Company registration number: 122596

Quadgas Holdings TopCo Limited

Annual Report and Financial Statements

For the year ended 31 March 2025

Quadgas Holdings TopCo Limited

Strategic Report

For the year ended 31 March 2025

The Directors present their annual report and the audited financial statements of the Group and the company for the year ended 31 March 2025.

Principal activities

Quadgas Holdings TopCo Limited (the company) is a holding company which invests in gas distribution businesses.

The Group comprises Quadgas Holdings TopCo Limited, Quadgas Investments BidCo Limited, Quadgas HoldCo Limited, Quadgas PledgeCo Limited, Quadgas MidCo Limited, Quadgas Finance Plc, Cadent Services Limited, Cadent Finance Plc, Cadent Gas Limited, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited. Cadent Gas Limited is the main trading company and operates four of the eight regional gas distribution networks in Great Britain. Using the Group's network, approximately 47 principal shippers and suppliers transport gas to 11 million homes and businesses. Cadent Gas also manages the national gas emergency service free phone line, taking calls and giving safety advice on behalf of the UK gas industry.

Strategy

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

Future developments

As we enter the final year of the current regulatory price control period, there are three key areas of focus for management and the Board. First, it is essential that operational performance remains at the increased levels that have been established, maintaining excellent customer standards and outstanding support for those living in the most vulnerable situations. Second, is securing the right outcome through the RIIO-3 business planning process; one that recognises the essential nature of the gas network for decades to come and enables continual investment into the world-class assets that the sector has built and maintained. We look forward to the draft and final determinations to be published later in this financial year. Third, and finally, to continue leading the sector to demonstrate the case for low-carbon gas as a core component of the UK's long-term energy planning, as the UK transitions towards net zero.

Business environment

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

Business environment (continued)

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

Our RIIO-3 plan is built on strong foundations from RIIO-2. We will not stand still, and continue to push the boundaries for the sector. This plan will take us on the next step of our journey and continues to ensure we do the very best for our customers. We need to continue to invest to maintain the truly world class assets that we have, so that the gas network can play a crucial role in delivering net zero over the decades to come.

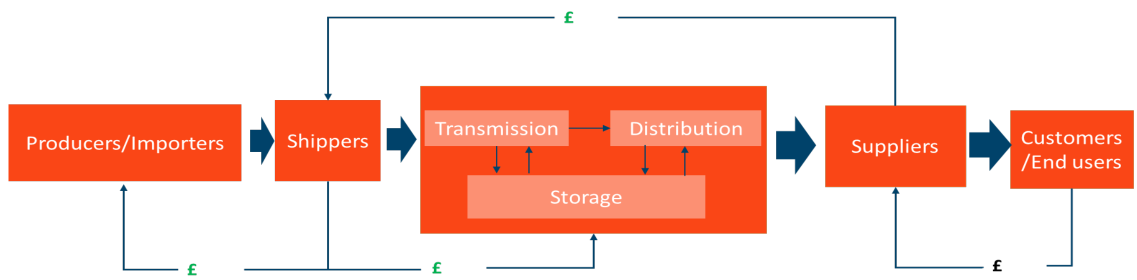
Revenue

Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

• investment in network assets;
• operational "run the business" costs (including tax and pensions);
• performance against incentives;
• regulatory return on equity and cost of debt; and
• inflation adjustments.

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

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



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

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

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

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

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

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

Consolidated Results

Income Statement

Revenue
Revenue was £2,172 million (2024: £2,277 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 pricing are adjusted in future years. Revenues from gas distribution for the year ended 31 March 2025 decreased by £109 million. This was due to the reversal of prior-year recoveries linked to gas price volatility driven by the global political climate, and lower-than-forecasted costs for using the National Gas Transmission System (NTS) -a pass-through cost that is reconciled over time. These impacts were partially offset by increased revenues to support investment in services for vulnerable customers, following the agreed repurposing of our fuel poor connections allowances.

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.

Operating profit
Operating profit for the year of £597 million (2024: £846 million), reflecting lower transportation income in line with the regulated revenue mechanism. Operating costs were higher than the previous year, driven by increased support for vulnerable customers, investment in innovation and technology, and higher pass-through costs linked to external factors. These investments are aligned with our long-term purpose and support the delivery of sustainable returns.

Operating cash flow remained strong at £1,223 million (2024:£1,267 million), supporting healthy liquidity and a stable net debt position relative to our RAV. Our financial position continues to support our investment-grade credit ratings and provides a sound foundation for future investment.

Operating costs largely comprise pass-through costs (principally charges associated with our usage of the NTS and business rates) and employment costs of our direct workforce. Pass-through costs in the year increased by £32 million, this increase was largely attributable to increased business rates of £185 million (2024: £174 million) and exit capacity charges of £149 million (2024: £132 million). The Ofgem regulated pricing formula ensures we are reimbursed/deducted for variations in these pass-through costs over future periods.

Following agreement with Ofgem that we could re-purpose our fuel poor connection allowances in RIIO-2, to further support our most vulnerable customers, we spent £41 million in the year on vulnerability and carbon monoxide awareness (2024: £17 million). This additional £24 million spend has enabled us to support 350 Centre's for Warmth and accelerate the roll-out of collaborative Services Beyond the Meter initiatives.

Spend on technology and innovation projects has also increased to £66 million in the year (2024: £51 million) as we have mobilised projects to meet compliance with the enhanced cyber assessment framework as well as increasing investment in technology that will improve our operational performance as we transition into RIIO-3 and beyond.

Adjusting items

Results are presented on a statutory and adjusted basis.

Included within total operating profit of £597 million (2024: £846 million) are adjusting items of £33 million (2024: £34 million).

During the year the Group initiated a voluntary redundancy programme for eligible employees to drive efficiency to our operations. The programme was formally announced in February 2025 and an amount of £19 million was recognised at March 2025 representing the outcome of the application process. In addition, a further amount of £14 million was charged in the year in relation to the next phase of our Operational Efficiency programmes. See note 6 for further information. These activities are infrequent and adjusting in nature, and are financially material over the course of the multi-year exercise.

Included within finance income are adjusting items of £6 million (2024: £22 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.

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 ensure continued access to capital markets through pro-active engagement with our debt investors and relationship banks.

Our financing strategy focuses on securing funding in advance of the requirement in order to reduce financing and liquidity risks. During the year, the Group have successfully refinanced a portion of its debt by securing new funding ahead of existing maturities. In April 2024 Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, raised €640 million under the Green Finance Framework published in March 2023, and used these proceeds to repay two tranches of bank debt that expired in June 2024 with carrying value of £208 million and to repay the remaining balance of €447 million on the €750 million public bond that matured in September 2024.

During the year, $50 million of USPP notes issued by Quadgas Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited matured.

On 23 October 2024, Quadgas Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, priced £148.8 million GBP equivalent of private fixed rate notes:

- £40 million settling 15 January 2025 and maturing 15 January 2032 with a coupon rate of 6.43%,
- $26.5 million settling 11 December 2024 and maturing 11 June 2029 with a coupon rate of 6.14%, which is swapped to GBP £20.4 million,
- $50 million settling 11 December 2024 and maturing 11 December 2031 with a coupon rate of 6.39%, which is swapped to GBP £38.6 million,
- $15 million settling 15 January 2025 and maturing 15 January 2035 with a coupon rate of 6.59%, which is swapped to GBP £11.6 million, and
- $49.5 million settling 15 January 2025 and maturing 15 January 2037 with a coupon rate of 6.69%, which is swapped to GBP £38.2 million.

We have limited maturing debt over the next 12 months and therefore expect to have lower short term financing requirements compared to recent years.

Net finance costs
Net finance costs of £387 million (2024: £364 million) were driven by external debt funding and remeasurements of our derivatives. The increase is largely attributable to higher interest rates on our borrowings and lower pension income.

As regulated revenues and Regulated Asset Value ('RAV') are currently index-linked to the Consumer Prices Index including owner occupiers' housing costs (CPIH), this offers protection against changes in inflation over the medium term. In addition, inflation-linked liabilities act as a natural hedge against fluctuations in inflation rates.

In total, there are £1 billion CPI-linked swaps, £400 million RPI-linked swaps and £250 million RPI/CPI basis swaps held, increasing the proportion of our debt book that is hedged to inflation and aligning our position more closely to the Ofgem notional company for RIIO-2.

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, is 25.7% (2024: 28.5%). 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 £121 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 £30 million.

During the year and in accordance with our obligations under Finance Act 2016 Schedule 19, Cadent Gas Limited published its Tax Strategy statement (which can be found on the reports and publications pages of www.cadentgas.com).

Following the annual 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 2025 was £304 million direct taxes (2024: £329 million) and £292 million indirect taxes (2024: £382 million).

Statement of Financial Position

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

Capital Investment
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 £919 million (2024: £953 million) and is primarily associated with the ongoing gas mains replacement programme which saw 1,751 km of mostly cast-iron pipes replaced by polyethylene pipe during the year as planned.

Statement of Financial Position (continued)

Cash flow and net debt

Borrowings (both current and non-current) at 31 March 2025 were £11,433 million (2024: £11,395 million) mainly comprising fixed rate and index-linked debt.

Our net debt at 31 March 2025 was £11,705 million (2024: £11,200 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 Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

Uses and sources of cash

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 2024/25 was £1,223 million, £44 million lower than in 2023/24, primarily due to lower operating profit, partially resulting from a decrease in revenue offset by favourable 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 net cash flow used in investing activities was £479 million (2024: £1,005 million) of which £895 million (2024: £975 million) is due to spend on the purchase of property, plant and equipment and intangible assets offset by a £371 million reduction in the investment in our financial investments. Cash flows from financing activities included £770 million (2024: £1,197 million) proceeds received from new debt raised in the year and £696 million (2024: £706 million) used to repay outstanding debt.

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 2025, liquidity was provided by a combination of cash, money market funds and committed bank facilities. All amounts held in the Money Market Funds £209 million (2024: £279 million) are redeemable on demand with same day settlement (subject to operational cut off times). We also have access to Revolving Credit Facilities from our relationship banking group. In November 2024, the termination date of the facility was extended by two years to 4 November 2029.

This facility allows for drawings of up to £700 million, £500 million at Cadent Gas Limited and £200 million at Quadgas MidCo Limited, subsidiaries of Quadgas Holdings TopCo Limited. As at 31 March 2025 there were no drawings on any revolving facility. Included within cash of £23 million at 31 March 2025 is an amount of £2 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 and Quadgas Finance Plc, subsidiaries of Quadgas Holdings TopCo Limited which allows efficient access to debt capital markets, in a range of different currencies. The combination of short-term liquid funds and access to longer-term borrowings allows us to keep a healthy level of liquidity.

Intangible assets

Goodwill of £1,713 million (2024: £1,713 million) has remained unchanged from the prior year. During the year, management completed the annual impairment test required for the goodwill and indefinite life intangibles that it holds on its balance sheet. The impairment test required the comparison of the carrying value of the net assets of the cash generating unit (Cadent Gas Limited) and its recoverable amount. Climate Change continues to result in uncertainty over the future use of the Cadent Gas assets for transporting natural gas to heat homes and power industry, and management have considered this uncertainty when performing the impairment test. 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, biomethane or other green gases. 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.

Management have calculated an updated recoverable amount, and the calculation indicated that this was broadly consistent with the prior year calculation. This has resulted in no impairment being recognised in the year. Key assumptions made by management in the calculation are described in detail in note 12, with sensitivity analysis performed in note 29.

The Group also holds a balance of £2,143 million (2024: £2,143 million) relating to the gas distribution licence and £17 million in relation to software (2024: £31 million).

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and earn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation. An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis with the asset being tested annually for impairment. The UK’s target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, biomethane, hydrogen, or other green gases and therefore an indefinite useful life remains appropriate. However, if future developments in technology, climate change agenda or regulatory changes to the Licence that indicate an indefinite life is no longer appropriate, an amortisation charge would be recognised in future periods. See note 29 for impact of the amortisation charge under different modelling scenarios.

Dividend

Our dividend policy is to have an appropriate distribution after having considered the forward committed cash requirements of the business to support our investment programmes, including the Cadent Foundation, and managing an appropriate level of gearing, as well as considering wider macro-economic factors and the broader performance of the business relative to a range of regulatory and customer performance metrics.

When considering dividends, we don’t just look at a single year but the cumulative performance and payments over recent years and a forward assessment into future years. This policy ensures that we take into account wider macro-economic factors, such as the uncertainty created by the COVID-19 pandemic when we chose to defer dividends in the year to March 2021.

Dividend (continued)

In making the decision to pay a dividend in the period, the Board robustly challenged the latest customer, operational and financial performance as well as considering:

• Our regulatory performance, together with our customer and community commitments;
• 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;
• The cumulative performance and payments over recent years and a forward assessment into future years;
• 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. During the year, we paid dividends totalling £378 million (2024: £377 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.

The decrease in the Scheme's asset values was largely driven by a significant movement in gilt markets, corporate bonds and property. These changes, among other factors, have contributed to the pension asset recognised on an IAS 19 basis at 31 March 2025 decreasing to £4,128 million, resulting in a decrease to the overall surplus to £340 million.

Impact of new accounting standards

There have been no new standards or revisions to existing standards which have had a significant or material impact on the 2024/25 accounts.

Performance summary

We believe that transparent disclosure of performance against our targets is essential. The KPIs for the Group are aligned with the Cadent Gas Limited KPIs. These are reviewed regularly by the Cadent Gas Limited Executive Committee and the Safety and Sustainability Committees, who are accountable for environmental policy and performance. Some of our measures have been imposed by our regulator and are marked accordingly. See Cadent Gas Limited Annual Report and Accounts 2024/25 for further detail.

Risk Management and principal risks

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

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

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

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 that 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.

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.

Climate change risk management

We support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (CFD) (see page 18). Risk mitigations for physical and transition risks associated with climate change have been put in place and are explained overleaf.

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. 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.

Our principal risks and uncertainties include:

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

Operational Risks

Cyber, physical security breach, data issues 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, the 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.	Increased risk The cyber threat continues to increase against a backdrop of heightened geopolitical tensions increasing the cyber threat from hostile foreign state actors and cyber criminals using ever more sophisticated attack methods.

Risk management overview (continued)

Operational Risks (continued)

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. • Delivery of the iron mains replacement programme to remove all iron mains within 30m of a property by 2032. • Suite of engineering policies and standards. • A dedicated Plant Protection team who work closely with third parties who may carry out work close to our assets. • Experienced engineering and asset management teams who ensure good quality asset investment decisions are made which deliver legislative and regulatory commitments. • Weather forecast and demand modelling. • Process Safety Risk Control Standards. • Fail safe asset design. • Alarm and fault management.	No change Continual maintenance and investment is required to maintain the high degree of reliability and service that our customers expect.

Securing critical resources and engagement

What is the risk?	What are we doing to manage the risk?	Trend
There is a risk that we cannot secure or do not maintain the engagement with our direct workforce and those engaged through our partners and supply chain. We rely on stocks and supplies being available when they are most needed. If they were not, this would significantly impact the service that we are able to provide to our customers.	• Strategic workforce planning to understand long-term resource requirements. • 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. • 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").	No change The external environment remains challenging with disruption from geopolitical events creating global supply chain pressures and competition for skilled resources in key areas from domestic infrastructure investment.

Risk management overview (continued)

Regulatory and Compliance Risks

Legal and regulatory compliance

What is the risk?	What are we doing to manage the risk?	Trend
Failure to comply with legal and regulatory requirements could result in disruption to the operational business, penalties and damage to our reputation. We set high standards of ethics and compliance that we expect those working for us to follow. As a regulated business, compliance with legislative and regulatory requirements is fundamental to our ability to operate.	• Dedicated operational teams focus on the delivery of our standards of service. • A governance framework closely monitors our regulatory output delivery and ensures that emerging risks and issues are escalated and managed in a timely manner. • A strong ethical and compliance culture underpinned by our value of “We take responsibility” and reinforced through our guide to ethical conduct “Always doing the right thing”, ethical training and communications including a strong ‘tone from the top’. • An assurance process which includes our compliance with legal and regulatory obligations. • Horizon scanning to identify legal and regulatory changes and developments. • Licence obligation matrix ensures clear ownership of each licence condition. • Governance requirements of the Companies Act 2006 and the Wates Principles, which we report against on an annual basis.	No change Legal and regulatory regime remains stable with no fundamental changes in our inherent risks or controls.

Safety, health and environment

What is the risk?	What are we doing to manage the risk?	Trend
Safety will always be a top priority and whilst major incidents are rare, human factors, asset and system malfunctions carry an inherent risk of harm to those who work for us and the communities we serve. The wellbeing of employees is also critical, as is the impact that our operations could have on the environment.	• 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.	No change No fundamental changes in our inherent risks or controls.

Risk management overview (continued)

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.	No change Uncertainty remains over the final RIIO-3 settlement, although the clarification provided through the Sector Specific Methodology has removed some uncertainty. There is an increasing political movement to defer net zero ambitions in favour of short term priorities, such as defence spending, which may lead to prolonged reliance on gas. Further clarity on the future role of the network is also expected following the government's Heat Policy decision, which is now expected for the end of 2025.

Risk management overview (continued)

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 change No fundamental changes in our inherent risks or controls but customer performance continues to improve.

Climate change

What is the risk?	What are we doing to manage the risk?	Trend
The risks 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.	No change The impacts of climate change continue to be felt across our networks. The government's Heat Policy decision is now expected by the end of 2025. There, however, appears to be a 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. Our RIIO-3 business plan submission contained bold carbon abatement plans which we hope will enable us to significantly reduce our own leakage emissions in future but require Ofgem's endorsement and funding.

Financial Risk

Macro-economic 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 2025, liquidity was provided by a combination of immediately available cash and money market funds of £232m and committed bank facilities of £700m. • 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 £700m by the Group – undrawn as at 31 March 2025.	No Change 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.	No Change 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.

Risk Management overview (continued)

Macro-economic and financial risk (continued)

What is the risk?	What are we doing to manage the risk?	Trend
Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk. The Group has no significant transactional foreign exchange or equity exposure. The Group is exposed to commodity price volatility, particularly gas prices.	• The Board reviews and approves policies for managing market risks on an annual basis. The Board also approves all new hedging instruments. • The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Director of Corporate Finance 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 c. 30% 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.	No Change 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 second and third line resources undertake assurance activities over the controls framework to provide confidence in its ongoing operation.	No Change The stable nature of the regulatory business, alongside focus on a robust controls framework supports a stable environment.

Climate related financial disclosures

Our path to decarbonising our business operations for future generations

In 2024/25 Cadent emitted 1.17 million tCO2e of greenhouse gas emissions (Scope 1 and 2 location-based). 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 are aligned to becoming net zero by 2050 based on our 2019/20 baseline.

The delivery of net zero on our own operations by 2050 requires an unprecedented amount of change, investment and collaboration. Hydrogen and biomethane 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.

The Group 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 gases such as hydrogen and biomethane as low-carbon alternatives to natural gas.

As the UK’s largest gas distribution network, Cadent Gas Limited is an influential voice on the importance of green gases such as hydrogen and biomethane in the future energy mix to achieve net zero. Our ambition is to be a leader in the energy sector, helping to achieve the UK’s net zero target 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 green gas projects are progressing well.

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 recent Future of the Gas Network report demonstrating our long-term commitment to decarbonise energy while minimising the impact to consumers.
The Group 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 the Cadent Gas Limited Annual Report 2024/25 Annual Report they are clearly referenced at the beginning of each section.

Maintaining full compliance this year, the Group 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	Cadent Gas Annual Report and Accounts 2024/25 Pages 74 to 78 TCFD Pages 19 to 21
b)Describe management’s role in assessing and managing climate related risks and opportunities	Risk management and principal risks Pages 10 to 17 TCFD Pages 23 to 27

Climate related financial disclosures (continued)

Governance (continued)

Board's oversight of climate related risks & opportunities

Climate-related issues are a fundamental component of Cadent's governance framework at both Board and Management levels.

Committee Chairs provide a report to the Board following each meeting. This practice ensures that the examination and deliberation of matters undertaken by the Committees are incorporated into the Board's decision-making process. Committee members are chosen based on their relevant skills and expertise. See Cadent Gas Annual Report and Accounts to read more about the Cadent Gas Board members' experience.

In making decisions and providing oversight and guidance on climate related issues the Board operates in compliance with statutory duties under s.172 of the Companies Act 1986 and the Wates Corporate Governance Principles for Private Companies. In deciding which matters are sufficiently material to report, the Board has had regard to these duties and principles, as well as the factual and anticipated impact of the matters reported relative to company strategy, risks and opportunities as described in more detail below.

Board of Directors

The Board is responsible for overseeing key climate-related risks and opportunities, aligning with the government's commitment to decarbonise all sectors of the UK economy to achieve net zero by 2050. This oversight includes the company's Future of Gas Programme and Environmental Action Plan, which encompass our three net zero strategic areas mentioned above.

At each Board meeting the CEO updates on progress in relation to Future of Gas, Sustainability and Environment. Additionally, time is dedicated at every meeting for the consideration of net zero related papers and presentations to inform the Board's stewardship of the business. Continuing areas of focus this year included progress with our HyNet Northwest industrial decarbonisation project, the role of biomethane and evidence relevant to the heat policy decision currently anticipated to be made by government in 2025. The Financial Plan addresses related expenditures. This is carefully considered and approved then monitored through financial reporting at each Board meeting throughout the year. The Board also approved sustainability and energy transition related incentive measures, demonstrating their commitment to addressing climate related issues.

Additionally, acknowledging the importance of our Future of Gas Programme in addressing climate-related risks and opportunities, we convene an annual strategy session to allow for thorough reflection and deliberation on our Net Zero Strategy.

All presentations are conducted by members of our Executive and Senior Leadership Team, with contributions from external specialist speakers and consultants where helpful to support the discussion.

The Board is supported by the work of its Committees (see Cadent Gas Limited Annual Report and Accounts for work and scheduled meetings of the Committees).

Board Committees

Strategic Report (continued)
For the year ended 31 March 2025

Climate related financial disclosures (continued)

Governance (continued)

Board Committees				
Audit & Risk Committee	**Sustainability Committee**	**Safety Committee**	**Remuneration Committee**	**Nominations Committee**
Duties include reviewing and reporting to the Board on the adequacy and effectiveness of the company's internal controls, external audit findings 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. This year, it also contributed input to the proposed RIIO3 Environmental Action Plan.	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 and energy transition performance measures; monitoring progress against those measures and reporting such progress to the Board.	Ensures sustainability related skills and experience form part of recruitment and succession planning considerations for independent and Executive Directors and Senior Executives.

Committee Chairs report to the Board following each meeting. This practice ensures that the examination and deliberation of matters undertaken by the Committees are incorporated into the Board's decision-making process. Committee members are chosen based on their relevant skills and expertise.

Climate related financial disclosures (continued)

Governance (continued)

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

Executive Committee

Our climate-related risks and opportunities are identified, assessed, and managed by our Executive Committee. Specific focus areas are delegated to Executive Sub-Committees that report to the Executive Committee. These include the Net Zero Transition Committee, which oversees the delivery of the Future of Gas Programme and, in conjunction with the Safety and Engineering Committee, monitors environmental performance, including progress against our RIIO-2 Environmental Action Plan. The Resilience Committee is responsible for directing and overseeing matters related 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 track the progress of action plans and ensure commitments made to prepare the business for the transition to net zero are met.

The Executive Committee also receives updates from the Strategy and Regulation Function, detailing our progress against the Future of Gas Programme. Additionally, the Internal Audit and Assurance Teams provide information regarding the identification, assessment, and management of our risks, controls, and assurance activities, including those related to climate risks are detailed in the Cadent Gas Limited Annual Report and Accounts.

We discuss papers at our sub-Committees and Executive Committee before presenting them to the Board or Board Committees, ensuring comprehensive input and debate. Overlapping attendees between these Committees and the Board ensures effective sharing of information and strategic thinking between the Board and the operational business.

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

Executive level committees / other input on climate change matters

Climate related financial disclosures (continued)

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 10 to 17 TCFD Pages 22 to 27
b) Describe the impact of climate-related risks and opportunities on the organisation's business, stratgey, and financial planning.	Cadent Gas Annual Report and Accounts 2024/25 Strategic performance Pages 44 to 50 TCFD Pages 22 to 27
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2^{o}C or lower scenario.	TCFD Pages 26 to 27

Overview of our climate-related risks and opportunities

The Group’s 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 11 million 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. We have a duty to continue to serve all customers throughout the transition to clean energy. We will supply customers with methane until they no longer need it whilst also supporting other customers with the switch to low carbon technologies – either through conversion of our asset, provision of new infrastructure or through eventual disconnection.

We are fully committed to tackling climate change seeing ourselves as an enabler for decarbonisation, with hydrogen and biomethane being an important part of our low emissions system solution. Firstly, we enable energy solutions that provide flexibility, resilience and reduce consumption, such as access to gas for flexible power generation and for hybrid heating systems, by continuing to safely and reliably provide gas as we transition. Secondly, we drive reductions in emissions while our customers still need gas so the gas that is used create as few emissions as possible. This includes our focus on reducing gas leaks and boosting biomethane. The climate-related risks and opportunities that could significantly impact our finances or reputation are outlined below. This section includes our methods for measuring each risk and opportunity, along with our strategic responses that support 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 risks and opportunity assessments can be seen in the table overleaf.

Climate related financial disclosures (continued)

Strategy (continued)

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	The future of the gas network needs to be seen in context of the wider transition to net zero and the pathway we follow. Stood in 2024, that pathway is highly uncertain, with a variety of potential scenarios capable of playing out between now and 2050. While these different pathways create uncertainty about the balance of roles the gas network will play over time, in all pathways it is clear they will be a need for a gas network of some description well in to the 2040s and beyond. 1. We have successfully submitted the final hydrogen safety evidence for the Government's Hydrogen Heating Programme, including the quantitative risk assessment (QRA). The Health and Safety Executive (HSE) is currently conducting their assessment and is expected to publish their findings in 2024. We are continuing to collaborate with the government and other stakeholders to analyse and provide the necessary evidence for the development of policy frameworks that will encourage investment in new hydrogen infrastructure. This includes production, storage, transportation, and end-use assets. Additionally, we have submitted the technical and safety evidence required to support a decision on hydrogen blending and are now awaiting the HSE's assessment. We are working with SGN on the H100 trial, in which over 180 homes are expected to be converted to hydrogen heating. We are also coordinating with European partners on delivering smaller trials where some customers are already using hydrogen to heat their homes. Our ongoing program, which examines the future role of gas, continues to explore the economics of supply and demand for hydrogen in meeting domestic energy needs, ensuring it remains 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 at the end of 2025, 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. There is also good reason, 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.

Strategic Report (continued)
For the year ended 31 March 2025

Climate related financial disclosures (continued)

Strategy (continued)

Risk/opportunity type and description		Our response
Physical Risk Consequences (Operational disruptions, supply chain challenges, etc.) due to extreme weather events become more frequent and more severe.		Our Resilience Policy Statement sets out our framework for both business and gas supply resilience and signposts our Gas Transporter 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. Triggered by our Action Reporting Process (ARP) fourth round reporting, we evaluated the recent historical climate events and identified flood risk as the most significant current climate threat to our network. Accordingly, we have developed a flood resilience framework. 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. We have published our fourth Climate Change Adaptation Report in 2024, 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.
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	
Transition Opportunity Cadent to grow revenue streams through non regulated activities and/or to increase our RAV through the development of the network to support net zero demands.		We recognise the significant role hydrogen will need to play in supporting the UK's economy, as we seek to decarbonise 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.
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	

Strategic Report (continued)

For the year ended 31 March 2025

Climate related financial disclosures (continued)

Strategy (continued)

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 engineering studies across our footprint (in collaboration with other gas networks and National Gas), for new and potentially re-purposed 100% hydrogen pipelines that will connect hydrogen production to high energy users, enabling them to switch away from natural gas. Where pipeline programmes do not currently exist such as in the West Midlands, we are engaging with high gas users to understand whether or not they may need hydrogen to decarbonise and are sharing this information for planning purposes to DESNZ and NESO. The hydrogen pipeline projects include HyNet North West, East Coast Hydrogen, Capital Hydrogen and Hydrogen Valley. Given the huge demand for low carbon hydrogen from industry and power generation customers across our network areas, it is our intention to progress these programmes through all stages of engineering design, planning and construction, subject to the availability of funding from the Hydrogen Transport Business Model.
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 ten commitments in support of the development of the UK's hydrogen economy. We will play a central role in constructing new hydrogen infrastructure to help make hydrogen a reality. For example, we are part of the consortium for the HyNet industrial cluster in the North West. This pipeline is the most advanced of its kind in the UK and we've recently completed public consultation on our routing and design proposals. The next step is for Government to finalise the business models for hydrogen pipelines and storage and open the competition for bidding. If successful, this will enable commissioning of the pipeline by 2030. 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 on investment	
Residual Risk	Low	

Strategic Report (continued)

For the year ended 31 March 2025

Climate related financial disclosures (continued)

Strategy (continued)

Risk/opportunity type and description		Our response
Transitional Risk (Policy & Legal) Access to green capital may be restricted if investor sentiment deteriorates.		Maintain a diverse source of funding in both green and conventional markets. Support investor understanding of our contribution to decarbonisation, green credentials and ESG performance through continuous investor work. We have continued to access capital markets using the Green Finance Framework published in March 2023.
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	

<u>Climate-related scenario analysis</u>

TCFD recommends that a climate scenario analysis should use a range of scenarios to ensure a diversity of future outcomes have been considered. In line with this guidance and with consideration to the industry Cadent operates in, 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 (net zero) assumes a rapid phase out of fossil fuels, enabling the world 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 severe transitional risks as the energy industry is decarbonised, enabling to explore the resilience of Cadent’s net-zero transition strategy and emissions reduction plan.

The medium-emissions scenario (Stated policies) assumes that the moderate and heterogeneous climate ambition reflected in today’s policy settings continues over the 21st century, resulting in an approximately 2.6°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 severe physical and transitional risks providing a framework for exploring how Cadent’s current strategy resists the stress of facing both physical and transitional risks.

The high-emissions scenario (‘Too little, too late’) relies on IPCC’s SSP5-8.5 climate scenario data, assuming that the reliance on fossil fuels continues, with little to no climate policy action, leading to an exponential increase in GHG emissions and a 4°C global warming by 2100. While this scenario has been criticised as too extreme, its inclusion in the climate scenario analysis enables us to explore the potential physical climate-related risks under a ‘worst case scenario’. Due to the uncertainties regarding climate feedback cycles, we are currently unable to accurately predict when climate tipping points, which can lead to rapid warming and potentially irreversible consequences for the world, might be reached. Therefore, all projections of future global temperature rise are probabilistic in nature: as an example, while the medium-emissions scenario presumes a 2.6°C global warming, it includes a 10% chance of a temperature rise above 3.2 °C in 2100, posing severe 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.

Strategic Report (continued)

For the year ended 31 March 2025

Climate related financial disclosures (continued)

Strategy (continued)

Climate-related scenario analysis (continued)

The climate scenario analysis was undertaken in February 2023. The climate scenario analysis was carried out over two workshops with representatives from Cadent's ESG, Risk, Legal and Operational teams. The first workshop focused on identifying the potential climate-related risks and opportunities for Cadent under the three potential climate pathways. The second workshop was dedicated to quantifying the potential impacts of the identified risks and opportunities, developing suitable mitigation strategies and assessing business resilience.

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

Climate related financial disclosures (continued)

Strategy (continued)

Risk management

TCFD Recommended disclosures	Our disclosures
a) Describe the organisation's processes for identifying and assessing climate related risks.	Risk management and principal risks Pages 10 to 15 TCFD Pages 28 to 29
b) Describe the organisation's processes for managing climate-related risks.	Risk management and principal risks Pages 10 to 15 TCFD Pages 28 to 29
c) Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organisation's overall risk management.	Risk management and principal risks Pages 10 to 15 TCFD Pages 28 to 29

Identifying and Assessing Climate Change risks and opportunities

New and emerging climate related risks and opportunities are identified and assessed through horizon scanning, which is undertaken as part of our wider risk 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 biomethane and hydrogen to support the transition to cleaner energy also presents opportunities for the continued use of our networks.

Managing Climate Change Risks and Opportunities

Each of the three level 2 risks, and all associated operational risks and opportunities are routinely assessed against our risk appetite, which, for climate change is 'Cautious'. This balances both the opportunities and risks which Climate Change presents.

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 within the Principal Risks section of this report on pages 10 to 17, however, given their importance, climate change risks and opportunities (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.

Climate related financial disclosures (continued)

Risk management (continued)

Integration of Climate Risk Management into the overall risk management framework

The Cadent Gas Board have an overall responsibility for risk management, which includes downside risks and upside opportunities. They discharge this by overseeing and challenging management, who have the responsibility for identifying and assessing risks and opportunities within our overall governance structure.

As well as each of the three elements of climate change risks and opportunity 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, leakage detection technology is being trialled which is seen as an opportunity to reduce leakage across our network.

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 29 to 33
b) Disclose Scope1, Scope 2 and if appropriate Scope 3 GHG emissions, and the related risks.	TCFD Pages 29 to 34 Pages 32 to 37
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	TCFD Pages 30 to 33 Pages 33 to 34

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 35) 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 related financial disclosures (continued)

Metrics & targets (continued)

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 (location based) 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.

Science based aligned targets scope 1 and 2 emissions

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 34 for progress to date).

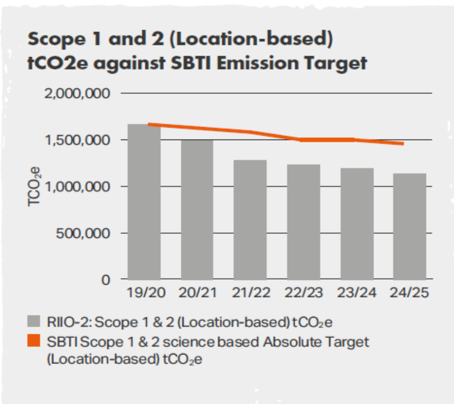
We continued to be certified against The Carbon Trust's Route to Net Zero 'Taking Action' level, addressing the recommendations through action plans and as part of this reviewed our Scope 3 categories to ensure we are taking action against the areas in our supply chain where we can make the most material 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 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 2024.



Climate related financial disclosures (continued)

Metrics & targets (continued)

Scope 1, Scope 2 and Scope 3 GHG emmissions

Our current GHG reduction target, developed with The Carbon Trust, is to reduce Scope 1 and 2 emissions (location-based), by 43% by 2036 (2019/20 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 dedicated to monitoring our performance and reviewing it, updating as necessary based on the latest climate science and models, as we recognise that the future energy landscape will change rapidly during this period.

The SECR disclosure details GHG emissions and energy use data (Scope 1 & 2) for 1 April 2024 to 31 March 2025 can be found on page 35. The SECR table also shows performance of our emission reduction activities for Scope 3.

Cadent Gas executive remuneration is aligned to the Group's long-term sustainability ambition (see Cadent Gas Annual Report and Accounts 2024/25).

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 32 and table on page 35
Transition risks – the amount and extent of assets or business activities vulnerable to transition risks	Cadent recognises that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to high electrification route and we are continuing to assess what impact these scenarios will have on our asset lives.	See climate-related scenario analysis on page 26 to 27
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 4th round Climate Change Adaptation Report published in 2024.	See physical risk disclosure on page 24
Climate-related opportunities – the proportion of revenue, assets or other business activities aligned with climate-related opportunities	Climate related opportunities have been included within the Strategy section. The amounts have not been quantified as detailed modelling is dependant upon a number of key policy decisions in the UK.	See opportunities disclosed on page 24 to 26
Capital deployment – the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities	Climate related risks/opportunities have been included within the Strategy section. Capital deployment figures not disclosed as the detailed modelling required is dependant upon a number of policy decisions in the UK without which difficulties remain in planning infrastructure development.	See risk and opportunities disclosed on page 23 to 26

Climate related financial disclosures (continued)

Metrics & targets (continued)

Cross industry metrics and targets	Disclosure	Reference
Remuneration (% remuneration recognised in current period that is linked to climate-related considerations, and how these are factored in)	Remuneration policies for executive directors include elements linked to climate considerations including STIP (waste reduction and tier 1 mains replacement) and LTIP (tier 1 mains replacement and progress against environmental plan).	See Cadent Gas Directors' Remuneration Committee report in Cadent Gas Annual Report and Accounts pages 91 to 103

Describe the targets

The Group's ambition is to reach net zero by 2050 in line with the UK Government's decarbonisation strategy. Shrinkage, which include the leakage of gas from the network contributes the most significate impact in our GHG Scope 1, 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 2024/25 our SBTI emission target was 1,458,161 tCO2e and the actual was 1,133,066.77 tCO2e, a 22% reduction against the baseline.

Our Scope 1 & 2 key emmisions areas are:

1.35% fuel use for commercial and company 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 140 charging points across our sites, and are installing faster chargers for our operational fleet. Additionally, we have a fleet 335 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 48.5% intensity reduction in 2024/25, compared with the 2019/20 baseline.

0.49% 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 trialling the use of hydrogen or solar-powered generators at construction sites.

97.81% emissions from shrinkage from the gas network (leakage, theft and operational use gas)
Methane is a strong greenhouse gas, with a 100-year global warming potential 27-30 times that of CO2. 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, by upgrading our pipeline network with modern, more durable 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. In 2024/25 403 theft cases are under investigation, and currently recovered £3.1 million from theft of gas cases.

Climate related financial disclosures (continued)

Metrics & targets (continued)

<u>Our most material Scope 3 emissions currently measured are:</u>

38.75% 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. Polyethylene (PE) pipe is the number one raw material purchased, which is used in our Mains Replacement Programme. During RIIO-2, we have worked closely with the supply chain in reducing the embodied carbon in the PE pipe. Our supplies have been working tirelessly, improving the energy efficiency in the manufacturing process, reducing scrap and improving transportation efficiency that all contributed to decreasing embodied carbon reported to Cadent. In 2024/25 15,294.22 tonnes of CO2 came from the manufacture of PE pipe.

57.12% 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 and alternative fuels such as hydrogenated vegetable oil (HVO) grows, we are committed to address the issue of emissions from our contractor commercial vehicles. In 2024/25 22,541.87 tonnes of CO2 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) Oil and Gas methodology is in development, meaning we are unable to verify our targets and emission reduction pathway with this body at this point in time. However, we have developed emission reductions targets for Scope 1 and 2 emissions (location-based) 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 data quality, quantity and assurance in reporting. We have worked with the Carbon Trust and have successfully met their ‘Taking Action’ threshold against their Route to Net Zero works and now annually have our Scope 1, 2 and part of our Scope 3 data externally audited.

Our business carbon footprint (BCF) is reported below and includes Scope 1, 2 and 3 emissions, including shrinkage and is reported in tCO2e and uses the 2024 Defra conversion factors.

In 2024/25, our total BCF decreased compared to 2023/24 by 4.21%, 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.

Strategic Report (continued)

For the year ended 31 March 2025

Climate related financial disclosures (continued)

Business Carbon Footprint (continued)

When reporting our Scope 1 and 2 BCF, excluding shrinkage emissions, we have decreased our emissions by 13.2%.

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

- **Scope 1** – 504 EV first responder vehicles are now fully electric. 3,942.41 tCO2e emission reduction since 2019/20.
- **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** – Embed company car policy, where employees can only purchase electric or hybrid vehicles. In 2024/25 we now have 1,232 company cars in our fleet consist of 68% EV and 32% PHEV, reducing the associated BCF from diesel and petrol company cars by 655 tCO2e 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** – Decrease of emissions associated with private vehicles used for business mileage by 74 tCO2e. This reflects a continued focus on efficient ways of working through our hybrid working policies and options of EV and Hybrid cars on the market.
- **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. The current year includes improvements in accuracy of emissions factors that were not present in the previous period and therefore the amounts for PE Pipes are not comparable.

We continue to work towards improving our Scope 3 data collection and assessment process, aligned to the GHG Protocol, and during 2024/25 now include further categories such as emissions associated with waste management and hotel stays. Excluding shrinkage, our Scope 3 emissions make up the majority of the BCF 61.36%. 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.

Transforming the environment

Streamlined Energy and Carbon Reporting (SECR)

The table quantifies our business carbon footprint in tonnes of CO2 equivalent and shows performance of our emission reduction activities against our RIIO-2 targets. GHG emissions and energy use data for 1 April 2024 to 31 March 2025.

Scope 1	**Reporting year 2024/25**	Comparison reporting year 2023/24
Emissions from refrigeration equipment/tCO_2e	**54.26**	151.90
Gas usage from our sites (Location-based)/tCO_2e	**826.25**	869.79
Gas usage from our sites (Market-based)/tCO_2e	**-**	-
Natural gas shrinkage (Leakage + Theft of Gas + Own use of gas)/tCO_2e	**1,112,988.39**	1,166,662.60
Fuel usage from commercial vehicles, company cars and plant machinery/tCO_2e	**15,326.75**	17,858.17
Total Scope 1	**1,129,195.65**	1,185,542.46
Scope 2		
Purchased electricity for own use (Location based) /tCO_2e	**3,871.12**	4,267.32
Purchased electricity for own use (Market based) /tCO_2e	**-**	-
Total Scope 2	**3,871.12**	4,267.32
Total Scope 1 and 2 (Location-based) /tCO_2e	**1,133,066.77**	1,189,809.78
Total Scope 1 and 2 Excluding Shrinkage (Leakage+Theft of Gas+Own use Gas/Location-based) /tCO2e	**20,078.38**	23,147.18
Total Scope 1 and 2 (Market-based) /tCO_2e	**1,128,369.40**	1,184,672.67
Scope 1 and 2 Energy consumption /kWh	**1,054,879,257.40**	1,109,050,188.27
Intensity metric: Total scope 1 and 2 (Location-based) tCO_2e per £m turnover	**521.78**	522.53
Intensity metric: Total scope 1 and 2 (Location-based) tCO_2e per km of our gas network	**10.28**	10.81
Scope 3 (Indirect emissions)		
Business travel /tCO_2e Rail, Air, Ferry, Car Hire and Private vehicle (grey fleet) use	**657.35**	682.83*
Emissions from production and delivery of purchased PE pipe /tCO_2e	**15,294.22**	6,864.42
Contractor vehicles /tCO_2e	**22,541.87**	27,379.29
Purchased Goods and Services (e.g. Aerial Surveys) /tCO2e	**104.41**	95.99*
Waste Management /tCO2e	**869.47**	977.63*
Embodied carbon in products, goods and services /tCO_2e	**N/A**	N/A
Total Scope 3 emissions /tCO_2e	**39,467.32**	34,243.71
Total annual net emissions /tCO_2e	**1,172,534.08**	1,224,053.49
Intensity metric: Total emissions /tCO_2e per km of network length	**10.64**	11.12
Intensity metric: Total emissions /tCO_2e per £m turnover	**539.96**	537.57
Intensity metric: Total emissions /tCO_2e per GWh throughput	**5.11**	5.50

Transforming the environment

Streamlined Energy and Carbon Reporting (SECR) (continued)

Background
All data is for the period 1 April 2024 to 31 March 2025 and relates to the business carbon footprint reported to the Regulator. (*) Denotes that these figures have been updated for final regulatory submission. We have also started to report the emissions associated with Scope 1 HVO fuels under Commercial Fleet, and Scope 3 emissions for Hotel stays, Waste and Aerial surveys.

Methodology: All data provided here is in line with the annual carbon footprint reporting to Ofgem using the 2024 DESNEZ conversion factors, and is updated annually. Shrinkage is calculated using GWP25 (for methane) in line with Ofgem RIG guidance. Additional lines for Scope 3 reporting, such as contractor vehicles, have been added here for full disclosure and in line with annual returns to Ofgem. Since 2021/22, Private Vehicle user is reported under Scope 3, and not Scope 1 as per the Greenhouse Gas Protocol and Ofgem guidance for RIIO-2. Where market-based factors are stated, these are provided annually by our electricity suppliers. The total annual net emissions figure uses a location-based methodology. Intensity metrics had been agreed upon via the Energy Networks Association (ENA) in 2020.

Environmental, Social and Governance (ESG) sustainability benchmark assessments

In 2024 we completed the Sustainalytics ESG assessment and the result was a risk rating score of 15.7 (low-risk). For 2024/25, 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) resulted in a sector leading score of 99 out of 100, and rated 5 stars against our peers.

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 2024/25, hosting our Global Technology 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, with over 3,513 supplier attendees at workshop events and suppliers completing over 4,218 of e-learning hours in 2024/25

Shrinkage

Our business carbon footprint is predominantly influenced by shrinkage emissions, accounting for 98.23% of our scope 1 and scope 2 emissions. Shrinkage emissions have reduced by 4.6% since 2023/24. 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 2024/25 our leakage from the network was only 0.42% of total gas throughput.

Strategic Report (continued)
For the year ended 31 March 2025

Transforming the environment (continued)

Circular economy and waste

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

- Less than 5% of our waste from excavations is sent to landfill.
  - 2.99% was achieved in 2024/25
- 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.
  - 0.47% for North West meeting this target
  - 1.93% for East of England meeting this target
  - 2.80% for West Midlands meeting this target
  - 1.19% 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 2024/25 has led to a decrease in general waste sent from depots by 220.13 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 41% since 2020/21 and exceeding our target of 5%, and stretch target of 8% for the financial year.

2.99% waste from excavations was sent to landfill in 2024/25. Our target is less than 5%. Rated 1st globally out of 96 gas utilities, Sustainalytics ESG risk rating.

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

E Howell
Director
19 June 2025

Quadgas Holdings TopCo Limited

Directors' Report

For the year ended 31 March 2025

The Directors present their Report and the audited financial statements of the Group and the company for the year ended 31 March 2025.

Principal activities and business review

A full description of the Group's and company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report which are incorporated by reference into this report.

Directors

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

M W Braithwaite
D A Karnik
D J Xie
H Su
M W Mathieson
E B Fidler
S Fennell
M Wang
D L Wilkins
N R V Corrigall
E Howell
G E Cooley
A G Ray
A Carta (Appointed 22 May 2025)
W D G Price (Resigned 20 November 2024)
A M Al-Ansari (Resigned 22 May 2025)

Future developments

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

Dividends

Our dividend policy is to balance the distribution of available surplus funds to shareholders but after having the forward committed cash requirements of the business to support our investment programmes and importantly managing the appropriate level of gearing. During the year we paid dividends totalling £378 million (2024: £377 million).

Charitable and political donations

Charitable donations made by the Group during the year totalled £0.5 million (2023/24: £4.8 million).

The Group made no political donations during the year (2023/24: £Nil).

Research and development

Expenditure on total research and development for the Group was £27 million during the current year (2024: £24 million).

Directors' indemnity

Quadgas Holdings TopCo Limited has arranged, in accordance with the Companies (Jersey) Law 1991 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, Quadgas Holdings TopCo Limited places Directors' and Officers' liability insurance for each Director.

Going concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report. In addition, note 28 to the financial statements include the Group’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. Having considered the reasonable worst-case scenario, the Group continues to have headroom against the Group committed facilities disclosed in note 21. In addition, the ability to raise new financing was considered and it was concluded, that the Group has the ability to continue to have access to the debt capital markets if needed.

Despite recent macro-economic volatility impacting inflation, energy prices, US Government and retaliatory tariffs and the ongoing conflicts in the Middle East and Ukraine, the Group has not been significantly impacted as a result of protections in place through the regulatory price control. The Group continues to closely monitor and manage the impacts of changes in the macro-economic environment. Having made enquiries and reassessed the principal risks, the Directors consider that the company and its subsidiary undertakings have adequate resources to continue in business.

In determining the relevant assessment period, the Directors have considered the principal risks and specific factors impacting the Group and have made the judgement that, given there are no planned events in the medium term which would significantly impact the length of the assessment period including any major refinancing or the expiry of existing facilities, the minimum period of 12 months from signing the accounts is a sufficient period for the assessment. 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 and resilient.

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 £163 million (2024: £266 million) primarily due to higher trade and other payables compared with trade and other receivables and cash and financial investments. The Group is bound by certain financial covenants with regards to its debt agreements and banking facilities. For debt issued by the Group, the most relevant covenant is adjusted net debt to RAV and interest cover. In both the base case and downside scenario, the Group has sufficient headroom over its covenants. 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.

The statement of financial position shows net assets of £3,209 million at 31 March 2025 (2024: £3,390 million) with a profit for the financial year of £156 million (2024: £344 million). The operating company for the Group, Cadent Gas Limited, continues to trade and operate as a going concern and as at 31 March 2025 was in a net asset position of £2,275 million (2024: £2,348 million) with reported profit for the financial year of £304 million (2024: £516 million). See Cadent Gas Limited Annual Report and Accounts for further details.

Going concern (continued)

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.

Capital structure

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

Control and Risk Management

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

• The risk assurance function and management conducts various checks on internal financial controls periodically.

• Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit and Risk Committee is also kept appraised of such developments.

• The financial statements are subject to review by the financial reporting function for unusual items, unexplained trends and completeness. Any unexplained items are investigated.

• The financial reporting function compares the financial statements to the management accounts received during the year and obtains explanations for any material differences.

• The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the financial reporting function.

• The Audit and Risk Committee and the Board review the draft consolidated financial statements. The Audit and Risk Committee receives reports from management on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Post balance sheet events

On 30 April 2025, Quadgas BidCo Limited, subsidary of Quadgas Holdings TopCo Limited amended the terms on its £902 million external loan from the Consortium, extending the termination date to 30 April 2050 and increasing the interest rate to 8.0%. All other terms remain unchanged.

Disclosure of information to auditor

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

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

Engagement with employees

Within the Group there is a subsidiary that exceeds the requirements for reporting on employee engagement (Cadent Gas Limited), with an average number of employees of 6,361 (2024: 6,215). Cadent Gas Limited has provided extensive disclosure in relation to employee engagement. For further information on these activities and disclosure, including principal decisions and the effect of engagement on them, please refer to the Cadent Gas Annual Report and Accounts 2024/25.

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

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

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

Environmental Policy

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

Information on the Group’s environmental initiatives can be found in the ‘Our path to decarbonising our business operations for future generations’ on page 18, where you will find our environmental responsibility reports, policies and other information, which is incorporated into this Directors’ report by reference.

Statement of Directors’ responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' 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 International Financial Reporting Standards (IFRSs) and in accordance with the requirements of the Companies (Jersey) Law, 1991. 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 of the profit or loss of the Group for that period. In preparing the financial statements, the directors have elected to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as issued by the IASB have been followed for the Group financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

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 enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

E Howell
Director
19 June 2025

Registered office:
3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD

Registered in England and Wales
Company registration number: 122596

Independent auditor's report to the members of Quadgas Holdings TopCo Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Quadgas Holdings TopCo Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's affairs as at 31 March 2025 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRS Accounting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 36 to the consolidated financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS Accounting Standards.

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 the reasonableness 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; and
- assessment of the appropriateness of the going concern disclosures in the financial statements.

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 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 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 statement of directors' responsibilities, 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 (Jersey) Law 1991, 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. These include the license conditions imposed by the office of Gas and Electricity Markets (Ofgem).

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:

- *Judgement over the classification of non-Mains Replacement Programme ("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 £914m in property, plant, and equipment, excluding leased assets (2024: £950m).

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 fraud risk identified:

- 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 a 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

Matters on which we are required to report by exception
Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; 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 Article 113A of the Companies (Jersey) Law 1991. 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.

Deloitte LLP

Jane Whitlock ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory !uditor
Birmingham, United Kingdom
19th June 2025

Quadgas Holdings TopCo Limited

Consolidated income statement

For the year ended 31 March 2025

	Notes	**2025** **£m**	**2025** **£m**	2024 £m	2024 £m
Revenue	4		**2,172**		2,277
Operating costs					
Before adjusting items		**(1,542)**		(1,397)	
Adjusting items	6	**(33)**		(34)	
Total operating costs			**(1,575)**		(1,431)
Total operating profit			**597**		846
Finance income					
Before adjusting items	9	**54**		59	
Adjusting items	6/9	**6**		22	
Total finance income			**60**		81
Finance costs					
Before adjusting items	9	**(447)**		(445)	
Total finance costs			**(447)**		(445)
Profit before tax					
Before adjusting items		**237**		494	
Adjusting items	6	**(27)**		(12)	
Total profit before tax			**210**		482
Tax					
Before adjusting items	10	**(61)**		(141)	
Adjusting items	6/10	**7**		3	
Total tax			**(54)**		(138)
Profit after tax					
Before adjusting items		**176**		353	
Adjusting items	6	**(20)**		(9)	
Profit for the year			**156**		344

The results reported above relate to continuing activities.

The notes on pages 53 to 119 are an integral part of the financial statements.

Quadgas Holdings TopCo Limited

Consolidated statement of comprehensive income

For the year ended 31 March 2025

	Notes	**2025** £m	2024 £m
Profit for the year		**156**	344
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	27	**(6)**	(396)
Tax on remeasurements of post-employment benefit obligations	10	**2**	99
Total items that will never be reclassified to profit or loss		**(4)**	(297)
Items that may be reclassified subsequently to profit or loss			
Net gain in respect of cash flow hedges		**69**	22
Net loss in respect of cost of hedging reserve		**(16)**	(10)
Amortisation of cost of hedging reserve		**8**	5
Tax on net gain in respect of cash flow hedges	10	**(16)**	(4)
Total items that may be reclassified subsequently to profit or loss		**45**	13
Other comprehensive income/(expense) for the year, net of tax		**41**	(284)
Total comprehensive income for the year		**197**	60

The results reported above relate to continuing activities.

The notes on pages 53 to 119 are an integral part of these financial statements.

Quadgas Holdings TopCo Limited

Consolidated statement of financial position

As at 31 March 2025

	Notes	**2025**	2024
		£m	£m
Non-current assets			
Intangible assets	12	**3,873**	3,887
Property, plant and equipment	13	**13,738**	13,313
Investments in associates	14	**-**	-
Pension and other post-retirement benefit assets	27	**340**	350
Derivative financial assets	17	**30**	19
Total non-current assets		**17,981**	17,569
Current assets			
Derivative financial assets	17	**-**	5
Inventories	15	**16**	16
Corporation tax		**3**	4
Trade and other receivables	16	**190**	205
Current asset investments	18	**209**	584
Cash and cash equivalents		**23**	30
Total current assets		**441**	844
Total assets		**18,422**	18,413
Current liabilities			
Trade and other payables	19	**(456)**	(367)
Borrowings	21	**(106)**	(712)
Lease liabilities	22	**(18)**	(19)
Provisions	23	**(24)**	(12)
Total current liabilities		**(604)**	(1,110)
Net current liabilities		**(163)**	(266)
Total assets less current liabilities		**17,818**	17,303
Non-current liabilities			
Derivative financial liabilities	17	**(406)**	(330)
Borrowings	21	**(11,327)**	(10,683)
Lease liabilities	22	**(110)**	(94)
Deferred tax liabilities	10	**(2,683)**	(2,693)
Provisions	23	**(68)**	(72)
Accruals and deferred income	20	**(15)**	(41)
Total non-current liabilities		**(14,609)**	(13,913)
Total liabilities		**(15,213)**	(15,023)
Total net assets		**3,209**	3,390
Equity			
Share capital	24	**4,739**	4,739
Cash flow hedge reserve/(deficit)		**36**	(17)
Cost of hedging reserve		**1**	9
Retained earnings		**(1,567)**	(1,341)
Total equity		**3,209**	3,390

The notes on pages 53 to 119 are an integral part of the financial statements.

The consolidated financial statements on pages 48 to 119 were authorised and approved for issue by the Board of Directors on 19 June 2025 and were signed on its behalf by:

E Howell
Director
Quadgas Holdings TopCo Limited
Company registration number: 122596

Quadgas Holdings TopCo Limited

Consolidated statement of changes in equity

For the year ended 31 March 2025

	Share capital	**Cash flow hedge (deficit) /reserve**	**Cost of hedging reserve**	**Retained earnings**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 1 April 2024	**4,739**	**(17)**	**9**	**(1,341)**	**3,390**
Profit for the year	**-**	**-**	**-**	**156**	**156**
Other comprehensive income/(expense) excluding amortisation of cost of hedging reserve	**-**	**53**	**(16)**	**(4)**	**33**
Amortisation of cost of hedging reserve	**-**	**-**	**8**	**-**	**8**
Total comprehensive income/(expense) for the year	**-**	**53**	**(8)**	**152**	**197**
Equity dividends (note 11)	**-**	**-**	**-**	**(378)**	**(378)**
At 31 March 2025	**4,739**	**36**	**1**	**(1,567)**	**3,209**

	Share capital	Cash flow hedge deficit	Cost of hedging reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
At 1 April 2023	4,739	(35)	14	(1,011)	3,707
Profit for the year	-	-	-	344	344
Other comprehensive income/(expense) excluding amortisation of cost of hedging reserve	-	18	(10)	(297)	(289)
Amortisation of cost of hedging reserve	-	-	5	-	5
Total comprehensive income/(expense) for the year	-	18	(5)	47	60
Equity dividends (note 11)	-	-	-	(377)	(377)
At 31 March 2024	4,739	(17)	9	(1,341)	3,390

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

The notes on pages 53 to 119 are an integral part of the financial statements.

Quadgas Holdings TopCo Limited

Consolidated statement of cash flows

For the year ended 31 March 2025

	Notes	2025 £m	2024 £m
Cash flows from operating activities			
Total operating profit		**597**	846
Adjustments for:			
Adjusting items	6	**33**	34
Depreciation, amortisation and impairment	12/13	**548**	508
Increase in inventories	15	**-**	(1)
Decrease in trade and other receivables		**15**	3
Increase/(decrease) in trade and other payables	30	**41**	(129)
Capital contribution income		**(44)**	(43)
Changes in provisions		**(2)**	(2)
Gain on disposal of property, plant and equipment		**(2)**	(2)
Changes in pensions and other post-retirement obligations		**7**	-
Capital contributions received		**42**	63
Cash flows relating to adjusting items		**(12)**	(10)
Cash generated from operations		**1,223**	1,267
Tax paid		**(77)**	(116)
Net cash inflow from operating activities		**1,146**	1,151
Cash flows from investing activities			
Purchases of intangible assets		**(4)**	(3)
Purchases of property, plant and equipment	31	**(891)**	(972)
Disposals of property, plant and equipment		**3**	2
Interest received		**42**	22
Net decrease/(increase) in financial investments		**371**	(54)
Net cash flow used in investing activities		**(479)**	(1,005)
Cash flows from financing activities			
Proceeds received from loans		**770**	1,197
Cash (paid)/received on derivatives hedging loan proceeds		**(5)**	19
Repayment of loans		**(696)**	(706)
Cash received from early termination of derivatives		**-**	4
Repayment of lease liabilities	22	**(29)**	(20)
Interest paid on loans		**(359)**	(302)
Cash received on interest settlement of derivatives		**23**	32
Dividends paid to shareholders	11	**(378)**	(377)
Net cash flow used in financing activities		**(674)**	(153)
Net decrease in cash and cash equivalents		**(7)**	(7)
Net cash and cash equivalents at the start of the year		**30**	37
Net cash and cash equivalents at the end of the year		**23**	30
Comprising:			
Cash[1]		**23**	30
		23	30

[1] Cash of £23m (2024: £30m) includes £2m (2024: £9m) which has specific restrictions over its use. See note 1(s) for details.

1 Summary of significant accounting policies

Quadgas Holdings TopCo Limited is a private company limited by shares and is incorporated and domiciled in Jersey. The address of its registered office is Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, JE1 1AD, Jersey. Its principal activity is a holding company which invests in gas distribution businesses.

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. 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. Having considered the reasonable worst-case scenario (more detail can be found in the Directors' report), the Group continues to have headroom against the Group committed facilities disclosed in note 21. In addition, the ability to raise new financing was considered and it was concluded, that the Group has the ability to continue to have access to the debt capital markets if needed.

Despite recent macro-economic volatility impacting inflation, energy prices, US Government and retaliatory tariffs and the ongoing conflicts in the Middle East and Ukraine, the Group has not been significantly impacted as a result of protections in place through the regulatory price control. The Group continues to closely monitor and manage the impacts of changes in the macro-economic environment. Having made enquiries and reassessed the principal risks, the Directors consider that the company and its subsidiary undertakings have adequate resources to continue in business.

In determining the relevant assessment period, the Directors have considered the principal risks and specific factors impacting the Group and have made the judgement that, given there are no planned events in the medium term which would significantly impact the length of the assessment period including any major refinancing or the expiry of existing facilities, the minimum period of 12 months from signing the accounts is a sufficient period for the assessment. 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 and resilient. 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 £163 million (2024: £266 million) primarily due to higher trade and other payables compared with trade and other receivables and cash and financial investments.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Going Concern (continued)

The Group is bound by certain financial covenants with regards to its debt agreements and banking facilities. For debt issued by the Group, the most relevant covenant is adjusted net debt to RAV and interest cover. In both the base case and downside scenario, the Group has sufficient headroom over its covenants. 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, 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 following areas:

- carrying value and useful economic lives (UEL) of property, plant and equipment - **note 13** and
- cash flow forecasts used in the impairment assessments of non-current assets including goodwill - **note 12.**

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 Quadgas Holdings TopCo Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in accordance with the requirements of the Companies (Jersey) Law, 1991.

Company only financial statements

The company has elected to take the exemption under Article 105 (11) of the Companies (Jersey) Law 1991 from preparing separate accounts for the company only as consolidated accounts for the company are prepared. The members of the company have not passed a resolution requiring separate accounts and, in the Directors’ opinion, the company meets the definition of a holding company.

(b) Basis of consolidation

The consolidated financial statements include the results of Quadgas Holdings TopCo Limited and its subsidiaries and associate undertakings (the 'Group') as disclosed in note 36 . 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.

1 Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

Cadent Gas Limited has an agreement with the Charities Trust to contribute at least 1% of profit after tax into a Donor Advised Fund ("DAF"). We have concluded that the DAF is not controlled by the Group as the Charities Trust have the power to overrule decisions that do not align with the objectives of the DAF and the requirements of IFRS 10 have not been met in respect of (1) rights to variable returns and (2) its ability to affect the amount of investor returns. Therefore this has not been consolidated as part of the Quadgas Holdings TopCo Limited 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 2024. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

• IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information*
• IFRS S2, Climate-related Disclosures*
• Amendments to IAS 1, Classification of Liabilities as Current or Non-Current
• 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 arrangements

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:

• IFRS 18, Presentation and disclosure in financial statements*
• IFRS 19, Subsidiaries without Public Accountability: Disclosures*
• Amendments to IFRS 9 and IFRS 7, Classification and measurement of financial instruments*
• Amendments on IFRS 9 and IFRS 7, Contracts Referencing Nature-depending Electricity*
• Amendments to IAS 21, Lack of Exchangeability*
• Annual improvements 2024

*Denotes that the standard or interpretation has not yet been adopted by the UK (United Kingdom).

The Directors are currently assessing the likely impact of the adoption of the Standards listed above on the financial statements of the Group in future periods.

(d) Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset; goodwill, which represents the excess of what was paid to acquire businesses over the fair value of their net assets at the acquisition date; and the gas distribution Licence, which allows the operation of the four gas distribution networks.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets, other than goodwill and those assets with indefinite useful lives (the gas distribution Licence), are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired. Software customisation and configuration costs relating to software not controlled by the Group are expensed over the period such services are received.

1 Summary of significant accounting policies (continued)

(d) Intangible assets (continued)

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

Impairment of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairment is recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period (other than goodwill) are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets 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 completion of the asset must be technically feasible so that it is available to use or sell; 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 acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and earn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation. An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis with the asset being tested annually for impairment. The UK's target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, biomethane, hydrogen, or other green gases and therefore an indefinite useful life remains appropriate. However, if future developments in technology, climate change agenda or regulatory changes to the Licence that indicate an indefinite life is no longer appropriate, an amortisation charge would be recognised in future periods. See note 29 for impact of the amortisation charge under different modelling scenarios.

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

Amortisation Periods
Computer software - 5 years
Computer licenses - 3 years

1 Summary of significant accounting policies (continued)

(d) Intangible assets (continued)

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.

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.

1 Summary of significant accounting policies (continued)

(e) Property, plant and equipment and depreciation (continued)

Climate change is a global challenge and an established 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 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 and other green gases have 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) Fixed asset investments

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

(g) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. 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.

(h) Financial instruments

Initial recognition

Financial assets are classified in accordance with the business model assessment under IFRS 9. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Initial recognition (continued)

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Classification and measurement

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:
- financial assets at amortised cost; 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.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Hedge accounting (continued)

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 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2025

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Derecognition (continued)

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.

(i) Trade and other receivables

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

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

1 Summary of significant accounting policies (continued)

(j) Trade and other payables

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

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

(k) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(l) Tax

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

1 Summary of significant accounting policies (continued)

(l) Tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authorities and the company intends to settle their current tax assets and liabilities on a net basis.

(m) Provisions for liabilities

Provisions for liabilities are recognised where a legal or constructive obligation exists at the reporting date, as a result of past events where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditure, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are 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.

(n) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the company’s shareholders are recognised as a liability until paid in the company’s financial statements in the period in which the dividends are approved by the company’s shareholders.

(o) Revenue

Revenue largely comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year (capacity revenue), and the amount of gas transported for the year (commodity revenue), evaluated at contractual prices. 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.

1 Summary of significant accounting policies (continued)

(o) Revenue (continued)

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

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

Other income comprises all activities outside the regulated business principally relating to cash fees paid by customers, typically property owners / developers, for connections fees and typically developers or large infrastructure projects for altering, diverting or relocating part of our existing network. There are also non material revenue streams for call handling services (emergency telephone service for all gas distribution networks) and metering services (the provision of meter installation and repair services).

For fees paid by customers, the performance obligation is satisfied when either the new connection to our network or alteration / diversion of our network is completed and control passes to the customer on this completion of the physical installation ready for the first flow of gas. Significant judgement was applied for connections to determine whether the connection service was distinct from the provision of future network services. The Group judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available. For call handling services, the performance obligation is satisfied over time with the provision of an emergency call handling service to customers. For metering services, the performance obligation is satisfied on completion of the installation or the repair and control passes when the meter is operational. Customers for metering services are typically the gas supplier and distinct from the ongoing supply of gas. Typical payment terms are 30 days for our other revenue.

Where amounts from customers in relation to Supplier of Last Resort (SoLR) claims are received, it is deemed that Cadent Gas is operating as an agent in this transaction as the amounts collected directly onto the SoLR with no control over the amount and it does not receive any commission. Cadent Gas therefore present the amounts collected and amounts paid on a net basis per the requirements of IFRS 15.

The UK's target of reducing all greenhouse gas emissions to net zero by 2050 will impact how our network can be used in the future, and how we generate revenue. See note 2 for further details.

1 Summary of significant accounting policies (continued)

(p) 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.

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.

(q) Pensions

The Group operates both a defined contribution (DC) and a defined benefit (DB) pension scheme.
For the DC pension scheme, the Group pays contributions into a Master Trust on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

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

The DB Scheme closed to future accrual on 31 March 2024. The Group's obligation in respect of the DB pension scheme is calculated by projecting the estimated amount of future benefit payments that employees have earned for pensionable service in prior periods.

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

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

1 Summary of significant accounting policies (continued)

(r) Leases

The Group leases offices, operational buildings, land, equipment and vehicles. Rental contracts typically range from 6 months to 10 years, however land and building leases can be significantly longer.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

IFRS 16 has been applied for all leases (except as noted below), the Group:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16;

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Right-of-use assets are tested for impairment in accordance with IAS 36.

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.

<u>Measurement</u>

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.

1 Summary of significant accounting policies (continued)

(r) Leases (continued)

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.

<u>Variable lease payments</u>

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.

<u>Right-of-use assets</u>

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.

(s) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position and are considered as part of cash management.

The Group classifies cash flows as either operating, investing or financing as per the requirements of IAS 7 - Statement of cash flows. In determining the classification the Group considers what is most appropriate to the business.

The Group receives monies in the form of grants. The use of this cash is restricted by the specific terms and conditions of each grant and therefore is not available for general use.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

• The determination and judgement that connections and 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 met 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 restructuring programme – **note 6**; and

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

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 and other green gases 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, biomethane and other green gases have 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, biomethane, hydrogen, other green gases or a combination of these) beyond 2050, and that these gases will be available in sufficient quantities. Subsequent pages detail the estimates we have made regarding useful lives when applying this judgement to our financial statements – **notes 12 & 13.**

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

Key sources of estimation uncertainty

Key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

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

• Determination of useful lives and carrying values of property, plant and equipment. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. 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, 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 and other green gases have 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 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 further biomethane connections or hydrogen. 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**;

• Determination of useful lives and carrying values of intangible assets. In assessing the useful economic life of the Gas Distribution Licences granted by Ofgem, an indefinite useful economic life has been assumed due to the daily renewing basis. The UK's target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, hydrogen, or a mixture of the two and therefore an indefinite useful life remains appropriate. However, if future developments in technology, climate change agenda or regulatory changes to the Licence that indicate an indefinite life is no longer appropriate, an amortisation charge would be recognised in future periods. See **note 29** for impact of the amortisation charge under different modelling scenarios – **note 12**;

2

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

• The estimation of liabilities for pensions and other post-retirement benefits include a number of key assumptions which include life expectancy of members, expected salary and pension increases, and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied – **note 27;** 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 and own credit risk, where appropriate **- note 17**.

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

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

	2025	2024
	£m	£m
Revenue from distribution of gas	**2,109**	2,218
Other income	**63**	59
	2,172	2,277

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 the operating company, 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(o) for further detail).

Analysis of revenue by major customer

	2025	2024
	£m	£m
Customer A	**382**	274
Customer B	**344**	266
Customer C	**253**	299
Customer D	**131**	317
	1,110	1,156

Three customers contributed 10% or more to the Group's revenue during the year to 31 March 2025 (2024: four).

5 Operating profit

	2025	2024
	£m	£m
Operating profit is stated after charging:		
Depreciation and amortisation	**548**	508
Payroll costs (see note 7)	**299**	279
Inventory consumed	**28**	25
Shrinkage	**32**	29
Rates	**185**	174
Research and development expenditure	**26**	22
Exit capacity charges	**149**	132

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 results in leakage from the network.

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

Services provided by the Group's auditor	**2025**	2024
	£'000	£'000
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	**40**	39
Fees payable for the audit of the subsidiary company financial statements	**1,180**	1,152
Other services		
Fees payable to the Group’s auditors for audit-related assurance services	**169**	165
Other non-audit services	**235**	263

Fees payable to the Group’s auditor for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditors such as interim reviews. Other non-audit services in 2025 relate to services provided in connection with the raising of debt, grant claims or reports required by the regulator.

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.

	2025 £m	2024 £m
Adjusting items included within operating costs:		
Restructuring costs (i)	**33**	10
Costs associated with the closure of the Cadent Gas Pension Scheme (ii)	**-**	24
	33	34
Adjusting items included within finance income:		
Net gains on derivative financial instruments (iii)	**(6)**	(22)
Total included within profit before tax	**27**	12
Included within taxation:		
Tax on adjusting items		
Tax credit on restructuring activities and costs associated with closure of the Cadent Gas Pension Scheme	**(8)**	(9)
Tax charge on net gains on derivative financial instruments	**1**	6
	(7)	(3)
Total adjusting items after tax	**20**	9
Analysis of total adjusting items after tax		
Total adjusting items included within operating costs after tax	**25**	25
Total adjusting items included within finance income after tax	**(5)**	(16)
	20	9

(i) The Group is completing a transformation programme to improve the efficiency of our operations by restructuring the business. During the year the Group recognised £33 million in adjusting items in relation to our Operational Efficiency programmes and Voluntary Redundancy programme in order to drive efficiency (cumulative expenditure £43 million). These activities are infrequent and adjusting in nature, and are financially material over the course of the multi-year excercise.

(ii) The DB scheme closed to future accrual on 31 March 2024. In the prior year the Group recognised £24 million in adjusting items which related to the closure.

(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 6,361 (2024: 6,215) and can be analysed as follows:

	2025	2024
Field force	**2,804**	2,770
Office and other administrative staff	**3,557**	3,445
Total	**6,361**	6,215

	2025 £m	2024 £m
Wages and salaries	**342**	318
Social security costs	**42**	38
Other pension costs	**62**	60
	446	416
Less: payroll costs capitalised	**(147)**	(137)
	299	279

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

	2025 £'000	2024 £'000
Salaries and other short-term employee benefits	**3,821**	3,358
Long-term benefits	**2,116**	1,688
Post-employment benefits	**190**	174
	6,127	5,220

Key management compensation is paid by Cadent Gas Limited. It is not practicable to split the key management services or remuneration between Quadgas group entities. As such, the amounts disclosed within this note relate to services rendered to all relevant Quadgas group entities in the current year.

8 Directors' emoluments

Director emoluments are paid by the operating company, Cadent Gas Limited. It is not practicable to split the directors services or remuneration between Quadgas group entities.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2025

9 Finance income and costs

	2025 £m	2024 £m
Finance income		
Interest income from pensions	**16**	33
Interest income from financial investments	**38**	26
Finance income before adjusting items	**54**	59
Adjusting items(i)	**6**	22
Total Finance income	**60**	81
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**38**	41
Bonds(ii)	**320**	303
Interest payable on intercompany financing	**60**	62
Derivatives(iii)	**23**	34
Unwinding of discounts on provisions and lease liabilities	**6**	5
Total Finance costs	**447**	445
Net finance costs	**387**	364

(i) Includes a net foreign exchange gain on financing activities of £63 million (2024: £56 million gain). These amounts are fully offset by foreign exchange gains and losses on derivative financial instruments measured at fair value. Also includes a loss of £3 million (2024: £16 million gain) relating to the remeasurement of derivatives not designated as hedges and ineffectiveness on derivatives designated as cash flow hedges and a £7 million gain (2024: £6 million gain) on redemption of swaps.

(ii) Included within finance costs in bonds is £1 million (2024: £19 million) of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £252 million) and £39 million (2024: £84 million) RPI-linked debt instruments of > 10 years tenor (cumulative: £507 million).

(iii) Included within finance costs in derivatives is net interest received on derivatives of £30 million. Also, £20 million (2024: £28 million) of accretion on RPI-linked swaps with tenor > 10 years (cumulative: £188 million), £25 million (2024: £32 million) on CPI-linked swaps (cumulative: £169 million) with 7-10 years tenor and £8 million (2024: £12 million) on CPI-linked swaps (cumulative: £61 million) with tenor > 10 years.

10 Taxation

Tax charged/(credited) to the income statement

	2025 £m	2024 £m
Tax before adjusting items	**61**	141
Tax on adjusting items (see note 6)	**(7)**	(3)
Total tax expense	**54**	138

Taxation as a percentage of profit before tax

	2025 %	2024 %
Before adjusting items	**25.7**	28.5
After adjusting items	**25.7**	28.6

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

	2025 £m	2024 £m
Current tax		
UK corporation tax at 25% (2024: 25%)	**79**	138
UK corporation tax adjustment in respect of prior years	**(1)**	(1)
Total current tax	**78**	137
Deferred tax		
UK deferred tax current year	**(8)**	1
UK deferred tax adjustment in respect of prior years	**(16)**	-
Total deferred tax	**(24)**	1
Total tax charge	**54**	138

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

	2025 £m	2024 £m
Deferred tax		
Financial instruments	**16**	4
Remeasurements of post-employment benefit obligations	**(2)**	(99)
Total tax charged/(credited) to other comprehensive income and equity	**14**	(95)

The tax charge for the year after adjusting items is higher than (2024: higher) the standard rate of corporation tax in the UK of 25% (2024: 25%).

10 Taxation (continued)

	Before adjusting items 2025 £m	**After adjusting items 2025 £m**	Before adjusting items 2024 £m	After adjusting items 2024 £m
Profit before tax				
Before adjusting items	**237**	**237**	494	494
Adjusting items	**n/a**	**(27)**	n/a	(12)
Profit before tax	**237**	**210**	494	482
Profit before tax multiplied by UK corporation tax rate of 25% (2024: 25%)	**59**	**52**	123	120
Effect of:				
Expenses not deductible for tax purposes	**4**	**4**	4	4
Non-taxable income	**(1)**	**(1)**	(1)	(1)
Corporate interest restriction	**16**	**16**	16	16
Adjustments in respect of prior year	**(17)**	**(17)**	(1)	(1)
Total tax	**61**	**54**	141	138

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 2025

10 Taxation (continued)

Taxation included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

	Accelerated Tax Depreciation £m	**Gas Distribution Licence £m**	**Pensions £m**	**Financial Instruments £m**	**Other net Temporary Differences £m**	**Total £m**
At 1 April 2024	**2,078**	**536**	**85**	**13**	**(19)**	**2,693**
Credited to income statement	**(22)**	**-**	**(1)**	**(1)**	**-**	**(24)**
(Credited)/charged to other comprehensive income and equity	**-**	**-**	**(2)**	**16**	**-**	**14**
At 31 March 2025	**2,056**	**536**	**82**	**28**	**(19)**	**2,683**
Deferred tax assets	**-**	**-**	**-**	**-**	**(19)**	**(19)**
Deferred tax liabilities	**2,056**	**536**	**82**	**28**	**-**	**2,702**
At 31 March 2025	**2,056**	**536**	**82**	**28**	**(19)**	**2,683**

	Accelerated Tax Depreciation £m	Gas Distribution Licence £m	Pensions £m	Financial Instruments £m	Other net Temporary Differences £m	Total £m
At 1 April 2023	2,086	536	180	5	(19)	2,788
(Credited)/charged to income statement	(8)	-	4	4	-	-
(Credited)/charged to other comprehensive income and equity	-	-	(99)	4	-	(95)
At 31 March 2024	2,078	536	85	13	(19)	2,693
Deferred tax assets	-	-	-	-	(19)	(19)
Deferred tax liabilities	2,078	536	85	13	-	2,712
At 31 March 2024	2,078	536	85	13	(19)	2,693

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £2,683 million (2024: £2,693 million).

11 Dividends

	2025	2024
	£m	£m
Interim dividend of £0.0271 per ordinary share amounting to £138,500,000 was declared on the 22 September 2023 and paid on the 28 September 2023	-	138
Second interim dividend of £0.0467 per ordinary share amounting to £238,500,000 was declared on the 24 January 2024 and paid on the 25 January 2024	-	239
Interim dividend of £0.0370 per ordinary share amounting to £189,000,000 was declared on the 25 September 2024 and paid on the 26 September 2024	189	-
Second interim dividend of £0.0370 per ordinary share amounting to £189,000,000 was declared on the 23 January 2025 and paid on the 27 January 2025	189	-
	378	377

No further dividends are proposed for the current financial period.

12 Intangible assets

	Goodwill	Licence	Software	Total
	£m	£m	£m	£m
Cost:				
At 1 April 2024	3,312	2,143	158	5,613
Additions	-	-	4	4
At 31 March 2025	**3,312**	**2,143**	**162**	**5,617**
Accumulated amortisation and impairment				
At 1 April 2024	(1,599)	-	(127)	(1,726)
Amortisation charge for the year	-	-	(18)	(18)
At 31 March 2025	**(1,599)**	**-**	**(145)**	**(1,744)**
Net book value:				
At 31 March 2025	**1,713**	**2,143**	**17**	**3,873**
At 31 March 2024	1,713	2,143	31	3,887

12 Intangible assets (continued)

	Goodwill	Licence	Software	Total
	£m	£m	£m	£m
Cost:				
At 1 April 2023	3,312	2,143	183	5,638
Additions	-	-	3	3
Disposals	-	-	(28)	(28)
At 31 March 2024	3,312	2,143	158	5,613
Accumulated amortisation and impairment				
At 1 April 2023	(1,599)	-	(135)	(1,734)
Amortisation charge for the year	-	-	(20)	(20)
Disposals	-	-	28	28
At 31 March 2024	(1,599)	-	(127)	(1,726)
Net book value:				
At 31 March 2024	1,713	2,143	31	3,887
At 31 March 2023	1,713	2,143	48	3,904

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

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

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

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

12 Intangible assets (continued)

Impairment Testing of goodwill and intangibles with an indefinite life

The net carrying value of intangible assets was compared to its recoverable amount as part of the annual impairment review carried out by management.

The impairment test required the comparison of the carrying value of the net assets of the cash generating unit (Cadent Gas Limited) and 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. The recoverable amount of the cash generating unit was determined from the value-in-use calculations. The key assumptions for the value-in-use calculation are those regarding the underlying cash flows, discount rate, inflation and terminal value cashflow.

RIIO-3

Management have been reviewing Ofgem announcements on RIIO-3, given the potential impact on the recoverable amount. On 18 July 2024, Ofgem published the RIIO-3 Sector Specific Methodology Decision which provided more certainty over key items such as the confirmation of the change in the cost of debt funding mechanism, (i.e. implementation of the semi-nominal WACC), the range of output delivery incentives, the continuation of the Repex programme and notional company gearing assumptions. The main uncertainty in the price control and regulatory model going forwards that could impact the recoverable amount is the potential change to the regulatory asset depreciation methodology which could impact the profile of future cash flows. Additional sensitivity analysis on the choice of regulatory asset depreciation policy has been performed in note 29. At this stage, no policy decisions have been made until the final determination is published and therefore no change has been made to the base case. Management have assessed the potential impact of changes on the estimated value-in-use and have concluded that these would not result in an impairment.

Underlying cash flows

In the short-term, the differences between actual cash flows and prior projections and budgets for Cadent Gas Limited are small due to the stable and predictable nature of the business. With 97% of our revenue formula driven, there is a high level of predictability. This predictability of the cash flows and projections can be seen in the full year performance to 31 March 2025 where the results were broadly in line with the budget. The embedded debt outperforms the baseline allowed debt return following investment by owners at the time of separation from National Grid.

The assumptions used in the Group's Financial Plan 2025 for the period to March 2026 have been applied to the calculations undertaken in completing the impairment test, as detailed below. This Plan includes our Latest Best Estimate for the year to March 2025 which was broadly in line with outturn and a year of forecast data. Our RIIO-3 plan submitted to Ofgem in December 2024 forms the basis of our total expenditure (totex) forecasts up to 2031.

The totex forecasts included in the impairment model are a base case and assume the investment in the network will continue to 2045 and beyond. However, the base case does not include cash flows associated with a significant increase in the number of biomethane connections or the potential to re-purpose the network for hydrogen or other fuels. In a scenario that resulted in the majority of the network being repurposed for use with green gases, we would expect funding through future regulatory price controls. In the base case we continue to assume regulatory asset depreciation of 45 years and investment is fully capitalised into the Regulated Asset Value (RAV) consistent with the current methodology. Ofgem are considering changing its regulatory asset depreciation policy as part of the RIIO-3 price control process and we have performed sensitivity analysis in note 29 reflecting the impact of potential changes.

We have determined the regulated weighted average cost of capital (WACC) and totex allowances using Ofgem’s latest published Price Control Financial Model. The regulatory cost of equity for RIIO-2 is 5.08% (2024: 5.09%) and in management's view is forecast to increase in future price controls through updates to key parameters to reflect the latest market evidence.

12 Intangible assets (continued)

Underlying cash flows (continued)

Longer term, we have continued to assume that investment reduces in scale post-2032 following completion of the Health and Safety Executive (HSE) mandated iron mains replacement programme but maintenance of the network and the service levels to customers is maintained with continued focus on safety critical investment. As noted above, we have not incorporated into the base case any investment in the network to make it hydrogen ready.

Discount rate

Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 8.5% (2024: 7.3%). The pre-tax discount rates applied to the cash flow forecasts are derived from our post tax-weighted average cost of capital.

The post-tax weighted average cost of capital is calculated using the capital asset pricing model (“CAPM”) and the assumptions used reflect current market assessments. This is then converted to a pre-tax rate using an iterative calculative approach in the value-in-use methodology. This discount rate is applied to the Group’s single CGU.

Inflation

In the RIIO-2 period the average CPIH assumption at March 2025 of 4.86% (2024: 4.47%) is aligned to Ofgem assumptions contained within the price control model used for price setting.

The longer-term CPIH assumption reflects the Office of Budget Responsibility's (OBR) long term forecast published in October 2024 and within other external long run forecasts which show a range of potential outcomes between 2.0% - 2.8%.

Terminal value cash flow

A terminal value cash flow is applied in 2045; the end of the forecast period. The terminal value is calculated based on a RAV forecast multiple at 2045. Management has derived a RAV multiple of 1.2x (2024: 1.2x) by reviewing external sources of information on similar transactions which is supportive of this assumption.

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

Climate Change continues to result in uncertainty over the future use of the Cadent Gas assets for transporting natural gas to heat homes and power industry, and management have considered this uncertainty when performing the impairment test. There have been no adjustments to assumptions or cash flows as a result of this uncertainty.

Cadent continues to invest in programmes to support its ambition to make hydrogen a safe, fair and reliable choice for consumers, and has a long-term commitment to decarbonise homes and businesses in a way that minimises the impact to the consumer and creates jobs across the UK. Given the information currently available, it is still reasonable to assume that the entire network will continue to be used in 2045 and beyond, in its current form, adapted to accommodate hydrogen or bio-methane, therefore we consider it appropriate to project out to 2045 before a terminal value is applied.

Climate change presents significant transitional risk, particularly from low and medium emission scenarios. Although all plausible pathways to net zero contain hydrogen and biomethane, there is a wide range of projections for hydrogen demand volumes and use cases, and the time frame this will all occur over. However, the Government’s Ten Point Plan, the Energy White Paper, the Hydrogen Strategy and the Heat and Buildings Strategy all propose a significant role for the gas infrastructure and particularly hydrogen and biomethane in supporting delivery of the UK’s net zero ambition. Hydrogen is not the only solution to decarbonisation and will be used in combination with other technologies, such as renewable electricity, heat pumps, heat networks, biomethane and other green gases.

12 Intangible assets (continued)

Terminal value cash flow (continued)

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. In September 2024, we published 'The Future of the Gas Network' report which shows how the gas network can be used to support the energy transition and government's net zero target of 2050.

Management have calculated an updated recoverable amount, and the calculation indicated that this was broadly consistent with the prior year calculation. This has resulted in no impairment being recognised in the year with total headroom to impairment of over £1.3 billion.

We have performed sensitivity analysis on the impairment test and concluded that the following changes, considered in isolation, would reduce the headroom by the stated amount but would not result in an impairment to the goodwill balance.

	Decrease in valuation	
	2025	2024
	£m	£m
CPI decrease of 0.5%	**616**	931
Pre-tax discount rate increase of 0.5% (i)	**831**	914
Terminal value change in multiple of 0.05	**256**	268
Cost of Equity within Regulatory WACC decrease of 0.5% (ii)	**347**	313
Regulatory asset depreciation - Option 1(iii)	**701**	N/A
Regulatory asset depreciation - Option 2(iii) with Acceleration Factor 1(iv)	**701**	N/A
Regulatory asset depreciation - Option 3(iii) with Acceleration Factor 1(iv)	**266**	N/A
Regulatory asset depreciation - Option 4(iii)	**386**	N/A

Ofgem determinations for RIIO-3 are expected in the next 12 months following the publication of these accounts. Whilst we deem there are no reasonably possible changes in the assumptions individually that would result in an impairment, we recognise that in practice it is difficult to consider sensitivities in isolation given the interconnectivity of the assumptions. If several of these downside sensitivities were to materialise through the RIIO-3 determination and projected forward through the valuation period, this could lead to a risk of impairment of the entity's goodwill.

(i) A breakeven sensitivity on the pre-tax discount rate has been performed which shows that a 0.83% increase in discount rate removes all headroom.

(ii) In both years sensitivity was applied from RIIO-3 onwards.

(iii) Ofgem has set our 4 potential options for changing the current regulated asset depreciation policy for RIIO-3 onwards:

Option	Description
1 - Sum-of-digits to 2050	A sum-of-digits profile with asset lives set such that the RAV is fully depreciated by the government net zero target date.
2 - Sum-of-Digits (Variable) to 2050	As with option 1, but with an acceleration factor decided at each price control and applied to the depreciation amount for that period to accelerate payments as required.
3 - Straight Line (Variable) to 2050	As with option 2, but with a straight-line profile rather than sum-of-digits. The acceleration factor will be chosen based on the same metrics as option 2.
4 - New Investments Sum-of-Digits to 2050	Leave depreciation policy for existing assets unchanged. Set a new policy for new additions to the RAV. This would be a sum-of digits profile with asset lives set such that the new investment is fully depreciated by the government net zero target date.

Further details can be found within table 19 on pages 180 and 181 of Ofgem's RIIO-GD3 SSMD Finance Annex https://www.ofgem.gov.uk/sites/default/files/2024-07/RIIO-3_SSMD_Finance_Annex.pdf. These sensitivities represent applying each depreciation policy to the base case during the forecast period to 2045 and applying the base case terminal value at that point.

(iv) Ofgem have indicated the potential for variable acceleration factors to be included within their depreciation Options 2 and 3. In setting the level of the acceleration factor Ofgem have said they would take into account four metrics: RIIO3 consumer bills, future consumer bills, perceived asset stranding risk and financeability. These sensitivities have assumed an acceleration factor of 1 in line with Ofgem’s business planning guidance for our December 2024 submission. In isolation it is not reasonably possible that a change in the acceleration factor could result in an impairment.

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 2024	260	15,355	60	234	142	16,051
Additions	11	835	45	24	40	955
Reclassifications	(6)	21	(17)	2	-	-
Disposals	(2)	(1)	-	(21)	(9)	(33)
At 31 March 2025	**263**	**16,210**	**88**	**239**	**173**	**16,973**
Accumulated depreciation and impairment						
At 1 April 2024	(60)	(2,505)	-	(140)	(33)	(2,738)
Charge for the year	(15)	(457)	-	(34)	(24)	(530)
Disposals	2	1	-	21	9	33
At 31 March 2025	**(73)**	**(2,961)**	**-**	**(153)**	**(48)**	**(3,235)**
Net book value:						
At 31 March 2025	**190**	**13,249**	**88**	**86**	**125**	**13,738**
At 31 March 2024	200	12,850	60	94	109	13,313

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(e) for the estimated useful lives of each asset category, and note 29 for sensitivity analysis over the residual lives of assets.

Included within plant and machinery cost is £1,785 million (2024: £1,785 million) and plant and machinery depreciation is £385 million (2024: £338 million) relating to fair value adjustments arising from the acquisition of Cadent Gas Limited by Quadgas MidCo Limited.

The UK's target to achieve net zero by 2050 may impact the UELs of our plant and machinery 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 and other green gases have 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 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 further biomethane connections or hydrogen.

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

	2025 £m	2024 £m
Land and buildings	**65**	56
Plant and machinery	**-**	1
Motor vehicles and other equipment	**60**	52
	125	109

13 Property, plant and equipment (continued)

The net book value of land and buildings comprises:

	2025	2024
	£m	£m
Freehold	**151**	163
Long leasehold (over 50 years)	**31**	31
Short leasehold (under 50 years)	**8**	6
	190	200

	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	241	14,452	73	217	107	15,090
Additions	29	864	30	27	41	991
Reclassifications	(2)	41	(43)	4	-	-
Disposals	(8)	(2)	-	(14)	(6)	(30)
At 31 March 2024	260	15,355	60	234	142	16,051
Accumulated depreciation and impairment						
At 1 April 2023	(52)	(2,077)	-	(126)	(23)	(2,278)
Charge for the year	(15)	(429)	-	(28)	(16)	(488)
Disposals	7	1	-	14	6	28
At 31 March 2024	(60)	(2,505)	-	(140)	(33)	(2,738)
Net book value:						
At 31 March 2024	200	12,850	60	94	109	13,313
At 31 March 2023	189	12,375	73	91	84	12,812

14 Investments in associates

The Group has an equity stake of 45.57% in Xoserve Limited.

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

Details of the associate undertakings 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, United Kingdom. Incorporated in England and Wales	45.57%	Gas transportation transaction services
Encodar Limited	Ordinary share of £1.00 designated as a F,G,H and I Share in the capital of the company	Registered address Radcliffe House Blenheim Court, Warwick Road, Solihull, B91 2AA, United Kingdom. Incorporated in England and Wales	44.44%	Management of the Uniform Network Code for gas transportation

Outstanding balances with associates are shown in note 33.

15 Inventories

	2025 £m	2024 £m
Raw materials and consumables	**16**	16
	16	16

Inventories are stated after provisions for impairment of £1,305,000 (2024: £838,000).

16 Trade and other receivables

	2025	2024
	£m	£m
Amounts falling due within one year:		
Trade debtors	**6**	11
Other debtors	**-**	1
Prepayments	**11**	9
Accrued income	**173**	184
	190	205

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:

	2025	2024
	£m	£m
At 1 April	**5**	11
Amounts utilised/written off in the year	**(1)**	(6)
At 31 March	**4**	5

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 macro-economic and geo-political 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 customer credit profiles. These segments are distinguished as follows:

• other income: diversions receivables, damages receivables, emergencies receivables, 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.

2025	**Not due £m**	**Current £m**	**1-6 months £m**	**6-12 months £m**	**Over 1 year £m**	**Total £m**
Total trade debtors balance	**3**	**-**	**1**	**1**	**2**	**7**
Expected credit loss	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Balance after loss allowance	**3**	**-**	**1**	**1**	**1**	**6**

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

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 2025 the outstanding debt with these failed customers was £3 million (2024: £3 million) for which a specific provision exists, which remains outstanding and is subject to our existing credit procedures.

16 Trade and other receivables (continued)

2025	**Not due**	**Current**	**1-6 months**	**6-12 months**	**Over 1 year**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Total accrued income balance	**173**	**-**	**-**	**-**	**3**	**176**
Expected credit loss	**-**	**-**	**-**	**-**	**(3)**	**(3)**
Balance after loss allowance	**173**	**-**	**-**	**-**	**-**	**173**

2024	Not due	Current	1-6 months	6-12 months	Over 1 year	Total
	£m	£m	£m	£m	£m	£m
Total accrued income balance	184	-	-	-	3	187
Expected credit loss	-	-	-	-	(3)	(3)
Balance after loss allowance	184	-	-	-	-	184

17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2025		
	Assets	**Liabilities**	**Total**
	£m	**£m**	**£m**
Amounts falling due within one year	**-**	**-**	**-**
Amounts falling due after more than one year	**30**	**(406)**	**(376)**
	30	**(406)**	**(376)**

	2024		
	Assets	Liabilities	Total
	£m	£m	£m
Amounts falling due within one year	5	-	5
Amounts falling due after more than one year	19	(330)	(311)
	24	(330)	(306)

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

	2025	2024
	£m	£m
Cross-currency interest rate swaps	**2,525**	2,281
Interest rate swaps	**1,761**	639
Inflation linked swaps	**1,650**	1,650
	5,936	4,570

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

18 Current asset investments

	2025	2024
	£m	£m
Current asset investments	**209**	584
	209	584

Amounts held relate to investments in money market funds of £209 million (2024: £281 million) with typical maturity dates within 90 days and £Nil million (2024: £303 million) of fixed term deposits with average maturity of 90-125 days from inception.

19 Trade and other payables

	2025 £m	2024 £m
Trade creditors	**150**	86
Other tax and social security	**13**	10
Other creditors	**50**	62
Accruals	**110**	101
Deferred income	**133**	108
	456	367

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

	2025 £m	2024 £m
Accruals and deferred income (due after more than one year)	**15**	41
	15	41

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

21 Borrowings

	2025 £m	2024 £m
Amounts falling due within one year		
Bank loans	**2**	210
Bonds	**104**	502
	106	712
Amounts falling due after more than one year		
Bank loans	**550**	549
Bonds	**9,875**	9,232
Shareholder loan	**902**	902
	11,327	10,683
Total borrowings are repayable as follows:		
Less than one year	**106**	712
In one - two years	**400**	-
In two - three years	**150**	400
In three - four years	**846**	148
In four - five years	**1,523**	845
More than five years	**8,408**	9,290
	11,433	11,395

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.

Quadgas Holdings TopCo Limited

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2025

21 Borrowings (continued)

Currency	Type	Notional (inc accretion)* £m	Rate	Maturity Date	Carrying Value £m	Fair Value £m
Fixed Rate						
GBP	Listed	149	Fixed	31-Oct-27	150	146
GBP	Listed	850	Fixed	22-Sep-28	856	772
USD[1]	Listed	21	Fixed	11-Jun-29	21	22
EUR[13]	Listed	427	Fixed	05-Jul-29	442	444
GBP	Listed	350	Fixed	17-Sep-29	354	317
GBP	Listed	103	Fixed	31-Oct-29	104	100
GBP	Listed	100	Fixed	31-Jan-30	101	111
EUR[2]	Listed	537	Fixed	19-Mar-30	523	456
USD[11]	Listed	52	Fixed	25-Apr-30	51	54
GBP	Listed	30	Fixed	16-Jul-30	30	35
USD[3]	Listed	59	Fixed	16-Jul-30	59	65
USD[12]	Listed	58	Fixed	25-Jul-30	58	62
GBP	Listed	70	Fixed	30-Aug-30	71	68
GBP	Listed	100	Fixed	10-Mar-31	101	95
USD[4]	Listed	32	Fixed	10-Mar-31	34	31
GBP	Listed	100	Fixed	19-Mar-31	100	94
USD[5]	Listed	151	Fixed	19-Mar-31	155	147
USD[6]	Listed	39	Fixed	11-Dec-31	39	42
GBP	Listed	40	Fixed	15-Jan-32	40	46
GBP	Listed	54	Fixed	16-Jan-32	55	64
EUR[7]	Listed	439	Fixed	11-Mar-32	414	349
GBP	Listed	40	Fixed	31-Oct-32	40	38
GBP	Listed	30	Fixed	15-Dec-32	30	35
GBP	Listed	45	Fixed	31-Jan-33	45	52
GBP	Listed	206	Fixed	10-Mar-33	207	192
EUR[8]	Listed	19	Fixed	10-Mar-33	18	18
EUR[14]	Listed	547	Fixed	16-Apr-33	538	549
JPY[9]	Listed	68	Fixed	19-Jul-33	52	49
GBP	Listed	225	Fixed	30-Aug-33	227	217
GBP	Listed	35	Fixed	16-Jan-34	35	43
GBP	Listed	300	Fixed	14-Mar-34	299	317
GBP	Listed	200	Fixed	19-Mar-34	200	183
USD[10]	Listed	12	Fixed	15-Jan-35	12	13
GBP	Listed	300	Fixed	10-Oct-35	299	227
GBP	Listed	315	Fixed	11-Jan-36	297	327
GBP	Listed	100	Fixed	21-Jan-36	100	90
USD[15]	Listed	40	Fixed	15-Jan-37	39	43
GBP	Listed	125	Fixed	31-Mar-37	125	120
GBP	Listed	700	Fixed	22-Sep-38	702	497
GBP	Listed	20	Fixed	17-Jan-39	20	26
GBP	Listed	225	Fixed	19-Mar-39	225	195
GBP	Listed	300	Fixed	21-Mar-40	297	224
GBP	Unlisted	902	Fixed	30-Apr-42	902	902
GBP	Listed	800	Fixed	22-Sep-46	801	496
		9,315			**9,268**	**8,373**
Floating Rate						
GBP	Unlisted	400	SONIA	23-Mar-27	400	408
GBP	Unlisted	150	SONIA	21-Oct-30	151	161
GBP	Listed	77	SONIA	31-Mar-37	78	57
		627			**629**	**626**
Index Linked						
GBP	Listed	58	RPI-linked	31-Mar-37	58	54
GBP	Listed	109	RPI-linked	31-Mar-37	110	99
GBP	Listed	195	RPI-linked	02-May-39	268	231
GBP	Listed	387	RPI-linked	31-Mar-42	386	337
GBP	Listed	109	RPI-linked	31-Mar-42	110	91
GBP	Listed	200	RPI-linked	10-Aug-48	304	244
GBP	Listed	200	RPI-linked	14-Aug-48	300	240
		1,258			**1,536**	**1,296**
TOTAL		**11,200**			**11,433**	**10,295**

* Indexed linked debt notional is the accreted value

[1] Dollar amount is 27m
[2] Euro amount is 625m
[3] Dollar amount is 75m
[4] Dollar amount is 44m
[5] Dollar amount is 200m
[6] Dollar amount is 50m
[7] Euro amount is 500m
[8] Euro amount is 22m
[9] JPY amount is 10bn
[10] Dollar amount is 15m
[11] Dollar amount is 65m
[12] Dollar amount is 75m
[13] Euro amount is 500m
[14] Euro amount is 640m
[15] Dollar amount is 50m

21 Borrowings (continued)

On 16 April 2024, Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo 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 sterling (£548.5 million) immediately on issue.

On 11 October 2024, having received lender approval, Quadgas MidCo Limited subsidary of Quadgas Holdings TopCo Limited, extended the termination date of its bank facilities by two years to 4 November 2029.

On 23 October 2024, Quadgas Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, priced £148.8 million GBP equivalent of private fixed rate notes:

• £40 million settling 15 January 2025 and maturing 15 January 2032 with a coupon rate of 6.43%,
• $26.5 million settling 11 December 2024 and maturing 11 June 2029 with a coupon rate of 6.14%, which is swapped to GBP £20.4 million,
• $50 million settling 11 December 2024 and maturing 11 December 2031 with a coupon rate of 6.39%, whichis swapped to GBP £38.6 million,
• $15 million settling 15 January 2025 and maturing 15 January 2035 with a coupon rate of 6.59%, which is swapped to GBP £11.6 million, and
• $49.5 million settling 15 January 2025 and maturing 15 January 2037 with a coupon rate of 6.69%, which is swapped to GBP £38.2 million

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term of up to £700 million, £500 million at Cadent Gas level and £200 million at Quadgas MidCo Limited.

The fair value of borrowings at 31 March 2025 was £10,295 million (2024: £9,787 million). Where market values were available, the fair value of borrowings (Level 1) was £4,975 million (2024: £4,835 million). Where market values were not available, the fair value of borrowings (Level 2) was £5,320 million (2024: £4,952 million), calculated by discounting cash flows at prevailing interest rates. The notional amount of borrowings outstanding as at 31 March 2025 was £11,200 million (2024: £11,088 million) including accretion.

The Group is bound by certain financial covenants with regards to its debt agreements and banking facilities. The most relevant Group covenants are adjusted net debt to RAV and an interest cover ratio.

22 Lease liabilities

a) Amounts recognised in the balance sheet

	2025	2024
	£m	£m
Current	**18**	19
Non-current	**110**	94
	128	113

	2025	2024
Lease liabilities are repayable as follows:	**£m**	£m
Year 1	**18**	19
Year 2	**14**	18
Year 3	**9**	14
Year 4	**4**	10
Year 5	**1**	6
More than 5 years	**82**	46
	128	113

The Group does not face a significant liquidity risk with regard to its lease liabilities. See note 28 (financial risk management) for further analysis.

All lease liabilities are denominated in sterling.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 3.91% for the current financial year (2024: 3.59%)

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

	2025	2024
	£m	£m
Depreciation of right-of-use assets (see note 13)	**24**	16
Expense relating to short-term leases (included within operating expenses)	**-**	-
Expense relating to variable lease payments not included in lease liabilities (included within operating expenses)	**2**	2

The total cash outflow for leases for the year to 31 March 2025 was £29 million (2024: £20 million).

23 Provisions for liabilities

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 April 2024	44	2	38	84
Charged to the income statement	1	18	5	24
Released to the income statement	(1)	-	-	(1)
Utilised	(6)	(8)	(2)	(16)
Unwinding of discount	1	-	-	1
At 31 March 2025	**39**	**12**	**41**	**92**

	Environmental £m	Restructuring £m	Other £m	Total £m
Current	5	12	7	24
Non-current	34	-	34	68
At 31 March 2025	**39**	**12**	**41**	**92**

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites and depots owned by the Group (discounted using a real rate of 1.75% (2024: 1.5%)). Cash flows are expected to be incurred between April 2025 and March 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 2025 was £58 million (2024: £60 million), being the undiscounted best estimate liability having regard to these uncertainties.

Restructuring

During the year, the Group initiated a voluntary redundancy programme for eligible employees, in order to drive efficiency to a level expected by our economic regulator Ofgem. The programme was formally announced in February 2025 and an amount of £15 million of restructuring provision was recognised at March 2025 representing Group's best estimate of the outcome of the application process. In addition, a further amount of £3 million was charged in the year in relation to the next phase of our Operational Efficiency programme.

The associated costs for the restructuring programmes 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.

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

Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The provision has been discounted based on future cash flows. The majority of claims are expected to be settled within 10 years.

24 Share capital

	2025	2024
	£m	£m
Allotted, called up and fully paid		
510,907,851,095 ordinary shares of £0.0093 each	**4,739**	4,739

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.

	2025	2024
	£m	£m
Increase in borrowings and derivatives	**(69)**	(514)
Repayment of lease liabilities	**29**	20
Net interest paid on borrowings and derivatives	**336**	270
Changes in net debt arising from financing activities	**296**	(224)
Decrease in cash and cash equivalents	**(7)**	(7)
(Decrease)/increase in financial investments	**(413)**	32
Changes in net debt arising from cash flows	**(124)**	(199)
Changes in fair value of financial assets	**6**	(22)
Foreign exchange movements	**60**	62
Net interest charge on the components of net debt	**(409)**	(418)
Other non-cash changes	**(38)**	(39)
Movement in net debt (net of related derivative financial instruments)	**(505)**	(616)
Net debt (net of related derivative financial instruments) at the start of the year	**(11,200)**	(10,584)
Net debt (net of related derivative financial instruments) at the end of the year	**(11,705)**	(11,200)

Composition of net debt:

	2025	2024
	£m	£m
Cash, cash equivalents and current asset investments	**232**	614
Borrowings	**(11,433)**	(11,395)
Derivatives	**(376)**	(306)
Lease liabilities	**(128)**	(113)
Total net debt	**(11,705)**	(11,200)

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2025

25 Net debt (continued)

Analysis of changes in net debt:

	Borrow-ings	Deriva-tives	Lease Liabi-lities	Net Financing activities	Cash and cash equiva-lents	Bank Overdrafts	Net cash and cash equiva-lents	Current asset invest-ments	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2024	(11,395)	(306)	(113)	(11,814)	30	-	30	584	(11,200)
Cash flow	285	(18)	29	296	(7)	-	(7)	(413)	(124)
Fair value gains and losses	35	(29)	-	6	-	-	-	-	6
Foreign exchange movements	60	-	-	60	-	-	-	-	60
Interest (charged)/ received	(418)	(23)	(6)	(447)	-	-	-	38	(409)
Other non-cash changes	-	-	(38)	(38)	-	-	-	-	(38)
At 31 March 2025	**(11,433)**	**(376)**	**(128)**	**(11,937)**	**23**	**-**	**23**	**209**	**(11,705)**
Balances at 31 March 2025 comprise:									
Non-current assets	-	30	-	30	-	-	-	-	30
Current assets	-	-	-	-	23	-	23	209	232
Current liabilities	(106)	-	(18)	(124)	-	-	-	-	(124)
Non-current liabilities	(11,327)	(406)	(110)	(11,843)	-	-	-	-	(11,843)
At 31 March 2025	**(11,433)**	**(376)**	**(128)**	**(11,937)**	**23**	**-**	**23**	**209**	**(11,705)**

	Borrow-ings	Deriva-tives	Lease Liabilities	Net Financing activities	Cash and cash equiva-lents	Bank Overdra	Net cash and cash equiva-lents	Current asset invest-ments	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2023	(10,848)	(209)	(90)	(11,147)	37	-	37	526	(10,584)
Cash flow	(189)	(55)	20	(224)	(7)	-	(7)	32	(199)
Fair value gains and losses	(14)	(8)	-	(22)	-	-	-	-	(22)
Foreign exchange movements	62	-	-	62	-	-	-	-	62
Interest charged	(406)	(34)	(4)	(444)	-	-	-	26	(418)
Other non-cash changes	-	-	(39)	(39)	-	-	-	-	(39)
At 31 March 2024	(11,395)	(306)	(113)	(11,814)	30	-	30	584	(11,200)
Balances at 31 March 2024 comprised:									
Non-current assets	-	19	-	19	-	-	-	-	19
Current assets	-	5	-	5	30	-	30	584	619
Current liabilities	(712)	-	(19)	(731)	-	-	-	-	(731)
Non-current liabilities	(10,683)	(330)	(94)	(11,107)	-	-	-	-	(11,107)
At 31 March 2024	(11,395)	(306)	(113)	(11,814)	30	-	30	584	(11,200)

26 Capital and other commitments

	2025	2024
	£m	£m
Contracts for future capital expenditure not provided in the financial statements	**242**	320
Letters of credit facility	**150**	150
	392	470

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:

	2025	2024
	£m	£m
Current period contributions	**42**	34

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.

27 Pensions (continued)

Defined benefit (DB) scheme (continued)

The DB scheme closed to future accrual on 31 March 2024. The Group's obligation in respect of the DB pension scheme is calculated by projecting the estimated amount of future benefit payments that employees have earned for pensionable service in prior periods.

The Group takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net asset recognised in the statement of financial position. For sensitivity analysis, see note 29.

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

The Scheme is funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a board consisting of company appointed and member nominated directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years.

The last full actuarial valuation for the Scheme was carried out at 31 March 2022. A valuation at 31 March 2025 is currently underway.

The results of the latest valuations are shown below:

Last full actuarial valuation	**31 March 2022**	31 March 2019
Actuary	**Willis Towers Watson**	Willis Towers Watson
Market value of the Scheme's 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

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.

The DB scheme closed to future accrual on 31 March 2024. The closure to future accrual has been treated as a plan amendment under IAS19, 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 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 2025.

The Trustees of the Scheme launched a consultation with members in early 2025 regarding GMP conversion. After careful consideration of member feedback, the Trustee and Group agreed to go ahead with GMP conversion. This was confirmed to members in April 2025. The process for calculating GMP Equalisation and Conversion will be progressed over the coming year.

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. A subsequent appeal was dismissed in July 2024 by the Court of Appeal. The Group has no reason to believe that the ruling in the case will have any financial impact but will continue to assess the position.

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 distortions in bond markets that can lead to the market implied rate of RPI being overstated.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

27 Pensions (continued)

Risks (continued)

The Scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure.

The pension liability recognised on an IAS 19 basis at 31 March 2025 has decreased to £3,788 million (2024: £4,227 million), coupled with a decrease in the fair value of the scheme assets in the year to £4,128 million (2024: £4,577 million), the net pension surplus has decreased by 3%.

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.

The following tables represent the amounts in the financial statements.

Amounts recognised in the statement of financial position

	2025 Total £m	2024 Total £m
Present value of funded obligations	**(3,785)**	(4,224)
Fair value of plan assets	**4,128**	4,577
	343	353
Present value of unfunded obligations	**(3)**	(3)
Net defined benefit asset	**340**	350

Represented by:	**2025 Total £m**	2024 Total £m
Liabilities	**(3,788)**	(4,227)
Assets	**4,128**	4,577
	340	350

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2025

27 Pensions (continued)

Amounts recognised in the income statement and statement of other comprehensive income

	2025 Total £m	2024 Total £m
Included within operating costs		
Administration costs	**7**	4
Defined contribution scheme costs	**42**	34
Defined benefit scheme costs:		
Current service cost	**-**	7
Past service cost	**13**	15
	62	60
Included within finance costs		
Net interest credit	**(16)**	(33)
Total included in income statement	**46**	27
Remeasurements of net retirement benefit obligations	**(344)**	95
Return on plan assets greater or less than discount rate	**350**	301
Total included in the statement of other comprehensive income	**6**	396

Reconciliation of the net defined benefit asset

	2025 Total £m	2024 Total £m
Opening net defined benefit asset	**350**	729
(Charge)/credit recognised in the income statement	**(4)**	7
Employer contributions	**-**	10
Other movements	**(6)**	(396)
Closing net defined benefit asset	**340**	350

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2025 Total £m	2024 Total £m
Opening net defined benefit liability	**4,227**	4,195
Current service cost	**-**	7
Interest cost	**196**	200
Past service cost	**13**	15
Actuarial (gains)/losses – experiences	**(20)**	177
Actuarial losses/(gains) – demographic assumptions	**16**	(72)
Actuarial gains – financial assumptions	**(340)**	(10)
Benefits paid	**(304)**	(285)
Closing net defined benefit liability	**3,788**	4,227

27 Pensions (continued)

Changes in the fair value of plan assets

	2025	2024
	Total	Total
	£m	£m
Opening fair value of plan assets	**4,577**	4,924
Interest income	**212**	233
Return on assets less than assumed	**(350)**	(301)
Administration costs	**(7)**	(4)
Employer contributions paid	**-**	10
Benefits paid	**(304)**	(285)
Closing fair value of plan assets	**4,128**	4,577
Actual return on plan assets	**(138)**	(68)
Expected contributions to plans in the following year	**-**	13

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2025	**2025**	**2025**	2024	2024	2024
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**-**	**135**	**135**	-	157	157
Corporate bonds	**1,660**	**-**	**1,660**	1,792	-	1,792
Property	**-**	**126**	**126**	-	266	266
Government securities (i)	**999**	**-**	**999**	1,307	-	1,307
Diversified alternatives (ii)	**-**	**1,030**	**1,030**	-	976	976
Other	**-**	**178**	**178**	-	79	79
Total	**2,659**	**1,469**	**4,128**	3,099	1,478	4,577

i) Includes short sold Gilts of £330 million (2024: £217 million).

ii) Includes return seeking non-conventional asset classes of £658 million (2024: £579 million), secure income assets of £371 million (2024: £397 million).

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 2025 is as follows:

	2025	2024
	%	%
Equities	**3**	3
Other	**97**	97
	100	100

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2025

27 Pensions (continued)

Actuarial assumptions

The Group has applied the following financial assumptions in assessing defined benefit liabilities.

	2025 %	2024 %
Discount rate – Past service (i)	**5.55**	4.80
Discount rate – Future service (i)	**- ***	4.80
Rate of increase in salaries (ii)	**- ***	2.25
Rate of increase in RPI – Past service (iii)	**3.20**	3.25
Rate of increase in RPI – Future service (iii)	**- ***	3.10

* The Cadent Gas Pension Scheme closed to future accrual on 31 March 2024.

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.

ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service since 1 April 2013. The assumption for the rate of increase in salaries for service before this date was 3.25% at 31 March 2024.

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 adopted in the calculation of future service obligations.

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2025 years	2024 years
Today		
Males	**19.8**	19.6
Females	**22.5**	22.3
In 20 years		
Males	**21.1**	20.9
Females	**24.0**	23.8

Maturity profile of DB obligations

The weighted average duration of the DB obligation at 31 March 2025 is 11 years.

28 Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures, (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board of its main operating company, Cadent Gas Limited. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Currency risk; and
- Capital risk.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on their contractual obligations resulting in a financial loss to the Group. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

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 Group assessed whether there is any impact on our credit risk and it was deemed to be limited given the nature of the business. Our exposure to credit losses from these counterparties is mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a SOLR process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities.

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

For the year ended 31 March 2025

	Notes	Gross carrying amount	Loss allowance	Net carrying amount
		£m	£m	£m
Cash and cash equivalents		**23**	**-**	**23**
Derivative financial assets	17	**30**	**-**	**30**
Trade receivables	16	**7**	**(1)**	**6**
Accrued income	16	**176**	**(3)**	**173**
Current asset investments	18	**209**	**-**	**209**

28 Financial risk management (continued)

(a) Credit risk (continued)

For the year ended 31 March 2024

	Notes	Gross carrying amount	Loss allowance	Net carrying amount
		£m	£m	£m
Cash and cash equivalents		30	-	30
Derivative financial assets	17	24	-	24
Trade receivables	16	13	(2)	11
Accrued income	16	187	(3)	184
Current asset investments	18	584	-	584

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 2025, we had exposure to various financial institutions. In accordance with our treasury policies, counterparty credit exposure utilisations, which at 31 March 2025 is £232 million (2024: £614 million), 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.

	2025 Total	2024 Total
	£m	£m
Accrued income	**173**	184
Collateral held	**(34)**	(40)
Exposure net of collateral	**139**	144

Collection activities are monitored on a daily basis and late payment will result in sanctions being placed on the relevant accounts. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 16.

28 Financial risk management (continued)

(a) Credit risk (continued)

Offsetting financial assets and liabilities
The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present Quadgas Holdings TopCo's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Quadgas Holdings TopCo Limited 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.

At 31 March 2025	**Gross carrying amounts £m**	**Gross amounts offset £m**	**Net amount presented in statement of financial position £m**	**Financial instruments £m**	**Cash collateral received/ pledged £m**	**Net amount £m**
Assets						
Derivative financial instruments	**30**	**-**	**30**	**(25)**	**-**	**5**
Liabilities						
Derivative financial instruments	**(406)**	**-**	**(406)**	**25**	**-**	**(381)**
Total at 31 March 2025	**(376)**	**-**	**(376)**	**-**	**-**	**(376)**

At 31 March 2024	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	24	-	24	(19)	-	5
Liabilities						
Derivative financial instruments	(330)	-	(330)	19	-	(311)
Total at 31 March 2024	(306)	-	(306)	-	-	(306)

28 Financial risk management (continued)

(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.

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 2025	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	**-**	**(400)**	**(149)**	**(11,562)**	**(12,111)**
Lease liabilities	**(34)**	**(27)**	**(20)**	**(90)**	**(171)**
Interest on payments on borrowings (i)	**(376)**	**(375)**	**(356)**	**(3,023)**	**(4,130)**
Other non-interest bearing liabilities	**(323)**	**-**	**-**	**-**	**(323)**
Derivative financial liabilities					
Derivative contracts - receipts	**136**	**150**	**109**	**1,644**	**2,039**
Derivative contracts - payments	**(96)**	**(344)**	**(128)**	**(2,098)**	**(2,666)**
Derivative financial assets					
Derivative contracts - receipts	**78**	**77**	**77**	**1,720**	**1,952**
Derivative contracts - payments	**(89)**	**(89)**	**(89)**	**(1,764)**	**(2,031)**
Total at 31 March 2025	**(704)**	**(1,008)**	**(556)**	**(15,173)**	**(17,441)**

i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the company can be required to settle.

28 Financial risk management (continued)

(b) Liquidity risk (continued)

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	(629)	-	(400)	(11,140)	(12,169)
Lease liabilities	(22)	(20)	(17)	(81)	(140)
Interest on payments on borrowings (i)	(357)	(347)	(345)	(3,192)	(4,241)
Other non-interest bearing liabilities	(259)	-	-	-	(259)
Derivative financial liabilities					
Derivative contracts - receipts	122	124	119	1,583	1,948
Derivative contracts - payments	(76)	(80)	(315)	(2,020)	(2,491)
Derivative financial assets					
Derivative contracts - receipts	453	27	27	822	1,329
Derivative contracts - payments	(458)	(31)	(29)	(812)	(1,330)
Total at 31 March 2024	(1,226)	(327)	(960)	(14,840)	(17,353)

i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the company can be required to settle.

(c) Interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps and forward rate agreements. 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2025

28 Financial risk management (continued)

(c) Interest rate risk (continued)

We hold some borrowings on issue and derivatives that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues. In total, there are £1 billion CPI-linked swaps, £400 million RPI-linked swaps and £250 million RPI/CPI basis 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 2025, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2025	**Fixed rate £m**	**Floating rate £m**	**Index linked £m**	**Other (i) £m**	**Total £m**
Financial investments	**-**	**232**	**-**	**-**	**232**
Borrowings(ii)	**(9,268)**	**(629)**	**(1,536)**	**-**	**(11,433)**
Lease Liabilities	**-**	**-**	**-**	**(128)**	**(128)**
Pre-derivative position	**(9,268)**	**(397)**	**(1,536)**	**(128)**	**(11,329)**
Derivative effect	**1,385**	**(32)**	**(1,729)**	**-**	**(376)**
Net debt position (iii)	**(7,883)**	**(429)**	**(3,265)**	**(128)**	**(11,705)**

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 2024/25 short-dated interest rate derivatives is included.

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	-	614	-	-	614
Borrowings(ii)	(9,051)	(629)	(1,715)	-	(11,395)
Lease Liabilities	-	-	-	(113)	(113)
Pre-derivative position	(9,051)	(15)	(1,715)	(113)	(10,894)
Derivative effect	1,393	(26)	(1,673)	-	(306)
Net debt position (iii)	(7,658)	(41)	(3,388)	(113)	(11,200)

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.

ii) The impact of 2023/24 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 2025, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2025	**Sterling £m**	**Euro £m**	**Japanese Yen £m**	**USD £m**	**Total £m**
Financial investments	**232**	**-**	**-**	**-**	**232**
Borrowings	**(8,978)**	**(1,935)**	**(52)**	**(468)**	**(11,433)**
Lease Liabilities	**(128)**	**-**	**-**	**-**	**(128)**
Pre-derivative position	**(8,874)**	**(1,935)**	**(52)**	**(468)**	**(11,329)**
Derivative effect	**(2,831)**	**1,935**	**52**	**468**	**(376)**
Net debt position	**(11,705)**	**-**	**-**	**-**	**(11,705)**

During 2024, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2024	Sterling £m	Euro £m	Japanese Yen £m	USD £m	Total £m
Financial investments	614	-	-	-	614
Borrowings	(9,125)	(1,812)	(52)	(406)	(11,395)
Lease Liabilities	(113)	-	-	-	(113)
Pre-derivative position	(8,624)	(1,812)	(52)	(406)	(10,894)
Derivative effect	(2,576)	1,812	52	406	(306)
Net debt position	(11,200)	-	-	-	(11,200)

28 Financial risk management (continued)

(d) Currency risk (continued)

Effect of hedge accounting on the financial position and performance

a) The impact of hedging instruments designated in a hedge relationship as at 31 March 2025 are as follows:

	Notional amount	**Carrying Amount of the Hedging Instrument**		**Fair value**	**Line item in consolidated statement of financial position where hedging instrument is reported**
	(GBP m)	**Assets**	**Liabilities**	**changes**	
Cash flow hedges					
Cross-currency interest rate swaps	**2,093**	**16**	**(37)**	**4**	**Derivative financial assets/liabilities**
Interest rate swaps	**897**	**13**	**(4)**	**14**	**Derivative financial assets/liabilities**
Fair value hedges					
Cross-currency interest rate swaps	**432**	**1**	**-**	**(3)**	**Derivative financial assets**
Interest rate swaps	**864**	**-**	**(35)**	**(28)**	**Derivative financial liabilities**

The impact of hedging instruments designated in a hedge relationship as at 31 March 2024 were as follows:

	Notional amount	Carrying Amount of the Hedging Instrument		Fair value	Line item in consolidated statement of financial position where hedging instrument is reported
	(GBP m)	Assets	Liabilities	changes	
Cash flow hedges					
Cross-currency interest rate swaps	1,849	18	(43)	(38)	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

28 Financial risk management (continued)

b) The impact of hedged items designated in a hedge relationship as at 31st March 2025 are as follows:

	Carrying amount of the hedged item (GBP m)		**Fair value**	**Line item in consolidated statement of financial position where hedging**	**Cash flow hedge**	**Cost of hedging**
	Assets	**Liabilities**	**changes**	**instrument is reported**	**reserve**	**reserve**
Cash flow hedges						
Non GBP denominated debt	**-**	**(2,455)**	**63**	**Borrowings**	**36**	**1**

The impact of hedged items designated in a hedge relationship as at 31st March 2024 were as follows:

	Carrying amount of the hedged item (GBP m)		Fair value	Line item in consolidated statement of financial position where hedging	Cash flow hedge	Cost of hedging
	Assets	Liabilities	changes	instrument is reported	deficit	reserve
Cash flow hedges						
Non GBP denominated debt	-	(2,270)	56	Borrowings	(17)	9

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 2025 are as follows:

	Change in value of hedging instrument recognised in OCI	**Hedge ineffectiveness recognised in consolidated income statement**	**Line item in consolidated income statement where the hedge ineffectiveness is reported**	**Amount reclassified from cash flow hedge deficit to consolidated income statement**	**Line item in the consolidated income statement**
Cash flow hedges					
Interest rate risk & FX risk	**53**	**-**	**Adjusting items**	**(63)**	**Finance costs before adjusting items**

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 deficit to consolidated income statement	Line item in the consolid-ated income statement
Cash flow hedges					
Interest rate risk & FX risk	18	-	Adjusting items	(56)	Finance costs before adjusting items

28 Financial risk management (continued)

(e) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 25). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our main regulated operating company, Cadent Gas Limited, is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as adjusted net debt (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 Cadent Gas Limited level at 31 March 2025 is 61% (2024: 60%).

(f) Fair value analysis

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

As at 31 March 2025	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	**209**	**-**	**-**	**209**
Derivative financial instruments	**-**	**30**	**-**	**30**
Liabilities				
Derivative financial instruments	**-**	**(237)**	**(169)**	**(406)**
Total	**209**	**(207)**	**(169)**	**(167)**

As at 31 March 2024	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Fair value through profit and loss ('FVTPL') instruments	281	-	-	281
Derivative financial instruments	-	23	1	24
Liabilities				
Derivative financial instruments	-	(184)	(146)	(330)
Total	281	(161)	(145)	(25)

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

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

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

28 Financial risk management (continued)

(f) Fair value analysis (continued)

The Level 3 derivative financial instruments comprise £1 billion of CPI-linked inflation swaps maturing in 2028 and 2031 and £250 million of RPI-CPI basis inflation swaps maturing in 2032 and 2033 both of 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 provide 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 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 will result in a larger liability at maturity, negatively impacting the fair value. Conversely, a reduction in inflation forecasts will reduce the liability at maturity and positively impact the fair value. 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 £11.4 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:

	2025	2024
	£m	£m
At 1 April	**(145)**	(125)
Net gain for the year	**8**	12
Settlements	**(32)**	(32)
At 31 March	**(169)**	(145)

The net gain for the year is shown within interest in the income statement.

29 Sensitivity analysis

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the period end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the table below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the table below all have an approximately equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 5% increase in value of unquoted properties would increase net assets by £6 million. A 5% decrease would have an equal but opposite effect, except for goodwill impairment as previous impairments cannot be reversed.

29 Sensitivity analysis (continued)

	2025		2024	
As at 31 March	**Income statement £m**	**Net assets £m**	Income statement £m	Net assets £m
Additional depreciation charge if the useful lives of network assets end in 2050 due to UK net zero target	**(51)**	**(51)**	(47)	(47)
Additional depreciation charge if the useful lives of network assets end in 2045	**(143)**	**(143)**	(130)	(130)
Additional depreciation charge if the useful lives of network assets end in 2040	**(299)**	**(299)**	(267)	(267)
Amortisation charge if the useful life of the Gas Distribution licence ended in 2050 due to UK net zero target	**(86)**	**(86)**	n/a	n/a
Amortisation charge if the useful life of the Gas Distribution licence ended in 2045 due to UK net zero target	**(107)**	**(107)**	n/a	n/a
Amortisation charge if the useful life of the Gas Distribution licence ended in 2040 due to UK net zero target	**(143)**	**(143)**	n/a	n/a
Goodwill impairment(i)				
CPI decrease of 0.5%	**-**	**-**	-	-
Pre-tax discount rate increase of 0.5%	**-**	**-**	-	-
Terminal value change of 0.05 multiple	**-**	**-**	-	-
Cost of Equity within Regulatory WACC decrease of 0.5%	**-**	**-**	-	-
Regulatory asset depreciation - Option 1	**-**	**-**	n/a	n/a
Regulatory asset depreciation - Option 2 with Acceleration Factor 1	**-**	**-**	n/a	n/a
Regulatory asset depreciation - Option 3 with Acceleration Factor 1	**-**	**-**	n/a	n/a
Regulatory asset depreciation - Option 4	**-**	**-**	n/a	n/a
Pensions and other post-retirement benefits (ii) (pre-tax)				
Discount rate decrease of 0.5% (iii)	**1**	**(211)**	1	(245)
Discount rate increase of 0.5% (iii)	**(1)**	**193**	(1)	224
RPI rate increase of 0.5% (iv)	**1**	**(184)**	1	(214)
Change of one year to life expectancy at age 65	**-**	**(128)**	-	(155)
Change in value of unquoted properties by 5%	**-**	**6**	-	13
Change in value of unquoted equities by 5%	**-**	**7**	-	8
Index-linked derivatives				
Change in one year rate of inflation by 1% (v)	**17**	**17**	17	17

i) The changes in assumptions for goodwill in 2025, due to the significant headroom this year, will not lead to an impairment and therefore change in the income statement or net assets. See note 12 for more detail.

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

iii) A change in the discount is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.

iv) The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

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

29 Sensitivity analysis (continued)

	2025		2024	
As at 31 March	**Income statement £m**	**Net assets £m**	Income statement £m	Net assets £m
No hedge accounting for our derivative financial instruments (post tax)	**53**	**53**	18	18
Financial risk				
UK RPI rate change of 0.5%	**9**	**9**	10	10
UK CPI rate change of 0.5%	**5**	**5**	6	6
UK interest rate change of 0.5%	**3**	**3**	3	3

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 2025;

• 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.

	2025	2024
	£m	£m
Trade and other payables		
Opening balance at 1 April	**(367)**	(500)
Closing balance at 31 March (note 19)	**(456)**	(367)
Balance Sheet movement	**89**	(133)
Movement in payables, of a capital nature, reclassified to investing activities		
- Property, plant and equipment	**(26)**	21
- Intangible	**-**	2
Movement in payables, reclassified elsewhere in operating activities		
- Adjusting items	**(2)**	7
- Group tax relief	**-**	(15)
- Capital Contributions	**(25)**	(8)
- Pensions	**5**	(3)
Movement as shown in Consolidated Statement of Cash Flows	**41**	(129)

31 Cash flows from purchases of property, plant and equipment

	2025	2024
	£m	£m
Property, plant and equipment additions (note 13)	**(955)**	(991)
Movement in property, plant and equipment payables, of a capital nature, reclassified to investing activities (note 30)	**26**	(21)
Right of use assets additions (note 13)	**40**	41
Other adjustments	**(2)**	(1)
Movement as shown in Consolidated Statement of Cash Flows	**(891)**	(972)

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

	2025	2024
	£m	£m
Expenditure:		
Services rendered from associates	**12**	15
Interest paid on borrowings from Consortium	**61**	61
	73	76
Dividends paid to Consortium	**378**	377

Outstanding balances at 31 March in respect of income and expenditure:

Amounts payable to associates	**1**	-
Borrowings payable to Consortium	**902**	902

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.

Amounts of £Nil have been provided at 31 March 2025 and recognised as an expense (2024: £Nil) during the year in respect of bad or doubtful debts for related party transactions.

Information relating to pension fund arrangements is disclosed in note 27. For details of dividends paidand Directors' and key management remuneration, refer to note 11 and 8 respectively.

34 Subsequent events

On 30 April 2025, Quadgas BidCo Limited, subsidary of Quadgas Holdings TopCo Limited amended the terms on its £902 million external loan from the Consortium, extending the termination date to 30 April 2050 and increasing the interest rate to 8.0%. All other terms remain unchanged.

35 Ultimate parent company

There is no ultimate parent or controlling company as it is owned by a number of consortium members. The largest and smallest group which includes the company and for which consolidated financial statements are prepared is Quadgas Holdings TopCo Limited. Quadgas Holdings TopCo Limited is registered in Jersey.

36 Subsidiary undertakings

The list below contains all subsidiaries included within the Quadgas Holdings Topco Limited Group.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Quadgas Investments Bidco Limited	100	Holding Company	England and Wales
Quadgas HoldCo Limited	100*	Holding Company	England and Wales
Quadgas PledgeCo Limited	100*	Holding Company	England and Wales
Quadgas MidCo Limited	100*	Holding Company	England and Wales
Cadent Gas Limited	100*	Gas Distribution	England and Wales
Cadent Finance Plc	100*	Provision of long-term finance	England and Wales
Cadent Services Limited	100	Provision of services (including property management)	England and Wales
Quadgas Finance Plc	100	Provision of long-term finance	England and Wales
Cadent Gas Pension Trustee Limited	100*	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited**	100*	Trustee of property assets of occupational pension scheme	England and Wales

* Indirect ownership

** Cadent Gas Pension Services Limited was dissolved on 7 June 2025.

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