Cadent
Your Gas Network

Quadgas MidCo Limited

Report for the six months ended 30 September 2022

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

Operations

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

We are the largest gas distribution company in the UK; we own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise over 131,000 kilometres of gas distribution pipeline and we transport gas from the gas national transmission system to over 11 million homes and businesses from the Lake District to London and from the Welsh Borders to the East Coast, on behalf of 60 principal gas shippers. Over 80% of UK homes rely on gas for heating as well as large manufacturers, businesses and commerce being reliant on gas to fuel their operations. At peak times the gas network supplies over four times more energy than the electricity network.

As the UK's largest gas distribution network, Cadent is a leading voice on the importance of hydrogen in the future energy mix to achieve our net zero ambitions. We continue to champion a whole systems approach to decarbonisation, emphasising the role of hydrogen as a low carbon alternative to natural gas. We have worked closely with BEIS in supporting their Heat and Buildings Strategy and Hydrogen Strategy with a view to ensuring hydrogen is an integral part of the energy mix from 2026 and are actively engaging with Government and regulators to build awareness of the opportunities offered by green gases in the journey towards net zero.

We have also been successful in getting to the next phase of the hydrogen village trials and are now progressing with the design and home surveys required to convert the gas networks of a 2,000-home village from natural gas to hydrogen. If we are successful in the hydrogen village competition, we will progress to the full roll-out of our Hydrogen Village in Whitby, Ellesmere Port, alongside our partner British Gas from 2025. This will be instrumental in demonstrating decarbonised heat at scale and provide the critical evidence to enable the 2026 Heat Policy decision on the role of hydrogen in heating buildings.

A small proportion of a typical household gas bill goes towards the cost of maintaining our gas network. Through a continued focus on innovation and efficiency improvements we are committed to reducing our costs by over £500 million by 2026, which supports providing for a real reduction in customer gas bills over time. In 2021/2022 a typical domestic customer paid £132 towards the cost of our services, down from £158 at the start of RIIO-1 adjusting for the impact of inflation. We continue to work with industry and Ofgem to ensure we do everything we can to keep our proportion of the gas bill as low as possible.

We remain committed to supporting communities and customers in vulnerable situations. We have refocused our efforts with the Cadent Foundation to help households find sustainable solutions to fuel poverty and ensure people are safe and warm in their homes and to work with charitable organisations to address the root causes and impact of fuel poverty, helping households improve their financial wellbeing and become more energy efficient through advice, support and practical measures.

The increase in gas prices had a wide impact on our industry and a number of shippers and gas suppliers ceased trading in the last financial 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 30 September 2022, the outstanding debt with these failed customers was £8.5 million, which remains outstanding and is subject to our existing credit procedures.

Operations (continued)

Ofgem appoint a Supplier of Last Resort (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. In the first 6 months of this year Cadent has paid claims amounting to £172 million to its SoLR and has received additional compensating income of £172 million. The continued flow of gas to people's homes and business is of upmost importance and we will continue to work collaboratively with Ofgem to support suppliers and shippers.

In the first half of the year, the Group delivered revenue of £1,148 million; an increase of £152 million on the comparative period. This was mainly due to an increase in regulated allowed revenue due to inflation, both for the year 2022/23 and the "truing up" of the revenue for the higher actual inflation rate when compared to the rates used when setting 2021/22 charges, higher gas prices and higher allowed revenues following the Competition Market Authority (CMA) decision in relation to Ofgem's Final Determination for RIIO-2. Non regulated revenue decreased by £27 million as a result of the lower number of diversions being completed.

Operating costs have increased by £52 million to £695m (2021: £643m). Operating costs before exceptional items have increased due to the effects of higher gas prices increasing our shrinkage costs to £37 million (2021: £16 million), higher depreciation of £221 million (2021: £211 million) offset by a decrease to exit capacity charges of £79 million (2021: £85 million) due to the implementation of a new charging methodology. The majority of these cost increases are recoverable through our future revenues.

Finance costs before exceptional items and remeasurements for the period of £308 million (2021: £165 million) have increased due to the effects of higher inflation on index-linked debt and derivatives.

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

Long-term strategy and business objectives

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

We submitted a robust and very ambitious business plan to Ofgem in December 2019 to enable us to lead the way in our role over the next five years from 2021 – 2026 (RIIO-2 price control). The plan was built on an extensive and tailored customer and stakeholder engagement programme, which we continue to engage with, to ensure we can continue to deliver a safe and reliable energy network now, and lead the development of a cleaner, greener future. The RIIO-2 price control was finalised last year and we have a clear plan to deliver our objectives during the regulatory period. 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.

The objectives we have set are focused in four customer outcome areas:

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

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

Long-term strategy and business objectives (continued)

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

We continue to lead the way to a cleaner, greener future by planning and collaborating with industry and key stakeholders to meet our net zero targets. We are seeking ways to reduce our own carbon footprint, aligned with the latest science-based methodologies for the gas and oil sector, through our mains replacement programmes and across our fleet. During 2022/23 we continue to look at our carbon footprint upstream and downstream of our supply chain. We recognise our responsibility to support the UK to meet its greenhouse gas target and have committed to our own reduction targets to reduce our carbon footprint as we progress through 2026. Our high standards of environmental performance focus on protecting and enhancing the environment through continuous improvement and key innovations to create long term benefits for society. We are committed to keeping people warm while protecting the planet and we can already see great progress as we inject biomethane into our network and trialling hydrogen blending at scale. By working closely with key industries and leaders in the UK economy we continue to be the overall lead for hydrogen blending projects across the gas distribution networks.

Going Concern

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

The forecasts were considered against the ability to access existing undrawn facilities alongside the ability to access long-term debt markets. Despite ongoing current macro-economic factors including the significant uncertainty impacting inflation, energy prices, and the ongoing conflict in the Ukraine, it was concluded that sufficient headroom existed in the forecast and against the requirements of our banking covenants and no reasonably 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 November 2022 that the financial statements be prepared on a going concern basis.

Liquidity & funding arrangements

We maintain liquidity headroom to ensure that the Group can meet all financial obligations and to fund operations, even during periods of market disruption and times of uncertainty. The Group's operating cash flows available or forecast to be available including committed bank facilities and forward settling debt issuances are required to be sufficient to meet Capex, Repex and working capital requirements for the next 12 months.

At 30 September 2022, the Quadgas MidCo Group had undrawn credit facilities and cash totalling £741 million (31 March 2022: £712 million) made up of available Revolving Credit Facilities of £700 million of which £80 million is drawn, investments in short-term money funds of £84 million and cash of £37 million. We also retain the capacity to raise additional debt if required from the debt capital markets and loan markets. On the 4th November 2022, Cadent Gas Limited, a subsidiary of Quadgas MidCo Limited refinanced its outstanding debt and an additional £150 million Revolving Credit Facility was secured with a maturity to November 2024.

There is one item of debt maturing within 12 months from the sign off date of these accounts. This debt has a face value of £60 million and is linked to RPI. The carrying value of the debt as at 30 September 2022 is £98 million. There is sufficient liquidity headroom to cover this repayment following the recent finance activity conducted by the Group (see note 14).

Results for the six months ended 30 September 2022

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

	Six months ended 30 September 2022 £'m	Six months ended 30 September 2021 £'m	Movement £'m
Revenue	**1,148**	996	152
Operating profit – Before exceptional items	**453**	353	100
Exceptional items	**(2)**	(10)	8
Operating profit	**451**	343	108
Profit before tax – Before exceptional items & remeasurements	**161**	192	(31)
Profit before tax	**329**	116	213
Profit/(loss) for the period	**226**	(515)	741
Capital investment	**411**	355	56

Revenue

Total Group revenue for the period was £1,148 million (2021: £996 million) comprising £1,122 million (2021: £943 million) of regulated allowed revenue and £26 million (2021: £53 million) from non-regulated activities. The £179 million increase in regulated revenue was mainly due to an increase in inflation, both for the year 2022/23 and the "truing up" of the revenue for the higher actual inflation rate when compared to the rates used when setting 2021/22 charges, higher gas prices and higher allowed revenues following the Competition Market Authority (CMA) decision in relation to Ofgem's Final Determination for RIIO-2. The £27 million decrease in non-regulated revenues is mainly as a result of the lower number of diversions being completed.

Operating profit before exceptional items

Operating profit before exceptional items is a non-IFRS performance measure used by management to aid comparability of results between periods (see note 5). As such, it excludes significant business transactions and should not be used in isolation but considered alongside IFRS measures. The nearest equivalent IFRS measure is operating profit, which is presented on the condensed consolidated income statement and reconciled above.

Operating profit before exceptional items for the period was £453 million (2021: £353 million), with revenue of £1,148 million (2021: £996 million) offset by £695 million (2021: £643 million) of operating costs excluding exceptional items. Operating costs before exceptional items have increased by £52 million largely due to the effects of higher gas prices increasing our shrinkage costs to £37 million (2021: £16 million), higher depreciation of £221 million (2021: £211 million) offset by a decrease to exit capacity charges of £79 million (2021: £85 million) due to the implementation of a new charging methodology. The majority of these cost increases are recoverable through our future revenues.

Finance income and costs

Finance income for the period was £16 million (2021: £4 million) due to an increase in interest income from pension assets. Finance costs before exceptional items and remeasurements for the period of £308 million (2021: £165 million) have increased due to the effects of higher inflation on index-linked debt and derivatives.

Exceptional items and remeasurements
Included within total operating profit of £451 million (2021: £343 million) are exceptional items of £2 million (2021: £10 million). The Group is undergoing an ongoing operational transformation programme to improve the efficiency of operations by restructuring the business. During the period the group have recognised a further £2 million in exceptional costs bringing cumulative costs to £51 million since the beginning of the restructure in 2019. These activities are infrequent and exceptional in nature.

Remeasurements gains of £170 million (2021: losses of £66 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 (RPI & CPI), which have been impacted by the relatively large increase in the interest rate curve in the period, reducing the NPV of the future index linked cashflows, as well as a combination of changes in the market forecasts of the RPI and CPI.

Profit/(loss) for the period

The Group made a profit after tax of £226 million (2021: loss of £515 million).This is largely due to an increase of operating profit from higher revenue, a reduction in total interest charge (largely from the movement in remeasurements) and a reduction in the tax charge (last year included an exceptional tax charge of £609 million due to a tax rate change from 19 to 25%.

Dividend

During the first half of the year, the company paid an interim ordinary dividend of £100 million (2021: £Nil). The decision to pay a dividend in the period was a matter of consideration for the Board. The Board considered the continued strong customer and operational performance improvements seen across regulatory measures, the level of investment and efficiency of delivery relative to regulatory totex allowances that enables significant investment in the network, and the successful work being undertaken by Cadent to implement its strategy in relation to being a Force for Good. In making the decision, all of the above factors were taken into account, as well as reviewing the dividend policy and satisfying itself that a series of economic tests could be met.

Capital investment

Capital investment was £411 million (2021: £355 million) comprising £Nil million (2021: £15 million) of intangible assets and £411 million (2021: £340 million) of tangible assets. Tangible asset additions are mainly comprised of £343 million (2021: £290 million) of plant and machinery with the majority relating to our ongoing mains replacement programme with 846km being replaced in the period (2021: 743km). Remaining additions comprise £32 million (2021: £25 million) of assets in the course of construction, £12 million (2021: £13 million) of right-of- use assets, land and buildings £11 million (2021: £5 million) and motor vehicles £12 million (2021: £7 million).

Financial position

Net assets increased by 1.5% to £3,920 million (March 2022: £3,862 million). The main movements in the balance sheet items were an increase in property, plant and equipment and intangible fixed assets of £179 million arising from capital investment offset by depreciation and amortisation.

Goodwill of £1,713 million (March 2022: £1,713 million) has been recognised. Having reviewed its assets for indicators of significant impairment since the annual report for the 2022 financial year were signed, including the profit after tax of £226 million for the period, management has concluded no such indicators exist and therefore no impairment has been recognised as at 30 September 2022. The annual impairment test for goodwill and indefinite life intangibles will be completed at 31 March 2023.

The company operates its own DB pension arrangement, the Cadent Gas Pension Scheme (CGPS-'the scheme'), for certain employees. Membership of the defined contribution scheme, MyPension, is offered to all new employees. On an IAS 19 basis the defined benefits pension scheme is in a net asset position of £947 million at 30 September 2022 (March 2022: £1,083 million). There is an overall decrease in the defined benefit obligation of £1,527 million.

Interim management report (continued)

Financial position (continued)

This was mainly due to a significant increase in corporate bond yields (which drive the discount rate) resulting in a reduction in the defined benefit obligation of £1,672 million. This was partially offset by an increase of £238 million due to actual inflation over the 6 months to 30 September 2022 being higher than that assumed at 31 March 2022 and an overall decrease in assets due to actual returns being lower than interest income. The significant decrease in the Scheme's asset and liability values was largely driven by a significant movement in gilt markets. In particular, the 'mini budget' announced by the government on 23 September caused rapid sales of government bonds which further depressed gilt markets. As well as impacting IAS 19 valuations, the Scheme was required to utilise high-quality liquid assets to meet collateral requirements on the liability-driven investment (LDI) portfolio. These short-term liquidity pressures did not impact the security of pension benefits.

The Group has net debt of £10,297 million (31 March 2022: £10,389 million). Net debt is a non-IFRS measure which shows the overall debt situation and is calculated by netting the value of the company's gross borrowings, derivatives and lease liabilities with its cash and other similar short-term financial assets. The closest IFRS measure is gross borrowings. The Group has gross borrowings of £10,310 million (31 March 2022: £10,160 million). See note 11 for the reconciliation of gross borrowings with net debt.

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term. At 30 September 2022, the Quadgas MidCo Group had undrawn credit facilities and cash totalling £741 million (31 March 2022: £712 million) made up of available Revolving Credit Facilities of £700 million of which £80 million is drawn, investments in short-term money funds of £84 million and cash of £37 million.

Cash flow

Net cash inflow from operating activities for the six months ended 30 September 2022 was £663 million (2021: £529 million) with the increase due to higher operating profit, together with higher trade and other payables and higher cash received from capital contributions. This has been offset by higher trade and other receivables largely driven by an increase in the regulated revenue and higher pension deficit repayments being made in the current period.

Events after the balance sheet date

On 25 October 2022 Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued c.£300 million GBP equivalent of private fixed rate notes on a deferred draw basis:

- $65 million funding 25 April 2023 and maturing 25 April 2030 with a coupon rate of 6.15%, which is swapped to GBP £57.4 million at a rate of 6.36%,
- $75 million funding 25 July 2023 and maturing 25 July 2030 with a coupon rate of 6.21%, which is swapped to GBP £66.3 million at a rate of 6.44%,
- £100 million funding 31 January 2023 and maturing 31 January 2030 with a coupon rate of 6.22%,
- £30 million funding 15 December 2022 and maturing 15 December 2032 with a coupon rate of 6.28% and
- £45 million funding 31 January 2023 and maturing 31 January 2033 with a coupon rate of 6.28%.

These notes are guaranteed by and proceeds were lent to Cadent Gas Limited on matching terms.

On 4th November 2022, Quadgas MidCo Limited refinanced its outstanding debt facilities. The Revolving Credit Facility of £200 million (drawn to a level of £80 million at 30 September 2022) was replaced to extend the maturity to November 2027 (previously to July 2024). The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

On the 4th of November 2022, Cadent Gas Limited, a subsidiary of Quadgas Midco Limited, refinanced its outstanding debt facilities. The undrawn Revolving Credit Facility of £500 million was replaced to extend the maturity to November 2027 (previously to July 2026) and a new Revolving Credit Facility of £150 million was entered with maturity to November 2024. The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

Related party transactions

There have been no material changes in the related party transactions described in the last Annual Report and Accounts.

Quadgas Midco Limited

Interim management report (continued)

Performance Highlights

To enable us to achieve the standard of service we aspire to, we monitor our performance in implementing our strategy with reference to clear targets set for key performance indicators (KPIs). These KPIs are applied on a Group wide basis. Performance in the six months ended 30 September 2022 (where available as some are annual figures) and the targets are set out in the table below, together with the prior year performance data for the year to 31 March 2022 and the six-month period to 30 September 2021.

Strategic priorities	KPIs	Definition	Performance
Delivering a safe and reliable network	**Safety**	**Lost time injuries frequency rate** Any injury to employee or contractor resulting in time off work (injuries per million hours worked).	**2022/23 half year: 0.42** **2021/22: 0.55** **2021/22 half year: 0.74** **(Target: 0.54)** [1]
Providing a resilient network to keep the energy flowing	**Kilometres of network replaced**	**Kilometres of network replaced** Number of kilometres of main pipe replaced.	**2022/23 half year: 846km** **2021/22: 1,679km** **2021/22 half year: 743km** **(Full year target 2022/23: 1,616km)** [2]
Performing for our customers and communities	**Customer satisfaction**	**Customer satisfaction** Our score in customer satisfaction surveys. Ofgem set a baseline target.	**2022/23 half year: 9.21** **2021/22: 9.05** **2021/22 half year: 8.92** **(Target: Higher than 8.75)** [3]
	Complaints	**Complaints handling** Percentage of complaints handled within 1 day.	**2022/23 half year: 90.8%** **2021/22: 84.4%** **2021/22 half year: 79%**
Tackling climate change	**Incidents**	**Environmental incidents** Number of serious environmental incidents	**2022/23 half year: 0 incidents** **2021/22: 0 incidents** **2021/22 half year: 0 incidents** **(Target: No serious incidents)**[4]
	Waste	**Waste Performance** Average tonnes of waste per month	**2022/23 half year: 98.8** **2021/22: 117.5** **2021/22 half year: 131.2** **(Target: less than 133 tonnes per month)**[5]

1 Both target and actual is an annual 12-month rolling number
2 Our programme has been developed to deliver our output of length replaced across all of our networks economically and sustainably over the five-year RIIO period rather than on an individual year basis.
3 Figures represent our baselines targets set by Ofgem for rewards or penalty.
4 Serious incident causing significant environmental harm or damage
5 Spoil, PE pipe and recycled waste are excluded from this measure as they are subject to separate targets

Further details of our priorities are disclosed in the Annual Report and Financial statements 2021/22.

Delivering our 2022/23 Priorities

Our gas network plays a critical role in delivering safe and reliable heating to over 80% of domestic homes and fuelling major industry, businesses, schools and hospitals in England. We continue to maintain, repair and replace gas pipes and associated infrastructure which will prepare us to meet the country's net zero commitments and ensure the safe and reliable flow of gas.

We are committed to driving down the emissions from our operations. With an estimated 97% of our current emissions relating to leakage from our iron and steel pipe network we are prioritising activities to reduce leakage with a further commitment to reach a net zero non-leakage business carbon footprint ('BCF') by the end of the RIIO-2 period. We have replaced a further 846km of iron mains in the first half of the year and are on track to deliver our annual mains replacement target of 1,616km.

We are a leading voice on the importance of hydrogen in the future energy mix 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. We continue to invest significant funds into hydrogen development and lead several projects and trials.

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

Cadent's ongoing transformation which saw the mobilisation of our new contracting model for mains replacement and continuing progress against the People Framework introduced in 2021 to facilitate a happy, engaged workforce to deliver for our customers are now largely complete, creating an organisation capable of delivering the levels of efficiency, reliability and service that our customers deserve. Our operational teams continue to go above and beyond, with our customer satisfaction metric seeing improvement from 31 March 2022.

We continue to focus on our learning and development strategy and have worked with teams to review training needs, refresh current programmes and propose recommendations. The full learning strategy will be launched during the course of the year. In addition to the cultural transformation, a refreshed approach to customer training for our Customer Centre is being implemented across our operational colleagues.

One of our key priorities at this time is keeping our employees and customers safe. We are committed to improving our safety record, delivering a Lost Time Injury Frequency Rate of 0.42 . We have maintained our focus on ensuring our colleagues and contractors are safe whilst at work, and that members of the public are safe in the vicinity of our works.

We are committed to equality, diversity and inclusion. We have taken great strides to strengthen our position towards our vision that we are a diverse and inclusive organisation representative of the communities we serve, where everyone has an equal chance to succeed and be themselves. So far this year, we have added 3 working groups aligned to our strategic Equality, Diversity and Inclusion (ED&I) priorities of the employee lifecycle, anti-racism and inclusive leadership, to drive change at pace. This is alongside our 5 existing employee communities and our ED&I Steering Group comprising senior leaders. We have reviewed our ambitions and continue to strive to make Cadent an inclusive workplace where everyone can be themselves.

We remain committed to supporting communities and customers in vulnerable situations and to date have donated £20.2 million to the Cadent Foundation. The aim of the Foundation is to help households find sustainable solutions to fuel poverty and ensure people are safe and warm in their homes. It works with charitable organisations to address the root causes and impact of fuel poverty, helping households improve their financial wellbeing and become more energy efficient through advice, support and practical measures.

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. Despite the recent financial turmoil impacting the UK economy, the Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report and Financial Statements for the year ended 31 March 2022. A detailed explanation of the risks and how the Group seeks to mitigate the risks, can be found on pages 9 to 16 of the Annual Report and Financial statements for the year ended 31 March 2022. Below is a summary of our key risks as at 30 September 2022:

- Changes in the external policy landscape
- Climate change and biodiversity
- Cyber breach, data issues or critical system failure
- Effectively managing assets and maintain network reliability
- Health, safety, environment and security
- Legal and regulatory compliance
- Macroeconomic and financial risk
- Protecting customers' interests
- Resilience (including Pandemic risk)
- Securing critical resources and engagement

Going concern

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

Auditor

Following the completion of the 2021/22 audit process, Deloitte LLP have been re-appointed as auditor of the Quadgas Holdings TopCo Limited Group and its subsidiaries including Quadgas MidCo Limited.

Cautionary statement

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

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

By order of the Board,

M W Braithwaite
Director
24 November 2022
Pilot Way, Ansty Park, Coventry, CV7 9JU

Quadgas Midco Limited

Interim management report (continued)

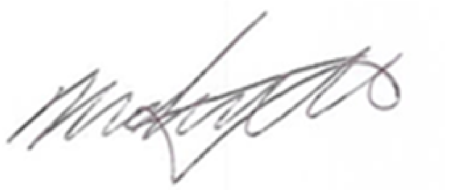
Statement of Directors responsibilities

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

The Directors of Quadgas Midco Limited during the period and up to the signing of the condensed financial statements are as listed in the Quadgas Midco Limited Annual Report and Financial statements for the year ended 31 March 2022 with the exception of the following changes to the Board:

- On 24 May 2022 N R V Corrigall was appointed as Director of Quadgas Midco Limited.
- On 24 May 2022 H C Higgins resigned as Director of Quadgas Midco Limited.
- On 31 August 2022 J Korpancova resigned as a Director of Quadgas Midco Limited.

By order of the Board,



M W Braithwaite
Director
24 November 2022

INDEPENDENT REVIEW REPORT TO QUADGAS MIDCO LIMITED

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2022 which comprises condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34.

Basis for Conclusion

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

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

Conclusion Relating to Going Concern

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

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

Responsibilities of the directors

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

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

Auditor’s Responsibilities for the review of the financial information

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

Use of our report

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

Deloitte LLP

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
24th November 2022

Quadgas MidCo Limited

Condensed consolidated income statement
Six months ended 30 September 2022

	Notes	**Six months ended 30 September 2022 (unaudited) £m**	**£m**	Six months ended 30 September 2021 (unaudited) £m	£m
Revenue			**1,148**		996
Operating costs			**(695)**		(643)
Operating profit					
Before exceptional items		**453**		353	
Exceptional items	5	**(2)**		(10)	
Total operating profit			**451**		343
Finance income	6		**16**		4
Finance costs					
Before exceptional items and remeasurements	6	**(308)**		(165)	
Exceptional items and remeasurements	5	**170**		(66)	
Total interest payable and similar charges	6		**(138)**		(231)
Profit before tax					
Before exceptional items and remeasurements		**161**		192	
Exceptional items and remeasurements	5	**168**		(76)	
Total profit before tax			**329**		116
Tax					
Before exceptional items and remeasurements	7	**(61)**		(41)	
Exceptional items and remeasurements	5	**(42)**		(590)	
Total tax	7		**(103)**		(631)
Profit after tax					
Before exceptional items and remeasurements		**100**		151	
Exceptional items and remeasurements	5	**126**		(666)	
Profit/(loss) for the period			**226**		(515)

The results above relate to continuing operations.

Quadgas MidCo Limited

Condensed consolidated statement of comprehensive income

Six months ended 30 September 2022

	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m
Profit/(loss) for the period	**226**	(515)
Other comprehensive income/(loss):		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	**(175)**	229
Tax on items that will never be reclassified to profit or loss	**44**	(83)
Total items that will never be reclassified to profit or loss	**(131)**	146
Items that may be reclassified subsequently to profit or loss		
Net gains in respect of cash flow hedges	**70**	7
Net gains in respect of cost of hedging reserve	**11**	1
Amortisation of cost of hedging reserve	**4**	3
Tax on net gains in respect of cash flow hedge reserve and cost of hedging reserve	**(22)**	(1)
Total items that may be reclassified subsequently to profit or loss	**63**	10
Other comprehensive (loss)/ income for the period, net of tax	**(68)**	156
Total comprehensive income/(loss) for the period	**158**	(359)

The results above relate to continuing operations.

Quadgas MidCo Limited

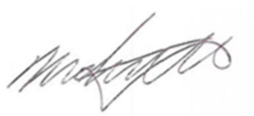
Condensed consolidated statement of financial position

As at 30 September 2022

	Notes	**As at 30 September 2022 (unaudited) £m**	As at 31 March 2022 (audited) £m
Non-current assets			
Intangible assets		**3,915**	3,926
Property, plant and equipment	9	**12,564**	12,374
Pension and other post-retirement benefit assets	12	**947**	1,083
Derivative financial assets	10	**130**	7
Trade and other receivables		**1**	1
Total non-current assets		**17,557**	17,391
Current assets			
Derivative financial assets	10	**1**	1
Inventories		**11**	11
Trade and other receivables		**212**	179
Corporation tax		**28**	6
Current asset investments	10	**84**	81
Cash and cash equivalents		**37**	21
Total current assets		**373**	299
Total assets		**17,930**	17,690
Current liabilities			
Trade and other payables		**(489)**	(419)
Borrowings	11	**(116)**	(151)
Lease liabilities	11	**(10)**	(8)
Provisions		**(21)**	(21)
Total current liabilities		**(636)**	(599)
Net current liabilities		**(263)**	(300)
Total assets less current liabilities		**17,294**	17,091
Non-current liabilities			
Derivative financial liabilities	10	**(157)**	(271)
Borrowings	11	**(10,194)**	(10,009)
Lease liabilities	11	**(72)**	(60)
Deferred tax liabilities		**(2,863)**	(2,806)
Provisions		**(66)**	(67)
Accruals and deferred income		**(22)**	(16)
Total non-current liabilities		**(13,374)**	(13,229)
Total liabilities		**(14,010)**	(13,828)
Net assets		**3,920**	3,862
Equity			
Share capital		**1**	1
Cash flow hedge reserve/(deficit)		**30**	(22)
Cost of hedging reserve		**17**	6
Retained earnings		**3,872**	3,877
Total equity		**3,920**	3,862

The notes on pages 17 to 26 are an integral part of the financial statements.

The condensed consolidated financial statements on pages 12 to 26 were approved for issue by the Board of Directors on 24 November 2022 and were signed on its behalf by:



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

Quadgas MidCo Limited

Condensed consolidated statement of changes in equity

Six months ended 30 September 2022

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

	Share capital	Cash flow hedge deficit	Cost of hedging deficit	Retained earnings	Total
	£m	£m	£m	£m	£m
At 1 April 2021	1	(14)	1	4,035	4,023
Loss for the period	-	-	-	(515)	(515)
Other comprehensive income for the period excluding amortisation of cost of hedging reserve	-	6	1	146	153
Amortisation of cost of hedging reserve	-	-	3	-	3
Total comprehensive income/(loss) for the period	-	6	4	(369)	(359)
Equity dividends (note 8)	-	-	-	-	-
At 30 September 2021 (unaudited)	1	(8)	5	3,666	3,664

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

Quadgas MidCo Limited

Condensed consolidated statement of cash flows

Six months ended 30 September 2022

	Six months ended 30 September 2022	Six months ended 30 September 2021
	(unaudited)	(unaudited)
	£m	£m
Cash flows from operating activities		
Total operating profit	**451**	343
Adjustments for:		
Exceptional items	**2**	10
Depreciation, amortisation and impairment	**232**	224
Increase in inventories	**-**	3
(Increase)/decrease in trade and other receivables	**(31)**	50
Increase/(decrease) in trade and other payables	**64**	(29)
Capital contribution income	**(11)**	(36)
Changes in provisions	**(1)**	5
Gain on disposal of property, plant and equipment	**(1)**	(2)
Changes in pensions and other post-retirement obligations	**(27)**	(21)
Capital contributions received	**40**	28
Cash flows relating to exceptional items	**(9)**	(3)
Cash generated from operations	**709**	572
Tax paid	**(46)**	(43)
Net cash inflow from operating activities	**663**	529
Cash flows from investing activities		
Purchases of intangible assets	**(1)**	(7)
Purchases of property, plant and equipment	**(404)**	(453)
Disposals of property, plant and equipment	**1**	-
Net (Increase)/decrease in financial investments	**(3)**	585
Net cash flow (used)/ from investing activities	**(407)**	125
Cash flows from financing activities		
Proceeds received from loans	**225**	50
Repayment of loans	**(235)**	(550)
Repayment of lease liabilities	**(5)**	(4)
Interest paid	**(125)**	(144)
Dividends paid to shareholders	**(100)**	-
Net cash flow used in financing activities	**(240)**	(648)
Net increase in cash and cash equivalents	**16**	6
Net cash and cash equivalents at the start of the period	**21**	17
Net cash and cash equivalents at the end of the period	**37**	23
Comprising:		
- Cash	**38**	29
- Overdraft	**(1)**	(6)
	37	23

Quadgas MidCo Limited

Notes to the condensed consolidated financial statements

Six months ended 30 September 2022

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

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

The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2022, which were prepared in accordance with IFRS as issued by the IASB, and have been filed with the Registrar of Companies. The auditor’s report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

Despite ongoing current macro-economic factors including the significant uncertainty impacting inflation, energy prices, and the ongoing conflict in the Ukraine, the company has not been significantly impacted. Having made enquiries and reassessed the principal risks, the Directors consider that the company and its subsidiary undertakings have adequate resources to continue in business, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information.

In preparing this half year financial information, the areas of judgement made by management in applying the Cadent Gas Limited's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2022. 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. In the first 6 months of this year Cadent Gas Limited has paid claims amounting to £172 million to its SoLR and has received additional compensating income of £172 million.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2023 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2022.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in note 1 to the 2021/22 Annual Report and Financial Statements, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2022. Management has concluded that having reviewed its assets for indicators of significant impairment since the end of the most recent review of impairment, there are no indicators of significant impairment that require a detailed impairment calculation to be performed. Although there have been several external macro-economic developments in the period including a higher interest rate and inflation environment, some of which have been either adverse or positive to value, the nature of regulatory finance and the various indexation methodologies contained within our licence ensure the risk in the cash flows (as reflected in the discount rate) from such changes is commensurate with an ability to increase charges and cashflows and as a result, together with the substantial headroom that existed at 31 March 2022, management have concluded that there are no reasonable possible changes in the key assumptions that would result in an impairment.

3. Segmental analysis

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

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

4. Seasonality

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

5. Exceptional items and remeasurements

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

In determining whether an item should be presented as exceptional in nature and hence adjusting the relevant IFRS measures, 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 incurred or gains earned and the commercial context for the particular transaction.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

Notes to the condensed consolidated financial statements (continued)

Six months ended 30 September 2022

5. Exceptional items and remeasurements (continued)

	Six months ended 30 September 2022	Six months ended 30 September 2021
	£m	£m
Exceptional items included within operating costs:		
Restructuring costs (i)	**2**	10
	2	10
Remeasurements included within finance costs:		
Net (gains)/losses on derivative financial instruments (ii)	**(170)**	66
	(170)	66
Total included within profit before tax	**(168)**	76
Included within taxation:		
Exceptional charge arising		
Deferred tax charge arising as a result of the future change in the UK tax rate (note 7)	**-**	609
Tax on other exceptional items and remeasurements		
Tax credit on restructuring costs	**-**	(2)
Tax credit/(charge) on remeasurements	**42**	(17)
	42	590
Total exceptional and remeasurements after tax	**(126)**	666
Analysis of total exceptional items and remeasurements after tax (credit)/charge		
Total exceptional items after tax	**2**	617
Total remeasurement items after tax	**(128)**	49
	(126)	666

(i) The Group is undergoing an ongoing operational transformation programme to improve the efficiency of our operations by restructuring the business. During the period the group have recognised a further £2.3 million in exceptional costs bringing cumulative costs to £51 million since the beginning of the restructure in 2019. These activities are infrequent and exceptional in nature.

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

Quadgas MidCo Limited

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2022

6. Finance income and costs

	Six months ended 30 September 2022	Six months ended 30 September 2021
	£m	£m
Finance income		
Interest income from pensions	**14**	4
Interest income from financial instruments	**2**	-
Finance income	**16**	4
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**42**	16
Bonds(i)	**150**	110
Interest payable on intercompany financing	**30**	30
Derivatives(ii)	**86**	9
Finance costs	**308**	165
Remeasurements		
Net (gains)/losses on derivative financial instruments included in remeasurements (iii):		
Ineffectiveness on derivatives designated as:		
Cash flow hedges	**-**	(1)
Derivatives not designated as hedges or ineligible for hedge accounting	**(170)**	67
Remeasurements included within finance costs	**(170)**	66
Finance costs	**138**	231
Net finance costs	**122**	227

(i) Included within finance costs in bonds is £38 million of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £200 million) and £61 million RPI-linked debt instruments of >10 years tenor (cumulative: £319 million).

(ii) Included within finance costs in derivatives is £48 million of accretion on CPI-linked swaps with tenor 7-10 years (cumulative: £87 million), £20 million on CPI-linked swaps (cumulative:£30 million) with tenor >10 years and £33 million (cumulative: £110 million) on RPI linked swaps with tenor > 10 years.

(iii) Includes a net foreign exchange loss on financing activities of £91 million (September 2021: £25 million). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

Quadgas MidCo Limited

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2022

7. Taxation

Tax charged to the income statement

	Six months ended 30 September 2022	Six months ended 30 September 2021
	£m	£m
Tax before exceptional items and remeasurements	**(61)**	(41)
Exceptional tax relating to UK tax rate change (see note 5)	**-**	(609)
Tax on exceptional items and remeasurements	**(42)**	19
Total tax expense	**(103)**	(631)

Taxation as a percentage of profit before tax	**2022**	2021
Before exceptional items and remeasurements	**37.9%**	21.4%
After exceptional items and remeasurements	**31.3%**	544.0%

The effective tax rate before exceptional items and remeasurements of 37.9% for the six months to 30 September 2022 is higher (2021:21.4% higher) than the standard rate of corporation tax in the UK of 19%. The rate is higher than the standard rate of tax due to three main items: movements in temporary differences on which deferred tax is provided at 25% (being the anticipated rate of tax when the assets will reverse) which increases the effective tax rate by 2.5%; and an increase in the current year charge relating to financing costs for which tax relief is restricted which increases the effective tax rate by 3.9% and a prior year charge in respect of the same issue which increases the effective rate by 12%. The expected tax rate for the full year in respect of profit before exceptional items is 25.7% (2021: 18.8%).

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

	2022	2021
	£m	£m
Current tax	**(24)**	(46)
Deferred tax	**(79)**	(585)
	(103)	(631)

8. Dividends

	2022	2021
	£m	£m
Interim dividend of £0.020 per ordinary share amounting to £100,000,000 was declared on 22 September 2022 and paid on 27 September 2022	**100**	-

No further dividends are proposed for the current financial period.

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2022

9. Property, plant and equipment

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

	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 2021	153	13,048	60	169	40	13,470
Additions	5	290	25	7	13	340
Reclassifications	14	27	(42)	1	-	-
Disposals	-	-	-	(3)	(1)	(4)
At 30 September 2021	172	13,365	43	174	52	13,806
Accumulated depreciation and impairment						
At 1 April 2021	(30)	(1,290)	-	(98)	(16)	(1,434)
Charge for the period	(5)	(188)	-	(14)	(4)	(211)
Disposals	-	-	-	3	1	4
At 30 September 2021	(35)	(1,478)	-	(109)	(19)	(1,641)
Net book value:						
At 30 September 2021	137	11,887	43	65	33	12,165
At 31 March 2021	123	11,758	60	71	24	12,036

10. Fair value measurement

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

As at 30 September 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	**84**	**-**	**-**	**84**
Derivative financial instruments	**-**	**131**	**-**	**131**
Liabilities				
Derivative financial instruments	**-**	**(56)**	**(101)**	**(157)**
Total	**84**	**75**	**(101)**	**58**

As at 31 March 2022	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets				
Fair value through profit and loss ('FVTPL') instruments	81	-	-	81
Derivative financial instruments	-	8	-	8
Liabilities				
Derivative financial instruments	-	(158)	(114)	(272)
Total	81	(150)	(114)	(183)

Financial liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to fair value, with the exception of borrowings, which are held at amortised cost. Financial assets are classified at inception into one of the following categories which then determines the subsequent measurement methodology: financial assets at amortised cost; financial assets at value through other comprehensive income (FVTOCI); and financial assets at fair value through profit or loss (FVTPL). Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments.

The estimated fair value of total borrowings using market values at 30 September 2022 is £8,004 million (31 March 2022: £9,894 million).

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

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

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

The Level 3 derivative financial instruments comprise £1 billion of CPI-linked inflation swaps maturing in 2028 and 2031 which are traded based on a spread to liquid RPI inflation markets. As the market for CPI swaps is still maturing with the spreads not currently observable in their own liquid market, these swaps have been classified as Level 3 instruments. The fair values for these instruments are calculated by using market forecasts of inflation indices obtained from third party valuation data to produce a series of future cashflows. These are then discounted back to a net present value to which model-derived credit and funding valuation adjustments are applied. As these instruments are linked to CPI, higher inflation forecasts across the life of the instruments will result in a larger liability at maturity, negatively impacting the fair value. Conversely, a reduction in inflation forecasts across the life of the instruments will reduce the liability at maturity and positively impact the fair value. Indicatively, a 1% change in the first twelve months of the inflation indices used to calculate the fair values of the Level 3 derivative financial instruments would change the fair values by £8.3 million, with an increase in the inflation indices reducing the fair values and vice versa. Fair values will also be impacted by movements in interest rate curves which are used to derive the discount rates used in calculating the net present values of the instruments.

Quadgas MidCo Limited

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2022

10 Fair value measurement (continued)

Movements in the 6 months to 30 September 2022, for assets and liabilities measured at fair value using Level 3 valuations inputs are as follows:

	Six months ended 30 September 2022	Six months ended 30 September 2021
	£m	£m
At 1 April	**(114)**	-
Net loss for the period	**13**	(57)
Settlements	**-**	-
At 30 September	**(101)**	(57)

The net gain/(loss) of the period is shown within interest cost in the income statement.

11. Net debt

	Six months ended 30 September 2022 £m	Year ended 31 March 2022 £m
Increase in cash and cash equivalents	**16**	3
Increase/(decrease) in financial investments	**3**	(747)
Decrease in borrowings & related derivatives	**10**	510
Repayment of lease liabilities	**5**	10
Net interest paid on components of net debt	**125**	248
Change in net debt arising from cash flows	**159**	24
Changes in fair value of financial assets and liabilities and exchange movements	**258**	(80)
Other non-cash changes	**(19)**	(56)
Net interest charge on the components of net debt	**(306)**	(400)
Movement in net debt (net of related derivative financial instruments)	**92**	(512)
Net debt (net of related derivative financial instruments) at the start of the period	**(10,389)**	(9,877)
Net debt (net of related derivative financial instruments) at the end of the period	**(10,297)**	(10,389)

Composition of net debt:

Cash, cash equivalents and financial investments	**121**	102
Borrowings and bank overdrafts	**(10,310)**	(10,160)
Derivatives	**(26)**	(263)
Lease liabilities	**(82)**	(68)
Total net debt	**(10,297)**	(10,389)

12. Retirement benefit schemes

	30 September 2022 £m	31 March 2022 £m
Present value of funded obligation	**(3,946)**	(5,472)
Fair value of plan assets	**4,896**	6,559
	950	1,087
Present value of unfunded obligations	**(3)**	(4)
Net asset	**947**	1,083
Represented by:		
Liabilities	**(3,949)**	(5,476)
Assets	**4,896**	6,559
	947	1,083

	30 September 2022	31 March 2022
Key actuarial assumptions		
Discount rate - Past service	**5.35%**	2.65%
Discount rate - Future service	**4.90%**	2.60%
Rate of increase in salaries	**2.65%**	2.65%
Rate of increase in RPI - Past service	**3.65%**	3.65%
Rate of increase in RPI - Future service	**3.40%**	3.40%

The net pensions position, as recorded under IAS19, at 30 September 2022 was a surplus of £947 million compared to a surplus of £1,083 million at 31 March 2022.This decrease follows a valuation exercise undertaken at 30 September 2022 by the Group's independent actuary. There is an overall decrease in the defined benefit obligation of £1,527 million. This was mainly due to a significant increase in corporate bond yields (which drive the discount rate) resulting in a reduction in the defined benefit obligation of £1,672 million.This was partially offset by an increase of £238 million due to actual inflation over the 6 months to 30 September 2022 being higher than that assumed at 31 March 2022 and an overall decrease in assets due to actual returns being lower than interest income. The significant decrease in the Scheme's asset and liability values was largely driven by a significant movement in gilt markets. In particular, the 'mini budget' announced by the government on 23 September caused rapid sales of government bonds which further depressed gilt markets. As well as impacting IAS 19 valuations, the Scheme was required to utilise high-quality liquid assets to meet collateral requirements on the liability-driven investment (LDI) portfolio. These short-term liquidity pressures did not impact the security of pension benefits.

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2022

13. Commitments and contingencies

a) Capital and other commitments
At 30 September 2022 there were commitments for future capital expenditure contracted but not provided for £305 million (31 March 2022: £304 million). We also have other commitments relating to contingencies in the form of letters of credit and leases. These commitments and contingencies are described in further detail on page 94 of the Annual Report and Financial Statements 2021/22.

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

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

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

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

There have been no other material changes in the related party transactions described in the last Annual report and Accounts.

15. Subsequent events

On 25 October 2022 Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued c.£300 million GBP equivalent of private fixed rate notes on a deferred draw basis:
• $65 million funding 25 April 2023 and maturing 25 April 2030 with a coupon rate of 6.15%, which is swapped to GBP £57.4 million at a rate of 6.36%,
• $75 million funding 25 July 2023 and maturing 25 July 2030 with a coupon rate of 6.21%, which is swapped to GBP £66.3 million at a rate of 6.44%,
• £100 million funding 31 January 2023 and maturing 31 January 2030 with a coupon rate of 6.22%,
• £30 million funding 15 December 2022 and maturing 15 December 2032 with a coupon rate of 6.28%, and
• £45 million funding 31 January 2023 and maturing 31 January 2033 with a coupon rate of 6.28%.

These notes are guaranteed by and proceeds were lent to Cadent Gas Limited on matching terms.

On 4th November 2022, Quadgas MidCo Limited refinanced its outstanding debt facilities. The Revolving Credit Facility of £200 million (drawn to a level of £80 million at 30 September 2022) was replaced to extend the maturity to November 2027 (previously to July 2024). The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

On 4th November 2022, Cadent Gas Limited, a subsidiary of Quadgas MidCo Limited, refinanced its outstanding debt facilities. The undrawn Revolving Credit Facility of £500 million was replaced to extend the maturity to November 2027 (previously to July 2026) and a new Revolving Credit Facility of £150 million was entered with maturity to November 2024. The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.