Cadent
Your Gas Network

Cadent Gas Limited

Report for the six months ended 30 September 2021

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

Operations

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

We are the largest gas distribution company in the UK; we own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise over 131,000 kilometres of gas distribution pipeline and we transport gas from the gas national transmission system to over 11 million homes and businesses from the Lake District to London and from the Welsh Borders to the East Coast, on behalf of 48 principal gas shippers. Over 80% of UK homes rely on gas for heating as well as large manufacturers, businesses and commerce being reliant on gas to fuel their operations. At peak times the gas network supplies over four times more energy than the electricity network.

As the UK's largest gas distribution network, Cadent is a leading voice for the industry on the future potential of hydrogen. Due to the flexibility of hydrogen as an energy vector, we expect it to play a significant role in the decarbonisation of industry, flexible power generation, aspects of transport and heat. In the UK Government's hydrogen Strategy, hydrogen is recognised as a key component in creating a balanced and resilient energy system, allowing the peak demands of winter energy needs in the UK to be met at lowest cost to the customer. The Strategy details the steps required to develop hydrogen as a low carbon solution, including support for the research and development required. Cadent is involved in several hydrogen projects in partnerships with the energy sector. In October 2021 we launched our hydrogen Ten Point Plan setting out our ambitious and long-term commitment to decarbonising the way we use energy in homes and businesses, whilst also creating jobs across the UK. Included in our Ten Point Plan are clear measures that will deliver investment in jobs and education, placing colleagues and consumers at the heart of our business.

We are actively engaging with Government and regulators to build awareness of the opportunities offered by hydrogen in the journey towards net zero. In preparation for the 26th UN Climate Change Conference of the Parties (COP26) held in November 2021, we interacted with the Government and other stakeholders to promote hydrogen as part of the solution for a low carbon future, and will continue to do so as the UK continues on its journey to net-zero carbon emissions by 2050.

The energy market continues to be affected by the sharp increase in wholesale gas prices, with prices increasing 250% since the beginning of 2021. Strong demand from Asia, increased usage of natural gas for electricity production and the knock-on effects of a cold winter in 2020/2021 in addition to post-COVID economic recovery driving increased demand for gas have all impacted the market and led to the collapse of several energy companies. At 30 September 2021, 7 suppliers and shippers had ceased trading and our exposure was circa £60k after taking account of the existing credit arrangements in place. Since 30 September 2021, a further 13 suppliers and shippers have ceased trading and our pre-tax exposure is approximately £12.0 million after taking account of existing credit arrangements in place.

In addition to the above, on 22 November 2021 Ofgem and Bulb Energy, a large energy supplier and gas shipper, announced the intention to place Bulb Energy into a special administration process using provisions of the Energy Act 2011. If approved, this process would allow the company to continue to contract to supply gas and electricity until the company is either rescued or its customers are transferred to another company. Cadent could be exposed to further unsecured credit losses relating to Bulb Energy. The current exposure is estimated to be approximately £4 million, although there are security arrangements in place over part of this balance.

Ofgem appoint a Supplier of Last Resort (SoLR) when an existing supplier fails to ensure continuity in the supply of gas to end customers. The appointed SoLR is entitled to make a claim to cover costs incurred in taking on the customers, which is apportioned between the gas distribution networks (including Cadent). At the date of approval of these interim financial statements, Cadent has not received any such claims, however a number of SoLRs have been appointed by Ofgem. Under the terms of our Licence claims are paid in parallel with the receipt of additional compensating income over the course of the subsequent financial year. The continued flow of gas to people's homes and business is of upmost importance and we will continue to work collaboratively with Ofgem to support suppliers and shippers.

In the first half of the year, the Group delivered revenue of £996 million; a decrease of £43 million on the comparative period. This was driven by a reduction in non-regulated revenue of £40 million primarily as a result of lower diversions and connections being completed.

Operating costs have increased due to an additional £17 million depreciation charge as a result of having a higher asset base and a £31 million increase to exit capacity charges due to the implementation of a new charging methodology. Our shrinkage costs have also sharply risen by £13 million due to the effects of increasing gas prices. This is offset by a £14 million increase in employee recharges to capital projects as part of our transformation projects and drive to increase the productivity and flexibility of the workforce, delivering more capital projects by Cadent field force.

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

Long-term strategy and business objectives

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

To enable us to lead the way in this role over the next five years, we submitted a robust and very ambitious business plan to Ofgem in December 2019 for the RIIO-2 regulatory period, beginning 1 April 2021 (RIIO-2). The plan was built on the most extensive and tailored customer and stakeholder engagement programme, to ensure we can continue to deliver a safe and reliable energy network now and lead the development of a net zero future.

In the plan we shared our vision to set standards with a focus on four customer outcome areas:

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

In the first six months of the RIIO-2 regulatory period, we continue through our transformation journey to develop 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 continue to lead the way to a cleaner, greener future by planning and collaborating with industry and key stakeholders to meet our net zero targets. This can be demonstrated through our environmental commitments with our supply chain partners, the launch of our green fleet and our role to ensure our networks are ready to transport greener gases. We are committed in keeping people warm while protecting the planet and we can already see great progress as we inject biomethane into our network and trialling hydrogen blending at scale. By working closely with key industries and leaders in the UK economy we have been able to drive this progress and have already seen positive outcomes.

Following Ofgem's final determination of our five-year RIIO-2 Business Plan, we decided to take the next step in the regulatory process and appeal Ofgem's decision to the Competition and Market Authority (CMA). The CMA announced its provisional determination of Cadent's appeal of Ofgem's final determination of our 2021-2026 Business Plan (RIIO-2) on 11 August 2021. The provisional findings supported three of our five grounds of appeal. We responded to the provisional determination in September 2021 and have subsequently received the final determination on 28 October 2021. We are pleased that some of the important errors have been corrected and it has been confirmed that we set the new efficiency benchmark for the industry as we set out to do. We remain committed to providing the best for our customers and ensuring that Cadent can continue to deliver a safe and reliable energy network now and lead the development of a net zero future.

COVID-19 Statement

Since the start of the pandemic, we have taken steps to make sure the safety, health, wellbeing and financial security of our employees was a priority. This has allowed us to continue to provide an outstanding service to customers in this difficult period. We regularly meet with Ofgem, HSE and BEIS to make sure we maintain an effective response across the industry. The safety of all our colleagues, customers and stakeholders remains at the heart of the decisions we make and whilst we follow Government guidance, our own enhanced safety measures will remain in place for some time yet. We are continuously monitoring our business continuity plans and working practices to make sure our people stay safe to keep the energy flowing for our 11 million homes and businesses.

Whilst the COVID-19 pandemic has had a significant impact on society and we have had to respond to the operational challenges associated with this, we have not seen any significant impact on our income statement, statement of financial position and statement of cash flows for the six months to September 2021.

Going Concern

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

The forecasts were considered against the ability to access existing undrawn facilities alongside the ability to access long-term debt markets. It was concluded that sufficient headroom existed in the forecast and against the requirements of our banking covenants and no reasonably possible downside scenario existed wherein Cadent Gas Limited would be unable to continue as a going concern. After due consideration, it was recommended to the Board in November 2021 that the financial statements be prepared on a going concern basis.

Liquidity & financing arrangements

At 30 September 2021, Cadent had undrawn credit facilities and cash totalling £753 million (31 March 2021: £1,332 million) made up of available Revolving Credit Facilities of £500 million, investments in short-term money funds of £233 million and cash of £20 million. We also retain the capacity to raise additional debt if required from the debt capital markets and significant demand remains for Cadent Group debt, demonstrated by a recent transaction at Cadent Finance Plc, which issued a 9-year transition bond in March 2021 with a notional value of €625 million. The transaction was well-received by the market, and we continue to have headroom against our debt covenants.

On 14 April 2021 Cadent Gas Limited repaid £300 million of its existing syndicated term loan using available cash and committed bank facilities. On 22 September 2021 Cadent Finance Plc repaid £250 million of loan notes, fully repaying this issuance, using existing funds. We continue to monitor and manage the maturity profile of our debt to meet our liquidity requirements, and with no term debt due to mature until October 2023 and the high degree of predictability of our regulated revenue and operating and capital expenditure, our liquidity risk is low. The company's balance sheet remains robust, and we have maintained our investment grade credit rating from Moody's (Baa1), Standard & Poor's (BBB+) and Fitch ratings (BBB+). Existing debt covenants have been complied with throughout the period.

Our regulated revenues and RAV are index-linked to CPIH, and therefore inflation-linked liabilities act as a natural hedge against fluctuations in inflation rates. Since April 2021, we have entered into CPI-linked swaps, totalling £1 billion and maturing in 2028 and 2031, increasing the proportion of our debt book that is hedged to inflation, aligning our position more closely to the average exposure to inflation across our industry. See note 9 for the fair values of our financial instruments.

Cadent Gas Limited

Interim management report (continued)

Results for the six months ended 30 September 2021

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

	Six months ended 30 September 2021 £'m	Six months ended 30 September 2020 £'m	Movement £'m
Revenue	**996**	1,039	(43)
Operating profit – Before exceptional items	**376**	474	(98)
Exceptional items	**(10)**	(9)	(1)
Operating profit	**366**	465	(99)
Profit before tax – Before exceptional items & remeasurements	**288**	413	(125)
Profit before tax	**211**	386	(175)
(Loss)/profit for the period	**(218)**	312	(530)
Capital investment	**355**	488	(133)

Revenue

Total Group revenue for the period was £996 million (2020: £1,039 million) comprising £943 million (2020: £946 million) of regulated allowed revenue and £53 million (2020: £93 million) from non-regulated activities. The £3 million decrease in regulated allowed revenue is based on the agreed Ofgem pricing model coupled with a slight increase in commodity revenue due to an increase in wholesale gas prices from industrial and commercial users. The £40 million decrease in non-regulated revenues is mainly as a result of the lower number of HS2 diversions being completed, offset by an increase in non-HS2 capital delivery diversions.

Operating profit before exceptional items

Operating profit before exceptional items is a non-IFRS performance measure used by management to aid comparability of results between periods (see note 4). As such, it excludes significant business transactions and should not be used in isolation but considered alongside IFRS measures. The nearest equivalent IFRS measure is operating profit, which is presented on the condensed consolidated income statement.

Operating profit before exceptional items for the period was £376 million (2020: £474 million), with revenue of £996 million (2020: £1,039 million) offset by £620 million (2020: £565 million) of operating costs excluding exceptional items. Operating costs before exceptional items have increased largely due to the effects of higher gas prices increasing our shrinkage costs to £16 million (2020: £3 million), higher depreciation of £188 million (2020: £171 million) and an increase to exit capacity charges to £85 million (2020: £54 million) due to the implementation of a new charging methodology. The majority of these cost increases are recoverable through our future revenues. The increases are offset by cost savings due to our ongoing business transformation activities.

Finance income and costs

Finance income for the period was £4 million (2020: £11 million) due to a reduction in interest income from pension assets. Finance costs before exceptional items and remeasurements for the period of £92 million (2020: £72 million) have increased due to the effects of higher inflation on index-linked debt and debt entered into in the second half of the 2021 financial year.

Exceptional items and remeasurements

Included within total operating profit of £366 million (2020: £465 million) are exceptional items of £10 million (2020: £9 million). Cadent is undergoing an ongoing programme to improve the efficiency of our operations by restructuring the business. On 19 April 2021 Cadent announced a proposal to restructure the current organisational design. The programme is still ongoing and restructuring costs totalling £10 million have been recognised, which mainly relate to pension strain and redundancy costs. Cumulative costs of £47 million have been recognised since the beginning of the restructure in 2019, with the programme expected to complete this financial year. These activities are infrequent and financially material, and therefore have been considered exceptional in nature.

Remeasurement losses of £67 million (2020: losses of £18 million) have been recognised within finance costs in relation to the remeasurement of derivatives. This is due to changes in the mark-to-market values of index-linked swaps (RPI & CPI), which have been affected by volatility in inflation and interest rate assumptions.

Loss for the period

The Group made a loss after tax of £218 million (2020: profit of £312 million). The loss is largely due to a non-recurring exceptional deferred tax charge in the year of £387 million. This exceptional charge was recognised following the announcement that corporation tax will rise from 19% to 25% from 1 April 2023, and therefore deferred tax balances forecast to reverse in the period from 1 April 2023 have been restated to 25% of temporary differences. Operating profit has also decreased by £99 million and the Group has recognised £69 million of additional finance costs compared to the same period last year due to the reasons detailed above. Given the non-recurring nature of the loss after tax, management do not deem this to be an indication of an impairment of our tangible fixed assets.

Capital investment

Capital investment was £355 million (2020: £488 million) comprising £15 million (2020: £19 million) of intangible assets and £340 million (2020: £469 million) of tangible assets. Tangible asset additions are mainly comprised of £290 million (2020: £384 million) of plant and machinery with the majority relating to our ongoing mains replacement programme with 743km being replaced in the period (2020: 684km). Remaining additions comprise £25 million (2020: £70 million) of assets in the course of construction, £13 million (2020: £1 million) of right-of-use assets, land and buildings £5 million (2020: £4 million) and motor vehicles £7 million (2020: £10 million).

Financial position

Net assets decreased by 3% to £2,304 million (March 2021: £2,367 million). The main movements in the balance sheet items were an increase in the deferred tax liability of £463 million to £1,831 million (March 2021: £1,368 million) due to the tax rate change from 19% to 25%. This reduction was offset by an increase in property, plant and equipment and intangible fixed assets of £144 million arising from capital investment offset by depreciation and amortisation.

The company operates its own DB pension arrangement, the Cadent Gas Pension Scheme (CGPS), for certain employees. Membership of the defined contribution scheme, MyPension, is offered to all new employees. On an IAS 19 basis the defined benefits pension scheme is in a net asset position of £674 million at 30 September 2021 (March 2021: net asset of £426 million). This increase is due to higher pension assets of £266 million largely as a result of an increase in the value of the index-linked gilts holding, which was driven by a fall in index-linked gilt yields and a rise in implied inflation. This increase in assets was partially offset by an increase in the defined benefit obligation of £18 million, driven by a rise in the inflation assumptions used in the valuation.

The Group has net debt of £6,880 million (March 2021: £6,782 million). Net debt is a measure which shows the overall debt situation and is calculated by netting the value of a company's liabilities and debts with its cash and other similar short-term financial assets. See note 10 for the composition of net debt.

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term. At 30 September 2021, Cadent had undrawn credit facilities and cash totalling £753 million (31 March 2021: £1,332 million) made up of available Revolving Credit Facilities of £500 million, investments in short-term money funds of £233 million and cash of £20 million. Current borrowings have decreased due to £250 million of term debt which was repaid in September 2021 upon reaching maturity.

Cash flow

Net cash inflow from operating activities for the six months ended 30 September 2021 was £520 million (September 2020: £597 million) with the decrease due to lower operating profit, lower cash received from capital contributions and higher pension deficit repair payments being made in the current period.

Events after the balance sheet date

Since 30 September 2021 Cadent Finance Plc, a subsidiary of Cadent Gas Limited, has entered into 4 CPI-linked swaps totalling £300 million, which mature in September 2031.

Due to the recent gas price increases a number of energy suppliers have ceased trading with a consequential impact on our shipper customers. Since 30 September 2021, 13 shippers entered administration and our unsecured credit exposure to these customers is approximately £12.0 million before tax, which has been fully provided for subsequent to the period end, and is recoverable through our future revenues. In addition, on 22 November 2021 Ofgem and Bulb Energy, a large energy supplier and gas shipper, announced the intention to place Bulb Energy into a special administration process using provisions of the Energy Act 2011. If approved, this process would allow the company to continue to contract to supply gas and electricity until the company is either rescued or its customers are transferred to another company. Cadent could be exposed to further unsecured credit losses relating to Bulb Energy. The current exposure is estimated to be approximately £4 million, although there are security arrangements in place over part of this balance.

Ofgem appoint a Supplier of Last Resort (SoLR) when an existing supplier fails to ensure continuity in the supply of gas to end customers. The appointed SoLR is entitled to make a claim to cover costs incurred in taking on the customers, which is apportioned between the gas distribution networks. At the date of approval of these interim financial statements, Cadent has not received any such claims, however a number of SoLRs have been appointed by Ofgem. Under the terms of our Licence claims are paid in parallel with the receipt of additional income over the course of the subsequent financial year.

Related party transactions

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

Cadent Gas Limited

Interim management report (continued)

Performance Highlights

To enable us to achieve the standard of service we aspire to, we monitor our performance in implementing our strategy with reference to clear targets set for key performance indicators (KPIs). These KPIs are applied on a Group wide basis. Performance in the six months ended 30 September 2021 (where available as some are annual figures) and the targets are set out in the table below, together with the prior year performance data for the year to 31 March 2021 and the six month period to 30 September 2020.

Strategic priorities	KPIs	Definition	Performance
Delivering a safe and reliable network	**Safety**	**Lost time injuries frequency rate** Any injury to employee or contractor resulting in time off work (injuries per million hours worked).	**2021/22 half year: 0.74** **2020/21: 0.66** **2020/21 half year: 0.66** **(Target: Less than 0.78)** [1]
Providing a resilient network to keep the energy flowing	**Kilometres of network replaced**	**Kilometres of network replaced** Number of kilometres of main pipe replaced.	**2021/22 half year: 743km** **2020/21: 1,743km** **2020/21 half year: 684km** **(Full year target 2021/22: Higher than 1,538km)** [2]
Performing for our customers and communities	**Customer satisfaction**	**Customer satisfaction** Our score out of 10 in customer satisfaction surveys. Ofgem set a baseline target.	**2021/22 half year: 8.92** **2020/21: 8.80** **2020/21 half year: 8.91** **(Target: Higher than 8.75)** [3]
	Complaints	**Complaints handling** Percentage of complaints handled within 1 day.	**2021/22 half year: 79%** **2020/21: 82%** **2020/21 half year: 82%**
Tackling climate change	**Incidents**	**Environmental incidents** Number of serious environmental incidents	**2021/22 half year: 0 incidents** **2020/21: 0 incidents** **(Target: No serious incidents)** [4]
	Waste	**Waste Performance** Average tonnes of waste per month	**2021/22 half year: 131.2** **2020/21: 131.8** **(Target: 129.8 tonnes per month)** [5]

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

Further details of our priorities are disclosed in the Annual Report and Financial statements 2020/21.

Delivering our 2021/22 Priorities

Our gas network plays a critical role in delivering safe and reliable heating to over 80% of domestic homes and fuelling major industry, businesses, schools and hospitals in England. We will be at the forefront of shaping and delivering the road to net zero emissions through facilitating clean gas and demonstrating a hydrogen pathway for our current and future customers. We continue to develop our plans for the future, establishing an organisation that delivers for customers.

We are committed to driving down the emissions from our operations. With an estimated 97% of our current emissions relating to leakage from our iron and steel pipe network we are prioritising activities to reduce leakage with a further commitment to reach a net zero non-leakage business carbon footprint ('BCF') by the end of the RIIO-2 period. We have replaced a further 743km of iron mains in the first half of the year and are on track to deliver our annual target of 1,538km.

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

In the first half of the year we have continued with our operational transformation to an increasingly customer focused organisation empowering our operational teams to go above and beyond, with our customer satisfaction metric seeing improvement from 31 March 2021.

One of our key priorities at this time is keeping our employees and customers safe. We are committed to improving our safety record, delivering a Lost Time Injury Frequency Rate of 0.74. We have maintained our focus on ensuring our colleagues and contractors are safe whilst at work, and that members of the public are safe in the vicinity of our works.

We are committed to equality, diversity and inclusion. We have taken great strides to strengthen our position towards our vision that we are a diverse and inclusive organisation representative of the communities we serve, where everyone has an equal chance to succeed and be themselves. We continue to work with colleagues in HR, communications and across the organisation to embed our vision and drive engagement. We have established five employee community groups to represent different strands of diversity and empower colleagues to actively shape a more inclusive environment.

We remain committed to support communities and customers in vulnerable situations and to date have donated £17.3 million to the Cadent Foundation. The Foundation has made great progress to make a positive and lasting impact and we engage and encourage charities that address the root causes and consequences of complex social issues, to contribute ideas so they can make a real difference to our communities.

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report and Financial Statements for the year ended 31 March 2021. A detailed explanation of the risks and how the Group seeks to mitigate the risks, can be found on pages 25 to 28 of the Annual Report and Financial statements for the year ended 31 March 2021. Below is a summary of our key risks as at 30 September 2021:

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

Going concern

As stated in note 1 these condensed consolidated financial statements, having made enquiries and reviewed management's assessment of going concern including the uncertainties posed by COVID-19 on our cash flows and the subsequent impact on headroom against available facilities, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditor

Following the completion of the 2020/21 audit process, Deloitte LLP have been re-appointed as auditor of the Quadgas Holdings TopCo Limited Group and its subsidiaries including Cadent Gas Limited.

Cautionary statement

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

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

By order of the Board,

S G Hurrell
Director
24 November 2021
Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE

Cadent Gas Limited

Responsibility statement

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

The Directors of Cadent Gas Limited are as listed in the Cadent Gas Limited Annual Report and Financial statements for the year ended 31 March 2021 with the exception of the following changes to the Board:

- On 26 May 2021 M Wang was appointed as Director of Cadent Gas Limited.
- On 26 May 2021 J Bao resigned as Director of Cadent Gas Limited.
- On 14 July 2021 H N Forster was appointed as Director of Cadent Gas Limited.
- On 31 August 2021 D Wilkins was appointed as Director of Cadent Gas Limited.
- On 31 August 2021 H N M De Run resigned as Director of Cadent Gas Limited.

By order of the Board,

S G Hurrell
Director

24 November 2021

INDEPENDENT REVIEW REPORT TO CADENT GAS LIMITED

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. As disclosed in note 1, the annual financial statements of the company will be prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34 “Interim Financial Reporting”.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Deloitte LLP
Statutory Auditor
London, United Kingdom
24 November 2021

Cadent Gas Limited

Condensed consolidated income statement

Six months ended 30 September 2021

	Notes	**Six months ended 30 September 2021 (unaudited)**		Six months ended 30 September 2020 (unaudited)	
		£m	**£m**	£m	£m
Revenue			**996**		1,039
Operating costs			**(620)**		(565)
Operating profit					
Before exceptional items		**376**		474	
Exceptional items	4	**(10)**		(9)	
Total operating profit			**366**		465
Finance income	5		**4**		11
Finance costs					
Before exceptional items and remeasurements	5	**(92)**		(72)	
Exceptional items and remeasurements	4	**(67)**		(18)	
Total interest payable and similar charges	5		**(159)**		(90)
Profit before tax					
Before exceptional items and remeasurements		**288**		413	
Exceptional items and remeasurements	4	**(77)**		(27)	
Total profit before tax			**211**		386
Tax					
Before exceptional items and remeasurements	6	**(61)**		(79)	
Exceptional items and remeasurements	4	**(368)**		5	
Total tax	6		**(429)**		(74)
(Loss)/profit after tax					
Before exceptional items and remeasurements		**227**		334	
Exceptional items and remeasurements	4	**(445)**		(22)	
(Loss)/profit for the period			**(218)**		312

The results above relate to continuing operations.

Cadent Gas Limited

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2021

	Six months ended 30 September 2021 (unaudited) £m	Six months ended 30 September 2020 (unaudited) £m
(Loss)/profit for the period	**(218)**	312
Other comprehensive income/(loss):		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	**229**	(400)
Tax on items that will never be reclassified to profit or loss	**(83)**	76
Total items that will never be reclassified to profit or loss	**146**	(324)
Items that may be reclassified subsequently to profit or loss		
Net gains/(losses) in respect of cash flow hedges	**8**	(13)
Amortisation of cost of hedging reserve	**2**	3
Tax on net (gains)/losses in respect of cash flow hedges	**(1)**	2
Total items that may be reclassified subsequently to profit or loss	**9**	(8)
Other comprehensive income/(loss) for the period, net of tax	**155**	(332)
Total comprehensive loss for the period	**(63)**	(20)

The results reported above relate to continuing operations.

Cadent Gas Limited

Condensed consolidated statement of financial position

As at 30 September 2021

	Notes	**As at 30 September 2021 (unaudited) £m**	As at 31 March 2021 (audited) £m
Non-current assets			
Intangible assets		**95**	103
Property, plant and equipment	8	**10,565**	10,413
Pension and other post-retirement benefit assets	11	**674**	426
Trade and other receivables		**1**	2
Derivative financial assets	9	**12**	-
Total non-current assets		**11,347**	10,944
Current assets			
Inventories		**10**	12
Trade and other receivables		**184**	216
Current asset investments	9	**233**	815
Cash and cash equivalents	9	**20**	17
Total current assets		**447**	1,060
Total assets		**11,794**	12,004
Current liabilities			
Trade and other payables		**(420)**	(570)
Borrowings	10	**(27)**	(297)
Lease liabilities	10	**(6)**	(8)
Current tax liabilities		**(1)**	-
Provisions		**(16)**	(12)
Total current liabilities		**(470)**	(887)
Net current (liabilities)/assets		**(23)**	173
Total assets less current liabilities		**11,324**	11,117
Non-current liabilities			
Derivative financial liabilities	9	**(165)**	(115)
Borrowings	10	**(6,922)**	(7,178)
Lease liabilities	10	**(25)**	(16)
Deferred tax liabilities		**(1,831)**	(1,368)
Provisions		**(65)**	(65)
Accruals and deferred income		**(12)**	(8)
Total non-current liabilities		**(9,020)**	(8,750)
Total liabilities		**(9,490)**	(9,637)
Net assets		**2,304**	2,367
Equity			
Share capital		**-**	-
Cash flow hedge deficit		**(11)**	(18)
Cost of hedging reserve		**12**	10
Retained earnings		**7,596**	7,668
Other deficit		**(5,293)**	(5,293)
Total equity		**2,304**	2,367

The notes on pages 17 to 25 are an integral part of the financial statements.

The condensed consolidated financial statements on pages 12 to 25 were approved for issue by the Board of Directors on 24 November 2021 and were signed on its behalf by:

S G Hurrell
Director
Cadent Gas Limited
Company registration number: 10080864

Cadent Gas Limited

Condensed consolidated statement of changes in equity
Six months ended 30 September 2021

	Share capital £m	**Cash flow hedge deficit £m**	**Cost of hedging reserve £m**	**Other deficit £m**	**Retained earnings £m**	**Total £m**
At 1 April 2021	**-**	**(18)**	**10**	**(5,293)**	**7,668**	**2,367**
Loss for the period	**-**	**-**	**-**	**-**	**(218)**	**(218)**
Other comprehensive income for the period excluding amortisation of cost of hedging reserve	**-**	**7**	**-**	**-**	**146**	**153**
Amortisation of cost of hedging reserve	**-**	**-**	**2**	**-**	**-**	**2**
Total comprehensive income/(loss) for the period	**-**	**7**	**2**	**-**	**(72)**	**(63)**
Equity dividends (note 7)	**-**	**-**	**-**	**-**	**-**	**-**
At 30 September 2021 (unaudited)	**-**	**(11)**	**12**	**(5,293)**	**7,596**	**2,304**

	Share capital £m	Cash flow hedge deficit £m	Cost of hedging reserve £m	Other deficit £m	Retained earnings £m	Total £m
At 1 April 2020	-	(13)	6	(5,293)	7,453	2,153
Profit for the period	-	-	-	-	312	312
Other comprehensive loss for the period excluding amortisation of cost of hedging reserve	-	(11)	-	-	(324)	(335)
Amortisation of cost of hedging reserve		-	3	-	-	3
Total comprehensive income/(loss) for the period	-	(11)	3	-	(12)	(20)
Equity dividends (note 7)	-	-	-	-	-	-
At 30 September 2020 (unaudited)	-	(24)	9	(5,293)	7,441	2,133

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

Cadent Gas Limited

Condensed consolidated statement of cash flows

Six months ended 30 September 2021

	Six months ended 30 September 2021 (unaudited) £m	Six months ended 30 September 2020 (unaudited) £m
Cash flows from operating activities		
Total operating profit	**366**	465
Adjustments for:		
Exceptional items	**10**	9
Depreciation, amortisation and impairment	**200**	180
Increase in inventories	**3**	-
Decrease in trade and other receivables	**50**	6
(Decrease)/increase in trade and other payables	**(27)**	40
Capital contribution income	**(36)**	(79)
Changes in provisions	**4**	(5)
Loss on disposal of property, plant and equipment	**(2)**	-
Changes in pensions and other post-retirement obligations	**(21)**	(4)
Capital contributions received	**28**	67
Cash flows relating to exceptional items	**(3)**	(9)
Cash generated from operations	**572**	670
Tax paid	**(52)**	(73)
Net cash inflow from operating activities	**520**	597
Cash flows from investing activities		
Purchases of intangible assets	**(7)**	(27)
Purchases of property, plant and equipment	**(453)**	(438)
Interest received	**-**	1
Net decrease/(increase) in financial investments	**582**	(43)
Net cash flow from/(used) in investing activities	**122**	(507)
Cash flows from financing activities		
Repayment of loans	**(550)**	-
Repayment of lease liabilities	**(5)**	(6)
Interest paid	**(85)**	(91)
Net cash flow used in financing activities	**(640)**	(97)
Net increase/(decrease) in cash and cash equivalents	**2**	(7)
Net cash and cash equivalent/(overdraft) at the start of the period	**12**	9
Net cash and cash equivalents at the end of the period	**14**	2
Comprising:		
- Cash	**20**	15
- Overdraft	**(6)**	(13)
	14	2

Cadent Gas Limited

Notes to the condensed consolidated financial statements
Six months ended 30 September 2021

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

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

The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2021, which were prepared in accordance with IFRS as issued by the IASB, and have been filed with the Registrar of Companies. The auditor’s report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

Having made enquiries and reassessed the principal risks, the Directors consider that the company and its subsidiary undertakings have adequate resources to continue in business, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information.

In preparing this half year financial information, the areas of judgement made by management in applying the Cadent Gas Limited's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2021.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2022 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2021.

2 Segmental analysis

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

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

3 Seasonality

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

Cadent Gas Limited

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2021

4 Exceptional items and remeasurements

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

In determining whether an item should be presented as exceptional in nature and hence adjusting the relevant IFRS measures, management utilises an exceptional items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be incurred or gains earned and the commercial context for the particular transaction.

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

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Exceptional items included within operating costs:		
Separation activities (i)	**-**	8
Restructuring costs (ii)	**10**	1
	10	9
Remeasurements included within finance costs:		
Net losses on derivative financial instruments (iii)	**67**	18
	67	18
Total included within profit before tax	**77**	27
Included within taxation:		
Exceptional charge arising		
Deferred tax charge arising as a result of the future change in the UK tax rate (note 6)	**387**	-
Tax on other exceptional items and remeasurements		
Tax credit on separation activities	**-**	(2)
Tax credit on restructuring activities	**(2)**	-
Tax credit on remeasurements	**(17)**	(3)
	368	(5)
Total exceptional and remeasurements after tax	**445**	22
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	**395**	7
Total remeasurement items after tax	**50**	15
	445	22

(i) As a result of the acquisition of the company by Quadgas MidCo Limited from National Grid Plc, a number of separation activities arose in the prior year which were exceptional by nature as this is not in the ordinary course of the business, and the associated costs have been material in total across the periods in which they have been undertaken (cumulative costs to date of £62 million).
(ii) The Group is undergoing a reorganisation exercise with the programme still ongoing. Costs totalling £10 million have been recognised, which mainly relate to redundancy costs (£5 million) and pension strain costs (£4 million). These activities are infrequent and exceptional in nature, and are financially material over the course of the exercise, with cumulative costs of £47 million being recognised since the beginning of the restructure in 2019.
(iii) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt

5 Finance income and costs

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Finance income		
Interest income from pensions	**4**	11
Interest income from financial instruments	**-**	-
Finance income	**4**	11
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**14**	7
Other borrowings	**69**	63
Derivatives	**9**	2
Finance costs	**92**	72
Remeasurements		
Net losses on derivative financial instruments included in remeasurements (i):		
Derivatives not designated as hedges or ineligible for hedge accounting	**67**	18
Remeasurements included within finance costs	**67**	18
Finance costs	**159**	90
Net finance costs	**155**	79

(i) Includes a net foreign exchange loss on financing activities of £23 million (September 2020: £20 million loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

6 Taxation

Tax charged to the income statement

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Tax before exceptional items and remeasurements	**(61)**	(79)
Exceptional tax relating to UK tax rate change (see note 4)	**(387)**	-
Tax on exceptional items and remeasurements	**19**	5
Total tax expense	**(429)**	(74)

Taxation as a percentage of profit before tax	**2021**	2020
Before exceptional items and remeasurements	21.2%	19.1%
After exceptional items and remeasurements	203.3%	19.2%

The effective tax rate before exceptional items and remeasurements of 21.2% for the period (six months to 30 September 2020: 19.1%) is higher (2020: higher) than the standard rate of corporation tax in the UK of 19%. This is mainly due to deferred tax on originating differences being charged at 25% . The expected tax rate for the full year is 21%.

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. The Finance Bill received Royal Assent in June 2021 and therefore deferred tax balances forecast to reverse in the period from 1 April 2023 have been restated to 25% of temporary differences, resulting in an increase to the deferred tax liability for the company of £413 million, with an exceptional charge of £387 million recognised in the income statement and £26m recognised in other comprehensive income. Deferred tax balances which are forecast to reverse prior to this remain at 19%. This has resulted in a significantly higher effective tax rate after exceptional items of 203.3% than the standard rate of corporation tax of 19%.

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

	2021 £m	2020 £m
Current tax	**(54)**	(76)
Deferred tax	**(375)**	2
	(429)	**(74)**

7 Dividends

No dividends are proposed for the current financial period (six months to 30 September 2020: Nil).

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2021

8 Property, plant and equipment

	Land and buildings	Plant and machinery	Assets in course of construction	Motor vehicles and other equipment	Right-of-use assets	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2021	119	11,382	60	183	47	11,791
Additions	5	290	25	7	13	340
Reclassifications	14	27	(42)	1	-	-
Disposals	-	-	-	(3)	(1)	(4)
As at 30 September 2021	**138**	**11,699**	**43**	**188**	**59**	**12,127**
Accumulated depreciation and impairment						
At 1 April 2021	(28)	(1,216)	-	(112)	(22)	(1,378)
Charge for the period	(5)	(164)	-	(14)	(5)	(188)
Disposals	-	-	-	3	1	4
As at 30 September 2021	**(33)**	**(1,380)**	**-**	**(123)**	**(26)**	**(1,562)**
Net book value:						
As at 30 September 2021	**105**	**10,319**	**43**	**65**	**33**	**10,565**
At 31 March 2021	91	10,166	60	71	25	10,413

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and other equipment	Right-of-use assets	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2020	76	10,427	100	152	43	10,798
Additions	4	384	70	10	1	469
Reclassifications	-	64	(66)	2	-	-
Disposals	-	-	-	-	-	-
At 30 September 2020	80	10,875	104	164	44	11,267
Accumulated depreciation and impairment						
At 1 April 2020	(21)	(908)	-	(84)	(10)	(1,023)
Charge for the period	(3)	(150)	-	(13)	(5)	(171)
Disposals	-	-	-	-	-	-
At 30 September 2020	(24)	(1,058)	-	(97)	(15)	(1,194)
Net book value:						
At 30 September 2020	56	9,817	104	67	29	10,073
At 31 March 2020	55	9,519	100	68	33	9,775

9 Fair value measurement

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

	30 September 2021				31 March 2021			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Fair value through profit and loss ('FVTPL') instruments[1]	**253**	**-**	**-**	**253**	832	-	-	832
Derivative financial instruments	**-**	**12**	**-**	**12**	-	-	-	-
Liabilities								-
Derivative financial instruments	**-**	**(165)**	**-**	**(165)**	-	(115)	-	(115)
Total	**253**	**(153)**	**-**	**100**	832	(115)	-	717

[1]This balance consists of cash of £20 million (31 March 2021: £17 million) and current asset investments of £233 million (31 March 2021: £815 million).

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

The estimated fair value of total borrowings using market values at 30 September 2021 is £7,808 million (31 March 2021: £7,702 million).

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

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

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

Cadent Gas Limited

Notes to the condensed consolidated financial statements (continued)

Six months ended 30 September 2021

10 Net debt

	Six months ended 30 September 2021 £m	Year ended 31 March 2021 £m
Increase in cash and cash equivalents	**2**	3
(Decrease)/increase in financial investments	**(582)**	488
Decrease/(increase) in borrowings & related derivatives	**550**	(537)
Repayment of lease liabilities	**5**	11
Net interest paid on the components of net debt	**85**	142
Change in net debt arising from cash flows	**60**	107
Changes in fair value of financial assets and liabilities and exchange movements	**(54)**	(9)
Other non-cash changes (IFRS 16 leases)	**(12)**	(4)
Net interest charge on the components of net debt	**(92)**	(142)
Movement in net debt (net of related derivative financial instruments)	**(98)**	(48)
Net debt (net of related derivative financial instruments) at the start of the period	**(6,782)**	(6,734)
Net debt (net of related derivative financial instruments) at the end of the period	**(6,880)**	(6,782)

Composition of net debt:

	Six months ended 30 September 2021 £m	Year ended 31 March 2021 £m
Cash, cash equivalents and financial investments	**253**	832
Borrowings and bank overdrafts	**(6,949)**	(7,475)
Derivatives	**(153)**	(115)
Lease liabilities	**(31)**	(24)
Total net debt	**(6,880)**	(6,782)

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2021

11 Retirement benefit schemes

	30 September 2021	31 March 2021
	£m	£m
Present value of funded obligation	**(6,034)**	(6,016)
Fair value of plan assets	**6,712**	6,446
	678	430
Present value of unfunded obligations	**(4)**	(4)
Net asset	**674**	426
Represented by:		
Liabilities	**(6,038)**	(6,020)
Assets	**6,712**	6,446
	674	426
Key actuarial assumptions		
Discount rate - Past service	**1.95%**	1.95%
Discount rate - Future service	**2.00%**	2.00%
Rate of increase in salaries	**2.55%**	2.50%
Rate of increase in RPI - Past service	**3.40%**	3.25%
Rate of increase in RPI - Future service	**3.25%**	3.10%

The net pensions position, as recorded under IAS19, at 30 September 2021 was a surplus of £674 million compared to a surplus of £426 million at 31 March 2021. This increase follows a valuation exercise undertaken at 30 September 2021 by the Group's independent actuary, and is due to higher pension assets of £266 million largely as a result of an increase in the value of the index-linked gilts holding, which was driven by a fall in index-linked gilt yields and a rise in implied inflation. This increase in assets was partially offset by an increase in the defined benefit obligation of £18 million, driven by a rise in the inflation assumptions used in the valuation.

12 Commitments and contingencies

(a) Capital and other commitments

At 30 September 2021 there were commitments for future capital expenditure contracted but not provided for £201 million (31 March 2021: £255 million). We also have other commitments relating to contingencies in the form of letters of credit and leases. These commitments and contingencies are described in further detail on page 164 of the Annual Report and Financial Statements 2020/21.

(b) Environmental claims

An environmental provision has been set up to deal with the costs of statutory decontamination of 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.

(c) 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.

(d) Guarantees and letters of credit

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

13 Related Party Transactions

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

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

14 Subsequent events

Since 30 September 2021 Cadent Finance Plc, a subsidiary of Cadent Gas Limited, has entered into 4 CPI-linked swaps totalling £300 million, which mature in September 2031.

Due to the recent gas price increases a number of energy suppliers have ceased trading with a consequential impact on our shipper customers. Since 30 September 2021, 13 shippers entered administration and our unsecured credit exposure to these customers is approximately £12.0 million before tax, which has been fully provided for subsequent to the period end, and is recoverable through our future revenues. In addition, on 22 November 2021 Ofgem and Bulb Energy, a large energy supplier and gas shipper, announced the intention to place Bulb Energy into a special administration process using provisions of the Energy Act 2011. If approved, this process would allow the company to continue to contract to supply gas and electricity until the company is either rescued or its customers are transferred to another company. Cadent could be exposed to further unsecured credit losses relating to Bulb Energy. The current exposure is estimated to be approximately £4 million, although there are security arrangements in place over part of this balance.

Ofgem appoint a Supplier of Last Resort (SoLR) when an existing supplier fails to ensure continuity in the supply of gas to end customers. The appointed SoLR is entitled to make a claim to cover costs incurred in taking on the customers, which is apportioned between the gas distribution networks. At the date of approval of these interim financial statements, Cadent has not received any such claims, however a number of SoLRs have been appointed by Ofgem. Under the terms of our Licence claims are paid in parallel with the receipt of additional income over the course of the subsequent financial year.