Cadent
Your Gas Network

Annual report and accounts
2023/24

Going beyond to make a *difference*

In this report

We are responsible for looking after our gas network so we 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 go beyond to transport gas to keep communities safe warm and connected.

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Our purpose

Keeping people warm, while *protecting the planet*

Highlights of the year

Financial

Revenue
£2,277m

(2023: £2,340m)

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.

Finance Cost
£288m

(2023: £398m)

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.

Operating Costs
£1,384m

(2023: £1,395m)

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 operating costs since separation contributing to a reduction in the annual cost of our services.

Our operating costs include £279m for the 6,215 people we directly employ, including £60m of pension costs paid into our current and past employee pensions schemes.

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

£1,389m

(2023: £1,375m)

See our Financial review on page 13.

Operating Profit
£893m

(2023: £945m)

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

Taxation
£160m

(2023:£101m)

The corporation tax paid on annual profits. We also paid £593m 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.

RAV
(Regulated Asset Value)

£12.5bn

(2023: £12.0bn)

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

Dividends
£310m

(2023: £350m)

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 4 years to March 2024, the dividend paid represents a return on regulated equity of 4.5%*.

Net debt
£7,816m

(2023: £7,390m)

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.

Investment
£945m

(2023: £857m)

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.

* Return on regulated equity calculated as the dividend paid as percentage of the equity share of the RAV within the notional company funding structure. 4.5% is below the rate of return set for the notional company determined by Ofgem.

Operational performance

Network reliability
99.9%
(2023: 99.9%)

Emergencies responded to within the hour
98.6%
(2023: 96.4%)

Number of customer calls answered
1.4m
(2023: 1.6m)

Emergency calls answered within 30 seconds
94%
(2023: 90%)

Mains replaced
1,748km
(2023: 1,742km)

Fuel poor connections during RIIO-2 price control
4,468
(2023: 4,405)

Cadent customer bill breakdown 2023/24

In 2023/24 a typical domestic customer paid £152 towards the cost of our services, down from £171 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

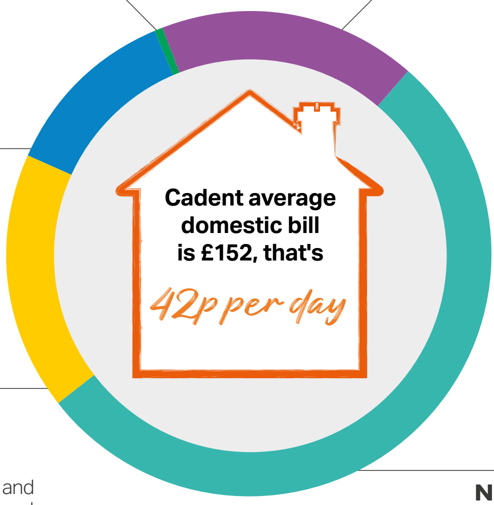
£1 Optimising our performance and putting the customer at the heart of everything we do.

Operating and maintaining the network

£18 Operating and maintaining the equipment and infrastructure to transport gas to you safely and reliably today.

Providing a 24-hour emergency and repair service

£26 Taking your calls, attending and repairing gas emergencies and escapes and making it safe.



Taxes, licence and other fees

£26 Taxes, licence fees for industry regulation and business rates paid to local Government.

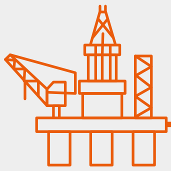
Network investment

£81 Repaying the cost of past and present investment and 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.

Business model

Keeping people warm,
while protecting the planet



We are the largest gas distribution company in the UK.

Our role and responsibilities

We play a vital role in the UK's gas supply chain by delivering gas from source to consumer.

Although we don't produce, own or sell the gas that flows through our pipes, our skilled teams work tirelessly to ensure that gas is delivered to every corner of our network, taking care of the environment while we do so.

We don't repair gas appliances, and the cost of our services is included in customers' gas bills, but our role encompasses comprehensive maintenance, monitoring and significant investment in infrastructure to enhance resilience and efficiency. Safety is paramount, with robust quality assurance systems in place to protect employees, customers and the environment.

We place a strong emphasis on innovation to drive future investment, exploring new technologies and methodologies as we continuously strive to improve network efficiency, sustainability and resilience.

We also manage the National Gas Emergency Service for all gas customers in the UK. If something goes wrong, we are the first point of contact to make sure it's dealt with calmly, quickly and safely.

These efforts are all driven by our RIIO-2 commitments:

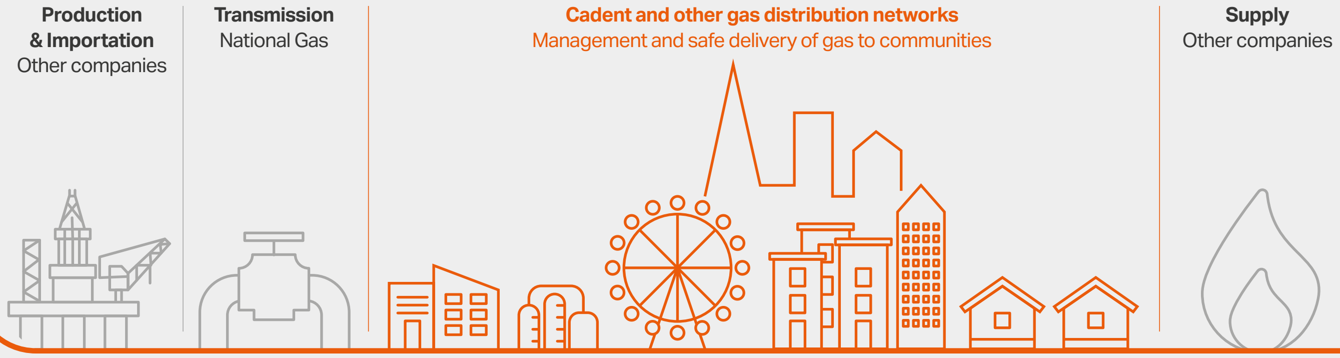
Delivering a quality experience for all of our customers and stakeholders.
We promise to provide a service experience of the highest quality to all of our customers, tailored specifically to their needs.

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.



Underpinned by our values

Our values guide every decision and action we take to ensure integrity, safety and sustainability in all aspects of our work.

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

Where we operate

North West
2.7m homes and businesses
1,520 colleagues

West Midlands
1.9m homes and businesses
1,068 colleagues

North London
2.2m homes and businesses
1,416 colleagues

Eastern; East Midlands and East of England
4m homes and businesses
2,211 colleagues

The value we create and what makes us different

Fuel a thriving world

Easier
warmth

Fairer
opportunities

Greener
society

Our ambition is to be a force for good, providing an essential public service that ensures the safety, warmth and connectivity for communities across the UK. Our commitment extends beyond delivering a reliable gas supply; we prioritise environmental stewardship and actively contribute to building a cleaner, greener and fairer future while also prioritising the needs of the most vulnerable.

We are committed to making life easier, fairer and greener for everyone we serve.

- It is important to our customers, colleagues, and stakeholders that we give back to the communities in which we operate.
- We have created a truly inclusive working environment as well as creating local employment opportunities within our communities.
- This includes helping those who need additional support, and increasing social mobility, whilst playing our part to help combat climate change to secure a long-term future for all.
- Regular training is provided for all our colleagues.

How we keep stakeholders engaged

Customers and communities

We're increasing our engagement to deepen our understanding of customer priorities. We engage locally to address the diverse needs of our communities, creating meaningful connections and delivering tailored solutions.

Investors

We maintain transparent and informative communication with our investors, providing regular updates on our performance and strategic direction to ensure confidence and trust through robust data and governance.

Colleagues

We work together in an inclusive and diverse culture where everyone has a voice. We encourage open and mutual support to enhance collaboration, teamwork and always doing the right thing, living by shared values to achieve our collective objectives and strategic commitments.

Interest groups

We engage with a wide range of groups to gather insights, address concerns and create sustainable solutions, encouraging community involvement and environmental care.

Government and regulators

We actively engage with regulators, Government bodies and wider industry to ensure compliance, transparency, and alignment with regulatory standards, building trust and accountability within the industry.

Businesses and industry

We engage through transparent and informative communications, building positive relationships and promoting understanding of our company's activities, values, and contributions to society.

Our strategic objectives

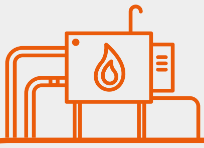
RIIO-2 is Ofgem's framework for setting price controls for the gas distribution networks. It sets out what we are expected to deliver from 2021-2026.

Our gas network plays a critical role in delivering affordable and reliable heating to over 80% of domestic homes and fuelling major industry, businesses, schools and hospitals in England. We're at the forefront of shaping and delivering the road to net zero through facilitating a greener gas network and demonstrating a hydrogen pathway for future generations to come.

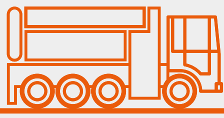
The business plan sets out the following:

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

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.

Chair's statement

> Continuing to drive change, while making a positive difference to our colleagues and communities.

Sir Adrian Montague CBE
Chair

Overview

I would like to start by commending the people of Cadent for the strong operational performance of the business. We have always focused on driving significant change to position Cadent as a top performer in the industry and I am happy to report a great deal of progress that we can all be proud of. That said, we continue to work through various challenges in the sector such as the cost-of-living crisis, fluctuations in energy bills, inflation, and continued uncertainty with regards to the ultimate direction of the energy landscape.

As always, we tackle these challenges head on, continuing to drive change, while seeking to make a positive difference to our colleagues and communities. We are pleased with the results we have delivered across the year and continue to commit to showing real positive action at pace, going above and beyond in the energy sector. We always try to act with purpose and compassion in everything we do, and this is something to be immensely proud of.

I would like to commend the Executive and leadership teams for the tremendous work they have delivered to bring Cadent's performance into the spotlight. Teams across Cadent continue to drive such remarkable progress in meeting our operational challenges and improving our overall performance. We have seen stronger scores in the Ofgem customer satisfaction tables. Particularly in North London, the teams have done a sterling job, and the improvement in performance has been outstanding.

At a time when budgets and costs are closely controlled, we are intent on keeping our operational performance in line with RIIO-2, while also looking ahead to RIIO-3. This is a significant milestone for the business and the Board has developed a strong working relationship with the Strategy and Regulation team with a view to optimising our propositions to Ofgem in RIIO-3.

Making a difference

The Vulnerability and Carbon Monoxide Allowance (VCMA) fund established by Ofgem, has continued to be instrumental in making a huge impact across our network. Since it was established in 2021, our Centres for Warmth programme has grown significantly to over 200 centres, including the inclusion of Home Start centres, as we strive to support our communities affected by the cost-of-living crisis. The Centres for Warmth programme identifies suitable local charities in areas of high deprivation, fuel poverty and high risk to carbon monoxide poisoning, to create partnerships at local community centres. The main aim is to support communities who are living in vulnerable situations with advice regarding fuel poverty, household income, benefits and debt. These centres are a community lifeline, supporting financial and mental wellbeing, as well as gas safety at home. To date, we have invested over £5.2m in the project, offering over 564,000 services.

As we head towards the end of another year, it is important to look at what has been achieved. We know there is more to do over the next year, but there is lots to be proud of with the impact we have made.

Collaborating with our Customer Engagement Group

At Cadent we make a pledge to operate in the best interests of communities. The role of our Customer Challenge Group is to hold us to account, constructively testing and questioning our strategy to improve outcomes for our customers in a period of considerable change. The group, formed of external business leaders, aims to challenge, and work with us on our strategy and optimise innovation and customer service, ensuring that customers remain at the core of our business.

It will play an important role in the development of the next regulatory Business Plan, which will be submitted to the industry regulator, Ofgem, in 2024. The Chair of the group, Angela Love, brings a deep understanding of the energy industry across both gas and electricity and her expertise is invaluable.

Cadent Foundation

I am proud of all the work the Foundation is doing, as we see continuing demand for support in the charitable sector. We wanted to do more and have carefully focused available funds on new and expanded projects, with the aim of maximising the positive social impact we can achieve. One example is our first Winter Support Fund. Launched on Fuel Poverty Awareness Day (Nov 2023), the Cadent Foundation injected £2 million to deliver rapid financial support, through much needed food and energy vouchers, distributed by its charity partners. This meant that, as the cost-of-living crisis continued to impact many, Cadent Foundation partners, including Citizens Advice, Groundwork and Trussell Trust, who are currently supporting people across our networks with energy and money guidance, had the ability to provide immediate financial relief to people most in need.

> "We want to empower our charity partners who are working in the communities daily, to be able to make an immediate difference to people when they need it the most."

Governance

The Board seeks to maintain the highest standards of corporate governance and is deeply involved in developing the company's strategy in conjunction with Management. To support oversight of the RIIO-3 Business Plan, we have added additional briefing sessions to the scheduled meetings, allowing for regular updates and timely Board input. We have also engaged with a range of external advisers and stakeholders to add perspective and inform thinking.

The Board has visited several sites across the year and seen some inspiring examples of engineering excellence and community engagement. It has been a pleasure to see, first hand, our vital operational activities and culture in action.

During the year, we were pleased to welcome Graham Cooley, Emma Howell and Alistair Ray to the Board and are benefiting from their varied experience. Andrew Marsden and Perry Noble stood down from the Board and I would like to thank them for their advice, input and commitment during their time with us.

Communities and culture

The Board has enjoyed regular sessions with our ED&I employee community groups. It has been quite inspiring to see and learn more about the activities of the groups. Cadent takes pride in taking care of colleagues and we would like to think that we would be regarded as a good employer. The teams involved in our Community Groups should be proud of the real difference they are making, driving cultural change in line with what matters to colleagues and having a real impact.

I would like to thank everyone for their hard work and dedication in making this happen and look forward to seeing how Cadent builds on progress already made.

Outlook

Our ambition is to be a leading voice in the energy sector, helping to achieve the UK's net zero ambitions in a way that is deliverable and that ensures consumers are at the heart of the transition. There is still a long way to go in demonstrating how greener alternatives can support the huge task of decarbonising industry and domestic heating at scale, but our hydrogen and green gas projects are progressing well, and we've learnt lessons along the way that will be vital in ensuring we meet our net zero obligations.

We are working closely with central and local Government, opinion formers and policymakers, and with Ofgem and other industry stakeholders so we can provide consistent, clear, and strategic advice in order to maintain investment in our critical national infrastructure, relied upon by over 80% of UK homes and businesses.

This includes evaluating the framework for future investment and network regulation, and developing pathfinder projects to ensure the evolving energy needs of the UK are met alongside the need for consistent reliability, affordability, and security of supply. We are actively developing our RIIO-3 submission to ensure a whole systems approach is applied to support the strategic long-term role of the network.

Cadent is an exciting place to be as we embark on our journey towards the end of RIIO-2, I would like to acknowledge all the efforts of our senior leadership teams aided by everyone in operations and business support, all of whom have worked tirelessly throughout the year to make a difference to all our communities and to shape the future for the benefit of all our stakeholders and the environment. I am looking forward to seeing how our plans can contribute to and influence the national effort to achieve net zero.

Sir Adrian Montague CBE
Chair

18 June 2024

Chief Executive's review

> I am pleased to see us leading the way in industry best practice; performing with pride and purpose to go above and beyond to deliver on our operational performance and social impact commitments.

Steve Fraser
Chief Executive Officer

Welcome to my review of the year

With customer service at the heart of what we do, the biggest challenge for us remains the need to transform our business, while exceeding the expectations of our communities. Our reputation relies on the skills and experience of our colleagues to deliver consistently every day, providing the best possible service. Day in, day out, our colleagues have worked tirelessly, showing dedication and resilience in everything we do, enabling us to continue to lead the energy sector in customer service and efficiency. As the UK's largest gas distribution network, we have a vital role to play to ensure our network is secure and reliable for the 11 million homes and businesses who rely on us every day to keep life moving.

> Life doesn't stop, and neither do we. We keep the gas flowing so life can carry on. We work tirelessly to ensure the gas network is operational, reliable and we're there 24/7. We are making warmth accessible to keep everything moving, now and for the future. We are a network for the nation!

I am proud of our operational performance, working at pace to deliver high standards of safety, customer satisfaction and service levels. We have worked incredibly hard to keep our proportion of the gas bill as low as possible, while navigating the challenges faced across the communities we serve. We have moved into a leading position across several key performance areas. This has been supported by our leadership teams, Board, and investors, encouraging continual investment into many important areas of the business. I would particularly like to thank our investors for the support they have given us to reinvest their money to secure the business for the long term and give us a very solid foundation well into the future.

We are pleased to lead the way by performing with pride and purpose to go above and beyond to deliver on our operational performance and social impact commitments. As we move towards 2026, the end of our RIIO-2 regulatory period, our focus is on continuing to build on our solid foundations and we remain committed to our transformative plans for RIIO-3.

This year, I would like to recognise our new North West Network Director, Paula Steer, who joined us in September 2023. Paula joins following a number of operational roles in the regulated water sector, leading transformational change, building new capabilities and improving the overall health, safety and wellbeing culture.

Named in the 2022 Northern Power Women "Power List", Paula is an advocate for gender equality, and has made a significant contribution during her career to make a difference within the communities she has worked within.

Strong performance

We have seen great improvements in driving innovation and efficiencies and doing the simple things well, but we know there is more to do.

With our mains replacement programme, to upgrade old iron mains with plastic, longer lasting pipes, we have replaced over 1,748km in 2023/24. Renewing 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.

The introduction of our new leakage detection technologies has already made a positive impact to our already very small leakage levels, and we have solid plans to expand this programme to maximise impact.

We have yet again experienced significant improvement in our overall customer satisfaction scores for emergency response and repair, resulting in achieving the maximum incentive position in three of our four networks.

For Connections, two of our regulatory networks top the Ofgem league tables for satisfaction, and we have seen best in class performance and delivery for our customers in this area.

With a large investment into our network resilience, I am pleased with the work to improve our incident management processes and these programmes have led to significant efficiencies, and we are driving further enhancements over the coming year.

We have also implemented extensive changes to our data and digitalisation strategy, and I am pleased to see work taking place to make a difference in our cyber security and IT systems. Our new ways of working are progressive in our sector, with our in-house technical capabilities improving year-on-year to make it easier for our colleagues.

Our culture

We lead the way with our ED&I employee community groups and I am humbled by the work they are doing to make a positive impact to our colleagues. Our seven groups all work to a common goal to inspire, educate, and celebrate our similarities and differences. This is driving real evolution across the business and is leading industry standards across several policy areas and positive changes more generally.

Our communities provide everyone with a voice, to make action-led change and a real difference to what it is like to work here. Our Executive team has been actively engaging with the communities throughout the year and I have been impressed by the passion and dedication everyone has shown to add value to our culture and make a difference, not only at work but at home too, delivering a heartwarming impact on the wider Cadent family.

We have reviewed our family policies and increased maternity, adoption, and paternity provisions. We have also been recognised by our regulator, Ofgem, for the inspiring work we do to make Cadent better and fairer, such as the launch of our Anti-Racism Working Group and received accreditations including Menopause Friendly and Fertility Friendly.

We are working more flexibly than ever by changing the way we do things, and it is paying off for our colleagues and communities. The Executive team and I are focused on challenging the status quo and working hard to break the mould of the traditional utilities sector. We have our own ED&I action plan that supports our purpose and strategic direction and I'm excited for the next stage of our journey, building on this progress over the coming year.

Positive action

It has been great to see the launch of our 200th Centre for Warmth, as we saw, first-hand, the rapid need for this support across our communities living in vulnerable situations. The project has picked up pace over the year, to identify and partner with local charities in areas of high deprivation and fuel poverty and the work the centres are doing, is beyond anything we could have imagined.

I would also like to reiterate the comments from our Chair about the work of the Cadent Foundation and its progress in tackling fuel poverty in our communities. Its re-focused vision and clear strategic direction have been good to see, with the impressive impact and new partnerships made this year. The launch of the Community Fund has also been fantastic. I am looking forward to working with our colleagues to bring new charities into our Cadent family with some local fundraising opportunities in the future. I would like to personally thank all our colleagues who have raised money for our corporate charity partner Emmaus and supported with thousands of hours of volunteering. We have worked closely with Emmaus since 2022 to provide fundraising and volunteering support for homelessness across the UK.

As we move towards our RIIO-3 Business Plan we are collaborating closely with our new Customer Challenge Group (CCG), established in November 2023. I would like to thank the Group for the work it is doing to keep us on track with priorities and to make sure we are held accountable for our actions.

Leading the way on sustainability

We have made great progress against our Environmental Action Plan; we understand the impact that our operations and activities have on the environment and climate. We have also taken important steps, so our operational teams have improved spaces to work, enabling stronger collaboration opportunities in a better environment by continuing our investment into property.

I am also pleased to say that over 93 per cent of our Cadent fleet is now zero emission – either electric or hybrid. We are working on reducing our use of resources, improving our waste management (less than three per cent of our waste went to landfill), and enhancing plans that maintain and restore biodiversity in the areas where we operate.

We are proud to be awarded 'Sector leader' status from GRESB for our ESG Environmental, Social and Governance (ESG) performance. We scored 100/100, in an international ESG league table which demonstrates our drive and ambitions to reduce methane emissions by more than the UK's 30 per cent target by 2030.

We are looking forward to another busy but exciting year, progressing our plans across environmental and sustainability projects. To successfully achieve these, we are focused on what this means for our operations, technologies, communities, and colleagues to help drive industry-leading environmental performance and benefits for today and to sustain our future.

Chief Executive's review continued

Future energy networks

We are continuing to work closely with Government, industry, and communities to establish great progress in our hydrogen trials across the UK and pleased to see these going well, particularly around making positive steps with helping to decarbonise industrial and transportation use. We learned lessons on the domestic heating trials and testing at Whitby, Ellesmere Port and we would like to thank the community and partners who worked closely with us during the trial and for all the feedback shared with us.

Our regional hydrogen programmes (HyNet, East Coast Hydrogen, Capital Hydrogen, East Midlands Hydrogen and Hydrogen Valley) are focused on decarbonising industry, facilitating the development of hydrogen production to enable heavy industry, gas-fired power generation and heavy transport sites to transition away from natural gas and other fossil fuels, with the initial stages of these programmes supported by funding from Ofgem in RIIO-2; securing the country's industrial future for years to come.

We know there is no single solution to how we fuel our greener society, and we will need a range of energy options. Our growing biomethane connections are a key part of our strategy to evolve decarbonisation across our network, there are many sources of waste, intended for landfill. However, this waste can be reused to make biomethane to provide heat for homes and businesses. So far, our network is connected to 44 biomethane production sites and we are looking to increase these to support the UK's net zero targets. We want to give consumers choice in how they power and heat their homes and that is the foundation on which we build our future. One of choice.

Our future

As we look ahead to our future and the end of our regulatory RIIO-2 period in 2026, I reflect on a year where we have made great improvements in our performance and thank all our teams and colleagues who have worked tirelessly to deliver on our ambitious commitments. However, we also recognise that we don't always get it right first time. When this happens, we strive to act quickly to deal with issues or challenges upfront, always doing the right thing and reflecting our core values. With continued investment, dedication and hard work, we are honoured to be the trusted custodians of the largest gas distribution network in the UK. We take the moments to celebrate our successes but learn lessons for future improvement and we don't stand still. Our objective is to stretch ourselves and lead the sector operationally and into a new future with consumers at the heart of that future.

With exciting plans for the future and investment into RIIO-3, our sights are firmly set on the year ahead. As our sector continues navigating the next phase of its journey in support of decarbonisation, we will continue developing our operations and technologies even further to ensure we maintain industry leading performance, driving customer expectations by going beyond to make a real difference to our communities, all while continuing to attract and retain the very best talent.

Steve Fraser
Chief Executive Officer

18 June 2024

Financial review

> The Group has delivered another year of strong financial performance and is making significantly increased investment in our network, our people, our communities and in the future of gas.

Anthony Bickerstaff
Chief Financial Officer

Overview

During the year the Group delivered £893 million of operating profit (2023: £945 million) on revenues of £2,277 million (2023: £2,340 million), generating £1,268 million of operating cash flow (2023: £1,397 million), and invested £945 million (2023: £857 million) to ensure the continued resilience of our network.

Operating profit was lower compared to 2023 driven by lower revenue, as expected, in accordance with the regulatory mechanism. These reductions were partially offset by a reduction in operating costs, in particular pass-through costs, the result of lower wholesale gas prices and reduced charges for our connections to the National Transmission System.

We continue to invest in a resilient network for our customers as part of an overall commitment to invest more than £4 billion over the Regulatory period to 2026. This year we have increased our investment to £945 million (2023: £857 million). 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 reliably and 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.

Whilst gas price volatility and the associated impact on gas demand continues to be a factor in the industry 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. Equally, our exposure to customer credit losses is largely mitigated under the protections given by the Uniform Network Code (the industry governance contract) and we continue to closely monitor compliance with the code to limit any potential future credit losses. During the year the level of credit losses was nil.

Ofgem's Sector Specific Methodology Consultation (SSMC) published on 13 December 2023, sets out initial thoughts on the regulatory framework to apply for RIIO-3 and we responded on 6 March 2024. Our response continues to champion a whole systems approach to decarbonisation, emphasising the potential role of hydrogen as a low carbon alternative to natural gas and signalling the continued need to invest in the gas networks into the medium term and in particular a recognition that the Iron Mains Replacement Programme will need to continue in its current form.

We remain committed to supporting communities and customers in vulnerable situations and donated £4.8 million to the Cadent Foundation in 2023/24 bringing the total donated to £28 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.

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, that fund our capital investment programmes. Capital investment was £945 million (2023: £857 million) and is primarily associated with the ongoing gas mains replacement programme which saw 1,748km of mostly cast-iron pipes replaced by polyethylene pipe during the year as planned.

Financial review continued

Operating financial performance

Revenue was £2,277 million (2023: £2,340 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 2024 decreased as a result of the reversal of recoveries in prior years associated with actual inflation being lower than our pricing estimates and fluctuations in our pass-through costs.

Operating costs largely comprise charges associated with our usage of the National Gas Transmission System (NTS), business rates and employment costs of our direct workforce. Gas price changes during the year resulted in decreased shrinkage costs of £29 million (2023: £62 million) and NTS capacity charges of £132 million (2023: £161 million) also reduced compared with prior year. The Ofgem mandated pricing formula ensures we are reimbursed/deducted for variations in these pass-through costs in a future period.

In managing the business, we use alternative performance measures (APM) including Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation and Adjusting 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 but 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 for the year, which is presented in the Consolidated income statement and reconciled below:

Adjusted EBITDA Reconciliation (APM)

	Reference*	2024 £m	2023 £m
Profit for the year		**516**	580
Add:			
Tax		**174**	160
Net finance costs	Note 9	**203**	205
Total operating profit	Page 116	**893**	945
Add:			
Depreciation and amortisation	Note 5	**462**	423
Adjusting items within operating costs	Note 6	**34**	7
Alternative performance measure:			
Adjusted EBITDA		**1,389**	1,375

* Reference refers to Notes to the consolidated financial statements on pages 117 to 165.

Adjusted EBITDA has increased by £14 million mainly driven by lower pass-through costs.

Adjusting items

Results are presented on a statutory and adjusted basis. The alternative performance measure (APM) 'adjusted profit' represents a change in terminology from the prior year which separately disclosed certain items to show an 'exceptional' profit measure. The change in terminology has been adopted to reduce any subjective interpretation of the meaning 'exceptional' profit by users of the Financial Statements.

Included within total operating profit of £893 million (2023: £945 million) are adjusting items of £34 million (2023: £7 million). The Group is undergoing a transformation programme to increase the efficiency of our operations by restructuring the business. During the period the Group have recognised £10 million in adjusting items in relation to our Operational Efficiency programme which responds to the efficiency challenge set to us by the regulator, Ofgem, as part of the price control determination. On the 12th June 2024, the Group launched the next phase of our Operational Efficiency Programme.

These activities are infrequent and adjusting in nature, and are financially material over the course of the multi-year exercise. Also included is £24 million related to the closure of the Defined benefit pension scheme to future accrual.

Included within finance income are adjusting items of £27 million (2023: £158 million) in relation to net gains on derivative financial instruments. This is due to changes in the mark-to-market values of index- linked swaps (RPI & CPI), which are not hedge accounted and have been impacted by the increase in the interest rate curve in the period, reducing the net present value of the future index linked cashflows, as well as a combination of changes in market forecasts of RPI and CPI.

Cash flow and net debt

Borrowings (both current and non-current) at 31 March 2024 were £7,985 million (2023: £7,623 million) mainly comprising of fixed rate and index-linked debt.

Our net debt at 31 March 2024 was £7,816 million (2023: £7,390 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)

	2024 £m	2023 £m
Statutory results:		
Borrowings	**7,985**	7,623
Cash and financial investments	**(598)**	(544)
Derivatives	**309**	213
Lease liabilities	**120**	98
Alternative performance measure:		
Net debt	**7,816**	7,390

Cash and financial investments include restricted cash of £9m (2023: £17m).

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 very 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 2023/24 was £1,268 million, £129 million lower than in 2022/23, primarily due to lower operating profit resulting from a decrease in revenue and adverse movements in working capital.

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 £984 million (2023: £1,286 million) of which £965 million (2023: £850 million) is due to spend on the purchase of property, plant and equipment and intangible assets and £42 million was invested in financial investments having raised new debt in the year (see below) (2023: £443 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. During the year, we have managed the maturity profile of our debt by refinancing some of our debt ahead of when it falls due, prepaying £406 million of existing bank loans ahead of contractual maturity and reducing the €750 million public bond maturing in September 2024 by €303 million through a tender offer process. Taken together, these activities have reduced the refinancing due by the end of calendar year 2024 from £1.3 billion to £0.6 billion.

We have also successfully secured new funding of £0.9 billion in the year, in three significant transactions, two bond issuances of €500 million (£432.2 million) and £315 million, both utilising the Green Finance Framework published in March 2023, and a term bank loan for £150 million. This financing demonstrates Cadent's continued ability to have access to a diverse range of debt markets to support the financing of the business.

Net finance costs

Net finance costs of £203 million (2023: £205 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 interest rates and inflation in the year on our derivatives.

As regulated revenues and Regulated Asset Value ('RAV') are index-linked to the Consumer Prices Index including owner occupiers' housing costs (CPIH), this offers some protection against increasing inflation over the medium term. In addition, inflation linked liabilities act as a natural hedge against fluctuations in inflation rates. Along with the inflation linked debt that we hold, we have entered into CPI-linked swaps totalling £1 billion and RPI-linked swaps totalling £400 million, increasing the proportion of our debt book that is hedged to inflation and aligning our position more closely to the average exposure to inflation across our industry.

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.

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 2024, liquidity was provided by a combination of cash, money market funds, bank deposits and committed bank facilities. All amounts held in the Money Market Funds (£264 million) are redeemable on demand with same day settlement (subject to operational cut off times). Fixed term bank deposits totalled £300 million with maturities within 30 days of 31 March 2024 and accrued interest of £5 million. 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 parent company, Quadgas MidCo Limited. As at 31 March 2024 there were no drawings on any revolving facility.

Included within cash of £29 million at 31 March 2024 is an amount of £9 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.

Financial review continued

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 is an APM (see reconciliation to net debt below) expressed as a percentage of RAV and 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 £0.5 billion to £12.5 billion in the year, against which we have an adjusted net debt (consistent with the regulatory measure) of £7,508 million, being 60% of RAV (2023: 59%).

	2024 £m	2023 £m
Net debt	7,816	7,390
Derivatives	86	46
Unamortised debt fees	18	17
Unamortised fair value adjustments	(229)	(250)
Accrued interest	(65)	(46)
Lease liabilities	(118)	(95)
Adjusted net debt	7,508	7,062

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 will be 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 adjusting items and remeasurements, is 25.3% (2023: 20.7%). The increase in the effective rate is due to the increase in the statutory rate for corporation tax from 19% to 25% in the period. The effective tax rate is slightly higher than the main rate of corporation tax as a result of non-tax deductible expenditure.

The current tax charge for the period benefits from an additional £133 million of capital allowances associated with the 100% expensing introduced by the Chancellor in March 2023. This reduced the current tax charge and tax liabilities by £33 million.

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).

Following the business review carried out by HMRC in the prior year and subsequent engagement we continue to maintain our low risk rating.

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2024 was £329 million direct taxes (2023: £328 million) and £382 million indirect taxes (2023: £364 million).

Dividend

In making the decision to pay a dividend in the period, the Board considered:

- The cumulative performance and payments over recent years and a forward assessment into future years;
- Customers benefitting from value for money and high quality services;
- Supporting households through the shareholder funded Cadent Foundation;
- Enhancing the environment in which we operate;
- Employees being rewarded for their hard work; and
- Our investors earning a reasonable return on the equity they have invested in the business. This investment is critical for ensuring the efficient and economic operation of our network today and the investment requirements of the future.

We share outperformance with our customers through delivering efficiencies that result in lower bills; with our employees through responsible incentive-based bonuses; and with investors through sustainable dividends. We've been able to do this while delivering on our environmental targets, maintaining appropriate gearing and delivering strong financial resilience.

The Board also reviews the company's performance around employees, and executive pay. Executive pay disclosures are significantly enhanced relative to sector standards supported by a remuneration committee that target societal benefits such as performance on customer and sustainability measures alongside financial metrics. We also have transparent and low risk policies in relation to how we interact with the tax authorities.

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 2024. During the year, we paid dividends totalling £310 million (2023: £350 million).

Pensions

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

During the year the company completed a consultation on proposed changes to the DB scheme on whether the future accrual of benefits would continue. The consultation closed on 2 October 2023.

On 1 November 2023, communication was sent by Cadent Gas Limited to the members of its Cadent Gas Pension Scheme setting out the conclusion on the proposed changes to the scheme. The changes resulted in closure of the Scheme to future accrual as at 31 March 2024, together with transition payments to impacted members. There is an income statement charge of £24 million as a result of the change which is shown as an adjusting item given the one-off nature and materiality of this cost.

The decrease in the Scheme's asset values was largely driven by a significant movement in gilt markets, corporate bonds and diversified alternatives. These changes, among other factors, have contributed to the pension asset recognised on an IAS 19 basis at 31 March 2024 decreasing to £4,577 million, resulting in a decrease to the overall surplus of 52% to £350 million.

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

	2024 £m	2023 £m
Present value of defined benefit obligation	(4,227)	(4,195)
Fair value of scheme assets	4,577	4,924
Surplus in scheme	350	729
Key actuarial assumptions		
Discount rate – past service	4.80%	4.75%
Discount rate – future service	4.80%	4.65%
Rate of increase in salaries	2.25%	2.10%
RPI inflation – past service	3.25%	3.25%
RPI inflation – future service	3.10%	3.15%

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

The Group included an initial estimate of the impact of Guaranteed Minimum Pension (GMP) equalisation within its 31 March 2019 results with a revision at 31 March 2021 following the secondary ruling on GMP equalisation. The Trustees of the Scheme are currently in the initial stages of implementing GMP equalisation in the Scheme, with a methodology agreed. The Group have currently used the same allowance of 0.2% of liabilities for GMP equalisation, as initially used and this is included in the calculation of the Defined Benefit Obligation (DBO) at 31 March 2024.

Supplier payment practices

We remain committed to ensuring that we treat all our supply chain partners fairly and are 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 98.31% of SME invoices within 30 days and 99.86% of all invoices within 60 days.

Accounting policies

Our Group financial statements are prepared in accordance with UK adopted accounting standards and International Financial Reporting Standards as issued by the IASB and the company financial statements are prepared in accordance with UK General Accepted Accounting Practise including FRS 102.

Anthony Bickerstaff
Chief Financial Officer

18 June 2024

Going beyond to protect everyone

Proactive Leakage Detection

A new way of detecting and reducing emissions from our gas network.

There have been many changes and advances in technology for the gas industry over the years but there is one aspect that has not really changed at all and that is gas leak detection and a more proactive way to reduce emissions from our network.

Previously, we have relied on customers reporting gas escapes and we could only forecast where emissions might be escaping by modelling data from a small sample of our gas pipes. Our mains replacement programme is based on this data and it was felt there had to be a better solution and method to do this.

In 2019, we went out to the market and asked for new innovative ideas that could help us to reduce our emissions and help with proactive planning of our mains replacement programme too.

By 2020, Picarro and its sniffer cars were brought on board and with the additional funding from Transport for London (TfL), the technology was trialled over the year in North London's network. Using hydrogen fuelled cars, they drove around the streets of London and using the detection technology from Picarro in the cars, we were able to know exactly where emissions were occurring and precisely how significant these were.

The result of this innovative technology, is that we can identify gas escapes quicker, the location is more precise and a quick decision can be made whether we complete an emergency repair, intervention assurance or optimised mains replacement.

By using this technology our new approach has massively improved the accuracy of emissions reporting and we can shift to a proactive approach to managing our gas networks.

In 2023/24, we surveyed over 11,000km of our North London network and completed over 200 proactive repairs targeting emissions reductions. As a result of these and other interventions, we estimate that we achieved a 7% reduction in fugitive emissions from mains and services. We have four cars with the Picarro technology in them, working across our North London and now West Midlands network too.

The Health and Safety Executive (HSE) have also recognised the opportunity that modern leak detection technologies have to support safety and asset management as well as environment. They have worked closely with us whilst navigating the legislative issue it presents against the current Gas Safety Management Regulations. They have agreed to support us in identifying and implementing solutions as we move this forward.

Digital Platform for Leakage Analytics (DPLA)

The DPLA is a project to develop a leak detection system across our network.

The data from several gas detection technologies will feed into the platform to deliver a much-improved gas leakage reporting model. DPLA's mission is to reduce carbon emissions and improve safety in a cost-effective way.

The core functionality of the DPLA is data-driven leakage modelling, unlocking proactive leak detection capabilities, combined with testing the application of novel gas sensor technologies. This creates opportunities to reduce the reliance on and cost of in-field specialised sensors.

Operational and customer performance

Delivering a reliable, and affordable network for our customers

Leading the way with a strong operational performance

2023/24 is the third year of our RIIO-2 regulatory period and we have continued our operational evolution, focusing on our Operations 4.0 strategic transformation programme to get ourselves future ready to lead the transition to sustainable energy.

We have started to explore the potential of smart networks that utilise targeted asset investment and intelligent network monitoring. We have progressed significantly with new technologies to put us at the forefront of digital innovation. Various innovations have been trialled across our network and are proving very successful.

We are reaping the rewards of our embedded network operating model which gives clear local accountabilities to our teams. This has enhanced data, engagement, and insights, leading to a near real time response to customers and operations.

Winners at the IGEM Gas industry awards 2024!

In May 2024, we were delighted to win two industry awards:

Large company of the year

Project of the year – Centres for Warmth programme

We are incredibly proud to win these awards and were praised on several significant areas. The judges emphasised that we have been leading by example with a desire to be the best; across our leadership, innovative programmes, delivering improvements and demonstrating achievements against impressive targets. The judges were also impressed by our Centres for Warmth programme; delivering the most impressive range of positive improvements to significantly impact vulnerable individuals and communities. This programme shows what can be done. When we put those most vulnerable in our communities first, we can make a positive difference together.

Enhancing our emergency response and repair

Customers value a rapid response to gas emergencies, followed by quick repair to the network and remediation of excavation works to clear site. This period has been our most transformational, delivering the biggest step-change improvements to satisfaction scores in this area, resulting in achieving maximum incentive position in three of our four regulatory networks, and with North London just 0.03 behind the threshold, achieving 80% of maximum incentive which is a significant step up on previous years.

Our 2023/24 plans remained centred on learning from key consumer insights with a specific focus on reducing disruption from our works, notably on reducing the frequency and length of gas supply interruptions, and ensuring we complete reinstatement works efficiently and to a high standard. Critically, we have embedded a solid process in all networks to communicate with impacted customers after our works, ensuring they fully understand next steps after our attendance.

Working with our contract partners and enhancing our ways of working for reinstatement works has delivered significant improvements in our same day and next day (D+1) response for customers. This is reinforced through the quality of training and coaching provided to our delivery teams.

We have continued to reduce the average duration of gas supply interruptions across all networks. We have further streamlined our processes and continue to work closely with key stakeholders to minimise the disruption to our customers. This includes developing plans for all High Rise Buildings so that, should they experience any issues with their gas supply, we are prepared to respond as quickly as possible.

Our customer strategy teams, charity partners and the Cadent Foundation continue their focus in developing our services beyond the gas meter programme, to the benefit of supporting the journey for those most vulnerable. During the period, we have trained additional engineers to equip them with the required knowledge beyond the meter training and skills, further expanding the geographical coverage to support our offering in this area.

Emergency Response Times	Eastern %	North London %	North West %	West Midlands %
Controlled (2hr)	99.3	98.2	99.0	98.8
Uncontrolled (1hr)	98.9	98.3	98.8	98.4

Responding to gas emergencies	Total
Calls to emergency number (for the whole of the UK gas sector)	1,429,004
% calls answered in 30 seconds	94%
Reported gas escapes	328,781
Escapes related to Cadent's network	61,534
Escapes related to other matters (CO, boilers etc. – not all Cadent network related)	313,021

Customer satisfaction

	Emergency Response & Repair		Planned Works		Connections		Aggregate		
Performance by Network* scored out of ten	2022/23	**2023/24**	2022/23	**2023/24**	2022/23	**2023/24**	2022/23	**2023/24**	GDN Rank
Eastern; East Midlands and East of England	9.57	**9.67**	8.88	**9.05**	9.18	**9.27**	9.21	**9.33**	1
North London	9.39	**9.55**	8.60	**8.68**	9.15	**9.24**	9.27	**9.16**	8
North West	9.58	**9.67**	9.04	**8.91**	9.19	**9.16**	9.20	**9.25**	4
West Midlands	9.56	**9.63**	8.76	**8.85**	9.27	**9.08**	9.05	**9.19**	5

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

Shaping experiences within our communities

In 2023/24, we entered a third year operating under our Contract Management framework, which has been hugely successful in improving the customer service improvements in RIIO-2. This is the first year of the price control in which customer satisfaction performance has delivered a positive incentive outturn for three out of four of our regulatory networks, with Eastern achieving 82% of maximum incentive available.

Our wider customer strategy and delivery model continues to drive emphasis on network and local delivery partner accountability, which results in tailoring experiences to our local communities. Our Network Directors drive 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 is proactively shared through a collaborative best practice forum across our networks to promote innovative new ideas and ensure quick and consistent adoption across networks to the benefit of all communities.

Best in class connections services

We have seen significant benefits by bringing our connections services in house, aligning delivery and improved customer experience outcomes across the network.

Our Eastern network finished top of the Connections satisfaction league table, with three networks in the top half, followed closely by our West Midlands network coming in fifth. All of our networks finished in a positive incentive position; achieving 81% of the maximum available incentive in Connections, our best year to date. We have maintained focus on key customer touchpoints, low lead times for completion and continue to invest in simplifying our application processes. This means we're continuing to deliver best in class performance, within touching distance of maximum incentive in our leading network.

When things do go wrong, we know customers want issues resolving quickly, at the point of first contact and without unnecessary hassle. We are pleased to maintain already industry-leading levels of performance in our responsiveness, although we recognise that there is always more to learn from dissatisfaction with our service. Our network teams continue to demonstrate agility and responsiveness in resolving issues and putting measures in place to make positive improvements.

Within our central General Enquiries team, a number of improvements have been made to reduce the physical handoffs, to ensure a customer is speaking to the right person first time upon contact.

We have introduced an additional channel within our website for contact via video, allowing customers to show their issue without follow-on links or additional site visits. Further technology-enabled enhancements are planned for next year to drive improvements, reduce time and costs.

Complaints handling

	% closed in D1*		Complaint metric score**	
Complaints	2022/23	2023/24	2022/23	2023/24
Eastern	87.83	90.44	1.50	1.09
North London	89.44	92.07	1.20	1.03
North West	89.27	85.70	1.36	1.84
West Midlands	89.52	87.50	1.09	1.34

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

Improving collaboration for emergency call handling

The previous 2022/23 period had been the busiest year for emergency calls on record, driven by wider cost of living and energy cost challenges that have influenced UK customer behaviours. Whilst the backdrop of these challenges remains, we have delivered on improvements to the agility and responsiveness of our call handling capability. This has improved the regulatory outcome of 94% (up from 90%) of calls answered within 30 seconds.

A number of actions have supported the success of this year's emergency call handling standard, most notably our collaboration in bringing industry together for more effective signposting activity, including leading gas suppliers and our regulators Ofgem and the Health and Safety Executive. This engagement has helped to reduce misdirected calls and supplier related issues into the National Gas Emergency Service, reducing both customer frustration and overall call volume.

Delivering greater network resilience

In October 2023, Storm Babet led to widespread disruption across the UK. Our East Midlands network was the most greatly impacted with 58 gas escapes that could not be attended within standard response times, either as a direct result of the flooding or as a consequential impact on resourcing. We experienced significant wait times for customers due to flood waters however we maintained contact with customers to reinforce safety guidance and provide ongoing risk assessments of the situation.

Our Management Procedure for Extreme Weather Events – Flooding was used through the period of the incident, providing structure to our response. The Targeted Flood Warning Service we have on 80 sites (Offtakes, AGIs and District Governors) worked effectively, providing 52 alerts and 9 warnings. On reviewing the event, no major improvements have been identified but a further review of communications and our procedure documents will be completed to explore opportunities for improvement.

Operational and customer performance continued

Delivering a reliable, and affordable network for our customers

Investing in our assets

In December 2023, we saw the milestone completion of our Governor Improvement Programme in line with our commitments with the HSE. The programme has been the largest capital investment in the gas network outside of the Iron Mains Risk Reduction Programme, costing circa £70m. This involved surveying 9,296 district governors and carrying out a range of improvement works including vegetation management to full site rebuilds or relocations.

Eight of these sites have been deferred into 2024 due to limited land availability to facilitate site relocations. The HSE intend to visit a number of sites in Q4, and then again in approximately two years' time to check the effectiveness of the new maintenance arrangements.

Shaping the future for our health, safety and wellbeing

Following the implementation of our new incident management system in 2022, we have had over 50,000 reports from colleagues and contractors into the system, about hazards, near misses, effective safety discussions and incidents. We're in the process of developing the technology within the system to harness this information, seeking out weak signals and trends. Over 2023, we started the rollout of new cable detection technology which will improve our colleague's ability to detect cables before digging, reducing the risk of cable damage and injury.

Our new process safety dashboard, developed within Power BI, provides real time access to process safety related information, helping us move away from an intensive manual process. We have implemented a new piece of specialist software which will help us enhance analysis and documentation of our safety critical tasks and related processes.

We have seven Safety Improvement Groups targeting key risks, led by our senior management team. These groups include culture, process safety, cable avoidance, road safety, fatigue, hand arm vibration, 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.

We continue to maintain a good, professional working relationship with the HSE, who maintain regulatory oversight of our operations.

We've had an increased focus on wellbeing and improved the support available to our colleagues, such as mental health and bereavement support, access to gyms, physiotherapy and rehabilitation services. We have signed the mental health commitment and continue to raise awareness and end stigma through employee stories, mental health first aid and introduction of suicide prevention training.

Our in-house occupational health team provide support to colleagues to enable early intervention to reduce sickness absence and reduce work-related health risks. Work has been undertaken to improve the Occupational Health Service; referral rates have increased from an average of 90 cases per month (2022/23) to an average of 121 cases per month (2023/24). The increase in referral rate is due to a better understanding of the service and positive outcomes of our colleagues using the service.

Lost Time Inquiry Frequency Rate

0.51

Injuries per million hours worked compared to

0.54

in 2022/23

Leading the way in technology investment

We have been working to develop our data skills and scenario modelling of workloads to improve our operational decision making. This has resulted in better resource allocation and services to our customers, ensuring we meet our standards of service.

We have adopted innovative technology to improve the pinpointing of a customer's location, making it easier for us to get to remote sites quickly and respond to public calls for outside gas escapes.

We have removed a substantial amount of our technical inefficiencies, improved our security position, and unlocked new functionality for our Operational teams and Corporate Services. We will continue with our simplification programme and remove complexity from our core systems to speed up upgrades and the adoption of new features.

Our Agile transformation is now delivering more predictable outcomes and our in-house technical knowledge is delivering better quality outcomes and at lower costs. Our in-house development teams have made over 150 IT system changes in the last 12 months, providing incremental value to Operations, as well as making significant improvements to the multi-occupancy buildings management process and the management of our engineering documents.

We have also launched a new People Services solution through Success Factors, making many activities related to recruitment, 360 feedback and time tracking similar for our colleagues and managers.

We continue our focus on cyber security and achieved the baseline Cyber Assessment Framework standards as set out by Ofgem. Engagement continues with all stakeholders including our Board, Ofgem and the National Cyber Security Centre (NCSC) as well taking opportunities to learn from others.

> "We are focused on delivering great digital experiences for our colleagues and customers. Our investment focus seeks to provide solutions that contribute to net zero and sustainable ways of working."
>
> **Dr Kate Jones,**
> Chief Information Officer

Going beyond *for local communities*

Centres for Warmth

It is estimated that over three million households within our network are living in or close to fuel poverty. For many, there is help available, whether that be tips and advice on how to reduce their energy consumption, claiming additional benefits that they are entitled to or support with debt or other financial matters. A major challenge is connecting households with this support.

Our Centres for Warmth initiative utilises existing community centres that have built up a comprehensive understanding of the needs of their local communities and established trust within them. We use this expertise and network to reach thousands of households, providing energy efficiency and income maximisation support, tailored to their requirements. Typically, this involves funding additional resources, who speak the necessary languages and have the necessary skills to engage with very vulnerable individuals so they feel safe and able to receive the support that we can offer.

We now have over 200 Centres situated across some of the most deprived areas of the UK, with an aim to reach over 350 by 2026. Over the last 12-months, over 89,000 households have received free, energy and income consultations, plus direct, hands-on support to claim benefits, seek grants, consolidate debt and make their homes more energy efficient. The average household is over £2,500 better off following these consultations, meaning that we've helped put over £222m back in the pockets of some of the most vulnerable consumers we serve, from this one initiative alone.

Over the last 12-months

89,000

households have received free, energy and income consultations, plus direct, hands-on support to claim benefits, seek grants, consolidate debt and make their homes more energy efficient.

£2,500

The average household is over £2,500 better off following these consultations, meaning that we've helped put over £222m back in the pockets of some of the most vulnerable consumers we serve, from this one initiative alone.

Operational and customer performance continued

Making a positive impact

Being a force for good by fuelling a thriving world

Throughout the year we engage with hundreds of thousands of our gas consumers and we work with key stakeholders and strategic partners to ensure that we put in place high quality, two-way dialogue approaches with our colleagues.

When it comes to being a purposeful business, it starts with insight from all of these sources to support how we make decisions and where we prioritise our time and investments, which enables us to be industry thought leaders when it comes to matters such as sustainability and supporting those in vulnerable situations.

It is important that we are seen as a force for good, for our customers, colleagues and in the communities that we serve. We do this by focusing on three key outcomes: easier warmth, fairer opportunities and a greener society.

We are uniquely positioned to support those living in vulnerable situations. Like other gas distribution businesses, we directly engage with more consumers, often in their own homes than almost any other organisation across the country.

We've taken this natural opportunity to do good and amplify this by training all of our front-line colleagues to spot signs of vulnerability and empower them to make meaningful interventions. We've partnered with over 80 leading charities and expert organisations to develop and deliver our vulnerability strategy, ensuring it remains focused to deliver the greatest possible social impact. Recognising the scale of the challenges consumers in vulnerable situations find themselves in, especially with energy prices remaining high and the general cost of living continuing to impact so many, we are investing over £25m of our profits to support customer living in fuel poverty, via the Cadent Foundation.

Our dedicated and expert Customer Safeguarding team are now overseeing more than 100 separate initiatives that are raising awareness of the Priority Services Register, keeping communities safe from the potential dangers associated with gas (in particular carbon monoxide), helping them to afford to keep their homes warm and going beyond the meter to fund a range of in home interventions designed to increase energy efficiency and save consumers collectively over £300m on their bills.

2.3m

face to face conversations to raise awareness of the PSR – utilising our extensive network of colleagues and our **80+ strategic** delivery partners

Averaging at 9.49/10

for all Priority Services Register customer satisfaction this year

Over 38K

households referred for 'services beyond the meter' – e.g. appliance repairs / replacements, CO investigations, etc.

Over 51K

households supported with personalised welfare provision to ensure that they are not left vulnerable when temporarily off gas supply (e.g. usually during planned works or as a result of needing to do a repair following an emergency call). Most common items issued are food vouchers, alternative heating, blankets and alternative cooking (not gas) equipment

Over 17m

consumers have seen our energy efficiency campaigns.

Over 130K

households supported with 1-to-1 energy and income maximisation consultations through Centres for Warmth and other (in home) services. Average saving is **c.£2,500 = £325m back in people's pockets**

109K

free CO alarms distributed to households most at risk from the dangers of CO poisoning

116k

primary school students educated through Safety Seymour / CO Crew

c.£27m

Total spend on supporting those in vulnerable situations (RIIO-2).

£9m

On fuel poverty, we've spent around £15m to date – including Centres for Warmth saving consumers around £20 for every £1 we invest.

Operational and customer performance continued

Making a positive impact

YMCA

As part of its commitment to tackling fuel poverty and supporting the most vulnerable, we have given almost £300k to fund a new 'Safe and Well Communities Project', which aims to enhance YMCA's existing support for young people and families. The initiative will see Cadent training YMCA Housing Workers that support young people to provide practical advice on energy efficiency, financial management, and safety during the transition from YMCA-supported housing to independent living.

Denise Hatton, Chief Executive of YMCA England & Wales, said, "We are incredibly excited about this partnership with Cadent. By combining our expertise and resources, we have a unique opportunity to make a profound difference in the lives of those affected by the insecurity of relentlessly rising prices."

Philip Burrows, Head of Customer Vulnerability Social Programme Delivery at Cadent, added: "As a brand, YMCA remains one of the most trusted and iconic in the country, particularly within the younger demographic. Therefore, this new partnership will be an important part of our strategy in targeting important energy and financial awareness support where it is needed the most. Sadly, no one has escaped the impact of the past few years, but when it comes to people in vulnerable situations, they have been the ones to take the brunt – so any additional help must be carefully targeted and delivered to ensure it will have the maximum impact."

Through this unique collaboration, we will work hand in hand to address this challenge head-on, making a meaningful impact on the lives of those most affected. In addition, YMCA will conduct slow cooking workshops for more than 5,000 young people using slow cookers provided by Cadent. This initiative promotes healthy eating on a budget and will occur in youth centres and housing facilities – YMCA is the largest provider of supported housing, with more than 9,000 beds offered each night.

> "Young people are facing a significantly challenging financial landscape as they struggle through the cost-of-living crisis. With outgoings outpacing income, many are finding it increasingly difficult to achieve financial stability and plan for their future. Together with Cadent, we can empower individuals and build stronger, healthier communities."

Cadent Foundation

It's estimated that three million people across our network are currently struggling to heat their homes to an adequate temperature. With living costs staying high we understand that millions more households are balancing precariously on the brink. Research by Opinion Matters revealed that almost all (89%) UK adults with a household income of £29,500 or less are finding it challenging to cover their household bills. With statistics like this emphasising the level of need, the commitment of the Cadent Foundation, to help households find sustainable solutions to fuel poverty is more important than ever.

Listening, learning and growing has been a theme of the past 12 months. As funders, our ethos is clear and our approach is unique – by engaging closely with our charity partners and each programme, we gain an in depth understanding of the complex issues involved and crucial insights into exactly what we can do to make the greatest positive difference.

In 2023 we awarded more than £3.3million to support some incredible 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.

Over the past year, the feedback we've received from charities working on the ground paints a sombre picture of the realities for people trapped in fuel poverty across the UK. We have seen a surge in the number of people needing support, including previously stable low-income families who are finding themselves in financial hardship for the first time with few or no options for support available to them and are left with nowhere to turn. Understanding the depth of this impact, this year we launched our first Winter Support Fund with £2m available to our charitable partners to help alleviate some of the immediate challenges through fuel and food vouchers as well as winter essentials. Whilst we recognise this isn't a long-term solution, we know from listening to our partners that, in times of acute crisis, providing this type of immediate response is what gives people space and time to assess their options, and the confidence to move forward positively.

We've been privileged to work with some exceptional regional and national charities such as Groundwork, Citizens Advice and Trussell Trust to name a few. Our case studies demonstrate that when vulnerable households are able to access support, the benefits can be life changing. In addition, our new Impact Dashboard provides us with greater insight into how our projects are helping to tackle the causes of fuel poverty. The data visualisation tool allows us to see in real time where we're having the most impact and identify demographic groups and geographical locations that require further collaboration and support.

Recognising the enormity of the fuel poverty crisis, we understand that no single organisation can resolve it in isolation – the need is too great, as are the ripple effects that poverty in general creates. In October we took pride in bringing together leaders from the charity sector and members of the Fuel Poverty and Energy Efficiency APPG to explore ways we can foster cross-sector alliances and initiatives, improve services, speed up interventions, and provide holistic support.

While the road ahead remains challenging, we are determined to do more. We are committed to advocating for a collaborative, multi-agency approach, addressing gaps, sharing best practices, and driving meaningful change. We know that with dedicated investment, targeted support and strong partnerships, we can make a real difference.

Project highlight

Groundwork: Green Doctors

In 2020, we launched our partnership with Groundwork UK, funding its Green Doctor programme to provide vulnerable households with essential advice and energy-efficiency measures to tackle high energy bills and stay warm and well in their homes.

As demand for services soared, Groundwork's model of providing in home, one-to-one support has been a vital lifeline for many. Green Doctors are trained energy advisors with particular expertise in engaging vulnerable people at risk of fuel poverty and social isolation. They offer advice and guidance on how to increase energy efficiency within the home, facilitate sustainable behaviour change, and install energy-saving 'warm home' measures. This holistic offer of energy support results in reduced energy usage, more comfortable homes, and financial savings.

By working with local stakeholders, Green Doctors are able to facilitate wrap-around support to vulnerable households, and make onward referrals for specialist assistance with benefits, debt, home safety, and food poverty. This in depth, tailored approach is instrumental in tackling the causes of fuel poverty and helping the most vulnerable within our communities.

Our funding has so far helped to support more than 10,000 households; expanded and boosted the Green Doctor service in 29 of the most deprived areas across our network; installed almost 60,000 energy saving measures, delivered over £1.2m of annual cost savings to residents and distributed 14,000 winter packs for those in crisis.

But we're not done there. At the start of 2024 we announced a new, three-year partnership with Groundwork. Our £6 million grant will continue to fund and expand the Green Doctor programme, increase the resilience and diversity of the charity with a new training and recruitment academy, as well as pioneer innovative new ways of supporting people struggling to stay warm and well in their homes.

Our colleagues

We have continued to review and evolve our organisation design and operating model to ensure that we are able to achieve our RIIO-2 commitments and are fit for the future, looking towards RIIO-3 our next regulatory period. This ensures we have the right people in the right place within our direct workforce and working closely with our supply partners to deliver for our customers and stakeholders.

Attracting new talent

2023 saw the launch of our new Future Talent approach, focused on removing traditional barriers to joining for our entry level and development programmes. Our intention is to increase our applications for our schemes and drive a high quality of talent and increase diversity. This proved successful, with our application numbers improving substantially:

Year	Total applications	BAME	Has Disability	Over 30
2022	1706	22%	1.59%	4.68%
2023	**10369**	**31%**	**4%**	**22%**

Operational and customer performance continued

Making a positive impact

This initiative received a Bronze award at the IHR (In-House Recruitment) 2023 awards in the Early Careers Initiative category.

We have launched several initiatives across our talent acquisition processes to drive our commitment to recruit colleagues who represent the communities we serve:

- We have continued to increase our focus on job advertising platforms and across career social channels to encompass a broader range of positions and stories within our organisation to appeal to a wider proportion of job seekers.
- We have introduced an objective shortlisting matrix for use by our hiring managers when shortlisting CVs to reduce bias and challenge our decision-making process.
- We have also rolled out interviewing guidance for hiring managers, including key pointers for awareness, challenging unconscious bias and ensuring there are diverse interview panels.

Investment into our future talent continues with a 96% utilisation rate of the Apprenticeship Levy and with no lost funds from the levy allocation. This has allowed us to utilise funding on a broader range of study paths from apprenticeships through to degree levels, with the levy being utilised for three degrees on our 2023 intake.

The renewal of our IMechE and IGem accreditation enables our Future Engineering programme to run as an accredited pathway to Engtech registration or Chartership to IEng or CEng.

Our new Future Field Force programme has been breaking down barriers with the decision to remove entry level criteria, this has seen a rise in applications and a more inclusive entry point. Functional skills training is included in the programme to support learners to achieve Level 2 in both English and Mathematics, a pre-requiste to complete the apprenticeship.

In 2023, we introduced a welding apprenticeship as a new stream and also a Metrology apprenticeship.

In 2023/24, we also introduced a level 7 pathway for finance graduates over three years, leading to ACCA qualification.

Following our successful Ofsted inspection in late 2022, where we achieved a GOOD rating, we have implemented a new and robust Governance, Assurance and Quality framework as part of our continuous improvement.

Skills development

Technical training

We operate four education centres, strategically located to maximise our impact across our footprint. These centres serve as hubs for education, training, and assessments, providing an essential platform for the development of skills and knowledge. Our education centres boast a remarkable capability, collectively educating, training, and assessing up to 130 colleagues each day. This empowers our people with the skills and knowledge needed to excel in their respective roles through a robust Training and Planning partnership.

Business and leadership

We have launched a leadership framework that utilises our Learning and Development teams and partners to offer support that is inclusive of all manager grades.

In 2023, we concluded the Management Effectiveness Programme pilot and launched the programme in earnest. To date over 500 of our Leaders and Managers across all functions have attended various development modules and programmes, with an average Net Promoter score of +57. We have also provided 30 days of Team Development facilitation to support Senior Leaders in embedding their delivery vision with their functional leaders. This is a significant step forward in supporting our colleagues on their leadership journey, giving them the tools, skills, and knowledge for a successful career.

Future skills

We are well-poised for the future with the first hydrogen train-the-trainer programme for Learning and Development trainers and assessors, scheduled for July 2024. Our detailed programme is tailored to ensure readiness to support upcoming industrial hydrogen projects, and the first phase of HyNet (2026-27). We are actively collaborating with the hydrogen engineering team to stay abreast of the latest procedures and outputs from industry technical evidence projects.

External partnerships

Our external partnerships play an important role in delivering an impact to communities:

- We have continued our relationship with the Careers and Enterprise Company on a national basis and chair the Leicestershire employer forum.
- We continue to work with college partners, including Trafford and Barnet Colleges, which has resulted in the establishment of bespoke training facilities to train over 100 supply chain repair engineers to date.
- Supported by our Men's Engagement Network, we also hosted a group of adult refugees who had an opportunity for a business discussion and a site tour where they learned more about our work.

Working with industry

We have contributed towards Green Skills round table events to share how we are forecasting requirements for Green Skills and how we intend to meet these requirements through various mechanisms such as our Future Talent approach, sharing best practice and enhancing our diversity.

We continue to actively participate in various working groups and boards within Energy & Utility Skills (EU Skills). This allows us to have an industry voice and to shape the future of the skills agenda.

We're represented across various other groups, including the Apprenticeship and Technical Education Advisory Group, which 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. This includes in areas such as hydrogen, understanding the benefits of its potential contribution towards future proofing the UK's energy sector.

Improving experiences

To enhance great experiences for our colleagues and people managers, we have consolidated our internal systems into one platform, SuccessFactors. This enables self-service through a single platform for all people related services. This approach improves data capture and talent management with greater insights and development opportunities.

Rewarding achievements

We held our first ever Heroes awards, which is an annual celebration of those who have gone above and beyond for customers and colleagues. We received 80 highly competitive nominations, where awards were given to the top three submissions in each of the six categories. The event was a great success, and we are looking forward to the next round of Heroes for 2024.

Equality, Diversity and Inclusion

We pride ourselves on being a fair, respectful and inclusive place to work, where all our people feel they belong.

We have a number of well-established employee communities covering gender, ethnicity and religion, disability, the LGBTQ community and military. Our new Men's Engagement Network has also been established focusing on important issues impacting men's physical and mental health; along with the Grief Awareness group; supporting colleagues dealing with grief.

Alongside our communities, we also run three priority working groups focusing on inclusive leadership, anti-racism and fair and inclusive processes. These include members from across our business and community groups to make sure that action plans benefit all of our colleagues. Our working groups have supported process owners to make their processes more equitable and inclusive, reviewed our leadership development training offerings, and provided many educational resources such as how to be an anti-racist ally.

These three priority areas are guided by the strategy governed by our ED&I Steering Group. This group comprises senior leadership from various backgrounds and business areas to evaluate our strategic direction and vision for the future of our culture.

We have an embedded culture of continuous improvement regarding inclusion, and this year have updated our onboarding for new colleagues to make them aware of our employee communities, implemented a Trans Equity Standard, and made significant enhancements to family provisions; updating our policies and increasing our maternity provision up to 12 months full pay.

We celebrated our third annual ED&I event, 'The Big Meet'. This is an opportunity for our key volunteers to come together and recognise our successes, celebrate how much progress which have made that year, reflect on their personal impact and to be energised for the year ahead.

Celebrating successes

We're proud to be:

Armed Forces Covenant Employers Recognition Scheme Gold Award
Disability Confident Leader
Lexxic Neurodiversity Smart Committed
Menopause Friendly and Fertility Friendly employer
Bronze Race Equality Trailblazer

- We were honoured to sponsor the Outstanding Employer category at the Ethnicity Awards, affirming our dedication to being an anti-racist organisation. We are also proud that our Director of Regulatory Strategy, Richard Court, was also shortlisted in the Champion (ally) category at the awards.
- Our Women in Cadent community was also shortlisted for the Outstanding Women's Network category at the British Diversity Awards.
- We were also shortlisted in the Menopause Friendly Employer of the Year category at the Menopause Awards.

Our pay gap

We are pleased to share that our mean ethnicity pay gap, alongside the mean and median Gender pay gaps have reduced, which is reflective of senior roles and the majority workforce. By continuing to show commitment to ethnicity and gender parity, we are confident that we will continue to reduce these gaps. You can read about our ethnicity and gender pay gap here: https://documents.cadentgas.com/view/558055311/

Always doing the right thing

In April 2024, we hosted the first Strategy Day for Utilities Against Slavery (UAS), a part of the Slave Free Alliance (SFA) a forum for electricity, water, and gas providers to collaborate on preventing and addressing modern slavery and labour exploitation. It has over 20 members employing over 100,000 people, with the purpose of reflecting on the near 50 million people in slavery globally, raising awareness of modern slavery and how it can happen, and empowering people and organisations to play their role in mitigating this.

It is incumbent upon us, to stand in solidarity with all those affected by the historical and on-going injustice, and we are committed to combating modern slavery. As part of our ethical and social responsibility, we take proactive measures to prevent, detect and address any instances of modern slavery within our operations and supply chain.

We will continue to collaborate with industry partners to identify, address and drive collective action against slavery and exploitation in the UK utilities sector and its supply chains. As a group we are committed to:

- Jointly addressing the exploitation of workers in our supply chains and in the broader community.
- Sharing knowledge, expertise and best practice to the benefit of all members.
- Collaborating to produce a coordinated and consistent sector response to the risks of modern slavery.

Going beyond to protect our planet

Celebrating recognition from the Carbon Trust

The Carbon Trust's Route to Net Zero Standard is the only certification that recognises an organisation's progress on the journey to net zero and climate leadership. Achieving this certification is no small undertaking and follows a rigorous assessment and audit process against defined criteria, with the Carbon Trust assessing Cadent as 'working towards' the first tier of certification recognised as 'Taking Action'.

To meet the 'Taking Action' tier of certification, we demonstrated emission reductions and sound carbon management, scoring a positive result on the carbon management part of the assessment, across the Governance, Implementation, Measurement and Stakeholder Engagement processes and activities.

We also achieved an 11% reduction in carbon emissions over the three-year period of assessment. This certification is a public commitment to the delivery of our net zero ambitions – in addition to the audit itself – it also demonstrates a level of independent assurance of data standards, governance, policies, and targets.

We are already making significant progress in developing exciting new technology for leakage detection, such as a mobile detection fleet including vehicles, robots, and drones. Other network measurement tools are also being tested to replace the historical method of calculation of leakage with an accurate, real-time measurement-based system.

CARBON TRUST | ROUTE TO Net Zero STANDARD

Protecting our planet

Going beyond to make a difference to a greener society

Gas will remain the prominent source of home heating for decades to come and we're continually striving to find greener ways to operate our business.

We completed a series of thought leadership research programmes exploring the connection between rising costs of living and customers' attitudes towards sustainability and subsequent behaviours. The Sustainable Energy Diaries series is published on our website and clearly demonstrates that whilst customers (the general public) have embedded micro-habits to reduce their impact on the environment, these are way off what is necessary for the UK to achieve its net zero ambitions by 2050.

Indeed we heard loud and clear from consumers, and a number of leading sustainability experts that there is a societal expectation that companies, such as ourselves are leading the way, taking action now to help consumers to be more sustainable.

Whilst the Government's climate change ambitions and pledge is to achieve net zero before 2050, we are committed to trying to assist the achievement of this milestone sooner by upgrading our pipe network, helping to restore the UK's natural habitats through colleague volunteering, and finding ways to capture methane before it enters the Earth's atmosphere.

Waste management is a key priority, and we are reducing all single-use plastic and making it even easier for our colleagues and partners to recycle, cutting the percentage of operational waste that goes into landfill.

We are passionate about preserving the natural environment, working towards an external benchmark by improving biodiversity at our sites and working with local communities to support nature regeneration in areas impacted by our construction work.

We've made great progress against our greener society ambitions, and protecting the planet is something that we're firmly committed to.

The basis of our environmental focus is documented within our Environmental Action Plan, which is made up of 30 actions under the following headings:

- Decarbonising our business operations (11 actions)
- Reducing our environmental impact (5 actions)
- Facilitating the low-emissions energy system transition (14 actions)

As we deliver against these actions, we've also worked on developing other areas of the business, this includes our regional hydrogen development programmes and working closely with supply chain partners.

Our ongoing work to demonstrate hydrogen at scale is discussed in more detail on page 34.

93%

of our fleet are now sustainable vehicles (48% EV, 45% Hybrid)

Less than

2%

of our waste went to landfill last year

100%

renewable energy has been procured across the business

44

biomethane plants now connected to our network

Reduced emissions by more than

7%

(excluding shrinkage)

Leading the sector across

3

global ESG benchmarks, including 'top rated' status from Sustainalytics

Setting the highest standards

By completing benchmark assessments, we gain an understanding of how we are performing relative to others, and how we are likely to be perceived externally, helping us to develop appropriate action plans to drive improvements.

We were assessed against three leading Environmental, Social and Governance (ESG) benchmarks, (Global Real Estate Sustainability Benchmark (GRESB), Sustainalytics, and Morgan Stanley Capital International (MSCI), with very positive results, reflecting our commitment to ESG and creating a positive social impact.

By continuing to report and review different types of ESG benchmarking, we are demonstrating our drive for environmental improvements and the external recognition of our sustainability credentials. We continue to operate an Environmental Management System (EMS), certified to ISO 14001:2015 and conduct annual internal and external audits against the standard to maintain compliance and continually improve our procedures and system.

ESG 2024 INDUSTRY TOP RATED

GRESB INFRASTRUCTURE sector leader 2023

MSCI ESG RATINGS AAA

The Sustainable Development Goals

The 17 UN SDGs show us what a sustainable future looks like. They provide a framework for businesses to work together with the Government and other partners to tackle climate change and figure inequality on a global scale. We continuously review the UN Global Goals and ensure that we identify where we can make the biggest contribution.

The Support the Goals rating assesses our external statements in supporting any of the goals listed against meeting up to five defined criteria. We maintained our five-star rating in defining our priority goals, declaring measurable targets, sharing how we are taking action to support the goals, sharing performance data, and educating our suppliers about the goals.

Our overarching goal is to reduce our greenhouse gas emissions to net zero in line with the UK Government's ambition by 2050. To monitor and reduce our emissions, we measure our Business Carbon Footprint in line with the Greenhouse Gas Protocol. Until the Science Based Targets Initiative (SBTi) publishes its methodology for the oil and gas sector, our current net zero emission reduction targets cannot be verified. However, we have developed our Scope 1 and 2 emission reduction pathway necessary to meet the Paris Agreement of limiting global warming by 1.5 degrees Celsius. Our market-based Scope 2 (electricity that is procured for office and building use through contracts) is based on REGO certified renewable electricity from our suppliers.

For more information see pages 50 to 63.

Protecting our planet continued

Going beyond to make a difference to the future of energy

Energy policy context

The Government made new announcements on Energy Security on the 30 March 2023, which doubled the hydrogen production target for the UK by 2030 from 5 to 10 GW, thus enabling more hydrogen production projects to be developed.

The Energy Bill was approved into law, which included important policies to support both carbon capture and storage and a hydrogen production subsidy. In December, the Government made a series of announcements, which included approvals for the first green hydrogen production projects and setting out the business model to enable hydrogen pipeline projects, like HyNet, to be funded.

The Government has also confirmed its support for blending hydrogen into the gas network, to enable hydrogen production at scale. This outcome is a direct result of the key enabling projects under our HyDeploy programme, that has looked specifically at the safety and technical potential for blending hydrogen.

Industrial decarbonisation with hydrogen

Our hydrogen regional development programme has made huge progress this year, with hydrogen for industry and power generation being clearly supported by the UK Government. The purpose of this programme is to establish where the first hydrogen production, hydrogen storage and industrial demand will be and how we can facilitate in connecting these with necessary pipeline infrastructure. The regional programme has established a series of projects that helps us to engage with stakeholders. This programme is largely funded through an Ofgem allowance and consists of the regional projects called HyNet, East Coast Hydrogen, Capital Hydrogen, East Midlands Hydrogen and Hydrogen Valley.

HyNet in the North West, continues to be the UK's flagship industrial decarbonisation project incorporating the full value chain of the future hydrogen economy. It includes hydrogen production, carbon capture and storage, hydrogen pipelines, hydrogen storage and the fuel switching of industry and power generation. The HyNet project is split into several phases and relies upon a series of supportive business models. Over the year the first hydrogen production plant has been supported, along with the CO_2 infrastructure. We will bid to deliver the HyNet hydrogen pipeline and hydrogen storage facilities into a competitive process in 2024. Throughout the year, we have continued to lead the development of the detailed design and consenting for the hydrogen pipeline.

Our other regional projects have progressed too. We launched the Hydrogen Valley feasibility study in March 2023, paving the way to establish where hydrogen infrastructure is needed in the West Midlands. We are also developing the technical feasibility for a pipeline in the Capital Hydrogen region, which explores how hydrogen demand in London is served. We have also made progress in completing the feasibility of the East Coast Hydrogen region, launching a hydrogen hub in the East Midlands, called 'East Midlands Hydrogen'. Many industries are now providing us with their future hydrogen demand forecasts. These include manufacturing companies, such as food, cars, bricks, pharmaceuticals, and steel, that all need hydrogen to enable the decarbonisation of their operations.

Hydrogen for heating

The programme that supports the necessary evidence to underpin the Government decision on the role of hydrogen for heating continues to be supported by ourselves and the other gas networks. The decision is expected to be made in 2026. The work to support the decision, consists of a series of research programmes that explore the economics and practicalities of the conversion of the gas networks to hydrogen. Unfortunately, the Government chose not to progress with the hydrogen village trials at either Ellesmere Port or in Redcar (Northern Gas Network's project) and will continue to collect the evidence instead from both the Fife trial, which is progressing (SGN project) and various European trials, along with the rest of the programme.

Despite the projects being stopped in the year, a huge amount of evidence was provided in the planning phases that will aid the Government with their decision on next steps. Indeed, the fact that there are now successful European trials to draw from, suggests that hydrogen for heat is also seen as an option across Europe and the wider programme continues to be supported by Government and includes technical and safety work that we are leading.

The Hydrogen Experience Centre that was built to support the village trial has been a visitor attraction in the region with 2,500 visitors since opening. The centre contained working hydrogen fires, cookers, hobs and boilers all running on 100% hydrogen. The centre has also served as a community hub and meeting space for charities and groups.

Engaging stakeholders with our ideas

Over the year, we have developed our understanding of the economics and value of the role of hydrogen in the energy transition, so that we can better engage with key stakeholders, including policy-makers and regulators. This includes key influential organisations including the Climate Change Committee and the National Infrastructure Commission.

Through this work we have published critical material solving some of the hot topics that are debated in relation to hydrogen and its role. This includes work completed by PWC on the value of hydrogen for heating to the UK economy, the role of hydrogen in providing a resilient energy system by Imperial College London, and our own analysis on the amount of renewable wind energy needed to make sufficient hydrogen to heat homes. These have been launched on our new 'Insights'* pages to be utilised and referenced by those wanting to keep informed.

Biomethane and our future

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 being discrete to the end consumer.

We have 44 anaerobic digestion plants injecting green gas into our network today. They supply 3.35TWh of energy heating the equivalent of 290,000 homes through renewable energy.

We expect the increase we have seen in biomethane entry connection enquiries to continue with the extension of the Green Gas Support Scheme (GGSS) until March 2028 and the Environmental Act 2021 mandating separate collection of household food waste.

To ensure we can facilitate the increase in demand, we are looking at innovative ways we can operate our network to displace natural gas with biomethane. One such way is through in grid compression to move gas back up the pressure tier, creating capacity for green gas injection at the chosen location. The first UK compressor within the gas distribution grid will be commissioned in the near future at a site in South Yorkshire, working with smart pressure control this will allow for the plants planned expansion. The expansion includes satellite sites which will be a first for Cadent, seeing biomethane arrive to site by tanker for injection along with the biomethane produced on location.

Substantial growth continues to be seen in the power generation sector, taking the total number of connected sites to 177. These sites can generate 2242 MW if they are all working at maximum capacity. Power generation provides the electricity market with instant backup ensuring demand spikes can be met.

We also have 13 Compressed Natural Gas (CNG) filling stations connected to our network, providing transport operators with the opportunity to decarbonise their fleet with biomethane that has been sourced from anaerobic digestion. CNG vehicles running on biomethane emit less than 80% CO_2 in comparison to a diesel equivalent vehicle. Due to the intended ban on diesel HGVs from 2040 we are anticipating a push from commercial markets to decarbonise their fleet.

Connections by type

Connection Type	East Anglia	East Midlands	North West	West Midlands	North London	Total	TWh
Bio	14	14	4	10	2	44	3.35
CNG	1	4	5	1	2	13	
Powergen	26	56	65	14	16	177	

Biomethane connections

RIIO Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
(actual)	1	10	22	28	29	32	35	36	39	42	44
TWh Actual	0.07	0.64	1.44	1.78	2.03	2.38	2.52	2.63	2.87	3.13	3.35

* Insights | Cadent (cadentgas.com)

Section 172 statement

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

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, People Director and Director of Health and Safety, which include regular review of customer satisfaction scores, to assist to strive for enhanced performance and safety focused campaigns. There is also engagement with the newly formed Customer Challenge Group to inform future thinking.
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, site visits and direct liaison with representatives of our ED&I communities.
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).
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 through VCMA projects 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 Dashboard, available at www.cadentgas.com).
Shippers	Generate the Company's revenue.	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.
Ofgem	Regulates the company's conduct under its Licence and approves its business plans under the regulatory framework and price control regime.	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. Cyber security focused Board session with Ofgem representatives.
Health and 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 Health and Safety on performance and improvement initiatives and feedback from interventions and liaison meetings. 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 Strategic and Regulation Team on engagement, with particular reference to the future role of gas in the journey to net zero.
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 Group 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.	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:

- Approved the 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 financing strategy for the financial year 2024/25
- Approved the Financial Plan 2024 and the Budget for the year to March 2025 including donation to Cadent Foundation
- Approved pay mandate for 2024 collectively bargained salary review
- Approved the 2024/25 Short Term Incentive Plan Measures and 2024 Long Term Incentive Plan Measures
- Approved payment of interim dividends to the sole shareholder of the company
- Approved the Network and Information Systems Annual Report for submission to Ofgem
- Approved ceasing build-up of benefits to the Cadent Gas Defined Benefit Pension Scheme and proposed transition arrangements
- Reviewed and approved our Principal Risks and the proposed Risk Appetite
- Approved the making of a compulsory purchase order

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 and provided input and guidance to the development of the RIIO-3 Business Plan submission. The Board considers that, in providing such oversight and guidance 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.

Cadent's net-zero strategy remains fundamental to the future shape and structure of the company. Recognising that gas will remain a core source of home heating for decades to come the Board and its Committees received reports on a wide range of proactive, practical steps Cadent is taking to decarbonise its business. This included review and endorsement of Cadent's Biomethane strategy, which reflects the substantial decarbonisation potential that biomethane has. The Board supported plans to optimise the number of connections to support Cadent's delivery of green gas, displacing methane and decarbonising its network.

Hydrogen strategy deliberations focused on industrial decarbonisation; hydrogen for heating and the evidence necessary to support this; and the policy landscape. To provide oversight and inform future decisions, the Board received updates on the significant and positive progress made in the development of Cadent's regional industrial hydrogen projects (HyNet, East Coast Hydrogen, Capital Hydrogen and Hydrogen Valley). With regard to hydrogen for heating, a detailed overview of the progress of safety evidence submissions for the heat policy decision and Cadent's role in completion of the national Quantitative Risk Assessment and National Hydrogen Safety Assessment were provided. A good deal of time during the year was spent on the policy and political landscape with a number of key reports and their effects debated and the impact of a general election and potential administrative change contemplated together with associated potential advocacy and influencing strategies.

Given the strategic importance of development of the RIIO-3 Business Plan, the Board introduced additional interim meetings to the regularly scheduled Board meetings to allow for dynamic updates and feedback to be provided. Through such additional sessions the Board engaged with the RIIO-3 Team regarding Cadent's responses to Ofgem's consultations on Inflation, Future System Networks Regulation and Sector Specific Methodology, all of which have long term impact on the future of the company and the sector, as well as providing input into the development of the Business Plan.

The Board approved two interim dividend payments to the sole-shareholder of the company. In reaching its decisions, the Board carefully considered factors that may be relevant to the timing and amount of any payment including customer and community commitments; regulatory performance for RIIO-2; macro economic indicators and financial performance; the regulatory environment; and the increased focus on financial resilience and ESG performance of other utilities. It also had regard to the level of distributions by other utilities (which were comparable); and that such payments were in line with budget and the company's dividend policy, compliance with the latter being important to maintain the confidence of our investors.

In considering and approving the Financial Plan 2024 the Board had regard to cost pressures, which continued despite the backdrop of reducing macro uncertainty relative to prior years, and the steps taken to mitigate these pressures whilst continuing to ensure funding to deliver for customers and communities served through the Force for Good Strategy and Cadent Foundation. The Board also satisfied itself that the plan delivers the funding and commitment necessary to secure regulatory output commitments, additional investment to ensure resilience in the network; and financial flexibility to withstand downside risks.

Having regard to the interests of the company's employees

The interests of Cadent employees are an integral part of the Board's decision making. Reflecting this, over the course of the year, the Board considered a number of employee related areas:

The Board reviewed and endorsed implementation of the company's people strategy to ensure it has in place highly skilled, inclusive and motivated teams, driving performance improvement through optimum organisational design, offering market leading reward and recognition with the aim of attracting and retaining diverse talent. Key to achieving this was continued investment in Cadent people through people manager training and leadership development behavioural change programmes whilst building the long-term skills and strategic workforce planning strategy. The approach was supported by the Board both for the benefit of employees and for the long term success of the company. The Board emphasised the need for strong employee engagement and the ability to measure and evaluate outcomes so as to gain assurance of the effectiveness of the strategy and inform future decision making.

Alongside the people strategy, the Board considered company culture. A key element of this was the company's ED&I ambitions and plans in place to achieve these. Reports on progress including recruitment process improvements; driving up representation through new best in class policies for the sector and accelerated learning were delivered to the Board, with gender and ethnicity pay reporting, presented to the Remuneration Committee. The Board extended its engagement in this area by introducing a standing agenda item to hear reports directly from representatives of the Cadent ED&I communities, whose activities are fundamental to achieving the cultural shift the company is aiming for.

Employee safety, health and wellbeing was a key priority for the Board. The embedding of the Safe+Well Framework was a recurring item at Safety Committee meetings being central to achieving the company's goals in this area. Through reports to the Board and the Safety Committee, safety related focus areas including Hand Arm Vibration Syndrome, Fatigue and the Safe Driving Improvement Plan were reviewed enabling the Board to satisfy itself that effective, proactive action was being taken. Further matters considered included the positive work undertaken by the Occupational Health Team and the roll out of a new line of personal protective equipment incorporating a number of enhancements, improving the safety and comfort of Cadent's field force workers.

Following statutory consultation over the Summer 2023 period, and taking into account the feedback received and the positive impacts to be derived (including removing disparity between the pensions benefits of a small percentage of Cadent employees and removing potential constraints for securing and protecting existing pension benefits for the majority of Cadent employees), the Board approved implementation of the proposal to cease future build-up of benefits to the Cadent Gas Pension Scheme: and the proposed transition arrangements for impacted members. This was successfully implemented at the end of March 2024 through individual member consent.

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

The Board's core considerations relating to customers this year covered a number of aspects:

At the heart of Cadent's business is delivering efficiently and brilliantly for customers. The Board received regular reports on customer satisfaction scores to monitor performance against customer focused regulatory outputs. The importance attached to such delivery is reflected in the Board's approval of the continuing inclusion of customer related measures in the annual incentive plan and the performance that aims to drive.

Ensuring customer safety and well-being is a significant area of focus. During the year the Safety Committee approved and endorsed a number of customer communication campaigns providing support and assistance during the winter period; and also reflected on emerging themes from incidents and associated actions required to raise public awareness around the need to call the national emergency number in response to a smell of gas. A Safety Performance Dashboard also assists the Safety Committee with the monitoring of safety performance for the benefit of customers more generally.

Within its customer related focus, the Board has careful regard to support provided to vulnerable customers and those living in fuel poverty. This included review and support of the strategy for utilisation of the additional VCMA funding allocations announced by Ofgem in June 2023 and plans to work with the Cadent Foundation to maximise the support provided and related social impact.

The Board also considered how best to maintain and improve representation of the customer voice in its decision making. The establishment of the Customer Challenge Group and a programme of structured engagement with the Board was a significant element of achieving this. It was also agreed that the externally facilitated Board Effectiveness review to be launched in Spring 2024 would cover this to ensure that an effective and well-rounded approach is maintained.

With regard to suppliers, the Board received a detailed overview of procurement strategy and progress, including the use of effective procurement strategies and ways of working to be a 'client of choice' to attract and retain great contractors. The Board also received updates on strong supplier payment performance and noted the opportunities presented by Operations 4.0 to engage with a wider supplier base outside of utilities to bring different ideas for tackling specific challenges. The Board supported the approaches outlined to building and managing business relationships with suppliers.

Ensuring that the company maintains strong and effective relationships with regulators and wider stakeholders was an area of focus for the Board, such relationships being key to informing, implementing and delivering decisions made. As well as receiving regular updates on routine engagement and liaison with Ofgem, the Board was pleased to host Ofgem at a focused Board session on the important subject matter of cyber security. The opportunity for direct conversation was invaluable to inform future decision making in this area. The Board was also kept informed of feedback received from the Health and Safety Executive through routine intervention meetings and the programme of engagement and advocacy with all parties and political stakeholders.

Section 172 statement continued

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

Alongside providing input and oversight to the company's long-term net zero strategy (referenced above), the Board reviewed and monitored the on-going activities by Cadent to meaningfully reduce carbon emissions. This included receiving and considering reports on progress made against the iron mains replacement programme (the most impactful of Cadent's activities in reducing carbon emissions) and innovative projects underway to transform measurement of leakage in the network, driving accuracy improvements for shrinkage reporting, and targeted interventions enabled through the use of new technologies. The Board's focus in this area and the associated environmental benefits was further reflected in the short and long term sustainability measures approved.

The Board received and endorsed a detailed and wide-ranging presentation on network resilience to gain assurance that appropriate plans and processes were in place to respond to climate-related challenges and maintain customer supply. Separately, an overview of the technical challenges associated with water ingress events and how Cadent responds to and resolves such issues, including support for the impacted households, was presented to the Sustainability Committee to provide assurance of the appropriateness of the processes in place.

Through reports to the Sustainability Committee, the Board ensured that the company was delivering against the commitments made in the RIIO-2 Environmental Plan and monitored progress against the Force for Good Framework which encompasses the company's goals to make a positive societal impact through a series of commitments under the headings of easier warmth, fairer opportunities, and greener society.

In July 2023 the Board approved the making of the first compulsory purchase order by the company in relation to required land rights to divert part of the North West high pressure Whassett to Barrow single source pipeline. In approving the exercise of the relevant statutory powers, the Board considered the positive impact to be achieved for the community including certainty of construction project timelines and most importantly mitigation of the risk of supply interruption to circa 50,000 customers.

Throughout the year, the Board received reports from the Foundation Board on grants made to charitable partners to support projects to help households living in fuel poverty. In approving the annual donation to the Foundation, the Board was mindful of the positive social impact the Foundation strives to make to the communities in Cadent's networks. It also supported and endorsed the collaborative work undertaken with the company and the use of Foundation funding to provide additional support past the meter (such work falling outside the company's regulatory remit and permissions).

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 continues to achieve such standards was a recurring area of focus throughout the year.

Through reports to the Audit & Risk Committee, the Board gained assurance that the company's ethical code of conduct, 'Always Doing the Right Thing', is understood and observed by those working at Cadent and that the leadership team supports and encourages a strong "Speaking Up" culture. These underpin the way in which Cadent colleagues work together and engage with our customers and wider stakeholders, acting responsibly with honesty and integrity.

The Board reviewed and approved the 2022/23 Modern Slavery Statement, carefully examining and endorsing the steps the company is taking to prevent this within Cadent; the clearly set standards required of our suppliers and their supply chains (mandated into contracts through the Supplier Code of Conduct); and partnerships in place with the Supply Chain Sustainability School and the Slave Free Alliance.

Consistent with our drive for continuous improvement, the Board received reports and updates on learnings derived from matters and incidents arising elsewhere in the sector, and the proactive operational steps taken at Cadent arising from these.

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 and was satisfied that it did.

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

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

Our ESG materiality process

The UN Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) were agreed upon in 2015 by 193 world leaders as a universal call to action to address pressing global challenges and create a more sustainable and inclusive future by 2030.

Materiality is a principle that helps determine which responsible business issues are material to our business and essential for us to embed in our strategy.

Double materiality identifies the most material social and environment impacts to the business, and additionally those which the business has greatest impact on. This requires stakeholder engagement to consider the needs of groups impacting or impacted by us, to build trust and confidence in identifying and managing upcoming risks and opportunities.

Our mission aligns with the ideals set out in the SDGs. We recently conducted a double materiality assessment to ensure we prioritise the environmental, social and governance issues related to our operations within our business.

The results shown in the graph are taken directly from our double materiality stakeholder engagement exercise, in which we surveyed customers, employees, and industry peers. It compares the impact that the issues described in the SDGs can have on our operations, to the impact our operations can have on those issues, in the eyes of our stakeholders.

We undertook a series of workshops and engagement activities to drive clarity, purpose and relevance into our sustainability strategy. The results developed a set of double materiality matrices that weighed the importance of an SDG to stakeholders against our ability to impact or be impacted by the topic.

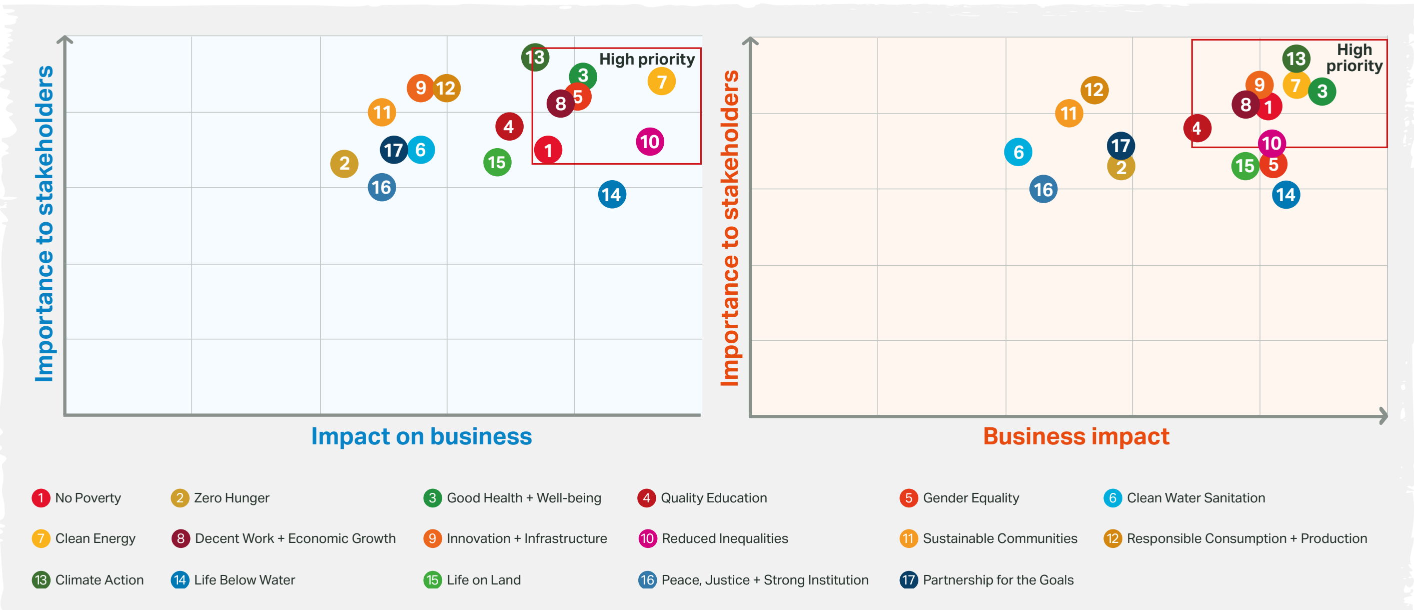
We used the results to develop SDGs of high impact and high importance to form the foundation of our Force for Good strategy and the basis of corporate reporting.

These cover topics including:

- Good health and well-being
- Affordable and clean energy
- Industry, innovation and infrastructure improvements
- Climate action

Moving forward, our strategy and action will focus on key deliverables towards these goals in particular, whilst continuing the great work we're already doing towards other goals. Other goals, such as 1: No Poverty, 5: Gender Equality, and 10: Reducing Inequalities, were also noted as important during our double materiality assessment, but our strategic assessments indicated we are able to continue providing value in these spaces while ensuring other SDGs remain considered.

For further information about the UN SDGs – sdgs.un.org/goals



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 supported by a 'top down' 'bottom up' Enterprise Risk Management (ERM) process that ensures our risk management is aligned to our strategic priorities and objectives.

The diagram below summarises our approach to risk management.

Board

The Board have overall accountability for risk management. They review and set our risk appetite and review and challenge the principal risks annually.

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Audit & Risk Committee

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.

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Executive Committee

The Executive Committee regularly review the risk landscape which has been grouped, for taxonomy purposes, under nine principal risks, each owned by Executive Committee members. Executive Committee members provide top-down monitoring and challenge, including monthly action tracking.

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Functions

CFO	CIO	CPO	COO	CSRO	GC	SHE

Identifying, assessing, owning and monitoring functional and operational risks is a management responsibility. 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.

Each function also has a second line assurance capability which reviews, on a risk prioritised basis, the controls which are operated by the respective functions. These are reviewed by Functional management, with significant issues being escalated to the Executive Committee and ARC for monitoring, challenge and review.

Key: Functional Assurance Teams

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Internal audit

All key risks are reviewed on a risk based approach over a five-year cycle by the independent Internal Audit Team, including the risk and assurance processes. 'Co-source' partners are available to support with specialist reviews where required.

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.

		Time Horizon		
Emerging Risks	**Causal Factors**	**Short 0–2 years**	**Medium 2–5 years**	**Long 5–10 years**
Intensifying geopolitical events impact supply chains and commodity prices	Societal and political			
Workforce Resilience – adapting to changing requirements and increasing competition for resources (PR 24 investment proposals)	Operational			
Extreme weather events	Environmental			
Emerging Opportunities	**Causal Factors**	**Time Horizon**		
Automation and AI	Technological			

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 five outcomes ranging from 'averse' to 'hungry'. These outcomes are aligned to a measurable risk tolerance 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 & Risk Committee and the Board.

Integrated Risk Appetite

Strategic Risk Appetite | **Operational Risk Appetite**

Operational Risk Appetite targets aligned to Strategic Risk Appetite outcomes

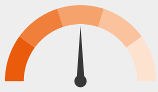
Strategic Risk Appetite

- 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 treatment of risks
- Measured against target risk scores
- Regularly reviewed within our Enterprise Risk Management system

How we manage risk continued

Principal Risk	Appetite	Risk Appetite Statement
Operational Risks		
Cyber, physical security breach, data issues or critical system failure		We have reduced our risk appetite for IT related risks as the impacts of cyber incidents become increasingly unpalatable and technology and systems become ever more integrated into our network operations. We will maintain particular focus on critical systems and sensitive data to ensure the continued reliability of our assets and services to our communities that rely on them.
Effectively managing assets and network reliability		Maintaining the reliability and safety of our assets is at the core of what we do. As we consider our future investment plans, we have reduced our risk appetite, reflecting our desire to further improve resilience to ensure we deliver a safe and reliable service to our customers and stakeholders.
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.
Regulatory and Compliance Risks		
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.
Safety, health and environment		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 safety, health and environmental matters across our operations.
Strategic Risks		
Changes in the external landscape		Although we cannot control the external environment in which we operate, we are proactive in helping shape the future of our industry and facilitating the UK's net zero ambitions.
Climate change		We have set ambitious targets to minimise our own impact on the environment. The reduction in risk appetite better aligns to our operational risk appetite and reflects our focus in preparing our network to continue to deliver a reliable service to our customers as the climate changes.
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 those customers in a vulnerable situation.
Financial Risks		
Macroeconomic and financial		We have a minimalist appetite, meaning we take very limited risk, when exposing the business to financial risks.

Scale of risk appetite

- Averse
- Minimalist
- Cautious
- Open
- Hungry

Risk management

Principal Risks

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

Trend: Increased risk, Reduced risk, No change

Operational Risks

Cyber, physical security breach, data issues in the summary table or critical system failure

What is the risk?	What are we doing to manage the risk?	Trend
There is a risk that the assets, people, systems and data we rely on to support our operations may be a target for cyber and security threats, suffer from system failures or are subject to data issues. Such events could lead to potential safety consequences, loss of supply or data and potentially enforcement action from regulators and reputational damage.	• Benchmarked security and cyber security policies, processes and technologies are in place, and security response and business continuity management plans are regularly tested. • 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. • Collaboration with Ofgem, Department for Energy Security and Net Zero (DESNZ) on key cyber risks and development of an enhanced Critical National Infrastructure security strategy. • Engagement with the National Cyber Security Centre (NCSC) and participation in their Early Warning Service. • Cyber assurance Framework and assessment to ensure compliance with the Network and Information Security Regulations. • Dynamic cyber awareness training and education for all employees. • Data management framework in place to ensure robust data governance and swift escalation of data issues for prioritised remediation.	Cyber security controls are subject to continuous improvement in response to an evolving threat landscape. The risk remains under continuous review as the external environment remains challenging resulting in heightened regulatory oversight.

Effectively managing assets and network reliability

What is the risk?	What are we doing to manage the risk?	Trend
There is a risk that our asset management framework does not deliver the right service to our customers and stakeholders. Failure to effectively manage individual assets or our networks could lead to asset failures which may result in 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. • Continued delivery of the iron mains replacement programme. • 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 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.

Risk management continued

Operational Risks continued

Securing critical resources and engagement

What is the risk?

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.

What are we doing to manage the risk?

- Strategic workforce planning to understand long-term resource requirements.
- 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, targeted supplier development programmes are in place 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.
- Dynamic stock holding (i.e., we increase stock holding during periods of higher demand such as "winter").

Trend

The external environment remains challenging with disruption from geopolitical events creating global supply chain pressures.

Regulatory and Compliance Risks

Legal and regulatory compliance

What is the risk?

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.

What are we doing to manage the risk?

- 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.

Trend

Legal and regulatory regime remains stable with no fundamental changes in our inherent risks or controls.

Safety, health and environment

What is the risk?

Safety will always be a top priority and whilst major incidents are rare, human factors, asset and system malfunctions carry an inherent risk of harm to those who work for us and the communities we serve.

The wellbeing of employees is also critical, as is the impact that our operations could have on the environment.

What are we doing to manage the risk?

- Safety, Health 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 safety, health and environmental 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 Wellhub and free unlimited use of online exercise classes.

Trend

No fundamental changes in our inherent risks or controls.

Strategic Risks

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 geopolitical 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 contribute to the net zero transition debate. • Close working partnerships with the Energy Innovation Centre and with DESNZ, Ofgem and third parties to share innovations and implement best practice.	The turbulent political environment and impending general election may further delay progress in critical policy areas such as heat which prolongs uncertainty and as we move through the RIIO-2 price control, the outcome of the RIIO-3 settlement is an important area of focus.

Climate change

What is the risk?	What are we doing to manage the risk?	Trend
The risk and opportunities associated with climate change 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.	• 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. • 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 and 2 emissions to the Carbon Trust net zero route. • Working partnership with The Wildlife Trusts 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. • Governance structures, including the Resilience Committee and Natural Events Working Group, are in place to progress mitigation and ensure appropriate oversight and escalation.	2023 was the first year that global temperatures exceeded 1.5 degrees above pre-industrial levels. The impacts of climate change have been experienced across our networks, particularly through flooding, storms and heat. Uncertainty over the UK's policy and approach to net zero and support for a hydrogen economy remain. There, however, appears to be general acceptance from the Government and Ofgem, that in the absence of hydrogen there will be a continued need for our network for some time to transport natural gas. These impacts outweigh improvements which have been made in our own emissions reductions.

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 but customer performance continues to improve.

Risk management continued

Financial Risk

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 2024, liquidity was provided by a combination of immediately available cash and money market funds of £286m and committed bank facilities of £650m. There is also £303m short term deposits placed under a fixed maturity, maturing within 30 days of 31 March 2024 and £9m of restricted cash. • 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. • 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 2024. With a further undrawn RCF facility of £200m being available from the immediate parent company Quadgas Midco Limited.	The level of liquidity remains strong and well in excess of minimum requirements. The pro-active refinancing activity in the year has further supported liquidity.
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 47 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. • In line with our treasury policies, our counterparty credit exposure is 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.	The drivers of credit risk remain unchanged. Customer credit remains concentrated on the same large shippers where protections exist via industry code. The level of treasury related credit risk on financial investments remains largely unchanged with investment subject to minimum credit rating criteria.
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 and inflation risk. The Group has no significant transactional foreign exchange or equity exposure. The Group is exposed to short term 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 33% inflation hedged which provides strong protection to downside inflation risk. • 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.	The external economic landscape remains volatile and while inflation levels have reduced and expectations are for interest rates to follow suit, there are still economic and geopolitical uncertainties.
Financial management risk is the risk that we could be exposed to loss, fraud or inefficiency if there are weaknesses 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 stable nature of the regulatory business, alongside focus on a robust controls framework supports a stable environment.

Non-financial and sustainability information statement

This statement is prepared in compliance with sections 414 CA and CB (A1 and A2) of the Companies Act 2006. The required climate-related financial disclosures, set out below, can be found in the section of this report headed Climate Related Financial Disclosures and are incorporated into this statement by reference.

Reporting Requirements
(a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities;
(b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities;
(c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process;
(d) a description of
(i) the principal climate-related risks and opportunities arising in connection with the company's operations, and
(ii) the time periods by reference to which those risks and opportunities are assessed;
(e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy;
(f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios;
(g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and
(h) a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.

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 1.66 million tCO_2e 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 increase 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 expands.

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 c100 sites, create a site by site biodiversity opportunity map
- Demonstrate 30% biodiversity net gain by 2030 across the networks

Construction

- Commence the introduction of Net Zero construction site principles from 2023

Waste

- Minimise the use of first time aggregate with less than 10% of such backfill 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

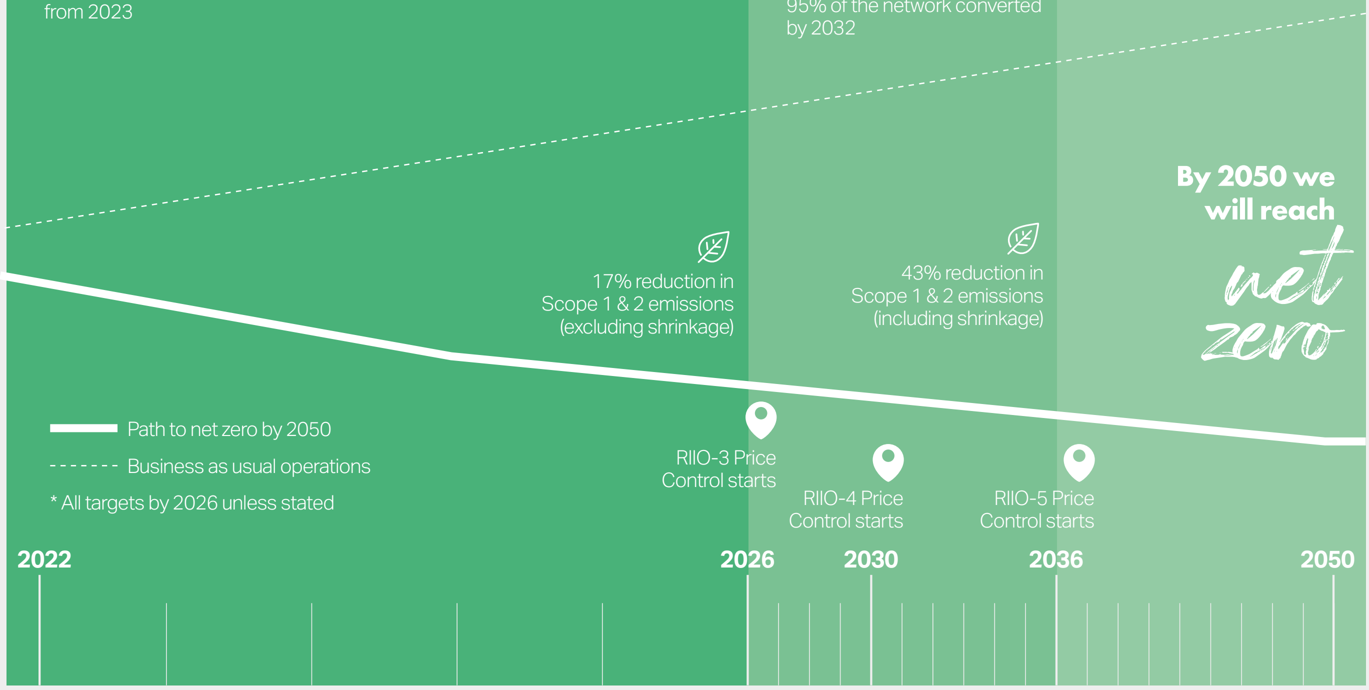
- Launch a Hydrogen Skills Academy and a hydrogen education programme by 2024

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% low carbon gas pipeline by 2027
- Enable 5GW of hydrogen production in our region by 2030
- Increasing the proportion of low carbon gas in the pipes to 28% by 2035
- Enabling increased biomethane production, with enough in the network to heat the equivalent of 2m homes by 2033
- Getting the network ready to support hydrogen where it is needed, when it is ready, with 95% of the network converted by 2032

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 keep on championing 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 believe 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.

We voluntarily adopt the 11 TCFD disclosure recommendations, and in doing so, we consider these disclosures to be fully compliant with the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. Where aspects of our disclosures appear elsewhere in our Annual Report they are clearly referenced at the beginning of each section.

Maintaining full compliance 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 increasing temperature 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 73 to 77 TCFD Pages 51 to 52
b) Describe management's role in assessing and managing climate-related risks and opportunities	How we manage risk Pages 42 to 48 TCFD Pages 54 to 56

Climate related issues are an integral part of Cadent's governance at Board and Management level.

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 directly and through the detailed oversight of the Board's Sustainability Committee. Such oversight includes the company's Future of Gas Programme which encompasses a strategy to decarbonise our business operations for future generations and play our part in helping the UK to achieve net zero.

At each Board meeting the Board receives an update on progress in relation Future of Gas, Sustainability and Environment from our CEO. In addition, time is allocated at every meeting for the consideration of net zero related papers and presentations; providing detailed insights to assist the Board to provide stewardship to the business. Areas of focus this year included the proposed Hydrogen Village, progress with our Hynet Northwest industrial decarbonisation project, the role of biomethane and evidence pertinent to the heat policy decision to be made by Government in 2026. Associated expenditure is addressed through consideration and approval of the Financial Plan and monitored through regular reporting throughout the year (see Board Activities on page 75 for further information). The Board also approved sustainability and energy transition related incentive 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, an annual strategy session is held to provide time for additional reflection and consideration of our Net Zero Strategy.

All presentations are led by members of our Executive and Senior Leadership Team, with input from external specialist speakers and consultants where appropriate to assist to inform discussion.

The Board is supported by the work of its Committees (you can read more about the work of the Committees at pages 73 to 90).

Board Committees

Audit & Risk Committee	Sustainability Committee	Safety Committee	Remuneration Committee	Nomination Committee
See pages 84–87 for report	See pages 81–83 for report	See pages 78–80 for report	See pages 90–92 for report	See pages 88–89 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.	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 and progress against our RIIO2 Environmental Action Plan and recommends environmental performance measures for approval by the Remuneration Committee.	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.	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.	Ensures sustainability related skills and experience form part of recruitment and succession planning considerations for independent and executive directors and senior executives.

Climate-related financial disclosures continued

Governance

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 68 to 72.

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. You can read more about these on pages 36 to 40. 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.

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

Executive Committee

Our climate related risks and opportunities are identified, assessed and managed by our Executive Committee. Specific focus areas are delegated to Executive Sub-Committees who report to the Executive Committee. These include the Net Zero Transition Committee which oversees the delivery of the Future of Gas Programme and, together with the Safety and Engineering Committee, oversees environmental performance including progress against our RIIO-2 Environmental Plan. The Resilience Committee 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. These committees 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 updates from the Strategy and Regulation Function, detailing progress against our Future of Gas Programme; and our Internal Audit and Assurance Teams, addressing identification, assessment and management of our risks, controls and assurance activity, including climate related risks. Organisational risk management practices are detailed on page 45.

Papers 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 those present at the Board/Board Committees ensuring information and strategic thinking is shared effectively between the Board and the operational business.

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 42 to 48 TCFD Pages 53 to 56
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Strategic performance Pages 42 to 48 TCFD Pages 53 to 56
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 56

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. Cadent, being domiciled and having all assets and earnings in the UK, assesses its climate related risks and opportunities at that 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 pipelines to transport low carbon alternatives to natural gas, such as hydrogen and biomethane. 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 important part of our low emissions system solution. Firstly, by providing flexibility and resilience to the wider energy system e.g. as a source of clean and reliable low-carbon electricity and as a long-term store of energy; and secondly, as a direct replacement for fossil fuels for customers across the economy e.g. industrial processes. 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 over leaf.

Climate-related financial disclosures continued

Strategy

Risk/opportunity type and description	Our response
Transitional Risk (Policy & Legal / Market): 1. Government heat policy does not set out a role for the gas networks to provide future domestic energy needs or 2. Market demand does not materialise **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	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 in supporting the delivery of Net Zero. 1. This includes evidence and analysis to Government on what is needed for the hydrogen market to develop. This includes the safety and technical evidence necessary to support a decision to support hydrogen's role on decarbonising heat. It also includes analysis and evidence necessary for Government to design and implement the policy frameworks necessary to bring forward investment in new hydrogen infrastructure, including production, storage, transportation and end-use assets. Furthermore, we have also had projects looking at the technical and safety evidence for blending (which includes Hydeploy and Hydeploy2) and in 2024 we are making our final submission to the HSE to approve blending across the UK. We are also going to trial how we would convert 300 homes to hydrogen through the H100 project in Scotland (SGN led with Cadent support) whilst also leveraging the experience of smaller European trials where customers are already heating their homes with hydrogen. 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. 2. There is a high confidence across all net-zero pathways that hydrogen demand will emerge in hard to abate industrial processes and in electricity power generation and storage assets, supporting the widespread deployment of renewables. Where pathways diverge largely focusses on the scale of hydrogen demand for homes and businesses. A key determinant of this demand is the Government's Heat Policy decision due in 2026, a decision we are providing supporting evidence as per (1) above. Assuming there is a positive Heat Policy decision, we are working across the value chain to ensure consumers are aware of the option of hydrogen and what it means for them. In addition to support for trials, which provide social and technical proof of concept, we are working with appliance manufacturers to bring forward the development of hydrogen ready and hydrogen boilers, appliances which will cost roughly the same as a gas boiler today. We are partners in the Hello Hydrogen campaign which seeks to answer basic questions about hydrogen, dispelling some common myths and raising awareness of its potential role. There is also good reasons, for example on cost and technical grounds, to believe that, should Government allow consumers to choose it as an option, some customers would demand hydrogen. This is something we would work with retailers and appliance manufacturers to develop suitable propositions, should Government allow hydrogen as an option.
Physical Risk: Consequences (Operational disruptions, supply chain challenges, etc.) due to extreme weather events become more frequent and more severe **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	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. We are leading the industry on the development of a consistent Flood Resilience Framework through the Energy Networks Association Climate Change Resilience Working Group and the Gas Environment Group. We continue to engage with the Department for Energy Security and Net Zero through the CS-N0W project regarding resilience metrics and minimum levels of service and resilience across various asset classes. Since we published our third Climate Change Adaptation Report report in 2022, we have been working to assure the frameworks we have developed are fit for purpose in responding to physical risks and looking ahead to ensure our network is resilient to the physical risks. 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.
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. **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	We recognise the significant role hydrogen will need to play in supporting the UK's economy, as we seek to decarbonise our business, while ensuring 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.

Risk/opportunity type and description		Our response
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.).		Cadent has 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. 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 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 continued to access capital markets using the Green Finance Framework published in March 2023. In March 2024 we published our inaugural allocation and impact report under the Green Finance Framework, demonstrating to investors how the proceeds are being used by Cadent to finance eligible green projects.
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 financial disclosures continued

Strategy

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

Our latest scenario analysis was undertaken in 2023, 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 Greenhouse Gas (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.

For further detail on the scenario analysis including the link to key sources of estimation uncertainty within the financial statements, see note 2 to the consolidated financial statements.

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 need for gas infrastructure, and particularly for hydrogen to support delivery of the UK's net zero goal.

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.

Risk management

TCFD Recommended disclosures	Our disclosures
a) Describe the organisation's processes for identifying and assessing climate related risks.	Principal risks Pages 42 to 48 TCFD Page 57
b) Describe the organisation's processes for managing climate-related risks.	Principal risks Pages 42 to 48 TCFD Page 57
c) Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organisation's overall risk management.	Principal risks Pages 42 to 48 TCFD Page 57

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 management framework. The risk that we fail to respond to 'climate change' 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 impact on climate change.

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.

However, the potential for hydrogen to support the transition to cleaner energy also presents opportunities for the continued use of our networks.

Managing Climate Change Risks

Each of the three level 2 risks, and all associated operational risks are routinely assessed in line with our risk appetite, which, for climate change has been reduced to 'Cautious' to acknowledge the increased impact of climate change on our operations.

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, to 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 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 the rebuilding of our Burwell site, additional investment was made to ensure that conceptual designs met our the first pledge of our 10 Point Hydrogen Plan to build carbon neutral sites from 2023.

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 treatment of risks
- Measured against target risk scores
- Regularly reviewed within our Enterprise Risk Management System

Climate-related financial disclosures continued

Metrics & targets

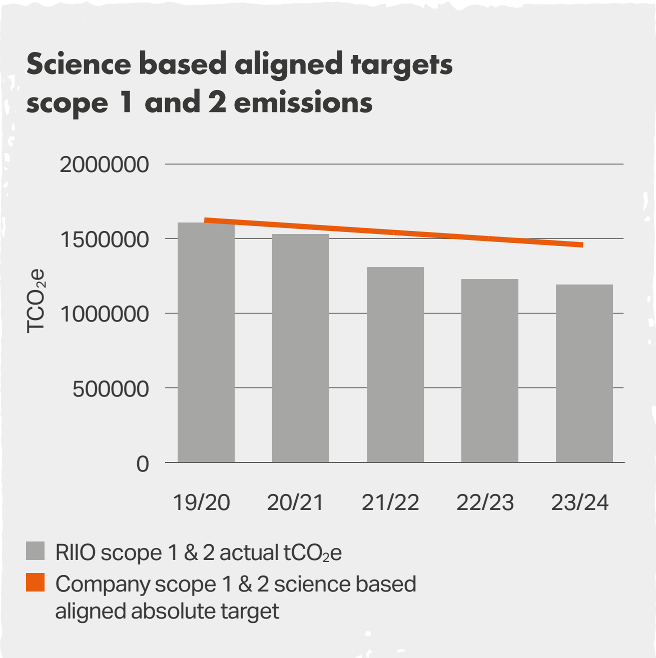
TCFD Recommended disclosures	Our disclosures
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	TCFD Pages 58 to 60
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	Pages 61 to 63 TCFD Pages 58 to 60
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 61 TCFD Pages 59 to 60

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 62) 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 reducing 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, developed in conjunction with The Carbon Trust in 2021. Whilst we await an updated science based target methodology from the SBTi, we have pursued external accreditation of our carbon accounting, management and GHG emission reduction from The Carbon Trust. This has been certified to ISO 14064-3 which provides the standard the validation and verification of greenhouse gas assertions.



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 Environmental Action Plan and are reported against annually in our Annual Environmental Report.

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 the remainder of 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 62 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 management's Safety and Engineering Committee and Executive Committee.

The Board level Sustainability Committee has oversight of the metrics and targets at each committee meeting.

Our Environmental Action Plan commitments are monitored monthly by our management RIIO-2 Environmental Steering Group which is led by a member of the Executive team.

Our progress against our commitments is published annually as part of our Annual Environmental Report, with the latest report published October 2023.

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 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 2023 to 31 March 2024 can be found on page 62. 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 93).

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 57 and table on page 59
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 throughput into 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 will have on our asset lives.	See climate-related scenario analysis on page 56
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 56
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 dependent upon a number of key policy decisions in the UK.	See opportunities disclosed on page 54
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 dependent upon a number of policy decisions in the UK without which difficulties remain in planning infrastructure development.	See risk and opportunities disclosed on page 54 and 55
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, non-operational energy and tier 1 mains replacement) and LTIP (tier 1 mains replacement and progress against environmental plan).	See Directors' Remuneration Committee report on pages 90 to 92

Describe the targets

Our ambition is to reach net zero by 2050 in line with the UK Government's decarbonisation strategy. In terms of our most significant contribution to GHG is shrinkage, for which we are working to reduce through our mains replacement programme and facilitating the flow of natural gas alternatives across our network.

We have consistently reduced our GHG emissions beyond the absolute target defined in our science aligned targets versus the baseline year 2019/20, and this was verified as part of our GHG audit conducted by The Carbon Trust. For 2023/24 our target was 1,458,161 tCO_2e and the actual was 1,189,809.78 tCO_2e, a 29% reduction against the baseline.

Our Scope 1 & 2 key emissions areas are:

1.50%

fuel use for vehicles

Switching our commercial vehicles to electric, and employee company cars to either electric or hybrid is key to reducing our business carbon footprint. To support this, we have installed 117 charging points across our sites, and are installing faster chargers for our operational fleet. Additionally, we have a fleet of HGVs, which run on biomethane. We have been working towards a 15% reduction in our business mileage intensity by the end of March 2026, and are already at a 40.9% intensity reduction in 2023/24, compared with the 2019/20 baseline.

0.07%

emissions from gas used at our sites

We remain committed in our procurement of 100% certified renewable energy to meet our energy needs and are also using hydrogen-powered generators at construction sites.

98.05%

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.

Climate-related financial disclosures continued

Metrics & targets

Our most material Scope 3 emissions currently measured are:

0.56%

emissions from production of PE pipe

The environmental impact of raw materials and derived products purchased and consumed by our business is important.
To understand our most significant emissions we have considered our most material purchases by volume, for which PE pipe used in our Mains Replacement Programme is our number one raw material. In 2023/24 6,864.42 tonnes of CO_2 came from the manufacture of PE pipe.

2.17%

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 2023/24 27,379.29 tonnes of CO_2 came from our local delivery partner vehicle emissions.

We deliver on our commitments to enabling transmission of a low emission energy system through funding, hydrogen conversion, facilitating 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 are unable to verify our targets with this body at this time. 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 well below 2 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 2023/24, our total BCF decreased compared to 2022/23 by 2.8%, for scope 1, 2 and 3 emissions including shrinkage. This has been driven by reduction in emission leakage, own use gas, energy use our offices and depots, commercial fleet and embodied carbon in Polyethylene (PE) Pipe, and updating the Defra conversion factors to the latest 2023 report.

When reporting our scope 1 and 2 BCF, excluding shrinkage emissions, we have decreased our emissions by 7.2%.

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 488 EV vehicles.
- **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 2023/24, 93% of our company vehicles are now low emission, reducing the associated BCF from diesel and petrol company cars by 16.56% 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 561.04 tCO_2e. This reflects a continued focus on efficient ways of working through our hybrid working policies.
- **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. However, with further data being collected and improved data capture systems, emissions associated with PE pipe have increased by 38%.

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.

Climate-related financial disclosures continued

Business Carbon Footprint

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 2023 to 31 March 2024.

Scope 1	Reporting year 2023–2024	Comparison reporting year 2022–2023
Emissions from refrigeration equipment /tCO_2e	151.90	N/A
Gas usage from our sites (Location-based) /tCO_2e	869.79	852.19
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	1,166,662.60	1,202,947.08
Fuel usage from Commercial vehicles, company cars and plant machinery/tCO_2e	17,858.17	19,538.51
Total Scope 1	1,185,542.46	1,223,337.78
Scope 2		
Purchased electricity for own use (Location-based) /tCO_2e	4,267.32	4,545.33
Purchased electricity for own use (Market based) /tCO_2e	0	0
Total Scope 2	4,267.32	4,545.33
Total Scope 1 and 2 (Location-based) /tCO_2e	1,189,809.78	1,227,883.11
Total Scope 1 and 2 (Market-based) /tCO_2e	1,184,672.67	1,222,485.59
Scope 1 and 2 Energy consumption /kWh	1,109,050,188.27	1,153,948,338.93
Intensity metric: Total scope 1 and 2 (location-based) tCO_2e per £m turnover	522.53	524.64
Intensity metric: Total scope 1 and 2 (Location based) tCO_2e per km of our gas network	10.81	11.17
Scope 3 (Indirect emissions)		
Business travel /tCO_2e		
Rail, Air, Ferry, Car Hire, Private vehicle (grey fleet) use	682.83	384.69
Emissions from production and delivery of purchased PE pipe /tCO_2e	6864.42	4,970.79
Contractor vehicles /tCO_2e		
Mains Replacement contractor fuel use	27,379.29	26,818.25
Embodied carbon in products, goods and services /tCO_2e	N/A	N/A
Total Scope 3 emissions /tCO_2e		
As above	34,926.54	32,173.74
Total annual net emissions /tCO_2e	1,224,736.32	1,260,056.85
Intensity metric: Total emissions /tCO_2e per km of network length	11.13	11.46
Intensity metric: Total emissions /tCO_2e per £m turnover	537.87	538.38
Intensity metric: Total emissions /tCO_2e per GWh throughput	5.51	5.14

Background

All data is for the period 1 April 2023 to 31 March 2024 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 2023 DEFRA conversion factors, and are updated annually. All data is aligned with GHG Protocol methodology. 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. Where market-based factors are stated these are provided annually by our energy 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 2023 we completed the Sustainalytics ESG assessment and the result was a risk rating score of 14, a decrease from 19.6 in 2021/22. In 2024, we have been recognised as one of the top performing companies rated by Sustainalytics, and awarded top-rated company status for our industry.

Our performance in GRESB (Global Real Estate Sustainability Benchmark) continued to improve to a sector leading score of 100 out of 100, and rated 5 stars against our peers, up from 90 and 4 stars in 2022.

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

Our sustainable supply chain

We have continued to work closely with our supply chain partners during 2023/24, hosting our Supply Chain Sustainability Conference, 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 with over 547 supplier attendees at workshop events, suppliers completing over 6,087 hours of CDP training hours, 2,617 of e-learning hours, and accessing 46,475 unique resources in 2023.

Shrinkage

Our business carbon footprint is predominantly influenced by shrinkage emissions, accounting for 98% of our scope 1 and scope 2 emissions. Shrinkage emissions have reduced by 3% since 2022/23. 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 2023/24 our leakage from the network was only 0.42% 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.
  - 1.96% was achieved in 2023/24
- 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.
  - 3.79% for North West meeting this target
  - 2.93% for East of England meeting this target
  - 4.78% for West Midlands meeting this target
  - 0.26% for North London, meeting this target

We continued our focus on reducing general waste disposal from offices through ongoing projects initially set in 2021/22. Continuing this through 2023/24 has led to a decrease in general waste sent from depots by 106 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 8.7%, exceeding our target of 5% and stretch target of 8% for the financial year.

1.96%

waste from excavations was sent to landfill in 2023/24. Our target is less than 5%.

Rated 1st globally

out of 96 gas utilities, Sustainalytics ESG risk rating.

Governance

In this section

Chair's statement on Corporate Governance

The Board's focus has been forward looking, alongside maintaining oversight of operational performance against commitments.

Sir Adrian Montague CBE
Chair

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 36 to 40.

There has been a strong forward looking focus to Board business this year, with key areas being input to and review of the ongoing preparation for RIIO-3 price control submissions; continuing oversight of the company's future of gas programme and net zero ambitions which remain key to the future success of the company; and regular consideration of the company's cyber security posture against a maturing threat landscape. Ensuring customer interests are reflected in board considerations and decision making remains a priority and with this in mind the Board was pleased to meet with the Chair of the newly formed Customer Challenge Group which will provide independent challenge to development of the RIIO-3 Business Plan; and feedback to the Board through scheduled sessions. The Board also reviewed progress against the Company's People Strategy, Culture and EDI ambitions to gain assurance that current and future employee experience is developed and enhanced. In addition to focus areas, the Board received regular updates on financial and operational performance from the Senior Leadership Team ensuring that the Company continues to deliver for customers against the commitments it has made and takes appropriate opportunities to drive improvements.

Our Board Committees have had another busy year. The Board has been assisted by their thorough scrutiny, oversight and steering of the areas falling within their remit.

You can read more about the work of the Committees at page 76.

Alongside our scheduled face to face Board meetings, Board members have engaged with a broad range of Cadent employees through a variety of means including a rolling programme of site visits; "show and tell" sessions with project teams; conference attendances, informal lunch sessions with Cadent EDI Community representatives; and various individual meetings on areas of interest. Through these interactions, Board members are able to demonstrate support for all that Cadent is seeking to achieve and gain valuable insight into Cadent's evolving culture through hearing views and perspectives directly from the wider workforce.

We conducted an internally facilitated review of Board effectiveness this year. Pleasingly, feedback was positive, with no significant concerns raised. A small number of suggestions and observations were made which were discussed and an appropriate action plan put in place to ensure we continue to refine and build on current effective practice.

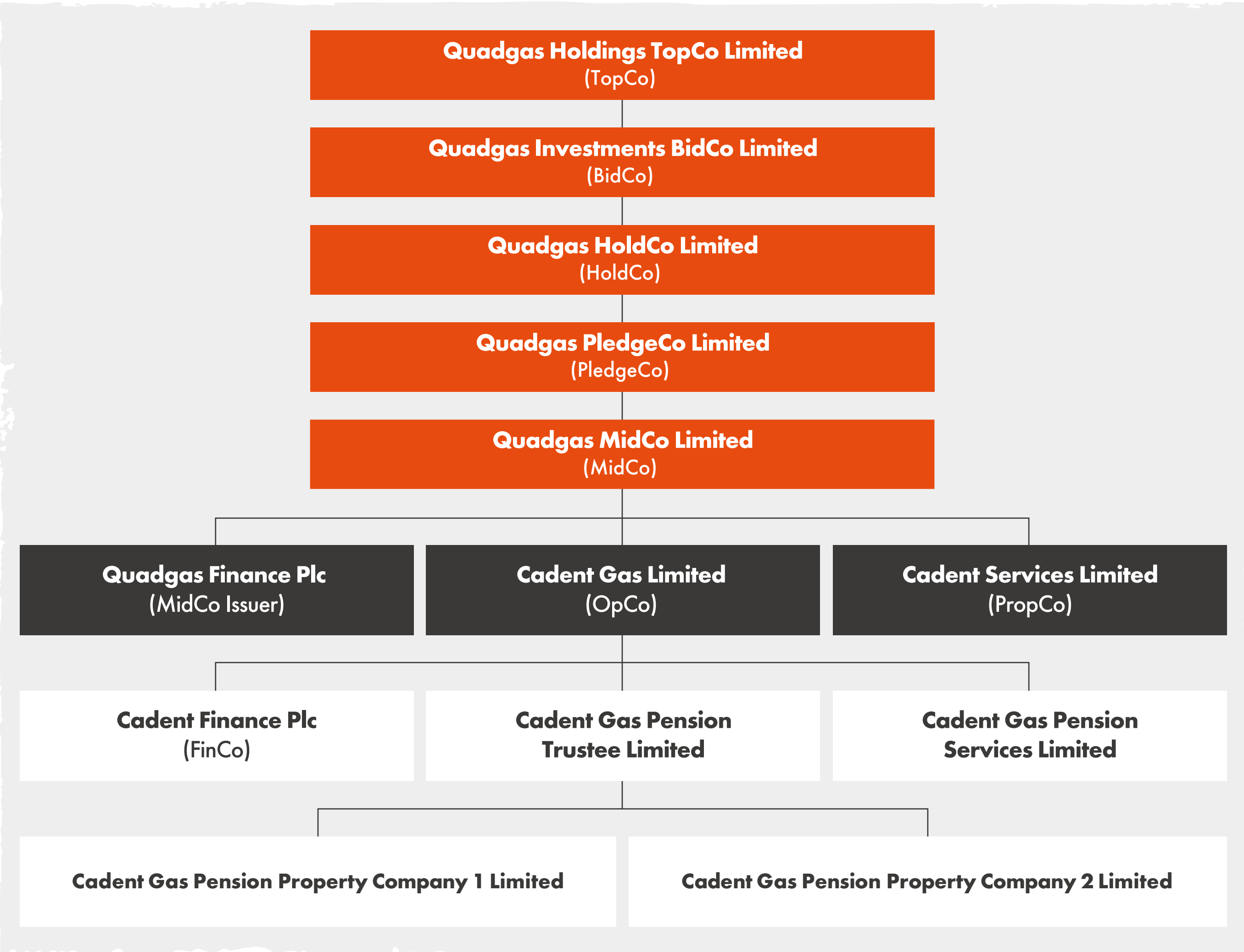
Finally, I would like to recognise the contributions of Andrew Marsden who stepped down in July 2023 and Perry Noble who stepped down in March 2024. I am also pleased to welcome Alistair Ray, Graham Cooley and Emma Howell, who joined the Board as non-executive directors in July 2023 and January and March 2024 respectively.

Sir Adrian Montague CBE
Chair

18 June 2024

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 2024.



Our owners

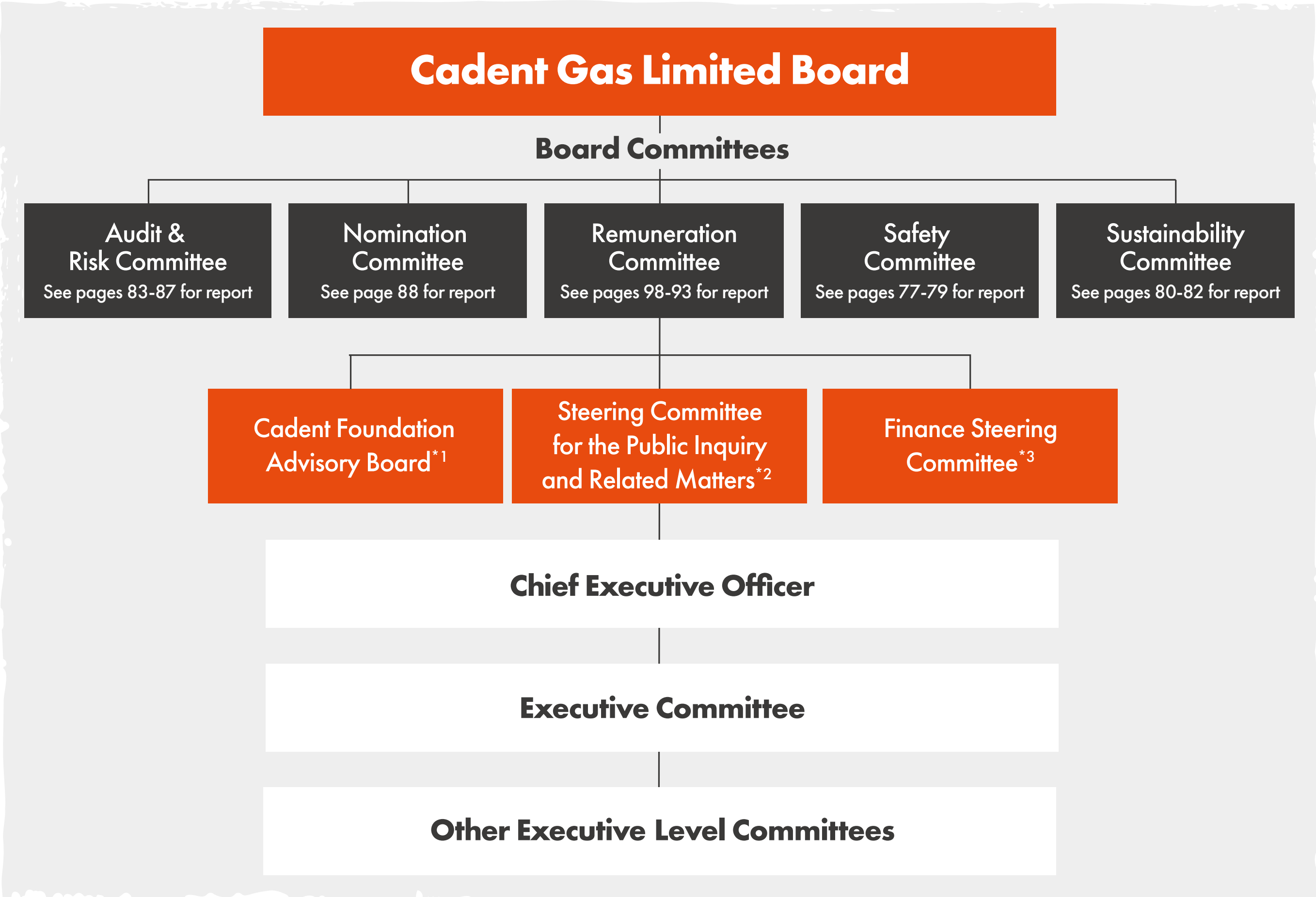
The Quadgas Group is owned by a consortium of investors (the 'Shareholders') who hold shares in Quadgas Holdings TopCo Limited.

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 (resigned 29 March 2024) 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, Mark Braithwaite, Anthony Bickerstaff, Emma Howell, Perry Noble (resigned 29 March 2024) and Alistair Ray.

Board of Directors

The following pages show details of the Directors of Cadent Gas Limited and their membership on Board Committees, for the 2023/24 financial year.

Our Board consists of three Executive Directors, three Sufficiently Independent Directors (including the Chair) and eleven Shareholder Nominated Directors. Collectively, the Sufficiently Independent Directors and Shareholder Nominated Directors are the Non-Executive Directors on the Board. All the Non-Executive Directors (including the 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 104.

Executive Directors

Steve Fraser
Chief Executive Officer

Appointed:
September 2019

Skills and experience

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 & Chair of the Audit Committee, for the Low Carbon Contracts Company, set-up to administer the Government's investment in the generation of low carbon electricity and Wincanton PLC.

Howard Forster
Chief Operating Officer

Appointed:
July 2021

Skills and experience

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

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

Sufficiently Independent Directors

Sir Adrian Montague CBE
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, Hurricane Exploration plc and Manchester Airports Group. 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 the Porterbrook Group and Thames Water Utilities. He is also 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. Catherine is also a former member of the Competition Appeals Tribunal.

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.

Paul Smith

Appointed:
February 2021

Committee membership
Audit & Risk; Nomination; Remuneration (Chair); Safety; Sustainability (Chair as of April 2024)

Skills and experience

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

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

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

Other key external appointments

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

Board of Directors continued

Shareholder Nominated Directors

Mark Braithwaite

Appointed:
March 2017

Alternate:
William Price
(appointed November 2023)

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, after working in the European infrastructure funds business for some 11 years.

Prior to joining MAM he was CFO of Thames Water, 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 also holds a non-executive directorship role for Elenia Oy and is a trustee of the Sussex Wildlife Trust.

Mark Mathieson

Appointed:
November 2018

Alternate:
William Price
(appointed November 2023)

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

Alternate:
William Price
(appointed November 2023)

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 Grid Holdings, the largest gas distribution business in the Czech Republic. He is also a non-executive director of Southern Water.

Eduard Fidler

Appointed:
November 2018 as Alternate Director
June 2019 as a Director

Committee membership
Nomination; 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.

Shareholder Nominated Directors

Graham Cooley

Appointed:
January 2024

Committee membership
Sustainability

Skills and experience
Graham started his career in the power sector in 1989, joining the CEGB and becoming Business Development Manager at National Power plc and then International Power plc, developing energy storage and new generation technologies. Graham has raised a total of over £600m for British Cleantech SMEs. Graham was CEO of ITM Power plc, the first hydrogen related company listed on the London Stock Market, a founding member of the UK Government's Hydrogen Advisory Council and a Board Member of RenewableUK.

Graham has a PhD in Physics, an MBA, and is a Fellow of The Energy Institute (FEI), The Institute of Metals, Minerals and Mining (FIMMM), The Institution of Engineering and Technology (FIET) and was awarded the Lifetime Fellowship Award by The Bessemer Society.

Other key external appointments
Graham is a Board Advisor to ASCO plc and a Patron of CleanupUK.

Emma Howell

Appointed:
March 2024

Alternate:
Desmond Wilkins
(appointed August 2021)

Committee membership
Audit & Risk; Nomination

Skills and experience
Emma joined Federated Hermes Infrastructure in 2013. She has over 20 years of financial services experience of which 15 have been focused on infrastructure. Emma supports the Head of Infrastructure in managing the day-to-day infrastructure team activities and as Head of Asset Management, is responsible for asset management strategy, portfolio monitoring, quarterly valuations and managing key client relationships. Emma represents infrastructure mandates on various portfolio company boards.

Emma was previously a Director at Deloitte LLP and is a qualified Chartered Accountant.

Other key external appointments
Emma is also a member of the Infrastructure Investment Committee.

Perry Noble

Appointed:
April 2017 as
Alternate Director
March 2020 as a Director

Resigned:
29 March 2024

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.

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.

Board of Directors continued

Shareholder Nominated Directors

Alistair Ray

Appointed:
July 2023

Committee membership
Audit & Risk; Nomination

Skills and experience
Alistair co-founded Dalmore in March 2009 and is CIO. He is a Dalmore shareholder and Board member as well as being on the Investment and Executive Committees. Prior to Dalmore, Alistair spent a year as a director at Merrill Lynch. Between 2005 and 2008, Alistair was a director at 3i, one of the core investors in I2 (the fund managed by Michael and John) . He was also a member of the team that successfully floated 3i Infrastructure plc on the London Stock Exchange.

From 2001 to 2004, Alistair was a director and shareholder of Noble PFI, following three years with Edison Capital.

Alistair holds a Bachelor of Engineering honours degree.

Other key external appointments
Board membership of Cory and Tideway.

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 China Investment Corporation ('CIC'). He is responsible for CIC's infrastructure investments globally, in particular in the transport, utilities, digital and energy transition sectors. Prior to join CIC, David worked 11 years in various roles at Merrill Lynch.

David is a bachelor of science 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 to be the industry leading UK gas network keeping our customers, colleagues and communities safe, warm, and connected in everything we do whilst protecting our planet. This is integral to all that Cadent does on a day-to-day basis to deliver its regulatory outputs effectively, efficiently and safely; and in progressing it's net zero ambitions.

In its oversight of Cadent operations, the Board reviews reports on how Cadent is driving operational performance across its networks for the benefit of customers and wider communities. This includes consideration of customer experience, measured through regulatory survey outputs; maintenance and repair of the network; resilience of supply; the further transformation of the business through Operations 4.0; effective incident management; and the pride and passion behind delivery of such outputs (the latter demonstrated through both executive reports and direct engagement with members of the workforce during site visits and "show and tell" sessions). Through this approach the Board satisfies itself that the purpose is well understood, and the company is delivering against it through a happy and engaged workforce. The information derived through such oversight also informs future thinking and decision making, including aiding the Board's guidance and input to RIIO-3 planning.

Alongside operational performance, achieving the company's net zero ambitions is a significant element of fulfilling its purpose. Recognising the need for dynamic updates, as well as regular opportunities to debate and provide feedback on developing strategy, time is committed at each Board meeting to discuss net zero related topics as well as holding an annual strategy day. Matters considered have included hydrogen project updates, biomethane, blending, hydrogen for heating and the associated safety case, the future policy landscape, and advocacy and influencing, with the Board hearing from specialist business leads as well as external consultants. The detailed papers and presentations ensure the Board is well informed for guiding future strategy and related decision making. 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.

Values and Culture

Our purpose is supported by our values - we work together; we take responsibility; we drive performance; we shape the future – and the associated behaviours. These are an embedded part of Cadent life, a thread running through all reporting to the Board, reflected in its oversight and decision making.

The Board has closely monitored developments with our ED&I strategy which focuses on developing an inclusive culture, equitable and inclusive processes, and inclusive leadership. Reports are received on progress against the clearly defined and measurable ambitions. The Board also hears directly from representatives from the employee led ED&I Communities whose work is crucial to achieving the ambitions set.

Ensuring the continuing safety, health and well-being of our employees is a core part of our culture. Achieving this is enhanced by the Safe+Well Framework launched in early 2023. Delivery of the Framework's four core areas – personal safety, process safety, health and wellbeing and human factors – is backed by both Cadent-wide and local plans. Progress made to embed the framework, including employee engagement, is overseen by the Safety Committee.

A further important aspect of our culture is the positive societal impact we can have through our Force for Good Framework, which sets out our goals under the headings of 'Easier Warmth', 'Fairer Opportunities' and 'Greener Society'. All employees are able to contribute to activities we undertake against these goals and enthusiastically embrace the opportunity to positively contribute to the communities we work in. Our Sustainability Committee reviews and monitors progress through regular reports.

Our ethical framework, 'Always Doing the Right Thing' continues to define our expectations of the high standards of conduct expected of our employees. It is a core element of our induction process and a recurring mandatory training requirement. It is endorsed by the Board and supported by a strong tone from the top from the Leadership Team and a network of ethics champions.

Strategy

The development of the company's RIIO-3 Business Plan submission has been a significant area of focus for the Board, this being critical to the company's business model and generating long term sustainable value. Progress has been reviewed and input and guidance provided through a series of focussed sessions in which the Board considered the key issues that will shape the outcome of the price control process. There was a strong focus on customer priorities and how to respond to these effectively and successfully; and consideration of workload, costs, outputs and incentives as well as finance issues. A number of related Ofgem consultations were also reviewed and feedback provided to assist to shape responses. The Board also carefully monitored progress against delivery of the company's performance of its RIIO-2 commitments and regulatory outputs. It was assisted in doing so by regular, detailed reports and presentations from members of the Executive Team, Network Directors and the wider leadership team. The Board also considered other targeted areas of company strategy, including the important area of cyber security, in relation to which it hosted a dedicated session with representatives from Ofgem to discuss Cadent's cyber security posture, associated future plans and the wider threat landscape.

A continuing priority for the Board has been oversight of progress made against the company's net zero ambitions as well as reviewing and steering future net zero strategy these being fundamental to the future shape and structure of the company and its 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 Nominated Non-Executive Directors, Sufficiently Independent Directors and Executive Directors.

See pages 36 to 40 under the Section 172 Statement for further details of purpose and leadership.

Corporate governance report continued

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 68 to 72. For further reading about diversity and inclusion within our company please refer to page 74.

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 68 to 72. As at 31 March 2024, 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).

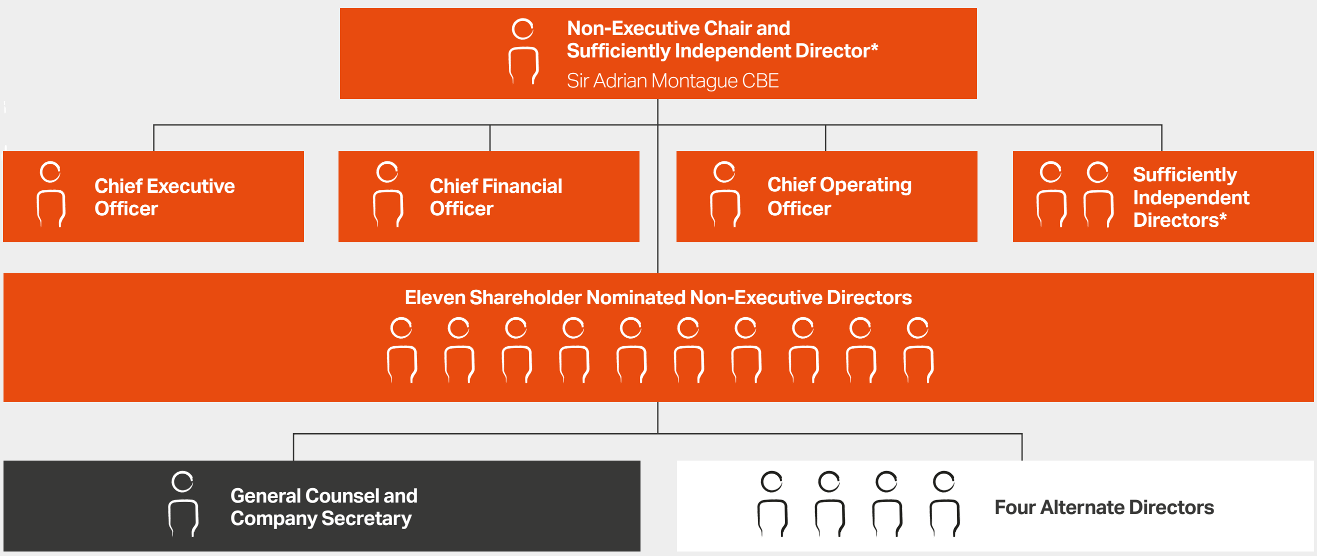
Executive Directors: (3) Chief Executive Officer – Steve Fraser, Chief Financial Officer – Anthony Bickerstaff and Chief Operating Officer – Howard Forster.

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

General Counsel and Company Secretary: Diane Bennett.

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

Our Board composition



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

Board Activities

The Board planned and held seven formal meetings and five interim board meetings. In addition, the following meetings were held:

- Two Strategy days held: one in June 2023 focusing on Cadent's Future of Gas Programme and the other in January 2024 focusing on RIIO-3 planning (Cadent's next regulatory period).
- Two 'meet and greet' sessions (both in July 2023); a 'show and tell' session in March 2024 and informal sessions with Cadent's employee led ED&I Communities throughout 2024.

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

An evaluation of Board effectiveness is undertaken on an annual basis, with assistance from an external third party on alternate years. In 2023, an internally led review was undertaken which focussed on progress made against recommendations arising from the previous year's review as well as inviting comments on any other aspects of Board management that Board members wished to raise. Pleasingly, feedback was positive with no significant concerns raised. Themes for discussion were identified and considered at the September 2023 Board meeting with recommended actions presented to the November 2023 meeting. These included structured engagement with the newly established Customer Challenge Group; maintaining opportunities for directors to engage with frontline workers through the rolling programme of site visits; increasing Board member and shareholder visibility with the wider leadership population; and consideration of certain matters related to Board succession. In keeping with usual practice, arrangements are in place for an externally facilitated review to be conducted in 2024.

In addition, some limited changes were made to Board Committee membership to ensure the continuing best use of directors' specialist skills and expertise for the benefit of the company. The annual review of the Committees' Terms of Reference was also undertaken, and the small number of proposed revisions were 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;
- Directors training on Safety duties in July 2023;
- a dedicated session with representatives from Ofgem to discuss Cadent's cyber security in September 2023;
- two Strategy days, in June 2023 and January 2024; and
- engagement with members of the workforce during site visits and "show and tell" sessions.

In addition, an induction programme was arranged for the three new Non-Executive Directors: Graham Cooley, Emma Howell and Alistair Ray.

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.

Corporate governance report continued

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-bribery and corruption; whistleblowing; data privacy and protection; social media; records management; information security; health and safety; social impact; 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 67.

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 were scheduled to allow appropriate time for consideration and oversight of the company's net zero ambitions, RIIO-3 regulatory period 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 36 to 40 for more information.

Opportunity and risk

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

Opportunity

The Board has considered how the company, in fulfilling its purpose, creates and preserves value over the long term. Our business model is set out on pages 04 to 05 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 51 to 77. 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 76 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 13 to 17 and 42 to 44.

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 84 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 90 to 92. A separate Annual Report on Remuneration is set out on pages 98 to 103 and provides details of the remuneration policy, level and components of remuneration and procedure for fixing the individual remuneration packages of Executive Directors and members of the Executive Committee.

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 36 to 40.

Safety Committee report

"The Safety Committee oversees and steers all aspects of Cadent's safety performance through targeted deep dives, focused papers and reports received."

Mark Mathieson
Chair of the Safety Committee

Key highlights of the year

Safety assurance:

- Oversight of safety performance including operational safety and asset integrity.
- Review of reporting criteria and investigation processes.
- Reports and deep dives on key focus areas.

Wellbeing of our employees:

- Updates received on introduction of Safe+Well Framework.
- Review of progress against safe driving plan.
- Oversight of on-going action plan and management of hand-arm vibration syndrome.
- Oversight of further improvements to fatigue management.
- Review of enhanced personal protective equipment introduced.

Safety internal audit:

- Approval of safety related internal audit plan 2024/25.

Framework and business plan:

- Approval of proposed short term incentive plan safety targets for 2024/25 for recommendation to the Remuneration Committee.

Climate related:

- Reviewed Winter Plan.

The safety of employees, customers and wider communities is at the heart of all that Cadent does. The Committee supports the Board by reviewing and steering areas of safety focus, as well as maintaining oversight of operational safety performance, to gain assurance that the company is delivering against all aspects of this key priority and striving for continuous improvement.

During the year, the Committee spent time considering the continuing development and embedding of the Safe+Well Framework which is a core element of Cadent's safety culture strategy. The rounded scope of the framework, which centres on personal safety, process safety, health and wellbeing and human factors, was endorsed by the Committee. Related reports on employee engagement were also carefully considered, together with planned next steps aimed at ensuring the positive impact to be derived from the framework is maximised.

Other aspects of employee health and wellbeing reviewed and considered by the Committee included further updates on the Safe Driving Improvement Plan, where the Committee was pleased to see positive progress arising from the new technologies and processes introduced; the considerable work already done and continuing to reduce the risk of hand-arm vibration to Cadent employees; and the on-going pro-active management of fatigue, all of which remain areas of focus. The introduction of a new line of personal protective equipment was also showcased with the Committee, who commended the comprehensive approach taken to improving employee safety and comfort, as well as introducing features consistent with attracting a more diverse workforce in keeping with Cadent's EDI ambitions.

A number of deep dives were undertaken during the course of the year to inform Committee thinking and assist with oversight. These included two separate papers on the important area of process safety and a detailed review of the classification, reporting and management of High Potential Near Misses which had been identified by the Committee as an area of interest (and which led to introduction of the performance measure referenced below). In addition, the Committee received papers on a wide range of safety related areas including the Winter Plan, which provided assurance to the Committee of the adequacy of winter weather related workload and workforce planning in response to climate related challenges.

Operational Safety Performance was reviewed and monitored at each meeting through detailed data driven reports and incident overviews which were scrutinised by the Committee and discussed with the management team. During this year's presentations, the Committee explored the incident investigation process and use of TapRooT analysis to satisfy itself of the appropriateness of the approach adopted.

The Committee was assisted in its work by reports from the Internal Audit Team on the findings from internal safety audits and external consultative work conducted. In reviewing outcomes, the Committee requested and received clarificatory information to satisfy itself that learnings and actions were appropriately implemented to further improve safety performance.

Committee members also relished participating in a rolling programme of safety focussed site visits, which provided further insight on the matters covered in Committee papers and presented the opportunity to hear directly from frontline staff. Reflections and highlights from the visits were shared with the management team inform future works.

In the March 2024 meeting, the Committee approved safety measures for the companywide 2024/25 short term incentive plan for recommendation to the Remuneration Committee. Recognising the benefits derived from existing measures relating to lost time injury frequency rates and safety leadership visits, these were retained, the latter at an increased volume. The Committee was also pleased to approve the introduction of two new measures, which replaced the previous year's fatigue assessments measure where resulting improvements were now embedded as BAU. The new measures – High Potential Incident Investigations and Safe+Well programme delivery – sought respectively to provide assurance that emerging learnings are acted upon and support the reinforcement and enhancement of Cadent's safety culture.

In the year ahead, the Committee will continue to undertake targeted reviews of key focus areas as well as scrutinising operational safety performance to ensure the current strong safety performance is maintained and opportunities to further improve it are seized and implemented.

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 areas within its remit.

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

On behalf of the Safety Committee:

Mark Mathieson
Chair of the Safety Committee

18 June 2024

Safety Committee report continued

Meetings

During the year four meetings were held.

May 2023

Main purpose

- Received a report on Safe + Well Conference and next steps.
- Received report on companywide pulse survey on safety, health and well-being.
- Received a report on the Safe + Well Framework
- Received an update on the annual liaison meeting with the Health & Safety Executive
- Received management's assessment of the Health and Safety Management System
- Reviewed a material safety incident, the investigation, actions and learnings.
- 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; and Director of Audit & Risk.

July 2023

Main purpose

- Received and discussed a report on Operator Licence obligations and compliance.
- Received an update on progress with Process Safety improvement initiatives.
- Undertook a risk deep dive, focusing on Hand Arm-Vibration Syndrome
- Reviewed the Safety Performance Report.
- Reviewed a material safety incident, including actions and learnings.
- 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 Engineering; Director of East of England Network, Head of Occupational Health & Wellbeing; and Head of Internal Audit.

November 2023

Main purpose

- Received an update on a very recent incident occurring within the Company's geography.
- Committee members shared reflections on safety site visits.
- Reviewed and noted the Winter Plan Summary 2023/24
- Received an update on progress against the Safe Driving Plan.
- Received an update on recording of GB domestic drivers' hours.
- Received and discussed a presentation on reporting of high potential near misses.
- Reviewed the Safety Performance Report.
- Reviewed a material safety incident, the resultant actions taken and learnings.
- Received a report on management of fatigue.
- 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 Operational Performance; Director of Network London; Director of East of England Network; Head of Internal Audit; and an Engineering Senior Safety Advisor.

March 2024

Main purpose

- Reviewed and approved the proposed short term incentive plan safety targets for 2024/25 for recommendation to the Board.
- Received an update on the HSE's Major Hazard Regulations
- Received an update on management of Occupational Health and Wellbeing risk.
- Received an update on the Safe+Well Framework
- Reviewed and viewed enhanced Personal Protective Equipment introduced.
- Received an update on internal safety audits and approved the planned safety audits for 2024/25.
- Reviewed the Safety Performance Report (including an update on an incident)
- Undertook a deep dive on explosion related investigations.

Key additional attendees

Chair of the Board; one non-executive investor appointed director; a Board observer, Chief Executive Officer; Chief Operating Officer, General Counsel & Company Secretary, Director of Safety, Health, Environment and Security, Director of Engineering, Head of Internal Audit, Head of Occupational Health and Wellbeing and Systems Assurance. Governance and Change Manager.

Sustainability Committee report

"The Committee has focused on strategic aspects of Cadent's sustainability strategy as well as monitoring environmental performance and positive social impact."

Perry Noble
Chair of the Sustainability Committee
(resigned 29 March 2024)

Key highlights of the year

Ensuring Cadent's Positive Social and Environmental Impact:

- Monitoring performance of commitments under Force for Good Framework.
- Monitoring performance of customer vulnerability strategy.

Strategic guidance:

- Review of carbon offsetting strategy.

Sustainable Operations:

- Reviewing implementation of Environmental Action Plan.

Risk and assurance:

- Oversight of climate change related risks and associated controls.
- Management of challenges arising from water ingress incidents.

Sustainability Internal audits:

- Received reports on sustainability related internal audits.

Performance targets:

- Approved environmental related performance targets for 2024/25 for recommendation to the Remuneration Committee.

This year the Committee has focussed on key aspects of the company's sustainability strategy and performance, as well as monitoring progress against the RIIO-2 Environmental Action Plan, the social impact delivered through the Force for Good Framework and reviewing and recommending environmental performance measures to the Remuneration Committee for approval.

Ensuring the effectiveness of Cadent's customer vulnerability strategy remains a priority for the Committee. It commended all that had been achieved against the four focus areas (PSR Awareness and Accessibility, Carbon Monoxide Awareness, Affordability and Fuel Poverty, and Services beyond the meter') and carefully considered management's plans for investment of further regulatory funds allocated by Ofgem to enable significant societal benefits. It supported Cadent's ambition to maintain a leading stance.

The impact of climate change was a key area of focus for the Committee. It received and considered a detailed overview of Cadent's approach to recording and managing climate change risks and controls and welcomed establishment of a new Extreme Weather Working Group to provide central co-ordination and alignment. The Committee also received two in-depth reports on water ingress into Cadent's network (a significant climate related challenge). The reports provided the Committee with insight into the primary causes of ingress and how they are managed by Cadent through a mixture of structured, preventative actions and the reactive mobilisation of incident response, which requires proactive, customer focussed action. The Committee was also provided with an overview of broader trends relating to water ingress, how Cadent has responded to date and plans for future innovation. Through such reports, the Committee was able to gain assurance, on behalf of the Board, that Cadent's current approach is appropriate whilst continually seeking to challenge itself on how to innovatively respond to climate related risks in the future.

Sustainability Committee report continued

An important area of consideration for the Committee was Cadent's position in relation to carbon off-setting, which was considered and debated over the course of two meetings. The Committee acknowledged the evolving landscape relating to off-setting and strongly supported the proposed approach of focussing on abatement of carbon emissions prior to considering carbon off-setting. The opportunities to proactively tackle carbon emissions' reduction through initiatives such as the use of Picarro technology and Operations 4.0 initiatives were recognised and welcomed, these being consistent with the Committee's ongoing challenge to Cadent to do all that in can to reduce emissions.

At each meeting, the Committee reviews progress against Cadent's Force for Good Framework which captures Cadent's commitments to make a social impact on the communities it serves under the headings of "easier warmth", "fairer opportunities" and "greener society". In addition, the Committee considered employee engagement and associated plans through a focussed paper addressing Cadent's volunteering programme and charity partnership.

The Committee is assisted in its oversight by reports from the Internal Audit Team in relation to sustainability related audits. Through the reports, the Committee is provided with additional insight into discrete areas of company operations, including recommended actions and progress against them. The Committee noted the positive outcome of an audit undertaken by Carbon Trust on the important area of greenhouse gas emissions data and supported management's aims to put in place an action plan to achieve the next level of accreditation. Ensuring the robustness of emissions data continues to be a key area of Committee focus.

The Committee considered and approved sustainability related performance measures for recommendation to the Remuneration Committee. In considering the proposed short term incentive measures, which built on the previous year's depot waste reduction targets, the Committee explored the ambit of the measures and the level of challenge they presented with management. Having done so, it was satisfied that the proposals were appropriately challenging; robustly measurable and drove employee accountability and performance. When approving the proposed long term incentive measure – continuing year on year carbon emissions reductions in line with our science-based targets - the Committee took the opportunity to scrutinize the on-going work underway to reduce leakage and received assurance that this key aspect of Cadent's operations was appropriately addressed in the wider measures.

Looking forwards, the Committee will continue its oversight of actions underway to reduce carbon emissions and to challenge the Company to seek new and innovative ways to address these, as well as encouraging evolving customer vulnerability initiatives, monitoring response and resilience to climate change and maintaining oversight of operational sustainability performance.

Role and composition of the Sustainability Committee

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

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

29 March 2024

Paul Smith took over as Chair of the Sustainability Committee as of 1 April 2024.

Meetings

During the year three meetings were held.

May 2023

Main purpose

- Received an overview of climate change related risks and controls.
- Received a report on the output from ESG benchmarking completed in 2022/23.
- Received a report on management's review of the Environmental Management System.
- Reviewed a Force for Good update focusing on 'fairer opportunities.
- Reviewed the Force for Good Performance Report.

Key additional attendees

Chair of the Board; Chief Executive Officer; Chief Operating Officer; Chief Financial Officer; Chief Strategy & Regulation Officer; General Counsel and Company Secretary; Director of Sustainability and Social Purpose; Director of Safety and Sustainability; and Environmental Manager.

September 2023

Main purpose

- Received an update on environmental incident causes analysis.
- Received an update on progress against the RIIO-2 Environmental Action Plan.
- Received a report on measuring the environmental impact of the disruption element of Cadent's works.
- Received an overview of considerations for carbon off-setting strategy for discussion.
- Received an update on Cadent's customer vulnerability strategy.
- Received a report on management of water ingress events.
- Reviewed the Force for Good Performance Report.
- Received an internal audit update.

Key additional attendees

Chair of the Board; one non-executive investor appointed 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 Sustainability and Social Purpose; Head of Engineering; and Head of Internal Audit.

January 2024

Main purpose

- Reviewed and approved the environmental targets for the 2024/25 financial year for recommendation to the Board.
- Received an update on biodiversity and progress against Environmental Action Plan Action 16
- Received a second paper on water ingress incidents focusing on trends and innovation to reduce impact.
- Received an internal audit update.
- Re-visited Cadent's off-setting strategy.
- Reviewed the Force for Good Performance Report.

Key additional attendees

Chair of the Board; one non-executive investor appointed director; Chief Executive Officer; Chief Operating Officer; Chief Financial Officer, Chief Strategy & Regulation Officer, General Counsel and Company Secretary; Director of Safety and Sustainability; Director of Sustainability and Social Purpose; and Head of Internal Audit.

Audit & Risk Committee report

> **The Committee reviewed and challenged the robustness of controls against a risk profile driven largely by the external 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 2022/23 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 Taskforce for Climate Related Financial Disclosures requirements.

Internal control, risk and assurance:

- Oversaw progress against enhanced risk and assurance processes.
- Reviewed management of asset related risk and further improvements to data management and quality.

Cyber security:

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

Internal audit:

- Reviewed outcomes of internal audits completed in 2023/24 and approved the proposed Internal Audit plan for 2024/25.

External audit:

- Recommended the reappointment of the external auditors for 2023/24.
- Reviewed the external auditors report on the 2022/23 accounts and financial statements.
- Reviewed the external auditor's report on the 2023 interim accounts and financial statements.
- Reviewed the external audit plan on the 2023/24 accounts and financial statements.

During the year, the company's risk profile, and accordingly the Committee's agenda, has continued to be driven by uncertainty in relation to the UK's roadmap to NetZero and instability in the macroeconomic and geopolitical environment. Against this backdrop, the Committee has both challenged and supported management in relation to a broad range of topics including operational, resilience, financial, regulatory and of course, cyber risks.

The Committee has overseen a restructuring of the Risk, Internal Audit, Ethics and Business conduct teams. This has included the creation of a new role, Head of Internal Audit who has independent accountability to the Audit and Risk Committee. Ethics and Business conduct matters are now being managed within the General Counsel team. The Committee is pleased that the changes have been seamlessly embedded with a continued focus on delivery of the Internal Audit plan.

Regular Internal Audit reports relating to the status of the control environment of a broad range of risks have been reviewed by the Committee. Risk and Assurance Reporting has been consolidated during the year to provide a more holistic insight into our principal risks. 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's focus on cyber risk has been driven both in response to increasing threats but also increases in regulatory expectations and scrutiny. Through regular reports and discussion, the Committee has challenged management to ensure that mitigation plans are robust to the threats and continue to meet increasing regulator expectations.

The Committee was pleased to note a strengthening of controls across the company's cyber estate which enabled achievement of baseline Cyber Assessment Framework ("CAF") compliance as well as a proactive approach to managing Artificial Intelligence risks. These have been risk assessed and mitigation follows the overarching policy of 'security by design'.

The Committee also noted that responsibility for managing cyber security has been acknowledged across Cadent, beyond the IT department, with clear recognition of the role that individuals have to play in achieving this . Dynamic employee training is in place to keep pace with evolving threats and trends in cyber incidents. Improvements in operational technology have also been achieved through partnership between IT and the operational business.

The Committee has also reviewed the learnings from cyber exercises and the progress made in managing security risk, both physical and cyber, more holistically, with site visits planned to enable Committee members to see this first hand.

Cyber risk will remain a key topic for the years to come, with the Committee playing a key role in monitoring and challenging the delivery of a significant cyber improvement programme which will improve controls across the business, incorporating both physical and digital assets.

Where appropriate, the Committee has escalated key discussion topics to the wider Board for their input and discussion. In addition to a deep dive into cyber risk, which was also attended by Ofgem, the Committee also recommended a deep dive into supply chain risk in recognition of escalating geopolitical risks which have put additional pressure on supply chains and supply routes this year. Climate related risks are considered both at committee level and by the Board, with the Committee having oversight of climate related financial disclosures through reports from external auditors and consideration of financial statements.

The Committee reviewed the company's network asset risks and associated improvement project, to ascertain management's progress in improving controls in this critical area. This was accompanied by a review of the risks and opportunities associated with network asset data and the improvements which were being made in this area.

The Committee has continued to monitor the corporate governance developments proposed by the Financial Reporting Council and, whilst not required of Cadent, endorsed a plan to adopt elements of it on a voluntary basis to further enhance existing good practice.

With an impending general election, political risk and the implications for the role of gas within the future energy mix will continue to be an area of focus for the Committee. Similarly, the Committee will keep the delivery of the enhanced CAF requirements under close review as a strategic priority for the year ahead.

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. 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 69 to 72.

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 2023/24 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 2024. 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

18 June 2024

Audit & Risk Committee report continued

Meetings

The Committee is required to meet and make recommendations to the Board, before the Board is asked to approve interim financial statements and the annual report and accounts. During the year 5 meetings were held.

May 2023

Main purpose

- **Cyber security update:** received and considered update.
- **Risk management:** reviewed the Executive Risk Register and associated controls and actions to manage risk.
- **Assurance update:** reviewed the internal audit assurance report for the six month period to 31 March 2023.
- **Catastrophic risk:** reviewed the Catastrophic Risk Register and associated controls and actions to manage risk.
- **Ethics and business conduct:** reviewed ethics and business conduct reporting and case management for the six month period to March 2023.
- **Internal audit:** reviewed the internal audit activity update
- **Governance:** approved sign off process for 2022/23 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; and Director of Digital Risk and Security.

June 2023

Main purpose

- **External audit:** reviewed Deloitte's final audit report, on their audit of the company for year ending 31 March 2023. Satisfied itself of the auditor's independence and recommended the reappointment of Deloitte as auditors for 2023/24 to the relevant Boards.
- **Financial statements:** reviewed and recommended to the Board for approval the 2022/23 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; General Counsel and Company Secretary; Director of Finance; Head of Internal Audit; Head of Risk & Assurance and External Auditors .

July 2023

Main purpose

- **Cyber security update:** received and considered update
- **Internal Audit Update and Audit Charter:** reviewed the internal audit team's annual review and activity update for the period to June 2023.

Key additional attendees

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

November 2023

Main purpose

- **Cyber security update:** received and considered update.
- **Asset related risk:** received an update on management of asset related risk, including an update on asset data strategy.
- **Risk and Assurance Process review –** considered the effectiveness of risk management and assurance processes.
- **Risk & Assurance Report –** reviewed a combined report for the pre-ceding six month period covering the Executive risk register and progress against associated actions to manage risk; and the Central Assurance Team's assurance report.
- **Business conduct:** reviewed ethics and business conduct reporting and case management for the six month period to October 2023.
- **Internal Audit Update:** reviewed the internal audit activity update and audit plan update.
- **Corporate Governance Reforms:** received an update on changes to proposed corporate governance reforms.
- **External audit:** Considered the report on the 2023 interim accounts and financial statements and the audit interim review report for the six months ended 30 September 2023; and reviewed external auditor's 2023/24 audit plan.
- **Financial statements:** Reviewed and recommended the six months ended 30 September 2023 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; Chief Information Officer; General Counsel and Company Secretary; Director of Digital Risk & Security; Director of Finance; Director of Operational Performance; Director of Asset Management; Head of Internal Audit; Head of Risk & Assurance; Assurance Manager and External Auditors.

March 2024

Main purpose

- **Cyber Security:** Received an update on cyber security
- **Controls:** received a review of expenditure classification controls
- **Internal audit:** Reviewed progress against the 2023/24 internal audit plan and approved the proposed 2024/25 internal audit plan and Internal Audit Charter.
- **Significant Accounting Matters –** reviewed significant accounting matters and areas of judgement
- **Auditor Independence Review:** received report assessing external auditor independence
- **Non-audit services policy:** Approved the non-audit services policy for the year.

Key additional attendees

Chair of the Board; one non-executive investor nominated director, a Board Observer, Chief Executive Officer; Chief Financial Officer; Chief Operation Officer, General Counsel and Company Secretary; Director of Finance, Chief Information Officer; Director of Digital, Risk & Security; Head of Cyber Security Operations Centre; Head of Internal Audit and External Auditors.

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 117 to 130. 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 recent macroeconomic and geopolitical volatility impacting inflation and interest rates. 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, breach of financial covenants and unexpected regulatory action, any potential liquidity and working capital shortfalls and access to existing sources of capital. On the basis of their assessment the Committee was satisfied that it was appropriate to recommend to the Board that the Group and company continue to adopt the going concern assumption in its financial statements.
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) and the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. 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 compliant with the requirements and for consistency in disclosure across the Annual Report and Accounts. The Committee also reviewed management's judgements 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. The Committee also questioned the key assumptions and calculation of the past service cost following the changes to the Scheme in relation to future accrual.
Adjusting items	The Committee agreed with the proposed change in terminology from "Exceptional items" to "Adjusting items" to reduce any judgement and interpretation of the meaning 'exceptional' profit by users of the Financial Statements. The Committee considered the application of the Group's accounting policy during the year and reviewed the items included within adjusting items to challenge whether they were appropriate to be included. The Committee confirmed that management's classification of adjusting items associated with restructuring activities, the closure of the Scheme to future accrual and gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective, 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.
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.
Supplier and shipper failures	The Committee agreed with the proposed accounting treatment for Supplier of Last Resort (SoLR) claims as an agent and agreed with the net presentation of the amounts collected and amounts paid per the requirements of IFRS 15.
Derivatives	The Group uses a number of complex derivative financial instruments including inflation linked (both RPI and CPI) swaps which are included in the balance sheet at fair value. In addition, the Group has entered into new transactions in the period in relation to its cross currency swaps on new debt where the initial exposure which has historically been swapped from fixed to fixed on issue has now been swapped from fixed to floating and then progressively swapped back from floating to fixed. This introduces an additional degree of complexity to the accounting with the need to recognise both cash flow and fair value hedge relationships. The Committee considered the accounting for derivatives given the complexity of the valuations and following the introduction of fair value hedge relationships in the year.

Nomination Committee report

> Succession planning has continued to be the main focus for the committee this year.

Sir Adrian Montague CBE
Chair

Key highlights of the year

- Approved re-appointments of, and succession planning for, sufficiently independent directors.
- Considered talent and succession planning at executive and senior operational level.

A key area of focus for the Nomination Committee this year was succession planning for sufficiently independent directors. Discussion in relation to this had been delayed pending a decision on the commencement date of the next price control period so that regard could be had to timing. Ofgem's decision in July 2023 meant that the Committee could return to this important aspect of its duties.

Considerations included re-appointment and succession of sufficiently independent directors Catherine Bell and Paul Smith and of myself as both sufficiently independent director and Chair of the Board. In keeping with good governance, each of us recused ourselves from the meeting while our respective appointments were considered. Investor nominated director, Mark Braithwaite, chaired the meeting in my absence.

Recognising the diligence and rigour with which both Catherine and Paul fulfilled their roles and having assessed and been satisfied that each of them continue to meet the required Licence criteria, the Committee was unanimous in recommending their reappointment for a further period to March 2027 to the Cadent Board and Quadgas Holdings TopCo Limited (approval of such appointments being reserved to the latter).

I was pleased to learn from Mark Braithwaite that the Committee was also unanimously positive in recommending my re-appointment for a further period to March 2026 to coincide with the end of the current regulatory period. Again, the Committee had assessed and been satisfied that I continue to meet the required Licence criteria.

In making the recommendations, which were duly approved by the Boards, the Committee was satisfied that they achieved a structured and phased succession, which is in the best interests of Cadent's shareholders, people, customers and wider stakeholders.

The Committee also noted that the re-appointments take both my and Catherine's tenure to beyond 8 years and, while this is permitted by the Licence provided the required criteria continue to be met, it was agreed to write to Ofgem confirming the decisions made and the reasons for them.

In addition to the annual in depth overview of performance and succession planning for the Executive team, which gave confidence to the Committee of the continuing quality and effectiveness of leadership in place, the Committee also received a detailed presentation on succession planning for the senior operational team and their direct reports. This included a demonstration of the newly rolled out Success Factors system which is used to capture, manage and calibrate activity as well as monitoring the anticipated trajectory towards meeting EDI ambitions. The approach in place was well planned and impressive, providing reassurance to the Committee that the company is providing effective and consistent talent management across the organisation, benefitting both the company and employees in relation to development and retention.

In the coming year, the Committee will continue to retain oversight of executive and senior management talent and succession, as well as addressing any relevant appointments within its remit.

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 and remuneration reviews in the case of Sufficiently Independent Directors). 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 69 to 72.

Meetings

During the year three meetings were held.

The company's commitment to inclusion and diversity can be found in the Strategic report on page 29, under the heading Equality, Diversity and Inclusion.

On behalf of the Nomination Committee.

Sir Adrian Montague CBE
Chair of the Nomination Committee

18 June 2024

Directors' Remuneration Committee report

> The Committee has focused on ensuring that remuneration continues to align with business strategy, with sustainable positive outcomes for our stakeholders.

Paul Smith
Chair of the Remuneration Committee

Key highlights of the year

Executive Incentives Review:

- Reviewed the Short Term Incentive Plan (STIP) and the Long Term Incentive Plan (LTIP).

Salary review:

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

Incentive plans:

- Reviewed 2023/24 Short Term Incentive Plan (STIP) and 2021 Long Term Incentive Plan (LTIP) outcomes.
- Selected performance measures and set incentive targets for 2024/25 STIP and 2024 LTIP, with a focus on delivering strong performance for all stakeholders.
- Considered the structure of the 2024 LTIP award.

Introduction

On behalf of the Remuneration Committee, I am pleased to provide an overview of the remuneration arrangements in respect of the Executive Directors and Cadent's wider workforce for the financial year ended 31 March 2024.

This year Cadent has performed to a high standard both in terms of operational delivery and safety performance. The Remuneration Committee has maintained a strong focus on designing remuneration arrangements which create incentives to deliver outcomes aligned to the interests of all our stakeholders, including our customers, our regulators, our shareholders and the wider workforce. These include driving efficiency and providing value for money for our customers, which has been especially important in light of the cost-of-living challenge. Delivering excellent customer service has been a priority, leading to year-on-year improvements in our customer satisfaction scores.

Our focus on supporting customers in vulnerable situations has seen us reach millions of households in our regions through the provision of energy efficiency advice, income and energy management support and a range of in-home tailored interventions to make energy more affordable for our customers. This has included the establishment of 300 Centres for Warmth and the focusing of the Cadent Foundation funding of c.£5 million per annum directly to address affordability and fuel poverty related schemes, for example via the Winter Support Fund, providing financial relief to people most in need.

In addition to ensuring the safe operational delivery of a high-quality service, there is also a strong focus on and close alignment of remuneration to sustainability outcomes; through targeting the reduction of waste, energy consumption and carbon emissions. Delivery of our mains replacement programme is on track with the upgrading of iron mains with plastic, longer lasting pipes ensures that we will keep communities connected with a safe and reliable gas supply into the future as we invest in cleaner, greener alternatives.

We have played a leading role in the energy sector in helping to achieve the UK's net zero ambitions; ensuring consumers are at the heart of the energy transition and making progress on a number of regional Hydrogen projects focused on decarbonising industry.

The Committee has taken careful consideration of the broader landscape when assessing remuneration outcomes.

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 year-on-year improvements and focus on delivering a safe, reliable, and affordable network for our customers along with recognising the interests of our wider stakeholders, as follows:

- **Society:** Cadent strives to be a force for good in society and have a positive and lasting impact in our communities, whilst taking care of an essential and vital public service. Our Social Impact Report sets out our commitment to making life easier, fairer, and greener for our customers, colleagues and communities. Cadent continues to invest up to 1% of profits to the Cadent Foundation, who spend c.£6 million per annum supporting thousands of customers living in fuel poverty.
- **Communities:** Cadent has continued to partner with Emmaus UK in 2023/24; supporting individuals experiencing homelessness by providing wellbeing support, meaningful work experience and training for those in need. Cadent gives all employees two paid days a year to volunteer for the good causes which align to our social impact framework of making life easier, fairer, and greener. 60% of employees have given back to our communities in 2023/24 through volunteering.
- **Domestic Gas Consumers**: In 2023/24 a typical domestic customer paid £152 towards the cost of our services, down from £171 at the start of RIIO-1 adjusting for the impact of inflation, (further details can be found on page 3). This reduction in cost has been achieved through an increased 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 continued cost of living challenges. Cadent ensures that all employees are paid at least the voluntary Real Living Wage and have access to a wide range of benefits to support financial, physical, and mental health wellbeing. This has included the provision of financial and wellbeing resources and assistance, gym memberships encouraging people to stay active and healthy, 24-hour access to a Virtual GP for employees and their immediate family and vouchers for colleagues over the festive period.

Incentive outcomes for the year 2023/24

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 Remuneration Committee exercises its judgement when selecting measures, setting targets and in determining the outcomes of the STIP and LTIP and in exceptional circumstances will follow a Discretionary Framework to ensure consistency, fairness and transparency in decision making.

Short Term Incentive Plan

Performance under the STIP is assessed against a scorecard of measures; including delivering efficiently and brilliantly for our customers, ensuring our business is safe, secure and resilient, achieving economic outcomes and decarbonising our business.

The Company has demonstrated strong performance across all the measures, achieving stretch in safety performance and engagement; delivery of our mains replacement programme and achieving high customer satisfaction scores across our Emergency Response Services and Connections Services. Our complaints handling results have continued to see year on year improvements with industry leading closure rates. Strong performance has also been seen against a range of measures set by our industry regulator, Ofgem; our financial performance and our continued focus on reduction of waste. The scorecard outcomes, together with the Remuneration Committee's assessment of individual performance elements, resulted in a payout equal to 85.25%, 82.25% and 81.25% of the maximum STIP opportunity for Steve Fraser, Howard Forster and Anthony Bickerstaff (equivalent to £857,590, £241,821 and £257,630 respectively).

The Committee is satisfied that the 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 95 and 96.

Long Term Incentive Plan

The 2021-24 LTIP award granted in 2021/22 is due to vest in 2024/25 based on performance during the three years to 31 March 2024.

Performance under the LTIP was assessed by the Committee against the scorecard of measures. Stretch performance has been achieved in relation to our Customer Strategy supporting our most vulnerable customers with delivery of the fuel poor network extension scheme and delivery of a high positive social return on the investment in and delivery of a number of projects, including the delivery of 300 centres for warmth, welcoming c.50,000 households per week and providing free energy and income consultations and support. Delivery of the environmental plan has seen stretch performance in the Company's carbon reduction, with strong performance also seen in the provision of a resilient network, focused on reducing the unplanned interruptions to consumers' gas supply. Strong progress has also been made on the future energy transition towards net zero. Through working closely with Government and industry there has been progression of regional Hydrogen projects focused on decarbonising industry, facilitating the development of Hydrogen production to enable heavy industry to transition away from natural gas. Our ongoing biomethane connections are also a key part of our strategy to evolve decarbonisation.

Directors' Remuneration Committee report continued

Delivery against our strategy and wider stakeholder objectives within the LTIP has resulted in a payout equal to 75.40% of the maximum LTIP opportunity for Steve Fraser, Howard Forster and Anthony Bickerstaff (equivalent to £961,617, £411,421 and £313,133 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 95 and 96.

Annual salary review and policy application for 2024/25

This year the Committee carried out a detailed review of executive incentives. It also carried out its annual review of salaries of the Executive Directors and considered a range of external factors including market data on salary increases and inflation data along with considerations of the wider workforce. In addition to reviewing the internal differentials and external competitiveness, the Committee looked at the performance of the Group and the tenure of the Executive Directors. The Chief Executive Officer has been in post for over four years. The Chief Operating Officer has served with Cadent for almost three years and the Chief Financial Officer is the most recent recruit having joined Cadent in 2022.

Following the review it was agreed that an exceptional increase was required to Steve Fraser's salary of 9.2% taking his salary to £730,000 with effect from 1 February 2024. His annual LTIP award has also increased from 200% of salary to 250% of salary. The Committee also decided that a significant market adjustment was required to Howard Forster's salary of 20.2% taking his salary to £450,000 with effect from 1 July 2024. These increases align with our reward principles of ensuring that salary is broadly market equivalent for the role, whilst taking into account wider company performance. It was also agreed that the salary of Anthony Bickerstaff should be increased by 4% to £416,200 with effect from 1 July 2024.

Activities of the Committee 2023/24

The Committee held four scheduled meetings during the year. Activities of the Committee during the year included approving the outcomes of the 2023/24 STIP awards, salary reviews for the Executive Directors, setting targets for the 2024/25 STIP and 2024 LTIP. The Committee also undertook a review of executive incentives, supported by our independent remuneration advisers. Following the review, the structure will remain largely unchanged from 2023/24 as the Committee looks to build on what it believes is an effective approach.

Disclosure enhancements

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

Conclusion

For the 2023/24 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

18 June 2024

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 following review 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, particularly our customers.
- **Pay for performance:** most 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

Directors' Remuneration Policy continued

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 Contribution (DC) benefits with discretion to retain contribution rate to up to 15% of salary (where applicable); 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: 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.	Not applicable.

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 250% 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 Chair and other NEDs (to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy).

Only the Chair and Sufficiently Independent Directors (SIDs), receive fees. Shareholder Nominated Directors are not separately remunerated by Cadent for their services as Directors. The fees of the Chair, in accordance with the Committees terms of reference, are decided by the Remuneration Committee. To avoid a situation which any individual is involved in decisions on their own remuneration the fees of the SIDs are decided by the Board excluding the SIDs .

The Chair and the SIDs 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, Cadent also meets the associated tax cost to the Non- Executive Directors through a PAYE settlement agreement with HMRC.

The Chair and the SIDs do not have employment contracts but instead have letters of appointment. There is no provision for termination payments.

Directors' Remuneration Policy continued

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, 28 senior management employees are eligible for the 2021-2024 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.

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.

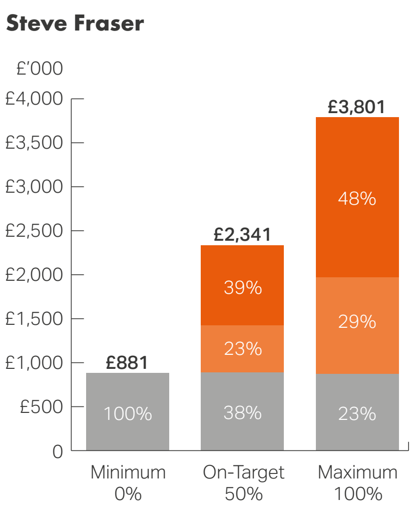
External appointments

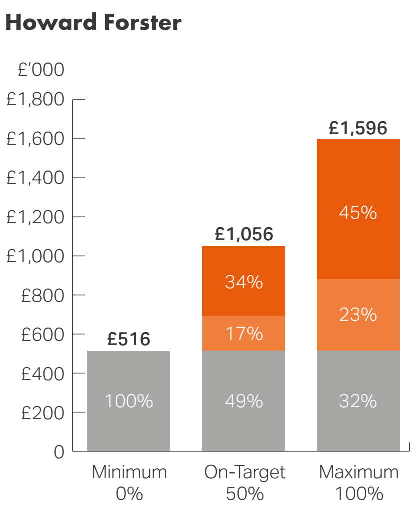
Executive Directors may, with the approval of the Board, accept external appointments as Non-Executive Directors of other companies and retain any fees received for the appointment. Experience as a Board member of another company is considered to be valuable personal development, that in turn is of benefit to the Company.

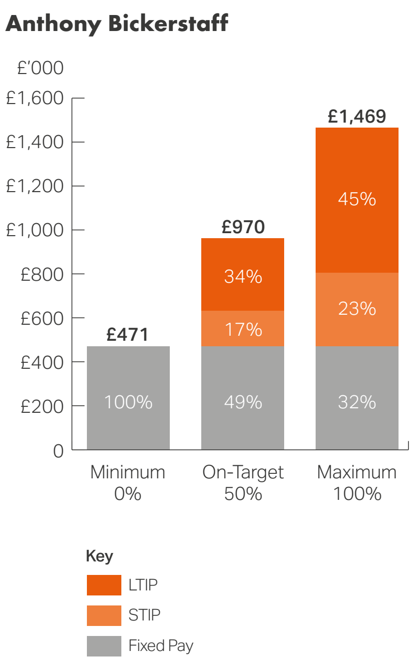
Total remuneration opportunity

The total remuneration for Steve Fraser, Howard Forster and Anthony Bickerstaff that could result from the current remuneration policy for the year.

2024/25 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. Using salaries effective from July 2024.
3. Benefits for Steve Fraser for 2024/25 includes an accommodation allowance.
4. Benefits are as shown in the Single Total Figure of Remuneration table for 2023/24 on page 98.
5. Pay in lieu of 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 maximum for Steve Fraser has increased from 1 April 2024 from 200% to 250%.
8. LTIP calculations are based on maximum of 250% of salary for Steve Fraser and maximum of 160% of salary for Howard Forster and Anthony Bickerstaff.
9. LTIP and STIP payout is 50% of maximum for on-target performance.

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 regulators' 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 2023/24, together with comparative figures for 2022/23.

	Salary £000		Benefits-in-kind £000		STIP £000		LTIP £000		Pension £000		Other £000		Total £000	
	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23
Steve Fraser	671	633	64	39	858	756	962	1057	81	76	–	–	2,636	2,561
Howard Forster	368	342	13	19	242	207	412	442	45	41	–	–	1,080	1051
Anthony Bickerstaff	397	383	5	14	258	226	314	176	48	46	–	–	1,022	845

Notes:

Salary: Steve Fraser's salary increased from £636,480 to £668,304, with effect from July 2023 and to £730,000 effective 1 February 2024. Howard Forster's salary increased from £346,698 to £374,434 with effect from July 2023. Anthony Bickerstaff's salary increased from £384,800 to £400,192 with effect from 1 July 2023.

Benefits-in-kind: Benefits-in-kind include private medical insurance, life assurance, and a car/cash alternative. For Steve Fraser this includes an accommodation allowance, which increased in 23/24. .

STIP: STIP outcome based on performance assessment of 85.25% , 82.25% and 81.25% 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 99.

LTIP: LTIP outcome based on performance assessment of 75.40% of maximum for Steve Fraser and Howard Forster, calculated with reference to average eligible earnings over the performance period. The LTIP earned relates to the performance for the 3 years from 2021/22 to 2023/24 inclusive. Steve Fraser's LTIP maximum increased to 250% with effect from 1 April 2024, therefore the LTIP for 2021-2024 will be based upon previous maximum of 200%. Anthony Bickerstaff will receive a prorated payment from when he joined Cadent.

Pension: Steve Fraser, Howard Forster and Anthony Bickerstaff all received a cash allowance, based on 12% of salary, in lieu of participation in a pension arrangement payment.

Performance against targets for STIP 2023/24

STIP awards are earned by reference to the financial year and paid in June. 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, safety, sustainability and business metrics.

The Company performed well against customer, safety, sustainability, financial and business metrics. The scorecard outcomes, together with the Remuneration Committee's assessment of the individual performance element, resulted in a payout equal to 85.25%, 82.25% and 81.25% of the maximum STIP opportunity for Steve Fraser, Howard Forster and Anthony Bickerstaff respectively (equivalent to £857,590, £241,821 and £257,630 respectively).

The Committee noted that the STIP scorecard result is used for all employees who participate in the bonus plan. The Committee is satisfied that the resulting outcome is appropriate and fair, being between target and maximum given the strong performance during the year.

The resulting outcomes of STIP awards for 2023/24 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 %
Economic outcome – EBITDA	24.5%	£1,685m	£1,719m	£1,753m	See notes	63.46	63.46	63.46
Customer Service	10.50%	See commentary below			See notes	75	75	75
Complaint Handling	3.50%	See commentary below			See notes	100	100	100
Safety – Lost Time Injury Frequency Rate	5.25%	0.62	0.58	0.54	0.51	100	100	100
Safety – Engagement visits	1.75%	544	680	816	956	100	100	100
Safety – Process Safety	1.75%	90%	94%	96%	98.3%	100	100	100
Sustainability – % waste reduction	2.10%	2%	5%	8%	7.87%	96.7	96.7	96.7
Sustainability – Mains Replacement	10.5%	4550km	4614km Tier 1	67.1km (Tier 2 & 3)	Tier 1 4725.8km Tier 2 & 3 99.1km	100	100	100
Sustainability – Carbon Footprint reduction	2.10%	2%	5%	7%	Below	0	0	0
Sustainability – Supply Chain Assurance	2.80%	See commentary below			See Notes	100	100	100
Regulatory Measures	5.25%	Assessment by Remuneration Committee				100	100	100
Individual – Financial Performance	10%				Finance Assessment	100	100	100
Individual Performance	20%	Assessment by Remuneration Committee				95	80	75
Total	100%					85.25%	82.25%	81.25%

Notes:

EBITDA (Group): Group EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) excludes the impact associated with the implementation of IFRS 15 and IFRS 16. Group EBITDA is before adjusting items. This excludes all pass-through costs agreed as part of the RIIO-2 settlement with Ofgem. Adjustments to the target reflect changes in inflation, accounting standards and one off costs.

Customer Service: Targets and stretch targets were put in place for each of Cadent's 4 regulatory networks for Customer Satisfaction (Emergency Response & Repair, Planned work, Connections) and Complaints handling. Target being each regulatory network meeting a target score rate and stretch being all networks meeting their target scores and having 2 networks in the top 4 of the Gas Distribution Networks' league table). We have continued to see significant progress in our Customer Satisfaction league table achievements over the course of 2023/24.

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 Performance – Safety engagement visits carried out across the business.

Process Safety – Fatigue assessments undertaken.

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 – Mains Replacement: Delivery of the mains replacement programme (HSE output). Threshold and Target are based on cumulative Tier 1 mains replacement km over the RIIO2 period to 31 March 2023, with stretch based on delivery of Tier 2 & 3 mains replacement.

Carbon Footprint Reduction: Reviewing our carbon footprint across all depots(based on tonnes of carbon equivalent). Consumption of gas and electricity at our depots has reduced by c.4.9% year on year based on kilowatts per hour, however increases to the conversion faction to tonnes of carbon equivalent has meant this target has not been hit.

Supply Chain Assurance – Data assurance measure with local delivery partners.

Regulatory Measures: Scorecard of measures against RIIO-2 delivery targets.

Data used in the assessment of the STIP is assured by third parties where applicable.

Annual Report on Remuneration continued

2023/24 STIP as proportion of base salary

	Max STIP	Outcome	STIP £000
Steve Fraser	150% of salary	85.25% of max	858
Howard Forster	80% of salary	82.25% of max	242
Anthony Bickerstaff	80% of salary	81.25% of max	258

Performance against targets for 2021-24 LTIP

LTIP awards are earned by reference to rolling three-year financial periods and paid in the June following the end of the third performance period.

The performance period for the 2021-24 LTIP award ended on 31 March 2024 and this award will vest in June 2024. In relation to the bonus performance 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 performance targets for the LTIP 2021-2024 award are shown in the table below:

	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)	Actual	Outcome (% of max)
RIIO2 Customer Strategy	15%	Based on fuel poor connections and social return on investment				100%
Economic Outcome	20%	Commercially Sensitive				64.50%
Sustainability Commitment	20%	Based on financial cost of the Mains Replacement Programme and CO_2 reduction				50%
RIIO2 Commitment: Resilient Network	15%	All networks exceed min performance level for average interruption duration over the 3 years.	All networks exceed minimum performance level by 5%	All networks exceed minimum performance level by 10%	See notes	100%
Energy and Business Transition	30%	Assessment by Remuneration Committee				75%
Total	**100%**					**75.40%**

Notes:

RIIO2 Customer Strategy: Fuel poor connections and achieving positive social return on investment against spend of the relevant Ofgem allowance.

Economic outcome: Commercially sensitive information .

Sustainability Commitment: This is based on % carbon reduction based on science-based targets to achieve 42.5% carbon reduction over a 15 year period and Mains Replacement financial costs.

RIIO2 commitment: Resilient Network: Unplanned interruptions across the whole network.

Energy and Business Transition: Assessment by the remuneration committee on progress against key milestones.

Data used in the assessment of the STIP is assured by third parties where applicable.

The overall outcome for the 2021-24 LTIP was 75.40 % 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 151%,121% and 121% of salary respectively (for this purpose, salary is based on the average eligible earnings earned over the performance period). From April 2024, Steve Fraser's LTIP maximum will increase to 250%.

2021-24 LTIP as a proportion of base salary

	Max opportunity	LTIP outcome	LTIP £000
Steve Fraser	200% of salary	75.40% of max	962
Howard Forster	160% of salary	75.40% of max	412
Anthony Bickerstaff	160% of salary	75.40% of max	314

Note:

Anthony Bickerstaff will receive a prorated LTIP from the date he joined Cadent.

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 2023/24 and for 2022/23.

	2023/24 £'000	2022/23 £'000
Sir Adrian Montague CBE	342	325
Dr Catherine Bell CB	64	60
Paul Smith	76	70

Notes:

Following on from an external review the non-executive fees were increased as follows:

1. Sir Adrian Montague's fee increased in June 2023 from £325,000 to £345,000
2. Dr Catherine Bell's fee increased in June 2023 from £60,000 to £65,000 and will increase by a further £12,500 from June 2024 for chairing the Cadent Foundation Committee.
3. Paul Smith's fee increased in June 2023 from £70,000 to £77,500
4. From April 2024 Paul Smith will receive an additional £12,500 for chairing the Sustainability Committee.

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

FIT Remuneration Consultants fees for advice to the Committee in 2023/24 were £43,315.

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 People Director, Centre of Expertise. No other advisors have provided significant services to the Committee in the year.

Statement of implementation for 2024/25

Remuneration policy is expected to be implemented during 2024/25 as described below.

Salary

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

As Steve Fraser had received an increase in salary following the Executive Remuneration Strategy review with effect from February 2024 it was determined that no further increase was required at the normal July 2024 review date.

For Howard Forster and Anthony Bickerstaff, it was agreed their salaries should be increased by 20.18% and 4% respectively with effect from 1 July 2024. The table below sets out the resulting rates of salary:

	From 1 July 2024	From 1 July 2023
Steve Fraser	£730,000	£668,304
Howard Forster	£450,000	£374,434
Anthony Bickerstaff	£416,200	£400,192

Note:

1. Steve Fraser's salary increased from1February 2024.

Annual Report on Remuneration continued

STIP measures for 2024/25

The STIP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2024/25 annual report on remuneration. The structure of the scheme will remain largely the same as that of 2023/24.

	Weighting
EBITDA (excluding pass through costs)	28%
Lost Time Injury Frequency Rate (LTIFR) performance	5.6%
Safety Performance	2.40%
Safety Investigations	2.40%
Safe and Well Delivery	2.40%
Waste Reduction	3.20%
Mains Replacement Programme	12%
Customer Service	12%
Complaints Handling	4%
Regulatory Measures	8%
Individual Performance	20%

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 total weighting of individual performance has changed for 2024/2025 to 20%.

The targets have been set in the context of the business plan and external factors. The Remuneration Committee retains discretion in exceptional circumstances over the 2024/25 measures and targets.

LTIP to be awarded in 2024/25

The LTIP targets are considered commercially sensitive and consequently will be disclosed after the end of their performance period in the 2026/27 annual report on remuneration. Measures to be used for the 2024/25 award are shown in the table below:

	Weighting
RIIO-2 Customer Strategy	20%
Economic Outcome	30%
Sustainability	20%
Asset Health	15%
Energy System Transition	15%

For the 2024/25 award, the target and maximum will be 125% and 250% of salary respectively for Steve Fraser, and 80% and 160% of salary respectively for Howard Forster and Anthony Bickerstaff.

Fees for the independent Chair and the other Non-Executive Directors

The fees for the Sufficiently Independent Directors' (SIDS) for the forthcoming year are detailed in the table below.

	Fee From 1 July 2024	Fee From 1 July 2023
Chair	**£345,000**	£345,000
Sufficiently Independent Director	**£65,000**	£65,000
Additional fee for Chair of Remuneration Committee	**£12,500**	£12,500
Additional fee for Chair of Sustainability Committee	**£12,500**	–
Additional fee for Chair of Cadent Foundation Committee	**£12,500**	–

Fees are reviewed periodically. In reviewing the fees of the Chair and Sufficiently Independent Directors, market data is reviewed for comparable companies with a similar sized turnover and companies with a similar market cap.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Paul Smith
Chair of the Remuneration Committee

18 June 2024

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 01 to 63, 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	
Dr G E Cooley	(Appointed 17 January 2024)
N R V Corrigall	
S Fennell	
E B Fidler	
H N Forster	
S R Fraser	
E Howell	(Appointed 29 March 2024)
D A Karnik	
M W Mathieson	
W D G Price**	(Appointed 23 November 2023)
A G Ray	(Appointed 19 July 2023)
P R Smith*	
H Su	
M Wang**	
D L Wilkins**	
D J Xie	

Former Directors who resigned during the period	
R Greenleaf**	(Resigned 23 November 2023)
A Marsden	(Resigned 19 July 2023)
P D Noble	(Resigned 29 March 2024)

* Sufficiently Independent Director

** Alternate Director

Corporate governance

A full report on corporate governance can be found on pages 73 to 77. Incorporated by reference into this report.

Future developments

Details of future developments have been included within the Strategic report on pages 01 to 63.

Dividends

During the year, the company paid ordinary dividends totalling £310m, £155m in September 2023 and £155m in January 2024 (2022/2023: ordinary dividends totalling £350m). No further dividends are proposed for the current financial period.

Charitable and political donations

Charitable donations made by the company during the year totalled £4.7m Cadent Foundation (2022/23: £5.6m) and £0.1m (2022/23: £0.2m) Emmaus and other fundraising. Further information can be found on page 27.

The company made no political donations during the year (2022/23: £Nil).

Research and development

Expenditure on research and development was £24m during the period (2022/23: £30m).

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 on pages 27 to 29. Details of how the Directors have engaged with employees can be found in the Section 172 Statement on pages 36 to 40.

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 36 to 40.

Environmental policy

Information on the Group's environmental initiatives can be found in the 'Our strategy for responding to climate change' on page 50, and on pages 30 to 35 in 'Protecting our planet', 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 Group, its cash flows, liquidity position and borrowing facilities are described in this Strategic Report on pages 1 to 63. 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 Group is well placed to manage its business risks successfully despite ongoing macroeconomic and geopolitical volatility impacting inflation and interest rates.

The Board's consideration of the going concern status of the Group is an extension of the annual business planning process. The process includes financial forecasting for a period of at least 12 months from the date of this report, 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.

Considerations are also made by the Directors for a reasonable worst-case scenario that factors in deliberately negative sensitivities such as a decline in transportation revenue, inflationary pressures on our cost base, fluctuations in pass through costs, a major operational incident and unexpected regulatory action, all of which are assumed to materialise concurrently.

In both the base case and downside scenario, the Group has sufficient headroom on its existing banking facilities to maintain sufficient liquidity. Over the forecast period The Group has net current liabilities of £221 million (2023: £103 million asset) primarily due to several items of debt maturing within 12 months from the date of this report. The carrying value of the debt as at 31 March 2024 is £655 million and will be repaid using existing liquidity arrangements. The Group is bound by certain financial covenants with regards to its debt agreements and banking facilities. For debt issued by Cadent Gas Limited and Cadent Finance Plc, the most relevant covenant is adjusted net debt to RAV. In both the base case and downside scenario, the Group has sufficient headroom over its covenants even factoring in timing of regulatory revenues which impact cashflows towards the end of 2025 and before considering mitigating actions if required that are within the Group's control. In addition, to the headroom tests above, reverse stress testing was performed which resulted in scenarios that were considered to be highly unlikely due to the regulatory protection afforded and predictability of cash flows.

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.

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 financing activity 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 154 to 161.

Major shareholdings

As at 31 March 2024, 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 regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) 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, and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). 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 parent financial statements, the Directors have elected to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

They 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 corporate and financial information included on 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

18 June 2024

Financial statements

In this section

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 2024 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 the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

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, financial instruments 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 procedures performed to address it are described below:

Independent auditor's report to the members of Cadent Gas Limited continued

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 £942m in property, plant, and equipment, excluding leased motor vehicles and other equipment (2023: £855m).

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.

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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Whitlock ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

18 June 2024

Consolidated income statement

For the year ended 31 March 2024

	Notes	2024 £m	2024 £m	2023 £m	2023 £m
Revenue	4		2,277		2,340
Operating costs					
Before adjusting[1] items		(1,350)		(1,388)	
Adjusting items	6	(34)		(7)	
Total operating costs			(1,384)		(1,395)
Total operating profit			893		945
Finance income	9				
Before adjusting items	9	58		35	
Adjusting items	6/9	27		158	
Total finance income			85		193
Finance costs					
Before adjusting items	9	(288)		(398)	
Total finance costs			(288)		(398)
Profit before tax					
Before adjusting items		697		589	
Adjusting items	6	(7)		151	
Total profit before tax			690		740
Tax					
Before adjusting items	10	(176)		(122)	
Adjusting items	6/10	2		(38)	
Total tax			(174)		(160)
Profit after tax					
Before adjusting items		521		467	
Adjusting items	6	(5)		113	
Profit for the year			516		580

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

The results reported above relate to continuing activities.

The notes on pages 117 to 165 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2024

	Notes	**2024 £m**	2023 £m
Profit for the year		**516**	580
Other comprehensive expense:			
Items that will not be reclassified to profit or expense			
Remeasurements of post-employment benefit obligations	27	**(396)**	(410)
Tax on remeasurements of post-employment benefit obligations	10	**99**	102
Total items that will never be reclassified to profit or loss		**(297)**	(308)
Items that may be reclassified subsequently to profit or loss			
Net gain/(loss) in respect of cash flow hedges		**17**	(14)
Net (loss)/gain in respect of cost of hedging reserve		**(9)**	1
Amortisation of cost of hedging reserve		**5**	4
Tax on net (gain)/loss in respect of cash flow hedges	10	**(3)**	2
Total items that may be reclassified subsequently to profit or loss		**10**	(7)
Other comprehensive expense for the year, net of tax		**(287)**	(315)
Total comprehensive income for the year		**229**	265

The results reported above relate to continuing activities.

The notes on pages 117 to 165 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 March 2024

	Notes	2024 £m	2023 £m
Non-current assets			
Intangible assets	12	31	48
Property, plant and equipment	13	11,832	11,293
Investment in associates	14	–	–
Pension and other post-retirement benefit assets	27	350	729
Derivative financial assets	17	16	37
Total non-current assets		12,229	12,107
Current assets			
Derivative financial assets	17	3	–
Inventories	15	16	15
Corporation tax		4	24
Trade and other receivables	16	211	211
Current asset investments	18	569	523
Cash and cash equivalents		29	21
Total current assets		832	794
Total assets		13,061	12,901
Current liabilities			
Trade and other payables	19	(365)	(513)
Borrowings	21	(655)	(150)
Lease liabilities	22	(21)	(14)
Provisions	23	(12)	(14)
Total current liabilities		(1,053)	(691)
Net current (liabilities)/assets		(221)	103
Total assets less current liabilities		12,008	12,210
Non-current liabilities			
Derivative financial liabilities	17	(328)	(250)
Borrowings	21	(7,330)	(7,473)
Lease liabilities	22	(99)	(84)
Deferred tax liabilities	10	(1,806)	(1,888)
Provisions	23	(56)	(56)
Accruals and deferred income	20	(41)	(30)
Total non-current liabilities		(9,660)	(9,781)
Total liabilities		(10,713)	(10,472)
Total net assets		2,348	2,429
Equity			
Share capital	24	–	–
Cash flow hedge deficit		(13)	(27)
Cost of hedging reserve		9	13
Retained earnings		7,645	7,736
Other deficit		(5,293)	(5,293)
Total equity		2,348	2,429

The notes on pages 117 to 165 are an integral part of these financial statements.

The consolidated financial statements on pages 112 to 165 were authorised and approved for issue by the Board of Directors on 18 June 2024 and were signed on its behalf by:

A O Bickerstaff
Director
Cadent Gas Limited

18 June 2024

Company registration number: 10080864

Consolidated statement of changes in equity

For the year ended 31 March 2024

	Share Capital £m	Cash flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2023	–	(27)	13	(5,293)	7,736	2,429
Profit for the year	–	–	–	–	516	516
Other comprehensive income/(expense) excluding amortisation of cost of hedging reserve	–	14	(9)	–	(297)	(292)
Amortisation of cost of hedging reserve	–	–	5	–	–	5
Total comprehensive income/(expense) for the year	–	14	(4)	–	219	229
Equity dividends (note 11)	–	–	–	–	(310)	(310)
At 31 March 2024	**–**	**(13)**	**9**	**(5,293)**	**7,645**	**2,348**

	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 (expense)/income excluding amortisation of cost of hedging reserve	–	(12)	1	–	(308)	(319)
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive (expense)/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

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 117 to 165 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Total operating profit		**893**	945
Adjustments for:			
Adjusting[1] items	6	**34**	7
Depreciation and amortisation	12/13	**462**	423
Increase in inventories	15	**(1)**	(4)
Decrease/(increase) in trade and other receivables		**4**	(21)
(Decrease)/increase in trade and other payables	30	**(129)**	55
Capital contribution income		**(43)**	(43)
Changes in provisions		**(3)**	1
Gain on disposal of property, plant and equipment		**(2)**	(3)
Changes in pensions and other post-retirement obligations		**–**	(27)
Capital contributions received		**63**	78
Cash flows relating to adjusting items		**(10)**	(14)
Cash generated from operations		**1,268**	1,397
Tax paid		**(160)**	(101)
Net cash inflow from operating activities		**1,108**	1,296
Cash flows from investing activities			
Purchases of intangible assets		**(3)**	(2)
Purchases of property, plant and equipment	31	**(962)**	(848)
Disposals of property, plant and equipment		**2**	3
Interest received[2]		**21**	4
Net increase in financial investments		**(42)**	(443)
Net cash flow used in investing activities		**(984)**	(1,286)
Cash flows from financing activities			
Proceeds received from loans		**998**	474
Cash received on derivatives hedging loan proceeds		**18**	–
Repayment of loans		**(656)**	–
Cash received from early termination of derivatives		**4**	–
Repayment of lease liabilities	22	**(22)**	(16)
Interest paid on loans[2]		**(180)**	(141)
Cash received on interest settlement of derivatives[2]		**32**	32
Dividends paid to shareholders	11	**(310)**	(350)
Net cash flow used in financing activities		**(116)**	(1)
Net increase in cash and cash equivalents		**8**	9
Net cash and cash equivalents at the start of the year		**21**	12
Net cash and cash equivalents at the end of the year		**29**	21
Comprising:			
– Cash[3]		**29**	21
– Overdraft		**–**	–
		29	21

1. The term 'adjusting' represents a change in terminology from the prior period which disclosed certain items as 'Exceptional items and remeasurements'. See note 1 for details.
2. 2023 Re-presented. See note 1(s) for details.
3. Cash of £29m (2023: £21m) includes £9m (2023: £17m) 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 2024

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 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.

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 Group, its cash flows, liquidity position and borrowing facilities are described in this Strategic Report on pages 1 to 63. 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 macroeconomic and geopolitical volatility impacting inflation and interest rates.

The Board's consideration of the going concern status of the Group is an extension of the annual business planning process. The process includes financial forecasting for a period of at least 12 months from the date of this report, 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.

Considerations are also made by the Directors for a reasonable worst-case scenario that factors in deliberately negative sensitivities such as a decline in transportation revenue, inflationary pressures on our cost base, fluctuations in pass through costs, a major operational incident and unexpected regulatory action, all of which are assumed to materialise concurrently.

In both the base case and downside scenario, the Group has sufficient headroom on its existing banking facilities to maintain sufficient liquidity over the forecast period . The Group has net current liabilities of £221 million (2023: £103 million asset) primarily due to several items of debt maturing within 12 months from the date of this report. The carrying value of the debt as at 31 March 2024 is £655 million and will be repaid using existing liquidity arrangements . The Group is bound by certain financial covenants with regards to its debt agreements and banking facilities. For debt issued by Cadent Gas Limited and Cadent Finance Plc, the most relevant covenant is adjusted net debt to RAV. In both the base case and downside scenario, the Group has sufficient headroom over its covenants even factoring in timing of regulatory revenues which impact cashflows towards the end of 2025 and before considering mitigating actions if required that are within the Group's control. In addition, to the headroom tests above, reverse stress testing was performed which resulted in scenarios that were considered to be highly unlikely due to the regulatory protection afforded and predictability of cash flows.

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 identified in the TCFD disclosure on pages 50 to 63 this year, 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 (UEL) of property, plant and equipment - note 13.

Whilst there is currently no known 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).

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(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. Control is achieved when the Group becomes entitled to the variable returns of the subsidiary and becomes exposed to its risks, and has the power to affect these risks and returns.

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 Group.

(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 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

- IFRS 17, Insurance Contracts
- A number of narrow-scope amendments to IAS 1, Practice Statement 2 and IAS 8
- Amendments to IAS 12, Deferred tax
- Amendments to IAS 8, Accounting policies, Changes in Accounting Estimates and Errors
- Amendments to IAS 12, International tax reform

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 IAS 1, Presentation of financial statements' on classification of liabilities
- Amendments to IAS 1, Non-current liabilities with covenants
- Amendments to IFRS 16, Lease Liability in a sale and leaseback
- Amendments to IAS 7 and IFRS 7, Supplier finance
- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IAS 21, Lack of Exchangeability*
- IFRS 18 , Presentation and disclosure in financial statements*
- IFRS 19, Subsidiaries without Public Accountability: Disclosures*
- IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information*
- IFRS S2, Climate-related Disclosures*

* 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.

The Financial Reporting Council (FRC) issued amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs, following its periodic review. The amendments outline a number of changes to FRS 102 including a new model of revenue recognition; lease accounting and various other incremental improvements and clarifications. The effective date of the amendments is 1 January 2026 with the year ended 31 March 2027 being the first year impacted by the proposals. The company is assessing the likely impact of the proposals on the financial statements of the company in future periods.

1 Summary of significant accounting policies continued

(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 is 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. Impairment is 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 arising from development (or from the development phase of an internal project), 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 or sale; the intention to complete the intangible asset and use it or sell it; the ability to use or sell 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 or sell 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	Years
Computer software	5
Computer licenses	3

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(e) Property, plant and equipment and depreciation

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. We also continue to invest in research and innovation to support the energy transition to net zero. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment assets includes assets which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets. Continued investment and future forecasted spend will be incurred with an aim to make the network usable for alternative technologies and energies.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(e) Property, plant and equipment and depreciation continued

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, at the point the connection has been completed, the contribution is credited to revenue.

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 2040, 2045 or 2050). 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. In the current year this has included the consideration of the impact of climate change. Impairments are recognised in the income statement, and, where material, are disclosed as an adjusting item. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

(g) Financial instruments

Initial recognition

Financial assets have been classified in accordance with business model assessment under IFRS 9. Financial 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.

1 Summary of significant accounting policies continued

(g) Financial instruments continued

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 loss allowance 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.

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, counterparty credit and funding risk adjustments. 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.

Hedge accounting

Derivative financial instruments ('derivatives') are recorded at fair value. 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 and funding risk adjustments. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability. Balance sheet presentation of derivatives have been determined based on the final maturity date. A derivative that matures within one year has been classified as current and a derivative that matures after one year has been classified as non-current.

The accounting treatment of derivatives and other financial instruments classified as hedges depends on their designation, which occurs at the start of the hedge relationship.

Cash flow hedges

Changes in the effective portion of the fair value of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income, with any ineffective portion being recognised immediately in the income statement where relevant. Cashflow hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At this point, any cumulative gains or losses on the hedging instrument recognised in other comprehensive income are retained until the forecast transaction occurs or transferred to the income statement for the period if the hedged transaction is no longer expected to occur.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated as fair value hedges are recognised in the income statement. Gains or losses in respect to the hedged risk is recorded as a fair value adjustment in the same line of the income statement. Fair value hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At this point, the changes in fair value on the hedging instrument will continue to be recognised in the income statement, while the hedged item will no longer be adjusted for fair value changes.

Foreign currency

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction or at average monthly rates where exchange rates do not fluctuate significantly.

Foreign currency monetary assets and liabilities held at year end are translated into Sterling at period end exchange rates. Exchange differences on monetary items are taken to the income statement. Exceptions to this are where the monetary items are designated as effective cash flow hedges. Such exchange differences are initially deferred in equity.

Non-monetary items are translated at the historical exchange rates.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Impairment of financial assets

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. The Group has taken default to be defined as a counterparty that has entered administration.

The Group recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- trade receivables;
- loan receivables; and
- other receivables.

The Group measures the loss allowances at an amount equal to the 12 month expected credit loss. The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the Group recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the Group recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the Group recognises the lifetime expected credit loss.

A significant increase in credit risk would be as a result of any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

Evidence that the financial asset is credit impaired includes the following:

- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the Group that the Group would not consider otherwise; or
- it is probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for an associated security because of financial difficulties.

1 Summary of significant accounting policies continued

(h) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which has not yet been invoiced.

Trade receivables and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance

(i) Trade and other payables

Trade payables are initially recognised at amortised cost and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book values.

Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the 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.

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(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. The customers for the distribution of gas are Shippers. The single performance obligation for these revenue streams was deemed to be the provision of a safe gas transportation network between the National Gas Transmission network to end consumers (customers of the shippers) and being able to transport gas around the network. The performance obligation is satisfied over time as the shippers immediately control and consume the benefits that Cadent Gas provides over time by having a network available to shippers (capacity) and transporting the gas around the network (commodity). Although capacity and commodity revenue are invoiced separately, the services are not distinct (the nature of the promise is to transfer a combined service) and only one performance obligation exists.

Income from shippers is governed by the credit rules within the Uniform Network Code (the Industry Code by which we are bound). These set out the level of credit relative to our RAV for each counterparty's credit rating. The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit ratings, letters of credit from a financial institution, parent company guarantees, independent assessment, payment history allowance and advanced cash deposits. Typical payment terms are 14 days.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised, as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

1 Summary of significant accounting policies continued

(n) Revenue continued

Other income comprises all activities outside the regulated business principally relating to cash fees paid by customers, typically property owners / developers, for connections fees and typically developers or large infrastructure projects for altering, diverting or relocating part of our existing network. 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 judgement 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) Adjusting items (previously exceptional items and remeasurements)

Results are presented on a statutory and adjusted basis. The alternative performance measure (APM) 'adjusted profit' represents a change in terminology from the prior year which separately disclosed certain items to show a profit measure excluding exceptional items and remeasurements. The change in terminology has been adopted to reduce any subjective interpretation of the meaning 'exceptional' profit by users of the Financial Statements. As this is a terminology change only, there has been no change to how the company determines items to be adjusting, and there has been no change to previously reported comparatives. Any previously 'exceptional items and remeasurements', continue to meet the definition of 'adjusting items' following the change in terminology in the current year.

Adjusting items 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 adjusting items may not be comparable between companies, and the exclusion of adjusting items impacts the presentation of financial performance and cash flows.

Management utilises an adjusting items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances, management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be 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 adjusting items include items such 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.

Adjusting items within finance income 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.

Further details relating to adjusting items are provided in note 6.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(p) Pensions

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

For the DC pension scheme, the company pays contributions into a Master Trust on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

(q) Leases

The company 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.

1 Summary of significant accounting policies *continued*

(q) Leases *continued*

For short-term leases (with a lease term of 12 months or less) and leases of low-value assets (deemed less than £3,500) the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Measurement

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and
- lease payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee of a term similar to that of the lease contract.

The lease liability is presented as a separate line in the consolidated statement of financial position, split between current and non-current liabilities.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(q) Leases continued

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.

Interest paid within the consolidated statement of cash flows

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

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, 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 transportation 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 adjusting item under the adjusting items 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 infrequently, 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. 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 is exploring different pathways including the production and use of hydrogen 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 2024 Cadent Gas Limited has paid claims amounting to £139 million (2023: £377 million) to its SoLR and has received additional compensating income of £139 million (2023: £379 million).

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

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. Currently our assets are being depreciated out to 2055 and 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. 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. Given there is political and regulatory uncertainty, with the heat policy decision expected in the short term, which could result in material adjustments to the carrying value of our network assets, we deem determination of UELs to be a key source of estimation uncertainty. See note 29 for impact on depreciation charge under different modelling scenarios – **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 expectations of inflation rates (for RPI swaps based on market forecasts and for CPI swaps based on the currently unobservable spreads to the liquid RPI inflation markets) and interest rates both of which are subjective and fluctuate on a daily basis. 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 credit risk funding risk and Cadent's credit spread (the last two of which are unobservable), 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

	2024 £m	2023 £m
Revenue from distribution of gas	2,218	2,279
Other income	59	61
	2,277	2,340

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

The performance obligation for the distribution of gas 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 and transporting the gas around the network. Other income comprises all activities outside the regulated business with the performance obligation being satisfied at a point in time (see note 1(n) for further detail).

	2024 £m	2023 £m
Analysis of revenue by major customer		
Customer A	317	602
Customer B	299	353
Customer C	274	78
Customer D	266	280
	1,156	1,313

Four customers contributed 10% or more to the Group's revenue during the year to 31 March 2024 (2023: three).

5 Operating Profit

	2024 £m	2023 £m
Operating profit is stated after charging:		
Depreciation and amortisation	462	423
Payroll costs (see note 7)	279	255
Inventory consumed	25	13
Shrinkage	29	62
Rates	174	212
Research and development expenditure	22	28
Exit capacity charges	132	161

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.

Exit capacity charges are charges associated with the Group's usage of the National Gas Transmission System (NTS).

	2024 £000	2023 £000
Services provided by the company's auditor		
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	884	820
Fees payable for the audit of the subsidiary company financial statements	59	54
Other services		
Fees payable to the company's auditors for audit-related assurance services	107	98
Other non-audit services	194	211

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 2024 relate to services provided in connection with the raising of debt, grant claims or reports required by the regulator.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

6 Adjusting items

Adjusting items 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 adjusting items may not be comparable between companies, and the exclusion of adjusting items impacts the presentation of financial performance and cash flows.

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

	2024 £m	2023 £m
Adjusting items included within operating costs:		
Restructuring costs(i)	10	7
Costs associated with the closure of the Cadent Gas Pension Scheme(ii)	24	–
	34	7
Adjusted items included within finance income:		
Net gains on derivative financial instruments(iii)	(27)	(158)
Total included within profit before tax	7	(151)
Included within taxation:		
Tax on adjusting items		
Tax credit on restructuring activities and costs associated with closure of the Cadent Gas Pension Scheme	(9)	(1)
Tax charge on net gains on derivative financial instruments	7	39
	(2)	38
Total adjusting items after tax	5	(113)
Analysis of total adjusting items after tax		
Total adjusting items included within operating costs after tax	25	6
Total adjusting items included within finance income after tax	(20)	(119)
	5	(113)

(i) The Group is undergoing an operational transformation programme to improve the efficiency of our operations by restructuring the business. During the year the Group recognised £10 million in adjusting items in relation to our Operational Efficiency programme in response to driving and demonstrating efficiency as a result of the challenge set to us by the regulator, Ofgem, through the price control discussions. These activities are infrequent and adjusting in nature, and are financially material over the course of the multi-year exercise. On the 12th June 2024, the Group launched the next phase of our Operational Efficiency programme. In the prior year the Group recognised £7 million in relation to the previous restructuring programme, bringing cumulative restructuring costs to £59 million since the beginning of the restructure in 2019. These activities were infrequent and adjusting in nature, and were financially material over the course of the multi-year exercise.

(ii) During the year the Group completed a consultation on proposed changes to the DB pension scheme on whether the future accrual of benefits would continue. The consultation closed on 2 October 2023. On 1 November 2023, communication was sent by Cadent Gas Limited to the members of its Cadent Gas Pension Scheme setting out the conclusion on the changes to the scheme. The changes result in closure of the Scheme to future accrual as at 31 March 2024. £24 million has been included in adjusting items as a result of the change, which includes transition payments of £8 million, past service cost of £15 million and other costs of £1 million.

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

7 Employment numbers and costs

The average number of persons (including Executive Directors) employed by the Group was 6,215 (2023: 6,018) and can be analysed as follows:

	2024	2023
Field force	2,770	2,746
Office and other administrative staff	3,445	3,272
Total	**6,215**	6,018

	2024 £m	2023 £m
Wages and salaries	318	291
Social security costs	38	36
Other pension costs	60	45
	416	372
Less: payroll costs capitalised	(137)	(117)
	279	255

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.

	2024 £000	2023 £000
Salaries and other short-term employee benefits	5,046	4,749
Post-employment benefits	174	163
	5,220	4,912

8 Directors' emoluments

The Directors' emoluments were as follows:

	2024 £000	2023 £000
Aggregate emoluments (including salary, fees, bonuses and benefits in kind)	5,046	4,749
Post-employment benefits	174	163
	5,220	4,912

Highest paid Director

The highest paid Director's emoluments were as follows:

	2024 £000	2023 £000
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes	2,555	2,485
Post-employment benefits	81	76

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

9 Finance income and costs

	2024 £m	2023 £m
Finance income		
Interest income from pensions	33	29
Interest income from financial investments	25	6
Finance income before adjusting items	58	35
Adjusting items(i)	27	158
Total Finance income	85	193
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	37	79
Bonds(ii)	209	181
Derivatives(iii)	37	135
Unwinding of discounts on provisions and lease liabilities	5	3
Total Finance costs	288	398
Net finance costs	203	205

(i) Includes a net foreign exchange gain on financing activities of £53 million (2023: £62 million loss). These amounts are fully offset by foreign exchange gains and losses on derivative financial instruments measured at fair value. Also includes a gain of £21 million (2023: £158 million) relating to the remeasurement of derivatives not designated as hedges and a £6 million gain (2023: £Nil) on partial redemption of cross currency swaps relating to the €750 million debt partially redeemed in July 2023.

(ii) Included within finance costs in bonds is £19 million (2023: £70 million) of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £251 million) and £49 million (2023: £56 million) RPI-linked debt instruments of >10 years tenor (cumulative: £277 million).

(iii) Included within finance costs in derivatives is net interest received on derivatives of £38 million. Also, £28 million (2023: £63 million) of accretion on RPI-linked swaps with tenor>10 years (cumulative: £168 million), £33 million (2023: £73 million) on CPI-linked swaps (cumulative: £145 million) with 7-10 years tenor and £14 million (2023: £31 million) on CPI-linked swaps (cumulative: £55 million) with tenor >10 years.

10 Taxation

Tax charged to the income statement

	2024 £m	2023 £m
Tax before adjusting items	176	122
Tax on adjusting items (see note 6)	(2)	38
Total tax expense	174	160

Taxation as a percentage of profit before tax

	2024 %	2023 %
Before adjusting items	25.3	20.7
After adjusting items	25.2	21.7

The tax charge for the period can be analysed as follows:	2024 £m	2023 £m
Current tax		
UK corporation tax at 25% (2023: 19%)	161	97
UK corporation tax adjustment in respect of prior years	(1)	–
Total current tax	160	97
Deferred tax		
UK deferred tax current year	14	64
UK deferred tax adjustment in respect of prior years	–	(1)
Total deferred tax	14	63
Total tax charge	174	160

10 Taxation continued

Total tax credited to other comprehensive income and equity

	2024 £m	2023 £m
Deferred tax		
Financial instruments	3	(2)
Remeasurements of post- employment benefit obligations	(99)	(102)
Total tax credited to other comprehensive income and equity	(96)	(104)

The tax charge for the year after adjusting items is higher than (2023: higher) the standard rate of corporation tax in the UK of 25% (2023: 19%):

	Before Adjusting Items 2024 £m	After Adjusting Items 2024 £m	Before Adjusting Items 2023 £m	After Adjusting Items 2023 £m
Profit before tax				
Before adjusting items	697	697	589	589
Adjusting items	N/A	(7)	N/A	151
Profit before tax	697	690	589	740
Profit before tax multiplied by UK corporation tax rate of 25% (2023:19%)	174	173	112	141
Effect of:				
Expenses not deductible for tax purposes	4	3	3	4
Non-taxable income	(1)	(1)	(1)	(1)
Corporation tax/deferred tax rate differential	–	–	13	21
Super deduction capital allowances	–	–	(3)	(3)
Prior year adjustments	(1)	(1)	(2)	(2)
Total tax	176	174	122	160

Factors that may affect future tax charges

Future tax charges and tax payments will be affected by the level of corporate interest restriction arising in the Group. There is a significant amount of uncertainty as to the quantum of the restriction in future periods as it will depend on factors affecting profitability and interest. Future profitability will be impacted by changes in accounting standards and future regulatory pricing settlements. Interest charges will be impacted by the rates of interest and inflation.

Pillar 2 applies from 1 January 2024 to multinational groups with revenues in excess of €750 million. The Pillar 2 rules look to ensure multinational groups (MNEs) pay an effective tax rate (ETR), as calculated under Pillar 2 of at least 15% in each jurisdiction where they are located. If the Pillar 2 ETR is below 15%, a top-up tax will be applied to achieve the internationally agreed 15%. The Group has assessed the impact of this legislation and is not expecting any increase in taxes payable given the group is not a multinational enterprise and the group effective tax rate is comfortably higher than 15% (as calculated under the GloBe rules). The Group has applied the exception under IAS 12, such that Cadent neither recognises or discloses information about deferred tax assets and liabilities related to Pillar 2 income taxes.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

10 Taxation continued

Taxation included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current reporting period:

	Accelerated Tax Depreciation £m	Pensions £m	Financial Instruments £m	Other Net Temporary Differences £m	Total £m
At 1 April 2023	1,713	181	7	(13)	1,888
Charged to income statement	4	4	6	–	14
(Credited)/charged to other comprehensive income and equity	–	(99)	3	–	(96)
At 31 March 2024	1,717	86	16	(13)	1,806
Deferred tax assets	–	–	–	(13)	(13)
Deferred tax liabilities	1,717	86	16	–	1,819
At 31 March 2024	1,717	86	16	(13)	1,806

	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

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 £1,806 million (2023: £1,888 million).

11 Dividends

	2024 £m	2023 £m
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
Interim dividend of £917.00 per ordinary share amounting to £155,000,000 was declared on 22 September 2023 and paid on 28 September 2023	155	–
Second interim dividend of £917.00 per ordinary share amounting to £155,000,000 was declared on 24 January 2024 and paid on 25 January 2024	155	–
	310	350

No further dividends are proposed for the current financial period.

12 Intangible asset

	Software £m
Cost:	
At 1 April 2023	**200**
Additions	**3**
Disposals	**(28)**
At 31 March 2024	**175**
Accumulated amortisation:	
At 1 April 2023	**(152)**
Amortisation charge for the year	**(20)**
Disposals	**28**
At 31 March 2024	**(144)**
Net book value:	
At 31 March 2024	**31**
At 31 March 2023	**48**

	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

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

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 2023	206	12,786	73	231	124	13,420
Additions	28	865	22	27	41	983
Reclassifications	(2)	41	(43)	4	–	–
Disposals	(2)	(2)	–	(14)	(6)	(24)
At 31 March 2024	**230**	**13,690**	**52**	**248**	**159**	**14,379**
Accumulated depreciation and impairment						
At 1 April 2023	(46)	(1,892)	–	(156)	(33)	(2,127)
Charge for the year	(15)	(381)	–	(28)	(18)	(442)
Disposals	1	1	–	14	6	22
At 31 March 2024	**(60)**	**(2,272)**	**–**	**(170)**	**(45)**	**(2,547)**
Net book value:						
At 31 March 2024	**170**	**11,418**	**52**	**78**	**114**	**11,832**
At 31 March 2023	160	10,894	73	75	91	11,293

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 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:

	2024 £m	2023 £m
Land and buildings	61	68
Plant and Machinery	1	1
Motor vehicles and other equipment	52	22
	114	91

The net book value of land and buildings comprises:

	2024 £m	2023 £m
Freehold	133	113
Long leasehold (over 50 years)	31	39
Short leasehold (under 50 years)	6	8
	170	160

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 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 year	(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

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

	2024 £m	2023 £m
Raw materials and consumables	16	15
	16	15

Inventories are stated after provisions for impairment of £838,000 (2023: £806,000).

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

16 Trade and other receivables

	2024 £m	2023 £m
Amounts falling due within one year:		
Trade debtors	11	8
Amounts owed by other Group companies	5	–
Other debtors	2	6
Prepayments	9	7
Accrued income	184	190
	211	211

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:

	2024 £m	2023 £m
At 1 April	11	11
Amounts utilised/written off in the year	(6)	–
At 31 March	5	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 macroeconomic and geopolitical volatility 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.

2024	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total trade debtors balance	9	1	1	–	2	13
Expected credit loss	–	–	–	–	(2)	(2)
Balance after loss allowance	9	1	1	–	–	11

2023	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total trade debtors balance	5	–	1	1	4	11
Expected credit loss	–	–	–	–	(3)	(3)
Balance after loss allowance	5	–	1	1	1	8

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.

Historic volatility in gas prices had a wide impact on our industry and a number of shippers and gas suppliers ceased trading in previous financial years. Our exposure to credit losses from these counterparties is mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). 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 2024 the outstanding debt with these failed customers was £3 million (2023: £8 million) for which a specific provision exists, which remains outstanding and is subject to our existing credit procedures.

2024	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total accrued income balance	184	–	–	–	3	187
Expected credit loss	–	–	–	–	(3)	(3)
Balance after loss allowance	184	–	–	–	–	184

2023	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total accrued income balance	190	–	–	–	8	198
Expected credit loss	–	–	–	–	(8)	(8)
Balance after loss allowance	190	–	–	–	–	190

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2024		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	3	–	3
Amounts falling due after more than one year	16	(328)	(312)
	19	(328)	(309)

	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)

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

	2024 £m	2023 £m
Cross-currency interest rate swaps	2,129	1,954
Interest rate swaps	639	–
Inflation linked swaps	1,400	1,400
Foreign exchange forward currency	–	5
	4,168	3,359

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

18 Current asset investments

	2024 £m	2023 £m
Current asset investments	569	523
	569	523

Amounts held relate to investments in money market funds of £266 million (2023: £523 million) with typical maturity dates within 90 days and £303 million (2023: £Nil) of fixed term deposits with average maturity of 90-125 days from inception.

19 Trade and other payables

	2024 £m	2023 £m
Trade creditors	86	171
Amounts owed to immediate parent company	–	16
Other tax and social security	10	64
Other creditors	60	61
Accruals	101	101
Deferred income	108	100
	365	513

Other creditors principally relate to deposits from customers as part of managing customer credit risk. Due to the short-term nature of trade creditors, the fair value approximates its book value.

20 Accruals and deferred income

	2024 £m	2023 £m
Accruals and deferred income (due after more than one year)	41	30
	41	30

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

21 Borrowings

	2024 £m	2023 £m
Amounts falling due within one year		
Bank loans	210	107
Bonds	445	43
	655	150
Amounts falling due after more than one year		
Bank loans	549	903
Bonds	6,781	6,570
	7,330	7,473
Total borrowings are repayable as follows:		
Less than one year	655	150
In one – two years	–	1,161
In two – three years	400	–
In three – four years	–	400
In four – five years	848	–
More than five years	6,082	5,912
	7,985	7,623

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 2024

21 Borrowings continued

Currency	Listing Status	Notional (including accretion)* £m	Rate	Maturity Date	Carrying value £m	Fair Value £m
Fixed rate						
EUR[1]	Listed	383	Fixed	22-Sep-24	384	378
GBP	Listed	850	Fixed	22-Sep-28	857	769
EUR[2]	Listed	427	Fixed	05-Jul-29	457	456
GBP	Listed	100	Fixed	31-Jan-30	101	107
EUR[3]	Listed	537	Fixed	19-Mar-30	534	452
USD[4]	Listed	52	Fixed	25-Apr-30	53	55
USD[5]	Listed	58	Fixed	25-Jul-30	60	63
GBP	Listed	100	Fixed	19-Mar-31	100	87
USD[6]	Listed	151	Fixed	19-Mar-31	158	147
EUR[7]	Listed	439	Fixed	11-Mar-32	422	346
GBP	Listed	30	Fixed	15-Dec-32	30	33
GBP	Listed	45	Fixed	31-Jan-33	45	49
JPY[8]	Listed	68	Fixed	19-Jul-33	52	52
GBP	Listed	300	Fixed	14-Mar-34	299	312
GBP	Listed	200	Fixed	19-Mar-34	200	163
GBP	Listed	300	Fixed	10-Oct-35	299	224
GBP	Listed	315	Fixed	11-Jan-36	310	324
GBP	Listed	700	Fixed	22-Sep-38	705	510
GBP	Listed	225	Fixed	19-Mar-39	225	165
GBP	Listed	300	Fixed	21-Mar-40	296	224
GBP	Listed	800	Fixed	22-Sep-46	801	520
		6,380			**6,388**	**5,436**
Index-linked						
GBP	Unlisted	103	RPI-linked	18-Jun-24	104	103
GBP	Unlisted	103	RPI-linked	25-Jun-24	104	103
GBP	Listed	189	RPI-linked	02-May-39	259	207
GBP	Listed	194	RPI-linked	10-Aug-48	291	208
GBP	Listed	194	RPI-linked	14-Aug-48	288	204
		783			**1,046**	**825**
Floating Rate						
GBP	Unlisted	400	SONIA	23-Mar-27	400	411
GBP	Unlisted	150	SONIA	21-Oct-30	151	162
		550			**551**	**573**
Overdraft		–			–	–
Total		**7,713**			**7,985**	**6,834**

* Indexed linked debt notional is the accreted value.

1 Euro amount is 447m.

2 Euro amount is 500m.

3 Euro amount is 625m.

4 Dollar amount is 65m.

5 Dollar amount is 75m.

6 Dollar amount is 200m.

7 Euro amount is 500m.

8 JPY amount is 10bn.

21 Borrowings continued

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 £60 million and carrying value of £104 million as at 31 March 2023.

On 21 April 2023 Cadent Gas Limited entered into a £150 million bilateral term loan with one of its relationship banks. The loan was drawn on 19 January 2024 and matures on 21 October 2030.

On 25 April and 25 July 2023, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, funded private fixed rate notes $65 million and $75 million respectively issued on 25 October 2022 on a deferred draw basis.

On 2 May 2023, having provided sufficient notice to the lender, Cadent Gas Limited repaid two tranches of bank debt with a contractual maturity date of 29 April 2024 and 30 April 2024. These bank loans were indexed linked, had notional values of £60 million each and as at 31 March 2023 had carrying values of £101 million and £101 million respectively.

On 5 July 2023, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued a 6 year fixed rate Green bond with a notional value of €500 million and coupon of 4.25% under its €7 billion Euro Medium Term Note Programme. This bond is guaranteed by, and proceeds were on lent to, Cadent Gas Limited. The bond proceeds were swapped to floating sterling (£432.2 million) immediately on issue. Following issuance, £324 million of floating to fixed swaps have been executed. The floating to fixed swaps were taken out in tranches of £36 million over the period from July 2023 to March 2024.

On 7 July 2023, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, repurchased and cancelled €303 million notional value of existing notes, under a Tender Offer launched on 26 June 2023 for consideration of €291 million (£250 million). The repurchase resulted in a gain on redemption of £10 million which has been included within finance costs. The notes repaid were part of the €750 million 2024 maturity notes issued in 2016. Following this tender offer, €447 million of this issue remains outstanding. At the same time, the equivalent notional of existing cross currency swaps were unwound.

On 7 November 2023, having provided sufficient notice to the lender, Cadent Gas Limited repaid a bank loan with a contractual maturity date of 7 May 2024. This bank loan was index-linked with a notional value of £60 million and carrying value of £104 million as at 30 September 2023. The consideration paid for the bank loans repaid in April, May and November 2023 amounted to £406 million and resulted in a gain on redemption of £6 million which has been included in finance costs.

On 4 January 2024, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued a 12 year fixed rate Green bond with a notional value of £315 million and a coupon of 5.625% under its £7 billion Euro Medium Term Note Programme, this bond is guaranteed by and proceeds were on lent to Cadent Gas Limited. The bond proceeds were swapped to floating rate immediately on issue.

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term of up to £650 million at Cadent Gas level with a further £200 million facility available to be lent down from the immediate parent company, Quadgas MidCo Limited.

The fair value of borrowings at 31 March 2024 was £6,834 million (2023: £6,252 million). Where market values were available, the fair value of borrowings (Level 1) was £4,515 million (2023: £3,894 million). Where market values were not available, the fair value of borrowings (Level 2) was £2,319 million (2023: £2,358 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2024 was £7,713 million (2023: £7,308 million) (including accretion).

The Group is bound by certain financial covenants with regards to its debt agreements and banking facilities. For debt issued by Cadent Gas Limited and Cadent Finance plc, the most relevant covenant is adjusted net debt to RAV.

22 Lease liabilities

	2024 £m	2023 £m
Current	21	14
Non-current	99	84
	120	98

Lease liabilities are repayable as follows:	2024 £m	2023 £m
Year 1	21	14
Year 2	20	12
Year 3	16	11
Year 4	10	8
Year 5	6	5
More than 5 years	47	48
	120	98

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

22 Lease liabilities continued

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 3.51% for the current financial year (2023: 2.70%).

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

	2024 £m	2023 £m
Depreciation of right-of-use assets (see note 13)	18	12
Expense relating to short-term leases (included within operating expenses)	–	2
Expense relating to variable lease payments not included in lease liabilities (included within operating expenses)	2	1

The total cash outflow for leases for the year to 31 March 2024 was £22m (2023: £16m).

23 Provisions for liabilities

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 April 2023	30	1	39	70
Charged to the income statement	–	10	2	12
Released to the income statement	(2)	–	(1)	(3)
Utilised	(1)	(9)	(2)	(12)
Unwinding of discount	1	–	–	1
At 31 March 2024	**28**	**2**	**38**	**68**

	Environmental £m	Restructuring £m	Other £m	Total £m
Current	1	2	9	12
Non-current	27	–	29	56
At 31 March 2024	**28**	**2**	**38**	**68**

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 1.5% (2023: 1.0%)). Cash flows are expected to be incurred between 2024 and 2084.

A number of factors 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 2024 is £41m (2023: £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 in January 2024. 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

	2024 £m	2023 £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.

	2024 £m	2023 £m
Increase in borrowings and derivatives	(364)	(474)
Repayment of lease liabilities	22	16
Net interest paid on borrowings and derivatives	148	105
Changes in net debt arising from financing activities	(194)	(353)
Increase in cash and cash equivalents	8	9
Increase in financial investments	21	443
Changes in net debt arising from cash flows	(165)	99
Changes in fair value of financial assets	(17)	215
Foreign exchange movements	58	(60)
Net interest charge on the components of net debt	(262)	(395)
Other non-cash changes	(40)	(35)
Movement in net debt (net of related derivative financial instruments)	(426)	(176)
Net debt (net of related derivative financial instruments) at the start of the year	(7,390)	(7,214)
Net debt (net of related derivative financial instruments) at the end of the year	(7,816)	(7,390)

Composition of net debt:

	2024 £m	2023 £m
Cash, cash equivalents and current asset investments	598	544
Borrowings and bank overdrafts	(7,985)	(7,623)
Derivatives	(309)	(213)
Lease liabilities	(120)	(98)
Total net debt	(7,816)	(7,390)

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

25 Net debt continued

Analysis of changes in net debt:

	Borrowings £m	Derivatives £m	Lease Liabilities £m	Net Financing activities £m	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Current asset Investments £m	Total £m
At 1 April 2023	(7,623)	(213)	(98)	**(7,934)**	21	–	**21**	523	(7,390)
Cash flow	(162)	(54)	22	**(194)**	8	–	**8**	21	(165)
Fair value gains and losses	(12)	(5)	–	**(17)**	–	–	**–**	–	(17)
Foreign exchange movements	58	–	–	**58**	–	–	**–**	–	58
(Interest charged)/received	(246)	(37)	(4)	**(287)**	–	–	**–**	25	(262)
Other non-cash changes	–	–	(40)	**(40)**	–	–	**–**	–	(40)
At 31 March 2024	**(7,985)**	**(309)**	**(120)**	**(8,414)**	**29**	**–**	**29**	**569**	**(7,816)**
Balances at 31 March 2024 comprised:									
Non-current assets	–	16	–	**16**	–	–	**–**	–	16
Current assets	–	3	–	**3**	29	–	**29**	569	601
Current liabilities	(655)	–	(21)	**(676)**	–	–	**–**	–	(676)
Non-current liabilities	(7,330)	(328)	(99)	**(7,757)**	–	–	**–**	–	(7,757)
At 31 March 2024	**(7,985)**	**(309)**	**(120)**	**(8,414)**	**29**	**–**	**29**	**569**	**(7,816)**

	Borrowings £m	Derivatives £m	Lease Liabilities £m	Net Financing activities £m	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Current asset Investments £m	Total £m
At 1 April 2022	(6,966)	(261)	(79)	(7,306)	13	(1)	12	80	(7,214)
Cash flow	(337)	(32)	16	(353)	8	1	9	443	99
Fair value gains and losses	–	215	–	215	–	–	–	–	215
Foreign exchange movements	(60)	–	–	(60)	–	–	–	–	(60)
Interest charged	(260)	(135)	(3)	(398)	–	–	–	–	(398)
Other non-cash changes	–	–	(32)	(32)	–	–	–	–	(32)
At 31 March 2023	(7,623)	(213)	(98)	(7,934)	21	–	21	523	(7,390)
Balances at 31 March 2023 comprised:									
Non-current assets	–	37	–	37	–	–	–	–	37
Current assets	–	–	–	–	21	–	21	523	544
Current liabilities	(150)	–	(14)	(164)	–	–	–	–	(164)
Non-current liabilities	(7,473)	(250)	(84)	(7,807)	–	–	–	–	(7,807)
At 31 March 2023	(7,623)	(213)	(98)	(7,934)	21	–	21	523	(7,390)

26 Capital and other commitments

	2024 £m	2023 £m
Contracts for future capital expenditure not provided in the financial statements	**320**	346
Letters of credit facility	**150**	150
	470	496

27 Pensions

The Group sponsors 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:

	2024 £m	2023 £m
Current period contributions	34	29

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 Scheme closed to future accrual on 31 March 2024.

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.

The last full actuarial valuation for the Scheme was carried out at 31 March 2022. The Scheme closed to future accrual on 31 March 2024.

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 2024

27 Pensions continued

Cadent Gas Pension Scheme

Under the security arrangements agreed for the Scheme, the Group retains a £150 million letter of credit facility to provide security to the Scheme Trustees should it be required.

The Scheme ceased to allow new hires to join from 1 April 2002, and the Scheme closed to future accrual on 31 March 2024. All employees have the option of joining the DC arrangement.

On 3 August 2023 the company launched a consultation on proposed changes to the scheme on whether the future accrual of benefits would continue. The consultation closed on 2 October 2023. On 1 November 2023 the company wrote to members confirming the outcome of the consultation and its decision to proceed with the proposed changes. No further service will be accrued after 31 March 2024. Closure to accrual has been treated as a plan amendment under IAS 19, with a past service cost of £15 million recognised equal to the size of the resulting change in the value of the Defined Benefit Obligation (DBO) as well as £8 million in transition payments.

The Group included an initial estimate of the impact of GMP equalisation within its 31 March 2019 results with a revision at 31 March 2021 following the secondary ruling on GMP equalisation. The Trustees of the Scheme are currently in the initial stages of implementing GMP equalisation in the Scheme, with a methodology agreed. The Group have currently used the same allowance of 0.2% of liabilities for GMP equalisation, as initially used and this is included in the calculation of the DBO at 31 March 2024.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited versus NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK, although the ruling is currently under appeal. We currently have no reason to believe that the ruling in the case will have any financial impact for the Group but will continue to assess the position once the appeal process concludes.

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 position.

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.

The pension liability recognised on an IAS 19 basis at 31 March 2024 has increased to £4,227m (2023: £4,195m), coupled with a decrease in the fair value of the scheme assets in the year to £4,577m (2023: £4,924m), the net pension surplus has decreased by 52%.

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. Management 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

	2024 Total £m	2023 Total £m
Present value of funded obligations	(4,224)	(4,192)
Fair value of plan assets	4,577	4,924
	353	732
Present value of unfunded obligations	(3)	(3)
Net defined benefit asset	350	729

	2024 Total £m	2023 Total £m
Represented by:		
Liabilities	(4,227)	(4,195)
Assets	4,577	4,924
	350	729

Amounts recognised in the income statement and statement of other comprehensive income

	2024 Total £m	2023 Total £m
Included within operating costs		
Administration costs	4	5
Defined contribution scheme costs	34	29
Defined benefit scheme costs:		
Current service cost	7	11
Past service cost	15	–
	60	45
Included within finance costs		
Net interest credit	(33)	(29)
Total included in income statement	27	16
Remeasurements of net retirement benefit obligations	95	(1,122)
Return on plan assets greater or less than discount rate	301	1,532
Total included in the statement of other comprehensive income	396	410

Reconciliation of the net defined benefit asset

	2024 Total £m	2023 Total £m
Opening net defined benefit asset	729	1,083
Credit recognised in the income statement	7	13
Employer contributions	10	43
Other movements	(396)	(410)
Closing net defined benefit asset	350	729

Notes to the consolidated financial statements continued

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27 Pensions continued

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2024 Total £m	2023 Total £m
Opening net defined benefit liability	4,195	5,476
Current service cost	7	11
Interest cost	200	141
Past service cost	15	–
Actuarial losses – experiences	177	435
Actuarial gains – demographic assumptions	(72)	(124)
Actuarial gains – financial assumptions	(10)	(1,433)
Benefits paid	(285)	(311)
Closing net defined benefit liability	4,227	4,195

Changes in the fair value of plan assets

	2024 Total £m	2023 Total £m
Opening fair value of plan assets	4,924	6,559
Interest income	233	170
Return on assets less than assumed	(301)	(1,532)
Administration costs	(4)	(5)
Employer contributions paid	10	43
Benefits paid	(285)	(311)
Closing fair value of plan assets	4,577	4,924
Actual return on plan assets	(68)	(1,362)
Expected contributions to plans in the following year	13	22

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2024 Quoted £m	2024 Unquoted £m	2024 Total £m	2023 Quoted £m	2023 Unquoted £m	2023 Total £m
Equities	–	157	157	–	181	181
Corporate bonds	1,792	–	1,792	1,922	–	1,922
Property	–	266	266	–	300	300
Government securities(i)	1,307	–	1,307	1,720	–	1,720
Diversified alternatives(ii)	–	976	976	–	676	676
Other	–	79	79	–	125	125
Total	3,099	1,478	4,577	3,642	1,282	4,924

i) Includes short sold Gilts of £217m (2023: £394m).
ii) Includes return seeking non-conventional asset classes of £579m (2023: £440m) and secure income assets of £397m (2023: £236m).

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 2024 is as follows:

	2024 %	2023 %
Equities	3	4
Other	97	96
	100	100

27 Pensions continued

Actuarial assumptions

Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

	2024 %	2023 %
Discount rate – Past service(i)	4.80	4.75
Discount rate – Future service(i)	4.80	4.65
Rate of increase in salaries(ii)	2.25	2.10
Rate of increase in RPI – Past service(iii)	3.25	3.25
Rate of increase in RPI – Future service(iii)	3.10	3.15

(i) The discount rate for pension liabilities has been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK debt market at the reporting date. Future and past discount rates are set based on the expected duration of scheme liabilities.

(ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service before 1 April 2013. The assumption for the rate of increase in salaries for service before this date is 3.15% (2023: 3.15%).

(iii) This is the key assumption that determines assumed increases in pensions in payment and deferment. Consistent with the derivation of the discount rate, the RPI assumption reflects the duration of the active liabilities to be adopted in the calculation of future service obligations.

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2024 years	2023 years
Today		
Males	19.6	20.0
Females	22.3	22.6
In 20 years		
Males	20.9	21.3
Females	23.8	24.2

Maturity profile of DB obligations

The weighted average duration of the DB obligation for future service obligations of the scheme is 21 years and 12 years for past service obligations.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

28 Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures, (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Currency risk; and
- Capital risk.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on their contractual obligations resulting in a financial loss to the Group. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Historic volatility in gas prices had a wide impact on our industry and a number of shippers and gas suppliers ceased trading in previous financial years. The company 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 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 2024	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount £m
Cash and cash equivalents		**29**	**–**	**29**
Derivative financial assets	17	**19**	**–**	**19**
Trade receivables	16	**13**	**(2)**	**11**
Accrued income	16	**187**	**(3)**	**184**
Current asset investments	18	**569**	**–**	**569**

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

28 Financial risk management continued

(a) Credit risk continued

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 2024, we had exposure to various financial institutions. In accordance with our treasury policies, counterparty credit exposure utilisations which at 31 March 2024 is £598m (2023: £544m), 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 as all the counterparties have a credit rating between A- to AAA.

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.

	2024 £m	2023 £m
Accrued income	184	190
Collateral held	(40)	(37)
Exposure net of collateral	144	153

Collection activities are monitored on a daily basis and late payment will result in sanctions being placed on the relevant accounts. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 16.

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present Cadent Gas's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

28 Financial risk management continued

(a) Credit risk continued

	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 2024						
Assets						
Derivative financial instruments	19	–	19	(19)	–	–
Liabilities						
Derivative financial instruments	(328)	–	(328)	19	–	(309)
Total at 31 March 2024	(309)	–	(309)	–	–	(309)

	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)	37	–	(213)
Total at 31 March 2023	(213)	–	(213)	–	–	(213)

(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.

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 2024	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	(590)	–	(400)	(7,309)	(8,299)
Lease liabilities	(24)	(23)	(18)	(81)	(146)
Interest on payments on borrowings(i)	(224)	(216)	(214)	(1,869)	(2,523)
Other non-interest bearing liabilities	(257)	–	–	–	(257)
Derivative financial liabilities					
Derivative contracts – receipts	117	119	115	1,487	1,838
Derivative contracts – payments	(71)	(76)	(310)	(1,922)	(2,379)
Derivative financial assets					
Derivative contracts – receipts	411	26	26	669	1,132
Derivative contracts – payments	(419)	(31)	(28)	(663)	(1,141)
Total at 31 March 2024	(1,057)	(201)	(829)	(9,688)	(11,775)

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 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 liabilities					
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(ii)	(413)	–	–	–	(413)
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	(547)	(1,301)	(136)	(9,341)	(11,325)

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.

ii) Other non-interest bearing liabilities have been updated in 2023/24 to exclude deferred income.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

28 Financial risk management continued

(c) Interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps and forward rate agreements. Derivative financial instruments used to manage interest rate risk are designated as both cash flow and fair value hedges.

To assess hedge effectiveness, the changes in the fair value of the hedging derivative is compared with changes in the fair value of a hypothetical derivative. An amount equal to the excess of the cumulative change in the fair value of the hedging derivative over the cumulative change in the fair value of the hypothetical derivative is recorded as ineffectiveness. Ineffectiveness is expected to arise from the effect of counterparty and the Group's own credit risk on the fair value of the derivative which is not reflected in the hypothetical derivative. Ineffectiveness could also arise from currency basis, which is present in the hedging derivative but excluded from the hypothetical derivative.

Cadent operates under a regulatory environment where its prices are linked to inflation meaning its operating profits and cash flows are therefore exposed to changes in inflation. In order to mitigate and partially offset this risk, Cadent has raised index-linked debt which pays interest based on an amount that is adjusted for the change in inflation during the life of the debt instrument. Similarly, Cadent has also entered into index-linked derivatives which effectively change the fixed and floating interest payments on nominal debt to ones based on an amount that is adjusted for the change in inflation during the life of the derivative instrument. 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 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 2024, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2024	Fixed rate £m	Floating rate £m	Index linked £m	Other[i] £m	Total £m
Financial investments	–	598	–	–	598
Borrowings[ii]	(6,388)	(551)	(1,046)	–	(7,985)
Lease liabilities	–	–	–	(120)	(120)
Pre-derivative position	(6,388)	47	(1,046)	(120)	(7,507)
Derivative effect	1,391	(26)	(1,674)	–	(309)
Net debt position[iii]	(4,997)	21	(2,720)	(120)	(7,816)

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 2023/24 short-dated interest rate derivatives is included.

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	–	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.

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 2024, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2024	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
Financial investments	598	–	–	–	598
Borrowings	(5,865)	(1,797)	(52)	(271)	(7,985)
Lease liabilities	(120)	–	–	–	(120)
Pre-derivative position	(5,387)	(1,797)	(52)	(271)	(7,507)
Derivative effect	(2,429)	1,797	52	271	(309)
Net debt position	(7,816)	–	–	–	(7,816)

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)

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 2024 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	1,697	14	(41)	(36)	Derivative financial assets/liabilities
Interest rate swaps	324	1	(6)	(5)	Derivative financial assets/liabilities
Fair value hedges					
Cross-currency interest rate swaps	432	4	–	4	Derivative financial assets
Interest rate swaps	315	–	(7)	(7)	Derivative financial liabilities

The impact of hedging instruments designated in a hedge relationship as at 31 March 2023 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	1,954	37	(28)	59	Derivative financial assets Derivative financial liabilities

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

28 Financial risk management continued

(d) Currency risk continued

b) The impact of hedged items designated in a hedge relationship as at 31 March 2024 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	–	(2,120)	53	Borrowings	(13)	9

The impact of hedged items designated in a hedge relationship as at 31 March 2023 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	–	(1,864)	(62)	Borrowings	(27)	13

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 2024 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	14	–	Adjusting items	(53)	Finance costs before adjusting items

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)	–	Adjusting items	62	Finance costs before adjusting items

(e) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 25). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by RAV gearing calculated as adjusted net debt (net debt adjusted for unamortised debt fees, unamortised fair value adjustments, accrued interest, lease liabilities and derivatives) expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. The adjusted net debt to RAV ratio at 31 March 2024 is 60% (2023: 59%).

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 2024				
Assets				
Fair value through profit and loss ('FVTPL') instruments	**266**	**–**	**–**	**266**
Derivative financial instruments	**–**	**19**	**–**	**19**
Liabilities				
Derivative financial instruments	**–**	**(182)**	**(146)**	**(328)**
Total	**266**	**(163)**	**(146)**	**(43)**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2023				
Assets	523	–	–	523
Fair value through profit and loss ('FVTPL') instruments	–	37	–	37
Derivative financial instruments				
Liabilities				
Derivative financial instruments	–	(126)	(124)	(250)
Total	523	(89)	(124)	310

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. The market for CPI swaps is still maturing with the expected future differential between RPI and CPI not currently observable in their own liquid market. The fair values for these instruments are calculated by using forecasts of the expected future differential between RPI and CPI obtained from third party valuation data to produce a series of future cashflows. These are then discounted back to a net present value using quoted interest rates to which model derived counterparty and Cadent credit and funding valuation adjustments are applied. As the RPI and CPI spreads, the funding adjustments and Cadent credit spread are not observable, these swaps have been classified as Level 3 instruments. 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 £11.5 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:

	2024 £m	2023 £m
At 1 April	**(124)**	(114)
Net gain for the year	**10**	22
Settlements	**(32)**	(32)
At 31 March	**(146)**	(124)

The net gain for the period is shown within interest in the income statement.

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

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 £13m. A 5% decrease would have an equal but opposite effect.

	2024		2023	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
As at 31 March				
Additional annual depreciation charge if the useful lives of network assets end in 2050 due to UK net-zero target	(47)	(47)	(54)	(54)
Additional annual depreciation charge if the useful lives of network assets end in 2045	(130)	(130)	(131)	(131)
Additional annual depreciation charge if the useful lives of network assets end in 2040	(267)	(267)	(255)	(255)
Pensions and other post-retirement benefits[i] (pre-tax)				
Discount rate decrease of 0.5%[ii]	1	(245)	(1)	(252)
Discount rate increase of 0.5%[ii]	(1)	224	1	230
RPI rate increase of 0.5%[iii]	1	(214)	(1)	(222)
Long-term rate of increase in salaries increases by 0.5%[iv]	–	N/A	–	(11)
One year increase to life expectancy at age 65	–	(155)	–	(154)
Value of unquoted properties increases by 5%	–	13	–	15
Value of unquoted equities increases by 5%	–	8	–	9
Index-linked derivatives				
Change in one year rate of inflation by 1%[v]	17	17	15	15

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) Following changes to the DB pension scheme, the long-term rate if increase in salaries is no longer a key sensitivity.

v) 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.

	2024		2023	
	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)	14	14	(12)	(12)
Financial risk (post-tax)				
UK RPI rate change of 0.5%	7	7	8	8
UK CPI rate change of 0.5%	6	6	6	6
UK interest rate change of 0.5%	3	3	2	2

29 Sensitivity analysis continued

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI and CPI rate. 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 2024;
- 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 flows 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.

	2024 £m	2023 £m
Trade and other payables		
Opening balance at 1 April	(513)	(418)
Closing balance at 31 March (note 19)	(365)	(513)
Balance Sheet movement	(148)	95
Less		
Movement in payables, of a capital nature, reclassified to investing activities		
– Property, plant and equipment	21	(7)
– Intangible	2	–
Movement in payables, reclassified elsewhere in operating activities		
– Adjusting	7	3
– Group tax relief	–	(14)
– Capital Contributions	(8)	(22)
– Pensions	(3)	–
Movement as shown in Consolidated Statement of Cash Flows	(129)	55

31 Cash flows from purchases of property, plant and equipment

	2024 £m	2023 £m
Property, plant and equipment additions (note 13)	(983)	(886)
Add		
Movement in property, plant and equipment payables, of a capital nature, reclassified to investing activities (note 30)	(21)	7
Other	1	–
Less		
Right of use assets additions (note 13)	41	31
Movement as shown in Consolidated Statement of Cash Flows	(962)	(848)

Notes to the consolidated financial statements continued

For the year ended 31 March 2024

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.

	2024 £m	2023 £m
Income:		
Goods and services supplied to other related parties	–	–
	–	–
Expenditure:		
Services rendered from associates	15	13
	15	13
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts payable to other related parties	–	–
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 2024 and recognised as an expense (2023: £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 8.

34 Subsequent events

On 16 April 2024, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued a 9 year fixed rate Green bond with a notional value of €640 million and coupon of 3.75% under its £7 billion Euro Medium Term Note Programme. This bond is guaranteed by, and proceeds were on lent to, Cadent Gas Limited. The bond proceeds were swapped to fixed sterling (£548.48 million) immediately on issue. At the same time, Cadent Finance Plc entered into a further swap, converting the fixed rate to a floating rate, deferred until January 2025.

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 Pilot Way, Ansty Park, Coventry, United Kingdom, CV7 9JU.

Company statement of financial position

As at 31 March 2024

	Notes	2024 £m	2023 £m
Non-current assets			
Intangible assets	7	**31**	48
Property, plant and equipment	8	**11,720**	11,205
Investments	9	**–**	–
Pension and other post-retirement benefit obligations	6	**350**	729
Derivative financial assets	12	**16**	37
Total non-current assets		**12,117**	12,019
Current assets			
Derivative financial assets	12	**3**	–
Inventories	10	**16**	15
Debtors	11	**209**	209
Corporation tax		**4**	24
Financial and other investments	13	**569**	523
Cash at bank and in hand		**29**	21
Total current assets		**830**	792
Total assets		**12,947**	12,811
Current liabilities			
Creditors	14	**(815)**	(545)
Borrowings	16	**(211)**	(108)
Provisions for liabilities	17	**(12)**	(14)
Total current liabilities		**(1,038)**	(667)
Net current (liabilities)/assets		**(208)**	125
Total assets less current liabilities		**11,909**	12,144
Non-current liabilities			
Derivative financial liabilities	12	**(328)**	(250)
Borrowings	16	**(550)**	(901)
Provisions for liabilities	17	**(1,659)**	(1,747)
Creditors	15	**(7,602)**	(7,380)
Total non-current liabilities		**(10,139)**	(10,278)
Total liabilities		**(11,177)**	(10,945)
Total net assets		**1,770**	1,866
Equity			
Share capital	18	**–**	–
Cash flow hedge deficit		**(13)**	(27)
Cost of hedging reserve		**9**	13
Retained earnings		**6,726**	6,832
Other deficit		**(4,952)**	(4,952)
Total equity		**1,770**	1,866

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 £501m (2023: £568m) is disclosed in the statement of changes in equity.

The notes on pages 168 to 184 are an integral part of the financial statements.

The financial statements on pages 166 to 184 were approved by the Board of Directors on 18 June 2024 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 2024

	Share Capital £m	Cash Flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2023	–	(27)	13	(4,952)	6,832	1,866
Profit for the year	–	–	–	–	501	501
Other comprehensive income/(expense) excluding amortisation of cost of hedging reserve	–	14	(9)	–	(297)	(292)
Amortisation of cost of hedging reserve	–	–	5	–	–	5
Total comprehensive income/(expense) for the year	–	14	(4)	–	204	214
Equity dividends	–	–	–	–	(310)	(310)
At 31 March 2024	**–**	**(13)**	**9**	**(4,952)**	**6,726**	**1,770**

	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 (expense)/income excluding amortisation of cost of hedging reserve	–	(12)	1	–	(308)	(319)
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive (expense)/income for the year	–	(12)	5	–	260	253
Equity dividends	–	–	–	–	(350)	(350)
At 31 March 2023	–	(27)	13	(4,952)	6,832	1,866

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 2024 distributable reserves were reduced by an accumulated realisation of £856m (31 March 2023: £741m). 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 2024

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 £1,770m at 31 March 2024 (2023: £1,866m) with a profit for the financial year of £501m (2023: £568m). Operating profit was lower compared to 2023 driven by lower revenue, as expected, in accordance with the regulatory mechanism, partially offset by a reduction in operating costs, in particular pass-through costs, the result of lower wholesale gas prices and reduced charges for our capacity bookings from the National Transmission System.

Despite recent macroeconomic and geopolitical volatility impacting inflation and interest rates, 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 macroeconomic and geopolitical environment. Having made enquiries and reviewed management's assessment of going concern, the Directors consider it appropriate to prepare the company 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 2024 Annual Report and Financial Statements have been prepared under FRS 102.

The Financial Reporting Council (FRC) issued amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs, following its periodic review. The amendments outline a number of changes to FRS 102 including a new model of revenue recognition; lease accounting and various other incremental improvements and clarifications. The effective date of the amendments is 1 January 2026 with the year ended 31 March 2027 being the first year impacted by the proposals. The company is assessing the likely impact of the proposals on the financial statements of the company in future periods.

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

1 Summary of significant accounting policies continued

(d) Property, plant and equipment and depreciation

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. We also continue to invest in research and innovation to support the energy transition to net zero. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment assets includes assets which the company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received towards the cost of tangible fixed assets from customers for connections to the gas distribution network are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the asset to which they relate.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

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 2040, 2045 or 2050). 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.

Notes to the company financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(e) Investments continued

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. In the current year this has included the consideration of the impact of climate change. Impairments are recognised in the income statement, and, where material, are disclosed as an adjusting item. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

(g) Financial instruments

Initial recognition

Financial assets have been classified in accordance with business model assessment. Financial 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 loss allowance 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.

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.

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.

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Classification and measurement continued

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.

Hedge accounting

Derivative financial instruments ('derivatives') are recorded at fair value. 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 and funding risk adjustments. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability. Balance sheet presentation of derivatives have been determined based on the final maturity date. A derivative that matures within one year has been classified as current and a derivative that matures after one year has been classified as non-current.

The accounting treatment of derivatives and other financial instruments classified as hedges depends on their designation, which occurs at the start of the hedge relationship.

Cash flow hedges

Changes in the effective portion of the fair value of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income, with any ineffective portion being recognised immediately in the income statement where relevant. Cashflow hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At this point, any cumulative gains or losses on the hedging instrument recognised in other comprehensive income are retained until the forecast transaction occurs or transferred to the income statement for the period if the hedged transaction is no longer expected to occur.

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated as fair value hedges are recognised in the income statement. Gains or losses in respect to the hedged risk is recorded as a fair value adjustment in the same line of the income statement as the hedged item. Fair value hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At this point, the changes in fair value on the hedging instrument will continue to be recognised in the income statement, while the hedged item will no longer be adjusted for fair value changes.

Foreign currency

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction or at average monthly rates where exchange rates do not fluctuate significantly.

Foreign currency monetary assets and liabilities held at year end are translated into Sterling at period end exchange rates. Exchange differences on monetary items are taken to the income statement. Exceptions to this are where the monetary items are designated as effective cash flow hedges. Such exchange differences are initially deferred in equity.

Non-monetary items are translated at the historical exchange rates.

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 2024

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 be as a result of any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

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 debtors

Trade debtors 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 debtors and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

(i) Trade and other payables

Trade payables are initially recognised at amortised cost and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book values.

Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the statement either:

- Once the project is complete; or
- Over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further detail see note 1(n) Revenue.

(j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(k) Tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

1 Summary of significant accounting policies continued

(k) Tax continued

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 contribution (DC) and a defined benefit (DB) pension scheme.

For the DC pension scheme, the company pays contributions into a Master Trust on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

Notes to the company financial statements continued

For the year ended 31 March 2024

1 Summary of significant accounting policies continued

(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 borrowings. 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) Adjusting items (previously exceptional items and remeasurements)

Results are presented on a statutory and adjusted basis. The alternative performance measure (APM) 'adjusted profit' represents a change in terminology from the prior year which separately disclosed certain items to show an 'exceptional' profit measure. The change in terminology has been adopted to reduce any subjective interpretation of the meaning 'exceptional' profit by users of the Financial Statements. As this is a terminology change only, there has been no change to how the company determines items to be adjusting, and there has been no change to previously reported comparatives. Any previously 'exceptional items and remeasurements', continue to meet the definition of 'adjusting items' following the change in terminology in the current year.

Adjusting 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 adjusting items may not be comparable between companies, and the exclusion of adjusting items impacts the presentation of financial performance and cash flows.

Management utilises an adjusting items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the 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 adjusting items include items such 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.

Adjusting items within finance income 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.

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;

2 Critical accounting judgements and key sources of estimation uncertainty continued

- 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 adjusting item under the adjusting items 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 infrequently, 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. 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 is exploring different pathways including the production and use of hydrogen 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. Currently our assets are being depreciated out to 2055 and 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. 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. Given there is political and regulatory uncertainty, with the heat policy decision expected in the short term, which could result in material adjustments to the carrying value of our network assets, we deem determination of UELs to be a key source of estimation uncertainty. See note 29 of the consolidated accounts for impact on depreciation charge under different modelling scenarios – **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**.
- 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 expectations of inflation rates (for RPI swaps based on market forecasts and for CPI swaps based on the currently unobservable spreads to the liquid RPI inflation markets) and interest rates both of which are subjective and fluctuate on a daily basis. 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 credit risk funding risk and Cadent's credit spread (the last two of which are unobservable), 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:

	2024 £000	2023 £000
Audit services		
Audit fee of company	884	820
Other services		
Fees payable to the company's auditors for audit-related assurance services	82	75
Other non-audit services	143	147

Notes to the company financial statements continued

For the year ended 31 March 2024

3 Auditors' remuneration continued

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditors such as interim reviews. Other non-audit services in 2024 relate to services provided in connection with the raising of debt, grant claims or reports required by the regulator.

4 Number of employees, including Directors

The average number of persons (including Executive Directors) employed by the company was 6,215 (2023: 6,018). 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 2023	200
Additions	3
Disposals	(28)
At 31 March 2024	175
Accumulated amortisation:	
At 1 April 2023	(152)
Amortisation charge for the year	(20)
Disposals	28
At 31 March 2024	(144)
Net book value:	
At 31 March 2024	31
At 31 March 2023	48

	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

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 2023	206	12,786	73	236	13,301
Additions	28	865	22	27	942
Reclassifications	(2)	41	(43)	4	–
Disposals	(2)	(2)	–	(14)	(18)
At 31 March 2024	**230**	**13,690**	**52**	**253**	**14,225**
Accumulated depreciation and impairment					
At 1 April 2023	(46)	(1,892)	–	(158)	(2,096)
Charge for the year	(15)	(381)	–	(29)	(425)
Disposals	1	1	–	14	16
At 31 March 2024	**(60)**	**(2,272)**	**–**	**(173)**	**(2,505)**
Net book value:					
At 31 March 2024	**170**	**11,418**	**52**	**80**	**11,720**
At 31 March 2023	160	10,894	73	78	11,205

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 2024 included £1,904,000 (2023: £2,750,000) relating to assets purchased under finance leases.

The net book value of land and buildings comprises:

	2024 £m	2023 £m
Freehold	**133**	113
Long leasehold (over 50 years)	**31**	39
Short leasehold (under 50 years)	**6**	8
	170	160

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
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

Notes to the company financial statements continued

For the year ended 31 March 2024

9 Investments

	Shares in subsidiary undertakings £m	Investments in associates £m	Total £m
Cost			
At 1 April 2023 & 31 March 2024	–	–	–
Provision			
At 1 April 2023 & 31 March 2024	–	–	–
Net book value:			
At 1 April 2023 & 31 March 2024	–	–	–

The company's subsidiary undertakings as at 31 March 2024 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

	2024 £m	2023 £m
Raw materials and consumables	16	15
	16	15

Inventories are stated after provisions for impairment of £838,000 (2023: £806,000).

11 Debtors

	2024 £m	2023 £m
Amounts falling due within one year:		
Trade debtors	11	8
Other debtors	2	4
Prepayments	12	7
Accrued income	184	190
	209	209

Trade debtors and accrued income are initially stated at the transaction price and are subsequently measured after a loss allowance has been made of £5,000,000 (2023: £11,000,000).

12 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2024		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	3	–	3
Amounts falling due after more than one year	16	(328)	(312)
	19	(328)	(309)

	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)

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

	2024 £m	2023 £m
Cross-currency interest rate swaps	2,129	1,954
Interest rate swaps	639	–
Inflation linked swaps	1,400	1,400
Foreign exchange forward currency	–	5
	4,168	3,359

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

Cadent Finance Plc raises long-term finance, through access to capital markets, for its immediate parent, Cadent Gas Limited. Amounts raised by Cadent Finance Plc, including any related derivatives, are passed on to the company on identical terms. The only derivative held with an external counterparty by the company is £400 million notional of RPI-linked swaps with a fair value of £128 million liability at 31 March 2024 (2023: £98m liability) with a maturity date in March 2027. The remainder of the fair value in the table above relates to intercompany cross currency, interest rate and inflation linked swaps with Cadent Finance Plc. As a result of the intercompany funding, both the total value of the loans and derivatives are identical in both the consolidated accounts and the company accounts albeit the loans and derivatives held in the company will consist of external and intercompany balances (see note 14 and note 15 for disclosure of the intercompany loan balances). The disclosure requirements for derivatives required by FRS 102 are the same as those required by IFRS and are provided in note 29 to the consolidated financial statements.

13 Financial and other investments

	2024 £m	2023 £m
Financial and other investments	569	523
	569	523

Amounts held relate to investments in money market funds of £266 million (2023: £523 million) with typical maturity dates within 90 days and £303 million (2023: £Nil) of fixed term deposits with average maturity of 90-125 days from inception.

14 Creditors: amounts falling due within one year

	2024 £m	2023 £m
Trade creditors	86	169
Amounts owed to subsidiary undertakings	441	59
Other tax and social security	10	65
Other creditors	60	60
Accruals	101	101
Deferred income	117	91
	815	545

Notes to the company financial statements continued

For the year ended 31 March 2024

15 Creditors: amounts falling due after more than one year

	2024 £m	2023 £m
Amounts owed to subsidiary undertakings	6,781	6,570
Accruals and deferred income	821	810
	7,602	7,380

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

	2024 £m	2023 £m
Amounts falling due within one year		
Bank loans	210	107
Bank overdrafts	–	–
Finance leases	1	1
	211	108
Amounts falling due after more than one year		
Bank loans	549	900
Finance leases	1	1
	550	901

	2024 £m	2023 £m
Total borrowings are repayable as follows:		
Less than one year	211	108
In one – two years	–	501
In two – three years	401	–
In three – four years	–	400
In four – five years	–	–
More than five years	149	–
	761	1,009

The notional amount outstanding of the debt portfolio at 31 March 2024 was £758 million (2023: £994 million), including accretion.

16 Borrowings continued

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	Listing Status	Notional (including accretion)* £m	Rate	Maturity Date	Carrying Value £m	Fair Value £m
Index-linked						
GBP	Unlisted	103	RPI-linked	18-Jun-24	104	103
GBP	Unlisted	103	RPI-linked	25-Jun-24	104	103
		206			**208**	**206**
Floating Rate						
GBP	Unlisted	400	SONIA	23-Mar-27	400	411
GBP	Unlisted	150	SONIA	21-Oct-30	151	162
		550			**551**	**573**
Finance lease obligation less than one year		1			1	1
Finance lease obligation more than one year		1			1	1
Total		**758**			**761**	**781**

* Indexed linked debt notional is the accreted value.

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 £60 million and a carrying value of £104 million as at 31 March 2023.

On 21 April 2023 Cadent Gas Limited entered into a £150 million bilateral term loan with one of its relationship banks. The loan was drawn on 19 January 2024 and matures on 21 October 2030.

On 2 May 2023, having provided sufficient notice to the lender, Cadent Gas Limited repaid two tranches of bank debt with a contractual maturity date of 29 April 2024 and 30 April 2024. These bank loans were indexed linked, had notional values of £60 million each and as at 31 March 2023 had carrying values of £101 million and £101 million respectively.

On 7 November 2023, having provided sufficient notice to the lender, Cadent Gas Limited repaid a bank loan with a contractual maturity date of 7 May 2024. This bank loan was index-linked with a notional value of £60 million and carrying value of £104 million as at 30 September 2023. The consideration paid for the bank loans repaid in April, May and November 2023 amounted to £406 million and resulted in a gain on redemption which has been included in finance costs.

The fair value of borrowings at 31 March 2024 was £781 million (2023: £1,011 million). Where market values were available, fair value of borrowings (Level 1) was £Nil (2023: £Nil). Where market values were not available, the fair value of borrowings (Level 2) was £781 million (2023: £1,011 million), calculated by discounting cash flows at prevailing interest rates.

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

The company is bound by certain financial covenants with regards to its debt agreements and banking facilities. For debt issued by the company the most relevant covenant is net debt to adjusted RAV.

Obligation under finance leases

	Minimum lease payments	
	2024 £m	2023 £m
Amounts payable under finance leases:		
Within one year	**1**	1
In the second to fifth years inclusive	**1**	1
After five years	**–**	–
Less: future finance charges	**–**	–
Present value of lease obligations	**2**	2

Notes to the company financial statements continued

For the year ended 31 March 2024

16 Borrowings continued

	Present value of Minimum lease payments	
	2024 £m	2023 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	1	1
After five years	–	–
Present value of lease obligations	2	2
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1	1
Amounts due for settlement after 12 months	1	1
	2	2

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 2024, the average effective borrowing rate was 3.48% (2023: 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 2023	30	1,691	40	1,761
Charged to the income statement	–	8	12	20
Released to the income statement	(2)	–	(1)	(3)
Utilised	(1)	–	(11)	(12)
Unwinding of discount	1	–	–	1
Credited to other comprehensive income and equity	–	(96)	–	(96)
At 31 March 2024	**28**	**1,603**	**40**	**1,671**

	Environmental £m	Deferred tax £m	Other £m	Total £m
Current	1	–	11	12
Non-current	27	1,603	29	1,659
	28	**1,603**	**40**	**1,671**

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 1.5% (2023: 1.0%). Cash flows are expected to be incurred between 2024 and 2084.

A number of factors 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 2024 is £41 million (2023: £38 million) being the undiscounted best estimate liability having regard to these uncertainties.

17 Provisions for liabilities continued

Deferred tax

Deferred taxation comprises:

	2024 £m	2023 £m
Accelerated capital allowances	1,514	1,515
Other timing differences	89	176
Deferred tax liability	1,603	1,691

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.

18 Share capital

	2024 £m	2023 £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.

19 Capital and other commitments

	2024 £m	2023 £m
Contracts for future capital expenditure not provided in the financial statements	320	346
Letters of credit facility	150	150
	470	496

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2024 £m	2023 £m
Less than one year	21	9
In two-five years	51	34
More than five years	46	52
	118	95

Notes to the company financial statements continued

For the year ended 31 March 2024

20 Related Parties

The following material transactions are with an associate 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.

	2024 £m	2023 £m
Income:		
Goods and services supplied to other related parties	–	–
	–	–
Expenditure:		
Services rendered from associates	15	13
	15	13
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts payable to other related parties	–	–
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.

No amounts have been provided at 31 March 2024 (2023: 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

There are no post balance sheet events.

23 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas MidCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

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

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD

Glossary

Term	Definition
Adjusted EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation, and Adjusting items
Annual report	the company's annual report and accounts for the year ended 31 March 2024
articles	the articles of association of the company
BCF	Business Carbon Footprint
Biomethane	bio-substitute natural gas
Board	Board of Directors of Cadent Gas Limited
Cadent or company	Cadent Gas Limited
Cadent Foundation	Supported by Cadent, the Cadent Foundation work with charitable organisations and strive to help households improve their financial wellbeing and become more energy efficient through advice, support and practical measures
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
Climate Change Committee	advise the UK and devolved Governments on emissions targets and to report to Parliament on progress made in reducing greenhouse gas emissions and preparing for and adapting to the impacts of climate change
CMA	Competition and Markets Authority
CNG	Compressed Natural Gas
COO	Chief Operating Officer
Community Groups Employee	led groups which drive discussions and change internally to represent the communities we serve
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
Customer Challenge Group	The group provide expert review and independent challenge of the strategic decision making across multiple topics aligned to RIIO-3 priorities
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

Glossary continued

Term	Definition
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
GHG	Greenhouse gases
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
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	His 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	New 100km regional hydrogen pipeline project in the North West
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
National Infrastructure Commission	The executive agency responsible for providing expert advice to the UK Government on infrastructure challenges facing the UK.
National Transmission System (NTS)	Transports high pressure natural gas around Great Britain via thousands of miles of pipelines

Term	Definition
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
REGO	Renewable Energy Guarantees of Origin (REGO) scheme provides transparency to consumers about the proportion of electricity that suppliers source from renewable electricity.
Repex	Replacement Expenditure
RIIO	Ofgem's regulatory framework (Revenue = Incentives + Innovation + Outputs)
RIIO Stakeholder Incentive Submission	A report made as part of Ofgem's Stakeholder Engagement Incentive Scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses
RIIO-1	The RIIO-1 price control set out the outputs that the Gas Distribution Networks ('GDNs') need to deliver for their consumers, and the associated revenues they are allowed to collect, for the eight year period from 1 April 2013 until 31 March 2021
RIIO-2	RIIO-2 is the current price control for Cadent and the other three network companies, who own and operate the gas distribution networks in Great Britain. This is the second price control period using the RIIO framework and started in April 2021
RIIO-3	RIIO-3 is the next price control for Cadent and the other three network companies, who own and operate the gas distribution networks in Great Britain.
RPI	Retail Price Index
Safety Seymour	A schools' programme for Key Stage 1 children to educate them on the dangers of carbon monoxide poisoning
SBTi	Science Based Targets initiative
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

Glossary continued

Term	Definition
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
UN SDGs	United Nations Sustainable Development Goals, a framework for businesses to work together with the Government and other partners to tackle climate change and figure inequality on a global scale
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
YMCA	A charity who provide critical foundations for a fresh, strong start for young people and a better quality of life in the community
2006 Act	The Companies Act 2006

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