Cadent
Your Gas Network

Annual report and accounts
2022/23

Keeping people safe, warm & connected

Keeping people safe, warm, and connected

We are responsible for looking after the gas pipes so they can continue to deliver safe, reliable, affordable, and low carbon energy for years to come. That means continually exploring smarter and more sustainable ways to develop our networks and working closely with local communities, strategic partners and industry to deliver the high quality service that 11 million customers expect.

We transport gas to keep communities...

safe, warm, and connected.

In this report

Highlights of the year

Financial

Revenue
£2,340m
(2022: £1,984m)

Operating profit
£945m
(2022: £685m)

Capital investment
£857m
(2022: £725m)

Adjusted EBITDA
(Earnings before Interest, Tax, Depreciation, Amortisation, and Exceptional items)
£1,375m
(2022: £1,097m)

See our Financial review on page 12.

RAV
(Regulated Asset Value)
£12.0bn
(2022: £11.0bn)

Operational

Network reliability
99.9%
(2022: 99.9%)

Emergencies responded to within the hour
96.4%
(2022: 98.2%)

Number of customer calls answered
1.6m
(2022: 1.4m)

Percentage of emergency calls answered within 30 seconds
90%
(2022: 92.5%)

Mains replaced
1,742km
(2022: 1,679km)

Fuel Poor Connections during RIIO-2 price control
4,405
(2022: 3,269)

We are Cadent

We're here to keep people safe and warm while protecting the planet. That means not only providing a reliable gas supply but taking care of our environment while we do so.

The UK energy market

We play a critical role in providing an essential public service to keep people safe, warm, and connected, while supporting the most vulnerable in our communities and making strides towards a cleaner, greener future. The legacy of the measures put in place to combat the COVID-19 pandemic, combined with the general increase in the cost of living, has had a profound impact on the economy and way that we live our lives. That impact is the greatest in households with low incomes, with record numbers struggling to make ends meet due to high energy costs. The costs associated with poor home energy efficiency have rarely been bigger concerns for people than they are today, and we are playing our part in helping communities to heat their homes more affordably.

The cost of maintaining our gas network and operating the National Gas Emergency Service means that a small proportion of a typical customer's household gas bill goes towards this.

Through a continued focus on innovation and efficiency improvements, we are committed to reducing our costs by over £500m by 2026, supporting a real reduction in customer gas bills over time. In 2022/23 a typical domestic customer paid £154 towards the cost of our services, down from £163 at the start of RIIO-1 adjusting for the impact of inflation. This efficiency has been delivered alongside improved customer services, millions invested to support customers in vulnerable situations, all while we are striving to deliver a service to support a low carbon economy, to meet the UK's net zero targets.

Read more about our commitments to achieving a greener society on page 35.

We do what we can to minimise our costs to reduce customers' gas bills, we're also committed to helping over one million households who are living in fuel poverty. We have established a range of support programmes, including providing free energy and income advice, debt consolidation services and funding the repair or replacement of gas boilers and appliances. We have also established over 50 Centres for Warmth across our networks.

Alongside a large scale education programme providing advice on reducing energy usage in the home, the Cadent Foundation is investing millions of pounds in home energy efficiency improvements, such as more energy efficient appliances and home insulation.

The figure below explains how the work we do is included in the cost of gas bills. While gas customers do not directly pay their bills to us, their gas suppliers pay us for maintaining our network and transporting gas on their behalf.

Read more about the impact of the recent increases in energy prices in our financial review on page 11.

Cadent customer bill breakdown 2022/23

In 2022/23 a typical domestic customer paid £154 towards to the cost of our services, down from £163 at the start of RIIO-1 adjusting for the impact of inflation. Cadent does not decide amounts to charge end customers so the domestic bill impact is illustrative as our contribution to supplier costs.

Performance improvement Incentives

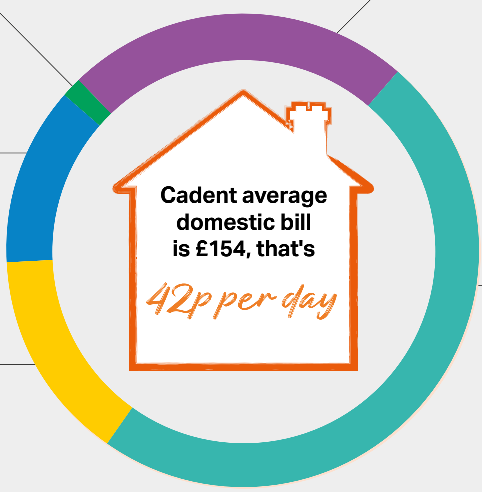
£3 Optimising our performance and putting the customer at the heart of everything we do.

Operating and maintaining the network

£20 Operating and Maintaining the equipment and infrastructure to transport gas to you safely and reliably today.

Providing a 24 hour emergency and repair service

£35 Taking your calls, attending and repairing gas emergencies and escapes and making safe.



Taxes, Licence & other fees

£27 Taxes, Licence fees for industry regulation and business rates paid to local Government.

Network Investment

£69 Repaying the cost of past and present investment replacing old assets to ensure the safe and reliable flow of gas long into the future.

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

Our Key Financial Metrics

Revenue
£2,340m
(2022: £1,984m)

97% is for charges to gas shippers for transporting gas at prices set by Ofgem, our regulator. The gas shippers recover these costs from energy suppliers, who in turn recover these costs through consumers' energy bills. We don't own the gas in the network or profit from any movement in wholesale gas prices; we earn a return from the significant investment in the assets we operate.

Operating Costs
£1,395m
(2022: £1,299m)

Relates to amounts we spend on running the operations, delivering services to our customers, our Force for Good strategy and investing in the future of gas. It also accounts for depreciation representing amounts previously invested in our network assets. We have transformed our underlying operating costs over the last five years contributing to a reduction in the annual cost of our services of 10% in real terms.

Our operating costs include £255m for the 6,018 people we directly employ, including £45m of pension costs paid into our current and past employee pensions schemes.

Operating Profit
£945m
(2022: £685m)

This funds interest, tax, investment in upgrading the network and returns to shareholders.

Interest Cost
£398m
(2022: £326m)

The annual cost for monies borrowed for investing in upgrading the gas network. The responsible way we manage our finances ensures we maintain an investment grade credit rating from our three rating agencies (S&P, Moody's and Fitch) which reduces our borrowing costs.

Taxation
£101m
(2022: £85m)

The corporation tax paid on annual profits. We also paid £638m in VAT, employee and property-related taxes to HMRC during the year. We manage our taxes transparently and efficiently. We do not use aggressive tax planning.

Dividends
£350m
(2022: £195m)

The amount paid to our parent company as a return on its investment in Cadent. No dividend was paid in 2020/21. The 2021/22 dividend was paid only once the full impact of COVID-19 was established. The allowed rate of return to fund a notional company is regulated by Ofgem. For the 3 years to March 2023, the dividend paid represents a return on regulated equity of 3.9%*.

Investment
£857m
(2022: £725m)

The amount that has been invested in upgrading the gas network for the future. This is broadly consistent with the amount we will invest in each year of the five years of the RIIO-2 regulated price control period to 2026.

RAV
£12,023m
(2022: £11,036m)

The value of the Regulated Asset representing amounts previously invested in the network.

Net debt
£7,390m
(2022: £7,214m)

By borrowing to fund the investment in our network or the RAV, we are able to spread our significant investment costs equitably across generations. See note 25 of the consolidated financial statement.

* Return on regulated equity calculated as the dividend paid as percentage of the equity share of the RAV within the notional company funding structure. 3.9% is below the rate of return set for the notional company determined by Ofgem.

Our business model

Our networks

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

Total employees

6,018

up from 5,945 in 2021/22

North West

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

2.7m
homes and businesses

1,478
colleagues

West Midlands

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

1.9m
homes and businesses

1,044
colleagues

North London

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

2.2m
homes and businesses

1,334
colleagues

Eastern: East Midlands and East of England

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

4m
homes and businesses

2,162
colleagues

Our values that guide us to deliver on our commitments

- We work *together*
- We take *responsibility*
- We drive *performance*
- We shape *the future*

What we do

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

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

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

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

We manage the National Gas Emergency Service for all gas customers in the UK. If something goes wrong, we are the first point of call to make sure it's dealt with calmly, quickly and safely. In 2022/23, we answered 1.6m gas emergency calls.

What we don't do

We don't produce gas.

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

We don't repair gas appliances.

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

Our strategic objectives

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

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

Tackling climate change and improving the environment.
We are committed to meeting the net zero challenge and supporting the transition to a resilient energy system.

Trusted to act for our communities.
We are strengthening our reputation through the actions we take, ensuring our service is transparent, valued and trusted.

Turning insight into action.
We use stakeholder insights to prioritise the actions we take across our business.

Our engagement

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

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

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

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

Chair's statement

Welcome to our 2022/23 Annual Report, focused on another encouraging year where we have been moving forward with purpose to enhance our performance and support our communities.

Sir Adrian Montague CBE
Chair

Leading with purpose

In the last financial year, we have focused on continuing to drive significant change across the business, with a view to positioning Cadent as one of the top performers in the industry. Like others across the industry, we have encountered several significant challenges including the cost of living crisis, escalating gas prices, inflation, and the wider industry transformation. We set out to work through these challenges head on, whilst seeking to mitigate the impact this has had on our colleagues and communities, and we are pleased with the results. We have coupled our operational resilience with exceptional delivery, with our mains replacement programme continuing to move at pace, whilst managing customer service and achieving high satisfaction levels.

We have achieved strong operational performance and demonstrated a high degree of resilience throughout the year. Our mains replacement programme is continuing to improve the condition of our network, with customer satisfaction levels improving significantly. We are committed to playing our part in achieving net zero targets, and we see hydrogen and alternative green energy sources as an important part of our future energy mix.

Recognising the challenges that we all faced over the past 12 months, we have sought to carry on the business as a true public interest company. We've demonstrated a real commitment to achieving the best we can, for the communities we serve.

Winter resilience challenges

Following the incident in Stannington, Sheffield, caused by water ingress damage to the gas network in December 2022, I was pleased to see the deserved recognition given to all our operational and support teams from across the country. They worked tirelessly over the course of the incident and received a welcome positive response from the community, the media, Ofgem and our wider stakeholders. An extraordinary effort was made by all those involved, working as a team and they can justifiably be proud of what they achieved. I'd like personally to thank everyone involved.

The collaboration achieved in such challenging circumstances was admirable, especially since the incident occurred amid a brutal cold spell when demands on the business throughout the country were exceptionally high.

Read more on page 21.

Tackling fuel poverty

With spiralling demands on the charitable sector, we wanted to do more, but in a way that ensured that our funding should go to where it could help the most. With this in mind, we launched a new vision and ambition for the Cadent Foundation, centred around tackling the root causes of fuel poverty and its impact on our communities. The focus on fuel poverty has given fresh impetus to the Foundation, just at the time when the cost of living crisis is having the greatest impact on society.

With our partner organisations, we have helped to deliver in depth, tailored energy advice for those most in need and installed thousands of energy saving measures to make homes more energy efficient. We've facilitated access to grants and schemes for larger home improvements and helped people to have more money in their pocket by providing access to all available benefits and to support with debt management.

Read more in our Annual Impact Report here https://documents.cadentgas.com/view/997944373/.

We will continue to drive a broad based partnership approach, bringing together partners and stakeholders to provide holistic support for fuel poor households, addressing the gaps and sharing best practice and learnings wherever we can to effect real change.

"Working hand in hand with the Cadent Foundation offers a coordinated funding approach that is maximising the positive impact of initiatives, and pushing the industry past its traditional boundaries, developing a range of truly pioneering projects that are making a real difference."

Positive social impact

The Vulnerability and Carbon Monoxide Allowance (VCMA) fund established by Ofgem, has been instrumental in stimulating many worthwhile projects, and is having a huge impact in the areas that need it the most. Setting up over 50 Centres for Warmth has brought communities together with a real common interest; hearing the stories of how the centres have helped has been heart warming and it's very encouraging to see the positive difference the centres are making to communities.

Our charity partnership with Emmaus has prompted renewed commitment to volunteering efforts with our colleagues showing commitment and dedication to their chosen projects over the last twelve months. I would like to recognise everyone who has given their time and care to supporting our communities. So far this year we have raised over £160,000 and supported with over 640 days of activity.

It's humbling to see colleagues committed to making such a positive difference to our society, going well beyond day to day duties and responsibilities. Teams across the business have come together and worked as an extended family within communities, working in schools, on community projects and adding much needed support on the doorstep.

Setting up for success

I would like to thank Steve Fraser for his leadership over the past twelve months. Steve and his leadership team have been instrumental in driving forward our new operational structure. The enhanced local accountability of our network structures is bringing our team into closer contact with their communities, achieving better engagement and enhanced responsiveness. The leadership teams have set out to achieve a close and productive relationship with Ofgem and it's heartening to see the company working closely with its regulator.

There have been a number of changes to the Board this year. We welcomed Neil Corrigall and Andrew Marsden and we're benefiting from their broad experience and advice. Howard Higgins and Jara Korpancova stood down from the Board, and I would like to record our thanks for their advice and support during their time with us.

The Board is pleased to have been able to resume operational visits this year and it has been a pleasure once again to meet the teams on the ground engaged in our vital operational activities. The Board has also had the opportunity to engage with our Employee Communities. It was evident from all these visits how strong the company's culture is, not just in handling the day to day operational focus, but also giving these communities the chance to be their true self at work. In these times, it is vital to show that Cadent truly offers opportunities for everyone in society, and we set out to lead the way in this respect.

Governance

The Board sets out to apply high standards of corporate governance appropriate to our size as an essential public service and the regulatory framework that applies to us. We conducted an externally facilitated Board effectiveness review in 2022, and I am pleased to say that its findings were positive. The review commented on the openness of the Board and high levels of trust between the non executive directors and management, and the changes made to the workings of the committees were endorsed by all participants. We are in the process of giving effect to the few minor recommendations made in the review.

We have resumed the payment of dividends to our shareholders, recognising that maintaining a good level of profitability is essential to fund investments in our existing network and to position the company for a cleaner, greener future.

Fuelling our future

We continue to be a leading voice on the importance of hydrogen in the future energy mix to achieve our net zero ambitions. We recognise we have a long way to go to demonstrate the capabilities of hydrogen and alternative fuels at scale and applications in domestic heating. Our HyNet project in the North West has made important progress and we're looking forward to seeing the completed project bring hydrogen to the important industrial markets of the North West. We are also studying the blending of hydrogen into the natural gas networks, which will both enhance the country's energy mix and make material contribution to achieving our net zero targets.

Looking ahead

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

Cadent are responding to the consultation on the frameworks for future systems and network regulation. In the short term, we anticipate the continuance of a core price control for business as usual activities and also the development of a process to enable projects such as the industrial clusters to decarbonise power and industry across the UK.

We are discussing with Ofgem and Government to create a framework for true whole system strategic energy planning for energy and heat for the longer term. We are actively engaged in the design of a Future System Operator and regional strategic planning across our networks, whilst continuing to support Government in their policy considerations surrounding the future for hydrogen and alternative fuels. It is likely, therefore, that we will see a range of regulatory and market frameworks to support our activities going forward.

Sir Adrian Montague CBE
Chair

21 June 2023

Chief Executive's review

Welcome to my review for 2022/23 which gives you an update on our performance and my *highlights in the year.*

Steve Fraser
Chief Executive Officer

Performing with purpose and pride

As I reflect on the last twelve months, I am proud of the resilience and dedication across the business to work at pace to deliver high standards of performance, safety, and service for our communities. The cost of living crisis has been escalating at an extraordinary rate and we have been working closely with the industry and Ofgem to ensure we can do everything to keep our 13% proportion of the gas bill as low as possible. We acknowledge that it's not been easy for our communities and colleagues, but I am proud that our teams continue with a stable balance to consistently deliver for our customers and would like to thank everyone for their commitment and performance at a time that has tested our operational resilience due to winter demands and incident management.

"We continue to aim for industry leading customer service levels. We were delighted that with continued strong performance across the year we have achieved an industry leading position in Connections by scaling and reaching the top of the league table."

Our teams work tirelessly, day and night to deliver for our 11 million homes and businesses who rely on us as the UK's largest gas distribution network, to keep them safe and warm, while demonstrating significant improvements across operational performance and safety. Focusing on what matters and rising to significant challenges with a tough and unpredictable winter, our teams have maintained customer satisfaction scores whilst going above and beyond to drive some fantastic improvements and leading industry best practice that we can all be proud of.

Continuous improvement

Our leadership across the business has been testament to high standards of performance, driving efficiencies and doing the simple things well. We've seen good delivery across all networks, as we're working in a volatile time across the wider utilities sector, getting ahead of risks and balancing our climate change targets and investments. With our mains replacement programme to replace old irons mains with plastic, longer lasting pipes, we've replaced 1,742km in 2022/23. Replacing these pipes will keep our communities connected with a safe and reliable gas supply long into the future, as we continuously invest in cleaner, greener alternatives, such as biogas and hydrogen.

As we drive extensive changes to our data and digitalisation strategy, we've seen impressive action against our plans and some instrumental changes in cyber security and IT resilience. We've implemented systems to make it easier, simplify processes and improve experiences for our colleagues by bringing technical capabilities in house. The next phase in our development will aim to support our field force colleagues with the latest in handheld technologies to improve the daily interactions with our communities.

Industry leading operations

I'm incredibly proud of how our teams worked together to support the significant damage caused by water ingress to our gas network in Stannington, near Sheffield in December 2022, affecting an area of over 3,000 homes and businesses in the coldest period of the year. There were further challenges across our operational teams and networks when temperatures fell sharply in December and January. With our industry leading and innovative response being praised by Ofgem, it's been remarkable to see our operations and partners come together to go above and beyond. Our incredible efforts to restore gas to the residents of Stannington was outstanding and providing direct compensation quickly was a much needed boost to the community. I'd personally like to thank everyone who worked around the clock, battled against ice, snow, and continuous water ingress to get residents back on gas as quickly as possible. It was a monumental effort and the response from the local community was testament to everyone involved. I'd like to thank the community; residents, businesses, schools, healthcare services and charities for being so patient during this difficult time.

"Living our values and working as one team shows great commitment and responsibility to deliver above and beyond to keep families, communities, and colleagues safe."

Positive action

I am proud to see many changes that have introduced new skills and training into our workplace, as well as the supportive measures that have been launched to help our colleagues balance the cost of living crisis, giving something back for everyone's hard work and dedication.

Last year, we saw the introduction of Gympass, which provides free access to hundreds of gyms across the country. Access to this service, provides many other health and wellbeing benefits which I am pleased to see over 2,000 colleagues have taken advantage of. In December, we gave a one off £100 Christmas food shopping voucher that our colleagues could redeem at several supermarkets. I know by the large number of "thank you" messages I received, this had a great impact, making it slightly easier for families and friends to come together and celebrate over the festive period.

I would like to thank all our Employee Communities who have worked hard to bring our colleagues together with the same ambition; to inspire, educate and celebrate our stories across a range of communities. I've been impressed by the commitment to drive real change across the business, implement policy change and work collaboratively with industry and our partners. This culture change has real visible benefits and is a step change in how we move forward with positive, targeted action. Our Employee Communities play a key role in our business and provide everyone with a voice and drive practical changes for so many.

In March 2023, we launched our first Pay Gap Report which brings together our gender and ethnicity reporting into one place. I am pleased to see our transparency and something I am keen to see become statutory for all large companies in the UK. We recognise there is still lots to do, however this is a big step forward for us and we're committed to closing the pay gap across both areas.

Together with our communities

In September 2022, we were saddened to learn about the death of Her Majesty the Queen. Many of the Queen's residences are located in our network and we were honoured to say she was also one of our 11 million customers. We've been proud to mark Her Majesty's reign by taking the opportunity to plant trees as part of the Queen's Green Canopy, committing to planting trees across our networks and planted 2,400 to date.

I've seen some fantastic initiatives taking place across the business including our Centres for Warmth schemes, to support our communities living in vulnerable situations to keep them safe, warm, and connected. The project identifies and partners with local charities in areas of high deprivation, fuel poverty, who are located close to areas where we are carrying out mains replacement work. We know that out of the top ten areas of deprivation in the UK, eight of these are within our networks.

I am pleased to see the Services Beyond the Meter and Reactive Response programmes increasing their support to those living in vulnerable situations. Upskilling our own engineers and leading the way to collaborate and train others across the industry is fantastic. The programmes allow our engineers and partners to ensure those in financial or wellbeing difficulty can be helped with immediate support and referrals to resolve issues, provide advice, and ensure customers remain warm and well at home.

Chief Executive's review continued

I'd like to reiterate the support from our Chair about the outstanding contributions made by the Cadent Foundation and its refocused vision to tackle fuel poverty across our networks. The sharp focus for the Foundation is now more important than ever for our communities and I am proud of the impact and partnerships we've seen to date.

"Our colleagues have raised over £160,000 through fundraising activities such as marathons, walking challenges, raffles and clothing donations for our charity partner, Emmaus. We've made some fantastic steps forward to join in the mission to break the cycle of homelessness."

Building a better future

I was delighted to see us host our first Supply Chain Sustainability conference in February 2023, this saw over 200 of our supply chain partners share their ideas and learn, collaborate and driving real action across our supply chain network. The event was focused on our sustainability and hydrogen plans, driving the conversation about how our partners can join us on this journey.

We've made important steps forward so our operational teams have better spaces to work, and teams can collaborate in a better environment. With our increased investment into property, fleet, and technology across our business over the last twelve months, we've already seen great benefits to our colleagues' experience. Our new-look depots are already starting to take shape and our new fleet including over 300 new electric vans are now on the road. We're working on reducing our use of resources, improving our waste management, and enhancing plans that maintain and restore biodiversity in the areas where we operate.

We've made great progress with our regional hydrogen development programmes aimed at decarbonising industry, enabling the build-up of hydrogen production, which could be used as a blend into the existing gas networks. The initial stages of these regional development programmes are supported by funding from Ofgem in RIIO-2 and are focused on delivering low carbon hydrogen to heavy industry, gas-fired power generation and heavy transport sites, to enable those organisations to transition away from natural gas and other fossil fuels. This is an important step forward and it's clear that hydrogen can play a significant role in energy security in the UK, and our infrastructure can support that. Not only could it help to balance demand in a turbulent energy market, but hydrogen also has a role to play in supporting the nation's net zero ambitions.

Planning ahead

We're delivering at pace on our RIIO-2 plans and everyone should be proud of our success so far. As we've faced some unprecedented challenges over the year, I've seen first hand the drive and determination to continuously improve and bring the best talent together. I am pleased to see us living our values, demonstrating the right attitudes, behaviours, and belief by always doing the right thing.

As we enter year three of our plans, we continue our focus on doing the brilliant basics well, to deliver a critical public service; delivering above and beyond to meet our customers' expectations; balancing the challenges of our sector whilst supporting our colleagues well, retaining industry leading skills and expertise whilst attracting new talent into the business.

We're looking forward to another busy but exciting year of progress as we scope out our plans and investment for RIIO-3 in April 2026. We're looking at what this means for our operations, technologies, communities, and colleagues; to help us drive industry leading performance and customer expectations.

Steve Fraser
Chief Executive Officer

21 June 2023

Financial review

The Group continues to deliver strong financial performance supporting significant investment in our network, our people, our communities and the future of gas.

Anthony Bickerstaff
Chief Financial Officer

Overview

During the year the Group delivered £945 million of operating profit (2022: £685 million) on revenues of £2,340 million (2022: £1,984 million), generating £1,397 million of operating cash flow (2022: £1,098 million), and invested £857 million (2022: £725 million) on new and existing assets.

Revenue increased compared to 2022, mainly due to an increase in inflation with commodity revenue reducing as a result of the higher gas prices impacting consumer demand. Operating costs increased due to the impact of inflation on our cost base and an increase in pass-through costs particularly shrinkage from the increased gas price (shrinkage £62 million (2022: £58 million).

This year we have invested £857 million (2022: £725 million) to deliver on our commitment to provide a resilient network for our customers as part of an overall investment of more than £4 billion over the five year regulatory period. Our ongoing investment in the mains replacement programme and the resilience of our network assets are key aspects of our strategy to ensure the network continues to operate safely and is ready to support a transition to low carbon fuels over the decades to come. We have continued to focus on the operational improvements and efficiencies to deliver on our regulatory commitments and to minimise the impact of our activities on customers' bills. The vast majority 97% 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 volatility in gas prices had a wide impact in the energy industry and a number of shippers and gas suppliers ceased trading in the previous financial year as a result. While 2022/23 has seen a lower level of supplier and shipper failures, and 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), we continue to closely monitor any developments to ensure compliance with the code and limit any potential credit losses. At 31 March 2023, the debt with these failed customers was £8 million (2022: £8 million), which remains outstanding and is subject to our existing credit procedures.

In circumstances where a supplier fails, Ofgem appoint a Supplier of Last Resort (SoLR) to ensure continuity in the supply of gas to end customers. The appointed SoLR is entitled to make a claim to cover costs incurred in taking on the customers, which is apportioned between the gas distribution networks (including Cadent). 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. In the year, Cadent has paid claims amounting to £377 million (2022: £3 million) under the SoLR process and has received additional compensating income of £379 million (2022: £3 million).

We continue to champion a whole systems approach to decarbonisation, emphasising the role of hydrogen as a low carbon alternative to natural gas. We are heavily involved in the Government's hydrogen village trial and are progressing with the design and home surveys required to potentially convert the gas network of a 2,000-home village from natural gas to hydrogen. All residents living in the proposed location of the hydrogen village were offered the choice to participate in the programme. We are also involved in several of the UK's hydrogen based industrial clusters, including HyNet in the North West of the UK, to make hydrogen available to heavy energy users in a local area.

We remain committed to supporting communities and customers in vulnerable situations and donated £5.4 million to the Cadent Foundation in 2022/23 bringing the total donated to £23 million since its inception. 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.

Financial review continued

Investing to ensure the safety and reliability of our networks

Our balance sheet is dominated by the value of our physical assets and the corresponding borrowings, as set out in the net debt table, that fund our capital investment programmes. Capital investment was £857 million (2022: £725m) and is primarily associated with the ongoing gas mains replacement programme which saw 1,742km of mostly cast-iron pipes replaced by polyethylene pipe during the year.

Operating financial performance

Revenue was £2,340 million (2022: £1,984 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. Revenues for the year ended 31 March 2023 increased 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. The £6 million decrease in non-regulated revenues is mainly due to the lower number of customer requested diversions being completed.

Operating profit was £945 million (2022: £685 million) with operational expenditure largely comprising charges associated with our usage of the National Gas Transmission network, business rates and employment costs of our direct workforce and contract partners. Gas price volatility during the year resulted in increased shrinkage costs of £62 million (2022: £58 million) and exit capacity charges of £161 million (2022: £164 million) remained broadly in line with prior year. The Ofgem mandated pricing formula ensures we are reimbursed for variations in these costs in a future period.

In managing the business, we use Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation and Exceptional Items (Adjusted EBITDA) as a measure of our financial performance as this represents a commonly accepted measure of the underlying operating performance of the company. The company does not believe that this measure is a substitute for IFRS measures, however it does believe such information is useful in assessing the performance of the business on a comparable basis.

Adjusted EBITDA is a non-IFRS performance measure used by management to aid comparability of our results between periods. As such, it excludes significant business transactions and should not be used in isolation but considered alongside IFRS measures.

The nearest equivalent IFRS measure to adjusted EBITDA is profit/(loss) for the year, which is presented in the Consolidated income statement and reconciled below:

Adjusted EBITDA Reconciliation

	Reference*	2023 £m	2022 £m
Profit/(loss) for the year		580	(93)
Add:			
Tax		160	462
Net finance costs	Note 9	205	316
Total operating profit	Page 109	945	685
Depreciation and amortisation	Note 5	423	400
Exceptional items		7	12
Alternative performance measure:			
Adjusted EBITDA		1,375	1,097

* References to Note- refer to Notes to the consolidated financial statements on pages 114 to 158.

Adjusted EBITDA has increased by £278 million due to higher operating profits driven by higher revenues and higher costs.

Cash flow and net debt

Borrowings (both current and non-current) at 31 March 2023 were £7,623 million (2022: £6,967 million) mainly comprising of fixed rate and index-linked debt.

Our net debt at 31 March 2023 was £7,390 million (2022: £7,214 million). Net debt is a non-IFRS measure which shows the overall debt situation and is calculated by netting the value of the company's gross borrowings, derivatives and lease liabilities with its cash and other similar short-term financial assets.

The nearest equivalent IFRS measure is borrowings which is presented in the consolidated statement of financial position and is reconciled below:

Net debt (see note 25 of the consolidated Financial Statements)

	2023 £m	2022 £m
Statutory results:		
Borrowings	7,623	6,967
Cash and financial investments	(544)	(93)
Derivatives	213	261
Lease liabilities	98	79
Alternative performance measure:		
Net debt	7,390	7,214

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 2022/23 was £1,397million, £299 million higher than in 2021/22, primarily due to higher operating profit resulting from increases in revenue and higher capital contributions received.

Investing efficiently in the development of our network is essential to maintaining strong performance for our customers and long-term sustainable returns for our shareholders. Consequently, our cash flow used in investing activities was £1,290 million (2022: £124 million) of which £850 million (2022: £861 million) is due to spend on the purchase of property, plant and equipment and intangible assets and £443 million was invested in money market funds having raised new debt in the year (see below) (2022: £735 million disposed to pay outstanding debt).

Borrowings

Driven by the need to fund our capital investment programme we have a large debt book with varying maturities. Our ongoing borrowing requirement results from the need to refinance existing debt and borrow incrementally to fund investment in the business. To manage this ongoing requirement, we operate a pro-active policy of meeting regularly with credit investors and our relationship banks to provide updates and information to facilitate ongoing access to the capital markets.

Our financing strategy focuses on securing funding in advance of the requirement in order to reduce financing and liquidity risks. We have ensured financial resources by re-financing the committed facilities available to the Group, extending the maturity of these to 2027 and growing the available commitment by £150 million for the next two years. This means that the Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term, with £650 million available at 31 March 2023 in a Revolving Credit Facility at Cadent Gas Limited, and a further £150 million available from a £200 million facility at Quadgas MidCo Limited (the immediate parent company).

We have also successfully secured new funding of c.£600 million in the year, in two significant transactions, including an issuance in the US Private Placement market of c.£300 million (GBP equivalent) and a further £300 million issued in sterling public markets utilising our Green Finance Framework. This financing demonstrates our strategy to finance ahead of the maturity of the debt, building resilience into the balance sheet leading up to c. £1.3 billion of planned refinancing due by the end of calendar year 2024.

Net finance costs

Net finance costs of £205 million (2022: £316 million) were driven by external debt funding and remeasurements of our derivatives. The decrease is largely attributable to the impact of the significant movement in inflation in the year on our derivatives.

The rise in inflation seen during the year will increase our cost base, although we manage risks associated with this where possible through long-term contracts with our key supply chain partners. As our regulated revenues and Regulated Asset Value ('RAV') are index -linked to the Consumer Prices Index (CPI) including owner occupiers' housing costs, this offers some protection against increasing inflation over the medium term. In addition, inflation-linked liabilities act as a natural hedge against fluctuations in inflation rates. Along with the inflation linked debt that we hold, we have entered in to CPI-linked swaps totalling £1billion and RPI-linked swaps totalling £400 million 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.

Investing in a more sustainable future

We have published our new Green Finance Framework, which is used to finance eligible green projects. This replaces our existing Transition Bond Framework with the move towards supporting sustainable environmental objectives that reflect changes in standards and expectations in sustainable debt markets. In March 2023, the framework was used to issue £300 million Green Bonds with proceeds to be allocated to eligible projects within a year from issuance.

Credit ratings

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

Financial review continued

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 2023, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash held in Money Market Funds was £523 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 £650 million with a further £200 million facility available to be lent down from the immediate holding company, Quadgas MidCo Limited. As at 31 March 2023 £50 million of the facility at Quadgas MidCo Limited had been drawn down, with nothing drawn down from the Cadent Gas facility. Included within cash of £21 million at 31 March 2023 is an amount of £17 million received in grants. The use of this cash is restricted by the specific terms and conditions of each grant and is therefore not available for general use.

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

Regulatory gearing

The level of gearing relative to our RAV is a key measure within the regulatory framework and also forms part of our banking covenants. Adjusted net debt (see reconciliation to statutory net debt below) expressed as a percentage of RAV indicates the level of debt employed to fund our regulated business. As a result of investment during the year and the regulatory formula, our RAV grew by £1.0 billion to £12.0 billion in the year, against which we have an adjusted net debt (consistent with the regulatory measure) of £7,062 million, being 59% of RAV.

	2023 £m	2022 £m
Net debt	7,390	7,214
Derivatives	46	(109)
Unamortised debt fees	17	16
Unamortised fair value adjustments	(250)	(259)
Accrued interest	(46)	(42)
Lease liabilities	(95)	(75)
Adjusted net debt	7,062	6,745

Taxation

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.

Our effective rate of corporation tax for the year, before exceptional items and remeasurements, is 20.7% (2022: 20.9%). The effective tax rate is impacted by the corporation tax/deferred tax rate differential as deferred tax is provided at a higher rate than the statutory rate for the period. This differential increased the effective rate by 2.2%.

The current tax charge for the period benefits from an additional £125 million of capital allowances associated with the super-deduction introduced by the Chancellor in March 2021. This reduced the current tax charge and tax liabilities by £24 million.

As a result of the high rate of inflation in FY22 and forecast for FY23 and the consequent higher level of actual and forecast interest accretions, management, together with tax advice from external advisors, have revisited the assumptions and forecasts supporting their basis relating to Corporate Interest Restriction (CIR) recognised in the accounts leading to the decision to make a group rate election in respect of FY22 and FY23 rather than following the default route of the fixed rate ratio. This results in a £14 million reduction in the current tax charge and tax liabilities for FY22 and a reduction of £19 million in respect of FY23.

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. Following the business review carried out by HMRC in the year we have been given a low-risk rating.

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2023 was £328 million direct taxes (2022: £325 million) and £364 million indirect taxes (2022: £239 million).

Dividend

In making the decision to pay a dividend in the period, the Board considered the continued strong customer and operational performance improvements we have seen across a range of regulatory measures, the level of investment and efficiency of delivery relative to regulatory totex allowances that enables significant investment in the network, the successful work we are undertaking at Cadent to implement our strategy in relation to being a Force for Good, and the continued requirement to attract investors into the sector who provide the capital required to invest in our network assets. All of these factors were taken into account, as well as the Board reviewing the dividend policy and satisfying itself that a series of economic tests could be met. The company had more than £5 billion of distributable reserves at 31 March 2023. During the year, we paid dividends totalling £350 million (2022: £195 million). The increase in the dividend paid in the year reflects the lower level paid in 2021 and 2022 when the decision was made to reduce dividends until the full impact of COVID-19 on the company was established.

Pensions

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

The significant decrease in the Scheme's asset and liability values was largely driven by a significant movement in gilts markets. These changes, among other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2023 decreasing to £4,195 million, resulting in an decrease to the overall surplus of 33% to £729 million.

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

	2023 £m	2022 £m
Present value of defined benefit obligation	(4,195)	(5,476)
Fair value of scheme assets	4,924	6,559
Surplus in scheme	729	1,083
Key actuarial assumptions		
Discount rate – past service	4.75%	2.65%
Discount rate – future service	4.65%	2.60%
Rate of increase in salaries	2.10%	2.65%
RPI inflation – past service	3.25%	3.65%
RPI inflation – future service	3.15%	3.40%

The last full actuarial valuation for the Scheme was carried out at 31 March 2022. 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.

Exceptional costs

Included within total operating profit of £945 million (2022: £685 million) are exceptional items of £7 million (2022: £12 million). We have been implementing an operational transformation programme to improve the efficiency of our operations by restructuring the business. The programme is now largely complete and restructuring costs totalling £7 million have been recognised in the year, which mainly relate to consultancy costs. Cumulative costs of £59 million have been recognised since the beginning of the restructure in 2019, relating to pension costs, redundancy costs and consultancy costs, and as financially material over the life of the exercise have been considered exceptional.

Supplier payment practices

We remain committed to ensuring that we treat all our supply chain partners fairly and have recently become signatories to the Prompt Payment Code. The code commits us to ensure that we pay 95% of all invoices within 60 days, 30 days for SME's, and avoid any practices that have an adverse effect on the supply chain. Our most recent reporting demonstrates that we consistently pay 97.8% of SME invoices within 30 days and 99.4% of all invoices within 60 days. Ongoing improvements to our processes including a move to a full e-invoicing solution will continue to improve payment transparency for all our suppliers.

Accounting policies

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

Anthony Bickerstaff
Chief Financial Officer

21 June 2023

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

Ofgem's RIIO-2 network price control sets out what gas distribution network companies are expected to deliver for energy consumers from 2021-2026.

We made a strong start to RIIO-2 last year and continue to deliver against the plan, creating sector leading services while continuing to develop greener hydrogen options for the future.

However, it has been a particularly challenging year for our communities, and we are very aware that over seven million people may now be living in fuel poverty, as the cost of living continues to increase, while energy prices and inflation hit record highs. Our safe and reliable service is more critical than ever to ensure we keep people warm while protecting the planet for the future.

We received an unprecedented amount of calls to the National Gas Emergency Service during the cold snap in December 2022, including a vast number of calls which were related to home appliance and bill related issues rather than gas leaks, highlighting the challenges our customers are facing and the industry wide requirements to support them. We have reviewed the strategic objectives in our plan, which remain highly relevant and important, to further strengthen our focus on delivering outstanding safety and customer service standards. This includes £500m of efficiencies that we must deliver during the price control period, which will result in lower customer gas bills.

We have also redoubled our efforts to support those most in need through innovative new services and leveraging the investment of our profits in the Cadent Foundation to give customers advice and real interventions which create fairer and easier warmth. We continue to play a leading role in creating greener, resilient, and affordable options for future energy use through our pioneering hydrogen projects, while our business plan has set Ofgem's defined efficiency benchmark for the sector, and we have customer satisfaction scores among the best in the industry.

Dr Tony Ballance
Chief Strategy and Regulation Officer

The business plan sets out the following:

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

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

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

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

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

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

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

Providing a resilient network to keep the energy flowing

99.9%
Reliability keeping customers on gas.

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

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

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

Tackling climate change and improving the environment

Road to net zero

14-17%
Reduction in leakage from our network.

CO_2
Significant step towards carbon neutrality in our operations.

HyNet
Innovation to decarbonise the North West with hydrogen.

Clean Gas
Enabling capacity for greener resources.

Delivering a quality experience for all of our customers and stakeholders

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

Affordability
Offering a suite of targeted interventions.

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

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

Trusted to act for our communities

£6m p.a.
Profit invested back into our communities through our charitable foundation – c. £6m p.a.

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

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

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

Keeping our customers safe

"The residents made us feel welcome and appreciated, despite the issues they were facing the kindness and support given to us throughout has been incredible. I'd also like to acknowledge the amazing achievements and resilience shown by our teams, working day and night to support the community."

Richard Sansom
Director of the East Midlands network

Monumental effort in Stannington

Late on Friday 2 December 2022, a water main burst and flooded the gas network in the Stannington area of Sheffield. Once the extent of the incident had been identified, a huge team mobilised from across the country assembled to tackle the problem, working day and night for two weeks in freezing temperatures to restore gas to homes and local businesses.

The furthest points affected were four miles distance from each other, and more than 3,000 properties were affected, whether by loss of gas completely, poor pressures or damage caused to boilers and appliances. At the peak of activity, more than 250 engineers and support staff were on site from all our networks and supply chain, plus 50 staff from Sheffield City Council, the British Red Cross, Northern Powergrid and Yorkshire Water, as well as mutual aid from Northern Gas Networks and SGN.

Gas was restored to every property by the 16 December, leaving a lot of tidying up to do in the local area. We set up a dedicated phone line to enable direct compensation payments to customers, rather than via their supplier. These direct payments were paid for seven days as a minimum with each day's payment double the statutory amount.

3,000+
properties in affected area

250+
engineers on site

15
syphon tankers used to remove water

6
multi-agency response supporting the community

75+
media interviews

1 million+
litres of water pumped

1,000+
hotplates and fan heaters provided

2
customer centres set up alongside a dedicated incident website

3+
hosted meetings with MPs and Ofgem

Our year in review
Our operational performance

With 2022/23 being the second year of our RIIO-2 regulatory period, we have continued our operational evolution, transforming our Energy Operation Teams who operate and maintain our critical supply infrastructure. This transformation means that we have ever more multi-skilled and locally based teams, who not only understand the gas network in their area but are wholly focused on ensuring the resilience of the gas supply for their local communities.

Our embedded network operating model continues to deliver, with clear local accountabilities to our teams. We are benefiting from enhanced data, engagement, and insights, which has led to a quicker response to customers and operations.

In the year ahead, we will focus on 'Operations 4.0', our strategic transformation programme, which will review the operating effectiveness of the business as we look ahead to energy transition. We will be exploring the development of smart networks that utilise targeted asset investment, intelligent network monitoring and proactive leakage detection. This touches on just one of the five key themes of our programme to put us at the forefront of digital innovation.

Planned works tailored to communities

In 2022/23, we entered a second year with new contractual and operating arrangements for our planned work activity. Our wider customer strategy and delivery model places greater emphasis on network and local level accountability, which means tailoring experiences to our local communities. Our Network Directors are responsible for driving new ways of working to improve customer and colleague satisfaction, while our teams and partners share our purpose and values to deliver first time, every time, and promote a collaborative and collective culture of responsibility. This helps us share best practices across our networks and promote innovative new ideas.

We have continued to deliver an excellent service to customers, exceeding the regulatory target of 8.51 in all four networks. While this is a positive achievement, we acknowledge there was a slight reduction in average planned work satisfaction scores compared to last year (-0.01) and we are clear on the need for ongoing focus to ensure continuous improvement. Demonstrating our commitment to improving, in the Eastern network, there has been a significant increase in customer satisfaction compared to last year.

Supporting our communities

Customer satisfaction

Performance by Network* scored out of ten	Emergency Response & Repair 2021/22	Emergency Response & Repair 2022/23	Planned Works 2021/22	Planned Works 2022/23	Connections 2021/22	Connections 2022/23
Eastern; East Midlands and East of England	9.50	**9.57**	8.65	**8.88**	8.76	**9.18**
North London	9.29	**9.39**	8.61	**8.60**	8.73	**9.15**
North West	9.55	**9.58**	9.11	**9.04**	9.05	**9.19**
West Midlands	9.46	**9.56**	8.96	**8.76**	8.82	**9.27**

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

Connections services driving satisfaction

We have continued to see significant benefits from the transfer of our connections services into a direct workforce operation, aligning delivery and customer experience outcomes to our local area model which encompasses 28 local areas across our networks. By maintaining our focus on all the key customer touchpoints, reducing lead times for works and continued investment in simplifying our application processes, we have driven customer satisfaction to record levels. Our four regulatory networks are now at the forefront of customer experience for connections, with more improvements in the pipeline for next year.

Emergency response and repair

Customers value a rapid response to gas emergencies and quick repairs, and we have delivered improved satisfaction scores in this area for several years. Our 2022/23 plans remained centred on learning from key customer insights with a specific focus on reducing disruption from our works. This includes reducing the frequency and length of gas supply interruptions, and ensuring we complete reinstatement works efficiently and to a high standard.

We have continued to reduce the average duration of gas supply interruptions across all networks. This includes developing plans for all High Rise Buildings (HRBs) so that should they experience any issues with their gas supply we are prepared to respond as quickly as possible. Working with our new contract partners and enhancing our ways of working for reinstatement works has delivered significant improvements in our next day (D+1) response for customers.

Our customer strategy teams, charity partners and the Cadent Foundation have worked together to improve our response to customers' in vulnerable situations, developing personalised welfare services and investing in services beyond the gas meter. You can read more about this on pages 24 to 27.

Complaints handling

Complaints	% closed in D1* 2021/22	% closed in D1* 2022/23	Complaint metric score** 2021/22	Complaint metric score** 2022/23
Eastern	79.04	**87.83**	2.10	**1.50**
North London	85.71	**89.44**	1.67	**1.20**
North West	89.06	**89.27**	1.41	**1.36**
West Midlands	85.56	**89.52**	1.65	**1.09**

* Same day closure.

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

When things do go wrong, we know customers want issues resolving quickly and without any hassle. We are pleased that we improved an already industry-leading level of performance in our responsiveness, although we recognise that there is always more to learn. Our local network teams have shown they are agile, quickly dealing with any issues and putting measures in place to make positive improvements where needed.

Busiest year for emergency call handling

2022/23 has been the busiest year for emergency calls on record, with a significant increase on the previous year. While it has not been an exceptionally cold winter, the volume of calls has been driven by the wider cost of living and energy cost challenges that have influenced UK customer behaviours. Our experiences this year and our position as the provider of the National Gas Emergency Service for all Gas Distribution Networks gives us a unique perspective. We have seen an increase in energy supplier related calls being misdirected to the National Gas Emergency Service, with our busiest ten days on record in December 2022. We are using this to lead efforts to bring the industry together, respond to changing consumer behaviour and anticipate future requirements.

We answered 90% of emergency calls within 30 seconds, reflecting our ability to increase call handling resource during the year. This was key to ensuring we could still deliver an effective service for customers despite the unprecedented volume of calls.

Resilient network to cope with demand

This year's societal challenges have meant we have needed to provide significant support to customers. There were also higher than normal workloads, particularly in the North London network, as the UK had its fourth warmest summer on record and driest in nearly 30 years, causing drought conditions in parts of the gas network.

Many components of our resilience framework have been required and successfully implemented this year including the Environment Agency Targeted Flood Warning System into the Energy Control Centre (ECC). The ECC tracks and triages alerts and alarms centrally before disseminating to the Networks.

Our year in review
Supporting our communities continued

Standards of service	Eastern %	North London %	North West %	West Midlands %
2022/23 Controlled*	97.7	94.9	96.5	97.8
2022/23 Uncontrolled**	97.1	95.2	96.0	97.6

Responding to gas emergencies	Total	%
Calls to emergency number (for the whole of the UK gas sector)	1,632,648	
Answered within 30 seconds	1,466,552	89.8
Reported gas escapes	367,056	
Escapes related to Cadent's network	62,775	17.1
Escapes related to other matters (CO, boilers etc. – not all Cadent network related)	304,281	82.9

Investing for an exciting future

We recognise that asset management is crucial to what we do, and we have continued to invest in this area. For example, we have replaced around 1,742km of metallic iron mains with new plastic pipes this year. This investment is essential to increase reliability, longevity and helps us reduce gas leakage and the environmental impact of the gas network to ensure we can deliver for customers now and into the future.

Like many energy networks, we are faced with a great opportunity to reimagine our network to deliver low carbon energy. This exciting future is not without uncertainty, and we recognise we must expand our capabilities to deal with the challenges and take the opportunities. We were delighted to renew our ISO 55001 Asset Management accreditation. This is an important independent recognition of our policies and processes, and most importantly, the people we have in our asset management community.

Improving health, safety and wellbeing

We have driven a number of key new initiatives to improve the health, safety, and wellbeing of our colleagues.

We have implemented a new self-service incident management system, which gives colleagues the ability to report and manage hazards, near misses and incidents. We have also continued to make improvements across our occupational safety and Process Safety Management systems, including through the trials of new software and technology.

We have created our own in-house Occupational Health Service, receiving great feedback from colleagues, additionally we are supporting wellbeing with a state-of-the-art gym at our new operational office in Ansty and offering all colleagues a new benefit, Gympass, an all in one digital platform that provides access to hundreds of gyms, wellbeing coaches, nutritionists, apps and tools.

We run seven Safety Improvement Groups targeting key risks, led by our Directors. These groups include culture, process safety, cable avoidance, road safety, fatigue, interface between people and plant, and protecting the public from our works. They report regularly on their plans to drive continuous improvements and involve our partner organisations to create a conduit between us to support best practice sharing.

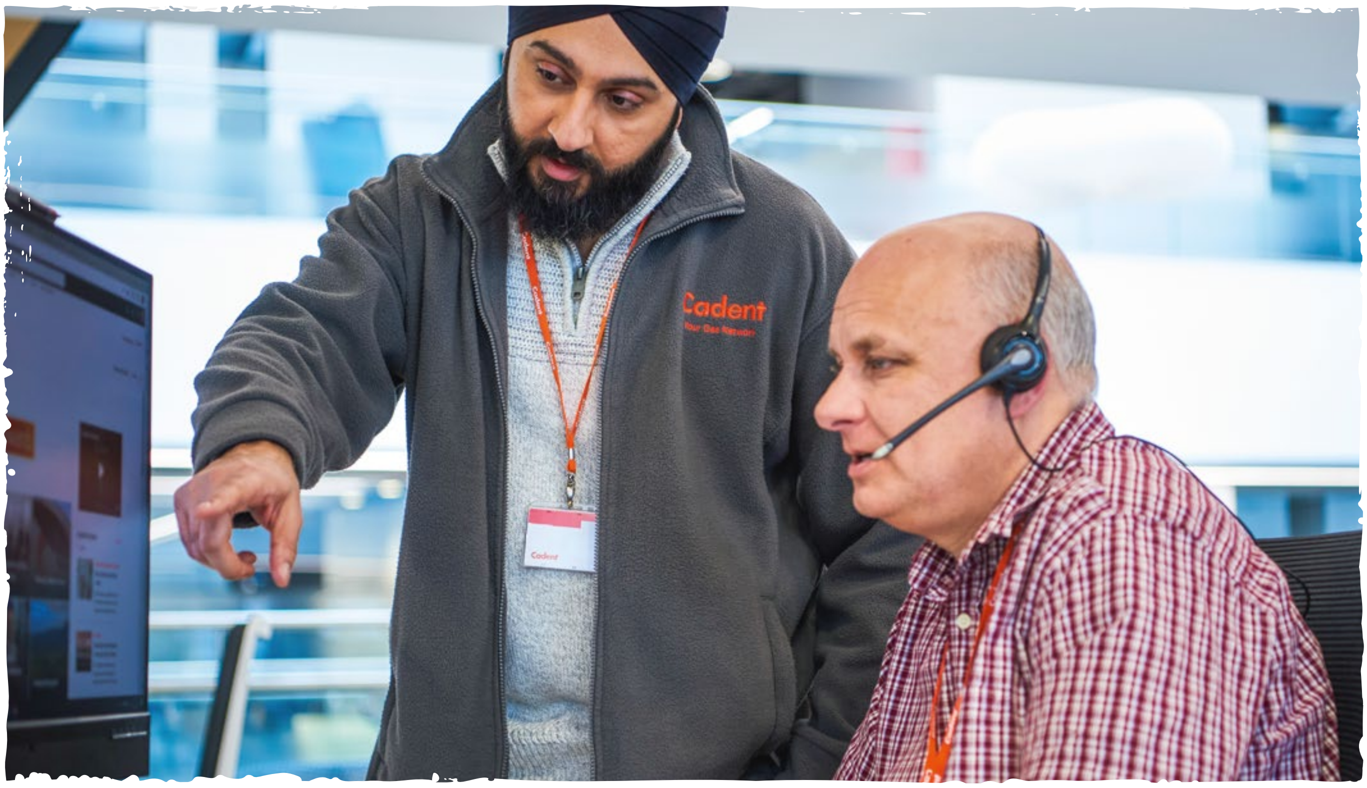
Lost Time Injury Frequency Rate

0.54

Injuries per million hours worked
Compared to 0.55 in 2021/22

* Controlled refers to those gas escapes where the customer has confirmed that they have turned off their supply at the emergency control valve and the smell of gas has ceased.

** Uncontrolled refers to all other escapes.



Investment in our technology

We have seen the delivery of a new modernised Field Services Management system to provide a better interface for our Field Engineers. We can now build out more digital services to achieve a paper free way of working. The new system also provides a new data set that enhances our insights into the field operations, which will allow us to build a better and more efficient service for the future.

Our Data and Digitalisation strategy helps to create an enriched experience for colleagues and our stakeholders wherever they work. It brings together key partners to design and deliver products and services that further strengthen our capability to address customers' and colleagues' needs, support the wider community, and add new capabilities with greater accessibility.

> **"Following significant changes and investment to our technology landscape we are investing in further initiatives to make things easier for our colleagues and customers."**
>
> **Dr Kate Jones**
> Chief Information Officer

Building on our Brilliant Basics strategy that is designed to simplify everything, we have delivered changes to provide:

- A newly designed process that allows stakeholders to access data that are of public interest and support our net zero ambition, with appropriate mitigation of any sensitivity and confidentiality of the data.
- A new network visualisation tool that supports the journey to net zero and a geographical model that is being shared with Local Authorities to inform their future energy network planning.
- An internal IT Service Desk alongside a number of other colleague-facing IT Services.
- A Product Centric model as part of our Agile Transformation journey, introducing new ways of working to speed up the delivery of technology enabling changes that support our Operational transformation ambitions.

Cyber Security continues to be a priority with regular engagement with all stakeholders including our Board, Ofgem and the National Cyber Security Centre (NCSC). We continue to improve our Cyber Security strategy, adding a number of controls across Access Management, Incident Management and Business Continuity. We also ran an extensive Cyber Awareness programme for all colleagues this year and implemented further controls within our network infrastructure and have carried out a range of penetration tests.

Our year in review
Making a positive social impact

Our social impact forms a key part of how we do what we do – making life easier, fairer, and greener for our customers and colleagues. The past three years have really shown how vulnerable society is, first with the COVID-19 pandemic having significant consequences on the economy and with inflation and rising energy bills impacting households across the UK.

We are committed to playing a significant role across the industry supporting customers living in vulnerable situations. Along with the £30m Vulnerability and Carbon Monoxide Awareness (VCMA) allowance and £12.5m of regulated funding towards our personalised welfare output, we'll add around £25m through the Cadent Foundation. This will take our total spend to over £67m during RIIO-2. As we are the only Gas Distribution Network (GDN) with a Foundation (or equivalent), our spend to support customers like this makes up around 70% of the total across all national GDNs.

With multiple funding routes, we can truly maximise the support that we offer and deliver to customers who are struggling. The Foundation's funding allows us to provide direct in-home energy efficiency interventions. While these are typically expensive to implement, they can single-handedly take customers out of fuel poverty for good.

You can read more about the Cadent Foundation on pages 26 to 27.

Tackling vulnerability and fuel poverty

We are mindful that all of our customers are facing challenges as a result of the increase in energy prices and inflation. We are working hard to reach as far as we can by offering energy and income advice and investing in community level and household level interventions to provide practical advice and directly improve household energy efficiency.

We've focused our efforts on helping people across our communities to heat their homes more affordably. We've seen the number of households we serve living in fuel poverty nearly double and we're now overseeing over 70 individual projects with a combined value of over £10m (in this financial year) which will deliver a further anticipated social return* of well in excess of over £200m.

Several of these initiatives focus on the provision of tailored, professional, face-to-face energy and income advice to families most in need. We offer this in people's homes, but we reach more households through our expanding network of Centres for Warmth to support local communities. These are unique to Cadent, where we fund professional resources to provide a range of financial and safeguarding support. We have reached over 50 centres, helping over 25,000 households this year. The average household is between £2,000 and £2,500 better off as a result; resulting in at least £50m of benefit to some of the most vulnerable customers across our network.

* Social return is an outcomes-based measurement tool that helps to understand and quantify the social, environmental and economic value added.

Carbon monoxide awareness in schools

We use sophisticated data analytics to target households most at risk of carbon monoxide (CO) poisoning and this year we have delivered carbon monoxide safety classroom-based training to over 80,000 children attending schools in areas we've identified as most at risk. We have helped to embed our 'Safety Seymour' and 'The CO Crew' school education programmes into the other GDNs, and we're now sharing our Climate Genie project, which uses Minecraft to increase student engagement, across the industry.

Services beyond the meter

In keeping customers safe, it is occasionally necessary to isolate the gas supply from a particular household appliance or even the whole house. We recognise this could leave customers in a vulnerable situation, so we've created a process whereby we use our own trained engineers to complete a range of technical assessments and interventions to get customers back on gas after we've identified a safety related fault in their home. We have also expanded our One Number Referral process, where engineers can refer a customer in a vulnerable situation to our partners, National Energy Action and Groundworks UK, for additional funded support. This year we've referred thousands of households, with many benefiting from replaced or repaired appliances, among a range of additional benefits. As we expand this service, we have invited the other GDNs to do the same, using the collaborative VCMA allowance. Northern Gas Networks joined us, using our dedicated training centre at Hollingwood (in the North West of England) to upskill their engineers.

Over

£150 million

of social value generated helping thousands of customers living in fuel poverty

(2022: £10.6m)

Over

£220,000 raised

for Emmaus and other fundraising activities through our partnership with Neighbourly

Priority Services Register

We continue to chair the cross industry Safeguarding Working Group, which seeks ways to improve the process of raising awareness and registering customers on the Priority Services Register (PSR).

There are around 3.9 million households living in our network who are registered on the Priority Services Register (PSR). The PSR is a way that we can help those who have extra communication, access, or safety needs to always gain equal access to the best possible service. Over the course of this year, we have had over 250,000 face-to-face conversations with customers to tell them about the PSR. Through our collaborative winter campaign which targeted PSR awareness, we estimate we have reached around half of the customers in our network, and we've seen the number of registrations increase as a result.

Blooming brilliant

A team of volunteers helped a community allotment project achieve more in three days than it had dreamed to achieve over the next two years.

Woodhouse Community Garden Project, part of Woodhouse and District Community Forum, is a space for people to sow, grow and harvest crops, promoting healthy lifestyles and positive wellbeing, and learning new skills. It's an absolute hive of activity, used by people from lots of different backgrounds, including Scouts, people with disabilities, and young offenders. Volunteer-led, the project in Sheffield occupies a large section of an allotment site – which includes 20 planting beds, a wildlife area, fruit trees, a 15ft by 40ft polytunnel and many, many more facilities.

Over the next couple of years, the charity aimed to make the site more accessible. The existing footpath stopped halfway through the plot, for example, and areas were overgrown. It was too much work for the charity's volunteers alone. As it happened, we were carrying our substantial works in the local area, upgrading the gas mains, and the team at our East Midlands Investment Planning Office were looking for a community project to support.

They contacted the team at Woodhouse Community Garden Project and realised they had the machinery, skills, and complete determination to make a massive difference to the project.

Enlisting the help of Network Plus (our Contract Management Organisation for East Midlands) and two of our local delivery partners (CS Pipetech and Cherbind), a plan was hatched and delivered.

Over three days, the team installed a new tarmac drive, extended the path to cover the full length of the allotment, put in borders, cleared overgrown areas, sank a bath into the ground to create a pond, plus lots more work.

"I can't praise them enough, they were just fabulous, mind-blowing. They did things in two to three days that were in our two to three-year plan which was amazing."

Rosemary Rabjohn
Community Garden Manager

Our year in review
Making a positive social impact continued

Energy efficiency campaign to reach more than 1m customers

In November 2022, we launched a campaign to provide households across our network with advice to help them reduce their energy usage to save money over the winter period.

Having undertaken a comprehensive customer research programme called the Energy Diaries, which helped us understand how they used their home energy solutions pre and post the energy price increases in April 2022, we then invited them to join us at workshops. Along with experts from charities and customer advocacy organisations such as Citizens Advice and National Energy Action we used these workshops to cocreate solutions designed to support customers through the cost of living crisis. While numerous ideas were generated, the most important insight was that customers wanted free, impartial, simple advice that they could easily follow to reduce their energy consumption and thereby their bills.

This insight inspired our campaign and we worked with more customers and a specialist campaign management organisation to develop a suite of material that we shared on national radio, billboards, posters, social media, our website and leaflets. The campaign reached more than one million households, offering advice that could potentially save each customer over £100 per year, with simple tips such as keeping the lid on pans when cooking turning down the thermostat and encouraging everyone to switch on to switching off when it comes to household appliances.

* Energy Diaries – cadentgas.com/energydiaries

Cadent Foundation

This past year has shown that the projects we fund are unfortunately more critical than ever, as the ongoing cost of living crisis has left millions of people facing impossible choices every day. With spiralling demand on the charitable sector, we wanted to do more, but in a way that ensures our funding is going to where it can help the most. With this in mind, we launched a new vision and ambition for the Cadent Foundation, centred around tackling the root causes and impact of fuel poverty within our communities.

With an estimated 7.5 million* UK households unable to afford to heat their homes to the temperature needed to keep warm and healthy, fuel poverty is one of the greatest issues our society faces today. We believe this is where our Foundation can make the greatest positive difference.

We awarded more than £2.9 million to support some amazing charities doing tremendous work in very challenging times. Through our partnerships we have helped to deliver in-depth, tailored energy advice; installed thousands of energy-saving measures to make homes more energy efficient; facilitated access to grants and schemes for larger home improvements and helped people have more money in their pocket through income maximisation and debt services.

We want to amplify our social impact by enabling better access to services, driving innovative new solutions to help people make their homes easier and more affordable to heat, and developing best practice models which remove barriers and give organisations the flexibility to tackle fuel poverty in the ways that work best, ensuring we can get help to those who need it the most.

As part of the Foundation's transition to focusing on fuel poverty, new data gathering processes have been developed to provide greater insight into how we measure our impact and delivery. This has proved invaluable, demonstrating the positive benefit of partnership working and the need for targeted, energy efficiency interventions to secure long term, sustainable solutions to fuel poverty.

In 2022

£2.9 million

to support Cadent charities
(2021: £3,879,072)

* Source: National Energy Action (NEA)

Grants in Action: Green Doctors

The Cadent Foundation's ongoing partnership with community charity Groundwork, continues to support vulnerable households to stay safe and warm through its Green Doctors programme.

With so many people trapped in fuel poverty across the UK, Groundwork has seen a huge increase in the number of people who would not usually access services coming forward and asking for advice and support. Individual cases are becoming more complex with issues that are more than just problems with gas or electricity. They have also seen a huge rise in the number of people that need immediate emergency support due to gaps in income and changes in salary.

Chief Executive, Graham Duxbury, explains: "Despite the challenges, the funding from the Cadent Foundation has had a noticeable impact. It has enabled us to increase our capacity so that we can deliver more Green Doctor visits and provide more emergency relief to those in crisis. We've expanded into areas which were previously unsupported as well as bolstered the provision in some of the most deprived areas where demand for services is the highest. Not only has there been an increase in the number of people who are receiving help, but there has been a marked improvement in their journey towards getting the support they need."

As well as supporting the Green Doctor service, additional funding was provided to help reach more vulnerable households in crisis through emergency winter warmer packs. In 2022, 5000 packs were distributed, helping people to cope in the short term, while Green Doctors continue to offer the advice and practical help needed to find long term solutions to the challenges presented by increasing levels of fuel poverty.

Helping customers stay warm

Funding has delivered:

7,309
consultations to vulnerable households

30,642
energy efficiency measures installed

£654,478
potential cost savings from advice and measures

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

We are committed to an organisation design that will enable the achievement of our commitments for RIIO-2 and beyond, ensuring that we have the right people in the right place at the right time. We are driving a direct labour model while working closely with our supply partners to provide opportunity and growth for our colleagues.

Attracting new talent

We have been successful in obtaining the following accreditations which are critical to us continuing to deliver a robust pipeline of talented people:

- Successful application for Register of Training Providers (RoATP) for us to continue being an employer provider of Apprenticeships – accepted in July 2022.
- Successful Ofsted inspection took place in July 2022 – Cadent was rated GOOD in all areas.
- Awarding bodies – Energy Utility Skills Register (EUSR) – successful audit & Institution of Gas Engineers and Managers (IGEM). For the Gas Industry, EUSR provide the competency and qualification framework for Network Construction Operations (Gas) (NCO) across a number of roles in our business. Cadent is an accredited EUSR Training provider enabling us to provide our own internal training courses for Gas competencies to meet the ESUR and industry standard Qualifications.
- Additionally we received a 'Good' Rating for our internal apprentice provision.

Our Graduate, Engineering and Commercial Training Programme trainees and Apprenticeship programmes have been fundamental in feeding our internal talent and this will grow and evolve in the year ahead. Our overall average apprentice levy spend is currently around 96% (usage) which is significantly higher than the UK average.

Our Internal Apprenticeship development programmes continue to improve in both impact and size, maintaining a steady stream of Apprentices into Operational roles that are critical for the business.

Additionally, we are working with external Training Providers to expand the provision and deliver specialist qualifications to support us and our people's specific needs across all functions in the business.

We have reviewed and reduced the barriers to entry for our Future Talent intake for 2023 including reducing the number of GCSEs required for apprentices and the removal where appropriate for a degree to increase the diversity across our intake development programmes. Our job adverts and the job advertising platforms we choose are now focused on increasing the diversity and suitability of our candidates, while we have implemented a shortlisting matrix to challenge unconscious bias and introduced a requirement for diverse interview panels for all roles.

Developing skills

Expanding our training capabilities

In 2022 we expanded the capability and breadth of our Learning Delivery Function's capability. This included bringing in-house the capability to create our own digital learning content, significantly enhancing our ability to produce and roll out high-quality multimedia content across all learning needs. It also delivered a £500,000 in-year cost saving for new e-learning and digital product creation that would otherwise have been outsourced.

We have also partnered with consultants to create our very own Cadent 'Beach to Meter' Minecraft game. This is designed to enhance our existing digital offerings for future talent as a way of engaging with schools and colleges, educating them around what we do with the aim of attracting their students to us in the future.

Business and Leadership Skills

The team has delivered a brand new Business and Leadership Skills two-day blended Corporate Induction programme. Rolled out in June 2022, this programme was co-created with colleagues across the business to ensure that we are providing our new colleagues joining us the best possible start to their journey with us. Feedback from the induction has been positive and we have seen colleague engagement rise from an NPS (net promoter score) of 2.65 to 4.81 in just nine months.

New Leadership & Development learning modules will be launched in 2023 through the Management Effectiveness programme that is currently being piloted. This will be a significant step forward in supporting our people on their leadership journey, giving them the tools, skills, and knowledge to equip them for a successful career.

Celebrating successes

In 2022, our HR Team was shortlisted for the Best HR Team of the Year in the CIPD (Chartered Institute of Personnel and Development) Awards. This recognised how the team supported the business with day to day activities whilst at the same time, transforming our services and driving cultural, structural and technology changes.

We have also won the Cadent Pension Team of the year in the 2022 Pinnacle Awards.

Developing future skills

We continue to be actively involved in the development of skills for the future, in relation to hydrogen through a variety of industry bodies, consultations and reviews. We are members of the Hydrogen UK panel in Jobs and Skills and the HyNet Skills, Learning and EDI Committee. Both committees are developing ideas around the skills needed to take the industry forward. They are also contributing to research for our business and around the wider industry that will support attracting individuals into the sector.

Working with industry and education partners

We actively participate in various working groups and boards within Energy & Utility Skills (EU Skills), a body which supports our sector in attracting, developing, and maintaining a sustainable, skilled workforce. This allows us to have an industry voice and to shape the future of the industry skills agenda such as through the EU Skills Delivery Board and related working groups that bring the industry together to consider how anticipated future skills needs can be met.

We're represented across various other groups, including the Apprenticeship and Technical Education Advisory Group that enables us to participate in co-ordinated engagement with the Government on critical issues. This informs the development and reform of policy as well as influencing the future design of Apprenticeships and skills programmes in areas such as hydrogen.

We have partnered with a number of education establishments to promote skills development and equal opportunities. We support the ELSA (Emotional Literacy Support Assistant) in Hertfordshire in extending opportunities to those from more challenging backgrounds, we chair the Leicestershire Cornerstones Employer group that promotes digital skills for young people and have been active with the Black Country Consortium's SEND programme.

Our employee community groups

This year we changed our terminology, and we now define ED&I as equity, diversity, and inclusion, rather than 'equality'. This is because 'equality' means to treat everyone in the same way, whereas 'equity' recognises that to achieve a fair outcome we may need to treat people differently to give them an equal chance.

Our ED&I Steering Group sets our strategic direction for ED&I, and the senior leaders who sit on the Steering Group sponsor and support our employee communities and our three ED&I working groups. These working groups aim to deliver real change and include members from all over our business and from each of our communities, to make sure that changes are positive for everyone. Our working groups drive progress in three areas: anti-racism, inclusive leadership and fair and inclusive processes.

Our five well-established employee communities have once again continued to grow their impact across the business and create an important space for colleagues of all backgrounds to develop and thrive.

In February we held our second annual 'ED&I Big Meet', a chance for all those involved in ED&I activities to come together, reflect on our achievements, and celebrate our successes. We also launched an internal quarterly newsletter this year to share our ED&I progress with all our colleagues.

We're proud to have become accredited as a menopause friendly employer and a fertility friendly employer. In particular we have made significant progress in supporting those undergoing the menopause and fertility treatment, having introduced policies and e-learning on both topics.

We have retained our Disability Confident Employer status and have also conducted a thorough neurodiversity review with Lexxic and have received accreditation as a 'Neurodiversity Smart: Committed' company.

We started working towards a recognised inclusion standard, Clear Assured and pleased to have recently been awarded the Bronze standard. This is a significant accomplishment and a testament to our unwavering commitment to creating an inclusive culture that is fair, respectful, diverse and that allows our people to feel empowered and that they belong. This standard also allows us to provide up to date resources and advice to inform the actions we take. We will continue to work with ClearAssured through the coming year, allowing us to track our progress and making our efforts more visible.

Neurodiversity Smart Committed Lexxic

PROUD TO BE clearassured theclearcompany.co.uk

Fertility Workplace Pledge

Alongside other major UK employers, we have signed up to a Fertility Workplace Pledge designed to benefit millions of individuals and couples going through fertility treatment.

The Pledge consists of four steps for employers to sign up to covering: (i) having an accessible workplace fertility policy to create an open culture free from stigma; (ii) opening conversations internally and making people aware of available support; (iii) staff training to make sure line managers understand the realities of fertility treatment for colleagues and how they can support them; and (iv) giving colleagues the right to request flexible working.

fertility friendly employer.

Making sure everyone is included

Menopause: We're proud to be continuing the conversation

Our Women in Cadent Menopause Support Group has been working hard to create change for women impacted by the menopause, to be supported in the workplace and balance a healthy personal life.

We have worked with the British Menopause Society and ITN Business to produce a news-style programme 'Menopause: Continuing the Conversation', to raise awareness of the menopause.

The news-style programme features interviews with people from across the business and highlights the important changes in policies and procedures, our people manager training and guidance, and changes to the personal protective equipment and clothing and much more that is available.

Women in Cadent's Menopause sub-group lead, Lucy Stuart, has been the driving force behind these changes, and was herself a national finalist in the Menopause Friendly Employer 2022 awards for her work.

Through policy changes, education and conversation, we're working to create an open environment which 'champions' the menopause and women's health issues, supporting women to be their best selves while they're working.

Independently accredited **menopause friendly** employer
PROUD to display the BADGE

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

Executive action on diversity and inclusion

Our executive committee have created their own ED&I Action Plan which focuses on tangible, outcome-focused actions which will have a real impact, specifically where our senior leaders can make the most difference. These actions include ensuring we develop an ED&I plan within each function of the business, reviewing the diversity and representation at committees annually, and seeking to have a diverse pool for all senior leader appointments.

Our ethnicity and gender pay gap

This year we reported our ethnicity pay gap for the first time, as part of our ongoing commitment to transparency and to improving outcomes for underrepresented groups. We recognise that we have an ethnicity pay gap, and we're confident that the work we are doing in all areas of our business will help us to achieve this.

We are pleased that our gender pay gap for 2022 has reduced compared to 2021 across all key measures. We know that there's more to do, and we are committed to achieving gender parity. This year we started a partnership with the Women's Leaders Association to support and develop women in our business, we have seen a cultural shift through many open conversations about the menopause and fertility, as well as launching e-learning on these topics, and reviewing our family provision policies.

You can read about our ethnicity and gender pay gaps here https://cadentgas.com/nggdwsdev/media/Downloads/reports/Pay-Gap-Report-2022.pdf

Health and wellbeing

Financial support

We have continued to build our financial wellbeing hub for colleagues, providing personal finance information together with access to external support through webinars covering debt and budgeting, pensions, and pension investments.

We applied the voluntary Real Living Wage to pay in November 2022 ahead of the deadline date 14th May 2023 for all impacted colleagues.

In addition, this year we ran our first Pension Awareness Day to encourage colleagues to ask questions and seek information about their pensions.

Occupational Health and Wellbeing

We recognise the importance of our colleagues feeling happy and healthy at work, while we actively promote a culture of good health and wellbeing. In 2021, we made the decision to insource our Occupational Health and Wellbeing Service. This was designed to increase continuity of care and speed up access to support for colleagues, both reactively when they were most in need, but also to work preventatively to help maintain good health, to help stop colleagues becoming unwell in the first place. The service has seen significantly increased usage, in comparison to when it was an outsourced provision, demonstrating that the service has embedded well within the business and this is confirmed through positive feedback.

The service includes a highly skilled team of Occupational Health Advisers and Technicians who provide a management referral service, pre-employment assessments and health monitoring. The team can refer colleagues on to specialist support provided by both psychological and physical rehabilitation. This includes access to Cognitive Behavioural Therapy and self-referral for physiotherapy. We also provide access to a 24/7 Employee Assistance Programme, which can support colleagues with their Mental Health and facilitates access to financial, money, debt, and Legal support, alongside a Managers' Helpline. The business has a network of mental health first aiders and champions who are trained and support colleagues with their mental health and wellbeing.

The business has updated its COVID-19 recommendations, in line with Government guidance, to help transition the management of COVID-19 to business as usual during 2022 and removing all the remaining domestic restrictions. There is no longer a requirement for any COVID related Personal Protective Equipment to be worn in offices or operational environments, unless requested by a customer. However, the business has been encouraging colleagues to practise good hygiene measures and to obtain their COVID-19 vaccination, if offered through their GP/NHS provider to help stop the transmission of the virus.

New Fire-Retardant PPE Hijab

During her first few weeks, Maryam Master was part of a team of Commercial Trainees and Graduates tasked with a year-long project to raise awareness of hard hat safety.

When it came to the attention of the team that there was no safety headwear option for anyone who wears a Hijab, Maryam – as a fellow Hijab wearer – took it upon herself to find a solution. "After doing some research, I noticed we couldn't find a fire-retardant option readily available on the market, which is a crucial safety aspect when working out on operational live gas sites."

Maryam reached out to our suppliers, to find out what was available and if that met our needs for a fire retardant PPE Hijab. Once we were sure it would cover all hair types and styles, Maryam worked on getting the appropriate signoffs ready to manufacture our Hijab.

Maryam was delighted with the result and the impact that this has had in making the company inclusive and accessible to all: "Helping create the Hijab has been important to me as I feel it will help attract and inspire more Muslim women into the industry, as they can work out in the field safely while being themselves." The team is now working on creating an inclusive PPE turban alternative, having just moved into the testing phase to ensure we find the best material to use.

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

Always doing the right thing

Our modern slavery statement sets out steps that we have taken to prevent slavery and human trafficking from taking place and the positive role we play to ensure best practice across the industry. The statement outlines our expectations from our supply chain and our commitment to support our staff to ensure their working conditions are respected.

Our supplier code of conduct further embeds this expectation by making clear to suppliers that their business, and those of their supply chain partners, must act in accordance with our ethical standards, including those in relation to modern slavery, and must align to our values and aspirations. We continue to take positive steps forward to improve our policies, processes, and training in accordance with industry best practice to mitigate the possibility of exploitation within our supply chain.

Our policy framework, training and awareness programmes incorporate the commitment we make towards respecting human rights. In addition to our supplier code of conduct, the framework also includes our ethical code of conduct, Always Doing the Right Thing, and our equity, inclusion, and diversity policy. Our company values embody our commitment to all staff being treated with fairness and respect.

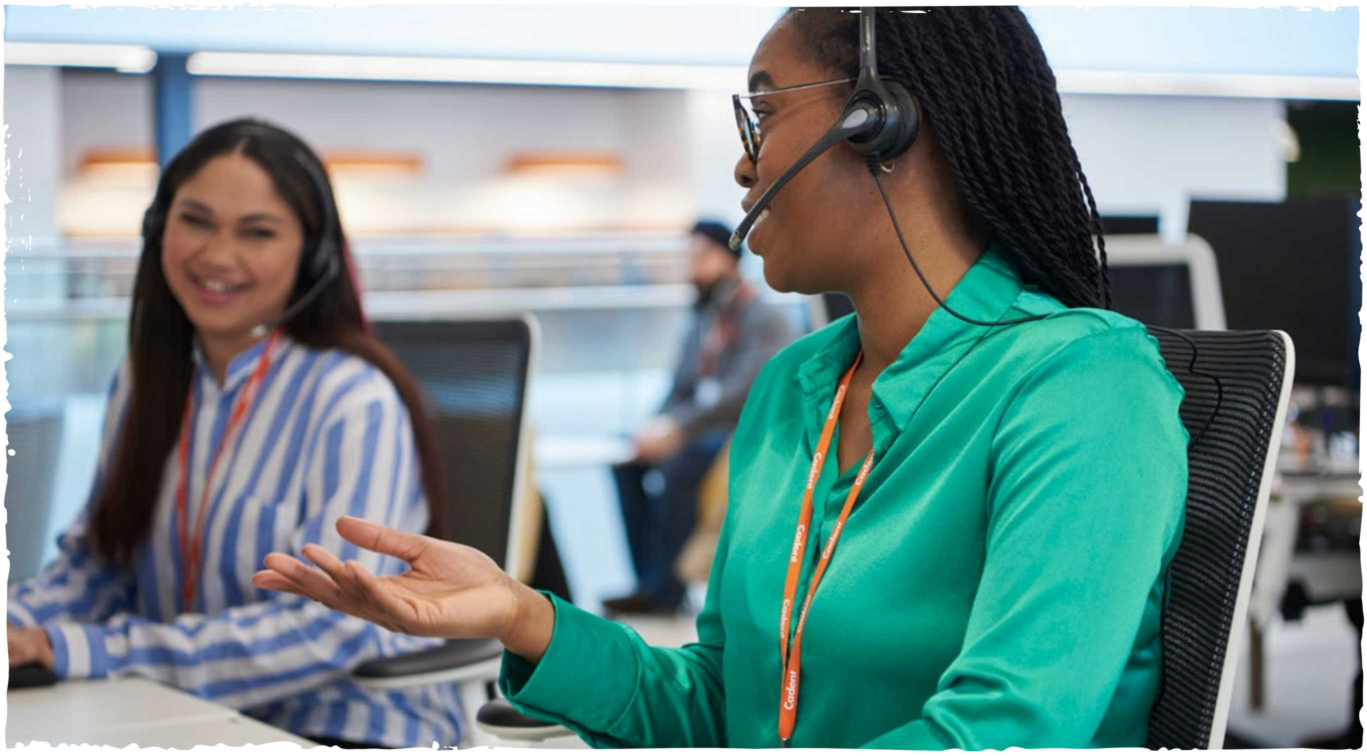
We are a member of the Utilities Modern Slavery working group which collaborates with the Slave Free Alliance. As part of this working group, we continually review our procurement processes to keep them in line with best practice in the utilities sector, preventing enforced labour, human trafficking,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

Our modern slavery statement is updated annually and published on our website in line with the Modern Slavery Act requirements.

Promoting a 'Speaking Up' culture

Always Doing the Right Thing provides colleagues with comprehensive guidance on common ethical issues. The ethical code of conduct promotes a culture of 'speaking up' which is supported by a network of 'ethics champions' across the business, positive 'tone from the top', and numerous channels available to all colleagues who wish to raise a concern. We have confidential helplines available internally and externally to encourage colleagues to 'speak up'.

We take all allegations of potential ethical misconduct very seriously and have a dedicated Ethics and Business Conduct team trained to independently investigate all reported concerns sensitively and thoroughly and to take necessary remedial action.



Building a business that is future ready and resilient

Using old PPE to help heat homes

A new personal protective equipment (PPE) project has launched in our North West Network to stop old PPE going to landfill, and potentially using it to help keep people warm in their homes.

We've asked our PPE supplier to help us 'do the right thing' and look for innovative ways to reuse this abundant but now redundant kit. Working with recycling specialist ShredStation, we're now encouraging all North West employees, our contractors and sub-contractors – to dispose of their out-of-date, no longer compliant, or unfit for purpose PPE in new blue bins. Hard hats, overalls, glasses, gloves, boots and more –almost everything can go into these bins, which are at five of our North West Network depots. The intent is to turn it into material that can insulate homes, and provide feedstock pellets for power generation plants.

We're already talking to our other networks about rolling this out, and we're also taking lessons learned from Northern Gas Networks, who run a similar scheme.

We're committed to zero waste to landfill, part of our environmental commitment, as we strive to make the societies where we work greener. Initiatives such as PPE recycling are essential in helping us cut bulky items from our waste streams and deliver against that promise, but not only that we'll be helping keep homes warm as the waste will be turned into material to insulate homes.

Our year in review
Transforming the environment

Being a force for good

We've made good progress during the year against our Environmental Action Plan ('EAP'), setting the greener society agenda and driving down our business carbon footprint to tackle climate change.

We continue to be an industry leader in determining and establishing the potential of hydrogen and alternative fuels which will form part of the future energy mix.

We're working on reducing our use of resources and improving our waste management on targeted waste streams. Also engaging with our supply chain, we are setting the agenda for RIIO-2 and beyond, and supporting our Scope 3 emission reduction targets. During the year, we've published our new Green Finance Framework, which is used to finance eligible green projects.

"We want our customers and stakeholders to see us as a Force for Good and managing our climate change impact is critical to how we can achieve this."

Dr Tony Ballance
Chief Strategy and Regulation Officer

Environmental Management System

We continue to operate under our Environmental Management System, certified to ISO 14001:2015. Our management standards are regularly reviewed by internal stakeholders against practices, legislation, and ways of working to ensure the system is continually improved and up to date. We have also implemented a new environmental reporting system for all environmental data, including calculating our business carbon footprint.

Read more on page 49.

Biodiversity

The amount of space and quality of habitats is decreasing, but small changes can have significant benefits. This can be as simple as providing bat boxes/bird boxes/ bird feeders, to more active approaches to promoting the variety of flora at sites to supplement and complement the local environment. Action Plan 16 in our RIIO-2 EAP aims to make a positive impact on biodiversity through enhancement plans that maintain, restore, and impact biodiversity where we operate.

In 2022/23 we have continued the collaborative work with ecologists in surveying our operational landholdings and depots/ offices. This helps us to develop action plans and record the Biodiversity Net Gain* potential possibilities. 44 surveys have been completed in 2022/23, bringing the total to 56 since 2020. These will provide us with an understanding of the surveyed sites' biodiversity baselines, along with feasibility studies concerning potential target habitat creation and enhancements. The number of baseline Biodiversity units provided by the habitats on site is calculated using the Defra Biodiversity Metric 3.1 methodology.

We are working to an external biodiversity standard, and have completed a gap analysis to this standard across the deports. Work has continued in 2022/23 to improve our internal strategy, management standards and awareness among colleagues, including establishing a working group to drive these actions and share best practices.

Embracing sustainable benefits

In May 2021, we undertook the largest change to our company car policy and moved towards an Electric Vehicle (EV) scheme to reduce our business mileage emissions. The scheme provides colleagues with a selection of the latest EV cars on the market and a home charging point to make it even easier for our colleagues to switch to electric. Over the coming years more of our drivers will be changing from petrol or diesel engines as their cars are due for renewal. For 2022/23, carbon emissions associated with company car travel increased by 3.7% due to an increase in business miles being driven by employees, however there has also been an increase in the update of EV vehicles in the overall fleet for company car owners compared with the previous year. The emission change reflects a change to our company car fleet in which a further 113 cars are now full electric.

Our target is to reduce our business mileage emissions intensity by 15% over the RIIO2 period. We are already on track to deliver to this target for our company car drivers – to date we are at a 21.7% reduction from the 2019/20 baseline year.

* Biodiversity net gain (BNG) is an approach to development, and/or land management, that aims to leave the natural environment in a measurably better state than it was beforehand.

Creating future warmth for everyone

A voice for hydrogen

We have played a leading role in raising awareness and educating customers and key stakeholders on the role hydrogen can play in meeting the UK's net zero ambitions. Recent events have highlighted the importance of energy resilience. Working with leading bodies, we have been exploring the positive economic impact of hydrogen's use for heating and as a source of resilience, particularly during periods of low renewable energy (i.e. limited wind or sun).

Our ambition is to make hydrogen a safe, fair, and reliable choice for consumers by actively supporting the development of a hydrogen economy in the UK. To achieve this, we have led a customer campaign aimed at domestic consumers, called Hello Hydrogen, which is now a collaboration with companies across the gas sector. We have also attended and presented at events both in the UK and Europe to share learning and seek further collaboration.

Hydrogen can play a key role in the UK's energy resilience

Low carbon hydrogen has a key role to play in achieving net zero in a way which ensures the security and resilience of energy supplies. It is incredibly versatile and is capable of being made right here in the UK from a variety of different sources of energy. It can be stored for long periods of time, and then converted into numerous forms of energy. All this can help meet the UK's climate goals and reduce its reliance on energy imports.

For example, in the electricity sector, hydrogen can be produced from the excess renewable electricity currently wasted as supply outstrips demand. This hydrogen can then be stored and used to provide heat for buildings and industry or converted by to electricity when needed.

Kick-starting the hydrogen economy through blending

Hydrogen blending has the potential to rapidly increase growth in hydrogen production. It can reduce the curtailment of renewable power generation and start to make significant reductions in greenhouse gas emissions from all users on the gas grid.

This year, our HyDeploy2[1] project, in collaboration with Northern Gas Networks, successfully completed a ground-breaking trial where a 20% hydrogen blend was delivered to over 700 households and small commercial buildings in the village of Winlaton over an 11-month period. This trial has demonstrated that no changes are required in consumer homes, making hydrogen blending a low cost, relatively quick, low regrets solution to begin to decarbonise the gas network.

This unique opportunity means that blending has the ability to be a flexible off-taker of hydrogen allowing production to scale while demand develops, supporting the UK Government's updated target of 10 GW by 2030. We have worked in collaboration with the Energy Networks Association (ENA) and the major gas distribution/transmission networks to publish the blending opportunity[2] across Great Britain. Nationally, 60 TWh of hydrogen could be blended into the grid per annum, the equivalent of fully decarbonising 5 million homes and saving around 10 million tonnes of CO_2 per year. The UK Government recognises the strategic value blending can provide across the entire energy system and we are expecting a policy decision on the future of hydrogen blending in 2023.

Progress against our Hydrogen Ten Point Plan

We set out our own commitments towards building the UK's hydrogen economy in our Ten Point Plan back in 2021. Since then, we have been working to deliver these commitments and published a progress update in September 2022.

Read more at https://cadentgas.com/tenpointplan

Demonstrating a safe transition to hydrogen

We continue to develop evidence to support hydrogen conversion, including leading on the ENA End User Safety Evidence Program and network materials testing program. Recently we collaboratively developed a safety case framework for a village trial, which has been positively received by the Health and Safety Executive (HSE). This will be the basis for either our hydrogen village conversion project or Northern Gas Networks alternative proposal.

1 21935_CADENT_HYDEPLOY_REPORT_v3.pdf
2 GGG Hydrogen blending capacity maps.pdf (energynetworks.org)

Our year in review
Creating future warmth for everyone continued

Hydrogen Village

We selected Whitby in Ellesmere Port as the optimum location for the first hydrogen village in the UK. Throughout 2022/23 we developed our plans for the next stages of the conversion, which have involved looking at network and hydrogen supply requirements, but most importantly how we work with the community to gain support for the trial. This has involved the delivery of around 1100 in-home assessments, and hosting of several open events to gain views and respond to questions raised from residents and the wider community.

In support of the hydrogen village trials and wider education around hydrogen's use in the home, we opened a dedicated experience centre for members of the public and stakeholders to visit. This allowed the local community to better understand the aims of the village hydrogen conversion project and enables people to see hydrogen appliances in action.

In March 2023, we announced our next stage of the programme of activity in Whitby. Following ten months of in-person and virtual consultation, collating views, and feedback, local residents were given the choice to participate in the programme. The proposal now offers residents two choices; to be involved in the Hydrogen Village programme and use hydrogen to heat their homes or remain on natural gas. We have proposed to lay a parallel gas main in Whitby. The existing gas main will transport hydrogen to the properties that opt into the programme, and the newly laid main will supply natural gas to any properties that decide to opt-out. The residents' input is vitally important to how we shape our plans and submission, and we have always stated that we will only do what is right for the community.

We have acted on what we have heard, and we believe we are doing the right thing. We will find out in 2023 which of the Cadent Whitby or the Northern Gas Networks Redcar village projects are successful in moving to delivery.

The 2026 heat policy decision by the Government will clarify the extent to which hydrogen for domestic and commercial heating will be supported. This decision will drive whether or not we will be expected to convert towns and later entire network regions to hydrogen through the re-purposing of existing pipelines.

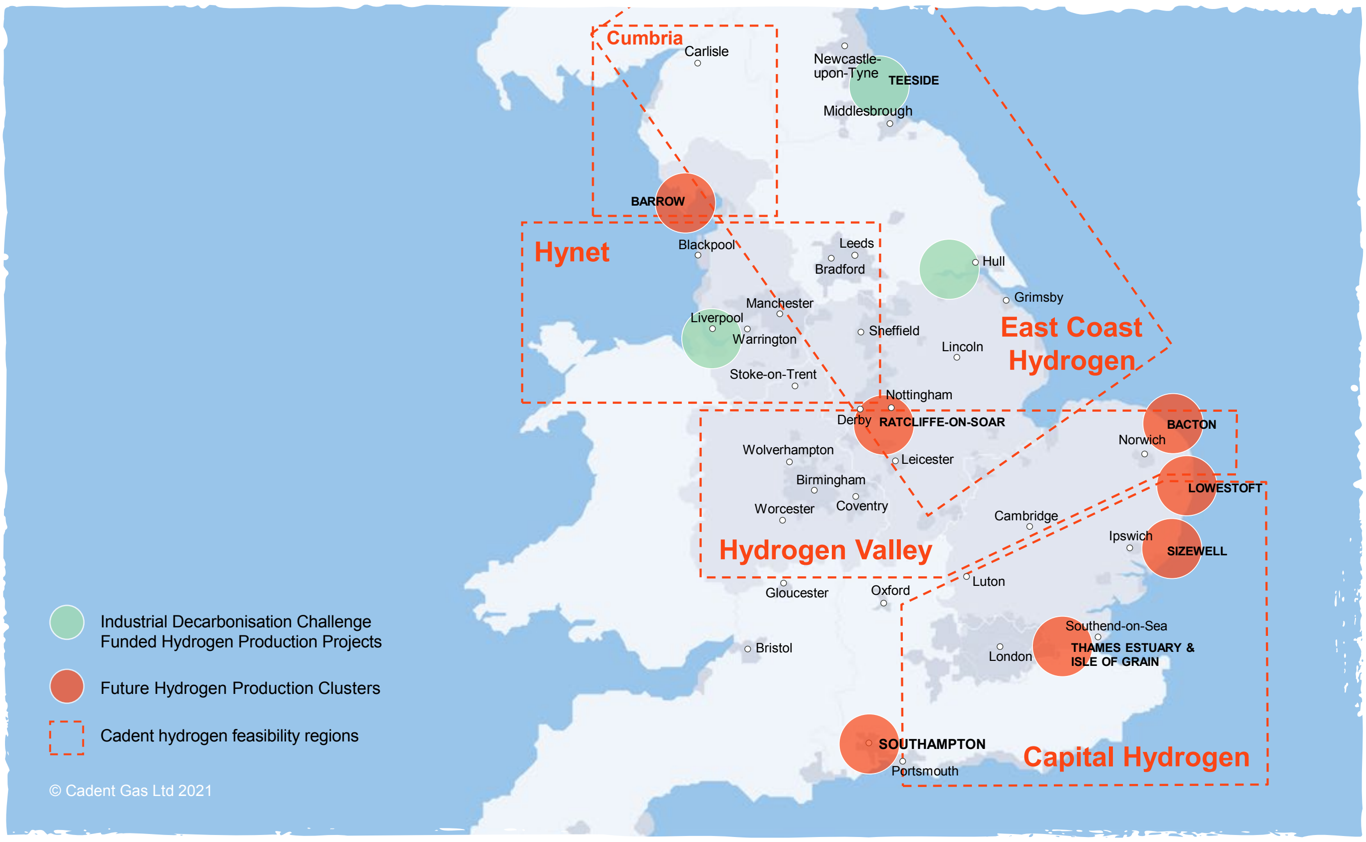
East Coast Hydrogen

In 2021 we established East Coast Hydrogen, a joint programme with Northern Gas Networks and National Gas. The aim of the programme is to demonstrate where and how the conversion of the gas networks in the East Midlands and the Northeast to hydrogen might start, using a multi-staged approach over the next 15 to 20 years.

For us, East Coast Hydrogen would involve the construction of a brand-new pipeline that will allow 100% hydrogen to be transported from production centres in the Humber, South Yorkshire and East Midlands to heavy industry, power generators and transport hubs. The proposed pipeline route crosses from northern Lincolnshire to South Yorkshire and south to Northamptonshire.

During 2022, we have engaged extensively with heavy gas users in the region to understand which companies want to decarbonise their operations by fuel switching to hydrogen. Almost 30 hydrogen forecasts and signed Memos of Understanding (MOUs) have been received from companies in the East Midlands network area.

The map below sets out the footprint of our regional development schemes.



Connections by type

Connection Type	East Anglia	East Midlands	North West	West Midlands	North London	Total	TWh
Bio	13	14	4	10	1	42	3.13
CNG	1	4	5	1	2	13	
Powergen	25	50	57	13	16	161	

Biomethane connections

RIIO Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
(actual)	1	10	22	28	29	32	35	36	39	42
TWh Actual	0.07	0.64	1.44	1.78	2.03	2.38	2.52	2.63	2.87	3.13

* Terawatt hour (TWh) is a unit to express the amount (a trillion watts) of energy produced in one hour.

Capital Hydrogen

This year, we began a new regional development programme, in partnership with SGN and National Gas. Capital Hydrogen seeks to explore how to convert the gas networks of East of England, the Southeast and London to hydrogen. The initial step has involved a feasibility study to identify how much hydrogen might be needed in London (the biggest demand centre in the area) over the next 30 years. The study also considered where it would be produced and stored, how it would be transported and what the benefits would be of such a programme, including helping achieve London's Net Zero by 2030 target.

Hydrogen Valley

We are also undertaking a feasibility study in collaboration with National Gas to look at the potential for hydrogen across the West Midlands region and the steps needed to achieve it. We have called this project Hydrogen Valley, and it seeks to link up with other hydrogen infrastructure developments (such as HyNet, East Coast Hydrogen, Bacton and Project Union) to optimise the opportunities for bringing hydrogen into the area.

HyNet

Over the past year we have focused on delivering the design, engineering and DCO (Development Consent Order) consent preparation for a 125km hydrogen pipeline forming part of the HyNet industrial cluster in the North West. HyNet is a consortium of organisations integrating hydrogen production with carbon capture and storage that enables energy-intensive industries to reduce their carbon emissions. Our fellow consortium partners are Progressive Energy, Essar, ENI, Inovyn, Hanson, and the University of Chester.

During the year we have undertaken route design, a non-statutory consultation with the public, route and corridor refinement, and a statutory consultation with stakeholders. We are now on track to firm up our designs ahead of our DCO submission this year. Works to progress wider requirements including the case for safety and operational readiness have been initiated with additional suppliers and our material selection works have begun. We have also identified an opportunity for early development of one phase of the pipeline network (Phase 1b), to aid hydrogen supply between a number of producers and heavy demand users, which also aids supply to our own Hydrogen Village project.

Serving industry, power and transport sectors

Approximately 33% of our current demand comes from industry, transport, and power generation. Over the past five years we've seen substantial growth in the power generation sector with 161 sites now connected to our network. Power generation sites provide the electricity market with the flexibility to manage demand spikes. Sites connected to our network are often designed as a bank of generators providing further flexibility and can typically be online within five to seven minutes.

We have 13 compressed natural gas filling (CNG) stations connected to our network, providing transport operators with the opportunity to substantially decarbonise their fleet by using biomethane that has been sourced from anaerobic digestion plants connected to our network. CNG vehicles running on biomethane emit less than 80% CO_2 in comparison to a diesel equivalent vehicle. Nottingham City Transport have also moved to CNG buses to provide public transport with a fleet of 120 buses running on biomethane from a local anaerobic digestion plant, saving 3.5 million KG of CO_2 per year.

Our network now has 42 anaerobic digestion plants connected, which provides biomethane to homes, industry, power generation, and transport. Biomethane is produced by fermenting organic matter, making use of feedstocks ranging from farm and animal waste to food and sewage waste, crops, and silage. The production and injection of biomethane into the gas grid offers a green and sustainable solution to waste management for industrial, commercial, and domestic users, while providing an additional green revenue stream. The 42 biomethane sites provide the equivalent of heating up to 272,467 homes annually. We're expecting this to increase due to the Environment Act 2021 mandating the separate collection of household food waste by 2024/25. The introduction of the new Green Gas Support Scheme has provided the market with a sustainable financial and environmental future for biomethane to gas grid and has resulted in a renewed interest in the connection of further biomethane sites.

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

Our path to decarbonising our business operations for future generations

In 2019/20 Cadent emitted 1.66m tonnes of greenhouse gas emissions (Scope 1 and 2). Our own net zero strategy is split into three distinct areas. 1) Decarbonising our business operations, 2) Reducing our environmental impact, 3) Facilitating the low emissions energy system transition. Our Environmental Action Plan states our ambition and targets for our current price control period, RIIO-2. We know that as we grow our emissions will grow and that's why we're aligned to becoming net zero by 2050 based on our 2019/20 baseline, no matter how much our company grows.

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

Cadent's Net Zero Roadmap

Moving faster

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

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

Construction
- Introduce net zero construction sites from 2023

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

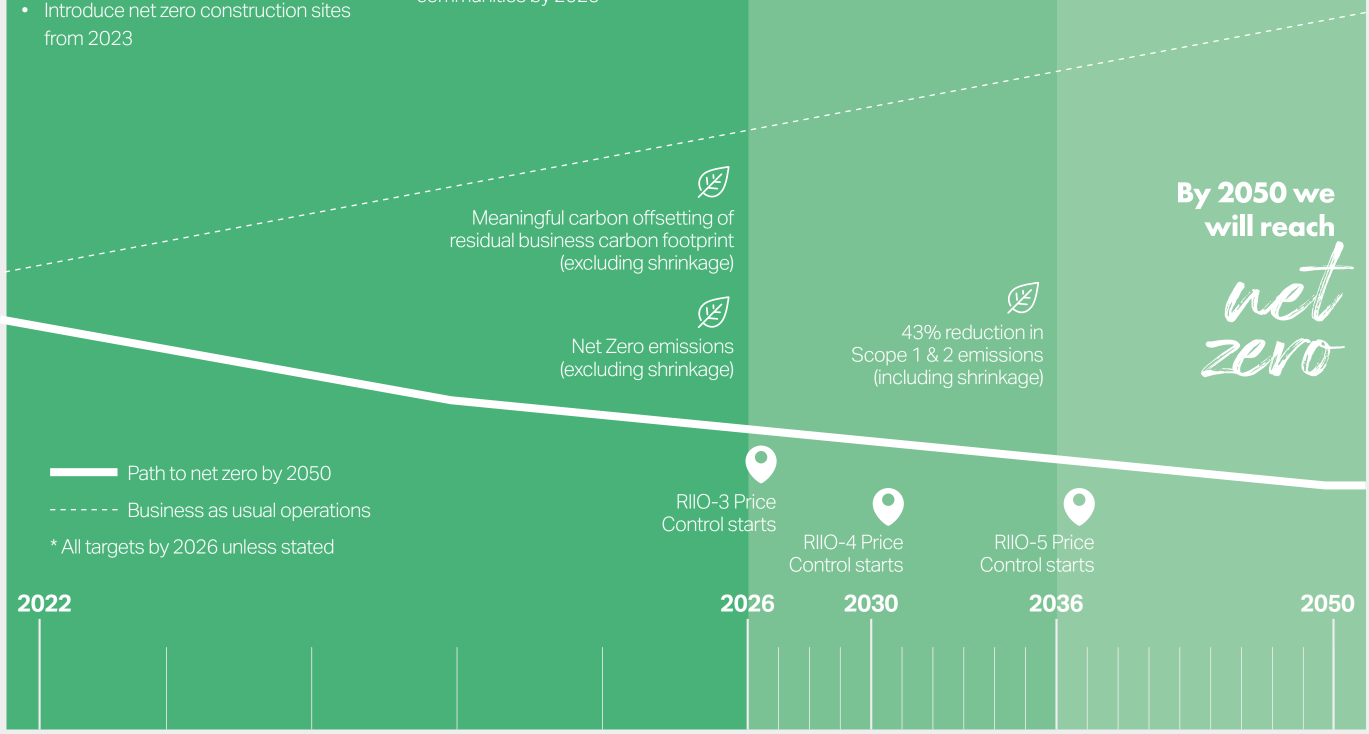
Shrinkage
- Outperform our reputational shrinkage incentive target

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

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

Delivering our promise

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



We continue to showcase how the gas industry can and will tackle climate change as we continue to champion a whole systems approach to decarbonisation, emphasising the role of green hydrogen as a low carbon alternative to natural gas. We have been leading several projects and trials, as well as meeting leaders across the political spectrum, industrial users, and multinational energy companies to establish key relationships for hydrogen production and blending. We would argue that the gas network offers a seamless and familiar transition to a cleaner, greener future, with our Green Print and Ten Point Plan strategies demonstrating our long term commitment to decarbonise heat while minimising the impact to consumers.

Consistent with the Task Force on Climate Related Financial Disclosures (TCFD's) current recommendations we set out in the following sections our disclosures in respect of the four pillars of governance, risk management, strategy and metric and targets. Where aspects of our disclosures appear elsewhere in our Annual Report they are clearly referenced at the beginning of each section. In reaching full consistency this year, we have included climate related scenarios and completed the first stage of our assessment into the physical and transitional risks facing the Group under 1.5°C, 2.3-2.8°C and 4°C scenarios, with the outcomes detailed in this disclosure.

Governance

TCFD Recommended disclosures	Our disclosures
a) Describe the Board's oversight of climate-related risks and opportunities	Corporate Governance Report Pages 72 to 76 TCFD Pages 39 to 40
b) Describe management's role in assessing and managing climate-related risks and opportunities	How we manage risk Pages 55 to 62 TCFD Pages 41 to 43

The Board's oversight

The Board of Directors is responsible for the oversight of climate-related risks and opportunities impacting the Group. They in turn delegate some elements of their responsibility to their various sub-committees, as set out in the diagram below.

Board of Directors

The Board maintains oversight of key climate-related risks and opportunities, which reflect the Government's commitment to decarbonise all sectors of the UK economy to achieve net zero by 2050. Such oversight includes the company's Future of Gas Programme which encompasses a strategy to decarbonise energy and develop pathways that will help the UK to achieve net zero.

At each Board meeting, the Board receives an update on progress in relation to the Future of Gas, Sustainability, Social Responsibility and Environment from our CEO addressing climate related risks and opportunities where appropriate. This standing item is supplemented by focussed reports and presentations from members of the Executive and Senior Leadership Team, which are carefully considered and discussed by the Board to assist it to guide strategy and provide stewardship to the business. This year, the subject matter of these included reports on our Hydrogen Village bid; progress with our HyNet North West industrial decarbonisation project and careful consideration of how to maintain an effective flow of information to inform decision making. The Board also approved sustainability and energy transition related short term and long-term incentive plan measures, reinforcing the top down commitment to tackling climate related issues.

Further, recognising the significance of our Future of Gas Programme to responding to climate-related risks and opportunities, the Board held two strategy days providing time for additional reflection and consideration of our Net Zero Strategy. These sessions are led by our Strategy and Regulation Team and include presentations and input from external specialist speakers and consultants to inform discussion.

The Board is supported by the work of its Committees (see page 77 onwards for the work of the Committees).

Board Committees

Audit & Risk Committee	Nomination Committee	Remuneration Committee	Safety Committee	Sustainability Committee
See pages 83–87 for report	See page 88 for report	See pages 89–93 for report	See pages 77–79 for report	See pages 80–82 for report
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.	Ensures sustainability related skills and experience form part of executive director and executive recruitment and succession planning considerations.	Duties include the consideration and approval of short-term and long-term incentive plan measures, which include environmental performance measures and performance against such measures.	Provides independent assurance to the Board regarding the scope, adequacy and effectiveness of the company's management of safety, including the integrity and resilience of operational assets relative to climate related factors.	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, associated trend data analysis and progress against our RIIO-2 Environmental Action Plan.

Climate-related financial disclosures
Governance continued

Committee Chairs provide a report to the Board following each meeting. Doing so ensures that the scrutiny and consideration of matters undertaken by the Committees can be factored into the Board's thinking and decision-making. Committee members are selected by reference to their relevant skills and expertise. You can read more about our Board members' experience at pages 67 to 71.

In making decisions and providing oversight and guidance on climate related issues the Board operates in compliance with statutory duties under s.172 of the Companies Act 1986 and the Wates Corporate Governance Principles for Private Companies.

In deciding which matters are sufficiently material to report, the Board has had regard to these duties and principles, as well as the factual and anticipated impact of the matters reported relative to company strategy, risks and opportunities as described in more detail below.

The climate-related risks and opportunities the organisation has identified over the short, medium, and long term can be found in the Principal risks on pages 55 to 62 and below.

Management's role in assessing and managing climate-related risks and opportunities

Executive Committee

Our climate related risks and opportunities are identified, assessed and managed by our Executive Committee with specific focus areas delegated to the Net Zero Transition Committee, which oversees the delivery of Future of Gas Programme; the 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; and the Safety and Engineering Committee, which oversees environmental performance, with input from the RIIO-2 Environmental Steering Group which monitors progress against our RIIO-2 Environmental Action Plan. These groups meet monthly, led by Executive Members, to monitor progress of action plans and provide assurance of commitments made to prepare the business for the transition to net zero.

The Executive Committee also receives an update from the Strategy and Regulation Function, detailing progress against our Future of Gas Programme, and from the Audit and Risk Team addressing identification, assessment and management of our risks, controls and assurance activity, which includes climate related risks. It is also updated on matters considered at all sub-Committees. Our organisational risk management practices are detailed on page 55 onwards.

Reports are tabled for discussion at our sub-Committees and/or the Executive Committee before being presented to the Board/Board Committees, ensuring a thorough approach benefitting from wide-ranging operational input and debate. Attendees at these Committees purposely overlap with attendees at the Board/Board Committees ensuring information and strategic thinking is shared effectively between the Board and the operational business.

We provide regular training and engagement updates on climate related issues through our monthly "cascade" delivered at team meetings and through our staff intranet. A number of our senior leaders attended strategy focused conferences covering our net zero ambitions and progress.

Strategy and Regulation Team	Audit and Risk Team	Net Zero Transition Committee	Resilience Committee	Safety and Engineering Committee

Executive level committees / other input on climate change matters

Strategy

TCFD Recommended disclosures	Our disclosures
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Principal risks Pages 55 to 62 TCFD Pages 41 to 43
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Strategic performance Pages 55 and 62 TCFD Pages 41 to 43
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	TCFD Page 43

Overview of our climate-related risks and opportunities

Our core business activity is the ownership, operation and maintenance of a pipeline network responsible for transporting natural gas from the national transmission system to where it is needed across the 11m industrial, commercial and residential consumers across our regions. As Cadent is domiciled in the UK, earns all its revenue in the UK and has all its assets located in the UK, the risks and opportunities have been considered at a UK level.

Natural gas is both a fossil fuel and a greenhouse gas. Leakage of methane from our network releases greenhouse gases and contributes to climate change. Our long-term focus is the conversion of our asset to transport low carbon alternatives to natural gas, such as hydrogen. 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 hydrogen being an exciting part of our low emissions system solution. The climate-related risks and opportunities that pose a potentially significant financial or reputational impact are detailed below, along with our basis of measuring the risk/opportunity and our strategic response to each risk/opportunity that underpins our resilience assessments. To assess the relative materiality, we established scope of impact, timeframe and likelihood for each risk and opportunity using internal analysis, market data and information from subject matter experts across our business.

The climate-related risks and opportunities were evaluated up to 2050, defining the time horizons for likely occurrence as follows: short term (0-3 years), medium term (3-10 years) and long term (10+ years). The time horizons selected were driven by our regulatory framework with short term covering the majority of the current price control period, medium term to take us beyond the next price control period and long term for the period to 2050. The financial impact of each risk / opportunity aligns with our internal risk management framework (the risks identified feed in the Principal Risk and level 2 risks – see below) with very significant representing an impact of typically >£25m, major representing an impact of typically £8-25m, moderate representing an impact of typically £3-8m and minor representing an impact of typically £500k-£3m.

Our risk and opportunity assessments can be seen in the table below.

Risk/opportunity type and description		Our response
Transitional Risk (Policy & Legal / Market): Government heat policy does not set out a role for the gas networks to provide future domestic energy needs or market demand does not materialise.		We recognise that there are a range of possible future scenarios regarding our network and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route. We are continuing to assess what impact the scenarios would have on our assets and we continue to work with stakeholders across the industry, including Government and regulators, to provide the evidence base necessary for them to take an informed decision on the potential use of hydrogen to decarbonise heat in buildings. This includes evidence from the Department for Energy Security and Net Zero Hydrogen Heating Programme with projects exploring the safety and technical elements of a transition to Hydrogen for heating. We have also had projects looking at the technical and safety evidence for blending (which includes Hydeploy and Hydeploy2). We are now seeking to trial how we would convert networks to hydrogen on a larger scale through the H100 project in Scotland (SGN led with Cadent support) and our own Hydrogen village project (looking to convert up to 2,000 homes and businesses) in Whitby, Ellesmere port. Our ongoing programme looking at the future role of gas is also exploring the economics of supply and demand of hydrogen for domestic energy needs to ensure that it is a cost effective and attractive option for consumers.
Timeframe	Long term (10+ years)	
Likelihood	Equally likely as unlikely	
Financial Impact	Very significant impact to revenue	
Cost of Response	Very significant impact to operating costs	
Residual Risk	Equally likely as unlikely	
Physical Risk: Consequences (Operational disruptions, supply chain challenges, etc.) due to extreme weather events become more frequent and more severe		Our Resilience Policy Statement sets out our framework for both business and gas supply resilience and signposts our Safety Case, required by the Gas Safety Management Regulations 1996 (as accepted by the HSE and reviewed every three years). Our Safety Case is the primary repository of risk controls for gas supply. The environmental risks covered in the Safe Case 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 are developing a Flooding Resilience Framework, and sharing this framework with the Department for Energy Security and Net Zero Gas Taskforce Group, to support the development of best practice within the onshore UK gas industry. In 2022 we published our updated Climate Change Adaptation Report; this was a third-round DEFRA report. 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.
Timeframe	Short (0-3 years), Medium (3-10 years) and Long term (10+ years)	
Likelihood	Equally likely as unlikely	
Financial Impact	Major impact to operating cost	
Cost of Response	Major impact on investment	
Residual Risk	Less likely	

Climate-related financial disclosures
Strategy continued

Risk/opportunity type and description		Our response
Transition Opportunity: Cadent to grow revenue streams through non regulated activities and/or to increase our RAV through the development of the network to support net zero demands.		We recognise the significant role hydrogen will need to play in supporting the UK's economy, as we seek to decarbonise industry and ensure energy resilience. All Hydrogen scenarios present opportunities for Investment, RAV growth and extending the economic life of our assets in the medium and long term driven by significant capital investment.
Timeframe	Medium (3-10 years) and Long term (10+ years)	
Likelihood	Likely	
Financial Impact	Very significant impact on revenue and investment	
Cost of Response	Major impact on investment	
Residual Risk	Likely	
Transition Opportunity: Opportunities exist to accelerate reduction in our business carbon footprint through policy statements that provide funding for a faster transition to hydrogen.		We have undertaken a number of feasibility studies across our footprint (in collaboration with other gas networks and National Gas), to understand where hydrogen could be produced in the future and the potential level of demand from high energy users. Alongside this we have engaged with industry and the government to feed into their net zero plans (and to influence hydrogen infrastructure funding decisions). The outputs of the feasibility studies (such as our East Coast Hydrogen and Capital Hydrogen projects) have been well received and confirm the need for new hydrogen pipeline infrastructure to facilitate connections between producers and users. We are now seeking to progress these projects further to Pre-FEED and beyond.
Timeframe	Medium (3-10 years) and Long term (10+ years)	
Likelihood	Equally likely as unlikely	
Financial Impact	Very significant impact on revenue and investment	
Cost of Response	Major impact on investment	
Residual Risk	Equally likely as unlikely	
Transition Opportunity: Cadent to play a significant role in the creation of a future hydrogen economy (skills / supply chain / commercial models / etc.).		In 2021, Cadent set out a set of 10 commitments in support of the development of the UK's hydrogen economy. Since then we have been progressing activities to deliver on our promises, which includes our commitment to establishing a Hydrogen Skills Academy and delivering the UK's first 100% hydrogen pipeline by 2027 (connecting multiple industrial users, power generation and other users across the North West). As we progress further industrial decarbonisation projects like HyNet, we will start to provide jobs and support economic growth in the areas we are working within.
Timeframe	Medium (3-10 years) and Long term (10+ years)	
Likelihood	Equally likely as unlikely	
Financial Impact	Very significant impact on revenue and investment	
Cost of Response	Major impact on operating costs	
Residual Risk	Equally likely as unlikely	
Transitional Risk (Policy & Legal): Failure to decarbonise our business operations to meet our carbon emissions targets, leading to reputational damage and adverse financial impacts.		We regularly monitor and report on Scope 1, 2 and 3 emissions, tracking a reduction in our Business Carbon Footprint following the implementation of cross-function projects. We regularly engage and communicate our performance of the current environmental strategy to stakeholders, which will enhance our ability to influence regulatory funding for further decarbonisation in RIIO-3. We are actively investing in network upgrades of pipework, replacing iron mains with PE pipes to reduce the methane emissions from the distribution network. We continue to work with The Carbon Trust on reviewing our upstream and downstream emissions in the value chain, regularly reviewing and increasing the scope of monitoring. We are also on their Route to Net Zero pathway. We'll demonstrate the positive environmental outcomes delivered through our Environmental Action Plan and innovation projects in this space to justify additional regulatory incentivisation to go further in subsequent price controls.
Timeframe	Short term (0-3 years)	
Likelihood	Low	
Financial Impact	Minor to moderate impact on revenue	
Cost of Response	Major impact on investment	
Residual Risk	Low	
Transitional Risk: (Policy & Legal): Access to green capital may be restricted if we are perceived to be part of the problem.		Maintain a diverse source of funding in both Green and conventional markets. Support investor understanding of our contribution to decarbonisation and green credentials / performance through continuous investor work in both a deal and non-deal environment. We have published our new Green Finance Framework, which is used to finance eligible green projects. This replaces our existing Transition Bond Framework with the move towards supporting sustainable environmental objectives that reflect changes in standards and expectations in sustainable debt markets. In March 2023, the framework was used to issue £300m Green Bonds with proceeds to be allocated to eligible projects within a year from issuance.
Timeframe	Medium term (3-10 years)	
Likelihood	Equally likely as unlikely	
Financial Impact	Moderate access to capital	
Cost of Response	Moderate access to capital	
Residual Risk	Less likely	

Climate-related scenario analysis

All plausible pathways to decarbonisation include low carbon hydrogen as part of the energy mix. While the volume and end use case of that hydrogen remain uncertain, there will be a need for a pipeline network to move it from where it is produced to where it is demanded. As part of our commitment to use our asset to enable the transition to clean energy and achieve the UK's net zero carbon emissions by 2050 goal, we are working across the energy sector to understand where hydrogen pipelines will be needed, and where they will not.

Climate-related scenario analysis is central to this work, helping us better understand the potential role of hydrogen in reaching net zero, across different potential classes of energy users, geographies and time dimensions. This modelling is then used to inform our strategic, operational and financial planning processes

Three climate scenarios were developed to evaluate both the potential physical climate-related risks as well as potential transitional impacts. The scenario data is modelled using the Net Zero Emissions by 2050 (NZE) and Stated Policies (STEPS) scenarios, developed by the International Energy Agency (IEA), and the SSP1-1.9, SSP2-4.5 and SSP5-8.5 scenarios developed by the Intergovernmental Panel on Climate Change (IPCC).

The **low-emissions scenario** assumes a rapid phase out of fossil fuels, enabling Cadent to reach net zero by 2050 and limit global warming to 1.5°C with little to no overshoot. Presenting relatively low physical climate-related risks, the scenario does lead to significant transitional risks as the energy industry is decarbonised, enabling Cadent to explore the resilience of its net zero transition strategy and emissions reduction plan. Under the low-emissions scenario, through our modelling, we believe our current business strategy to be resilient.

The **medium-emissions scenario** assumes that the moderate and heterogeneous climate ambition reflected in today's policy settings continues over the 21st century, resulting in a 2.3-2.8°C global warming. While not all national emissions reduction targets are achieved, the demand for all fossil fuels will decline by 2030 in advanced economies, even though global climate action continues to be disjointed and uncoordinated. Therefore, this scenario presents moderate to significant physical and transitional risks providing a framework for exploring how our current strategy resists the stress of facing both physical and transitional risks.

The **high-emissions scenario** relies on IPCC's SSP5-8.5 climate scenario data, assuming that the reliance on fossil fuels continues, with little to no climate policy action, leading to an exponential increase in GHG emissions and a 4°C global warming by 2100. While this scenario has been criticised as too extreme, its inclusion in the climate scenario analysis enables one to explore the potential physical climate-related risks under a 'worst case scenario'. All projections of future global temperature rise are probabilistic in nature: as an example, while the medium-emissions scenario presumes an average 2.6°C global warming, it includes a 10% chance of a temperature rise above 3.2 °C in 2100, posing significant physical climate-related risks. Hence, modelling for an extreme 4°C warming enables us to gain a comprehensive understanding of the physical climate-related risks that may occur and develop appropriate mitigation strategies.

Physical Risk

The insights from our scenario modelling show that all scenarios will result in physical impacts to our gas network across consistent areas of our operations; however, the impacts are most material in a high emissions scenario. A full climate assessment was produced for the highest priority hazards; prolonged and heavy rainfall leading to flooding, extreme high and low temperatures and drought cycles. For the remainder lower priority hazards, a qualitative approach was undertaken; sea level rises, warm and wetter conditions, followed by heavy rainfall and/or wind, storm surge and wave height. Cadent is developing strategies and mitigation plans to manage these emerging risks. Cadent is also working with the Department for Energy Security and Net Zero and the wider onshore UK gas industry to develop and promote standards and best practice.

The societal response to climate change has also been considered in the context of hazards to the gas network. Impacts of the weather hazards on the network are likely to come in the form of an altered dependency between weather and supply and demand. Interconnections between different industry sectors is a source of risk for Cadent, with failures from one sector frequently causing impacts. We are continuing to progress our physical risk analysis to inform our strategic planning and investment choices. Further detail can be found in our Climate Change Adaptation Report.

Transitional Risk

There is significant transitional risk, particularly from low and medium emission scenarios. Although all plausible pathways to net zero contain hydrogen, there is a wide range of projections for hydrogen demand volumes and use cases, and the time frame this will all occur over. However the Government's Ten Point Plan, the Energy White Paper, the Hydrogen Strategy and the Heat and Buildings Strategy all propose a significant role for the gas infrastructure and particularly hydrogen in supporting delivery of the UK's net zero ambition.

Hydrogen is not the only solution to decarbonisation and will be used in combination with other technologies, such as renewable electricity, heat pumps, heat networks and biomethane.
The uncertainty over which pathway the UK will follow to reach net zero creates transitional risk for all energy utilities associated with accurately planning infrastructure development. The infrastructure we need can take several years to deliver. We are mitigating this by working closely with Government, regulators, system operators, regional and local authorities and customers to understand need and build 'whole system' plans that minimise uncertainty and risk.

Climate-related financial disclosures
Risk management

TCFD Recommended disclosures	Our disclosures
a) Describe the organisation's processes for identifying and assessing climate related risks.	Principal risks Page 58 TCFD Page 44
b) Describe the organisation's processes for managing climate-related risks.	Principal risks Page 58 TCFD Page 44
c) Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organisation's overall risk management.	Principal risks Page 58 TCFD Page 44

Identifying and Assessing Climate Change risks

New and emerging climate related risks are identified and assessed through our horizon scanning process which are routinely undertaken as part of our wider risk review framework. The risk that we fail to respond to 'climate change and biodiversity' is one of our 'Principal Risks', overseen by our Executive, Board and Board Committees. This principal risk has been sub-categorised into the following three elements which are recorded as individual 'level 2' risks, each with a responsible risk owner.

Reducing our impact on climate change – The risk we do not appropriately assess and/or mitigate our GHG emissions.

Adapting to climate change – The risk that we fail to adequately adapt to potential climate change scenarios that impact our assets and operations for example, heat waves, droughts, floods, storms, and wildfires.

Net zero – The risk that the gradual but continual decarbonisation of the energy system, including ensuring an end to the unabated use of fossil fuels such as natural gas may lead to a reduction in the use of gas networks in the future.

Additionally, resilience from, and response to potential climate change related incidents, such as extreme weather incidents, are assessed and reviewed through our 'Changes of external landscape' principal risk.

Managing Climate Change Risks

Each of the three level 2 risks, and all associated operational risks are routinely assessed in line with our strategic risk appetite, which, for climate change and biodiversity has been set at 'Open' meaning that we are 'proactive in respect of addressing climate change', for example, through the repurposing of existing gas networks to hydrogen.

If risks, taking into consideration existing controls, do not meet our target appetite, a proactive management response will be taken, most commonly enhancement of existing controls or the addition of new ones. Risks and resulting actions are reviewed and managed operationally via our risk management framework, as described below, however, given their importance, climate change risks (or issues) are given a specific focus via our Board Sustainability Committee. This is in addition to our standard risk escalation process to the Executive, Audit and Risk Committee and the Board. Risks that require resilience planning and response to ensure we are prepared if the risk is to materialise, for example, extreme weather events, are similarly escalated and challenged via the Executive Resilience Committee, the Board and its committees.

Integration of Climate Risk Management into the overall risk management framework

The Board have an overall responsibility for risk management. They discharge this by overseeing and challenging management, who have the responsibility for identifying and assessing risks within our overall governance structure.

As well as each of the three elements of climate change and biodiversity risks being reviewed in their own right, they are also considered as part of our wider risk management framework. As a result, when business decisions are being considered, a range of potentially competing risks including climate change will be considered while seeking to achieve the overall risk appetite set by the Board. For example, in considering fleet risk management, climate change, along with cost and operational factors were taken into account in determining our future fleet make up. This resulted in a significant move away from a diesel fleet towards an electrical, and, where this was not possible a biomass powered fleet.

Integrated Risk Appetite

Strategic Risk Appetite

Operational Risk Appetite

Operational Risk Appetite targets set using Strategic Risk Appetite outcomes

- Set by Board
- Aligned to principal risks
- Sets appetite for risk-based decision making
- Measured by an agreed tolerance
- Periodically reviewed at Board

- Managed by risk owners
- Aligned to functional risks
- Sets appetite for control & mitigation of risks
- Measured against target risk scores
- Regularly reviewed within Revolver

Climate-related financial disclosures
Metrics & targets

TCFD Recommended disclosures	Our disclosures
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	TCFD Pages 45 to 46
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	Pages 47 to 48 TCFD Pages 45 to 46
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 47 TCFD Page 46

Measuring our progress

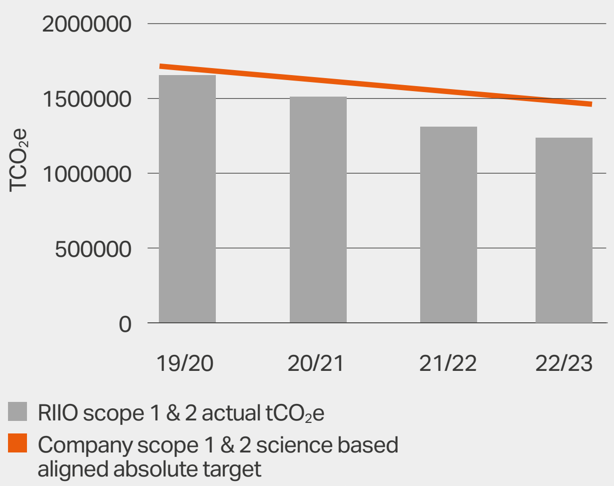
We measure and manage a wide range of metrics which help us assess how well we are doing to minimise our risks in a changing future. These metrics are reported each year in our Annual Report and Accounts SECR (Streamlined Energy Carbon Reporting) table (see page 48) which provides a transparent assessment of our performance for the current year and provides the previous year's data for comparison. Other reports which are relevant include our annual Sustainability Report, Social Impact Report and Annual Environmental Report.

Climate change metrics and targets

Our metrics and targets enable us to measure our impact on the environment, monitor our performance and demonstrate our commitment to reducing the impacts of climate change. We are committed to reduce our impact by achieving net zero for our Scope 1 and 2 emissions by 2050 and we are actively measuring Scope 3 emissions within our supply chain. Our GHG emissions reduction targets are science-based aligned and we currently await new methodology from the SBTi to pursue external accreditation.

Further metrics support and complement our broader sustainability ambition, including reducing our energy consumption, enhancing the natural environment through biodiversity programmes, and responsible recycling of many waste streams through our office and operational sites. These metrics are detailed in our current regulatory Environmental Action Plan and are reported against annually in our Annual Environmental Report.

Science based aligned targets scope 1 and 2 emissions



We are working towards collecting a broader range of data from our suppliers to understand our Scope 3 emissions and will move this forward during RIIO-2. This is part of our commitment to 'work with our suppliers to extend the measures of, and continually reduce, Scope 3 indirect emissions'. Quarterly review meetings are in place with suppliers to review their Scope 3 emissions and improve reporting (see page 47 for progress to date).

In 2023/24 we will align our emissions against The Carbon Trust's Route to Net Zero 'Taking Action' level and as part of this will review our Scope 3 categories to ensure we are taking action against the areas in our supply chain where we can make the most material difference.

Our metrics are monitored monthly through the Safety and Engineering Committee and Executive Committee. The Sustainability Committee 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 we published our first Annual Environmental Report in October 2022 detailing progress against this plan.

Scope 1, Scope 2, and Scope 3 GHG emissions

Our current GHG reduction target, developed with The Carbon Trust, is to reduce Scope 1 and 2 emissions, by 43% by 2036 (19/20 Base Year, equating to a well below 2-degree pathway). This target is set and based on our current RIIO-2 regulatory settlement and is supported by initiatives and commitments made in our Environmental Action Plan. We are on track to achieve this reduction and commit to reviewing, and updating it if necessary, as we recognise the future energy landscape will change at pace during this period.

The SECR disclosure which details GHG emissions and energy use data (Scope 1 & 2) for 1 April 2022 to 31 March 2023 can be found on page 48. The SECR table also shows performance of our emission reduction activities for Scope 3.

Our executive remuneration is aligned to our long-term sustainability ambition (see page 89).

Climate-related financial disclosures

Metrics & targets continued

This table sets out the cross industry metrics and targets relevant to our business against which we have reported together with areas where we intend to develop our reporting in the future.

Cross industry metrics and targets	Disclosure	Reference
GHG emissions (Scope 1, Scope 2 and Scope 3; emissions intensity)	Disclosure has been included of emissions across the value chain including disclosure of emissions from Polyethylene (PE) pipe and from contractor commercial vehicles and intensity metrics.	See page 46 and table on page 48
Transition risks – the amount and extent of assets or business activities vulnerable to transition risks	Cadent recognises that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to high electrification route and we are continuing to assess what impact these scenarios will have on our asset lives.	See climate-related scenario analysis on page 43
Physical risks – the amount and extent of assets or business activities vulnerable to physical risks	Disclosure has been included within the physical risk section within the Strategy section. Further information can be found in our Climate Change Adaptation Report published in 2022.	See physical risk disclosure on page 41
Climate-related opportunities – the proportion of revenue, assets or other business activities aligned with climate-related opportunities	Climate related opportunities have been included within the Strategy section. The amounts have not been quantified as detailed modelling is dependant upon a number of key policy decisions in the UK.	See opportunities disclosed on page 42
Capital deployment – the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities	Climate related risks/opportunities have been included within the Strategy section. Capital deployment figures not disclosed as the detailed modelling required is dependant upon a number of policy decisions in the UK without which difficulties remain in planning infrastructure development.	See risk and opportunities disclosed on page 41 and 42
Remuneration (% remuneration recognised in current period that is linked to climate-related considerations, and how these are factored in)	Remuneration policies for executive directors include elements linked to climate considerations including STIP (waste reduction and tier 1 mains replacement) and LTIP (tier 1 mains replacement and progress against environmental plan).	See Directors' Remuneration Committee report on pages 89-101

Describe the targets

Our overarching goal is to reduce our GHG to net zero in line with the UK Government's ambition by 2050. Our most important reduction activity is the mains replacement programme, while we continue to make a case for hydrogen as an alternative to natural gas.

We have consistently reduced our GHG emissions beyond the absolute target defined in our science-based aligned targets versus the baseline year 2019/20. For 2022/23 our target was 1,456,494 tCO_2e and the actual was 1,227,883.11 tCO_2e, a 29% reduction against baseline.

Our Scope 1 & 2 key emissions areas are:

1.56%

fuel use for vehicles

Changing to electric vehicles will be key to eliminating our emissions while we also strive to achieve a 15% reduction in our business mileage emissions intensity by the end of March 2026. All new company cars are now electric or hybrid and we are 18 months into a programme to replace our commercial fleet with the aim of transitioning our first responder fleet of 1,000 vehicles to electric power by 2026. Our fleet of 10 HGVs also run on biomethane. We are installing over 400 charging points across our sites. We encourage our colleagues to eliminate unnecessary journeys by using technology for meetings.

0.07%

emissions from gas used at our sites

We are pursuing our commitment to procure 100% certified renewable energy to meet our energy needs by 2026. We are also using hydrogen-powered generators at construction sites. We now procure 100% renewable gas subject to market availability.

95.44%

emissions from natural shrinkage (leakage, theft and operational use gas)

Methane is a strong greenhouse gas, with over 100 times the global warming potential of CO_2. A small part of the gas we transport in our network is lost, which is known as shrinkage (gas lost from our network through old pipes, theft of gas or the gas used to operate our assets). The most effective action we can take to reduce leakage remains the replacement of these assets; upgrading our pipeline network with modern low emissions materials.

In addition, the level of leakage is a function of the system pressures that we operate the network to. If pressures are reduced then leakage reduces, although the extent to which we can do this is capped by the need to maintain a safe operating pressure to deliver supplies to end customers. We are also able to reduce leakage by applying gas conditioning to joints within the iron pipes.

Theft of gas is one of the components of shrinkage. We will maximise the benefits to customers and stakeholders by an anti-theft of gas incentive, and our ambition is to recover at least £8m over the RIIO-2 period. Over the past 24 months we have recovered £2,632,232, as reported to the industry via Xoserve.

Our most material Scope 3 emissions currently measured are:

0.40%

emissions from production of PE pipe

The production of raw materials and derived products often takes place along different stages, occurring in multiple locations in the supply chain. This leads to different types of environmental impacts of materials used by the business. PE pipe used in our Mains Replacement Programme is our number one raw material. We purchase 5,000 tonnes per year, and in kilograms it takes more than twice the carbon to manufacture than the finished pipe weighs. In 2022/23 4,970.79 tonnes of CO_2 came from the manufacture of PE pipe.

2.14%

emissions from contractor commercial vehicles

The fleet of commercial vehicles used by our local delivery partners is vast. Our commitment over the RIIO-2 period is 'to work with suppliers to reduce emissions'. As the market for electric vehicles grows we are committed to address the issue of emissions from our contractor commercial vehicles. In 2022/23 26,818.25 tonnes of CO_2 came from our local delivery partner vehicle emissions.

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 and the effect this has had on judgements and estimates such as the useful economic life of our gas assets. See note 2 to the financial statements for details. This remains a recurring area of focus for the Audit Committee.

Business Carbon Footprint

The Science Based Targets initiative (SBTi) is yet to publish its methodology for the oil and gas sector, meaning we can't verify our targets with this body. However, we have developed emissions targets for scope 1 and 2 emissions on trajectories necessary for us to meet the Paris Agreement target of limiting global warming by 1.5 degrees Celsius. We have undertaken screening of our scope 3 emissions and identified action plans to improve reporting. We are working with The Carbon Trust in the coming year to improve our business carbon footprint reporting against a net zero trajectory and reviewing progress in scope 3 reporting.

Our business carbon footprint (BCF) is reported below and includes Scope 1, 2 and 3 emissions, including shrinkage and is reported in tCO_2e.

In 2022/23, our total BCF decreased compared to 2021/22 by 4%, for scope 1, 2 and 3 emissions including shrinkage. This has been driven by updating the Defra conversion factors to the latest 2022 report and by reduction in emission leakage, own use gas, energy use our offices and depots, commercial fleet and embodies carbon in Polyethylene (PE) Pipe.

When reporting our scope 1 and 2 BCF, excluding shrinkage emissions, we have decreased our emissions by 4%.

We continue with our EAP action plans to reduce our carbon footprint, and to date have made progress in the following areas:

- **Scope 1** – Commercial fleet emissions reduction associated with the rollout of EV vehicles. We now have 80 and are on target to have 1,000 by the end of the 2025/26 financial year for RIIO-2.
- **Scope 1** – The purchase of renewable gas, contracted to heat our office and depot locations from sources such as biogas, landfill gas or syngas (*market-based method).
- **Scope 1** – Continued rollout of the new company car policy, where employees can only purchase electric or hybrid vehicles. In 2022/23 on average 80% of our company vehicles are no to low emission, reducing the associated BCF from diesel and petrol company cards by 15.57% since the start of RIIO-2.
- **Scope 2** – The purchase of renewable electricity from sources such as solar and wind for use in our offices/ depots and operations (*market-based method).
- **Scope 3** – Increase in emissions associated with private vehicles used for business mileage by $71.11tCO_2e$ with the continued hybrid ways of working, but also back to pre-covid face to face meetings, allowing employees to mix home and office working.
- **Scope 3** – Embodied carbon in PE pipe has made steady progress, with our suppliers continuing to implement green initiatives, such as solar panels, renewable energy contacts and low-emissions vehicles for transportation. Emissions associated with PE pipe have decreased by 49% based on continued carbon reduction work with our suppliers and improved data capture systems based and improved data capture.

We continue to work towards improving our scope 3 data collection and assessment process, aligned to the GHG Protocol. Excluding shrinkage, our scope 3 emissions make up the majority of the BCF. Further understanding of our emissions in this area will enable us to work more closely with our supply chain and services. Regular contractor and supply chain meetings also focus on this agenda in reducing embedded carbon in the products and services we use.

Our year in review
Transforming the environment

Streamlined Energy and Carbon Reporting (SECR)

The table quantifies our business carbon footprint in tonnes of CO_2 equivalent and shows performance of our emission reduction activities against our RIIO-2 targets. GHG emissions and energy use data for 1 April 2022 to 31 March 2023.

GHG emissions and energy use data for 1 April 2022 to 31 March 2023

Scope 1	Reporting year 2022-2023	Comparison reporting year 2021-2022
Gas usage from our sites (Location-based) /tCO_2e	852.19	987.68
Gas usage from our sites (Market-based) /tCO_2e	0.00	0.00
Natural gas shrinkage (Leakage +Theft of Gas+ Own use of gas) /tCO_2e	1,202,947.08	1,250,137.49
Fuel usage from Commercial vehicles and company cars /tCO_2e	19,538.51	19,675.65
Total Scope 1	1,223,337.78	1,270,800.82
Scope 2		
Purchased electricity for own use (Location-based) /tCO_2e	4,545.33	5,527.45
Purchased electricity for own use (Market based) /tCO_2e	0	0
Total Scope 2	4,545.33	5,527.45
Total Scope 1 and 2 (Location-based) /tCO_2e	1,227,883.11	1,276,328.27
Total Scope 1 and 2 (Market-based) /tCO_2e	1,222,485.59	1,269,813.14
Scope 1 and 2 Energy consumption /kWh	1,153,948,338.93	1,202,166,399.03
Intensity metric: Total scope 1 and 2 (location-based) tCO_2e per £m turnover	524.64	643.64
Intensity metric: Total scope 1 and 2 (Location based) tCO_2e per km of our gas network	11.17	11.65
Scope 3 (Indirect emissions)		
Business travel /tCO_2e		
Rail, Air, Ferry, Car Hire, Private vehicle (grey fleet) use	384.69	243.96
Emissions from production and delivery of purchased PE pipe /tCO_2e	4,970.79	9,881.51
Contractor vehicles /tCO_2e		
Mains Replacement contractor fuel use	26,818.25	21,526.71
Embodied carbon in products, goods and services/ tCO_2e	N/A	N/A
Total Scope 3 emissions /tCO_2e		
As above	32,173.74	31,652.18
Total annual net emissions /tCO_2e	1,260,056.85	1,307,980.45
Intensity metric: Total emissions /tCO_2e per km of network length	11.46	11.94
Intensity metric: Total emissions /tCO_2e per £m turnover	538.38	659.60
Intensity metric: Total emissions /tCO_2e per GWh throughput	5.14	4.98

Background

All data is for the period 1 April 2022 to 31 March 2023 and relates to the business carbon footprint reported to the Regulator. Methodology: All data provided here is in line with the annual carbon footprint reporting to Ofgem using the 2022 DEFRA conversion factors, and are updated annually. Shrinkage is calculated using GWP25 (for methane) in line 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. The total annual net emissions figure uses a location-based methodology. Intensity metrics have been agreed upon via the Energy Networks Association (ENA).

Environmental, Social and Governance (ESG) sustainability benchmark assessments

In February 2022/23 we completed the Sustainalytics ESG assessment and the result was a risk rating score of 14, a decrease* from 19.6 in 2021/22.

Our performance in GRESB (Global Real Estate Sustainability Benchmark) improved to a score of 90 out of 100, up from 83 in 2021.

MSCI (Morgan Staley Capital International) assessment continues to be rated positively with a AAA rating. This reflects our continued commitment to ESG and creating a positive social impact.

United Nations (UN) Sustainability Goals

In 2015, 193 world leaders agreed to 17 Sustainable Development Goals. Also known as the Global Goals or the SDGs, they are a universal call to action to end poverty, protect the planet and ensure all people enjoy peace and prosperity by 2030. To achieve them, every responsible business needs to contribute. Aligned to our Environmental Action Plan, we are working towards a greener society and supporting the following goals:

Our sustainable supply chain

We have been working closely with our supply chain partners during 2022/23, hosting two Supply Chain Sustainability Conferences, where suppliers were able to network and learn more about our environmental and sustainability agenda, supporting us on our road to net zero, driving down emissions and working towards a circular economy.

We continued our partnership with the Supply Chain Sustainability School, maintaining our Gold Membership and attending over 43 events, completing over 115 hours of CDP learning, and accessed 152 unique resources.

Shrinkage

Our business carbon footprint is predominantly influenced by shrinkage emissions under scope 1 of our BCF, accounting for 95% tCO_2e emissions. Shrinkage emissions have reduced by 4% since 2021/22. We are aware of the climate impact that natural gas can cause from the distribution network and are addressing this through mains repair works. These works include ongoing maintenance, upgrades, and pipe replacement. This activity is helping to drive the replacement of historic cast iron pipe with PE (polyethylene pipe), which helps reduce leaks and our emissions. In 2022/23 our leakage from the network was only 0.39% of total gas throughput.

Circular economy and waste

To support the circular economy approach to resource use and waste management, we want to use and value materials for longer, but to also factor in re-use and recycling where possible. We continue with our EAP commitments to measure and reduce our use of resources and waste reduction required for mains replacement works. We have made progress in collaborative work with our contract partners to monitor and measure the volume of first-use aggregate in these works, as well as any spoil generated that is sent to the landfill. During RIIO-2, we aim to meet the following:

- Less than 5% of our waste from excavations is sent to landfill.
  - 2.38% was achieved in 2022/23
- Less than 10% of backfill is first use aggregate in North West and East of England, and less than 5% in West Midlands and North London.
  - 9.78% North West meeting this target
  - 7.62% for East of England meeting this target
  - 1.24% for West Midlands meeting this target
  - 0.05% for North London, meeting this target

We continued our focus on reducing general waste disposal from offices through projects set in 2021/22. Continuing this through 2022/23 has led to a decrease in general waste sent from depots by 184 tonnes. Greater awareness of waste segregation, improved signage and controls suggest increased dry mixed recycling volumes, as our colleagues improved waste segregation at source. This continued effort across all Networks has led to us reducing our general waste generation by 13% decrease, below the initial target of 5%, and a stretch target of 8% for the financial year.

2.38%

waste from excavations was sent to landfill in 2022/23. Our target is less than 5%.

Rated 1st globally

out of 94 gas utilities, Sustainalytics ESG risk rating

* Assessment in March 2023 – a decrease in score is an improvement.

Section 172 statement

This statement describes how the Directors have complied with and are discharging their duty to have regard to the matters in Section 172 (a)-(f) of the Companies Act 2006 to promote the success of the company for the benefit of its stakeholders and to achieve the company's purpose.

Key stakeholders

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

Stakeholder	Why they matter to Cadent	What matters to them	How the Board interacts
Customers	Delivering for our customers defines our purpose. Generate the Company's revenue and profit.	Reliable safe and economical supply of gas. Customer focused, responsive, and timely service.	Reports and presentations from: our Chief Operating Officer, Network Directors and People Director, which include regular review of customer satisfaction scores, to assist to strive for enhanced performance and safety focused campaigns; and our Strategy and Regulation Team on customer engagement initiatives and outcomes.
Employees	Our people execute our strategy for delivering our services for our customers. Embody our culture. Source of innovation and ideas for business improvement.	Recognition, reward, and development opportunities. Safe, supportive, and inclusive environment. Employee engagement with management and effective internal communications.	Reports upon employee related matters and regular internal communications updates from the Chief Executive Officer, Chief People Officer and Chief Operating Officer are provided to Board meetings, ensuring that employee related issues and perspectives are factored into relevant decisions. Structured 'Meet and Greet' sessions and site visits.
Shareholders	Provision of equity finance. Provision of experienced Non-Executive Directors to steer and guide strategy.	Predictable, sustainable financial returns Delivery of our strategy for our customers. Responsible and compliant business management and conduct. Governance, safety, and transparency. Clear strategic direction.	Board members and Board Committee members who are shareholder-appointed nominees. (All shareholders have representation on the Board). AGM and Annual Report.
Communities and the Environment	The Company's activities impact local communities and the environment. By working to make these social impacts more positive and environmental impacts less harmful, the company earns its right to operate in accordance with its values and environmental and social responsibilities and collaborate where appropriate.	Engagement with the community; understanding of environmental objectives and support where possible. Sponsorship, charitable donations, and volunteering to further social and environmental causes. The company demonstrating its environmental and social responsibilities.	Reports from the Chief Executive Officer, Chief Operating Officer, and members of the Senior Leadership Team on engagement with community leaders and residents with reference to operational work; support for customers impacted by the cost-of-living crisis, and net zero strategy objectives and initiatives. Scrutiny by and reports from the Sustainability Committee. Reports received on the work of the Cadent Foundation (see the Cadent Foundation Impact Assessment Report, available at www.cadentgas.com)
Shippers	Generate the Company's revenue and profit.	Reliable transportation of gas.	Reports on relevant matters from the Chief Financial Officer.

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

Section 172 statement continued

Key decisions

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

- Approval of interim and year-end financial statements and the company's annual report.
- Approved the annual review and update to the EMTN Programme and listing of the Prospectus.
- Approved the Basis Swap Hedging Programme.
- Approved adjustment to Financing Plan for the year to March 2023.
- Approved the financing strategy for the financial year 2023/24.
- Approved the Financial Plan 2023 for the period to March 2026 and the Budget for the financial year 2023/24 including donation to Cadent Foundation.
- Approved the 2023/24 Short Term Incentive Plan Measures and 2023 Long Term Incentive Plan Measures.
- Approved payment of interim dividends to the sole shareholder of the company.
- Approval of submission of the final Hydrogen Village bid.
- Reviewed and approved our Principal Risks and the proposed Risk Appetite.
- On-going review and approval of the Future of Gas strategy.

In addition to decisions made, the Board provided oversight and stewardship of the company's approach to the execution and performance of the previously approved strategy and delivery of RIIO-2 price control requirements and commitments. The Board considers that, in providing such oversight and stewardship and taking the above decisions, the long-term interests of the company and the interests of relevant stakeholders were considered, some examples of which are set out below.

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

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

Progress towards achieving the company's net zero ambition was a continuing area of focus for the Board, it being a significant aspect of the company's future strategy. An important element of this was the Board's oversight of the development of Cadent's bid to deliver a hydrogen heated village in Whitby, Ellesmere Port. The purpose of the village is to provide critical evidence that enables the Heat Policy decision to be made in favour of the use of hydrogen in home heating, which is relevant to the long-term use of our assets. Throughout the year, the Board received presentations and updates from the Cadent project team regarding associated risks and opportunities. These enabled the Board to assess the impact on the long-term interests of the company, which informed its decision to approve submission of the bid by Cadent in March 2023. (You can read more about Cadent's net zero ambition and strategy on page 38).

During the year, the Board approved two interim dividend payments to the sole-shareholder of the company. Such approvals were a matter for careful consideration by the Board. In its deliberations, it considered the movements in wholesale gas prices and noted that Cadent did not benefit financially from such movements. It also took into account the fact that dividend decisions do not have a direct impact on customer charges and had regard to the on-going actions to support our customers through the cost-of-living crisis. The Board also reviewed business performance, which was strong with continued performance improvements seen across customer and regulatory measures. Finally, the Board recognized the importance of maintaining the confidence of our investors and noted that such payments were consistent with dividend policy.

As part of the company's preparation for the RIIO-3 price control, the Board received reports relating to other regulatory price controls and their potential impact and read across to RIIO-3; and the company's proposed approach to RIIO-3, to assist it to guide strategy. This will be a matter for on-going focus by the Board.

In the March 2023 Board meeting, the Financial Plan for the forthcoming financial year and for the remainder of the RIIO-2 period was carefully considered and approved by the Board. In reviewing the Financial Plan, the Board had regard to how it adapted for the significant prevailing macro-economic volatility, so as to protect investor returns, whilst continuing to ensure appropriate funding to deliver for customers and communities we serve through our Force for Good Strategy and donation to the Cadent Foundation. The Board also considered how the Financial Plan delivered a path to Green on our regulatory output commitments and also how it reflected an assessment of the investment required to ensure resilience in the network, the company's core asset, factoring in climate risk.

Having regard to the interests of the company's employees

The safety, health and well-being of our employees is a matter of priority for the Board. During the year it received reports and presentations on the health and safety challenges faced by our workforce while conducting routine duties and the steps taken by the company to address these. In addition, through reports from the Safety Committee, the Board received updates on progress made against a number of targeted safety initiatives, including safe driving, fatigue and hand arm vibration. In carefully considering all of these the Board gained assurance that the company was taking proactive steps to preserve, protect and improve the safety and well-being of employees. The importance attached to this area by the Board was further reflected by its consideration and approval of the annual incentive plan safety performance measures. This included continuation of the leading measure of leadership safety visits introduced in the preceding year (recognising the positive enhanced engagement this engendered) and an increase of the safety related weighted percentage.

Regular updates were received by the Board in relation to the continuing implementation and embedding of Cadent's purpose and values which are key components of the People Strategy. Through consideration of the information provided the Board was assured of the company's clear philosophy and structured plan in place to continue to drive cultural change for the benefit of employees.

Fundamental to achieving cultural change was the company's ED&I strategy, aims and outputs. The Board reviewed reports on the progress the company had made against each of these. It also heard how the ED&I Framework provided cohesivity and was underpinned by data capture, measurement and accountability, giving confidence in reported developments. The Board welcomed and supported the company's approach, recognising the tangible benefits this achieved for employees by increasing engagement, enhancing employee experience and improving attraction and retention.

The Board also considered and endorsed plans for future investment in our people through the roll out of a range of development programmes and future skills strategy work aligned to our net zero future and Operations 4.0 strategy.

Through attendance at the Ansty Park HQ, the Board observed first-hand the positive workplace experience created for colleagues based there. An overview was requested and received on the company's wider (largely inherited) property portfolio. The Board was provided with an assessment of required improvements, including consideration of accessibility and inclusivity, and an outline of the company's depot investment programme, through which they would be addressed. Through this overview the Board was assured that appropriate steps were being taken to improve the working environment for the benefit of employees.

The Board monitored pay negotiations with trade unions representing our operational field force. It received and considered detailed updates on the positive features of Cadent's proposals which were intended to offer a fair and decent pay deal for our employees undertaking important work to keep our customers safe and warm. The Board welcomed the resolution reached and the constructive dialogue to achieve this.

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

There were four core elements to the Board's considerations this year relating to the company's customers:

The challenges faced by many as a result of the cost-of-living crisis was a constant matter for consideration at Board meetings. The Board considered what immediate support might be provided through initiatives to support those in fuel poverty as well as reviewing and endorsing the company's planned focus on innovation and efficiency improvements to 2026, supporting a real reduction across all customer gas bills over time.

Customer considerations played a significant part in the Board's deliberations relating to the company's proposed submission of a bid to deliver a hydrogen heated village in Whitby. The Board received frequent updates throughout the company's ten-month engagement with residents to collect feedback on the proposals. Following careful consideration, in recognition of that feedback, the bid approved by the Board in March 2023 provided an opt-in/opt-out offer, enabling residents to choose whether to participate in the trial should the bid be successful.

December 2022 brought particular challenges. A spell of very low temperatures and associated above average gas demand resulted in significantly increased demand on the national emergency response number and associated callouts. This coincided with a major on-going incident, caused by a ruptured water main in Sheffield (Stannington), leaving more than 3,000 properties without a gas supply. The Board received regular updates on Stannington (out with the Board meeting cycle) and received a full debrief on the measures taken to respond to weather related demands, both of which detailed the customer focused approach taken, which was welcomed and endorsed by the Board.

The Board also carefully monitored the company's delivery against its client focused regulatory outputs through regular reports and updates. The importance the Board attaches to this area, and the drive to maintain and improve performance, is reflected in the Board's approval of continuing customer service and complaints handing measures as a key element of the annual incentive plan.

Regarding suppliers, the Board received regular updates on supplier performance on major projects, such as the mains replacement programme; noting that the revised contracting arrangements introduced at the beginning of the price control period were embedded and operating well. In addition, the Board also sought to understand the impact of inflation on the company's supply chain and endorsed the company's approach of providing support to smaller suppliers to assist with their cash flow as appropriate and the industry leading approach taken to adherence to payment timings. The Board also welcomed the company's engagement with suppliers on its sustainability ambitions (including holding the first Supply Chain Sustainability Conference) emphasising the importance of working together to deliver these and setting clear expectations on the role the suppliers had to play in doing so.

Throughout the year the Board was updated on ongoing engagement with our regulators and wider stakeholders on both focussed and routine subject matters. The Board welcomed the constructive discussions with Ofgem as part of the industry's consideration of the response to the cost of living crisis and the feedback received from the Health and Safety Executive through its scheduled interventions. The Board also received reports on advocacy and engagement initiatives undertaken across all parties and political stakeholders, these being a crucial opportunity to shape thinking on our net zero future.

Section 172 statement continued

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

The company's net zero strategy and the positive environmental impact that will be achieved through delivering this are a key part of the Board's decision-making process. In addition to its careful deliberations in relation to the bid to deliver a hydrogen heated village (mentioned above), and reviewing updates on a number of on-going projects, the Board held two full strategy days to discuss and debate this important area. These detailed sessions included consideration of consumer engagement and the political roadmap, reflecting the importance of external stakeholders and policy decision to effecting the environmentally positive changes the company plans to make; a deep dive on on-going projects, including the Hynet cluster; and an overview of Operations 4.0, being a new stage in the company's transformation journey to support energy transition. The combination of focused reports, routine updates and strategy sessions provides rounded information to assist to inform board thinking and guide future strategy.

Through reports from the Sustainability Committee the Board was provided with insight into the company's ongoing pro-active work to positively impact the environment, including improving air quality, the introduction of net zero construction sites and the introduction of a number of innovations which serve to reduce the disruption caused by related works. It also received regular reports on environmentally impactful operational activity, including performance against the mains replacement programme, which remains the company's principal contributor to reducing methane emissions.

The Board carefully considered how the impact of climate change on the company's operations and assets was being managed, to gain assurance that the approach responded appropriately to challenges faced. This included a detailed review of the response to the extreme heat weather conditions in Summer 2022 and the implementation of asset protection policies triggered by this; and the robust plan put in place to ensure winter resilience.

Regular updates were received from the Foundation Advisory Board on the support provided to help households find sustainable solutions to fuel poverty and ensure people are safe and warm in their homes. This year there was particular emphasis on the positive financial impact the Cadent Foundation had made to those individuals benefitting from the grants made and how efforts were furthered by pairing with the company's VCMA funded initiatives. In approving the company's annual donation to the Cadent Foundation, the Board was mindful of the challenges faced by many as a result of the cost-of-living crisis and endorsed the company's commitment to supporting communities and customers in vulnerable situations.

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

The Board recognises that upholding and demonstrating high standards of business conduct are critical to maintaining public confidence. Assuring itself that the company continued to achieve such standards was a recurring area of focus throughout the year.

Through presentations and Audit Committee Reports the Board was kept informed of the company's strong culture of speaking up, with a strong tone from the top set by the leadership team. In considering these, the Board was satisfied that the approach was wholly appropriate, and that effective routes and processes were in place to support this. It also received regular reports on adherence to the company's ethics and business conduct policies to gain assurance that these were well understood and observed by company employees.

The Board considered reported failings by, and criticisms of, other utilities (particularly from a safety perspective) and reviewed management's plans to introduce and embed learnings from these into the company's operations for the benefit of employees, customers and wider stakeholders.

From a governance perspective, the Board conducted its annual review of the matrix of authorities delegated to the company by the Board and the associated governance to ensure that this remained appropriate and effective. In addition, refinements to existing processes requested through the Board effectiveness review included increased focus on potential reputational implications of decisions to be made in Board papers to further inform the Board's thinking in this respect.

How we manage risk

Risk management overview

The Board is committed to protecting and developing our reputation and business interests and has overall accountability for risk management within the business. The management of risk is embedded within our day-to-day business activities supporting by a 'top down' 'bottom up' Enterprise Risk Management ("ERM) process that ensures our risk management is aligned to our strategy and objectives.

The Board's Audit & Risk Committee undertake an annual review of the risk and assurance processes, as well as considering risk, controls and assurance on a regular basis, providing focused challenge, review and support of Executive and wider management.

The Executive Committee regularly review the risk landscape which has been grouped, for taxonomy purposes, under 9 principal risks, each owned by an executive committee member. Responsibility for identifying, assessing and owning functional, or operational risks, lies with management, whilst Executive Committee members provide top-down monitoring and challenge.

The overall risk management framework is applied through a consistent and documented approach to identifying, assessing, treating, monitoring, and reporting risks, through routine risk review sessions undertaken by all functional risk owners. 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.

Executive Risk Register

The Executive Committee review the companies risk profile as a collective on a regular basis, bringing together top down and bottom up risk management.

Our Principal Risks

Current Risks
Risks that we are managing now that could stop us achieving our strategic objectives

Emerging Risks
Risks with a future impact from external or internal opportunities or threats

What we assess

Risk Ownership – All risks have a specific owner

Likelihood and impact – 5x5 scale

Inherent Risks – before controls are applied

Mitigating controls – subject to 3 lines of defence assurance and review

Residual risk – likelihood and impact with all controls in place

Risk appetite – How prepared are we to take risks?

Actions – What more do we need to do?

Our Principal Risks

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

Enterprise Risk Register

Functional risk ownership identifying risk and assessing day to day controls. Aligned to principal risks, subject to continual review and documented within our enterprise risk register.

How we manage risk continued

Risk is all about uncertainty, and our risks will continue to evolve due to future events, changes and external factors, therefore, regular horizon scanning and the identification and management of emerging risks is important in driving effective strategic planning. This allows us to monitor and understand the potential implications and build these into our decision-making processes. Risk owners all have a responsibility for horizon scanning which is undertaken during regular risk review sessions.

A non-exhaustive list of some key emerging risks that we are actively monitoring is set out below.

Emerging Risks	**Casual Factors**	**Time horizon**		
		Short 0-2 years	**Medium 2-5 years**	**Long 5-10**
Societal changes, including a reduction in public understanding of industry, increase in theft of gas and network interference due to cost of living crisis	Societal and political			
Insufficient gas supply due to external factors	Operational			
Extreme weather events	Environmental			
Emerging Opportunities	**Casual Factors**	**Time horizon**		
Government intervention to accelerate the green economy	Societal and political			
Structure of the energy market (government intervention)	Societal and political			
Automation and AI (opportunity)	Technological			

Principal Risk Appetite

Our Risk appetite is integrated into our risk management framework at both a strategic and operational level. The Strategic risk appetite utilises a framework where each principal risk has been assessed against 5 outcomes ranging from 'averse' to 'hungry', These outcomes are aligned to a measurable risk tolerance scale that we utilise to understand if the business is performing, at a strategic level, within the agreed principal risk appetite. If risks, taking into consideration existing controls, do not meet our target appetite, a proactive management response will be taken, most commonly enhancement of existing controls or the addition of new ones. Risks and resulting actions are reviewed and managed operationally via our risk management framework. This is in addition to our standard risk escalation process to the Executive, Audit and Risk Committee and the Board.

Integrated Risk Appetite

Strategic Risk Appetite

Operational Risk Appetite

Operational Risk Appetite targets aligned to Strategic Risk Appetite outcomes

Strategic Risk Appetite:

- Set by Board
- Aligned to principal risks
- Sets appetite for risk-based decision making
- Measured by an agreed tolerance
- Periodically reviewed at Board

Operational Risk Appetite:

- Managed by risk owners
- Aligned to functional risks
- Sets appetite for control & mitigation of risks
- Measured against target risk scores
- Regularly reviewed within our Enterprise Risk Management system

Principal Risk	Appetite	Risk Appetite Statement
Changes in the external landscape		Factors such as geo-political uncertainty, or changes in customers' needs require us to adapt to an ever-changing environment. We are proactive in applying time and resources to support customers and advancing our strategic priorities, for example in our approach to hydrogen and working with regulators to support developments in energy policy.
Climate change and biodiversity		The UK has a legally binding target to achieve net-zero emissions by 2050, with interim targets and milestones set through a carbon budget setting process. This process will result in the gradual but continual decarbonisation of the energy system, including ensuring an end to the unabated use of fossil fuels such as natural gas. Every initiative towards the energy future is a complex balance between three competing needs of the energy trilemma: affordability, security of supply and decarbonisation. Our appetite is to be open and proactive in our approach.
Cyber breach or critical system failure		We recognise 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. We take a balanced approach to managing the overall risk being generally cautious, with a particular focus on critical systems and sensitive data. Whilst remaining forward thinking in relation to the adoption of new technologies.
Effectively managing assets and maintain network reliability		Maintaining the reliability and safety of our assets is at the core of what we do. We take a cautious approach to risk when making asset related decisions and build in resilience to ensure we deliver a safe and reliable service to our customers and stakeholders.
Legal and regulatory compliance		As a regulated business, compliance with legislative and regulatory requirements is fundamental to our ability to operate. We have no appetite for failing in our legal and regulatory duties.
Macroeconomic and financial		We have a minimalist appetite, meaning we take very limited risk, when exposing the business to financial risks.
Protecting customers' interests (Opportunity)		There are always opportunities for us to do more to keep both current and future customers safe and warm with access to affordable energy. We are proactive in seeking out these opportunities, with a particular focus on vulnerable customers.
Safety, health, environmental and security		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. We have zero appetite for compromising the safety of those who work for us and the communities we serve, and we are proactive in supporting health and environment across all our operations.
Securing critical resources and engagement		We take a cautious approach to ensuring we have stocks and supplies available to support our processes. We are a people focused organisation which recognises the value of those who work for us and the importance of supporting their well-being.

Scale of risk appetite
- Averse
- Minimalist
- Cautious
- Open
- Hungry

How we manage risk continued

Principal Risks

The directional trend of risk exposure for each of our principal risks is summarised in the tables below along with further details on how the risks are being managed.

Trend: Increased risk, Reduced risk, No change

Changes in the external landscape		
What is the risk?	**What are we doing to manage the risk?**	**Trend**
There is a risk that changes in the external 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.	• Monitoring of external developments to understand potential disruptive forces, to enable us to proactively manage them. • Engagement with national and regional stakeholders to ensure we understand policy, customer drivers and the regulatory landscape. • We continue to play a leading role in the net zero transition debate. • Close working partnerships with the Energy Networks Association, Energy Innovation Centre and with DESNZ, 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.

Climate change and biodiversity		
Potential Impact	**Mitigation**	**Trend**
The risk and opportunities associated with climate change and biodiversity present themselves in three ways: 1. The opportunity to help drive forward the UK's hydrogen economy for decarbonisation. 2. The risk that our own operations contribute to climate change. 3. The risk that our own assets and operations are impacted by climate change or negatively impacting biodiversity.	• 'Future of Gas' programme to consider future scenarios and how we can support the delivery of the UK's hydrogen economy. • An established work programme to ensure our business is hydrogen ready. • Provision of safety and technical evidence through innovation projects to demonstrate the viability of hydrogen, such as the proposed Hydrogen village. • By connecting more sustainable sources of gas, such as biomethane, we are already providing consumers with more sustainable energy. • Reduction of our own carbon footprint, including replacement of iron gas pipes which reduces leakage, using electric vehicles and biomethane powered HGVs. • Extreme weather framework and flood threat analysis. • Alignment of Scope 1 & 2 emissions to the Carbon Trust Net zero route. • Working partnership with The Wildlife Trust to achieve the biodiversity benchmark. • Working to achieve net habitat gain in areas associated with our activities. • Our Environmental Action Plan outlines a range of initiatives that we will deliver our commitments and targets on climate change and biodiversity loss protection.	No change The UK's policy and approach to net zero and the support for a hydrogen economy remains uncertain. There is, however, general acceptance from the government and Ofgem that in the absence of hydrogen there will be a continued need for our network to transport natural gas and we continue to focus and adapt to future uncertainties. Climate change threat continues to be seen through extreme weather events however we are actively improving our resilience plans and abilities to respond to such events.

Cyber breach, data issues or critical system failure

What is the risk?	What are we doing to manage the risk?	Trend
The risk that the systems and data we rely on to support our operations may be a target for cyber threats, suffer from system failures or are subject to data issues. Such events could lead to potential safety consequences, loss of supply and potentially enforcement action from regulators and reputational damage.	• Our critical processes, systems, and security controls are designed on a risk-based approach with a comprehensive framework of protective, detective, responsive and recovery controls. • Cyber Security response and Business Continuity Management (BCM) plans are routinely tested. • Cyber security policies, processes and technologies are benchmarked to best practice. • Collaboration with Ofgem, and DESNZ on key cyber risks and development of an enhanced Critical National Infrastructure security strategy. • Engagement with the NCSC and participation in their Early Warning Service • Cyber assurance Framework and assessment to ensure compliance with the Network and Information Security Regulations. • Programme and campaign of cyber awareness training and education for all employees.	Improvements have been made on our cyber security controls that have resulted in a reduction in the residual risk score of a major Cyber Security incident. The risk remains under continuous review as the external environment remains challenging resulting in heightened regulatory oversight.

Effectively managing assets and maintain network reliability

What is the risk?	What are we doing to manage the risk?	Trend
The 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 a failure to provide great customer service, a safety or environmental incident or failure to meet our regulatory standards of service.	• Asset management framework that is independently accredited to ISO55001 standard. • Delivery of the iron mains replacement programme to remove all iron mains within 30m of a property by 2032. • Suite of engineering policies and standards. • A dedicated Plant Protection team who work closely with third parties who may carry out work close to our assets. • Experienced engineering and asset management teams who ensure good quality asset investment decisions are made and which deliver legislative and regulatory commitments. • Weather forecast and demand modelling. • Process safety Risk Control Standards. • Fail safe asset design. • Alarm and fault management.	Significant improvements and investments have been made to reduce risk and improve the quality of our assets. This includes, but is not limited to, the governor Improvement and mains replacement programmes and the Operational Transformation.

How we manage risk continued

Principal Risks continued

Health, safety, environment & security

What is the risk?	What are we doing to manage the risk?	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 and security of employees is also critical, as is the impact that our operations could have on the environment.	• Health, Safety and Environmental Management System accredited to 14001, and underpinned by a HSE accepted Safety Case. • Visible leadership and commitment to health, safety, environmental and security matters, including a programme of senior leadership safety visits. • Suite of health, safety, environmental and security policies and management standards. • Incident response, investigation and review processes. • Structures in place for cross-industry sharing of good practice and learning. • An employee assistance programme, as well as psychological and physiotherapy services for all employees. • Human factors and safety critical task analysis. • Promoting physical activity and wellbeing though Gympass and free unlimited use of online exercise classes.	No fundamental changes in our inherent risks or controls.

Legal and regulatory compliance

What is the risk?	What are we doing to manage the risk?	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. • A governance framework closely monitors our regulatory output delivery and ensures that emerging risks and issues are escalated and managed in a timely manner. • A strong ethical and compliance culture 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'. • An assurance process which includes our compliance with legal and regulatory obligations. • Horizon scanning to identify legal and regulatory changes and developments. • Licence obligation matrix ensures clear ownership of each licence condition. • Governance requirements of the Companies Act 2006 and the Wates Principles, which we report against on an annual basis.	Legal and regulatory regime remains stable with no fundamental changes in our inherent risks or controls.

Macroeconomic and financial risk

What is the risk?	What are we doing to manage the risk?	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.	• A prudent level of liquid assets and committed funding facilities consistent with the Board approved treasury policy. • As at 31 March 2023, liquidity was provided by a combination of immediately available cash (£544m) and committed bank facilities. • 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.	The external economic landscape remains unstable however we are well insulated from inflation, the rise in gas prices and bad debt through a comprehensive package of regulatory protections. Treasury Policy and all products / undertakings are low risk and have strong oversight from the Board in line with the expressed appetite.
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 51 principal shippers (direct customers) is closely monitored in line with industry wide parameters. • Exposure to shipper credit losses mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). • The Code requires customers to pay monthly and to provide security for their transportation services minimising the risk of payment default. In addition, the 'Supplier of Last Resort' (SoLR) process ensures future revenues are not impacted. • Access to Revolving Credit Facilities (RCFs) from our relationship banking group for drawings of up to £650m by Cadent Gas Limited – undrawn as at 31 March 2023. With a further £150 million available from a £200 million facility at Quadgas Midco Limited available as at 31 March 2023.	
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 or Director of Treasury under delegated authority from the Board. • 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. • The debt book is now 40% inflation hedged which provides strong protection to downside inflation risk. Current market inflation forecasts point to continued elevated inflation over next 12 months. • Cadent does not take long term market risk in relation to gas prices. In the short term, there is exposure, however, regulatory mechanisms are in place to ensure recovery of costs driven by changes in market prices over time. • Cadent is exposed to the risk of commodity price movements where volatility impacts real input costs to our investment programme. Regulatory mechanisms are in place with the ambition to mitigate this volatility.	

How we manage risk continued

Principal Risks continued

Macroeconomic and financial risk

What is the risk?	What are we doing to manage the risk?	Trend
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.	The external economic landscape remains unstable however we are well insulated from inflation, the rise in gas prices and bad debt through a comprehensive package of regulatory protections. Treasury Policy and all products / undertakings are low risk and have strong oversight from the Board in line with the expressed appetite.

Protecting customers' interests

What is the risk?	What are we doing to manage the risk?	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.	• Clear customer targets are closely monitored, with improvement plans in place where necessary. • Regular reviews of the customer experience journey. • Support provided to fuel poor customers on energy efficiency, carbon monoxide safety and assistance in restoring or replacing faulty appliances. • Special measures are in place for customers on the Priority Services Register. • Two volunteering days a year for all employees. • Matched giving programme on charitable fundraising.	No fundamental changes in our inherent risks or controls.

Securing critical resources and engagement

What is the risk?	What are we doing to manage the risk?	Trend
There is a risk that we cannot secure or do not maintain the engagement with our direct workforce and those engaged through our partners and supply chain. We rely on stocks and supplies being available when they are most needed, if they were not this would significantly impact the service that we are able to provide to our customers.	• Strategic workforce planning to understand long-term resource requirements. • We have secured a pay deal across the business which is until 2024. • Competitively benchmarked rewards packages incentivise performance aligned to the company's objectives. • Succession plans are in place across the business. • Support development of STEM subjects through associated bodies such as the ENA. • Talent and training programmes, including those for graduates and apprentices. • Monitoring of the availability of skilled teams with our partners and have targeted supplier development programmes where required. • Stock holding in place to service activities across all Networks. • Lead times monitored based on supplier delivery requirements and product criticality. • Automated process in place to replenish stock at "trigger points" which are regularly reviewed. • Stock holding (i.e., we increase stock holding during periods of higher demand such as "winter").	The external environment remains challenging with an increase in cost pressure from our supply chain.

Governance

Chair's statement on Corporate Governance

Supporting customers through the cost of living crisis has been a key area of *focus.*

Sir Adrian Montague CBE
Chair of the Board

In accordance with our requirement to provide a statement of corporate governance arrangements, I confirm that Cadent has adopted the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles"). The pages that follow describe how we have applied those principles through the year. Details of the directors' performance of their duties under Section 172 of the Companies Act 2006, which complement the Wates Principles approach, are set out on pages 102 to 104.

Areas of focus for the Board this year have included oversight of the company's net zero strategy, which remains essential for the long term success of the company; early review of plans and preparation under way for the RIIO-3 period; and management of cyber security risks. The Board also reviewed updates on the company's progress against Equity, Diversity and Inclusion initiatives and work to further enhance Cadent's culture for the benefit of existing and future employees. As would be expected, the cost of living crisis and the actions available to Cadent to support customers have been recurring subjects for consideration. The Board has carefully monitored and reviewed the company's response and has been pleased with the steps taken. Alongside areas of focus, the Board retained oversight of operational performance, ensuring that the company was delivering for customers against commitments made and reviewing activities in place to drive continuous improvement.

During the year, the Board has benefitted from the work of our Board Committees. Their thorough scrutiny and oversight of strategy, focus areas and operational performance has provided assurance and assisted to inform Board thinking.

You can read more about the work of the Committees at pages 77 onwards.

The Board has relished the opportunity to resume regular face to face meetings. Holding those meetings in Cadent's Ansty Park offices has provided an opportunity to engage more widely with Cadent employees, which the Board has welcomed as a way of getting a first-hand view of company culture. Alongside this, Board members have participated in a structured programme of site visits, which help to inform understanding of operational performance as well as allowing them to hear directly from members of the field force.

We assessed our performance as a Board through an externally facilitated board effectiveness review. It was pleasing to read the positive findings, which reflected the foundation of trust and openness on which the Board operates. The performance of the Committees was also commended, with a number of key strengths referenced. Suggestions for incremental improvements were made and are being progressed. Committee membership was also reviewed to ensure that the best use is made of our directors' areas of specialism and extensive experience.

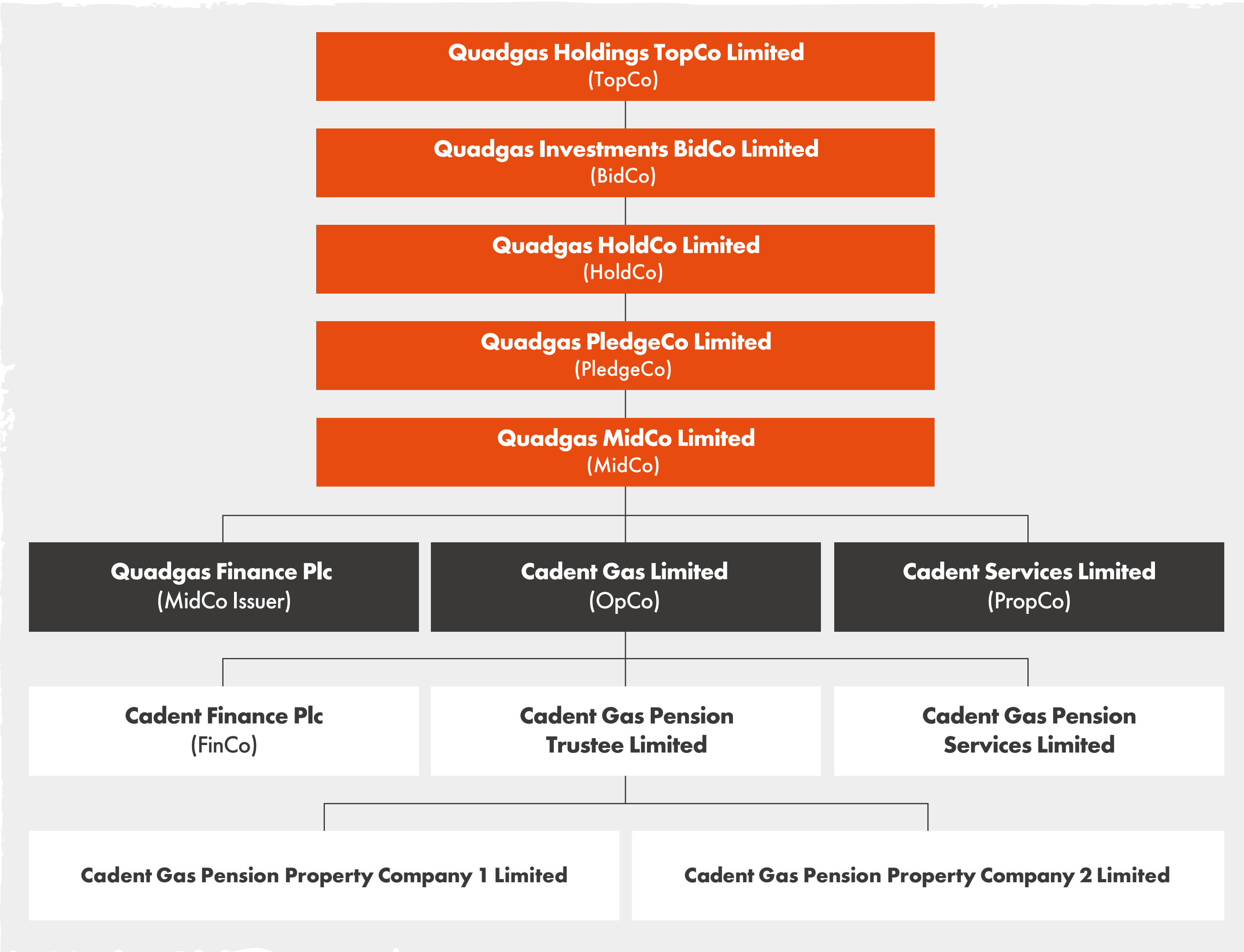
Finally, I would like to recognise the contributions of Howard Higgins and Jaroslava Korpancova who left in May and August 2022 respectively. I am also pleased to welcome Neil Corrigall, who joined the Board as a non-executive director in May 2022.

Sir Adrian Montague CBE
Chair

21 June 2023

Group structure

The ultimate parent company of the Group is Quadgas Holdings TopCo Limited ('TopCo'). The chart below sets out the ownership structure of the companies within our Group as at 31 March 2023.



Our owners

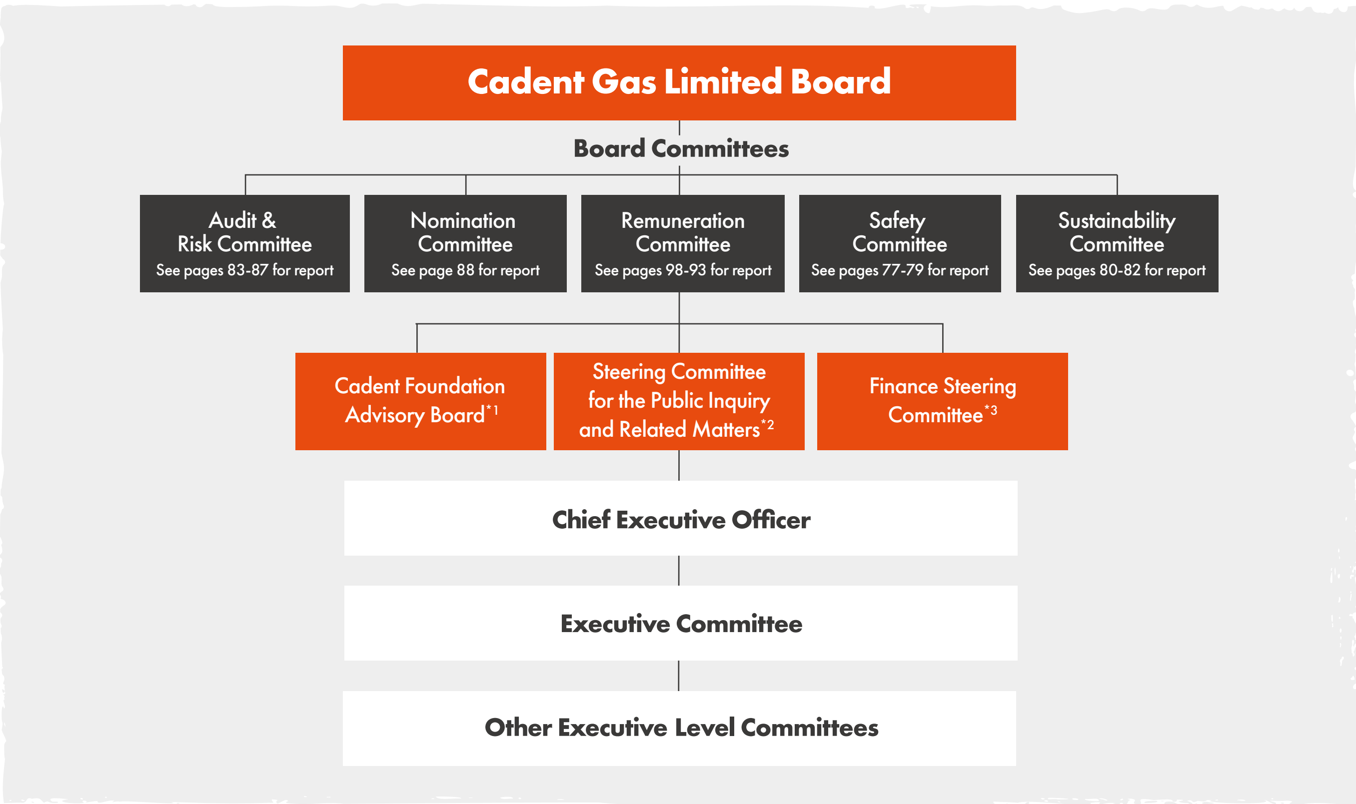
The Quadgas Group is owned by a consortium of investors (the 'Shareholders') who hold shares in Quadgas Holdings TopCo Limited.

Shareholders' Agreement

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

Governance framework

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



1 Providing oversight to the Cadent Foundation. (Members: Sir Adrian Montague (Chair), Catherine Bell, Mark Braithwaite, Paul Smith, Tony Ballance (Cadent Executive) and Linda Minnis (Charities Trust).

2 Overseeing Cadent's involvement, as a core participant, in the Grenfell Public Inquiry. (Members: Sir Adrian Montague (Chair), Catherine Bell, Perry Noble and Steve Fraser).

3 A specialist forum for review and discussion on financing matters to inform Board decision-making. (Members: Eduard Fidler (Chair), Sir Adrian Montague, Marth Braithwaite, Anthony Bickerstaff, Perry Noble and Andrew Marsden).

Board of Directors

The following pages show details of the Directors of Cadent Gas Limited and their membership on Board Committees, for the 2022/23 financial year.

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

Details of Alternate Directors appointed from time to time, in accordance with the company's articles of association and the agreement between the shareholders of TopCo, to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend, are available in the Directors' report on page 102.

* See page 68.

Executive Directors

Steve Fraser
Chief Executive Officer

Appointed:
September 2019

Skills and experience

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

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

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

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

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

Other key external appointments

Steve is a Non-Executive Director at Southern Water Services Limited.

Anthony Bickerstaff
Chief Financial Officer

Appointed:
February 2022

Skills and experience

Anthony has responsibility for the financial management aspects of the company's affairs including internal and external financial performance reporting, business planning and budgeting, treasury, tax, audit, risk management, financial control, change management and procurement. He has extensive financial and commercial experience from across a number of sectors. He was Chief Financial Officer at FTSE listed Costain Group PLC for 14 years, playing a key role in the transformation of the Group into a focused provider of infrastructure services in the Energy, Water and Transportation sectors in the UK. Prior to that Anthony held a number of senior financial and operational roles at the Taylor Woodrow Group both in the UK and overseas. Anthony was also a Non-Executive Director for the Low Carbon Contracts Company, set-up to administer the Government's investment in the generation of low carbon electricity.

Other key external appointments

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

Howard Forster
Chief Operating Officer

Appointed:
July 2021

Skills and experience

Howard was appointed to the Board in July 2021.

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

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

Board of Directors continued

Sufficiently Independent Directors

Sir Adrian Montague CBE
Chair

Appointed:
July 2017

Committee membership

Nomination (Chair)

Skills and experience

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

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

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

Other key external appointments

Sir Adrian is currently the non-executive Chairman of Manchester Airports Group and Porterbrook Trains and a Trustee of the Commonwealth War Graves Foundation and Survivors of Bereavement by Suicide (SoBS).

Dr Catherine Bell CB

Appointed:
September 2016

Committee membership

Nomination; Remuneration; Safety; Sustainability

Skills and experience

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

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

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

Other key external appointments

Catherine is currently vice chair of Horder Healthcare and chairs the Finance Committee. She is also a Member of the Competition Appeals Tribunal.

Paul Smith

Appointed:
February 2021

Committee membership

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

Skills and experience

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

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

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

Other key external appointments

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

Shareholder Nominated Directors

Mark Braithwaite

Appointed:
March 2017

Alternate: Richard Greenleaf (appointed November 2018)

Committee membership

Audit & Risk (Chair); Nomination; Remuneration

Skills and experience

Mark retired from his position as a Senior Managing Director in Macquarie Asset Management Real Assets ('MAM') in June 2022. Mark was previously Chief Financial Officer of Thames Water, the UK's largest water and wastewater services company.

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

Other key external appointments

Mark holds numerous other non-executive directorship roles for companies within MAM's investment portfolio and is a trustee of the Sussex Wildlife Trust.

Mark Mathieson

Appointed:
November 2018

Alternate: Richard Greenleaf (appointed November 2018)

Committee membership

Safety (Chair)

Skills and experience

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

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

Other key external appointments

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

Neil Corrigall

Appointed:
May 2022

Committee membership

Safety; Sustainability

Skills and experience

Neil is an Operating Partner for Macquarie Asset Management providing specialist support for their investments in utility infrastructure businesses.

Prior to joining MAM, Neil held multiple leadership roles at Severn Trent Plc covering regulation, strategy, business development, M&A and corporate finance. Most recently he had full P&L and operational accountability for the group's diversified renewables division, Severn Trent Green Power, covering biomethane production from waste, onshore wind, solar and hydro power. Before that, Neil was a management consultant at McKinsey & Company focusing on utilities, energy and infrastructure and at Coca-Cola as a strategy analyst. He has an undergraduate degree in Industrial Engineering and holds an MBA from London Business School.

Other key external appointments

Neil is a non-executive director of Czech Gas Holdings, the largest gas distribution business in the Czech Republic

Eduard Fidler

Appointed:
November 2018 as Alternate Director

June 2019 as a Director

Committee membership

Remuneration; Sustainability

Skills and experience

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

Other key external appointments

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

Board of Directors continued




Shareholder Nominated Directors

Perry Noble

Appointed:

April 2017 as Alternate Director

March 2020 as a Director

Alternate: Desmond Wilkins (appointed August 2021)

Committee membership

Audit & Risk; Nomination; Sustainability (Chair)

Skills and experience

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

Other key external appointments

Perry holds various non-executive directorships for other companies in the Federated Hermes' investment portfolio and CKH, the Hong Kong listed global conglomerate.

Andrew Marsden

Appointed:

January 2022 as a Director

Committee membership

Audit & Risk; Nomination

Skills and experience

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

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

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

Simon Fennell

Appointed:

May 2019 as Alternate Director

June 2019 as a Director

Committee membership

Audit & Risk; Nomination; Sustainability

Skills and experience

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

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

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

Other key external appointments

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

Deven Karnik

Appointed:

March 2017

Alternate: Abdulla Al-Ansari (appointed May 2018)

Skills and experience

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

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

Other key external appointments

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

David Xie

Appointed:

May 2017 as Alternate Director

August 2018 as a Director

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

Skills and experience

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

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

Other key external appointments

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

Hua (Helen) Su

Appointed:

August 2018 as Alternate Director

May 2021 as a Director

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

Skills and experience

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

Corporate Governance report

Purpose and leadership

Pursuant to the Companies (Miscellaneous Reporting) Regulations 2018, the company applied the Wates Corporate Governance Principles for Large Private Companies during the year. Our Board's continuing philosophy is to uphold the highest standards of corporate governance appropriate to its size, the essential public service it provides and the regulatory framework that applies to it. We recognise that doing so is fundamental to our ability to deliver against our purpose, values and commitments. In performing its principal role to promote the success of the company the Board considers a range of factors and stakeholder interests.

Purpose

Our purpose is "Keeping people warm, while protecting the planet". This reflects both the essential work we undertake on a daily basis to provide a safe and reliable gas supply for our customers and wider communities as well as our journey to achieve our net zero ambitions. The Board is satisfied that this purpose is embedded and is readily understood by our customers, our stakeholders and our workforce. Every aspect of the company's business and operational activities contribute to achieving our purpose. The Board monitors performance through regular detailed reports from the executive team and network directors to gain assurance that work planning and processes are effective in ensuring our purpose is met and that our workforce are happy and engaged. All shareholders have director representation on the Board ensuring a cohesive approach to deliberations and decision making, both of which take shareholder views into account.

The company's future of gas programme is key to achieving its purpose. The programme encompasses the company's strategy to decarbonise energy and assist the UK to reach the government's target of net zero by 2050. The Board receives regular updates on individual projects encompassed in the strategy. Significant time this year was spent on consideration of (and latterly approval to submit a bid to deliver) the proposed hydrogen heated village in Whitby, the purpose of which is to provide important evidence to inform the Heat Policy decision. As in previous years, the Board also committed to additionally scheduled strategy days to receive and debate detailed presentations covering a wide range of aspects of the future of gas programme. The extensive nature of the presentations served to enhance the Board's understanding and inform input and guidance provided.

Values and culture

Our purpose is underpinned by our values: we work together; we take responsibility; we drive performance; we shape the future – and behaviours that support them. These were introduced in 2020 following collaboration across our workforce to ensure that they were relevant to and resonated with our people. A company-wide programme of workshops ensured that values and behaviours were well understood and they are now an integral part of company ethos and an established way of working together. This is maintained through strong tone from the top leadership, embedding of values and behaviours in all learning interventions and employee engagement through a variety of means, including pulse surveys. The Board has received regular reports and provided oversight and guidance throughout, recognising the importance and benefits of clear and embraced values and culture to the workplace experience.

As with our values and behaviours, our Force for Good Framework, is well established. It sets out our ambition to make a positive social impact for our customers and wider communities in which we work as well as managing our climate change impact. Our functional plans are developed to support our ambitions of 'easier warmth', targeting fuel poverty and providing support for vulnerable customers; 'fairer opportunities', focusing on equity, diversity and inclusion, fundraising, volunteering and matched giving; and 'greener society', covering key environmental targets. Through a range of employee engagement activities, our employees understand the contribution they can make and are actively encouraged to participate to the fullest extent they can. Progress and performance are monitored by the Sustainability Committee, which in turn reports to the Board. In addition, the Board met with representatives from each of our employee ED&I communities, to better understand their work and demonstrate support for it.

The high standards of ethical conduct expected and required are set out in our ethical framework, "Always Doing the Right Thing". This is endorsed by the Board. Compliance is scrutinised by the Audit & Risk Committee who provide regular reports to the Board on performance and adherence.

Strategy

A key role for the Board is to steer and guide development of the company's strategy and business model to generate long-term sustainable value. The company's business plan for the RIIO-2 price control period was accordingly formulated with the assistance of stewardship and strategic input from the Board. The business plan encompasses the company's commitments to provide, a resilient network, keeping energy flowing safely and reliably; a quality experience for our people, our customers and stakeholders; tackling climate change and improving the environment; and trusted to act for the benefit of our communities. In the second year of the RIIO-2 period, the Board continued to carefully monitor the company's performance against those commitments. To do so, it received detailed presentations and updates from the executive team, network directors and members of the wider senior management team, enabling it to gain assurance of effective delivery by the company. It has also engaged in structured 'meet and greet' sessions with employees and safety site visits to further support and inform its oversight. This year also saw commencement of the Board's oversight of planning for the RIIO-3 period; providing views and feedback to the Cadent team to inform early strategic thinking.

The Board has also continued to provide input to and stewardship of the company's progress and performance against its net zero ambitions, these being a significant aspect of the company's future strategy and long term success. You can read more about this under "Purpose" above.

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

See pages 50 to 54 under the Section 172 Statement for further details of purpose and leadership.

Board composition

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

Chair

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

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

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

Balance and diversity

The composition of the Board is partly determined by the Shareholders' Agreement. Of particular note is the experience the Board has in the areas of the regulated utility sector, infrastructure, safety, sustainability, government and regulation. To read more about our Directors' skills and experience, please see their biographies on pages 67 to 71. For further reading about diversity and inclusion within our company please refer to page 28.

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

Size and structure

Our Board Composition

The names and biographies of all the Board of Directors on the company are published on pages 67 to 71. As at 31 March 2023, the company Board comprised the following:

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

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

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

Shareholder Nominated Non-Executive Directors: (10) nominated by TopCo, representing members of the consortium of investors in TopCo.

General Counsel and Company Secretary: Diane Bennett.

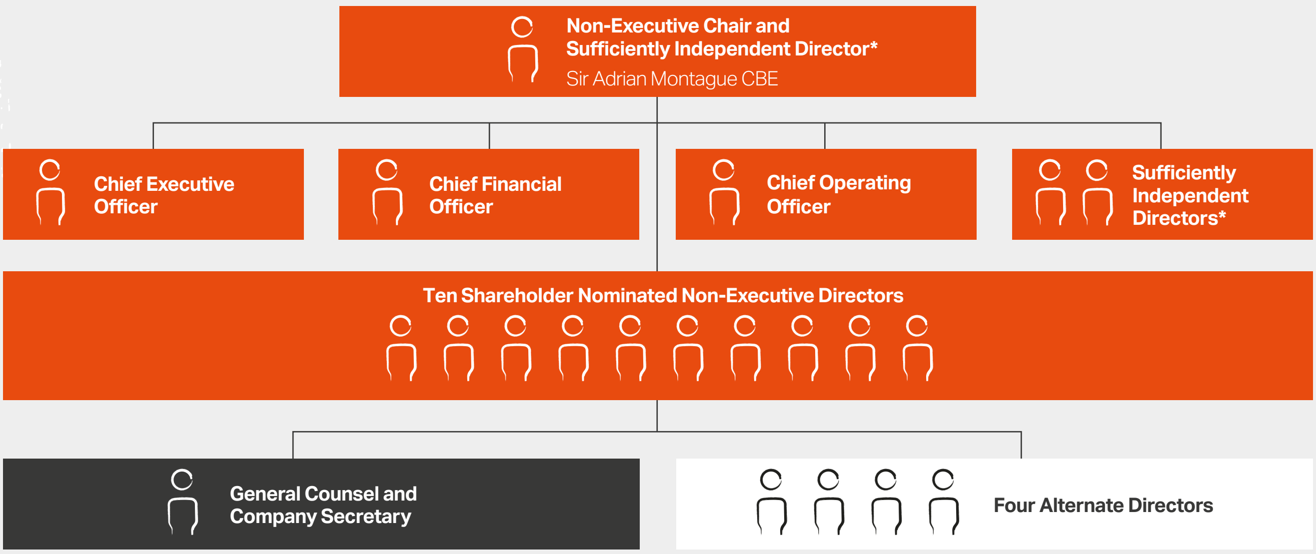
Alternate Directors: (4) appointed in accordance with the agreement between the shareholders of TopCo Limited to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend.

Board Activities

The Board planned and held six formal meetings. In addition, the following meetings were held:

- Two Strategy days held in June and November 2022, focusing on Cadent's Future of Gas Programme.
- Two 'meet and greet' sessions; manager's session in September 2022 and ED&I session in January 2023.
- Five focussed sessions covering the energy price crisis (June and August 2022), RIIO-3 (September 2022 and January 2023) and the Hydrogen Village (March 2023).

Our Board composition



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

Corporate Governance report continued

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

Effectiveness

Board effectiveness is reviewed on an annual basis, with assistance from an external third party on alternate years, 2022 being such a year. Independent Audit Limited were accordingly invited to support this year's internal board review which they did using their online tool Thinking Board®. Representatives from Independent Audit also observed May 2022 Board and Board Committee meetings. The Chair presented the Report to the July 2022 Board meeting. The findings from the self-assessment were positive. It was particularly pleasing to see areas where scores and feedback had improved since the first review conducted with the support of Independent Audit in 2018. Highlights included unanimous agreement that the Board works on a good foundation of trust and openness; excellent engagement between Directors and management; and strong Committee dynamics and performance. Inevitably there were areas identified for incremental improvement upon which the Chair sought detailed comments over the summer before presenting recommended actions for discussion in September 2022. The key actions agreed included a review of succession planning for Sufficiently Independent Directors (to be actioned by the Nomination Committee); and a deep dive on emerging technologies and Cadent's use of these (addressed in the November 2022 Board Strategy Session). Consideration was also given to continuation of the Finance Steering Committee but, management having confirmed this was a useful forum for engaging with investors, it was agreed it should remain. Some enhancements to aspects of Board paper templates were also implemented by the Company Secretariat Team.

In addition, the Directors' skills matrix was reviewed to ensure Directors' skills and expertise were put to the best use in the specialist committees. Some limited changes to Committee membership resulted from this. The annual review of the Committees' Terms of Reference was also undertaken, and proposed revisions approved.

Development and training

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

- briefings and technical detail provided throughout the year in papers and presentations at Board and Committee meetings;
- briefings from Board appointed cyber security advisors, FTI Consulting, in September 2022 and March 2023;
- two Strategy days, in June 2022 and November 2022;
- numerous safety-oriented site visits; and
- a visit to the Whitby Hydrogen Experience Centre.

In addition, an induction programme was arranged for the new Non-Executive Director, Neil Corrigall.

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

Director responsibilities

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

Accountability

Board responsibilities

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

- The Chair is responsible for the effective running and management of the Board; working collaboratively with the shareholders and management team.
- The Chief Executive Officer is responsible for the day-to-day management of the business.
- The key roles and responsibilities of the remaining Directors are as follows:
- The Chief Financial Officer is responsible for the financial objectives and performance of the company.
- The Chief Operating Officer is responsible for operational performance.

The Sufficiently Independent Directors are responsible for providing independent judgement on issues and constructive challenge on Board decision-making processes, particularly in the following key elements:

- strategy: to challenge constructively and to contribute to the development of strategy including in relation to the increasing importance of the UK's move toward carbon net zero and the future of gas in that context;
- performance: to scrutinise the performance of management in meeting agreed goals and objectives and to monitor the reporting of performance;
- risk: to scrutinise and challenge accuracy of financial information, and access whether the financial controls and systems of risk management seem robust and defensible, based upon the presentations and information made available to them by management and the company's internal and external auditors;
- safety and ethics: to support and promote a positive 'tone from the top' on health and safety and ethical leadership; and
- people: to be responsible for determining appropriate levels of remuneration of Executive Directors and to have a role in appointing, and where necessary removing, senior management and in succession planning.

The Non-Executive Shareholder Directors are appointed in accordance with the Shareholders' Agreement and are responsible for providing constructive challenge to the Board's decision-making process including in respect of those areas which the Sufficiently Independent Directors focus on. An additional key part of the Non-Executive Directors' role is to support executive management in developing and remaining focused on the longer term strategy for the business, including the future of gas, as well as to keep under review the principal and emerging risks to the successful execution of the strategy.

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

Conflicts of interest

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

Commitment

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

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

Group policies framework

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

Delegations of Authority

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

Committees

The Board has established several committees to carry out specific duties. This allows the Board to operate more efficiently, concentrating on providing leadership and decision-making for the business. We are dedicated to making sure that both the Board and its committees are clear on their roles and are supported to ensure the Board can provide an appropriate level of focus and consideration to relevant matters. Each of our committees has Board-approved terms of reference setting out their respective remits, and these terms of reference are kept under regular review including to reflect emerging best practice. The Board and Committee governance framework can be found on page 66.

You can read about each committee in the committee reports that follow this section.

Integrity of information

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

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

The Board also engages with and obtains information directly from certain stakeholders to complement and provide independent assurances, to balance the information in the reports of management.

See our Section 172 Statement on pages 50 to 54 for more information.

Corporate Governance report continued

Opportunity and risk

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

Opportunity

The Board has considered how the company, in fulfilling its purpose, creates and preserves value over the long term. Our business model is set out on pages 4 to 5 and the Board keeps this under periodic review.

The Board retains strategic oversight of the company's future of gas programme as it plans for a hydrogen future and the manner in which this contributes to meeting the overriding challenge of UK Government's ambitions on net zero. Stewardship is provided by the Board to encourage the company to create, pursue and utilise opportunities to move the company in a way which will help secure long-term value. You can read more about the way in which we are supporting the energy transition, over which the Board has stewardship, and the key collaborative projects with which we are involved at pages 35 to 37. At the same time the Board remains fully cognisant of the need to balance these ambitions with the fundamental business requirement to deliver for our customers today by ensuring our infrastructure is operated and maintained safely, and that our response services are still effective and efficient as possible, all within the agreed price control framework.

Our Delegations of Authority (described on page 75 above) set authority limits on significant capital and operational expenditure.

Risk

The Board has responsibility for the company's overall approach to strategic decision-making, setting the company's appetite for risk and effective risk management (financial and non-financial), including reputational risk. The Board assigns its responsibility for ensuring that risk management and internal control systems are effective across the business, to the Audit & Risk Committee. The Committee annually reviews the company's risk appetite and profile, risk management processes, internal controls and receives regular internal audit and related compliance reports. (These include compliance with our licence conditions which is recognised as a principal risk and reviewed as part of the routine compliance process). The Audit & Risk Committee also receives regular reports on specific and emerging risks and how these are managed, through the operation of the risk management system. To read more about our risk management model and our principal risks and uncertainties, please read the Financial Review and risk management section of the Strategic report on pages 11 to 15 and 55 to 62.

Responsibilities

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

For more information see pages 83 to 87 on the Audit & Risk Committee report.

Remuneration

The Board has established a Remuneration Committee to support its decisions with regard to remuneration, and you can read about the work of the Committee in the Directors' Remuneration Committee report on pages 89 to 93. A separate Annual Report on Remuneration is set out on pages 94 to 101 and provides details of the remuneration policy, level and components of remuneration and procedure for fixing the individual remuneration packages of Executive Directors and members of the Executive Committee.

Succession

The Board has an established Nomination Committee to consider and make recommendations to the Board for the long- and short-term strategy plans for succession of our Executive Directors, members of our Executive Committee and their direct reports, our Chair and Sufficiently Independent Directors. For more information see page 88 of the Nomination Committee report.

Stakeholder relationships and engagement

The Board is committed to stakeholder engagement and the Directors take their responsibilities and duty to them under Section 172 of the Companies Act 2006 seriously. You can read more about the Board's approach to stakeholder engagement in our Section 172 Statement in the Strategic report on pages 50 to 54.

Safety Committee report

The Safety Committee undertook detailed reviews of a number of safety critical areas, as well as monitoring operational *safety performance.*

Mark Mathieson
Chair of the Safety Committee

Key highlights of the year

Safety assurance:
- Oversight of safety performance including operational safety and asset integrity.
- Safety Case three year thorough review.
- Reports and deep dives on key focus areas.

Wellbeing of our employees:
- Review of progress against safe driving plan.
- Review of occupational health and well-being.
- Review of human factors and fatigue risk management.
- Oversight of on-going action plan and management of Hand-Arm Vibration Syndrome.

Safety internal audit:
- Approval of safety internal audit plan 2023/24.

Framework and business plan:
- Approved the proposed short term incentive plan safety targets for 2023/24.

Climate related:
- Reviewed response to extreme weather conditions.
- Reviewed Winter Plan.

The Committee's work this year has been wide ranging. It has reviewed and steered progress across a number of focus areas, as well as monitoring and retaining oversight of operational safety performance. Through such scrutiny the Committee has gained assurance that the safety of employees, customers and wider communities remains a key priority and is at the heart of every aspect of Cadent's work.

A core area of focus for the Committee has been Cadent's approach to employee health and well-being. To inform consideration, it was provided with an analysis of the key challenges Cadent faced in this area and how they were being managed. These areas included hand arm vibration (which was also the subject of a separate 'deep dive') and fatigue. Mental health was highlighted as an area identified for increased focus across the business over the course of the next year. The Committee carefully considered the output of the analysis and scrutinised the plans in place to satisfy itself that they adequately responded to the challenges faced. A further related area of attention for the Committee was the safe driving plan, which the Committee revisited during the course of the year to monitor progress and provide guidance on additional steps that could be taken to hasten improvement.

The Committee also received an update from the company's Human Factors specialist regarding on-going work in this important area. This included work on fatigue, communications, non-technical skills and safety critical task analysis. Upcoming research projects were also outlined. The Committee was also pleased to have early sight of the 'Safe + Well' project instigated by the Director of Safety, Health, Environment and Security. The output of this initiative will be a comprehensive safety and well-being framework, developed in consultation with all employees, and planned to launch in Spring 2023.

During the year the Committee received a range of focussed reports on wide ranging aspects of the company's operations. These included performance of the Contact Centre handling calls to the nationwide gas emergency number which covered the impact of changing customer behaviours as a result of the cost of living crisis; the company's response to public reported escapes, the three year review of the Safety Case and Cadent permitry.

Safety Committee report continued

A key element of the Committee's work is maintaining oversight of the company's approach to managing and progressing safety performance. To assist it in doing so, the Committee receives a number of reports at each meeting including a summary of safety performance, a detailed process safety review and incident reports and, importantly, resultant actions taken. The Committee also took the opportunity to see safety management first hand through a series of site visits. Feedback from the visits was shared with the management team to inform their approach to future works.

The increasing safety related risks presented by climate change was an area of focus for the Committee. It received reports on the company's response to the extreme heat weather conditions experienced in the Summer and was pleased with the practical measures taken to ensure workforce welfare and the operational response to monitoring asset integrity under the relevant policies in place. The Committee also received an overview of the Winter Plan to gain assurance that appropriate workload and workforce planning was in place in anticipation of the challenges presented by the colder winter months and noted the focus on power resilience and fluctuating consumer demand as a result of increasing gas prices.

In March 2023, the Committee approved safety measures for the companywide 2023/24 short term incentive plan. Acknowledging the clear benefits derived from the leading measure of pro-active safety visits introduced in the previous year, the Committee approved the continuation of this measure with an increased target to further promote the importance of a safety culture. The same approach was taken to lost time injury frequency rates. An additional process safety measure, relating to fatigue compliance assessments, was also approved to drive performance in this key area.

Looking forward, the Committee will re-visit areas of safety focus to gain assurance of continuing progress and improvement, as well as monitoring the roll out of 'Safe+Well'. In doing so, the Committee aims to ensure that the company continues to build on and further enhance the current strong safety performance.

Role and composition of the Safety Committee

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

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

The Committee is appointed by the Board and comprises two Shareholder Nominated Directors (membership having been reviewed and revised following the Board Effectiveness review in July 2022) and two Sufficiently Independent Directors.

On behalf of the Safety Committee:

Mark Mathieson
Chair of the Safety Committee

21 June 2023

Meetings

During the year four meetings were held.

May 2022

Main purpose

- Received the Safety Case three-year thorough review.
- Received an update on the Cadent Gas Emergency Service Contact Centre.
- Reviewed a material safety incident, the investigation, actions and learnings.
- Undertook a risk deep dive, focusing on Hand Arm-Vibration Syndrome.
- Reviewed the Safety Performance Report.
- Received an internal audit update.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Operating Officer; General Counsel & Company Secretary, Director of Safety, Health, Environment and Security; Director of Audit & Risk, People Director, Head of Safety Case and Energy Transition, representatives from Independent Audit.

July 2022

Main purpose

- Received and discussed a report on Operator Licence obligations and compliance.
- Received an update on progress against the Safe Driving Plan.
- Committee members shared reflections on safety site visits.
- Reviewed the Safety Performance Report.
- Received a report on Cadent's response to extreme heat weather conditions.
- Reviewed a material safety incident, including actions and learnings.
- Received an update on an on-going incident.
- Received an internal audit update.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Operating Officer; General Counsel & Company Secretary, Director of Safety, Health, Environment and Security; Director of Audit & Risk and Director of London Network.

November 2022

Main purpose

- Committee members shared reflections on safety site visits.
- Reviewed and noted the Winter Plan Summary 2022/23.
- Received an update on Cadent Permitry.
- Received a report on occupational health and well-being.
- Received a report from the Director of Safety, Health, Environment and Security on reflections and plans.
- Reviewed the Safety Performance Report.
- Reviewed an incident, the resultant actions taken and learnings.
- Received a report on the Aged Escapes Project.
- Received an update on internal safety audits.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Operating Officer; General Counsel and Company Secretary; Director of Safety, Health, Environment and Security, Director of Audit & Risk; Director of Operational Performance and Head of Engineering: Below 2 Bar Engineering.

March 2023

Main purpose

- Update on progress against safe driving plan.
- Received an overview of human factors – culture and fatigue.
- Received a report on occupational health and well-being risk challenges.
- Approved the proposed short term incentive plan safety targets for 2023/24.
- Reviewed the Safety Performance Report.
- Reviewed an incident and associated learnings.
- Received an update on internal safety audits and approved the planned safety audits for 2023/24.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Operating Officer, General Counsel & Company Secretary, Director of Safety, Health, Environment and Security, Director of Audit & Risk, Director of Network, London and Head of Occupational Health and Wellbeing.

Sustainability Committee report

The Committee's oversight includes scrutinizing strategic and operational environmental performance as well as delivery against 'Force for Good' commitments.

Perry Noble
Chair of the Sustainability Committee

Key highlights of the year

Oversight of Cadent's social impact

- Oversight of Force for Good framework, monitoring performance against commitments.
- Overview of performance against customer vulnerability strategy.

Sustainable operations

- Overview of initiatives to reduce methane leakage.
- Overview of work under way to introduce net zero construction sites.
- Review of air quality plan.
- Oversight of sustainability in the supply chain.
- Overview of sustainability at Ansty Park.

Sustainability internal audit:

- Received internal audit updates and monitored progress of plans responding to findings.

Performance targets:

- Approved environmental related performance targets for 2023/24.

Climate related

- Reviewed voluntary disclosures against Task Force on Climate-related Financial Disclosures (TCFD) requirements.

The Committee supports the Board by overseeing the company's environmental strategy and performance, undertaking focused reviews of sustainability related projects and initiatives and monitoring delivery of commitments in the Force for Good Framework. The Committee also reviewed, discussed and provided feedback on the voluntary disclosures against the Task Force on Climate-related Financial Disclosures requirements.

As in the previous year, the company's efforts to reduce methane emissions remained a priority area for the Committee. Recognising the importance of the mains replacement programme to achieving this, in its oversight of the company's planning for the RIIO-3 period, the Committee emphasised the importance of adding sustainability to the narrative, alongside the clear safety driver; and the criticality of ensuring value for money for customers. In addition, having challenged the company to challenge itself to go beyond tackling methane reduction through the mains replacement programme alone, the Committee was pleased to receive reports on three projects where the company was innovating to target reducing methane levels in "hot spots" through the use of new technology. It encouraged the introduction of further innovation whenever possible.

Through a series of focused presentations, the Committee reviewed operational sustainability. Areas covered included Cadent's approach to managing the societal and regulatory drivers for air pollution and improving air quality; sustainability at the new Ansty Park HQ site; an update on the commitment to introduce net zero construction sites from 2023; and sustainability in the supply chain (with some Committee members also attending Cadent's first sustainability focused Supply Chain Conference in February 2023). In all respects, the Committee supported the Company's approach to progressing these areas.

The Committee is assisted in its oversight by reports from the Internal Audit team on sustainability related audits they conduct. Key findings this year related to the collation and verification of environmental data, with the Committee reviewing the resultant plan put in place to ensure recommendations were appropriately actioned. Ensuring the robustness of environmental data remains a key focus for the Committee.

Against a backdrop of rising energy prices, Cadent's performance against its customer vulnerability strategy was a priority for the Committee. It carefully examined how the company was delivering against the four core outcomes – tackling affordability and fuel poverty; carbon monoxide education and awareness; identifying needs and joining up services; and going beyond the meter to never leave a customer without gas. In addition, it considered with management how support could be developed within the regulatory framework to maximise the positive impact for those most in need.

The Committee also received regular updates on the company's delivery against the Force for Good Framework to gain assurance that the company was meeting, and where possible exceeding, its commitments of "easier warmth', 'fairer opportunities' and 'greener society'. The Committee commended Cadent's Centres for Warmth project, providing households impacted by the cost of living crisis with trusted energy efficiency advice and support resulting in tangible savings for customers. It also sought and received updates on employee engagement on areas within its remit.

Proposed sustainability performance measures to be included in the company's incentive plans were carefully considered by the Committee. The short term measures approved included a continuing reduction in depot general waste generation as well as two new measures targeting carbon footprint reduction at depots and improvement in the quality and traceability of relevant data collated by the supply chain. In approving the measures, the Committee had regard to the extent to which they were expected to resonate with employees, to further drive a sustainable culture, and were encouraged in this respect by examples of waste management and behaviour improvements to date. The long term incentive measure, reporting against longer-term carbon emissions reductions in line with our science-based targets was approved to continue as previously.

In the coming year, the Committee expects to retain its focus on support provided for customers in vulnerable situations, delivery of the company's corporate responsibility agenda under the Force for Good Framework and promoting the continuous improvement in the robustness of environmental performance data. It will also continue to oversee and steer the company's delivery of its environmental action plan, encouraging it to innovate wherever practicable.

Role and composition of the Sustainability Committee

The role of the Sustainability Committee is to assist the Board by providing assurance regarding the scope, adequacy and effectiveness of the Company's sustainability strategy, and to oversee its efficient implementation.

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

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

On behalf of the Sustainability Committee:

Perry Noble
Chair of the Sustainability Committee

21 June 2023

Sustainability Committee report continued

Meetings

During the year four meetings were held.

May 2022

Main purpose

- Received an overview of performance against the Customer Vulnerability Strategy.
- Received a report on the Air Quality Plan.
- Received a presentation on initiatives underway to reduce methane leakage.
- Received an overview of sustainability at Ansty Park.
- Received an internal audit update.
- Reviewed the Force for Good Performance Report.

Key additional attendees

Chair of the Board; two investor appointed Non-Executive Directors; Chief Executive Officer; Chief Operating Officer; Chief Financial Officer, Chief Regulation Officer, Chief of Staff, General Counsel and Company Secretary; Director of Safety, Health, Environment and Security; Director of Asset Investment, Director of Audit & Risk, Sustainability Manager and representatives from Independent Audit.

September 2022

Main purpose

- Received an update on Environmental Data Audit for Scope 1, 2 and 3 Emissions action plan.
- Received a report on sustainability in the supply chain.
- Received an overview of safety and sustainability reporting options.
- Received a 'Greener Society' focused Force for Good report.
- Reviewed the Force for Good Performance Report.
- Received an internal audit update.

Key additional attendees

Chair of the Board; one investor appointed Non-Executive Director; Chief Executive Officer; Chief Financial Officer, Chief Operating Officer; Chief Regulation Officer, Director of Safety, Health, Environment and Security; General Counsel and Company Secretary, Director of Audit & Risk, Director of Sustainability and Social Purpose and Environmental Manager, Safety and Sustainability.

January 2023

Main purpose

- Reviewed the environmental targets for the 2023/24 financial year.
- Received an overview on introduction of net zero construction sites.
- Reviewed the Force for Good Performance Report.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Operating Officer; Chief Financial Officer, General Counsel and Company Secretary; Director of Safety, Health, Environment and Security; Director of Sustainability and Social Purpose, Director of Capital Delivery and Environmental Manager, Safety and Sustainability.

March 2023

Main purpose

- Reviewed the environmental targets for the 2023/24 financial year.
- Discussed early draft TCFD content.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Operating Officer; Chief Financial Officer; General Counsel & Company Secretary; and Director of Safety, Health, Environment and Security.

Audit & Risk Committee report

The Committee focused on management's delivery of strategic plans, the robustness of controls and response to risk in the light of instability in the political and macroeconomic environment.

Mark Braithwaite
Chair of the Audit & Risk Committee

Key highlights of the year

Financial reporting:

- Reviewed and recommended to the Board the approval of the 2021/22 annual accounts and financial statements.
- Reviewed and recommended to the Board the approval of the interim accounts and financial statements.
- Reviewed climate related risks and opportunities; and voluntary disclosures against Task Force on Climate-related Financial Disclosures requirements.

Internal control, risk and assurance:

- Oversaw progress against enhanced risk and assurance processes.
- Continuing oversight on data management and quality.
- Reviewed management of risk associated with above ground crossings and structural assets and associated inspection and maintenance regimes.

Cyber security:

- Continuing focus on cyber controls and assurance; operational performance and regulatory compliance.

Internal audit:

- Reviewed outcomes of internal audits completed in 2022/23 and approved the proposed Internal Audit plan for 2023/24.
- Reviewed positive IIA Audit of Internal Audit Team.

External audit:

- Recommended the reappointment of the external auditors for 2022/23, noting rotation of the audit partner going forwards.
- Reviewed the external audit plan on the 2022/23 accounts and financial statements.
- Reviewed the external auditor's report on the 2022 interim financial statements.
- Reviewed the external auditor's report on the 2021/22 accounts and financial statements.

The Committee's focus this year, was on ensuring management continued to deliver against its strategic plans in a resilient and sustainable way despite the instability in the wider political and macroeconomic environment. This meant the Committee both challenged and supported management in considering the robustness of current controls, and the response to our key risk in relation to the future role of hydrogen in the developing green economy.

The Committee's consideration of current controls, led to it challenging management on the company's resilience to the impact of external events across a range of areas, principal amongst these were inflation and cyber risks. The Committee, noted from reports, particularly those from its external auditor, that the Company had both a good degree of protection from the increases in the price of natural gas in the year, and importantly had met its industry obligations as Supplier of Last Resort (SoLR). The Committee supported management in considering the risk and challenges from inflation related to specific areas, such as the supply of goods, and the steps taken to manage this.

The Committee received regular reports in respect of the ever increasing cyber threat and noted that there had been a significant increase in the company's controls in this area, leading it to reach baseline compliance with the Cyber Assessment Framework (CAF). The Committee was particularly pleased to note, that these improvements were not just in relation to controls owned by the IT function, but that the entire organisation had been engaged. The Committee, reinforced with management the need for ongoing improvements to keep pace with the ever developing profile of the cyber threat including the resilience of the Company's suppliers.

In respect of other controls the Committee undertook deep dives on both data management and gas network assets, particularly above ground assets, which were likely to experience the greatest level of third party interaction. Across all of the areas it reviewed, the Committee considered the need for resilience and the importance of management taking into account the wider social aspects related to the cost of living crisis and its impact on customers.

The Committee reviewed risk from a range of perspectives including risks with a high residual potential, emerging risks and risks with a catastrophic potential (i.e. High Impact, Low Likelihood (HILL) risks). It took an active role in gaining assurance that risk, including opportunity risk, is being responded to in line with the company's risk appetite, using the three lines of defence model.

Audit & Risk Committee report continued

The Committee noted that its focus on robust risk management was being replicated by management, as evidenced by a positive audit of the Company's risk maturity by external risk experts. Whilst there remained further work to do, this was a pleasing piece of assurance as to the improvements already made and the ongoing trajectory in relation to risk management.

Throughout the year the Committee ensured that management was taking action to address the risk of climate change, including the Company's adaptation to it. Beyond this, the Committee was focused on the plans and actions management had in place to address the company's key risk, and opportunity, in relation to the role of hydrogen as part of the green economy. Related to this the Committee was pleased to see management's continued focus on Environmental, Social and Governance (ESG) matters, and received both reports and audits related to these areas. The Committee also maintained its focus on Cadent's ethical standards and ensuring that the Executive set a strong ethical 'tone from the top'.

The Committee received regular reports from both second line assurance teams and the Internal Audit team and was pleased to note the further progress that had been made following the positive outcome of the Institute of Internal Audit's five-yearly assessment of Cadent's Internal Audit Team. A particular aspect being the team's focus on root cause analysis resulting in broad based improvements to the company's control framework. The Committee noted that management had been appropriately challenged to address areas identified as requiring improvement and that action plans were in place to address this. The Committee also noted, and welcomed the fact, that good practise had been praised.

Looking to the year ahead, the Committee's priorities will be on ensuring management continue to deliver against its RIIO-2 plans whilst remaining mindful of the needs of its customers facing the ongoing 'cost of living crisis'. The Committee will also continue to ensure management work to enhance the company's resilience, especially to external events, whilst focusing on the key role the company has to play in the UK's transition to hydrogen as part of responding to climate change.

Role and composition of the Audit & Risk Committee

The Audit & Risk Committee plays an important governance role on behalf of the Board, dedicated to giving assurance to the Board that internal control and risk management systems are reliable and that Cadent reports appropriately on financial performance, including consideration of climate related risk.

The Committee is appointed by the Board, with a minimum requirement of three Non-Executive Directors, two of whom shall be investor nominated Non-Executive Directors; and one member must be a Sufficiently Independent Director, bringing independent challenge. Dr Catherine Bell CB, and (from November 2022) Paul Smith, performed this latter role. Key to the successful operation of the Committee is the requirement that one member is a financial expert with recent and relevant experience and Mark Braithwaite, as Chair, brings this experience to the Committee.

For the remaining key judgements and estimates, the Committee was satisfied with the assumptions made and the accounting treatments adopted. Committee membership can be found on pages 68 to 70.

Meetings

The Committee is required to meet and make recommendations to the Board, before the Board is asked to approve interim financial statements and the annual report and accounts. During the year four meetings were held.

May 2022

Main purpose

- Cyber security update: Received and considered update.
- Risk management: Reviewed the Executive risk register and associated actions to manage risk.
- Assurance update: Reviewed the internal audit assurance report for the six month period to 31 March 2022.
- Ethics and business conduct: Reviewed ethics and business conduct reporting and case management for the six month period to March 2022.
- Internal audit: Reviewed the internal audit activity update.
- Governance: Approved sign off process for 2021/22 Short Term Incentive Plan and Long Term Incentive Plan.

Key additional attendees

Chair of the Board, Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; Chief Information Officer, General Counsel and Company Secretary; Director of Audit & Risk; Director of Digital Risk and Security; representatives from Independent Audit (for purpose of Board effectiveness review).

July 2022

Main purpose

- Cyber security update: Received and considered update.
- Internal Audit Update and Audit Charter: Reviewed the internal audit team's annual review, activity update for the period to June 2022 and audit plan progress update.
- External audit: Reviewed Deloitte's final audit report, on their audit of the company and other Group companies for year ending 31 March 2022. Satisfied itself of the auditor's independence, noted the change of audit partner going forwards (the current audit partner having participated in statutory audit engagement for the five years permitted for listed companies) and recommended the reappointment of Deloitte as auditors for 2022/23 to the Board and the company's shareholders at its Annual General Meeting.
- Financial statements: Reviewed and recommended to the Board for approval the 2021/22 annual accounts and financial statements, including the adoption of the going concern assumption.

Key additional attendees

Chair of the Board, Chief Executive Officer; Chief Financial Officer; Chief Operating Officer, General Counsel and Company Secretary; Director of Digital Risk & Security; Director of Audit & Risk, Director of Finance; and External Auditors.

November 2022

Main purpose

- Cyber security update: Received and considered update.
- Data management: Received update on governance of data and data improvement approach for RIIO-2.
- Above ground crossings and structural assets: Received an overview on management of these categories of assets, the key risks associated with them and respective inspection and maintenance regimes.
- Risk and Assurance Process review: Considered the effectiveness of risk management and assurance processes.
- Risk review: Reviewed the Executive risk register and progress against associated actions to manage risk.
- Assurance update: Reviewed the internal audit assurance report detailing issues up to end September 2022.
- Business conduct: Reviewed ethics and business conduct reporting and case management to end October 2022; including detailed investigation outcome report.
- Internal audit update: Reviewed the internal audit activity update and audit plan update.
- External audit: Considered the report on the 2022 interim accounts and financial statements and the audit interim review report for the six months ended 30 September 2022.
- Financial statements: Reviewed and recommended the six months ended 30 September 2022 interim accounts and financial statements to the Board for approval.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; General Counsel and Company Secretary; Director of Audit & Risk; Director of Finance; Chief Information Officer; Director of Engineering; Head of Data Management and Data Science; and External Auditors.

March 2023

Main purpose

- Cyber Security: Received an update on cyber security.
- External audit: Reviewed external auditor's audit plan and considered the significant accounting matters including new accounting standards likely to impact in the future including FRED 82, Rate Regulated Activities and Auditor Reform.
- Auditor Independence Review: Received report assessing external auditor independence.
- Non-audit services policy: Approved the non-audit services policy for the year.
- Internal audit: Reviewed progress against the 2022/23 internal audit plan and approved the proposed 2023/24 internal audit plan and Internal Audit Charter.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Financial Officer; General Counsel and Company Secretary; Director of Audit & Risk; Director of Finance, External Auditors; Chief Information Officer and Director of Digital, Risk & Security.

Audit & Risk Committee report continued

Financial reporting and summary of significant issues reviewed

The Committee's review of the financial statements included reviews of the accounting policies, significant financial reporting issues and key judgements and estimates underpinning the financial statements, as disclosed within notes 1 and 2 of the financial statements on pages 114 to 124. The significant financial reporting issues considered in relation to the accounts are detailed in the table below.

Areas of focus	Conclusions
Going concern basis for the financial statements	The Committee reviewed the evidence and assumptions underpinning the use of the going concern basis in preparing the accounts and in making the statements in the Directors Report on going concern particularly in light of the impact of high gas prices and the ongoing conflict in Ukraine. The assessment involved consideration of the extent of any operational disruption, inflationary pressures, demand for the company's services, the extent of any contractual obligations due or anticipated within one year, any potential liquidity and working capital shortfalls and access to existing sources of capital. On the basis of the limited operational disruption, long-term regulatory framework and associated cash flows and the liquidity arrangements in place through the company's financing facilities, the Committee was satisfied that it was appropriate to recommend to the Board that the company continues to adopt the going concern assumption in its financial statements.
Supplier and shipper failures	The Committee reviewed the accounting issues presented which arose from the financially significant Supplier of Last Resort (SoLR) claims received within the preceding and current financial year, including the timing of the recognition of the liability and tax implications, as a result of supplier failures due to increasing gas prices. The accounting treatment proposed by management was scrutinised, noting that the liability for the claims only arises when the associated revenue is raised, and also that the revenue and costs would be presented net within the financial statements in the relevant year. The Committee concluded that the accounting treatment proposed was appropriate and disclosures this year were adequate.
Climate change	The Committee considered the increased focus upon climate-related risks and disclosures, particularly those required by the Task Force on Climate-related Financial Disclosures (TCFD). It was noted that this continued to be an important area of focus for the business, and the business was taking measures such as replacing cast iron pipes, making the network hydrogen-ready and reducing leakage, all of which contributed to an improved future environment and increased safety. The business was also working to develop a pathway to the transition to green gases that makes sense economically. The Committee challenged management to include appropriate disclosures for climate-related risks in these financial statements that are consistent with all of the TCFD recommendations, one year ahead of the requirements becoming mandatory and for consistency in disclosure across the Annual Report and Accounts. The Committee also reviewed management's judgments regarding useful economic lives of its assets and management's calculation of the recoverable amounts for goodwill / investment impairment assessments and agreed with management's conclusion that our network will continue to be used to transport gas (methane, hydrogen, other alternatives such as biomethane or a combination of these) beyond 2050.
Pension valuation and assumptions	The Committee considered whether the recognition of the surplus was appropriate following consideration of legal and actuarial advice and the guidance in accounting standards. The Committee questioned the key assumptions adopted in the calculation of the surplus, particularly in light of the volatility seen in the year, and concluded the assumptions were appropriate.
Exceptional items	The Committee considered the application of the Group's accounting policy during the year and reviewed the items included within exceptional items to challenge whether they were appropriate to be included. The Committee confirmed that management's classification of exceptional items associated with restructuring activities was appropriate and in line with the company's policy.
Fixed assets	The Committee concluded that management had appropriately considered the useful lives and carrying values of property, plant and equipment and intangible assets, including reviewing any contractual arrangements and operational requirements relating to particular assets. This review included consideration of any impact that climate change may have on the future use of our network. They also considered management's review of classification between capex and opex, given that this has been raised as a significant audit risk by the external auditors.
Provisions	The Committee reviewed the level of provisions including the provision for claims and the environmental provision held by the company for the estimated restoration and remediation costs relating to old gas manufacturing sites. There are a number of judgements impacting both calculations in relation to the underlying cash flows (particularly as regards to inflation) and discount rate applied. Regarding the provision for claims the Committee confirmed that through use of independent actuaries, the company employed techniques and assumptions that were appropriate to project the liabilities.
Corporate Interest Restriction	As a result of the high rate of inflation during the year and forecast for next year and the consequent higher level of actual and forecast interest accretions, management, together with external tax advice, revisited the assumptions and forecasts supporting their basis relating to Corporate Interest Restriction (CIR). Following the review, the Board approved a proposal that the group change its election from its historic basis for the current year of Fixed Rate Ratio to a Group Ratio resulting in a Group Ratio election in the current year and the following year. This significantly reduces the CIR in each period. The Committee have confirmed that the financial statements have been prepared on the basis consistent with the Board approval.
IT controls	The Committee reviewed the operation of Cadent's IT controls following the significant system changes which have taken place in the past, noted the progress that had been made and challenged management to continue the progress on IT controls.

External auditor

The Committee continued to seek input and guidance from the external auditor where appropriate. The Committee has the responsibility for overseeing the relationship with the external auditor. The external auditor is invited to attend all Audit & Risk Committee meetings, irrespective of whether it is presenting matters. The external auditor has the opportunity to meet with the Chair of the Committee, without management present, giving both parties the opportunity to raise any matters. To be assured of the work performed by the external auditor in the audit of our financial statements, it is important that the Committee obtains confirmation of their independence, which it does for each audit undertaken.

The Committee reviews and challenges the proposed external audit plan, including its scope and materiality prior to approval, to ensure all key risks have been identified and the audit process is robust. On a continuous basis throughout the year the Committee considers the quality of the external auditor's reports and management's response to any issues that may arise.

The Committee has no set policy on the tendering frequency of the external auditor or of the tenure of the external auditor (other than for the listed financing companies within the Group where there is a ten-year mandatory tendering process and a five-year rotation requirement for the audit partner) but will ensure that good corporate governance is maintained in reviewing the tenure of the external auditors. The Committee annually considers whether the external auditor has met its obligations regarding auditor independence under the Financial Reporting Council's (FRC) Revised Ethical Standard (2019), including requirements for audit staff rotation.

The Committee regularly considers the marketplace, benchmarking the current level of service the company receives along with the fees paid, and the value delivered. There were no contractual obligations that acted to restrict the Committee's choice of external auditor.

Following completion of the 2022/23 audit process, the Committee was satisfied with the performance of Deloitte LLP as external auditor and recommended to the Board the reappointment of Deloitte LLP for the coming year and propose to shareholders at the company's Annual General Meeting for approval.

Non-audit services

On the recommendation of the Committee and approval by the Board, we have adopted a Group non-audit services policy. The policy is reviewed annually by the Committee and was approved for the year in March 2023. This policy is in line with the recommendations set out in the FRC's Guidance on Audit Committees (2016) and requirements of the FRC's Revised Ethical Standard (2019), regarding auditor independence. For services which are non-recurring in nature, prior approval must be sought from this Committee.

On behalf of the Audit & Risk Committee:

Mark Braithwaite
Chair of the Audit & Risk Committee

21 June 2023

Nomination Committee report

Succession planning has been the main focus for the Committee *this year.*

Sir Adrian Montague CBE
Chair of the Nomination Committee

Key highlights of the year

- Considered talent and succession planning at executive level.
- Agreed a timeline for considering succession of Sufficiently Independent Directors.

After a busy couple of years overseeing key director appointments (both executive and non-executive), this year the Committee's primary focus has been on succession planning. This has been both in relation to the executive team and Non-Executive Directors.

With regard to the executive team, in considering talent and succession, the Committee took account of the balance of skills, knowledge, experience and diversity required to address the opportunities and challenges facing the company in the short and long term. It also considered the leadership needs of the company, with a view to ensuring its continued ability to operate effectively and engage productively with all stakeholders. The Committee welcomed the helpful appraisal of the executive team that it received in this respect; and the assurance this provided on the strong leadership in place to drive forward company strategy.

In relation to Sufficiently Independent Director succession, the Committee agreed it was prudent and appropriate to have regard to the regulatory price control period when considering timing. Given that the next such period was subject to an open consultation and possible extension, it was agreed to postpone substantive discussion until the outcome of that consultation is known.

The Committee also received a report on the developments that had been made in the Talent and Succession Strategy over the last twelve months. . New processes introduced focused on a continuous culture, with positive steps taken to embed these with the employee population. The Committee endorsed the approach adopted, which reflected the Company's people-centric ethos and commitment to talent management and employee development, enhancing the employee experience at Cadent.

Looking forward, the Committee will continue its focus on talent and succession and will turn its attention to the roles reporting into the executive team and their direct reports (as well as returning to Sufficiently Independent Director succession). This will assist to ensure continuing performance of the Talent and Succession Strategy in supporting successful delivery of the Company's commitments.

Role and composition of the Nomination Committee

The Nomination Committee is responsible for reviewing the long and short-term strategy and plans for succession of all Executive Directors, members of the Executive Committee, the Chair and the Sufficiently Independent Directors, in conjunction with our investors. In doing so, the Committee keeps under review the balance and diversity of skills, knowledge, experience of Board members and those in these roles. The Committee also reviews and provides guidance on the company's Talent and Succession Strategy, including reviewing plans relating to roles reporting into the executive team and their direct reports.

The Committee has three categories of business, upon which it makes recommendations to the Board. Firstly, in respect of potential candidates to fill Executive and Sufficiently Independent Director roles as and when they arise, or to fill strategic appointment requirements; secondly in relation to the terms of the proposed service contracts of Executive Directors or Sufficiently Independent Directors, including their initial remuneration package (in line with existing approved remuneration policies and in conjunction with the Remuneration Committee); and thirdly on any matters relating to the continuation in office of any Executive Director or Sufficiently Independent Director (including the suspension or termination of service). In conducting its business, the Committee will take soundings from the Chief Executive Officer and seek guidance from the Chief People Officer, General Counsel & Company Secretary and outside advisers and consultants , as appropriate.

The Committee is made up of a minimum of three Non-Executive Directors, one of whom is required to be a Sufficiently Independent Director, two of whom shall be investor nominated Non-Executive Directors, and none of whom are Executive Directors. The Committee's membership can be found on pages 68 to 70.

Meetings

During the year one meeting was held.

The company's commitment to inclusion and diversity can be found in the Strategic report on page 28, under the heading creating a culture of equity and inclusivity for all.

On behalf of the Nomination Committee.

Sir Adrian Montague CBE
Chair of the Nomination Committee

21 June 2023

Directors' Remuneration Committee report

The committee has focused on ensuring that remuneration measures reflect real improvement in delivering high performance for the benefit of all of *our stakeholders.*

Paul Smith
Chair of the Remuneration Committee

Key highlights of the year

Salary review

- Reviewed Executive Directors' salaries in the context of delivery of a high quality service for our customers, the external market, wider stakeholders and pay deals across the wider business.

Incentive plans

- Set incentive targets for STIP and LTIP awards made during the year, with a focus on delivering strong performance for all of our customers, tackling fuel poverty and driving the future energy transition to net zero.
- Reviewed impact of extraordinary inflation on the financial measures within the Short Term Incentive Plan.

Introduction

I am delighted to present the Directors' Remuneration Report for 2022/23.

This year there has been a strong focus in the remuneration regime in delivering high performance for the benefit of all of our stakeholders. This includes ensuring that incentives drive efficiency and provide value for money for our customers, as well as delivering excellent customer service and taking a lead across sustainability and social matters, in particular by providing practical support to customers in vulnerable situations. This has ensured continued increases in customer satisfaction and complaints handling, along with strong delivery against our fuel poor network investment scheme and positive social return on investment for our customers. The impact of the cost of living challenge on our customers has made it more important than ever before for us to ensure that we are tackling fuel poverty. We have played a leading role in pushing the debate on the role that a gas network business could and should play. We have reached more than one million households in our regions through the provision of energy efficiency advice, income and energy management support and a range of in-home (beyond the meter) tailored interventions to make energy more affordable for our customer. This has included the establishment of over 50 regional Centres for Warmth and a refocus of the Cadent Foundation funding directly to address affordability and fuel poverty related schemes.

In addition to ensuring strong operational delivery of a high quality service, there is also a strong focus on safety engagement and outcomes, along with ensuring that remuneration is closely linked to sustainability; through reducing waste, reducing carbon emissions and in the important role that Cadent is playing in shaping the country's future energy system transition to net zero.

The Committee has taken careful consideration of the broader landscape when assessing remuneration outcomes. This includes the high wholesale gas prices, high inflation and cost of living challenge.

Directors' Remuneration Committee report continued

Business context and performance

Cadent has continued to deliver for customers, maintaining Emergency Standards of Service and maintaining a secure, reliable, safe system; keeping people warm, whilst protecting the planet.

When considering the incentives outcomes linked to our remuneration policies, the Committee has taken into consideration the delivery of an efficient, high quality, value for money service for our customers, along with recognising the interests of our wider stakeholders, as follows:

- **Communities:** Cadent continues to work with our charity partner, Emmaus, in supporting communities and providing a home and meaningful work for those in need. The company also offers two days' paid volunteering per employee per year, in order to support the communities we serve.
- **Domestic Gas Consumers:** In 2022/23 a typical domestic customer paid £154 towards the cost of our services, down from £163 at the start of RIIO-1, adjusting for the impact of inflation (further details can be found on page 02). This reduction in cost has been achieved through a continued focus on innovation and efficiency improvements.

Employees: Our employees have continued to ensure that we deliver for our customers and Cadent has supported employees across the business with the cost of living challenges they have also faced. This has included the provision of financial and wellbeing resources and assistance, along with supporting physical and mental health wellbeing with access to gym memberships encouraging people to stay active and healthy. Pay increases have been brought forward in line with the voluntary Real Living Wage where applicable and £100 supermarket vouchers have been awarded to support all colleagues over the festive period.

Incentive outcomes for the year 2022/23

The Committee has taken the company's continued strong operational performance into account, along with delivery against our longer term goals when determining appropriate targets and remuneration outcomes. The Committee has also taken into account the impact of significant increases in short term inflation.

STIP

Performance under the STIP is assessed against a scorecard of measures, including customer, safety, economic, sustainability and business metrics.

The Remuneration Committee has carefully considered the significant adverse impact that the unforeseen increase in inflation has had on the economic measure within the STIP. The in year economic measure of EBITDA is driven by operating costs, which are heavily impacted by workload and inflation; along with revenues, which are fixed at the time of setting the budget but are impacted by demand for the network.

The Committee has recognised that these macroeconomic factors are exceptional and outside of the control of management. It was also recognized that the regulatory model (as set by Ofgem) meant that there is no lasting economic detriment to the business as shortfalls relative to inflation and under recovery from income can be recovered in future years.

The Committee has considered the range of actions taken by management to successfully mitigate the impact of high inflation in the year and have applied an adjustment to the EBITDA target to reflect changes in inflation, accounting standards, one off costs and workload; ensuring that management performance is recognised. This results in a more accurate reflection of the strong underlying financial and operational performance in the year, whilst balancing the impact on all stakeholders.

The Company has demonstrated strong performance against customer, safety, sustainability and strategic targets. The scorecard outcomes, together with the Remuneration Committee's assessment of the individual performance element, resulted in a payout equal to 79.60%, 75.60% and 73.60% of the maximum STIP opportunity for Steve Fraser, Howard Forster and Anthony Bickerstaff respectively (equivalent to £755,806, £206,506 and £225,118 respectively).

The Committee noted that the STIP scorecard result is used for all employees who participate in the bonus plan and therefore the adjustment has been applied to a broad group of employees.

The Committee is satisfied that the resulting outcome is appropriate and fair, being between target and maximum given the strong performance during the year.

Further details of the STIP are provided on pages 97 to 101.

LTIP

The 2020-23 LTIP award granted in 2020/21 is due to vest in 2023/24 based on performance during the three years to 31 March 2023.

The RIIO-1 Regulatory Price Control period completed its eight year cycle in March 2021, meaning that the performance period for the 2020 LTIP comprises of one year within the RIIO-1 price control period and two years in the RIIO-2 period. This gave rise to a challenge setting meaningful targets over a full three year LTIP performance period at the beginning of the 2020 LTIP period. A decision was taken to split the performance period, such that one third of the LTIP are based on performance against a scorecard of targets for Year 1; with two thirds being based on performance against targets for Years 2 and 3.

Performance under the LTIP was assessed by the Committee against these two scorecards of measures. The Committee exercised discretion in relation to one of the LTIP measure outcomes for Year 1 in light of the impact of COVID-19, as follows:

(i) Social obligations – outcome adjusted to reflect the shortfall in connections that was due to COVID-19 restrictions, including requests from customers to postpone works. Cadent were on track to meet the target level in the absence of COVID-19 and has demonstrated strong delivery in this post the lifting of COVID-19 restrictions.

This resulted in an outcome for Year 1 of 91.13%.

Years 2 and 3 of the 2020 LTIP related to a scorecard of measures within the RIIO-2 period focusing on Customer Strategy, Economic Outcome, Sustainability and progress on energy system transition towards net zero. Performance in all areas has been strong demonstrating focus on supporting our most vulnerable customers and communities and in tackling climate change. The outcome for Years 2 and 3 was 83.45%, which the Remuneration Committee felt was appropriate and reflective of overall performance, not requiring the exercise of any discretion in relation to the targets.

This has resulted in a payout equal to 86.01% of the maximum LTIP opportunity for Steve Fraser, Howard Forster and Anthony Bickerstaff. (equivalent to £1,056,432 , £441,791 and £175,384 respectively.) Anthony Bickerstaff's LTIP value has been pro-rated to reflect his time on the Board. Further details of the LTIP are provided on pages 98 to 101.

Executive Director changes

There have been no Executive Director changes during 2022/23.

Annual salary review and policy application for 2023/24

The Committee carried out a review of salaries for the Executive Directors during the year, taking into account the salary increases across the workforce, and external factors such as market data on salary increases and inflation data.

It was agreed that the salaries of Steve Fraser, Howard Forster and Anthony Bickerstaff should be increased by 5%, 8% and 4% respectively, with effect from 1 July 2023. The resulting salaries will therefore be £668,304 for Steve Fraser, £374,434 for Howard Forster and £400,192 for Anthony Bickerstaff. These increases, which are considerably lower than the increases for employees across the business, reward the performance of the executive directors and ensure that salaries remain market-aligned.

Activities of the Committee 2022/23

The Committee held four scheduled meetings during the year. Activities of the Committee during the year included approving the outcomes of the 2022/23 STIP awards, salary reviews for the Executive Directors, setting targets for the 2023/24 STIP and 2023 LTIP.

Disclosure enhancements

As a private limited company, Cadent is not required to produce a formal Directors' Remuneration Report. However, the Committee is keen to provide transparency and also recognises evolving best practice regarding detailed disclosure. To this end, the Committee believes that the continued provision of a Remuneration Report is appropriate and that the contents of the report will be of interest to our stakeholders.

Conclusion

For the 2022/23 financial year, the Committee believes that it has operated remuneration as intended under the policy and that it has appropriately and reasonably exercised its judgement as outlined above.

Paul Smith
Chair of the Remuneration Committee

21 June 2023

Directors' Remuneration Policy

The following section provides details of our directors remuneration policy, which we intend to continue to apply over the course of the next year. The policy is reviewed on an ongoing basis and is approved by the Remuneration Committee and the Board.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of this policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the policy.

Our peer groups

The Committee reviews its remuneration practices against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is general industry and utilities sector companies with similar levels of revenue. These peer groups are considered appropriate for a complex regulated business of our size.

Reward principles

The following principles govern our approach to remuneration policy for our Executive Directors, and are unchanged since last year:

- **Alignment with Cadent's strategy:** the Executive Directors' remuneration package should be strongly linked to the achievement of stretch targets that are seen as indicators of the execution of Cadent's strategy in the short and long term. Targets should be set with an emphasis on providing long term and sustainable positive outcomes for our stakeholders, in particular our customers.
- **Pay for performance:** the majority of the Executive Directors' remuneration should be linked directly to Cadent's performance through variable pay schemes. The structures should incentivise both collective and individual performance, reinforcing the skills, behaviours and values which underpin our future success.
- **Competitiveness:** remuneration levels should be determined by reference internally against Cadent senior management and externally against companies of comparable size, complexity, and scope to enable Cadent to attract and retain key talent.
- **Consistency:** the remuneration structure for Executive Directors should generally be consistent with the remuneration structure for Cadent's senior management, whilst retaining flexibility to react to necessary changes within the organisation and externally. This consistency builds a culture of alignment with Cadent's purpose and a common approach to sharing in Cadent's success.
- **Simplicity:** remuneration arrangements should be simple, clear, valued and easy to understand (both by participants and external stakeholders in relevant remuneration disclosures). This includes the structure and associated performance targets.

Remuneration principles

A. Alignment with Cadent's strategy

B. Pay for performance

C. Competitiveness

D. Consistency

E. Simplicity

Cadent's executive remuneration

Base Salary (C)
To attract and retain high-calibre individuals while not overpaying

Benefits and pension (C)
To provide competitive and cost-effective benefits and pension contributions to attract and retain high-calibre individuals

Annual bonus (A, B, C, D, E)
To incentivise and provide market levels of reward for the achievement of annual strategic business targets and the delivery of individual objectives

Long-term incentive (A, B, C, D, E)
To drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests

Strategic priorities

1.	2.	3.	4.	5	6.
Deliver efficiently and brilliantly for customers	Decarbonise our business	Support customers in vulnerable situations	Innovate and digitalise our business	Build a culture where people can thrive	Ensure our business is secure and resilient

Salary (to attract, motivate and retain high-calibre individuals while not overpaying)		
Operation	**Maximum levels**	**Performance metrics, weighting and time period applicable**
Salaries are targeted broadly at mid-market level and reviewed annually taking into account: • business and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; and • market data in the relevant comparator group.	No prescribed maximum increase. Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression in the role and alignment to market level.	Not applicable.

Benefits (to provide competitive and cost-effective benefits to attract and retain high-calibre individuals)		
Operation	**Maximum levels**	**Performance metrics, weighting and time period applicable**
Benefits provided include: • company car or a cash alternative; • private medical insurance; • annual health screening; • life assurance; • personal accident insurance; and • opportunity to purchase additional benefits under flexible benefits schemes available to all employees.	Benefits have no predetermined maximum, as the cost of providing these varies from year to year.	Not applicable.

Pension (to reward sustained contribution and assist attraction and retention)		
Operation	**Maximum levels**	**Performance metrics, weighting and time period applicable**
Pension for a new Executive Director will reflect whether they were internally promoted or externally appointed. For internally promoted Executive Directors: • retention of existing Defined Benefits (DB) benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or • retention of existing Defined Contribution (DC) benefits with discretion to enhance contribution rate to up to 15% of salary; or • cash in lieu of pension up to 15% of salary If externally appointed: • DC benefits (or equivalent cash in lieu of) equal to the pension available to the workforce (currently up to 12% of salary). In line with market practice, pensionable pay for Executive Directors includes salary only.	Steve Fraser, Howard Forster and Anthony Bickerstaff receive a DC pension contribution or cash in lieu of pension equal to 12% of salary. For internally promoted Executive Directors: DB: retention of a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. DC: retention of annual contributions of up to 15% of salary. Life assurance provision of eight times pensionable salary is provided on death in service. Group income protection is also provided. Cash in lieu: retention of annual payments of up to 15% of salary. Life assurance and group income protection in line with DC (or DB where the Director was previously a member of a DB scheme).	Not applicable.

Directors' Remuneration Policy continued

Short-Term Incentive Plan (STIP)
(to incentivise and reward the achievement of strategic business targets and the delivery of annual individual objectives).

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the business plan. Awards are paid in cash. Awards are subject to clawback and malus provisions.*	The maximum award for the Chief Executive Officer is 150% of salary. The maximum award for the Chief Financial Officer and the Chief Operating Officer is 80% of salary.	A majority of the STIP is based on performance against corporate measures (both financial and non-financial), with the remainder based on performance against individual objectives. Individual objectives are role specific. The Committee sets measures that it considers appropriate in each financial year and has discretion to increase or reduce the amount payable, taking account of overall business performance, significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% of the maximum award, respectively.

Long-Term Incentive Plan (LTIP)
(to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests).

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities over a three-year period, reflecting the creation of long-term value within the business. Targets are set with reference to the Business Plan. Awards are paid in cash. Awards are subject to clawback and malus provisions.*	The maximum award for the Chief Executive Officer is 200% of salary. The maximum award for the Chief Financial Officer and the Chief Operating Officer is 160% of salary.	The LTIP is based on performance against corporate measures (both financial and non-financial), set over a three-year period. The Committee sets measures that it considers appropriate in each financial year and has discretion to increase or reduce the amount payable, taking account of overall business performance, significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% of the maximum award, respectively.

* The Company may reduce performance-related remuneration prior to payment ("malus") or require repayment of payments already made to an individual, ("clawback"). In the case of clawback, this may be dealt with by way of deduction from any sums due in the future (including salary and future cash bonus). Circumstances under which malus or clawback provisions may be enacted include if a material misstatement of the Company's financial results has occurred which has resulted in an overpayment (irrespective of fault) or if a Director engages in misconduct in the period between the award date and payment date.

Fees for the Chairman and other NEDs (to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.)

NEDs, other than the Chair and Sufficiently Independent Directors (SIDs), receive no fees. No Shareholder Nominated Directors are separately remunerated by the Company in their capacity as Directors of the Company. The fees of the Chairman, in accordance with the Committee's terms of reference, are decided by the Remuneration Committee. To avoid a situation in which any individual is involved in decisions on their own remuneration the fees of the SIDs are decided by the Board excluding the SIDs.

NEDs do not participate in incentive, pension or benefit plans. However, they are eligible for reimbursement for all Company-related expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non- Executive Directors through a PAYE settlement agreement with HMRC.

NEDs, including the Chair, do not have employment contracts. The SIDs' appointments are subject to Letters of Appointment. There is no provision for termination payments.

Differences in remuneration policy for all employees

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Company as a whole. However, there are some differences in the structure of remuneration policy for the senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for our various employee categories. They also reflect the fact that, in the case of the Executive Directors, a greater emphasis tends to be placed on performance-related pay in the market, in particular long-term performance-related pay. This reflects the longer-term nature of the business, in particular in relation to outcomes over the RIIO regulatory periods.

All employees are entitled to base salary, benefits, and pension contributions. Many employees are eligible for a STIP award based on Company and individual performance. Eligibility and the maximum opportunity available is based on market practice for the employee's job band. In addition, around 40 senior management employees are eligible for the LTIP scheme.

Consideration of remuneration policy elsewhere in the Company

In setting the remuneration policy the Committee considers the remuneration packages offered to employees across the Company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are assessed regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessment our aim is to be at mid-market level for all job bands, including those that are subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration being considered.

Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the remuneration policy at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the remuneration policy at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation, as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the remuneration policy at the time of appointment.

Ongoing incentive pay (STIP and LTIP) for new Executive Directors will be in accordance with the remuneration policy at the time of appointment.

For an externally appointed Executive Director, the Company may offer additional cash payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to Cadent. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost. In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible.

In exceptional circumstances, the Committee may use discretion to grant an additional short or long term incentive award on joining, where it believes such an award is necessary to secure the recruitment of an Executive Director.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chair or Non-Executive Director will be set in line with the policy at the time of appointment.

Directors' Remuneration Policy

Service contracts and policy on payment for loss of office

Executive Directors have service contracts which are terminable by either party, normally with six months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. Such payments would be phased on a monthly basis, over a period not greater than six months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period.

In the event of a Director being made redundant, a minimum of statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension. For the avoidance of doubt, such compensation would be made in addition to any contractual payments.

On termination of employment, no STIP or LTIP award would generally be payable. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case a STIP or LTIP award would be payable on the termination date, based on performance during the financial year up to termination. Examples of circumstances in which a Director would be treated as a 'good leaver' include redundancy, retirement, illness, injury, disability and death. Any STIP or LTIP award would be prorated and would be subject to performance achieved against the objectives for the scheme performance period.

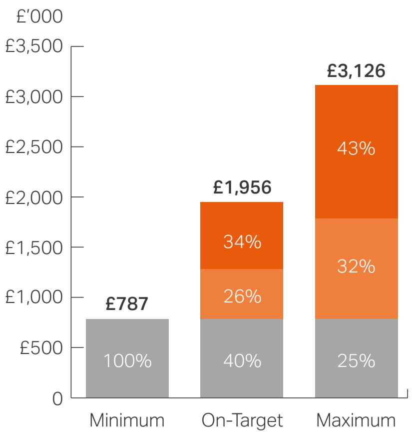
Sufficiently Independent Directors' (including the Chair) appointments are subject to three months' notice by either party. No compensation is payable to SIDs if they are required to stand down.

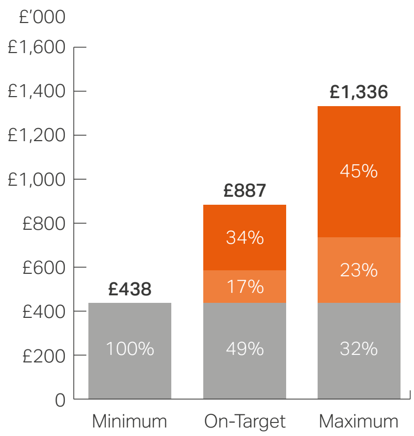
External appointments

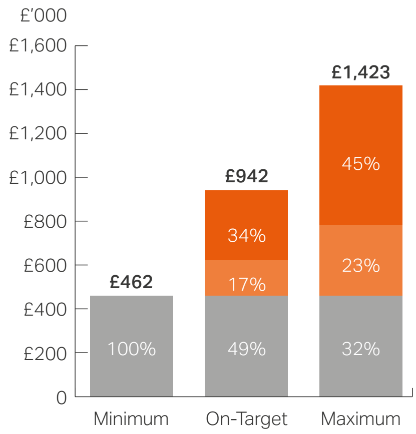
Executive Directors may, with the approval of the Board, accept external appointments as Non-Executive Directors of other companies and retain any fees received for the appointment. Experience as a Board member of another company is considered to be valuable personal development, that in turn is of benefit to the Company.

Total remuneration opportunity

The total remuneration for Steve Fraser, Howard Forster and Anthony Bickerstaff that could result from the current remuneration policy for the year 2023/24 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below.







Notes

1. 'Fixed pay' consists of salary, pension and benefits as provided under the remuneration policy.
2. Salary for 2023/24.
3. Benefits for Steve Fraser for 2022/23 includes an accommodation allowance.
4. Benefits are as shown in the Single Total Figure of Remuneration table for 2022/23 on page 97.
5. Pension of 12% of salary for Steve Fraser, Howard Forster, Anthony Bickerstaff.
6. STIP calculations are based on 150% of salary for Steve Fraser and 80% of salary for Howard Forster and Anthony Bickerstaff.
7. LTIP calculations are based on 200% of salary for Steve Fraser and 160% of salary for Howard Forster and Anthony Bickerstaff.
8. LTIP and STIP payout is 50% of maximum for on-target performance.

Key

- LTIP
- STIP
- Fixed Pay

Annual Report on Remuneration

Role of the Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chair, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and ensure it reflects our shareholders', customers', and regulator's interests.

Single total figure of remuneration – Executive Directors

The following table shows a single total figure of remuneration earned in respect of qualifying service for 2022/23, together with comparative figures for 2021/22.

	Salary £000		Benefits-in-kind £000		STIP £000		LTIP £000		Pension £000		Other £000		Total £000	
	2022/23	2021/22	**2022/23**	2021/22	**2022/23**	2021/22	**2022/23**	2021/22	**2022/23**	2021/22	**2022/23**	2021/22	**2022/23**	2021/22
Steve Fraser	**633**	610	**39**	20	**756**	598	**1057**	848	**76**	73	**–**	372	**2,561**	2521
Howard Forster	**342**	225	**19**	12	**207**	140	**442**	345	**41**	27	**–**	–	**1,051**	749
Anthony Bickerstaff	**383**	55	**14**	2	**226**	34	**176**	–	**46**	6	**–**	–	**845**	97
Steve Hurrell	**–**	235	**–**	12	**–**	–	**–**	–	**–**	47	**–**	–	**–**	294

Notes:

Salary: Steve Fraser's salary increased from £612,000 to £636,480 with effect from 1 June 2022. Howard Forster's 2021 earnings were prorated from 14 July 2021 when appointed to the Board and this increased to £346,698 with effect from June 2022. Anthony Bickerstaff's earnings from 7 February 2022 were prorated from when appointed to the Board and this increased to £384,800 with effect from June 2022.

Benefits-in-kind: Benefits-in-kind include private medical insurance, life assurance, and a cash alternative to a car. Anthony Bickerstaff changed from a cash alternative to a car in 2022. For Steve Fraser in 22/23 this also includes an accommodation allowance.

STIP: STIP outcome based on performance assessment of 79.60% , 75.60% and 73.60% of maximum for Steve Fraser, Howard Forster and Anthony Bickerstaff respectively. The maximum STIP opportunity was 150% of salary for Steve Fraser and 80% of salary for Howard Forster and Anthony Bickerstaff. Further details are set out on page 98. The STIP value for 21/22 for Howard Forster has been prorated to reflect his time on the Board. The STIP value for 21/22 for Anthony Bickerstaff reflects his STIP from 7 February 2022 when appointed to the Board.

LTIP: LTIP outcome based on performance assessment of 86.01% of maximum for Steve Fraser and Howard Forster, Anthony Bickerstaff will receive a pro rated LTIP from when he joined Cadent calculated with reference to average eligible earnings over the performance period. The LTIP earned relates to the performance for the 3 years from 2020/21 to 2022/23 inclusive.

Pension: Steve Fraser in 2021/2022, Howard Forster and Anthony Bickerstaff all received a cash allowance, based on 12% of salary, in lieu of participation in a pension arrangement payment.

Other: This element is in respect of the amount paid to Steve Fraser in 2021/22 under buyout arrangements provided in connection with long term incentive awards granted by his previous employer that were forfeited on joining Cadent.

Performance against targets for STIP 2022/23

STIP awards are earned by reference to the financial year and paid in July. In relation to the bonus measures, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and target and stretch performance.

Performance under the STIP is assessed against a scorecard of measures, including customer, economic, sustainability and business metrics.

The Remuneration Committee has carefully considered the significant adverse impact that the unforeseen increase in inflation has had on the economic measure within the STIP. The in year economic measure of EBITDA is driven by operating costs, which are heavily impacted by workload and inflation; along with revenues, which are fixed at the time of setting the budget but are impacted by demand for the network.

The Committee has recognised that these macroeconomic factors are exceptional and outside of the control of management. It was also recognised that the regulatory model (as set by Ofgem) meant that there is no lasting economic detriment to the business as shortfalls relative to inflation and under recovery from income can be recovered in future years.

The Committee has considered the range of actions taken by management to successfully mitigate the impact of high inflation in the year and have applied an adjustment to the EBITDA target to reflect changes in inflation, accounting standards, one off costs and workload; ensuring that management performance is recognised. This results in a more accurate reflection of the strong underlying financial and operational performance in the year, whilst balancing the impact on all stakeholders.

The Company performed well against customer, safety, sustainability and strategic targets. The scorecard outcomes, together with the Remuneration Committee's assessment of the individual performance element, resulted in a payout equal to 79.60%, 75.60% and 73.6% of the maximum STIP opportunity for Steve Fraser, Howard Forster and Anthony Bickerstaff respectively (equivalent to £755,086, £206,506 and £225,118 respectively).

The Committee noted that the STIP scorecard result is used for all employees who participate in the bonus plan and therefore the adjustments have been applied to a broad group of employees. The Committee is satisfied that the resulting outcome is appropriate and fair, being between target and maximum given the strong performance during the year.

Annual Report on Remuneration continued

The resulting outcomes of STIP awards for 2022/23 are shown in the table below:

	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)	Actual	Steve Fraser %	Howard Forster %	Anthony Bickerstaff %
EBITDA	28%	£2,245m	£2,260m	£2,275m	See notes	50	50	50
Customer Service	16%	See commentary below			See notes	75	75	75
Lost Time Incident Performance	4%	0.66	0.62	0.54	0.54	100	100	100
Safety	4%	200	350	500	684	100	100	100
Sustainability – % waste reduction	8%	3%	5%	8%	27%	100	100	100
Sustainability – Tier 1 Replacement	12%	3012km Tier 1	3076km Tier 1	34.9km Tier 1 and Tier 2 & 3	Tier 1 3,130km Tier 2 & 3 40.5km	100	100	100
Business Outcomes	8%	Assessment by Remuneration Committee				70	70	70
Individual Performance	20%	Assessment by Remuneration Committee				100	80	70
Total	100%							

Notes:

EBITDA (Group): Group EBITDA excludes the impact associated with the implementation of IFRS 15 and IFRS 16. Group EBITDA is before exceptionals and remeasurements, one off costs and workload;. This excludes all pass through costs agreed as part of the RIIO2 settlement with Ofgem. Adjustments to the target reflect changes in inflation, accounting standards, one off costs and workload

Customer Service: Targets and stretch targets were put in place for each of Cadent's four networks for Customer Satisfaction (Emergency Response & Repair and Planned work) and Complaints handling. Target being each network meeting a target score rate and stretch being all networks meeting their target scores and having two networks in the top four). We have continued to see significant progress in our Customer Satisfaction league table achievements over the course of 2022/23.

Lost Time Incidents: Lost Time Injury Frequency Rate calculated by reference to number of incidents divided by aggregate hours worked (on a rolling 12-month basis).

Safety – Safety engagement visits

Sustainability – % waste reduction: Targets based on the % waste reduction against a baseline of 1,680 tonnes per year (excludes spoil, PE pipe and recycled waste).

Sustainability – Tier 1 Replacement: Delivery of Tier 1 mains replacement programme (HSE output). Threshold and Target are based on cumulative Tier 1 mains replacement km over the RIIO-2 period to 31 March 2023. Stretch is based upon achieving Tier 1 Target plus 34.9km Tiers 2 & 3.

Business Outcomes: Transformation activity to ensure Cadent is fit for RIIO-2.

2022/23 STIP as proportion of base salary

	Max STIP	Outcome	STIP £000
Steve Fraser	150% of salary	79.60% of max	756
Howard Forster	80% of salary	75.60% of max	207
Anthony Bickerstaff	80% of salary	73.60% of max	226

Performance against targets for 2020-23 LTIP

LTIP awards are earned by reference to rolling three-year financial periods and paid in the July following the end of the third year.

The performance period for the 2020-23 LTIP award ended on 31 March 2023 and this award will vest in July 2023. In relation to the bonus measures and in the same way as for the STIP, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and between target and stretch performance. The RIIO-1 Regulatory Price Control period completed its 8 year cycle in March 2021, meaning that the performance period for the 2020 LTIP comprises of one year in RIIO-1 and two years in RIIO-2. This gave rise to a challenge setting meaningful targets over a full three year LTIP performance period at the beginning of 2020. A decision was taken to split the performance period, such that one third of the LTIP is based on performance against a scorecard of targets for Year 1; with two thirds being based on performance against a scorecard of targets for Years 2 and 3.

The performance targets for the LTIP 2020-2023 Year 1 award are shown in the table below:

	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)	Actual	Outcome (% of max)
Economic Outcome	25%	Assessment by Remuneration Committee				100%
Long Term Asset Health	15%	–	Within +/- 5% of target	Within +/- 4% of target	One network at target level & 3 at stretch level	87.53%
Environmental	10%	Assessment by Remuneration Committee				80%
Social Obligation	10%	4296	4522	4748	See notes	50%
RIIO-2 Customer Business Plan(1)	20%	Commercially Sensitive Information				100%
RIIO-2 Customer Business Plan(2)	20%	Assessment by Remuneration Committee				100%
Total	**100%**					**91.13%**

Notes:

Economic outcome: Financial planning for RIIO2.

Long Term Asset Health: This is a measure of the risk removed from Cadent's networks through the management of our assets, expressed as being within a % tolerance of a monetary figure.

Environmental: Remuneration Committee assessment against RIIO2 Environmental Commitment Plan.

Social Obligation: Fuel poor connections, measured by number of connections.

RIIO2 Customer Business Plan(1): Commercially sensitive information.

RIIO2 Customer Business Plan(2): Assessment by the Remuneration Committee of the quality of Cadent's RIIO2 Customer Business Plan.

The Committee exercised discretion in relation to one LTIP measure outcome in light of the impact of COVID-19, as follows:

(i) Social obligations – outcome adjusted upwards to reflect that shortfall in connections was ascribed to COVID-19 restrictions, including requests from customers to postpone works. Cadent were on track to meet the target level in the absence of COVID-19 and has demonstrated strong delivery in this post the lifting of a number of COVID-19 restrictions.

The performance targets for the LTIP 2020 – 2023 Year 2 and Year 3 of the award are shown in the table below:

	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)	Actual	Outcome (% of max)
Economic Outcome	25%	Target +2%	Opex, Repex and Capex as per approved business plan	Target -2%	Target +0.168%	45.80%
Customer & Social Obligation: RIIO2 Customer Strategy – Fuel Poor Network Extension scheme	10%	–	2500	2625	4332	100%
Customer & Social Obligation: Social Return on Investment	15%	1:1	1:2	1:4	1:9.4	100%
Sustainability – Tier 1 Mains Replacement Programme	20%	3012km	3044km	3076km	3,130km	100%
Sustainability – Environmental Plan	10%	-2.7%	-4.3%	-6.5%	-14.2%	100%
Energy System Transition	20%	Assessment by Remuneration Committee				85%
Total	**100%**					**83.45%**

The overall outcome for the 2020-23 LTIP was 86.01% of maximum. Steve Fraser's maximum opportunity was 200% of salary, Howard Forster's and Anthony Bickerstaff's maximum opportunity was 160% of salary, and therefore the outcome corresponds to a 172%, 137.61% and 137.61% of salary respectively (for this purpose, salary is based on the average eligible earnings earned over the performance period).

2020-23 LTIP as a proportion of base salary

	Max opportunity	LTIP outcome	LTIP £000
Steve Fraser	200% of salary	86.01% of max	**1,057**
Howard Forster	160% of salary	86.01% of max	**442**
Anthony Bickerstaff	160% of salary	86.01% of max	**176**

Notes:

Anthony Bickerstaff will receive a prorated LTIP from the date he joined Cadent.

Annual Report on Remuneration continued

Single total figure of remuneration – Non-Executive Directors

The following table shows the single total figure of remuneration earned for Sufficiently Independent Directors in respect of qualifying service for 2022/23 and for 2021/22.

	2022/23 £'000	2021/22 £'000
Sir Adrian Montague CBE	325	325
Dr Catherine Bell CB	60	60
Paul Smith	70	70

Payments for loss of office

There were no payments for loss of office during the year.

Payments to past Directors

There were no payments to past Directors during the year.

Advisors to the Remuneration Committee

In 2022/23, the Committee appointed FIT Remuneration Consultants as advisors to the Committee following a competitive selection process.

PwC's fees for advice to the Committee in 2022/23 were £35,500.

FIT Remuneration Consultants fees for advice to the Committee in 2022/23 were £2,355.

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they provided credible and professional advice.

The Committee considers the views of the Chair on the performance and remuneration of the Chief Executive Officer, and of the Chief Executive Officer on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the General Counsel and Company Secretary who acts as Secretary to the Committee, the Chief People Officer and HR Director, Centre of Expertise. No other advisors have provided significant services to the Committee in the year.

Statement of implementation for 2023/24

Remuneration policy will be implemented during 2023/24 as described below.

Salary

The Committee carried out a review of salaries for the Executive Directors during the year, taking into account the salary increases across the workforce (which are significantly higher than the increases agreed for the executive directors), and external factors such as market data on salary increases and inflation data.

It was agreed that the salaries of Steve Fraser, Howard Forster and Anthony Bickerstaff should be increased by 5%,8% and 4% respectively with effect from 1 July 2023. The table below sets out the resulting rates of salary:

	From 1 July 2023	From 1 July 2022
Steve Fraser	£668,304	£636,480
Howard Forster	£374,434	£346,698
Anthony Bickerstaff	£400,192	£384,800

STIP measures for 2023/24

The STIP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2023/24 annual report on remuneration. The structure of the scheme will remain largely the same as that of 2022/23.

	Weighting
EBITDA (excluding pass through costs)	24.50%
Mains Replacement Programme	10.50%
Lost Time Injury Frequency Rate (LTIFR) performance	5.25%
Proactive Safety Engagement Visits	1.75%
Process Safety	1.75%
Waste Reduction	2.10%
Reduce Carbon Footprint	2.10%
Supply Chain Assurance	2.80%
Customer Service	10.50%
Complaints Handling	3.50%
Regulatory Measures	5.25%
Individual Performance	30%

Steve Fraser's target STIP will be at 75% of salary (maximum 150% of salary), while Anthony Bickerstaff and Howard Forster's target STIP will be 40% of salary (maximum 80% of salary).

The weighting of individual performance has increased from 20% in 2022/23 to 30% for 2023/24.

The targets have been set in the context of the business plan and external factors. The Remuneration Committee retains discretion over the 2023/24 measures and targets.

LTIP to be awarded in 2023/24

The LTIP targets are considered commercially sensitive and consequently will be disclosed after the end of their performance period in the 2025/26 annual report on remuneration. Measures to be used for the 2023/24 award are shown in the table below:

	Weighting
RIIO-2 Customer Strategy	25%
Economic Outcome	35%
Sustainability	10%
Asset Management	15%
Energy and Business Transition	15%

For the 2023/24 award, the target and maximum will be 100% and 200% of salary respectively for Steve Fraser, and 80% and 160% of salary respectively for Howard Forster and Anthony Bickerstaff.

Fees for the independent Chairman and the other Non-Executive Directors

The fees of the Sufficiently Independent Directors (SIDs) for the forthcoming year are detailed in the table below.

	Fee From 1 July 2023	Fee From 1 July 2022
Chair	**£345,000**	£325,000
Sufficiently Independent Director	**£65,000**	£60,000
Additional fee for Chair of Remuneration Committee	**£12,500**	£10,000

Fees are reviewed periodically. In reviewing the fees of the Chair and Sufficiently Independent Directors, market data has been reviewed for comparable companies with a similar sized turnover and companies with a similar market cap. Consideration has also been given to the increases applied to the wider workforce.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Paul Smith
Chair of the Remuneration Committee

21 June 2023

Directors' report

Principal activities and business review

A full description of the Group's and company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic report on pages 1 to 62, which are incorporated by reference into this report.

Directors

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

Current Directors	
Current Directors	
Sir A Montague CBE (Chair)*	
A M Al-Ansari**	
Dr C E D Bell CB*	
A Bickerstaff	
M W Braithwaite	
N Corrigall	(Appointed 24 May 2022)
S Fennell	
E B Fidler	
H N Forster	
S R Fraser	
R Greenleaf**	
D A Karnik	
A Marsden	
M W Mathieson	
P D Noble	
P R Smith*	
H Su	
M Wang**	
D L Wilkins	
D J Xie	
Former Directors who resigned during the period	
H C Higgins	(Resigned 24 May 2022)
J Korpancova	(Resigned 31 August 2022)

* Sufficiently Independent Director

** Alternate Director

Corporate governance

A full report on corporate governance can be found on pages 72 to 76. Incorporated by reference into this report.

Future developments

Details of future developments have been included within the Strategic report on pages 1 to 62.

Dividends

During the year, the company paid ordinary dividends totalling £350m, £175m in January 2023 and £175m in September 2022 (2022: ordinary dividends totalling £195m).

Charitable and political donations

Charitable donations made by the company during the year totalled £5.4m (Cadent Foundation) (2021/22: £2.4m) and £227,536 (Emmaus and other fundraising) (2021/22: £134,000). Further information about our new chosen charity the Emmaus can be found on page 24.

The company made no political donations during the year (2021/22: £Nil).

Research and development

Expenditure on research and development was £28m during the period (2021/22: £16m).

Employees

Information on the Group's employment policies (including on the selection, employment, training, career development and promotion of disabled employees) and employee involvement can be found in the Our year in review, Creating a Culture of Equity and Inclusivity for pages 28 to 32. Details of how the Directors have engaged with employees can be found in the Section 172 Statement on pages 50 to 54.

Stakeholder Engagement

Details of how the Directors have engaged with suppliers, customers and other stakeholders can be found in the Section 172 Statement on pages 50 to 54.

Environmental policy

Information on the Group's environmental initiatives can be found in the Our strategy for responding to climate change on page 38, and in the Transforming the environment on page 34, where you will find our environmental responsibility reports, policies and other information, which is incorporated into this Directors' report by reference.

Directors' indemnity

Cadent Gas Limited gives Directors' indemnities to Cadent Gas Officers, Quadgas HoldCo Limited gives indemnities to Officers of other Group companies. Separately there is a Directors' and Officers' liability insurance policy for the benefit of the Group's Directors.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in this Strategic Report on pages 1 to 62. 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 uncertainty impacting inflation, 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 Cadent Gas Limited would be unable to continue as a going concern. After due consideration, it was recommended to the Board in June 2023 that the financial statements be prepared on the going concern basis.

Having made enquiries and reviewed management's assessment of going concern, the Directors consider it appropriate to prepare the financial statements on a going concern basis, having concluded that there are no material uncertainties. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

Control and risk management

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- The risk assurance function and management conduct various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and, where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/ or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit & Risk Committee is also kept appraised of such developments.
- The financial statements are subject to review by the financial reporting function for unusual items, unexplained trends and completeness. Any unexplained items are investigated.
- The financial reporting function compares the financial statements to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the financial reporting function.
- The Audit & Risk Committee and the Board review the draft consolidated financial statements. The Audit & Risk Committee receives reports from management on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Post balance sheet events

There are no other post balance sheet events other than the early repayment of bank debt as detailed in note 34 to the consolidated financial statements.

Treasury management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the company's material financial risks, including liquidity, credit, interest rate risks and foreign currency risks. These risks are monitored through a treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for the Group. Details on our financial risk management are set out in note 28 on pages 147 to 154.

Major shareholdings

As at 31 March 2023, 100% of the company's share capital was held by Quadgas MidCo Limited.

Auditor

A resolution to reappoint Deloitte LLP as auditor of the company will be proposed for shareholder approval.

Disclosure of information to auditor

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditor is unaware, and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' report continued

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as issued by the IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors' report was approved by the Board and signed on its behalf by:

Steve Fraser
Chief Executive Officer

21 June 2023

Financial statements

Independent auditor's report to the members of Cadent Gas Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Cadent Gas Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 36 to the consolidated financial statements; and,
- the related notes 1 to 23 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluation of financing facilities including nature of facilities, repayment terms and covenants;
- assessment of linkage to business model and medium-term risks;
- evaluation of assumptions used in the forecasts;
- assessment of amount of headroom in the forecasts (cash and covenants);
- evaluation of sensitivity analysis;
- assessment of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management; and
- review and assessment of going concern disclosures made by directors.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, in-house legal counsel and directors about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies Act 2006, pensions legislation and tax legislation; and,
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, climate change, pensions, and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures perfomred to address it are described below:

Judgement over the classification of non-MRP expenditure as being capital or operational in nature

The group invests heavily in fixed assets and more specifically in the infrastructure and gas network as part of its regulatory commitments and sustainability plans; ranging from major replacement projects to minor repairs and maintenance works.

Cadent have a Health and Safety Executive requirement to perform mains replacement works on their network. During the year the group has invested £855m in property, plant, and equipment, excluding motor vehicles and other equipment (2022: £750m).

We have identified a risk that non-MRP expenditure which is operating in nature is incorrectly capitalised into fixed assets.
Incorrect identification and mapping of activities in the financial accounting and reporting software platform, may lead to the overstatement of fixed assets and hence 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 risk of fraud through manipulation of this balance.

Independent auditor's report to the members of Cadent Gas Limited continued

Further details are included within note 1(e) and note 13 of the financial statements.

We have performed the following procedures in response to the key audit matter:

- tested relevant controls related to the fixed assets cycle including those specifically associated with the classification of non-MRP expenditure;
- challenged management's judgement and their policies relating to the classification of capital expenditure, operating expenditure, and infrastructure maintenance expenditure;
- 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.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and,
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Report on other legal and regulatory requirements

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Whitlock ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

21st June 2023

Consolidated income statement

For the year ended 31 March 2023

	Notes	2023 £m	2023 £m	2022 £m	2022 £m
Revenue	4		**2,340**		1,984
Operating costs					
Before exceptional items	5	**(1,388)**		(1,287)	
Exceptional items	6	**(7)**		(12)	
Total operating costs			**(1,395)**		(1,299)
Total operating profit	5		**945**		685
Finance income	9				
Before exceptional items and remeasurements	9	**35**		10	
Exceptional items and remeasurements	6/9	**158**		–	
Total interest receivable and similar income			**193**		10
Finance costs					
Before exceptional items and remeasurements	9	**(398)**		(248)	
Exceptional items and remeasurements	6/9	**–**		(78)	
Total interest payable and similar charges			**(398)**		(326)
Profit before tax					
Before exceptional items and remeasurements		**589**		459	
Exceptional items and remeasurements	6	**151**		(90)	
Total profit before tax			**740**		369
Tax					
Before exceptional items and remeasurements	10	**(122)**		(96)	
Exceptional items and remeasurements	6/10	**(38)**		(366)	
Total tax			**(160)**		(462)
Profit after tax					
Before exceptional items and remeasurements		**467**		363	
Exceptional items and remeasurements	6	**113**		(456)	
Profit/(loss) for the year			**580**		(93)

The results reported above relate to continuing activities.

The notes on pages 114 to 158 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2023

	Notes	2023 £m	2022 £m
Profit/(loss) for the year		**580**	(93)
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	27	**(410)**	629
Tax on remeasurements of post-employment benefit obligations	10	**102**	(157)
Deferred tax charge arising from changes in UK corporation tax rate	6/10	**–**	(26)
Total items that will never be reclassified to profit or loss		**(308)**	446
Items that may be reclassified subsequently to profit or loss			
Net (loss)/gain in respect of cash flow hedges		**(14)**	4
Net gain/(loss) in respect of cost of hedging reserve		**1**	(6)
Amortisation of cost of hedging reserve		**4**	4
Tax on net loss/(gain) in respect of cash flow hedges	10	**2**	(1)
Total items that may be reclassified subsequently to profit or loss		**(7)**	1
Other comprehensive (loss)/income for the year, net of tax		**(315)**	447
Total comprehensive income for the year		**265**	354

The results reported above relate to continuing activities.

The notes on pages 114 to 158 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 March 2023

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	12	48	70
Property, plant and equipment	13	11,293	10,811
Investments in associates	14	–	–
Pension and other post-retirement benefit assets	27	729	1,083
Derivative financial assets	17	37	7
Trade and other receivables	16	–	1
Total non-current assets		12,107	11,972
Current assets			
Derivative financial assets	17	–	1
Inventories	15	15	11
Corporation tax		24	6
Trade and other receivables	16	211	179
Current asset investments	18	523	80
Cash and cash equivalents		21	13
Total current assets		794	290
Total assets		12,901	12,262
Current liabilities			
Trade and other payables	19	(513)	(418)
Borrowings	21	(150)	(43)
Lease liabilities	22	(14)	(10)
Provisions	23	(14)	(11)
Total current liabilities		(691)	(482)
Net current assets/(liabilities)		103	(192)
Total assets less current liabilities		12,210	11,780
Non-current liabilities			
Derivative financial liabilities	17	(250)	(269)
Borrowings	21	(7,473)	(6,924)
Lease liabilities	22	(84)	(69)
Deferred tax liabilities	10	(1,888)	(1,929)
Provisions	23	(56)	(59)
Accruals and deferred income	20	(30)	(16)
Total non-current liabilities		(9,781)	(9,266)
Total liabilities		(10,472)	(9,748)
Total net assets		2,429	2,514
Equity			
Share capital	24	–	–
Cash flow hedge deficit		(27)	(15)
Cost of hedging reserve		13	8
Retained earnings		7,736	7,814
Other deficit		(5,293)	(5,293)
Total equity		2,429	2,514

The notes on pages 114 to 158 are an integral part of these financial statements.

The consolidated financial statements on pages 109 to 158 were authorised and approved for issue by the Board of Directors on 21 June 2023 and were signed on its behalf by:

A O Bickerstaff
Director
Cadent Gas Limited

21 June 2023

Company registration number: 10080864

Consolidated statement of changes in equity

For the year ended 31 March 2023

	Share Capital £m	Cash flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2022	–	(15)	8	(5,293)	7,814	2,514
Profit for the year	–	–	–	–	580	580
Other comprehensive (loss)/income excluding amortisation of cost of hedging reserve	–	(12)	1	–	(308)	(319)
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive income for the year	–	(12)	5	–	272	265
Equity dividends (note 11)	–	–	–	–	(350)	(350)
At 31 March 2023	**–**	**(27)**	**13**	**(5,293)**	**7,736**	**2,429**

	Share Capital £m	Cash flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2021	–	(18)	10	(5,293)	7,656	2,355
Loss for the year	–	–	–	–	(93)	(93)
Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve	–	3	(6)	–	446	443
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive income for the year	–	3	(2)	–	353	354
Equity dividends (note 11)	–	–	–	–	(195)	(195)
At 31 March 2022	–	(15)	8	(5,293)	7,814	2,514

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

Other deficit comprises the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas Plc. This merger reserve will reduce distributable profits. As the amounts included in other deficits are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

The notes on pages 114 to 158 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2023

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Total operating profit		945	685
Adjustments for:			
Exceptional items	6	7	12
Depreciation and amortisation	12/13	423	400
(Increase)/decrease in inventories	15	(4)	1
(Increase)/decrease in trade and other receivables		(21)	41
Increase/(decrease) in trade and other payables	30	55	(6)
Capital contribution income		(43)	(46)
Changes in provisions		1	(3)
Gain on disposal of property, plant and equipment		(3)	(2)
Changes in pensions and other post-retirement obligations		(27)	(28)
Capital contributions received		78	52
Cash flows relating to exceptional items		(14)	(8)
Cash generated from operations		1,397	1,098
Tax paid		(101)	(85)
Net cash inflow from operating activities		1,296	1,013
Cash flows from investing activities			
Purchases of intangible assets		(2)	(5)
Purchases of property, plant and equipment	31	(848)	(856)
Disposals of property, plant and equipment		3	2
Interest received		–	–
Net (increase)/decrease in financial investments		(443)	735
Net cash flow used in investing activities		(1,290)	(124)
Cash flows from financing activities			
Proceeds received from loans		474	–
Repayment of loans		–	(550)
Repayment of lease liabilities	22	(16)	(11)
Interest paid		(105)	(133)
Dividends paid to shareholders	11	(350)	(195)
Net cash inflow from/(used in) financing activities		3	(889)
Net increase in cash and cash equivalents		9	–
Net cash and cash equivalents/(overdraft) at the start of the year		12	12
Net cash and cash equivalents at the end of the year		21	12
Comprising:			
– Cash[1]		21	13
– Overdraft		–	(1)
		21	12

1 Cash of £21m (2022: £13m) includes £17m (2022: £11m) which has specific restrictions over its use. See Note 1(s) for details.

Notes to the consolidated financial statements

For the year ended 31 March 2023

1 Summary of significant accounting policies

Cadent Gas Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom and is registered in England and Wales. The address of its registered office is Pilot Way, Ansty, Coventry, CV7 9JU, United Kingdom. Its principal activity is the transportation of gas.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

(a) Basis of preparation

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

Going Concern

The financial statements for the Group have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value.

Having considered the reasonable worst-case scenario (more detail can be found in the Directors' report), the Group continues to have headroom against the Group committed facilities disclosed in note 21. In addition, the ability to raise new financing was considered and it was concluded that the Group has the ability to continue to have access to the debt capital markets if needed.

Despite ongoing macro-economic volatility including the significant uncertainty impacting inflation, energy prices, and the ongoing conflict in Ukraine, the company has not been significantly impacted as a result of protections in place through the regulatory price control. The Company continues to closely monitor and manage the impacts of changes in the macro-economic environment. 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.

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.

Consideration of climate change

In preparing the financial statements, the Directors have considered the impact of climate change, particularly in the context of the risks, which have resulted in an impact on the assessment and consideration of the financial reporting judgements and estimates. In particular, the Directors considered the impact of climate change in respect of the carrying value and useful economic lives of property, plant and equipment – note 13.

Whilst there is currently no short to medium-term impact expected from climate change, the Directors are aware of the ever changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

Consolidated financial statements

The consolidated financial statements of Cadent Gas Limited have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards (IFRS Standards) as issued by the International Accounting Standards Board (IASB).

(b) Basis of consolidation

The consolidated financial statements include the results of Cadent Gas Limited and its subsidiaries, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited, Cadent Gas Pension Services Limited, Cadent Finance Plc and associate undertakings, (The Group). Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

Associates are accounted for on an equity basis where the Group holding is 20% or more and the Group has the power to exercise significant influence.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

Cadent has an agreement with the Charities Trust to contribute at least 1% of profit after tax into a Donor Advised Fund ("DAF"). We have concluded that the DAF is not controlled by the Group as the Charities Trust have the power to overrule decisions that do not align with the objectives of the Foundation and the requirements of IFRS 10 have not been met in respect of (1) rights to variable returns and (2) its ability to affect the amount of investor returns. Therefore this has not been consolidated as part of the Cadent Gas Limited Group.

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

- Amendments to IAS 16, Proceeds before intended use
- A number of narrow-scope amendments to IFRS 3, IAS 37 and some annual improvements on IFRS 1, IFRS 9, and IAS 41

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 IFRS 16, Lease Liability in a sale and leaseback*
- 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.

(d) Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets, other than goodwill and those assets with indefinite useful lives (the gas distribution Licence), are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired. Software customisation and configuration costs relating to software not controlled by the Group are expensed over the period such services are received.

Impairment of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if all of the following criteria are satisfied: an asset is created that can be identified; the technical feasibility of completing the intangible asset so that it will be available for use; the intention to complete the intangible asset and use it; the ability to use the intangible asset; it is probable that the asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

Amortisation Periods

Computer software – 5 years

Computer licenses – 3 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

1 Summary of significant accounting policies continued

(e) Property, plant and equipment and depreciation

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. We also continue to invest in research and innovation to support the energy transition to net zero. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment assets includes assets which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets. Continued investment and future forecasted spend will be incurred with an aim to make the network usable for alternative technologies and energies.

Contributions received towards the cost of altering, diverting or relocating a tangible fixed asset are included in trade and other payables as deferred income and credited to revenue once the performance obligation has been met for example the alteration, diversion or relocation has been completed.

Contributions received towards the cost of tangible assets from customers for connections to the gas distribution networks are initially recognised as deferred income and credited to revenue once the performance obligation has been met for example the connection has been completed.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting warming by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target of reducing all greenhouse gas emissions to net zero in the future will impact how our network can be used. In preparing these financial statements we have assumed that our network can be adapted to use alternative technologies and hence will 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.

We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives.

The broad based assumptions applied do not allow for meaningful sensitivities on our useful economic lives at individual asset classes under the different scenarios proposed. The granularity is not available by asset. As a result, we have applied some broad sensitivities based on our existing asset lives and what additional depreciation would be required if any of the scenarios would effectively result in shortened lives (e.g., net zero by 2050, mixed use by 2045). See note 29 for further details.

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(f) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of cash generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of fair value less costs of disposal or estimated value in use at the date the impairment review is undertaken. 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.

1 Summary of significant accounting policies continued

(g) Financial instruments

Initial recognition

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Classification and measurement

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost; or
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. Impairments are calculated using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Accretion on inflation linked borrowings is accounted for on an accrual basis to the income statement, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

1 Summary of significant accounting policies continued

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;
- loan receivables; and
- other receivables.

The Group measures the loss allowances at an amount equal to the 12 month expected credit loss. The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the Group recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the Group recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the Group recognises the lifetime expected credit loss.

A significant increase in credit risk would by any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

Evidence that the financial asset is credit impaired includes the following:

- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the Group that the Group would not consider otherwise; or
- it is probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for an associated security because of financial difficulties.

(h) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which has not yet been invoiced.

Trade receivables and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

(i) Trade and other payables

Trade payables are initially recognised at amortised cost and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book values.

Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the income statement once the project is complete.

The treatment is dependent on the type of the project. For further details on assessment of performance obligations see note 1(n) Revenue.

(j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(k) Tax

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1 Summary of significant accounting policies continued

(k) 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.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authorities and the company intends to settle their current tax assets and liabilities on a net basis.

(l) Provisions for liabilities

Provisions for liabilities are recognised where a legal or constructive obligation exists at the reporting date, as a result of past events where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditure, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

Other provisions consist of claims (whether covered by insurance or not) including employer liability claims, and other provisions related to the operation of our gas networks. Where amounts are material, third party valuations are performed.

(m) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the company's shareholders are recognised as a liability until paid in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

(n) Revenue

Revenue largely comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year (capacity revenue), and the amount of gas transported for the year (commodity revenue), evaluated at contractual prices on a monthly basis. The customers for the distribution of gas are Shippers. The single performance obligation for these revenue streams was deemed to be the provision of a safe gas transportation network between the National Gas Transmission network to end consumers (customers of the shippers) and being able to transport gas around the network. The performance obligation is satisfied over time as the shippers immediately control and consume the benefits that Cadent Gas provides over time by having a network available to shippers (capacity) and transporting the gas around the network (commodity). Although capacity and commodity revenue are invoiced separately, the services are not distinct (the nature of the promise is to transfer a combined service) and only one performance obligation exists.

Income from shippers is governed by the credit rules within the Uniform Network Code (the Industry Code by which we are bound). These set out the level of credit relative to our RAV for each counterparty's credit rating. The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit ratings, letters of credit from a financial institution, parent company guarantees, independent assessment, payment history allowance and advanced cash deposits. Typical payment terms are 14 days.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

1 Summary of significant accounting policies continued

(n) Revenue continued

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised, as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Other income comprises all activities outside the regulated business principally relating to cash fees paid by customers, typically property owners / developers, for connections fees and typically developers or large infrastructure projects for altering, diverting or relocating part of our existing network. There are also non material revenue streams for call handling services (emergency telephone service for all gas distribution networks) and metering services (the provision of meter installation and repair services).

For fees paid by customers the performance obligation is satisfied when either the new connections to our network or alteration / diversion of our network is completed and control passes to the customer on this completion of the physical installation ready for the first flow of gas. Significant judgment was applied for connections to determine whether the connection service was distinct from the provision of future network services. Cadent judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available. For call handling services, the performance obligation is satisfied over time with the provision of an emergency call handling service to customers. For metering services, the performance obligation is satisfied on completion of the installation or the repair and control passes when the meter is operational. Customers for metering services are typically the gas supplier and distinct from the ongoing supply of gas. Typical payment terms are 30 days for our other revenue.

Where we receive amounts from customers in relation to Supplier of Last Resort (SoLR) claims, we have deemed that we are operating as an agent in this transaction as we pay the amounts collected directly onto the SoLR with no control over the amount and we do not receive any commission. We therefore present the amounts collected and amounts paid on a net basis per the requirements of IFRS 15. See note 2 for further details.

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 for further details.

(o) Exceptional items and remeasurements

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

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

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, significant write-downs or impairment of non-current assets, integration of acquired businesses, gains or losses on disposals of businesses or investments, debt redemption costs as a consequence of transactions such as significant disposals or issues of equity and 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.

(p) Pensions

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

For the DC pension scheme, the company pays contributions into a Master Trust on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

1 Summary of significant accounting policies continued

(p) Pensions continued

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

(q) Leases

The company leases offices, operational buildings, land, equipment and vehicles. Rental contracts typically range from 6 months to 10 years, however land and building leases can be significantly longer.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

IFRS 16 has been applied for all leases (except as noted below), the company:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16;

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (with a lease term of 12 months or less) and leases of low-value assets (deemed less than £3,500) the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Measurement

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and
- lease payments to be made under reasonably certain extension options.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

1 Summary of significant accounting policies continued

(q) Leases continued

Measurement continued

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Variable lease payments

Some leases contain variable payment terms. These include:

- Leases for equipment which contain fixed value increases over the life of the lease e.g. final balloon payments. These are included in the lease liability as the amounts are known;
- A gas storage facility for which the rental payments are linked to RPI, and potential future increases in lease payments are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset; and
- Leased equipment where the lease payments are variable as they are based on usage. These costs are not included in the lease liability in line with IFRS 16 because the payments do not meet the definition of a liability until the use occurs. Instead these are recognised in the profit and loss account as and when the expense is incurred.

Right-of-use assets

Right-of-use assets are measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. The right-of-use assets are presented within property, plant and equipment in the consolidated statement of financial position.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

(r) Other reserves

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. On 1 October 2016 Cadent Gas Limited acquired the trade and assets of the Gas Distribution business from National Grid Gas plc. This acquisition was accounted for as a business combination under common control as the entities were under the common control of National Grid plc. As such, Cadent Gas Limited selected to apply predecessor accounting and this resulted in the excess of the consideration paid over the carrying value of the net assets, being recorded as a separate component of equity and a merger reserve of £5,165m was recognised. Subsequent to this, Cadent Gas Limited recognised its share of the pension sectionalisation and the recognition of pension deficit of £128m net of deferred tax was recognised against the merger reserve. This merger reserve will reduce distributable profits. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

(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 over the life of the exercise consistent with our accounting policies. This is consistent with judgements made in previous years relating to this and other restructuring programmes – **note 6**;
- The judgement that the network can be used for alternative technologies beyond 2050. Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting effect of climate change by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how our network is used. The UK Government's current plans include the production and use of Hydrogen and to achieve net-zero, although there remains uncertainty about significant aspects of the UK energy sector plans under net zero . We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives. Given the information currently available regarding these plans and the initial feasibility studies completed regarding the use of alternative gases through our network and the large scale production of these gases, we have judged that our network will continue to be used to transport gas (methane, hydrogen, other alternatives such as biomethane or a combination of these) beyond 2050, and that these gases will be available in sufficient quantities. See below for the estimates we have made regarding useful lives when applying this judgement to our financial statements – **notes 12 & 13**; and
- 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 12 months to 31 March 2023 Cadent Gas Limited has paid claims amounting to £377 million (2022: £3 million) to its SoLR and has received additional compensating income of £379 million (2022: £3 million).

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

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:

- Determination of useful lives and carrying values of property, plant and equipment and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. Changes made to the UELs could have a material impact on the depreciation recognised in the next financial year. The UK's target to achieve net zero by 2050 may impact the UELs of our plant and machinery with a current deemed life of up to 50 years if our network can no longer be used beyond this point. We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives. Currently our assets are being depreciated out to 2055. See note 29 for impact on depreciation charge under different modelling scenarios. Given the information currently available about how the UK will achieve net-zero using alternative technologies (particularly greener gases such as hydrogen and biomethane, and ahead of the 2026 Government Heat Policy Decision), it is still reasonable to assume that the network will continue to be used beyond 2050 in its current form or adapted to accommodate hydrogen or biomethane. Management have therefore assumed that our network assets can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy. However, if future developments in technology or the climate change agenda indicate that the UELs of our network assets are limited to 2050, the depreciation charge recognised in future periods would increase by a material amount – **notes 12 & 13**;
- 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**; and
- The fair value of derivative financial instruments relating to index-linked swaps are measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates and inflation rates. Projected cash flows are then discounted back using discount factors that are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate.

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. As such, all risks and opportunities in relation to climate change have been considered at a UK level.

4 Revenue

	2023 £m	2022 £m
Revenue from distribution of gas	2,279	1,926
Other income	61	58
	2,340	1,984

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

	2023 £m	2022 £m
Analysis of revenue by major customer		
Customer A	602	445
Customer B	353	238
Customer C	280	149
	1,235	832

Three customers contributed 10% or more to the Group's revenue during the year to 31 March 2023 (2022: two).

5 Operating Profit

	2023 £m	2022 £m
Operating profit is stated after charging:		
Depreciation and amortisation	423	400
Payroll costs (see note 7)	255	244
Inventory consumed	13	12
Shrinkage	62	58
Rates	212	212
Research and development expenditure	28	13
Exit capacity charges	161	164

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.

	2023 £000	2022 £000
Services provided by the company's auditor		
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	820	734
Fees payable for the audit of the subsidiary company financial statements	54	49
Other services		
Fees payable to the company's auditors for audit-related assurance services	98	85
Other non-audit services	211	201

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditors such as interim reviews. Other non audit services in 2023 relate to services provided in connection with the raising of debt, grant claims or required by the regulator.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

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.

	2023 £m	2022 £m
Exceptional items included within operating costs:		
Restructuring costs (i)	7	12
	7	12
Remeasurements included within finance (income)/costs:		
Net (gains)/losses on derivative financial instruments (ii)	(158)	78
Total included within profit before tax	(151)	90
Included within taxation:		
Exceptional charge arising		
Deferred tax charge arising from increase in UK Corporation tax rate (iii)	–	388
Tax on other exceptional items and remeasurements		
Tax on restructuring costs	(1)	(2)
Tax on remeasurements	39	(20)
	38	366
Total exceptional and remeasurements after tax	(113)	456
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	6	398
Total remeasurements items after tax	(119)	58
	(113)	456

i) The Group is undergoing an ongoing operational transformation programme to improve the efficiency of our operations by restructuring the business. During the year the group have recognised a further £7 million in exceptional costs bringing cumulative costs to £59 million since the beginning of the restructure in 2019. These activities are infrequent and exceptional in nature, and are financially material over the course of the exercise. This programme is expected to be finalised within the next financial year.

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.

iii) In the prior year there was an increase to the deferred tax liability for the Group of £414 million, with an exceptional charge of £388 million recognised in the income statement and £26 million recognised in other comprehensive income. This was as a result of an announcement in the March 2021 Budget that legislation would be introduced in the 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 were restated to 25% of temporary differences.

7 Employment numbers and costs

The average number of persons (including Executive Directors) employed by the Group was 6,018 (2022: 5,945) and can be analysed as follows:

	2023	2022
Field force	2,746	2,804
Office and other administrative staff	3,272	3,141
Total	**6,018**	5,945

	2023 £m	2022 £m
Wages and salaries	291	269
Social security costs	36	31
Other pension costs	45	48
	372	348
Less: payroll costs capitalised	(117)	(104)
	255	244

Key management comprises the Board of Directors of the company including Executive and Non-executive Directors who have managerial responsibility for the businesses of Cadent Gas Limited.

	2023 £000	2022 £000
Salaries and other short-term employee benefits	4,749	3,963
Post-employment benefits	163	153
	4,912	4,116

8 Directors' emoluments

The Directors' emoluments were as follows:

	2023 £000	2022 £000
Aggregate emoluments (including salary, fees, bonuses and benefits in kind)	4,749	3,963
Pension schemes	163	153
	4,912	4,116

Highest paid Director

The highest paid Director's emoluments were as follows:

	2023 £000	2022 £000
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes	2,485	2,448
Defined benefit pension scheme		
– accrued pension at end of period	76	73

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

9 Finance income and costs

	2023 £m	2022 £m
Finance income		
Interest income from pensions	29	9
Interest income from financial instruments	6	1
Total interest receivable and similar income	35	10
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	79	35
Bonds (i)	181	143
Derivatives (ii)	135	69
Unwinding of discounts on provisions and lease liabilities	3	1
Total interest payable and similar charges	398	248
Remeasurements		
Net (gains)/losses on derivative financial instruments included in remeasurements (iii)		
Derivatives not designated as hedges or ineligible for hedge accounting	(158)	77
Other	–	1
Remeasurements included within finance income/costs	(158)	78
Net finance costs	205	316

i) Included within finance costs in bonds is £70m (2022: £37m) of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £232m) and £56m (2022: £22m) RPI-linked debt instruments of >10years tenor (cumulative: £228m).

ii) Included within finance costs in derivatives is £63m (2022: £34m) of accretion on RPI-linked swaps with tenor>10 years (cumulative: £140m), £73m (2022: £39m) on CPI-linked swaps (cumulative: £112m) with 7-10 years tenor and £31m (2022: £10m) on CPI-linked swaps (cumulative: £41m) with tenor >10 years.

iii) Includes a net foreign exchange loss on financing activities of £62m (2022: £3m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

10 Taxation

Tax charged/(credited) to the income statement

	2023 £m	2022 £m
Tax before exceptional items and remeasurements	122	96
Exceptional tax relating to UK tax rate change (see note 6)	–	388
Tax on other exceptional items and remeasurements (see note 6)	38	(22)
Total tax expense	160	462

Taxation as a percentage of profit before tax

	2023 %	2022 %
Before exceptional items and remeasurements	20.7	20.9
After exceptional items and remeasurements	21.7	125.2

The tax charge for the period can be analysed as follows:	2023 £m	2022 £m
Current tax		
UK corporation tax at 19% (2022: 19%)	97	85
UK corporation tax adjustment in respect of prior years	–	(2)
Total current tax	97	83
Deferred tax		
UK deferred tax current year	64	(10)
UK deferred tax arising as a result of the increase in the tax rate	–	388
UK deferred tax adjustment in respect of prior years	(1)	1
Total deferred tax	63	379
Total tax charge	160	462

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

	2023 £m	2022 £m
Deferred tax		
Financial instruments	(2)	(1)
Remeasurements of post- employment benefit obligations (i)	(102)	183
Total tax (credited)/charged to other comprehensive income and equity	(104)	182

i) £Nil of the tax charge in 2023 (2022: £26m) relates to the impact of the enacted increase in the UK tax rate.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

10 Taxation continued

The tax charge for the year after exceptional items and remeasurements is higher than (2022: higher) the standard rate of corporation tax in the UK of 19% (2022: 19%):

	Before Exceptional Items and Remeasurements 2023 £m	After Exceptional Items and Remeasurements 2023 £m	Before Exceptional Items and Remeasurements 2022 £m	After Exceptional Items and Remeasurements 2022 £m
Profit before tax				
Before exceptional items and remeasurements	589	589	459	459
Exceptional items and remeasurements	–	151	–	(90)
Profit before tax	589	740	459	369
Profit before tax multiplied by UK corporation tax rate of 19% (2022:19%)	112	141	87	70
Effect of:				
Expenses not deductible for tax purposes	3	4	3	3
Non-taxable income	(1)	(1)	(1)	(1)
Corporation tax/deferred tax rate differential	13	21	9	4
Deferred tax impact of change in UK tax rate	–	–	–	388
Super deduction capital allowances	(3)	(3)	(1)	(1)
Adjustment in respect of prior year	(2)	(2)	(1)	(1)
Total tax	122	160	96	462

Factors that may affect future tax charges

The main rate of UK corporation tax will increase from 19% to 25%, effective 1 April 2023.

Taxation included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current reporting period:

	Accelerated Tax Depreciation £m	Pensions £m	Financial Instruments £m	Other Net Temporary Differences £m	Total £m
At 1 April 2022	1,702	269	(30)	(12)	1,929
Charged/(credited) to income statement	11	14	39	(1)	63
Credited to other comprehensive income and equity	–	(102)	(2)	–	(104)
At 31 March 2023	1,713	181	7	(13)	1,888
Deferred tax assets	–	–	–	(13)	(13)
Deferred tax liabilities	1,713	181	7	–	1,901
At 31 March 2023	1,713	181	7	(13)	1,888

	Accelerated Tax Depreciation £m	Pensions £m	Financial Instruments £m	Other Net Temporary Differences £m	Total £m
At 1 April 2021	1,306	79	(8)	(9)	1,368
Charged/(credited) to income statement	396	7	(21)	(3)	379
Charged/(credited) to other comprehensive income and equity	–	183	(1)	–	182
At 31 March 2022	1,702	269	(30)	(12)	1,929
Deferred tax assets	–	–	(30)	(12)	(42)
Deferred tax liabilities	1,702	269	–	–	1,971
At 31 March 2022	1,702	269	(30)	(12)	1,929

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £1,888 million (2022: £1,929 million).

11 Dividends

	2023 £m	2022 £m
Interim dividend of £1,153.64 per ordinary share amounting to £195,000,000 was declared on 20 January 2022 and paid on 21 January 2022	–	195
Interim dividend of £1,035.32 per ordinary share amounting to £175,000,000 was declared on 22 September 2022 and paid on 27 September 2022	175	–
Second interim dividend of £1,035.32 per ordinary share amounting to £175,000,000 was declared on 25 January 2023 and paid on 30 January 2023	175	–
	350	195

No further dividends are proposed for the current financial period.

12 Intangible asset

	Software £m
Cost:	
At 1 April 2022	202
Additions	2
Disposals	(4)
At 31 March 2023	200
Accumulated amortisation:	
At 1 April 2022	(132)
Amortisation charge for the year	(20)
Disposals	–
At 31 March 2023	(152)
Net book value:	
At 31 March 2023	48
At 31 March 2022	70

	Software £m
Cost:	
At 1 April 2021	199
Additions	3
Disposals	–
At 31 March 2022	202
Accumulated amortisation:	
At 1 April 2021	(111)
Amortisation charge for the year	(21)
Disposals	–
At 31 March 2022	(132)
Net book value:	
At 31 March 2022	70
At 31 March 2021	88

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

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 2022	171	12,033	44	197	99	12,544
Additions	17	740	68	30	31	886
Reclassifications	18	14	(39)	7	–	–
Disposals	–	(1)	–	(3)	(6)	(10)
At 31 March 2023	206	12,786	73	231	124	13,420
Accumulated depreciation and impairment						
At 1 April 2022	(32)	(1,541)	–	(133)	(27)	(1,733)
Charge for the period	(14)	(351)	–	(26)	(12)	(403)
Disposals	–	–	–	3	6	9
At 31 March 2023	(46)	(1,892)	–	(156)	(33)	(2,127)
Net book value:						
At 31 March 2023	160	10,894	73	75	91	11,293
At 31 March 2022	139	10,492	44	64	72	10,811

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(e) for the estimated useful lives of each asset category, and note 29 for sensitivity analysis over the residual lives of assets.

The cost of property, plant and equipment at 31 March 2023 included £1,462,000 (2022: £1,462,000) relating to interest capitalised, with £Nil capitalised during the year (2022: £Nil).

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

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

	2023 £m	2022 £m
Land and buildings	68	64
Plant and Machinery	1	1
Motor vehicles and other equipment	22	7
	91	72

The net book value of land and buildings comprises:

	2023 £m	2022 £m
Freehold	113	107
Long leasehold (over 50 years)	39	22
Short leasehold (under 50 years)	8	10
	160	139

13 Property, plant and equipment continued

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Right-of-use Assets £m	Total £m
Cost						
At 1 April 2021	119	11,382	60	183	47	11,791
Additions	14	629	61	18	56	778
Reclassifications	45	30	(77)	2	–	–
Disposals	(7)	(8)	–	(6)	(4)	(25)
At 31 March 2022	171	12,033	44	197	99	12,544
Accumulated depreciation and impairment						
At 1 April 2021	(28)	(1,216)	–	(112)	(22)	(1,378)
Charge for the period	(11)	(332)	–	(27)	(9)	(379)
Disposals	7	7	–	6	4	24
At 31 March 2022	(32)	(1,541)	–	(133)	(27)	(1,733)
Net book value:						
At 31 March 2022	139	10,492	44	64	72	10,811
At 31 March 2021	91	10,166	60	71	25	10,413

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.

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 33.

15 Inventories

	2023 £m	2022 £m
Raw materials and consumables	15	11
	15	11

Inventories are stated after provisions for impairment of £806,000 (2022: £720,000).

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

16 Trade and other receivables

	2023 £m	2022 £m
Amounts falling due within one year:		
Trade debtors	8	12
Other debtors	6	2
Prepayments	7	6
Accrued income	190	159
	211	179
Amounts falling due after more than one year:		
Prepayments	–	1
	–	1

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:

	2023 £m	2022 £m
At 1 April	11	4
Amounts charged to the income statement	–	7
At 31 March	11	11

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 increased gas prices and the current conflict in Ukraine on the recoverability of trade and other receivables. The impact was deemed to be limited given the nature of the business in that our principal commercial exposure relates to shipper income which is governed by Section V of the Gas Transportation Uniform Network Code. There are a number of actions the Group takes to mitigate credit risks and any changes to the Uniform Network Code will need to be agreed across the gas industry with involvement from Ofgem. These include holding security in the form of cash, obtaining letters of credit and ensuring major diversionary work is invoiced in advance of the work commencing.

The impairment under the expected credit loss has been calculated by grouping customers into two distinct segments with significantly different customer bases and customers credit profiles. These segments are distinguished as follows:

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

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.

2023	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	5	–	1	1	4	11
Expected credit loss	–	–	–	–	(3)	(3)
Balance after loss allowance	5	–	1	1	1	8

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

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 on our industry and a number of shippers and gas suppliers ceased trading in the previous 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 2023 the outstanding debt with these failed customers was £8 million (2022: £8 million), which remains outstanding and is subject to our existing credit procedures.

2023	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	190	–	–	–	8	198
Expected credit loss	–	–	–	–	(8)	(8)
Balance after loss allowance	190	–	–	–	–	190

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2023 Assets £m	2023 Liabilities £m	2023 Total £m
Amounts falling due within one year	–	–	–
Amounts falling due after more than one year	37	(250)	(213)
	37	(250)	(213)

	2022 Assets £m	2022 Liabilities £m	2022 Total £m
Amounts falling due within one year	1	–	1
Amounts falling due after more than one year	7	(269)	(262)
	8	(269)	(261)

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

	2023 £m	2022 £m
Cross-currency interest rate swaps	1,954	1,831
Forward rate agreements	–	1
Inflation linked swaps	1,400	1,400
Foreign exchange forward currency	5	2
	3,359	3,234

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

18 Current asset investments

	2023 £m	2022 £m
Investments in short-term money funds	523	80
	523	80

Amounts relate to investments in money market funds with short-dated maturities.

19 Trade and other payables

	2023 £m	2022 £m
Trade creditors	171	132
Amounts owed to immediate parent company	16	2
Other tax and social security	64	39
Other creditors	61	51
Accruals	101	95
Deferred income	100	99
	513	418

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

20 Accruals and deferred income

	2023 £m	2022 £m
Accruals and deferred income (due after more than one year)	30	16
	30	16

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

21 Borrowings

	2023 £m	2022 £m
Amounts falling due within one year		
Bank loans	107	2
Bank overdrafts	–	1
Bonds	43	40
	150	43
Amounts falling due after more than one year		
Bank loans	903	950
Bonds	6,570	5,974
	7,473	6,924
Total borrowings are repayable as follows:		
Less than one year	150	43
In one – two years	1,161	93
In two – three years	–	1,093
In three – four years	400	–
In four – five years	–	400
More than five years	5,912	5,338
	7,623	6,967

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

21 Borrowings continued

Currency	Listing Status	Notional (including accretion)* £m	Rate	Maturity	Book value £m	Fair Value £m
Fixed rate						
EUR[1]	Listed	643	Fixed	22-Sep-24	660	634
GBP	Listed	850	Fixed	22-Sep-28	857	734
GBP	Listed	100	Fixed	31-Jan-30	101	103
EUR[2]	Listed	537	Fixed	19-Mar-30	545	444
GBP	Listed	100	Fixed	19-Mar-31	100	81
USD[3]	Listed	151	Fixed	19-Mar-31	162	150
EUR[4]	Listed	439	Fixed	11-Mar-32	436	335
GBP	Listed	30	Fixed	15-Dec-32	30	32
GBP	Listed	45	Fixed	31-Jan-33	45	48
JPY[5]	Listed	68	Fixed	19-Jul-33	61	62
GBP	Listed	300	Fixed	14-Mar-34	300	307
GBP	Listed	200	Fixed	19-Mar-34	200	156
GBP	Listed	300	Fixed	10-Oct-35	299	215
GBP	Listed	700	Fixed	22-Sep-38	705	494
GBP	Listed	225	Fixed	19-Mar-39	225	165
GBP	Listed	300	Fixed	21-Mar-40	296	218
GBP	Listed	800	Fixed	22-Sep-46	800	508
		5,788			**5,822**	**4,686**
Index-linked						
GBP	Unlisted	102	RPI-linked	02-Oct-23	104	102
GBP	Unlisted	98	RPI-linked	29-Apr-24	101	99
GBP	Unlisted	99	RPI-linked	30-Apr-24	101	99
GBP	Unlisted	99	RPI-linked	07-May-24	102	99
GBP	Unlisted	97	RPI-linked	18-Jun-24	100	98
GBP	Unlisted	97	RPI-linked	25-Jun-24	101	98
GBP	Unlisted	172	RPI-linked	02-May-39	244	188
GBP	Unlisted	178	RPI-linked	10-Aug-48	276	186
GBP	Unlisted	178	RPI-linked	14-Aug-48	272	183
		1,120			**1,401**	**1,152**
Floating Rate						
GBP	Unlisted	400	SONIA	23-Mar-27	400	414
		400			**400**	**414**
Overdraft		–			–	–
Total		**7,308**			**7,623**	**6,252**

* indexed linked debt notional is the accreted value

1 Euro amount is 750m

2 Euro amount is 625m

3 Dollar amount is 200m

4 Euro amount is 500m

5 JPY amount is 10bn

21 Borrowings continued

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 funded 31 January 2023 and maturing 31 January 2030 with a coupon rate of 6.22%,
- £30 million funded 15 December 2022 and maturing 15 December 2032 with a coupon rate of 6.28%, and
- £45 million funded 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 4 November 2022, Cadent Gas 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.

On 7 March 2023, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued an 11 year fixed rate green bond with a notional value of £300m and a coupon of 5.75% under its £7bn Euro Medium Term Note Programme, this bond is guaranteed by and proceeds were on lent to Cadent Gas Limited.

The fair value of borrowings at 31 March 2023 was £6,252 million (2022: £6,734 million). Where market values were available, the fair value of borrowings (Level 1) was £3,894 million (2022: £4,238 million). Where market values were not available, the fair value of borrowings (Level 2) was £2,358 million (2022: £2,496 million), calculated by discounting cash flows at prevailing interest rates. The spread between fair value and book value of borrowings has widened in the year due to higher discount rates and a widening of the credit spreads. The notional amount outstanding of the debt portfolio at 31 March 2023 was £7,308 million (2022: £6,708 million) (including accretion).

22 Lease liabilities

	2023 £m	2022 £m
Current	14	10
Non-current	84	69
	98	79

Lease liabilities are repayable as follows:	2023 £m	2022 £m
Year 1	14	10
Year 2	12	8
Year 3	11	7
Year 4	8	6
Year 5	5	4
More than 5 years	48	44
	98	79

The Group does not face a significant liquidity risk with regard to its lease liabilities. See note 28 (financial risk management) for further analysis.

All lease liabilities are denominated in sterling.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on was 2.70% for the current financial year (2022: 2.20%).

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

	2023 £m	2022 £m
Depreciation of right-of-use assets (see note 13)	12	9
Expense relating to short-term leases (included within operating expenses)	2	4
Expense relating to variable lease payments not included in lease liabilities (included within operating expenses)	1	1

The total cash outflow for leases for the year to 31 March 2023 was £16m (2022: £11m).

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

23 Provisions for liabilities

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 April 2022	30	1	39	70
Charged to the income statement	1	7	3	11
Utilised	(1)	(7)	(3)	(11)
Released to the income statement	–	–	–	–
Unwinding of discount	–	–	–	–
At 31 March 2023	**30**	**1**	**39**	**70**

	Environmental £m	Restructuring £m	Other £m	Total £m
Current	3	1	10	14
Non-current	27	–	29	56
At 31 March 2023	**30**	**1**	**39**	**70**

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0% (2022: 1.0%)). Cash flows are expected to be incurred between 2023 and 2083.

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 2023 is £38m (2022: £38m) 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 associated costs are expected to be settled within 1 year. See note 6.

Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims, and other provisions relating to the operation of our gas networks.

The estimation of the provision for claims (whether insured or not) is based on projections of liabilities that are subject to potentially large amounts of estimation, since the ultimate liability of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes and social/economic conditions such as inflation. In our judgement, through the use of independent actuaries we have employed techniques and assumptions that are appropriate to project the liabilities.

Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The provision has been discounted based on future cash flows. The majority of claims are expected to be settled within 10 years.

24 Share capital

	2023 £m	2022 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	–	–

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

25 Net debt

Net debt is a non statutory 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.

	2023 £m	2022 £m
Increase in cash and cash equivalents	9	–
Increase/(decrease) in financial investments	443	(735)
(Increase)/decrease in borrowings and related derivatives	(474)	550
Repayment of lease liabilities	16	11
Net interest paid on the components of net debt	105	133
Changes in liabilities arising from financing activities	99	(41)
Changes in fair value of financial assets	215	(78)
Foreign exchange movements	(60)	(1)
Other non-cash changes	(35)	(66)
Net interest charge on the components of net debt	(395)	(246)
Movement in net debt (net of related derivative financial instruments)	(176)	(432)
Net debt (net of related derivative financial instruments) at the start of the year	(7,214)	(6,782)
Net debt (net of related derivative financial instruments) at the end of the year	(7,390)	(7,214)

Composition of net debt:

	2023 £m	2022 £m
Cash, cash equivalents and financial investments	544	93
Borrowings and bank overdrafts	(7,623)	(6,967)
Derivatives	(213)	(261)
Lease liabilities	(98)	(79)
Total net debt	(7,390)	(7,214)

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

25 Net debt continued

Analysis of changes in net debt:

	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Lease Liabilities £m	Total £m
Cost								
At 1 April 2022	13	(1)	12	80	(6,966)	(261)	(79)	(7,214)
Cash flow	8	1	9	443	(337)	(32)	16	99
Fair value gains and losses	–	–	–	–	–	215	–	215
Foreign exchange movements	–	–	–	–	(60)	–	–	(60)
Interest charges	–	–	–	–	(260)	(135)	–	(395)
Other non-cash changes	–	–	–	–	–	–	(35)	(35)
At 31 March 2023	**21**	**–**	**21**	**523**	**(7,623)**	**(213)**	**(98)**	**(7,390)**
Balances at 31 March 2023 comprised:								
Non-current assets	–	–	–	–	–	37	–	37
Current assets	21	–	21	523	–	–	–	544
Current liabilities	–	–	–	–	(150)	–	(14)	(164)
Non-current liabilities	–	–	–	–	(7,473)	(250)	(84)	(7,807)
At 31 March 2023	**21**	**–**	**21**	**523**	**(7,623)**	**(213)**	**(98)**	**(7,390)**

	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Lease Liabilities £m	Total £m
Cost								
At 1 April 2021	17	(5)	12	815	(7,470)	(115)	(24)	(6,782)
Cash flow	(4)	4	–	(735)	682	1	11	(41)
Fair value gains and losses	–	–	–	–	–	(78)	–	(78)
Foreign exchange movements	–	–	–	–	(1)	–	–	(1)
Interest charges	–	–	–	–	(177)	(69)	–	(246)
Other non-cash changes	–	–	–	–	–	–	(66)	(66)
At 31 March 2022	13	(1)	12	80	(6,966)	(261)	(79)	(7,214)
Balances at 31 March 2022 comprised:								
Non-current assets	–	–	–	–	–	7	–	7
Current assets	13	–	13	80	–	1	–	94
Current liabilities	–	(1)	(1)	–	(42)	–	(10)	(53)
Non-current liabilities	–	–	–	–	(6,924)	(269)	(69)	(7,262)
At 31 March 2022	13	(1)	12	80	(6,966)	(261)	(79)	(7,214)

26 Capital and other commitments

	2023 £m	2022 £m
Contracts for future capital expenditure not provided in the financial statements	**346**	304
Letters of credit facility	**150**	300
	496	604

27 Pensions

The Group operates two pension schemes for its employees.

Defined contribution (DC) scheme

For the DC pension arrangement, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

MyPension, the company's DC arrangement, was established on 1 February 2019 under Master Trust and received a bulk transfer from National Grid's YouPlan in August 2019. Under the standard contribution structure, the company double matches member contributions to MyPension up to a maximum member contribution of 6%. MyPension is the qualifying scheme used for automatic enrolment and new hires are enrolled into MyPension.

The amount recognised as an expense for the defined contribution scheme was:

	2023 £m	2022 £m
Current period contributions	29	27

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.

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.

The company's obligation in respect of the Scheme is calculated by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net asset recognised in the statement of financial position. For sensitivity analysis, see note 29.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

The Scheme is funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a board consisting of company appointed and member nominated directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with the company, the qualified actuary certifies the ongoing rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable.

The last full actuarial valuation for the Scheme was carried out at 31 March 2022. 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.

The results of the latest valuations are shown below:

Last full actuarial valuation	31-Mar-2022	31-Mar-2019
Actuary	Willis Towers Watson	Willis Towers Watson
Market value of scheme assets at latest valuation	£6,542m	£6,674m
Actuarial value of benefits due to members	£6,441m	£6,755m
Market value as percentage of benefits	102%	99%
Funding surplus/(deficit)	£101m	£(81)m

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

27 Pensions continued

Cadent Gas Pension Scheme

The company has established a security arrangement with a charge in favour of the Trustees. This amount may change over time linked to the company's gearing level and credit quality. As at 31 March 2023 the value required was £100m (2022: £144m), a reduction linked to payment of deficit contributions in the last two financial years.

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 RPI inflation adopted is based on market implied RPI inflation less an inflation risk premium adjustment of 0.3% per annum to allow for some but not all the expectation that RPI inflation will be lower in the future.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

The Scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure.

Changes in the underlying market conditions during 2022/23 has resulted in a increase to both the discount rate and inflation assumptions used in valuing Cadent's pension liabilities. These changes, amongst other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2023 decreasing to £4,195m (2022: £5,476m). Coupled with an decrease in the fair value of the scheme assets in the year to £4,924m (2022: £6,559m), the net pension surplus has decreased by 33%.

The recognition of the net defined benefit asset in relation to CGPS reflects legal and actuarial advice that management have taken regarding recognition of surpluses under IFRIC 14. We have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up. The Trustees must seek the agreement of the company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

27 Pensions continued

The following tables represent the amounts in the financial statements.

Amounts recognised in the statement of financial position

	2023 Total £m	2022 Total £m
Present value of funded obligations	(4,192)	(5,472)
Fair value of plan assets	4,924	6,559
	732	1,087
Present value of unfunded obligations	(3)	(4)
Net defined benefit asset	729	1,083

	2023 Total £m	2022 Total £m
Represented by:		
Liabilities	(4,195)	(5,476)
Assets	4,924	6,559
	729	1,083

Amounts recognised in the income statement and statement of other comprehensive income

	2023 Total £m	2022 Total £m
Included within operating costs		
Administration costs	5	4
Defined contribution scheme costs	29	27
Defined benefit scheme costs:		
Current service cost	11	13
Past service cost	–	4
	45	48
Included within finance costs		
Net interest credit	(29)	(9)
Total included in income statement	16	39
Remeasurements of net retirement benefit obligations	(1,122)	(359)
Return on plan assets greater or less than discount rate	1,532	(271)
Total included in the statement of other comprehensive income	410	(630)

Reconciliation of the net defined benefit asset

	2023 Total £m	2022 Total £m
Opening net defined benefit asset	1,083	426
Costs recognised in the income statement	13	(12)
Employer contributions	43	39
Other movements	(410)	630
Closing net defined benefit asset	729	1083

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

27 Pensions continued

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2023 Total £m	2022 Total £m
Opening net defined benefit liability	5,476	6,020
Current service cost	11	13
Interest cost	141	114
Past service cost	–	4
Actuarial losses – experiences	435	63
Actuarial (gains)/losses – demographic assumptions	(124)	(92)
Actuarial (gains)/losses – financial assumptions	(1,433)	(330)
Benefits paid	(311)	(316)
Closing net defined benefit liability	4,195	5,476

Changes in the fair value of plan assets

	2023 Total £m	2022 Total £m
Opening fair value of plan assets	6,559	6,446
Interest income	170	123
Return on assets greater than assumed	(1,532)	271
Administration costs	(5)	(4)
Employer contributions paid	43	39
Benefits paid	(311)	(316)
Closing fair value of plan assets	4,924	6,559
Actual return on plan assets	(1,362)	394
Expected contributions to plans in the following year	22	35

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2023 Quoted £m	2023 Unquoted £m	2023 Total £m	2022 Quoted £m	2022 Unquoted £m	2022 Total £m
Equities	–	181	181	1	229	230
Corporate bonds	1,922	–	1,922	2,867	–	2,867
Property	–	300	300	–	355	355
Government securities (ii)	1,720	–	1,720	2,476	–	2,476
Diversified alternatives (i)	–	676	676	–	579	579
Other	–	125	125	–	52	52
Total	3,642	1,282	4,924	5,344	1,215	6,559

i) Includes return seeking non-conventional asset classes of £440m (2022: £202m) and secure income assets of £236m (2022: £377m).

ii) Includes short sold Gilts of £394m (2022: £411m).

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 2023 is as follows:

	2023 %	2022 %
Equities	4	3
Other	96	97
	100	100

27 Pensions continued

Actuarial assumptions

Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

	2023 %	2022 %
Discount rate – Past service (i)	4.75	2.65
Discount rate – Future service (i)	4.65	2.60
Rate of increase in salaries (ii)	2.10	2.65
Rate of increase in RPI – Past service (iii)	3.25	3.65
Rate of increase in RPI – Future service (iii)	3.15	3.40

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 after 1 April 2013. The assumption for the rate of increase in salaries for service before this date is 3.15% (2022: 3.55%).

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.

	2023 years	2022 years
Today		
Males	20.0	20.9
Females	22.6	24.3
In 20 years		
Males	21.3	22.1
Females	24.2	25.7

Maturity profile of DB obligations

The weighted average duration of the DB obligation for future service obligations of the scheme is 23 years and 12 years for past service obligations.

28 Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures, (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Currency risk; and
- Capital risk.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

28 Financial risk management continued

(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 on our industry and a number of shippers and gas suppliers ceased trading in the previous year. The Group assessed whether there is any impact on our 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 year ended 31 March 2023	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount £m
Cash and cash equivalents		21	–	21
Derivative financial assets	17	37	–	37
Trade receivables	16	11	(3)	8
Accrued income	16	198	(8)	190
Current asset investments	18	523	–	523

For year ended 31 March 2022	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount £m
Cash and cash equivalents		13	–	13
Derivative financial assets	17	8	–	8
Trade receivables	16	15	(3)	12
Accrued income	16	167	(8)	159
Current asset investments	18	80	–	80

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 2023, 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.

	2023 £m	2022 £m
Accrued income	190	159
Collateral held	(37)	(26)
Exposure net of collateral	**153**	**133**

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 Cadent Gas's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Cadent Gas has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

	Gross Carrying Amounts £m	Gross Amounts Offset £m	Net Amount Presented in Statement of Financial Position £m	Financial Instruments £m	Cash Collateral Received/ Pledged £m	Net Amount £m
As at 31 March 2023						
Assets						
Derivative financial instruments	**37**	**–**	**37**	**–**	**–**	**37**
Liabilities						
Derivative financial instruments	**(250)**	**–**	**(250)**	**–**	**–**	**(250)**
Total at 31 March 2023	**(213)**	**–**	**(213)**	**–**	**–**	**(213)**

	Gross Carrying Amounts £m	Gross Amounts Offset £m	Net Amount Presented in Statement of Financial Position £m	Financial Instruments £m	Cash Collateral Received/ Pledged £m	Net Amount £m
As at 31 March 2022						
Assets						
Derivative financial instruments	8	–	8	–	–	8
Liabilities						
Derivative financial instruments	(269)	–	(269)	–	–	(269)
Total at 31 March 2022	(261)	–	(261)	–	–	(261)

(b) Liquidity risk

We determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in capital and other commitments in note 26 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining an investment grade credit rating. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

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 2023	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	10	(1,176)	–	(6,885)	(8,051)
Lease liabilities	(14)	(12)	(11)	(61)	(98)
Interest on payments on borrowings (i)	(182)	(180)	(172)	(1,809)	(2,343)
Other non-interest bearing liabilities	(513)	–	–	–	(513)
Derivative financial liabilities					
Derivative contracts – receipts	209	90	87	1,431	1,817
Derivative contracts – payments	(151)	(44)	(42)	(2,033)	(2,270)
Derivative financial assets					
Derivative contracts – receipts	11	670	7	195	883
Derivative contracts – payments	(17)	(649)	(5)	(179)	(850)
Total at 31 March 2023	(647)	(1,301)	(136)	(9,341)	(11,425)

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 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 liabilities					
Borrowings	–	(99)	(1,129)	(6,307)	(7,535)
Lease liabilities	(10)	(8)	(7)	(54)	(79)
Interest on payments on borrowings (i)	(126)	(127)	(123)	(1,666)	(2,042)
Other non-interest bearing liabilities	(418)	–	–	–	(418)
Derivative financial liabilities					
Derivative contracts – receipts	52	58	57	1,287	1,454
Derivative contracts – payments	(20)	(20)	(20)	(1,841)	(1,901)
Derivative financial assets					
Derivative contracts – receipts	10	10	648	190	858
Derivative contracts – payments	(17)	(17)	(649)	(183)	(866)
Total at 31 March 2022	(529)	(203)	(1,223)	(8,574)	(10,529)

i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the company can be required to settle.

28 Financial risk management continued

(c) 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 2023, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2023	**Fixed rate £m**	**Floating rate £m**	**Index linked £m**	**Other (i) £m**	**Total £m**
Financial investments (i)	**–**	**544**	**–**	**–**	**544**
Borrowings (ii)	**(5,822)**	**(400)**	**(1,401)**	**–**	**(7,623)**
Lease liabilities	**–**	**–**	**–**	**(98)**	**(98)**
Pre-derivative position	**(5,822)**	**144**	**(1,401)**	**(98)**	**(7,177)**
Derivative effect	**1,009**	**400**	**(1,622)**	**–**	**(213)**
Net debt position (iii)	**(4,813)**	**544**	**(3,023)**	**(98)**	**(7,390)**

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non- interest bearing instruments.
ii) Index linked represents RPI and CPI derivative instruments.
iii) The impact of 2022/23 short-dated interest rate derivatives is included.

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	Index linked £m	Other (i) £m	Total £m
Financial investments (i)	–	93	–	–	93
Borrowings (ii)	(5,279)	(401)	(1,287)	–	(6,967)
Lease Liabilities	–	–	–	(79)	(79)
Pre-derivative position	(5,279)	(308)	(1,287)	(79)	(6,953)
Derivative effect	950	400	(1,612)	1	(261)
Net debt position (iii)	(4,329)	92	(2,899)	(78)	(7,214)

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non- interest bearing instruments.
ii) Index linked represents RPI and CPI derivative instruments.
iii) The impact of 2021/22 short-dated interest rate derivatives is included.

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

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 2023, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2023	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
Financial investments	544	–	–	–	544
Borrowings	(5,759)	(1,641)	(61)	(162)	(7,623)
Lease liabilities	(98)	–	–	–	(98)
Pre-derivative position	(5,313)	(1,641)	(61)	(162)	(7,177)
Derivative effect	(2,077)	1,641	61	162	(213)
Net debt position	(7,390)	–	–	–	(7,390)

During 2022, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2022	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
Financial investments	93	–	–	–	93
Borrowings	(5,168)	(1,585)	(62)	(152)	(6,967)
Lease liabilities	(79)	–	–	–	(79)
Pre-derivative position	(5,154)	(1,585)	(62)	(152)	(6,953)
Derivative effect	(2,060)	1,585	62	152	(261)
Net debt position	(7,214)	–	–	–	(7,214)

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 2023 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	1,954	37	(28)	59	Derivative financial assets Derivative financial liabilities

The impact of hedging instruments designated in a hedge relationship as at 31 March 2022 were as follows:

	Notional Amount (GBP m)	Carrying Amount of the Hedging Instrument		Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported
		Assets	Liabilities		
Cash flow hedges					
Cross-currency interest rate swaps	1,831	7	(57)	(2)	Derivative financial assets Derivative financial liabilities

28 Financial risk management continued

b) The impact of hedged items designated in a hedge relationship as at 31 March 2023 are as follows:

	Carrying Amount of the Hedged Item (GBP m)					
	Assets	Liabilities	Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported	Cash flow Hedge Deficit	Cost of Hedging Reserve
Cash flow hedges						
Non GBP denominated debt	–	(1,864)	(62)	Borrowings	(27)	13

The impact of hedged items designated in a hedge relationship as at 31 March 2022 were as follows:

	Carrying Amount of the Hedged Item (GBP m)					
	Asset	Liabilities	Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported	Cash flow Hedge Deficit	Cost of Hedging Reserve
Cash flow hedges						
Non GBP denominated debt	–	(1,799)	(3)	Borrowings	(15)	8

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 2023 are as follows:

	Change in Value of Hedging Instrument Recognised in OCI	Hedge Ineffectiveness Recognised in Consolidated Income Statement	Line Item in Consolidated Income Statement where the Hedge Ineffectiveness is Reported	Amount Reclassified from Cash Flow Hedge Reserve to Consolidated Income Statement	Line Item in the Consolidated Income Statement
Cash flow hedges					
Interest rate risk & FX risk	(12)	–	Exceptional items and remeasurements	62	Finance costs before exceptional items and remeasurements

The above hedging relationships affected the consolidated income statements for year ended March 2022 are as follows:

	Change in Value of Hedging Instrument Recognised in OCI	Hedge Ineffectiveness Recognised in Consolidated Income Statement	Line Item in Consolidated Income Statement where the Hedge Ineffectiveness is Reported	Amount Reclassified from Cash Flow Hedge Reserve to Consolidated Income Statement	Line Item in the Consolidated Income Statement
Cash flow hedges					
Interest rate risk & FX risk	3	–	Exceptional items and remeasurements	3	Finance costs before exceptional items and remeasurements

(e) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statemen of changes in equity, and net debt (note 25). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by RAV gearing calculated as adjusted net debt (statutory net debt adjusted for unamortised debt fees, unamortised fair value adjustments, accrued interest and derivatives) expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. The net debt to RAV ratio at 31 March 2023 is 59% (2022: 61%).

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

28 Financial risk management continued

(f) Fair value analysis

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2023				
Assets				
Fair value through profit and loss ('FVTPL') instruments	523	–	–	523
Derivative financial instruments	–	37	–	37
Liabilities				
Derivative financial instruments	–	(126)	(124)	(250)
Total	523	(89)	(124)	310

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2022				
Assets				
Fair value through profit and loss ('FVTPL') instruments	93	–	–	93
Derivative financial instruments	–	8	–	8
Liabilities				
Derivative financial instruments	–	(155)	(114)	(269)
Total	93	(147)	(114)	(168)

Level 1: 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 £9.5 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.

Movements in the year to 31 March for assets and liabilities measured at fair value using Level 3 valuations inputs are as follows:

	2023 £m	2022 £m
At 1 April	(114)	–
Net loss for the period	(10)	(114)
Settlements	–	–
At 31 March	(124)	(114)

The net loss of the period is shown within interest cost in the income statement.

29 Sensitivity analysis

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the period end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the table below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

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 5% increase in value of unquoted properties would increase net assets by £15m. A 5% decrease would have an equal but opposite effect.

	2023		2022	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
As at 31 March				
Additional depreciation charge if the useful lives of network assets end in 2050 due to UK net-zero target	(54)	(54)	(43)	(43)
Additional depreciation charge if the useful lives of network assets end in 2045*	(131)	(131)		
Additional depreciation charge if the useful lives of network assets end in 2040*	(255)	(255)		
Pensions and other post-retirement benefits (i) (pre-tax)				
Discount rate decrease of 0.5% (ii)	(1)	(252)	(2)	(443)
Discount rate increase of 0.5% (ii)	1	230	2	394
RPI rate increase of 0.5% (iii)	(1)	(222)	(2)	(344)
Long-term rate of increase in salaries increases by 0.5%	–	(11)	(1)	(42)
One year increase to life expectancy at age 65	–	(154)	–	(231)
Value of unquoted properties increases by 5%	–	15	–	18
Value of unquoted equities increases by 5%	–	9	–	11
Index-linked derivatives				
Change in one year rate of inflation by 1% (iv)	15	15	12	12

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

ii) 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.

iii) 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.

iv) This represents the change in value of our index-linked derivatives of a modelled 1% adjustment in the market's forecast of the underlying inflation indices over the following twelve months.

* New sensitivity included in 2023

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

29 Sensitivity analysis continued

	2023		2022	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
As at 31 March				
No hedge accounting for our derivative financial instruments (post tax)	(12)	(12)	3	3
Financial risk (post-tax)				
UK RPI rate change of 0.5%	8	8	7	7
UK CPI rate change of 0.5%	6	6	5	5
UK interest rate change of 0.5%	2	2	–	–

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI and CPI rates. The changes in market variables impacts the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2023;
- 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 Cash flow from movement in trade and other payables

The following adjustments have been made to reconcile from the movement in balance sheet heading to the amount presented in the cash flow from the movement in trade and other payables. This is in order to more appropriately reflect the cash impact of the underlying transactions.

	2023 £m	2022 £m
Trade and other payables		
Opening balance at 1 April	(418)	(570)
Closing balance at 31 March	(513)	(418)
Balance Sheet movement	95	(152)
Less		
Movement in payables, of a capital nature, reclassified to investing activities		
– Property, plant and equipment	(7)	144
– Intangible	–	2
Movement in payables, reclassified elsewhere in operating activities		
– Exceptional	3	–
– Group tax relief	(14)	(1)
– Capital Contributions	(22)	1
Movement as shown in Consolidated Cash Flow Statement	55	(6)

31 Cash flow from purchases of property, plant and equipment

	2023 £m	2022 £m
Property, plant and equipment additions (note 13)	(886)	(778)
Add		
Movement in property, plant and equipment payables, of a capital nature, reclassified to investing activities (note 30)	7	(144)
Other	–	10
Less		
Right of use assets additions (note 13)	31	56
Movement as shown in Consolidated Cash Flow Statement	(848)	(856)

32 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.

33 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.

	2023 £m	2022 £m
Income:		
Goods and services supplied to other related parties	–	–
	–	–
Expenditure:		
Services rendered from associates	13	16
	13	16
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts payable to other related parties	–	2
Amounts payable to associates	1	–

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 2023 and recognised as an expense (2022: £Nil) during the year in respect of bad or doubtful debts for related party transactions.

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2023

34 Subsequent events

On 3 April 2023, having provided sufficient notice to the lender, Cadent Gas Limited repaid a bank loan with a contractual maturity date of 2 October 2023. This bank loan was index-linked with a notional value of £60m and carrying value of £104m as at 31 March 2023. As at the balance sheet date Cadent Gas Limited had committed to the prepayment of this loan, it has been shown in the balance sheet at its prepayment date and categorised accordingly as maturing within one year.

On 27 March 2023, Cadent Gas Limited, submitted notice to the same lender that the next two tranches of debt maturing 29 April 2024 and 30 April 2024 would be repaid on 2 May 2023. These loans were also index linked, had notional values of £60m and as at 31 March 2023 had carrying values of £101m and £101m respectively. As at the balance sheet date Cadent Gas Limited had an option to withdraw the prepayment notices for these two tranches of debt and so they have been shown in the balance sheet at their respective contractual maturity dates and categorised as having a maturity greater than one year. The loans were repaid on 2 May 2023.

On 21 April 2023, Cadent Gas Limited entered into a £150m bilateral term loan with one of its relationship banks. The loan is drawable from 21 May 2023 and 21 October 2023 and has a maturity of seven years from the point of drawdown.

35 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings Topco Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings Topco Limited and Quadgas MidCo Limited respectively. Quadgas Holdings Topco Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

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

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.

36 Subsidiary undertakings

The list below contains all subsidiaries included within the Cadent Gas Group.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Finance Plc	100	Provision of long-term finance	England and Wales
Cadent Gas Pension Trustee Limited	100	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100	Management of pension services	England and Wales

* Indirect ownership.

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

Company statement of financial position

As at 31 March 2023

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	7	**48**	70
Property, plant and equipment	8	**11,205**	10,742
Investments	9	**–**	–
Pension and other post-retirement benefit obligations	6	**729**	1,083
Derivative financial assets	12	**37**	7
Debtors	11	**–**	1
Total non-current assets		**12,019**	11,903
Current assets			
Derivative financial assets	12	**–**	1
Inventories	10	**15**	11
Debtors	11	**209**	180
Corporation tax		**24**	6
Financial and other investments	13	**523**	80
Cash at bank and in hand		**21**	13
Total current assets		**792**	291
Total assets		**12,811**	12,194
Current liabilities			
Creditors	14	**(545)**	(443)
Borrowings	16	**(108)**	(4)
Provisions for liabilities	17	**(14)**	(11)
Total current liabilities		**(667)**	(458)
Net current assets/(liabilities)		**125**	(167)
Total assets less current liabilities		**12,144**	11,736
Non-current liabilities			
Derivative financial liabilities	12	**(250)**	(269)
Borrowings	16	**(901)**	(951)
Provisions for liabilities	17	**(1,747)**	(1,794)
Creditors	15	**(7,380)**	(6,759)
Total non-current liabilities		**(10,278)**	(9,773)
Total liabilities		**(10,945)**	(10,231)
Total net assets		**1,866**	1,963
Equity			
Share capital	18	**–**	–
Cash flow hedge deficit		**(27)**	(15)
Cost of hedging reserve		**13**	8
Retained earnings		**6,832**	6,922
Other deficit		**(4,952)**	(4,952)
Total equity		**1,866**	1,963

The company has elected to take exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The profit for the year of £568m (2022: £68m loss) is disclosed in the statement of changes in equity.

The notes on pages 161 to 177 are an integral part of the financial statements.

The financial statements on pages 159 to 177 were approved by the Board of Directors on 21 June 2023 and signed on its behalf by:

A O Bickerstaff
Director
Cadent Gas Limited

Company registration number: 10080864

Company statement of changes in equity

For the year ended 31 March 2023

	Share Capital £m	Cash Flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2022	–	(15)	8	(4,952)	6,922	1,963
Profit for the year	–	–	–	–	568	568
Other comprehensive (loss)/income excluding amortisation of cost of hedging reserve	–	(12)	1	–	(308)	(319)
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive (loss)/income for the year	–	(12)	5	–	260	253
Equity dividends	–	–	–	–	(350)	(350)
At 31 March 2023	**–**	**(27)**	**13**	**(4,952)**	**6,832**	**1,866**

	Share Capital £m	Cash Flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2021	–	(18)	10	(4,952)	6,739	1,779
Loss for the year	–	–	–	–	(68)	(68)
Other comprehensive income/(loss) excluding amortisation of cost of hedging reverse	–	3	(6)	–	446	443
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive income/(loss) for the year	–	3	(2)	–	378	379
Equity dividends	–	–	–	–	(195)	(195)
At 31 March 2022	–	(15)	8	(4,952)	6,922	1,963

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

Other deficit comprises the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. This merger reserve will reduce distributable reserves each year by the amount amortised. In the year ended 31 March 2023 distributable reserves were reduced by an accumulated realisation of £741m (31 March 2022: £627m). As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Notes to the company financial statements

For the year ended 31 March 2023

1 Summary of significant accounting policies

We are required to include the stand-alone balance sheet of our parent company, Cadent Gas Limited, under the Companies Act 2006, and the statement of changes in equity has been disclosed under Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'). The following disclosures provide additional information to the stakeholders.

Cadent Gas Limited is a private company, incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is Cadent, Pilot Way, Ansty Park, Coventry, CV7 9JU, United Kingdom.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the company have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value. Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

The statement of financial position shows net assets of £1,866m at 31 March 2023 (2022: £1,963m) with a profit for the financial year of £568m (2022: £68m loss). The profit was largely driven by an increase in revenue as a result of an increase in inflation with commodity revenue reducing as a result of the higher gas prices impacting consumer demand. This is coupled with a decrease in the tax charge following the exceptional tax charges recognised in the prior year due to restating the 2021 deferred tax liability arising from the increase in the corporation tax rate to 25%. This was offset by an increase in operating costs due to the impact of inflation on our cost base and an increase in pass-through costs particularly shrinkage from the increased gas price.

Despite ongoing macro-economic volatility including the significant uncertainty impacting inflation, energy prices, and the ongoing conflict in Ukraine, the company has not been significantly impacted as a result of protections in place through the regulatory price control. 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 parent company financial statements have been prepared in accordance with applicable UK accounting and financial reporting standards (FRS) and the Companies Act 2006. The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the year is disclosed in the statement of changes in equity.

As permitted by FRS 102, the company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, fair value disclosures, sensitivity analysis, standards not yet effective, related party transactions and statement of cash flows.

(b) New accounting standards and interpretations

As noted above, the 2023 Annual Report and Financial Statements have been prepared under FRS 102.

There are no other new accounting standards, or amendments to existing standards, which have a significant impact on the company accounts.

(c) Intangible assets

Intangible fixed assets which consist of software licences are carried at amortised historical cost less any provisions for impairment. Software licences are reviewed each year and where they are redundant an impairment charge is made to the income statement. Software customisation and configuration costs relating to software not controlled by the Group are expensed over the period such services are received.

Intangible assets under development are not amortised. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

Amortisation periods
Computer software – 5 years
Computer licenses – 3 years

(d) Property, plant and equipment and depreciation

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. We also continue to invest in research and innovation to support the energy transition to net zero. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

Notes to the company financial statements continued

For the year ended 31 March 2023

1 Summary of significant accounting policies continued

(d) Property, plant and equipment and depreciation continued

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment assets includes assets which the company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received towards the cost of tangible fixed assets from customers for connections to the gas distribution network are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the asset to which they relate.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting warming by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target of reducing all greenhouse gas emissions to net zero in the future will impact how our network can be used. In preparing these financial statements we have assumed that our network can be adapted to use alternative technologies and hence will 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.

We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives.

The broad based assumptions applied do not allow for meaningful sensitivities on our useful economic lives at individual asset classes under the different scenarios proposed. The granularity is not available by asset. As a result, we have applied some broad sensitivities based on our existing asset lives and what additional depreciation would be required if any of the scenarios would effectively result in shortened lives (e.g., net zero by 2050, mixed use by 2045). See note 29 of the consolidated financial statements for further details.

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(e) Investments

Investments in subsidiary undertakings and associated companies are held at cost, less any provisions for impairment. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that investments are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed separately.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is defined as the higher of fair value less costs of disposal or estimated value in use at the date the impairment review is undertaken. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

(f) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of fair value less costs of disposal 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.

1 Summary of significant accounting policies continued

(g) Financial instruments

Initial recognition

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Classification and measurement

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost; or
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Accretion on inflation linked borrowings is accounted for on an accrual basis to the income statement, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise, unless hedge accounting applies.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

For financial assets carried at amortised costs, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

Derecognition

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Notes to the company financial statements continued

For the year ended 31 March 2023

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Impairment of financial assets

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. The company has taken default to be defined as a counterparty that has entered administration.

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- trade receivables; and
- loan receivables; and
- other receivables.

The company measures the loss allowances on financial instruments at an amount equal to the 12 month expected credit loss (representing a stage 1 financial model). The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the company recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the company recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the company recognises the lifetime expected credit loss.

A significant increase in credit risk would by any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

Evidence that the financial asset is credit impaired includes the following:

- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the Group that the Group would not consider otherwise; or
- it is probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for an associated security because of financial difficulties.

(h) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which has not yet been invoiced.

Trade receivables and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

(i) Trade and other payables

Trade payables are initially recognised at amortised cost and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book values.

Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the statement either:

- Once the project is complete; or
- Over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further detail see note 1(n) Revenue.

(j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

1 Summary of significant accounting policies continued

(k) Tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(l) Provisions for liabilities

Provisions for liabilities are recognised where a legal or constructive obligation exists at the reporting date, as a result of past events where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditure, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

Other provisions consist of claims (whether covered by insurance or not) including employer liability claims, and other provisions related to the operation of our gas networks. Where amounts are material, third party valuations are performed.

(m) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the company's shareholders are recognised as a liability until paid in the company's financial statements in the year in which the dividends are approved by the company's shareholders.

(n) Revenue

The UK's target of reducing all greenhouse gas emissions to net zero by 2050 will impact how our network can be used in the future, and how we generate revenue. See note 2.

Revenue largely comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to revenue over the estimated useful economic lives of the asset to which they relate.

(o) Pensions

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

For the DC pension scheme, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

Notes to the company financial statements continued

For the year ended 31 March 2023

1 Summary of significant accounting policies continued

(o) Pensions continued

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

(p) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Assets for use in the company's business where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, are included within creditors. The interest element of the rental obligation is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

(q) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position and are considered as part of cash management.

The company receives monies in the form of grants. The use of this cash is restricted by the specific terms and conditions of each grant and therefore is not available for general use.

(r) Exceptional Items

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

Management utilises an exceptional items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the company'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, write-downs or impairment of non-current assets, integration of acquired businesses, gains or losses on disposals of businesses or investments, debt redemption costs as a consequence of transactions such as significant disposals or issues of equity and deferred tax rate changes.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- The recognition of revenue in relation to connections and whether the service was distinct from the provision of future network services. We judged that the economic benefit for the connection service can be reliably measured once the new connection is completed and hence revenue is recognised at that point;
- The recognition of a surplus in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under FRS 102. We have concluded that the company has an unconditional right to a refund from the plan, in the event of a winding-up – **note 6**;
- 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 circumsatances, the restructuring programme is within our control and occurs reasonably frequently, and therefore have applied a materiality threshold over the life of the exercise consistent with our accounting policies. This is consistent with judgements made in previous years relating to this and other restructuring programmes. – **note 6** of the consolidated accounts; and
- The judgement that the network can be used for alternative technologies beyond 2050. Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting effect of climate change by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how our network is used. The UK Government's current plans include the production and use of Hydrogen and to achieve net-zero, although there remains uncertainty about significant aspects of the UK energy sector plans under net zero . We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives. Given the information currently available regarding these plans and the initial feasibility studies completed regarding the use of alternative gases through our network and the large scale production of these gases, we have judged that our network will continue to be used to transport gas (methane, hydrogen, other alternatives such as biomethane or a combination of these) beyond 2050, and that these gases will be available in sufficient quantities. See below for the estimates we have made regarding useful lives when applying this judgement to our financial statements – **notes 7 & 8**.

Key sources of estimation uncertainty

Key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

- Determination of useful lives and carrying values of property, plant and equipment and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. Changes made to the UELs could have a material impact on the depreciation recognised in the next financial year. The UK's target to achieve net zero by 2050 may impact the UELs of our plant and machinery with a current deemed life of up to 50 years if our network can no longer be used beyond this point. We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives. Currently our assets are being depreciated out to 2055. See note 29 of the consolidated accounts for impact on depreciation charge under different modelling scenarios. Given the information currently available about how the UK will achieve net-zero using alternative technologies (particularly greener gases such as hydrogen and biomethane) it is still reasonable to assume that the network will continue to be used beyond 2050 in its current form or adapted to accommodate hydrogen or biomethane. Management have therefore assumed that our network assets can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy. However, if future developments in technology or the climate change agenda indicate that the UELs of our network assets are limited to 2050, the depreciation charge recognised in future periods would increase by a material amount – **notes 7 & 8**.
- The estimation of liabilities for pensions and other post-retirement benefits include a number of key assumptions which include life expectancy of members, expected salary and pension increases, and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied – **note 6**.

Notes to the company financial statements continued

For the year ended 31 March 2023

2 Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

- The fair value of derivative financial instruments cross currency swaps and index-linked swaps are measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates and inflation rates. Projected cash flows are then discounted back using discount factors that are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate.

Sensitivities have been considered in note 29 of the consolidated accounts.

3 Auditors' remuneration

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

	2023 £000	2022 £000
Audit services		
Audit fee of company	**820**	734
Other services		
Fees payable to the company's auditors for audit-related assurance services	**75**	66
Other non-audit services	**147**	150

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditors such as interim reviews. Other non-audit services in 2023 relate to services provided in connection with the raising of debt, grant claims or required by the regulator.

4 Number of employees, including Directors

The average number of persons (including Executive Directors) employed by the company was 6,018 (2022: 5,945). Further details are provided in note 7 to the consolidated financial statements.

5 Key management compensation

Key management comprises the Board of Directors of the company, including Executive and Non- executive Directors who have managerial responsibility for Cadent Gas Limited. Details of key management personnel compensation are provided in note 8 to the consolidated financial statements.

6 Pensions

Substantially all the company's employees are members of either the defined benefit Cadent Gas Pension Scheme or the MyPension defined contribution scheme.

The disclosures required by FRS 102 are the same as those required by IAS 19 (revised) and are provided in note 27 to the consolidated financial statements.

7 Intangible assets

	Software £m
Cost:	
At 1 April 2022	202
Additions	2
Disposals	(4)
At 31 March 2023	**200**
Accumulated amortisation:	
At 1 April 2022	**(132)**
Amortisation charge for the year	**(20)**
At 31 March 2023	**(152)**
Net book value:	
At 31 March 2023	48
At 31 March 2022	70

	Software £m
Cost:	
At 1 April 2021	199
Additions	3
Disposals	–
At 31 March 2022	202
Accumulated amortisation:	
At 1 April 2021	(111)
Amortisation charge for the year	(21)
Disposals	–
At 31 March 2022	(132)
Net book value:	
At 31 March 2022	70
At 31 March 2021	88

Notes to the company financial statements continued

For the year ended 31 March 2023

8 Property, plant and equipment

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2022	171	12,033	44	202	12,450
Additions	17	740	68	30	855
Reclassifications	18	14	(39)	7	–
Disposals	–	(1)	–	(3)	(4)
At 31 March 2023	**206**	**12,786**	**73**	**236**	**13,301**
Accumulated depreciation and impairment					
At 1 April 2022	(32)	(1,541)	–	(135)	(1,708)
Charge for the year	(14)	(351)	–	(26)	(391)
Disposals	–	–	–	3	3
At 31 March 2023	**(46)**	**(1,892)**	**–**	**(158)**	**(2,096)**
Net book value:					
At 31 March 2023	**160**	**10,894**	**73**	**78**	**11,205**
At 31 March 2022	139	10,492	44	67	10,742

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(d) for the estimated useful lives of each asset category, and note 29 of the consolidated financial statements for sensitivity analysis over the residual lives of assets.

The net book value of motor vehicles and other equipment at 31 March 2023 included £2,750,000 (2022: £3,499,000) relating to assets purchased under finance leases.

The cost of property, plant and equipment at 31 March 2023 included £1,462,000 (2022: £1,462,000) relating to interest capitalised, with £Nil (2022: £Nil) capitalised during the year.

The net book value of land and buildings comprises:

	2023 £m	2022 £m
Freehold	**113**	107
Long leasehold (over 50 years)	**39**	22
Short leasehold (under 50 years)	**8**	10
	160	139

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2021	119	11,382	60	188	11,749
Additions	14	629	61	18	722
Reclassifications	45	30	(77)	2	–
Disposals	(7)	(8)	–	(6)	(21)
At 31 March 2022	171	12,033	44	202	12,450
Accumulated depreciation and impairment					
At 1 April 2021	(28)	(1,216)	–	(113)	(1,357)
Charge for the year	(11)	(332)	–	(28)	(371)
Disposals	7	7	–	6	20
At 31 March 2022	(32)	(1,541)	–	(135)	(1,708)
Net book value:					
At 31 March 2022	139	10,492	44	67	10,742
At 31 March 2021	91	10,166	60	75	10,392

9 Investments

	Shares in subsidiary undertakings £m	Investments in associates £m	Total £m
Cost			
At 1 April 2022 & 31 March 2023	–	–	–
Provision			
At 1 April 2022 & 31 March 2023	–	–	–
Net book value:			
At 1 April 2022 & 31 March 2023	–	–	–

The company's subsidiary undertakings as at 31 March 2023 were as follows:

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Finance Plc	100	Provision of long-term finance	England and Wales
Cadent Gas Pension Trustee Limited	100	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100	Management of pension services	England and Wales

* Indirect ownership.

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

10 Inventories

	2023 £m	2022 £m
Raw materials and consumables	15	11
	15	11

Inventories are stated after provisions for impairment of £806,000 (2022: £720,000).

11 Debtors

	2023 £m	2022 £m
Amounts falling due within one year:		
Trade debtors	8	12
Other debtors	4	2
Prepayments	7	7
Accrued income	190	159
	209	180
Amounts falling due after more than one year:		
Prepayments	–	1
	–	1

Trade debtors and accrued income are initially stated at the transaction price and are subsequently measured after a loss allowance has been made of £11,000,000 (2022: £11,000,000).

Notes to the company financial statements continued

For the year ended 31 March 2023

12 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2023		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	–	–	–
Amounts falling due after more than one year	37	(250)	(213)
	37	(250)	(213)

	2022		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	1	–	1
Amounts falling due after more than one year	7	(269)	(262)
	8	(269)	(261)

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

	2023 £m	2022 £m
Cross-currency interest rate swaps	1,954	1,831
Forward rate agreements	–	1
Inflation linked swaps	1,400	1,400
Foreign exchange forward currency	5	2
	3,359	3,234

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

13 Financial and other investments

	2023 £m	2022 £m
Investments in short-term money funds	523	80
	523	80

14 Creditors: amounts falling due within one year

	2023 £m	2022 £m
Trade creditors	169	132
Amounts owed to fellow group undertakings	59	42
Other tax and social security	65	39
Other creditors	60	51
Accruals	101	95
Deferred income	91	84
	545	443

15 Creditors: amounts falling due after more than one year

	2023 £m	2022 £m
Amounts owed to subsidiary undertakings	6,570	5,977
Accruals and deferred income	810	782
	7,380	6,759

Amounts owed to subsidiary undertakings reflect external debt raised by Cadent Finance Plc and passed on to Cadent Gas Limited. The amounts are usually passed on to Cadent Gas Limited on identical terms to the amounts raised in Cadent Finance Plc. The amounts are unsecured with phased repayments to August 2048.

Deferred income mainly comprises contributions received in respect of capital projects.

16 Borrowings

	2023 £m	2022 £m
Amounts falling due within one year		
Bank loans	107	2
Bank overdrafts	–	1
Finance leases	1	1
	108	4
Amounts falling due after more than one year		
Bank loans	900	949
Finance leases	1	2
	901	951

	2023 £m	2022 £m
Total borrowings are repayable as follows:		
Less than one year	108	4
In one – two years	501	93
In two – three years	–	457
In three – four years	400	–
In four – five years	–	401
More than five years	–	–
	1,009	955

The notional amount outstanding of the debt portfolio at 31 March 2023 was £994m (2022: £926m), including accretion.

The company's borrowings comprise a mixture of unlisted floating rate and indexed-linked debt which has been issued out of or novated into the company. The table below summarises the bank debt, including their fair values.

Currency	Type	Notional (including accretion)* £m	Rate	Maturity Date	Book value £m	Fair Value £m
Index-linked						
GBP	Unlisted	102	RPI-linked	02-Oct-23	104	102
GBP	Unlisted	98	RPI-linked	29-Apr-24	101	99
GBP	Unlisted	99	RPI-linked	30-Apr-24	101	99
GBP	Unlisted	99	RPI-linked	07-May-24	101	99
GBP	Unlisted	97	RPI-linked	18-Jun-24	100	98
GBP	Unlisted	97	RPI-linked	25-Jun-24	100	98
		592			607	595
Floating Rate						
GBP	Unlisted	400	SONIA	23-Mar-27	400	414
		400			400	414
Finance Lease obligation less than one year		1			1	1
Finance lease obligation more than one year		1			1	1
Total		994			1,009	1,011

* Indexed linked debt notional is the accreted value.

Notes to the company financial statements continued

For the year ended 31 March 2023

16 Borrowings continued

On 4 November 2022, Cadent Gas 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 company continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

The fair value of borrowings at 31 March 2023 was £1,011m (2022: £985m). Where market values were available, fair value of borrowings (Level 1) was £Nil (2022: £Nil). Where market values were not available, the fair value of borrowings (Level 2) was £1,011m (2022: £985m), calculated by discounting cash flows at prevailing interest rates.

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

Obligation under finance leases

	Minimum lease payments	
	2023 £m	2022 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	1	3
After five years	–	–
Less: future finance charges	–	(1)
Present value of lease obligations	2	3

	Present value of Minimum lease payments	
	2023 £m	2022 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	1	2
After five years	–	–
Present value of lease obligations	2	3
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1	1
Amounts due for settlement after 12 months	1	2
	2	3

It is the company's policy to lease certain items of its motor vehicles and other equipment under finance leases. The average lease length is eight years at inception. For the year ended 31 March 2023, the average effective borrowing rate was 3.48% (2022: 3.48%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

17 Provisions for liabilities

	Environmental £m	Deferred tax £m	Other £m	Total £m
At 1 April 2022	30	1,735	40	1,805
Charged to the income statement	1	57	10	68
Utilised	(1)	–	(10)	(11)
Released to the income statement	–	–	–	–
Unwinding of discount	–	–	–	–
Credited to other comprehensive income and equity	–	(101)	–	(101)
At 31 March 2023	**30**	**1,691**	**40**	**1,761**

	Environmental £m	Deferred tax £m	Other £m	Total £m
Current	3	–	11	14
Non-current	27	1,691	29	1,747
	30	**1,691**	**40**	**1,761**

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0% (2022: 1.0%)). Cash flows are expected to be incurred between 2023 and 2083.

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 2023 is £38m (2022: £38m) being the undiscounted best estimate liability having regard to these uncertainties.

Deferred tax

Deferred taxation comprises:

	2023 £m	2022 £m
Accelerated capital allowances	**1,515**	1,508
Other timing differences	**176**	227
Deferred tax liability	**1,691**	1,735

Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims and other provisions relating to the operation of our gas networks. Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The majority of claims are expected to be settled within 10 years.

18 Share capital

	2023 £m	2022 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	**–**	–

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

Notes to the company financial statements continued

For the year ended 31 March 2023

19 Capital and other commitments

	2023 £m	2022 £m
Contracts for future capital expenditure not provided in the financial statements	346	304
Letters of credit facility	150	300
	496	604

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2023 £m	2022 £m
Less than one year	9	13
In two-five years	34	23
More than five years	52	44
	95	80

20 Related Parties

The following material transactions are with a subsidiary of the company which is not wholly owned by Quadgas Holdings TopCo Limited and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 102.

	2023 £m	2022 £m
Income:		
Goods and services supplied to other related parties	–	–
	–	–
Expenditure:		
Services rendered from associates	13	16
	13	16
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts payable to other related parties	–	2
Amounts receivable from associates	1	–

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No amounts have been provided at 31 March 2023 (2022: Nil) and no expense has been recognised during the year in respect of bad or doubtful debts from the above related party transactions.

Details of key management compensation are provided in note 8 to the consolidated financial statements.

21 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 17) represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

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

(c) Guarantees and letters of credit

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

22 Subsequent events

On 3 April 2023, having provided sufficient notice to the lender, Cadent Gas Limited repaid a bank loan with a contractual maturity date of 2 October 2023. This bank loan was index-linked with a notional value of £60m and carrying value of £104m as at 31 March 2023. As at the balance sheet date Cadent Gas Limited had committed to the prepayment of this loan, it has been shown in the balance sheet at its prepayment date and categorised accordingly as maturing within one year.

On 27 March 2023, Cadent Gas Limited, submitted notice to the same lender that the next two tranches of debt maturing 29 April 2024 and 30 April 2024 would be repaid on 2 May 2023. These loans were also index linked, had notional values of £60m and as at 31 March 2023 had carrying values of £101m and £101m respectively. As at the balance sheet date Cadent Gas Limited had an option to withdraw the prepayment notices for these two tranches of debt and so they have been shown in the balance sheet at their respective contractual maturity dates and categorised as having a maturity greater than one year. The loans were repaid on 2 May 2023.

On 21 April 2023, Cadent Gas Limited entered into a £150m bilateral term loan with one of its relationship banks. The loan is drawable from 21 May 2023 and 21 October 2023 and has a maturity of seven years from the point of drawdown.

23 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas MidCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

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

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.

Glossary

Term	Definition
Adjusted EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation, and Exceptional items
Annual report	the company's annual report and accounts for the year ended 31 March 2023
articles	the articles of association of the company
biomethane	bio-substitute natural gas
Board	Board of Directors of Cadent Gas Limited
Cadent or company	Cadent Gas Limited
Cadent Military Community	Our community group, a network to actively support service leavers entering the business, our current reservists and those that have previously served.
Centres for Warmth	one of our largest VCMA projects offering support to some of the most deprived areas across our network
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Chair	Chair of the Board and any of the Committees
CISBOT	A cast iron pipe-repair robot that seals the joints in natural gas pipelines from the inside
CMA	Competition and Markets Authority
CNG	Compressed Natural Gas
COO	Chief Operating Officer
Complaints	The algorithm is driven from % day 1 closures, % day 31 closures, repeated complaints and ombudsman complaints received
Consumer	A person who purchases goods and services for personal use
CO Crew	A schools' programme for Key Stage 2 children to educate them on the dangers of carbon monoxide poisoning
CPI	Consumer Price Index
CSAT	Customer satisfaction
Customer	In the Strategic report and Governance sections when we refer to customer, we are referring to our consumers, suppliers and shipper. Within the Financial statements when we refer to customer, we are referring only to our direct customers
DB	Defined Benefit
DC	Defined Contribution
DEFRA	The Department for Environment, Food and Rural Affairs
DESNZ	Department for Energy Security & Net Zero
Directors	the Directors of Cadent Gas Limited
EAP	Environmental Action Plan - explains how we will take responsibility for the environmental impacts of our network and business operations during the RIIO-2 period and how we will drive improvements in our environmental performance throughout this period
EDI	Equity, Diversity and Inclusion
Embrace	Our community group, a network to raise awareness of and drives discussion on issues affecting colleagues from an ethnic minority background, and of all religions.
Emmaus	Our charity partner, helping people to work their way out of homelessness, providing meaningful work, training, support and a stable home for as long as someone needs it
ENA	Energy Networks Association is a not-for-profit industry body representing the companies which operate the electricity wires, gas pipes and energy system in the UK and Ireland
Energy Diaries	BritainThinks and Cadent conducted 'The Energy Diaries' research programme, designed to explore experiences of the cost of living crisis
EIB	European Investment Bank
ESG	Environmental, Social, and Governance (ESG) – three central factors in measuring the sustainability and societal impact of an investment in a company or business
FRC	Financial Reporting Council
Gigawatt	A gigawatt is a unit of energy equal to a billion watts. There are 1,000 gigawatts in a terawatt
GRESB	GRESB (Global Real Estate Sustainability Benchmark) assesses and benchmarks Environmental, Social and Governance (ESG) performance
Groundwork UK	a federation of charities mobilising practical community action on poverty and the environment across the UK

Term	Definition
Group	The Group comprises Cadent Gas Limited, Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited
GSCoC	Global Supplier Code of Conduct
GSOP	Guaranteed Standards of Performance
HMRC	Her Majesty's Revenue and Customs
HSE	Health and Safety Executive
HyDeploy	A project to inject a blend of natural gas and hydrogen into the network at Keele University
HyNet	A conceptual study to introduce hydrogen into the gas network in an industrial part of Manchester and Liverpool
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
ISO 14001	sets out the criteria for an environmental management system and can be certified to. It maps out a framework that a company or organisation can follow to set up an effective environmental management system
ISO 55001	Asset management standard developed for the use of people or businesses involved in asset management
LGBTQ+	Lesbian, gay, bisexual, transgender and queer or questioning
LTIFR	Lost Time Injury Frequency Rate, the number of lost time injuries occurring in a workplace per 1 million hours worked
LTIP	Long-Term Incentive Plan
Microsoft Power BI	Unify data from sources to create interactive, immersive dashboards and reports that provide actionable insights
National Gas Emergency Service	0800 111 999 a free emergency number that anyone can call if they smell gas or suspect carbon monoxide
NEA	National Energy Action is a fuel poverty charity that works to eradicate fuel poverty and campaigns for greater investment in energy efficiency
NED	Non-Executive Director
Neighbourly	a platform that helps businesses make a positive impact in their communities by donating volunteer time, money and surplus products to local good causes
NET ZERO	Target to negate amount of greenhouse gases by reducing emissions by 2050
NGN	Northern Gas Network
NGUKPS	National Grid UK Pension Scheme
NIA	Network Innovation Allowance
NIC	Network Innovation Competition
Ofgem	Office of Gas and Electricity Markets
P&L	Profit & Loss
PC&S	Pressure Control & Storage
PE pipes	Polyethylene pipes
PPE	Personal protective equipment at work
Pride at Work	Our community group, a welcoming and safe space where our Lesbian, Gay, Bisexual, Transgender, Queer (LGBTQ+) and allied members can thrive and feel included.
PSR	The Priority Services Register is a service provided by energy suppliers and network operators to support customers in vulnerable situations. It provides extra support in emergencies or free services
Reactive Response	established by National Energy Action (NEA) and Cadent to target and support vulnerable households whose gas appliances and/or home gas infrastructures have developed a fault, or have been disconnected and condemned as unsafe by a Cadent engineer
Regulatory controllable costs	Those operating activity costs that are deemed as part of the price control allowances as being within the control of the licence holder
RAV	Regulated Asset Value
Repex	Replacement Expenditure
RIIO	Ofgem's regulatory framework (Revenue = Incentives + Innovation + Outputs)

Glossary continued

Term	Definition
RIIO Stakeholder Incentive Submission	A report made as part of Ofgem's Stakeholder Engagement Incentive Scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses
RIIO-1	The RIIO-1 price control set out the outputs that the Gas Distribution Networks ('GDNs') need to deliver for their consumers, and the associated revenues they are allowed to collect, for the eight year period from 1 April 2013 until 31 March 2021
RIIO-2	RIIO-2 is the current price control for Cadent and the other three network companies, who own and operate the gas distribution networks in Great Britain. This is the second price control period using the RIIO framework and started in April 2021
RPI	Retail Price Index
Safety Seymour	A schools' programme for Key Stage 1 children to educate them on the dangers of carbon monoxide poisoning
Scope 1	All Direct Emissions from owned or controlled sources
Scope 2	Indirect Emissions from the generation of purchased electricity, steam, heating and cooling
Scope 3	All Other Indirect Emissions that occur in a Cadent's value chain
SEND	Special Educational Needs and Disability
Services beyond the meter	provides a follow-on service for customers living in vulnerable situations if their gas installation is suspected to be emitting carbon monoxide and has been isolated by Cadent
SGN	The gas distribution company that covers Scotland and a section of southern England including parts of Devon, Milton Keynes and South London
SHES	Safety, Health, Environment and Security
SID	Sufficiently Independent Director
Social return	an outcomes-based measurement tool that helps to understand and quantify the social, environmental and economic value added
Stakeholder Engagement Incentive Scheme	Ofgem's scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses
STEM	Science, Technology, Engineering and Mathematics
STIP	Short-Term Incentive Plan
Supply Chain Sustainability School	The School is a collaboration between clients, contractors and first tier suppliers who want to build the skills of their supply chains
Thrive	Our community group, a network to raise awareness of and support people with disabilities, making our workplace accessible and supportive to all.
TUPE	Transfer of Undertakings (Protection of Employment) regulations
TWh	Terawatt hours, a measure of energy use
UK GAAP	United Kingdom Generally Accepted Accounting Practice
USPP	US Private Placement
VCMA	Vulnerability and Carbon Monoxide Allowance
Wates Principles	The six Wates Corporate Governance Principles for large private companies
Women in Cadent	Our community group, a network of colleagues from across our business, who are all committed to creating equality and supporting women's professional and personal development.
WWU	Wales & West Utilities
2006 Act	The Companies Act 2006

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Cadent

Your Gas Network

Cadent
Pilot Way
Ansty Park
Coventry
CV7 9JU

www.cadentgas.com