnings £m	Total £m
At 1 April 2020	1	1	-	3,253	3,255
Profit for the year	-	-	-	221	221
Other comprehensive income/(loss) for the year	-	(1)	-	-	(1)
Total comprehensive income/(loss) for the year	-	(1)	-	221	220
Equity dividend	-	-	-	(127)	(127)
At 31 March 2021	1	-	-	3,347	3,348

The notes on pages 118 to 131 are an integral part of the financial statements.

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, Quadgas MidCo Limited, under the Companies Act 2006, and the statement of changes in equity under Financial Reporting Standard 101, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 101"). The following disclosures provide additional information to the stakeholders.

Quadgas MidCo Limited is a private company 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 financial statements are set out as below. These policies have been consistently applied to the current period 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 £4,143 million at 31 March 2022 (2021: £3,348 million). There is a profit for the year ended 31 March 2022 of £930 million (2021: profit of £221 million). The movement is largely due to a higher dividend income of £135m (2021: £127m) and the reversal of a impairment of investments of £889 million (2021: £318 million reversal). The company holds investments in a number of subsidiary companies, and obtains and provides finance to the Group. The operating company for the Group, Cadent Gas Limited, continues to trade and operate as a going concern and as at 31 March 2022 was in a net asset position of £2,514 million (2021: £2,355 million), reported loss for the financial year of £93 million (2021: £631 million profit), and had access to an undrawn £500 million (2021: £500m) liquidity facility. See Cadent Gas Limited Annual report and Accounts for further details.

By nature of its operating business, Quadgas MidCo Limited 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.

(i) Parent company financial statements

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

The financial statements have therefore been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) as issued by the Financial Reporting Council. The financial statements have also been prepared in accordance with the requirements of the Companies Act 2006.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, non-current assets held for sale, financial instruments, capital management, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been presented in the Group accounts of Quadgas MidCo Limited.

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of turnover and expenses during the reporting period. Actual results could differ from these estimates.

1 Summary of significant accounting policies (continued)

(b) New IFRS accounting standards and interpretations
As noted above, the 2022 Annual Report and Financial Statements have been prepared under FRS 101. There are no new or amended standards or interpretations during the year that have a significant impact on the financial statements.

(c) Investments
Investments in Group undertakings are held at cost less accumulated impairment losses.

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. Impairment reversals are recognised when there is an indication that an impairment loss for an investment either no longer exists or has decreased.

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).

(d) 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.

(e) Financial instruments

Initial recognition
Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

1 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Initial recognition (continued)
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; and
- financial assets at fair value through other comprehensive income (FVTOCI); and
- 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; and
- 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.

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, 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.

1 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Classification and measurement (continued)
For financial assets carried at amortised cost, the amount of the impairment is the differences 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
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 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 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.

1 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Impairment of financial assets (continued)
A significant increase in credit risk as a result of 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;
- 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.

(f) Trade and other receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

(g) 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.

(h) 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.

(i) 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.

(j) 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 statement of financial position.

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:

• Investments are reviewed annually for impairment by comparison of the cost of the investment with equity value, where equity value is equal to the value-in-use of the company invested in less any external borrowings plus any cash and cash equivalents - **note 6.**

• For the purpose of valuing our investment in the Group, the judgement is that the Cadent Gas network can be used for alternative technologies beyond 2050. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how the network is used. The UK Government's current plans include the production and use of Hydrogen, 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 the 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 - **note 6.**

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:

• Review of carrying values of investments and calculation of impairment. The impairment of intangible assets with indefinite lives requires management to calculate the value-in use for these assets. The key assumptions for the value-in-use calculation are those regarding the underlying cash flows, discount rate, regulatory weighted average cost of capital, inflation and terminal value cash flow. The value is use is calculated by forecasting cash flows to 2045 and applying a terminal value at that date. The UK's target to achieve net zero by 2050 will impact how our network is used in the future and management have considered the impact of this in our underlying cash flows - **note 6.**

Notes to the company financial statements (continued)

For the year ended 31 March 2022

3 Auditor's remuneration

Auditor's remuneration in respect of the company is set out below:

	2022 £'000	2021 £'000
Audit services		
Audit fee of company	**57**	84
Other services		
Fees payable to the company's auditor for audit-related assurance services	**32**	31

4 Number of employees, including Directors

The average number of persons (including Executive Directors) employed by the company was Nil (2021: Nil).

5 Key management compensation

Key management comprises the Board of Directors of the company and its principle subsidiary, Cadent Gas Limited, including Executive and Non-executive Directors who have managerial responsibilities of the business. Details of key management personnel compensation are provided in note 7 to the consolidated financial statements.

6 Investments

Shares in subsidiary undertakings	2022 £m	2021 £m
Cost		
At 1 April	**7,747**	7,747
Additions	**-**	-
At 31 March	**7,747**	7,747
Provision		
At 1 April	**(1,346)**	(1,664)
Investment impairment reversal	**889**	318
At 31 March	**(457)**	(1,346)
Net book value at 31 March	**7,290**	6,401

The net carrying value of the investment held in Cadent Gas Limited, Cadent Services Limited and Quadgas Finance Plc was compared to its recoverable amount as part of the annual impairment review carried out by management.

The recoverable amount of the cash generating unit was determined from value-in-use calculations. The key assumptions for the value-in-use calculation are those regarding the underlying cash flows, discount rate, inflation and terminal value cash flow (see note 12 of the Quadgas MidCo Group Consolidated Financial Statements for further information).

6 Investments (continued)

Underlying cash flows
In the short-term, the differences between actual cash flows and prior projections and budgets for Cadent Gas Limited are small due to the stable and predictable nature of the business. With 92% of our revenue formula driven, there is a high level of predictability. This predictability of the cash flows and projections can be seen in the full year performance to 31 March 2022 where despite COVID-19 and increasing shrinkage and bad debt costs as a result of rising gas prices, the results were broadly in line with our budget. Further, both shrinkage and bad debt are cost neutral as future revenue allowances reflect these passthrough costs. The embedded debt outperformance provides c. 1% RORE outperformance in the medium term “guaranteeing” outperformance against the baseline allowed return.

The assumptions used in the Cadent Gas Financial Plan 2022 for the 5 years to March 2026 have been applied to the calculations undertaken in completing the impairment test, as detailed below. This Plan includes outturn data for the year to March 2022 and 4 years of forecast data.

The total expenditure (totex) forecasts included in the impairment model are a base case and assume the investment in the network will continue to 2045 and beyond. However, the base case does not include cash flows associated with the potential to re-purpose the network for hydrogen or other fuels. In the base case we continue to assume regulatory asset depreciation of 45 years and investment is fully capitalised into the RAV. This is consistent with the assumptions used for the Ofgem Final Determinations for RIIO-2.

We have determined the regulated weighted average cost of capital (WACC) and totex allowances using Ofgem’s Final Determination and the outcome of the CMA appeal for the RIIO-2 period. The regulatory cost of equity for RIIO-2 is 4.55% (2021: 4.8%) and is forecast to increase in future price controls with forecasted increases in risk free rates.

Longer term, we have continued to assume that the Cadent Gas Repex programmes reduce in scale post-2032 following completion of the HSE mandated 30:30 replacement programme but the maintenance of the network and the service levels to customers is maintained. As noted above, we have not incorporated into the base case any investment in the network to make it hydrogen or biomethane-ready at this stage.

Discount Rate
Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 5.4% (2021: 5.3%). Management estimates the discount rate using post-tax rates that reflect current market assessments of the time value of money and then converts to a pre-tax rate using an iterative calculative approach in the value-in-use methodology.

Inflation
In the RIIO-2 period the CPIH assumption at March 2022 of 2.35% (2021: 1.7%) is broadly based on the Ofgem assumptions contained within the price control model used for price setting. Given current forecasts for inflation, these assumptions are conservative.

The longer-term CPIH assumption of 2.0% (2021: 2.0%) is consistent with the Bank of England target rate for the Consumer Price Index including owner occupiers' housing costs (CPIH) and external long run forecasts which show a range of potential outcomes between 1.9% - 2.3% by 2026. Given the range of potential outcomes, we have adopted the Bank of England target of 2.0% as our long run CPIH assumption from 2023 to 2045.

6 Investments (continued)

Terminal value cash flow
A terminal value cash flow is applied in 2045; the end of the forecast period. The terminal value is calculated based on a RAV forecast multiple at 2045. Management has derived a RAV multiple of 1.2x (2021: 1.2x) by reviewing external sources of information on similar transactions. There has been no change in the market to warrant a revision to this assumption.

IAS 36 states that projections based on budgets and forecasts should cover a maximum of five years whereas management have used projections out to 2045. However, management of believe, whilst there is uncertainty when moving from one price control period into the next, there is otherwise a degree of predictability to the cash flows of the assets and therefore management consider that it is appropriate to project out to 2045 before a terminal value is applied.

Climate Change continues to result in uncertainty over the future use of the Cadent Gas assets for transporting natural gas to heat homes and power industry, and management have considered this uncertainty when performing the impairment test. We believe that the best way to keep customers warm whilst enjoying the flexibility of natural gas with minimum disruption, is to use the existing network to deliver greener gases like hydrogen and biomethane.

The government's Green Industrial Revolution has hydrogen as number 2 on the top 10 priorities and the 2022 Queen's Speech reiterated the importance of the British Hydrogen industry in the new Energy Security Bill. Cadent Gas continues to invest in programmes such as the Hydrogen Village, Hydrogen Home and HyNet to support it's ambition to make hydrogen a safe, fair and reliable choice for consumers, and has a long-term commitment to decarbonise homes and businesses in a way that minimises the impact to the consumer and creates jobs across the UK. Given the information currently available, it is still reasonable to assume that the entire network will continue to be used in 2045 and beyond, in its current form, adapted to accommodate hydrogen or bio-methane, therefore we consider it appropriate to project out to 2045 before a terminal value is applied.

The receipt of the CMA Final Determination in October 2021 and significant changes to inflation during the year indicated that the impairment loss recognised in prior years may have decreased. Management calculated an updated recoverable amount, and the calculation indicated that this had increased over prior years when impairment losses were recognised as a result of changes in estimates in respect of discount rates, return on equity and Totex, and resulted in an impairment reversal of £889m (prior year impairment reversal of £318m).

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. A negative value in the table below indicates the value of impairment which would be recognised, whereas a positive value indicates an increase in headroom. An increase in the carrying value of the investment can only be recognised to the extent that it reverses a previous impairment, and in line with the requirements of IAS 36.

	2022		2021	
Investment impairment	**Income statement**	**Net assets**	Income statement	Net assets
CPI decrease of 0.5%	**(373)**	**(373)**	(896)	(896)
Pre-tax discount rate increase of 0.5%	**(540)**	**(540)**	(535)	(535)
Terminal value change of 0.05 multiple	**173**	**173**	155	155
Cost of Equity within Regulatory WACC decrease of 0.5%	**133**	**133**	64	64

6 Investments (continued)

Carrying value comprised the investment in subsidiary undertakings.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Gas Limited	100	Gas Distribution	England and Wales
Cadent Services Limited	100	Provision of services (including property management)	England and Wales
Quadgas Finance Plc	100	Provision of long-term finance	England and Wales
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 service	England and Wales

* Indirect holding

The registered address of these investments is Pilot Way, Ansty, Coventry, CV7 9JU, UK.

Notes to the company financial statements (continued)

For the year ended 31 March 2022

7 Trade and other receivables

	2022	2021
	£m	£m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**-**	25
Other debtors	**-**	2
	-	27
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**25**	-
	25	-

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable upon demand and has been reclassed to amounts falling due after more than one year following a reassessment by management.

8 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

		2022	
	Assets	**Liabilities**	**Total**
	£m	**£m**	**£m**
Amounts falling due after more than one year	**1**	**(3)**	**(2)**
	1	**(3)**	**(2)**

		2021	
	Assets	Liabilities	Total
	£m	£m	£m
Amounts falling due after more than one year	-	(5)	(5)
	-	(5)	(5)

For each class of derivative the notional contract amounts* are as follows:

	2022	2021
	£m	£m
Cross-currency interest rate swaps	**91**	91
	91	91

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

9 Current asset investments

	2022	2021
	£m	£m
Investment in short-term money funds	**1**	14
	1	14

10 Trade and other payables falling due in less than one year

	2022 £m	2021 £m
Amounts owed to subsidiary undertakings	**16**	14
	16	14

11 Trade and other payables falling due in greater than one year

Non-current liabilities	2022 £m	2021 £m
Amounts owed to immediate parent company	**902**	902
Amounts owed to subsidiary company	**1,426**	1,425
	2,328	2,327

Amounts due to immediate parent undertakings are unsecured, at an arm's length interest rate of 6.8% (2021: 6.8%) and repayable on 29/03/2043.

Amounts owed to subsidiary undertakings reflect external debt raised by Quadgas Finance Plc and passed on to Quadgas MidCo Limited. Quadgas Finance Plc, a subsidiary of Quadgas MidCo Limited, issued 4 series of private placement notes on a deferred draw basis, with maturities at 10, 12 and 15 years, and a total notional value of c.£460m. The amounts are usually passed on to Quadgas MidCo Limited on identical terms to the amount raised in Quadgas Finance Plc. The amounts are unsecured with interest payments to 2036.

12 Borrowings

	2022 £m	2021 £m
Amounts falling due within one year		
Bank loans	**91**	50
Bonds	**-**	1
	91	51
Amounts falling due after more than one year		
Bank loans	**-**	-
Bonds	**737**	697
	737	697

On 10 March 2022, £10 million was repaid under the Revolving Credit Facility. Two repayments of £50 million each were made on 14 March 2022 and 21 March 2022, using existing funds. On 21 March 2022 a new Revolving Credit Facility of £90 million was drawn with a further £110 million undrawn.

12 Borrowings (continued)

Total borrowings are repayable as follows:

	2022	2021
	£m	£m
Less than 1 year	**91**	51
In 1-2 years	**-**	-
In 2-3 years	**-**	-
In 3-4 years	**-**	-
In 4-5 years	**-**	-
More than 5 years	**737**	697
	828	748

The notional amount of borrowings outstanding as at 31 March 2022 was £828 million (2021: £746 million) including accretion.

The company's borrowings comprise fixed rate, floating rate and indexed linked debt which has been issued out of the company. The table below summarises the debt, including their fair values.

Summary of Borrowings

Currency	Type	Notional (inc Accretion) £m*	Maturity	Rate	Book Value (£m)	Fair Value (£m)
Fixed Rate						
GBP	Listed	125	31/03/2037	Fixed	125	123
		125			**125**	**123**
Index-linked						
GBP	Listed	47	31/03/2037	RPI Linked	47	50
GBP	Listed	88	31/03/2037	RPI Linked	90	91
GBP	Listed	313	31/03/2042	RPI Linked	311	329
GBP	Listed	88	31/03/2042	RPI Linked	89	89
		536			**537**	**559**
Floating Rate						
GBP	Unlisted	90	21/09/2022	SONIA	89	90
GBP	Listed	77	31/03/2037	SONIA	77	78
		167			**166**	**168**
Bank Overdraft		-			-	-
Total		**828**			**828**	**850**

*Index-linked debt notional is the accreted value.

As of 31 March 2022, the fair value of all Quadgas MidCo Limited debt was £850 million (2021: £781 million). Where market values were available, the fair value of borrowings (Level 1) was £Nil (2021: £Nil). Where market values were not available, the fair value of borrowings (Level 2) was £850 million (2021: £781 million).

None of the company's borrowings are secured by charges over assets of the company.

Notes to the company financial statements (continued)
For the year ended 31 March 2022

13 Share capital

	2022	2021
Allotted, called up and fully paid	**£m**	£m
5,105,581,781 ordinary shares of £0.0001 each	**1**	1

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.

14 Contingent liabilities

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.

15 Related party transactions
The company is exempt under FRS 101.8(k) from disclosing transactions with Quadgas Holdings TopCo Limited and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

Details of key management compensation are provided in note 7 to the consolidated financial statements.

16 Ultimate parent company
The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas PledgeCo 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 HoldCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas HoldCo Limited is registered in England and Wales.

Copies of Quadgas HoldCo Limited’s consolidated financial statements can be obtained from the Company Secretary, Quadgas HoldCo Limited, Pilot Way, Ansty Park, Coventry, CV7 9JU, United Kingdom.

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.