Company registration number: 122596

Quadgas Holdings TopCo Limited

Annual Report and Financial Statements

For the year ended 31 March 2023

Quadgas Holdings TopCo Limited

Strategic Report

For the year ended 31 March 2023

The Directors present their annual report and the audited financial statements of the Group and the company for the year ended 31 March 2023.

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 51 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

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

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

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

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

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).

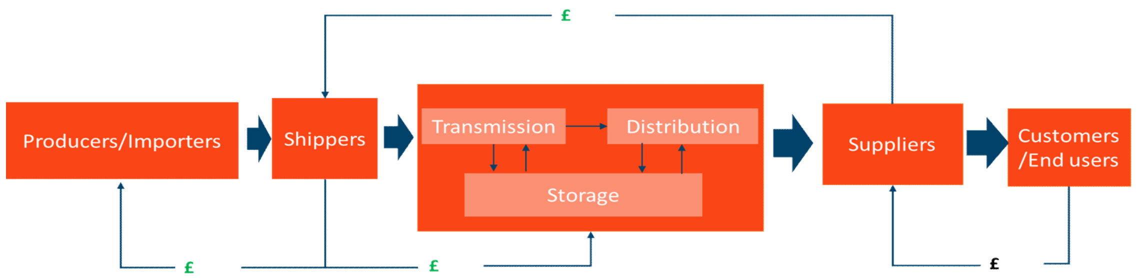
Ofgem safeguards customers' interests by setting the level of charges we are allowed to recover associated with the output commitments we must deliver. Ofgem is able to make comparisons across all eight gas distribution networks. The output targets are defined such that Cadent Gas maintains safe and 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.

We are on track to deliver against our RIIO-2 business plan and have a strong focus on efficiencies for all our customers. We are looking to the future to understand how our network and operational practices need to change and refocus to deliver a low carbon energy future for generations 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.



Revenue (continued)

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

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. • 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 per annum 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 £2,340 million (2022: £1,984 million) driven primarily by our transportation charges (to recover our Regulatory Allowed Revenue) which are levied on gas shippers, who will then recover these costs from energy suppliers, who in turn recover these costs through consumers' energy bills. Each year our revenues are largely fixed in line with the profile set out by our price control settlement which determines the pricing of our services to the gas shippers. Any differences between our allowed revenues and the amounts collected through our pricing are adjusted in future years. Revenues for the year ended 31 March 2023 increased due to inflation, both for the year 2022/23 and the truing up of the revenue for the higher actual inflation rate when compared to the rates used when setting 2021/22 charges, higher gas prices and higher allowed revenues following the Competition Market Authority (CMA) decision in relation to Ofgem's Final Determination for RIIO-2. The £6 million decrease in non-regulated revenues is mainly due to the lower number of customer requested diversions being completed.

The vast majority, 97%, of revenue we earn is for charges to gas shippers for transporting gas at prices set by Ofgem, our regulator. We don't own the gas in the network and have limited direct exposure to movements in wholesale gas prices. The volatility in gas prices had a wide impact in the energy industry and a number of shippers and gas suppliers ceased trading in the previous financial year as a result. While 2022/23 has seen a lower level of supplier and shipper failures, and our exposure to credit losses from these counterparties is mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract), we continue to closely monitor any developments to ensure compliance with the code and limit any potential credit losses. At 31 March 2023, the debt with these failed customers was £8 million (2022: £8 million), which remains outstanding and is subject to our existing credit procedures.

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

Operating profit

Operating profit was £891 million (2022: £625 million) with operational expenditure largely comprising charges associated with our usage of the National Gas Transmission network, business rates and employment costs of our direct workforce and contract partners. Gas price volatility during the year resulted in increased shrinkage costs of £62 million (2022: £58 million) and exit capacity charges of £161 million (2022: £164 million) remained broadly in line with prior year. The Ofgem mandated pricing formula ensures we are reimbursed for variations in these costs in a future period.

Exceptional items and remeasurements

Included within total operating profit of £891 million (2022: £625 million) are exceptional items of £7 million (2022: £12 million). We have been implementing an operational transformation programme to improve the efficiency of our operations by restructuring the business. The programme is now largely complete and restructuring costs totalling £7 million have been recognised in the year, which mainly relate to consultancy costs. Cumulative costs of £59 million have been recognised since the beginning of the restructure in 2019, relating to pension costs, redundancy costs and consultancy costs, and as financially material over the life of the exercise have been considered exceptional.

Remeasurement gains of £160 million (2022: loss of £75 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, which have been affected by inflation and interest rate assumptions.

Borrowings

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

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

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

Net finance costs

Net finance costs before remeasurements of £548 million (2022: £391 million) were driven by external debt funding and remeasurements of our derivatives. The increase is largely attributable to the impact of the significant movement in inflation in the year on our inflation-linked debt and derivatives.

The rise in inflation seen during the year will increase our cost base, although we manage risks associated with this where possible through long-term contracts with our key supply chain partners. As our regulated revenues and Regulated Asset Value (‘RAV’) are index-linked to the Consumer Prices Index including owner occupiers' housing costs (CPIH), this offers some protection against increasing inflation over the medium term. In addition, inflation linked liabilities act as a natural hedge against fluctuations in inflation rates. Along with the inflation linked debt that we hold, the Group have entered in to CPI-linked swaps totalling £1 billion, RPI-linked swaps totalling £400 million and £200 million of RPI/CPI basis swaps 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.

Taxation
In common with other companies with a large long-term asset portfolio we have a significant deferred tax provision that mainly relates to the benefits received in the past from tax allowances on capital expenditure before the depreciation on those assets has been charged to our profits. This provision is released to the income statement as the depreciation catches up with the tax allowances received.

Our effective rate of corporation tax for the year, before exceptional items and remeasurements, is 30.3% (2022: 17.5%). The effective tax rate is impacted by the corporation tax/deferred tax rate differential as deferred tax is provided at a higher rate than the statutory rate for the period. This differential increased the effective rate by 3.1%.

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

As a result of the high rate of inflation in FY22 and forecast for FY23 and the consequent higher level of actual and forecast interest accretions, management, together with tax advice from external advisors, have revisited the assumptions and forecasts supporting their basis relating to Corporate Interest Restriction (CIR) recognised in the accounts leading to the decision to make a group rate election in respect of FY22 and FY23 rather than following the default route of the fixed rate ratio. This results in a £14 million reduction in the current tax charge and tax liabilities for FY22 and a reduction of £19m in respect of FY23. It also resulted in a deferred tax charge of £32 million in respect of the reversal of the deferred tax asset previously recognised for the CIR.

During the year and in accordance with our obligations under Finance Act 2016 Schedule 19, we published our Tax Strategy statement (which can be found on the corporate governance pages of cadentgas.com). We are committed to being a responsible and compliant taxpayer and the Tax Strategy statement sets out our approach to a number of key tax policies including our approach to tax governance and risk management, our attitude towards tax planning, our risk appetite in relation to UK taxation and our approach to dealing with HMRC. Following the business review carried out by HMRC in the year we have been given a low-risk rating.

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

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, as set out in our net debt note (note 25), that fund our capital investment programmes. Capital investment was £858 million (2022: £725 million) and is primarily associated with the ongoing gas mains replacement programme which saw 1,742km (2022: 1,679km) of mostly cast-iron pipes replaced by polyethylene pipe during the year.

Strategic Report (continued)

For the year ended 31 March 2023

Statement of Financial Position (continued)

Cash flow and net debt

Borrowings (both current and non-current) at 31 March 2023 were £10,848 million (2022: £10,160 million) mainly comprising fixed rate and index-linked debt.

Net debt is a measure which shows our overall debt position. Net debt is calculated by netting the value of our liabilities and debts with cash and other similar short-term financial assets. Our net debt at 31 March 2023 was £10,584 million (2022: £10,378 million).

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

The vast majority of our revenues are set in accordance with the regulatory charging methodology (part of the industry network code) which, being a capacity-based regime, provides relative stability and predictability of cash flows with only a small exposure to changes in gas usage volumes. Our ability to convert revenue to profit and cash is important and by managing our operations efficiently and safely we are able to generate sustainable operating cash flows.

Cash generated from operations in 2022/23 was £1,391 million, £306 million higher than in 2021/22, primarily due to higher operating profit resulting from increases in revenue and higher capital contributions received.

Investing efficiently in the development of our network is essential to maintaining strong performance for our customers and long-term sustainable returns for our shareholders. Consequently, our net cash flow used in investing activities was £1,293 million (2022: £112 million) of which £851 million (2022: £861 million) is due to spend on the purchase of property, plant and equipment and intangible assets and £445 million was invested in money market funds having raised new debt in the year (2022: £747 million disposed to pay 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 2023, liquidity was provided by a combination of immediately available cash and committed bank facilities.

The cash held in Money Market Funds was £526 million (2022: £81 million). All funds held with the Money Market Funds can be drawn with no notice. We also have access to Revolving Credit Facilities from our relationship banking group. This allows for drawings of up to £850 million, £650 million at Cadent Gas Limited and £200 million at Quadgas MidCo Limited. As at 31 March 2023 £50 million (2022: £90 million) had been drawn down. Included within cash of £37 million at 31 March 2023 is an amount of £17 million received in grants (2022: £11 million). 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 Bond programmes through Cadent Finance Plc and Quadgas Finance Plc, subsidiaries of the Group, 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. The credit ratings of our operating and financing companies and the debt that they hold at 31 March 2023 remain unchanged from the prior year.

Strategic Report (continued)

For the year ended 31 March 2023

Intangible assets

Goodwill of £1,713 million (2022: £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 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.

Despite significant volatility in the financial assumptions in the year, 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 (2022: £2,143 million) relating to the gas distribution licence and £48 million in relation to software (2022: £70 million).

Dividend

In making the decision to pay a dividend in the period, the Board considered the continued strong customer and operational performance improvements we have seen across regulatory measures, the level of investment and efficiency of delivery relative to regulatory totex allowances that enables significant investment in the network, and the successful work we are undertaking at Cadent to implement our strategy in relation to being a Force for Good, and the continued requirement to attract investors into the sector who provide the capital required to invest in our network assets. All of these factors were taken into account, as well as the Board reviewing the dividend policy and satisfying itself that a series of economic tests could be met. Cadent Gas, the operating company of the Group, had more than £5 billion of distributable reserves at 31 March 2023. During the year, we paid dividends totalling £212 million (2022: £135 million). The increase in the dividend paid reflects the lower level paid in 2021 & 2022 when the decision was made to reduce dividends until the full impact of Covid-19 on the company was established.

Pensions

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

The significant decrease in the Scheme’s asset and liability values was largely driven by a significant movement in gilts markets. These changes, among other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2023 decreasing to £4,195 million (2022: £5,476 million), resulting in an decrease to the overall surplus of 33% to £729 million (2022: £1,083 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 2022/23 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, Health, Environment and Security (SHES) Committee, 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 2022/23 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 supporting a ‘top down’ ‘bottom up’ Enterprise Risk Management (ERM) process that ensures our risk management is aligned to our strategy and objectives.

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

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

The overall risk management framework is applied through a consistent and documented approach to identifying, assessing, treating, monitoring, and reporting risks, through routine risk review sessions undertaken by all functional risk owners. Risks are recorded in our enterprise risk management system and are scored on a unified scoring scale, providing consistency, comparability, and visibility of risks and how they are being managed.

Risk management overview (continued)

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

Climate change risk management

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

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.

Changes in the external landscape

What is the risk?	What are we doing to manage the risk?	Trend
There is a risk that changes in the external landscape, due to factors such as geo-political or domestic events and subsequent political pressures lead to either inertia in decision making or decision making which does not support our strategic priorities, such as supporting the achievement of net zero through the use of hydrogen.	• Monitoring of external developments to understand potential disruptive forces, to enable us to proactively manage them. • Engagement with national and regional stakeholders to ensure we understand policy, customer drivers and the regulatory landscape. • We continue to play a leading role in the net zero transition debate. • Close working partnerships with the Energy Networks Association, Energy Innovation Centre and with the Department for Energy Security and Net Zero (DESNZ), Ofgem and third parties to share innovations and implement best practice.	No change • Progress in the role of hydrogen in the future energy mix. Uncertainty will remain until publication of the Heat and Buildings strategy, expected in 2026.

Risk management overview (continued)

Climate change and biodiversity

Potential impact	Mitigation	Trend
The risk and opportunities associated with climate change and biodiversity present themselves in three ways: 1. The opportunity to help drive forward the UK's hydrogen economy for decarbonisation. 2. The risk that our own operations contribute to climate change. 3. The risk that our own assets and operations are impacted by climate change or negatively impacting biodiversity.	• 'Future of Gas' programme to consider future scenarios and how we can support the delivery of the UK's hydrogen economy. • An established a 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 & 2 emissions to the Carbon Trust Net zero route. • Working partnership with The Wildlife Trust to achieve the biodiversity benchmark. • Working to achieve net habitat gain in areas associated with our activities. • Our Environmental Action Plan outlines a range of initiatives that we will deliver our commitments and targets on climate change and biodiversity loss protection.	No change • The UK's policy and approach to net zero and the support for a hydrogen economy remains uncertain. There is, however, general acceptance from the government and Ofgem that in the absence of hydrogen there will be a continued need for our network to transport natural gas and we continue to focus and adapt to future uncertainties. Climate change threat continues to be seen through extreme weather events however we are actively improving our resilience plans and abilities to respond to such events.

Risk management overview (continued)

Cyber breach, data issues or critical system failure

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

Effectively managing assets and maintaining network reliability

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

Risk management overview (continued)

Health, safety, environment and security

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

Legal and regulatory compliance

What is the risk?	What are we doing to manage the risk?	Trend
Failure to comply with legal and regulatory requirements could result in disruption to the operational business, penalties and damage to our reputation. We set high standards of ethics and compliance that we expect those working for us to follow. As a regulated business, compliance with legislative and regulatory requirements is fundamental to our ability to operate.	• Dedicated operational teams focus on the delivery of our standards of service. • A governance framework closely monitors our regulatory output delivery and ensures that emerging risks and issues are escalated and managed in a timely manner. • A strong ethical and compliance culture underpinned by our value of ‘We take responsibility’ and reinforced through our guide to ethical conduct ‘Always doing the right thing’, ethical training and communications including a strong ‘tone from the top’. • An assurance process which includes the review of 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.

Strategic Report (continued)

For the year ended 31 March 2023

Risk management overview (continued)

Macroeconomic and financial risk

What is the risk?	What are we doing to manage the risk?	Trend
Liquidity risk is the risk that the Group does not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due.	• A prudent level of liquid assets and committed funding facilities consistent with the Board approved treasury policy. • As at 31 March 2023, liquidity was provided by a combination of immediately available cash (£563 million) and committed bank facilities. • The Board is responsible for monitoring the policies, setting limits on the maturity of liquidity and deposit funding balances and taking any action as appropriate.	No Change • The external economic landscape remains unstable however we are well insulated from inflation, the rise in gas prices and bad debt through a comprehensive package of regulatory protections. Treasury Policy and all products/ undertakings are low risk and have strong oversight from the Board in line with the expressed appetite.
Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade finance and treasury activities. In accordance with IFRS 9, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required.	• Dedicated standards, policies and procedures are in place to control and monitor credit risk. • Creditworthiness of each of our 51 principal shippers (direct customers) is closely monitored in line with industry wide parameters. • Exposure to shipper credit losses mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). • The Code requires customers to pay monthly and to provide security for their transportation services minimising the risk of payment default. In addition, the 'Supplier of Last Resort' (SoLR) process ensures future revenues are not impacted. • Access to Revolving Credit Facilities (RCFs) from our relationship banking group for drawings of up to £850m by Quadgas MidCo Group, £800m available as at 31 March 2023.	

Risk Management overview (continued)

Macroeconomic 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, inflation risk and exchange risk in relation to debt issued in foreign currency. The Group has no significant transactional foreign exchange or equity exposure. The Group is exposed to commodity price volatility, particularly gas prices.	• The Board reviews and approves policies for managing market risks on an annual basis. The Board also approves all new hedging instruments. • The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Director of Treasury under delegated authority from the Board. • The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest. Volatility associated with these markets is managed using derivatives, where appropriate, to generate the desired exposure. • The debt book is now 34% inflation hedged which provides strong protection to downside inflation risk. Current market inflation forecasts point to continued elevated inflation over next 12 months. • Cadent does not take long term market risk in relation to gas prices. In the short term, there is exposure, however, regulatory mechanisms are in place to ensure recovery of costs driven by changes in market prices over time. • Cadent is exposed to the risk of commodity price movements where volatility impacts real input costs to our investment programme. Regulatory mechanisms are in place with the ambition to mitigate this volatility.	
Financial management risk is the risk that we could be exposed to loss, fraud or inefficiency if there are weakness in our day-to-day financial management controls.	• We operate a comprehensive financial controls framework across the business that seeks to identify and mitigate the risk of loss, fraud or misstatement of our financial performance. • We undertake cyclical reviews of the controls over our key financial processes to ensure that they remain relevant, fit for purpose and are operating as expected. • Dedicated 2nd and 3rd line resources undertake assurance activities over the controls framework to provide confidence in its ongoing operation.	

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.

Securing critical resources and engagement

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

Strategic Report (continued)

For the year ended 31 March 2023

Climate related financial disclosures

Our path to decarbonising our business operations for future generations.

In 2019/20 the Group emitted 1.66m tonnes of greenhouse gas emissions (Scope 1 and 2). Our own net zero strategy is split into three distinct areas. 1) Decarbonising our business operations, 2) Reducing our environmental impact, 3) Facilitating the low emissions energy system transition. Our Environmental Action Plan states our ambition and targets for our current price control period, RIIO-2. We know that as we grow our emissions will grow and that's why we're aligned to becoming net zero by 2050 based on our 2019/20 baseline, no matter how much our company grows. The delivery of net zero by 2050 requires an unprecedented amount of change, investment and collaboration. Hydrogen will play an important role as an energy source for industry, transport, power generation and heating buildings and homes, that's why we're acting now.

The Group continue to showcase how the gas industry can and will tackle climate change as we continue to champion a whole systems approach to decarbonisation, emphasising the role of green hydrogen as a low carbon alternative to natural gas. The Group 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. The Group would argue that the gas network offers a seamless and familiar transition to a cleaner, greener future, with our Green Print and Ten Point Plan strategies demonstrating our long term commitment to decarbonise heat while minimising the impact to consumers.

Consistent with the Task Force on Climate Related Financial Disclosures (TCFD's) current recommendations we set out in the following sections our disclosures in respect of the four pillars of governance, risk management, strategy and metric and targets. Where aspects of our disclosures appear elsewhere in the Cadent Gas Limited Annual Report 2022/23 they are clearly referenced at the beginning of each section. In reaching full consistency this year, we have included climate related scenarios and completed the first stage of our assessment into the physical and transitional risks facing the Group under 1.5°C, 2.3-2.8°C and 4°C scenarios, with the outcomes detailed in this disclosure.

Governance

TCFD Recommended disclosures	Our disclosures
a) Describe the Board's oversight of climate-related risks and opportunities	Cadent Gas Annual Report and Accounts 2022/23 Pages 72 to 76 TCFD Pages 17 to 19
b)Describe management's role in assessing and managing climate related risks and opportunities	Risk management and principal risks Pages 9 to 16 TCFD Pages 20 to 24

<u>The Board's oversight</u>

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

Committee Chairs provide a report to the Cadent Gas Board following each meeting. Doing so ensures that the scrutiny and consideration of matters undertaken by the Committees can be factored into the Board's thinking and decision-making. Committee members are selected by reference to their relevant skills and expertise. 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 overleaf.

The climate-related risks and opportunities the organisation has identified over the short, medium, and long term can be found in the Principal risks on pages 9 to 16.

Strategic Report (continued)

For the year ended 31 March 2023

Climate related financial disclosures (continued)

Governance (continued)

Board of Directors

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

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

Further, recognising the significance of our Future of Gas Programme to responding to climate-related risks and opportunities, the Board held two strategy days providing time for additional reflection and consideration of our Net Zero Strategy. These sessions are led by the Cadent Gas Strategy and Regulation Team and include presentations and input from external specialist speakers and consultants to inform discussion. The Board is supported by the work of its Committees (see Cadent Gas Annual Report and Accounts for work of the Committees).

Board Committees

Audit & Risk Committee	Nomination Committee	Renumeration Committee	Safety Committee	Sustainability Committee
Duties include reviewing and reporting to the Board on the adequacy and effectiveness of the company's internal controls and the procedure for the identification, assessment and reporting of business risks, including climate related risks.	Ensures sustainability related skills and experience form part of executive director and executive recruitment and succession planning considerations.	Duties include the consideration and approval of short-term and long-term incentive plan measures, which include environmental performance measures and performance against such measures.	Provides independent assurance to the Board regarding the scope, adequacy and effectiveness of the company's management of safety, including the integrity and resilience of operational assets relative to climate related factors.	Provides scrutiny and oversight of the scope, adequacy, and effectiveness of the company's approach to setting and delivering against its sustainability strategy. It also monitors environmental key performance indicators, associated trend data analysis and progress against our RIIO-2 Environmental Action Plan.

Climate related financial disclosures (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 with specific focus areas delegated to the Net Zero Transition Committee, which oversees the delivery of Future of Gas Programme; the Resilience Committee, which is responsible for direction and oversight of matters relating to all aspects of security, resilience and safeguarding within Cadent, including the impact of climate change; and the Safety and Engineering Committee, which oversees environmental performance, with input from the RIIO-2 Environmental Steering Group which monitors progress against our RIIO-2 Environmental Action Plan. These groups meet monthly, led by Executive Members, to monitor progress of action plans and provide assurance of commitments made to prepare the business for the transition to net zero. The Executive Committee also receives an update from the Strategy and Regulation Function, detailing progress against our Future of Gas Programme, and from the Audit and Risk Team addressing identification, assessment and management of our risks, controls and assurance activity, which includes climate related risks. It is also updated on matters considered at all sub-Committees. Our organisational risk management practices are detailed in the Cadent Gas Limited Annual Report and Accounts on page 55 onwards. Reports are tabled for discussion at our sub-Committees and/or the Executive Committee before being presented to the Board/Board Committees, ensuring a thorough approach benefitting from wide-ranging operational input and debate. Attendees at these Committees purposely overlap with attendees at the Board/Board Committees ensuring information and strategic thinking is shared effectively between the Board and the operational business. We provide regular training and engagement updates on climate related issues through our monthly "cascade" delivered at team meetings and through our staff intranet. A number of our senior leaders attended strategy focused conferences covering our net zero ambitions and progress.

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

Executive level committees / other input on climate change matters

Strategic Report (continued)

For the year ended 31 March 2023

Climate related financial disclosures (continued)

Strategy

TCFD Recommended disclosures	Our disclosures
a) Describe the climate-related risks abd opportunities the organisation has identified over the short, medium, and long term.	Risk management and principal risks Pages 9 to 16 TCFD Pages 20 to 24
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 2022/23 Strategic performance Pages 55 to 62 TCFD Pages 20 to 24
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	TCFD Pages 23 to 24

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. As Cadent is domiciled in the UK, earns all its revenue in the UK and has all its assets located in the UK, the risks and opportunities have been considered at a UK level.

Natural gas is both a fossil fuel and a greenhouse gas. Leakage of methane from our network releases greenhouse gases and contributes to climate change. Our long-term focus is the conversion of our asset to transport low carbon alternatives to natural gas, such as hydrogen. In the shorter term we have aligned our ambition to support a greener society with the latest science based methodology to reduce emissions, support biodiversity and eliminate waste.

We are fully committed to tackling climate change seeing ourselves as an enabler for decarbonisation, with hydrogen being an exciting part of our low emissions system solution. The climate-related risks and opportunities that pose a potentially significant financial or reputational impact are detailed below, along with our basis of measuring the risk/opportunity and our strategic response to each risk/opportunity that underpins our resilience assessments. To assess the relative materiality, we established scope of impact, timeframe and likelihood for each risk and opportunity using internal analysis, market data and information from subject matter experts across our business.

The climate-related risks and opportunities were evaluated up to 2050, defining the time horizons for likely occurrence as follows: short term (0-3 years), medium term (3-10 years) and long term (10+ years). The time horizons selected were driven by our regulatory framework with short term covering the majority of the current price control period, medium term to take us beyond the next price control period and long term for the period to 2050. The financial impact of each risk / opportunity aligns with our internal risk management framework (the risks identified feed in the Principal Risk and level 2 risks – see overleaf) 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 opportunites 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) Government heat policy does not set out a role for the gas networks to provide future domestic energy needs or market demand does not materialise. Timeframe: Long term (10+years) Likelihood: Equally likely as unlikely Financial Impact: Very significant impact to revenue Cost of Response: Very significant impact to operating costs Residual Risk: Equally likely as unlikely	We recognise that there are a range of possible future scenarios regarding our network and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route. We are continuing to assess what impact the scenarios would have on our assets and we continue to work with stakeholders across the industry, including Government and regulators, to provide the evidence base necessary for them to take an informed decision on the potential use of hydrogen to decarbonise heat in buildings. This includes evidence from the Department for Energy Security and Net Zero Hydrogen Heating Programme with projects exploring the safety and technical elements of a transition to Hydrogen for heating. We have also had projects looking at the technical and safety evidence for blending (which includes Hydeploy and Hydeploy2). We are now seeking to trial how we would convert networks to hydrogen on a larger scale through the H100 project in Scotland (SGN led with Cadent support). Our ongoing programme looking at the future role of gas is also exploring the economics of supply and demand of hydrogen for domestic energy needs to ensure that it is a cost effective and attractive option for consumers.
Physical Risk Consequences (Operational disruptions, supply chain challenges, etc.) due to extreme weather events become more frequent and more severe. Timeframe: Short (0-3 years), Medium (3-10 years) and Long term (10+years) Likelihood: Equally likely as unlikely Financial Impact: Major impact to operating cost Cost of Response: Major impact on investment Residual Risk: Less likely	Our Resilience Policy Statement sets out our framework for both business and gas supply resilience and signposts our Safety Case, required by the Gas Safety Management Regulations 1996 (as accepted by the HSE and reviewed every three years). Our Safety Case is the primary repository of risk controls for gas supply. The environmental risks covered in the Safe Case are: temperature extremes, natural severe weather damage and subsidence/ground movement. Our Environmental Team educate on physical climate risks to enable the business to develop appropriate and robust mitigation plans. We are developing a Flooding Resilience Framework, and sharing this framework with the Department for Energy Security and Net Zero Gas Taskforce Group, to support the development of best practice within the onshore UK gas industry. In 2022 we published our updated Climate Change Adaptation Report; this was a third-round DEFRA report. We use the Met Office UK Climate Projection (UKCP18) tool and consider projections to the end of this century, as much of the network infrastructure generally has an operational life expectancy of 30-80 years. Flooding and predicted temperature increases remain the main risks to gas networks.
Transition Opportunity Cadent to grow revenue streams through non regulated activities and/or to increase our RAV through the development of the network to support net zero demands. Timeframe: Medium (3-10 years) and Long term (10+ years) Likelihood: Likely Financial Impact: Very significant impact on revenue and investment Cost of Response: Major impact on investment Residual Risk: Likely	We recognise the significant role hydrogen will need to play in supporting the UK's economy, as we seek to decarbonise industry and ensure energy resilience. All Hydrogen scenarios present opportunities for Investment, RAV growth and extending the economic life of our assets in the medium and long term driven by significant capital investment.

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

Climate related financial disclosures (continued)

Strategy (continued)

Climate-related scenario analysis

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

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

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

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

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

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

Physical Risk

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

Climate related financial disclosures (continued)

Strategy (continued)

Physical risk (continued)

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 the Cadent Gas Climate Change Adaptation Report.

Transitional Risk

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

Hydrogen is not the only solution to decarbonisation and will be used in combination with other technologies, such as renewable electricity, heat pumps, heat networks and biomethane.

The uncertainty over which pathway the UK will follow to reach net zero creates transitional risk for all energy utilities associated with accurately planning infrastructure development. The infrastructure we need can take several years to deliver. We are mitigating this by working closely with Government, regulators, system operators, regional and local authorities and customers to understand need and build 'whole system' plans that minimise uncertainty and risk.

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 9 to 10 TCFD Pages 24 to 25
b) Describe the organisation's processes for managing climate-related risks.	Risk management and principal risks Pages 9 to 10 TCFD Pages 24 to 25
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 9 to 10 TCFD Pages 24 to 25

Identifying and Assessing Climate Change risks

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

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

Climate related financial disclosures (continued)

Risk management (continued)

Identifying and Assessing Climate Change risks (continued)

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

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

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

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

Managing Climate Change Risks

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

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

Integration of Climate Risk Management into the overall risk management framework

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

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

Climate related financial disclosures (continued)

Metrics & targets

TCFD Recommended disclosures	Our disclosures
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	TCFD Pages 26 to 29
b) Disclose Scope1, Scope 2 and if appropriate Scope 3 GHG emissions, and the related risks.	Pages 30 to 31 TCFD Pages 26 to 29
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	TCFD Pages 28 to 30

Measuring our progress

The Group 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 in the Cadent Gas Annual Report and Accounts 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 the Cadent Gas annual Sustainability Report, Social Impact Report and Annual Environmental Report.

Climate change metrics and targets

The Group's metrics and targets enable us to measure our impact on the environment, monitor our performance and demonstrate our commitment to reducing the impacts of climate change. We are committed to reduce our impact by achieving net zero for our Scope 1 and 2 emissions by 2050 and we are actively measuring Scope 3 emissions within our supply chain. Our GHG emissions reduction targets are science-based aligned and we currently await new methodology from the SBTi to pursue external accreditation.
Further metrics support and complement our broader sustainability ambition, including reducing our energy consumption, enhancing the natural environment through biodiversity programmes, and responsible recycling of many waste streams through our office and operational sites. These metrics are detailed in the Cadent Gas current regulatory Environmental Action Plan and are reported against annually in the Cadent Gas 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 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 30 for progress to date).

In 2023/24 the Group will align our emissions against The Carbon Trust's Route to Net Zero 'Taking Action' level and as part of this will review our Scope 3 categories to ensure we are taking action against the areas in our supply chain where we can make the most material difference.
Our metrics are monitored monthly through the Safety and Engineering Committee and Executive Committee. The Sustainability Committee has oversight of the metrics and targets at each committee meeting. The Group's Environmental Action Plan commitments are monitored monthly by the RIIO-2 Environmental Steering Group which is led by a member of the Cadent Gas Executive team and Cadent Gas published their first Annual Environmental Report in October 2022 detailing progress against this plan.

Climate related financial disclosures (continued)

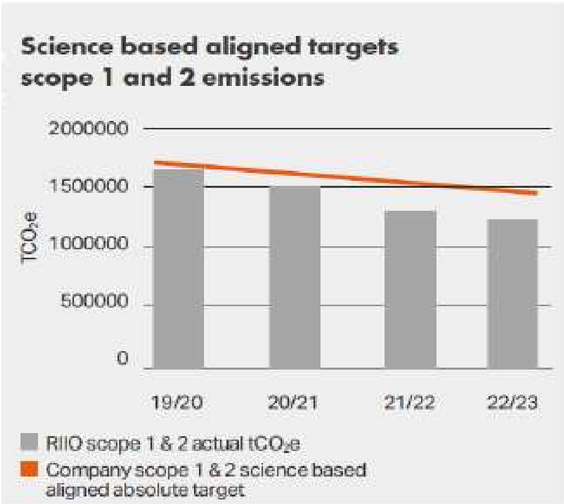
Metrics & targets (continued)

Scope 1, Scope 2 and Scope 3 GHG emissions

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

The SECR disclosure which details GHG emissions and energy use data (Scope 1 & 2) for 1 April 2022 to 31 March 2023 can be found in on page 31. This section also shows performance of Cadent Gas emission reduction activities against their RIIO-2 targets for Scope 3.

Cadent Gas executive remuneration is aligned to the Group's long-term sustainability ambition (see Cadent Gas Annual Report and Accounts 2022/23).



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 pages 28, 29 and table on page 31
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 analaysis on page 23

Strategic Report (continued)

For the year ended 31 March 2023

Climate related financial disclosures (continued)

Metrics & targets (continued)

Cross industry metrics and	**Disclosure**	**Reference**
Phyiscal 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 the Cadent Gas Climate Change Adaptation Report published in 2022.	See physical risk disclosure on page 21
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 21 and 22
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 21 and 22
Remuneration (% remneration 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 89-101

Describe the targets

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

We have consistently reduced our GHG emissions beyond the absolute target defined in our science-based aligned targets versus the baseline year 19/20. For 22/23 our target was 1,456,494 tCO2e and the actual was 1,227,883.11 tCO2e, a 29% reduction.

Our Scope 1 & 2 key emmisions areas are:

1.56% fuel use for vehicles

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

Climate related financial disclosures (continued)

Metrics & targets (continued)
Our Scope 1 & 2 key emmisions areas are (continued):

0.07% emissions from gas used at our sites
The Group are pursuing our commitment to procure 100% certified renewable energy to meet our energy needs by 2026. We are also using hydrogen-powered generators at construction sites. We now procure 100% renewable gas subject to market availability.

95.44% emissions from natural shirnkage (leakage, theft and operational use gas)
Methane is a strong greenhouse gas, with over 100 times the global warming potential 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; upgrading our pipeline network with modern low emissions materials.

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

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

Our most material Scope 3 emissions currently measured are:

0.40% emissions from production of PE pipe
The production of raw materials and derived products often takes place along different stages, occurring in multiple locations in the supply chain. This leads to different types of environmental impacts of materials used by the business. PE pipe used in our Mains Replacement Programme is our number one raw material. We purchase 5,000 tonnes per year, and in kilograms it takes more than twice the carbon to manufacture than the finished pipe weighs. In 2022/23 4,970.79 tonnes of CO2 came from the manufacture of PE pipe.

2.14% emissions from contractor commercial vehicles
The fleet of commercial vehicles used by our local delivery partners is vast. Our commitment over the RIIO-2 period is ‘to work with suppliers to reduce emissions’. As the market for electric vehicles grows we are committed to address the issue of emissions from our contractor commercial vehicles. In 2022/23 26,818.25 tonnes of CO2 came from our local delivery partner vehicle emissions.

We detail many enabling commitments to the low emissions energy system transition such as funding, hydrogen conversion, gas connections and reporting. We have also included enhanced disclosures in the financial statements prepared under IFRS to explain how we have considered the financial impacts of climate change, in particular evaluating the impact of new net zero commitments and the effect this has had on judgements and estimates such as the useful economic life of our gas assets.
See note 2 to the financial statements for details. This remains a recurring area of focus for the Audit Committee.

Business Carbon Footprint

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

Our business carbon footprint (BCF) is reported below and includes Scope 1, 2 and 3 emissions, including shrinkage and is reported in tCO2e.

In 2022/23, our total BCF decreased compared to 2021/22 by 4% for scope1, 2 and 3 emissions including shrinkage. This has been driven by updating the Defra conversion factors to the latest 2022 report and by reduction in emission leakage, own use gas, energy use our offices and depots, commercial fleet and embodies carbon in Polyethylene (PE) Pipe.

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

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

- **Scope 1** – Commercial fleet emissions reduction associated with the rollout of EV vehicles. We now have 80 and are on target to have 1,000 by the end of the 2025/26 financial year for RIIO-2.
- **Scope 1** – The purchase of renewable gas, contracted to heat our office and depot locations from sources such as biogas, landfill gas or syngas (*market-based method).
- **Scope 1** – Continued rollout of the new company car policy, where employees can only purchase electric or hybrid vehicles. In 2022/23 on average 80% of our company vehicles are no to low emission, reducing the associated BCF from diesel and petrol company cards by 15.57% since the start of RIIO-2.
- **Scope 2** – The purchase of renewable electricity from sources such as solar and wind for use in our offices/ depots and operations (*market-based method).
- **Scope 3** – Increase in emissions associated with private vehicles used for business mileage by 71.11tCO2e with the continued hybrid ways of working, but also back to pre-covid face to face meetings, allowing employees to mix home and office working.
- **Scope 3** – Embodied carbon in PE pipe has made steady progress, with our suppliers continuing to implement green initiatives, such as solar panels, renewable energy contacts and low-emissions vehicles for transportation. Emissions associated with PE pipe have decreased by 49% based on continued carbon reduction work with our suppliers and improved data capture systems based and improved data capture.

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

Quadgas Holdings TopCo Limited

Strategic Report (continued)

For the year ended 31 March 2023

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 2022 to 31 March 2023.

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

Scope 1	**Reporting year 2022-2023**	Comparison reporting year 2021-22
Gas usage from our sites (Location-based)/tCO_2e	**852.19**	987.68
Gas usage from our sites (Market-based)/tCO_2e	**-**	-
Natural gas shrinkage (Leakage + Theft of Gas + Own use of gas)/tCO_2e	**1,202,947.08**	1,250,137.49
Fuel usage from commercial vehicles, company cars /tCO_2e	**19,538.51**	19,675.65
Total Scope 1	**1,223,337.78**	1,270,800.82
Scope 2		
Purchased electricity for own use (Location based) /tCO_2e	**4,545.33**	5,527.45
Purchased electricity for own use (Market based) /tCO_2e	**-**	-
Total Scope 2	**4,545.33**	5,527.45
Total Scope 1 and 2 (Location-based) /tCO_2e	**1,227,883.11**	1,276,328.27
Total Scope 1 and 2 (Market-based) /tCO_2e	**1,222,485.59**	1,269,813.14
Scope 1 and 2 Energy consumption /kWh	**1,153,948,338.93**	1,202,166,399.03
Intensity metric: Total scope 1 and 2 (Location-based) tCO_2e per £m turnover	**524.64**	643.64
Intensity metric: Total scope 1 and 2 (Location-based) tCO_2e per km of our gas network	**11.17**	11.65

Scope 3 (Indirect emissions)		
Business travel /tCO_2e		
Rail, Air, Ferry, Car Hire and Private vehicle (grey fleet) use	**384.69**	243.96
Emissions from production and delivery of purchased PE pipe /tCO_2e	**4,970.79**	9,881.51
Contractor vehicles /tCO_2e		
Mains Replacement contractor fuel use	**26,818.25**	21,526.71
Embodied carbon in products, goods and services /tCO_2e	**N/A**	N/A
Total Scope 3 emissions /tCO_2e		
As above	**32,173.73**	31,652.18
Total annual net emissions /tCO_2e	**1,260,056.84**	1,307,980.45
Intensity metric: Total emissions /tCO_2e per km of network length	**11.46**	11.94
Intensity metric: Total emissions /tCO_2e per £m turnover	**538.38**	659.60
Intensity metric: Total emissions /tCO_2e per GWh throughput	**5.14**	4.98

Transforming the environment

Streamlined Energy and Carbon Reporting (SECR) (continued)

Background
All data is for the period 1 April 2022 to 31 March 2023 and relates to the business carbon footprint reported to the Regulator. Methodology: All data provided here is in line with the annual carbon footprint reporting to Ofgem using the 2022 DEFRA conversion factors, and are updated annually. Shrinkage is calculated using GWP25 (for methane) in line with Ofgem RIG guidance. Additional lines for scope 3 reporting, such as contractor vehicles have been added here for full disclosure and in line with annual returns to Ofgem. In 2021/22 Private vehicle use is now reported as scope 3, and not scope 1 as per the Greenhouse Gas Protocol and Ofgem guidance for RIIO-2. Where market-based factors are stated these are provided annually by our electricity suppliers. The total annual net emissions figure uses a location-based methodology. Intensity metrics have been agreed upon via the Energy Networks Association (ENA).

Environmental, Social and Governance (ESG) sustainability benchmark assessments

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

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

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

United Nations (UN) Sustainability Goals

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

Our sustainable supply chain

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

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

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

Transforming the environment

Shrinkage

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

Circular economy and waste

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

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

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

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

M W Braithwaite
Director
19 July 2023

Quadgas Holdings TopCo Limited

Directors' Report

For the year ended 31 March 2023

The Directors present their Report and the audited financial statements of the Group and the company for the year ended 31 March 2023.

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
J Korpancova (Resigned 31 August 2022)
D Karnik
P D Noble
D J Xie
A M Al-Ansari
H Su
M W Mathieson
E B Fidler
S Fennell
M Wang
D L Wilkins
A Marsden
N R V Corrigall (Appointed 24 May 2022)
H C Higgins (Resigned 24 May 2022)

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 £212 million (2022: £135 million).

Political donations and political expenditure

The Group did not make any political donations or political expenditure during the current year (2022: £Nil).

Research and development

Expenditure on research and development for the Group was £28 million during the current year (2022: £16 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 company, 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. The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas. As a consequence, the Directors believe that the company is well placed to manage its business risks successfully despite ongoing current factors including increased energy prices and the ongoing conflict in Ukraine.

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

The process includes testing the resilience of our financial plans and modelling a reasonable worst case scenario cash flow forecast that factors in inflationary pressures, reduced revenues as a result of lower gas consumption, contractual obligations falling due within one year, liquidity and working capital requirements, access to existing financing facilities, unexpected one-off costs and breach of financial covenants.

The forecasts and reasonable worst case scenario modelling were considered against the ability to access existing undrawn facilities alongside the ability to access long-term debt markets and short-term cash positioning. It was concluded that sufficient headroom existed in the forecast and against the requirements of our banking covenants and no reasonable possible downside scenario existed wherein Quadgas Holdings TopCo Limited would be unable to continue as a going concern. After due consideration, it was recommended to the Board in July 2023 that the financial statements be prepared on the going concern basis.

The statement of financial position shows net assets of £3,707 million at 31 March 2023 (2022: £3,874 million) with a profit for the financial year of £358 million (2022: £473 million loss). The operating company for the Group, Cadent Gas Limited, continues to trade and operate as a going concern and as at 31 March 2023 was in a net asset position of £2,429 million (2022: £2,514 million) with reported profit for the financial year of £580 million (2022: £93 million loss). See Cadent Gas Limited Annual Report and Accounts for further details.

Having made enquiries and reviewed management's assessment of going concern, the Directors consider it appropriate to prepare the financial statements on a going concern basis, having concluded that there are no material uncertainties. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

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 3 April 2023, having provided sufficient notice to the lender, Cadent Gas Limited, a subsidiary of Quadgas Holdings TopCo Limited, repaid a bank loan with a contractual maturity date of 2 October 2023. This bank loan was index-linked with a notional value of £60 million and carrying value of £104 million as at 31 March 2023.

On 27 March 2023, Cadent Gas Limited, a subsidiary of Quadgas Holdings TopCo Limited, submitted notice to the same lender that the next two tranches of debt maturing 29 April 2024 and 30 April 2024 would be repaid on 2 May 2023. These loans were also index linked, had notional values of £60 million and as at 31 March 2023 had carrying values of £102 million and £102 million respectively. As at the balance sheet date Cadent Gas Limited had an option to withdraw the prepayment notices for these two tranches of debt and so they have been shown in the balance sheet at their respective contractual maturity dates and categorised as having a maturity greater than one year. The loans were repaid on 2 May 2023.

On 5 April 2023, Quadgas Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited entered, into £50 million of RPI/CPI basis swaps maturing in 2032. These swaps allow the company to effectively lock-in the prevailing market wedge between RPI and CPI and replace the company's exposure to RPI with exposure to CPI, which is better aligned to regulatory allowances which are based on CPIH.

On 21 April 2023 Cadent Gas Limited, a subsidiary of Quadgas Holdings TopCo Limited, entered into a £150 million bilateral term loan with one of its relationship banks. The loan is drawable from 21 May 2023 until 21 January 2024 and has a maturity of seven years from the point of drawdown.

Post balance sheet events (continued)
On 5 July 2023, Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, issued a 6 year fixed rate Green bond with a notional value of €500 million and coupon of 4.25% under its £7 billion Euro Medium Term Note Programme. This bond is guaranteed by, and proceeds were on lent to, Cadent Gas Limited. This was swapped to c£432 million immediately on issue.

On 7 July 2023, Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, repurchased and cancelled €303 million notional value of existing notes, under a Tender Offer launched on 26 June 2023. The notes repaid were part of the €750 million 2024 maturity notes issued in 2016. Following this tender offer, €447 million of this issue remains outstanding.

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 6,018 (2022: 5,945). 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 2022/23.

We are committed to equality, inclusion and diversity 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.

Our environmental ambition is underpinned by three primary commitments:

- Reduce the impact of climate change by implementing mitigation and adaptation measures.
- Ensure environmental sustainability is considered in our decision making and inspire our people to consider it in everything they do.
- Improve our environmental management system to protect the environment and reduce the risk of environmental incidents.

We strive to innovate in our day-to-day operations, continuously improving and finding new ways to deliver the highest standards of environmental performance, embedding it as part of our everyday activities and decision making, whether in the office or in the field.

We are committed to leading on sustainable gas usage and have identified wider use of the renewable compressed natural gas as transport or heating fuel as a route to delivering a low carbon future. We are also at the forefront of developing and understanding the role that hydrogen will play as a low or zero-emission fuel for the future.

Quadgas Holdings TopCo Limited

Directors' Report (continued)

For the year ended 31 March 2023

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared 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 are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

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

M W Braithwaite
Director
19 July 2023

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

Registered in Jersey
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 2023 and of the group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs);
- 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 34 to the consolidated financial statements.

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

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluation of financing facilities including nature of facilities, repayment terms and covenants;
- assessment of linkage to business model and medium-term risks;
- evaluation of assumptions used in the forecasts;
- assessment of amount of headroom in the forecasts (cash and covenants);
- evaluation of sensitivity analysis;
- assessment of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management; and
- review and assessment of going concern disclosures made by directors.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, in-house legal counsel and directors about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies (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.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, climate change, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

Judgement over the classification of non-MRP expenditure as being capital or operational in nature

The group invests heavily in fixed assets and more specifically in the infrastructure and gas network as part of its regulatory commitments and sustainability plans; ranging from major replacement projects to minor repairs and maintenance works.

Cadent have a Health and Safety Executive requirement to perform mains replacement works on their network. During the year the group has invested £855m in property, plant, and equipment, excluding motor vehicles and other equipment (2022: £750m).

We have identified a risk that non-MRP expenditure which is operating in nature is incorrectly capitalised into fixed assets. Incorrect identification and mapping of activities in the financial accounting and reporting software platform, may lead to the overstatement of fixed assets and hence operating profit.
As the classification of such capital expenditure and operating expenditure directly affects the group's financial performance, we identified that there was a potential risk of fraud through manipulation of this balance.
Further details are included within note 1(e) and note 13 of the financial statements.

We have performed the following procedures in response to the key audit matter:

- tested relevant controls related to the fixed assets cycle including those specifically associated with the classification of non-MRP expenditure;

- challenged management's judgement and their policies relating to the classification of capital expenditure, operating expenditure, and infrastructure maintenance expenditure;
- tested a sample of capital projects by inspecting supporting documentation from subcontractors regarding the works completed and assessed whether such works were capitalised or expensed appropriately;
- for internal payroll costs capitalised, on sample basis, inspected the timesheets and chargeable rates for employees and assessed whether the employees worked on capital projects; and
- completed a reconciliation between the fixed assets register and the general ledger.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and,
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies (Jersey) Law, 1991

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

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

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

Matters on which we are required to report by exception

Under the Companies (Jersey) Law, 1991 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with 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.

Jane Whitlock ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
19th July 2023

Quadgas Holdings TopCo Limited

Consolidated income statement

For the year ended 31 March 2023

	Notes	**2023 £m**	**2023 £m**	2022 £m	2022 £m
Revenue	4		**2,340**		1,984
Operating costs					
Before exceptional items	5	**(1,442)**		(1,347)	
Exceptional items	6	**(7)**		(12)	
Total operating costs			**(1,449)**		(1,359)
Total operating profit	5		**891**		625
Finance income					
Before exceptional items and remeasurements	9	**35**		10	
Exceptional items and remeasurements	6/9	**160**		-	
Total interest receivable and similar income			**195**		10
Finance costs					
Before exceptional items and remeasurements	9	**(583)**		(401)	
Exceptional items and remeasurements	6/9	**-**		(75)	
Total interest payable and similar charges			**(583)**		(476)
Profit before tax					
Before exceptional items and remeasurements		**350**		246	
Exceptional items and remeasurements	6	**153**		(87)	
Total profit before tax			**503**		159
Tax					
Before exceptional items and remeasurements	10	**(106)**		(43)	
Exceptional items and remeasurements	10	**(39)**		(589)	
Total tax			**(145)**		(632)
Profit/(loss) after tax					
Before exceptional items and remeasurements		**244**		203	
Exceptional items and remeasurements	6	**114**		(676)	
Profit/(loss) for the year			**358**		(473)

The results reported above relate to continuing activities.

The notes on pages 50 to 118 are an integral part of the financial statements.

Quadgas Holdings TopCo Limited

Consolidated statement of comprehensive income

For the year ended 31 March 2023

	Notes	**2023 £m**	2022 £m
Profit/(loss) for the year		**358**	(473)
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	27	**(410)**	629
Tax on remeasurements of post-employment benefit obligations	10	**102**	(157)
Deferred tax charge arising from changes in UK corporation tax rate	6/10	**-**	(26)
Total items that will not be reclassified to profit or loss		**(308)**	446
Items that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges		**(15)**	(10)
Net gain/(loss) in respect of cost of hedging reserve		**1**	(1)
Amortisation of cost of hedging reserve		**7**	6
Tax on net losses in respect of cash flow hedges	10	**2**	2
Total items that may be reclassified subsequently to profit or loss		**(5)**	(3)
Other comprehensive (loss)/income for the year, net of tax		**(313)**	443
Total comprehensive income/(loss) for the year		**45**	(30)

The results reported above relate to continuing activities.

The notes on pages 50 to 118 are an integral part of the financial statements.

Quadgas Holdings TopCo Limited

Consolidated statement of financial position

As at 31 March 2023

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	12	**3,904**	3,926
Property, plant and equipment	13	**12,812**	12,374
Pension and other post-retirement benefit assets	27	**729**	1,083
Derivative financial assets	17	**43**	7
Trade and other receivables	16	**-**	1
Total non-current assets		**17,488**	17,391
Current assets			
Derivative financial assets	17	**-**	1
Inventories	15	**15**	11
Trade and other receivables	16	**211**	179
Corporation tax		**24**	6
Current asset investments	18	**526**	81
Cash and cash equivalents		**37**	32
Total current assets		**813**	310
Total assets		**18,301**	17,701
Current liabilities			
Trade and other payables	19	**(500)**	(418)
Borrowings	21	**(221)**	(151)
Lease liabilities	22	**(12)**	(8)
Provisions	23	**(23)**	(21)
Total current liabilities		**(756)**	(598)
Net current assets/(liabilities)		**57**	(288)
Total assets less current liabilities		**17,545**	17,103
Non-current liabilities			
Derivative financial liabilities	17	**(252)**	(271)
Borrowings	21	**(10,627)**	(10,009)
Lease liabilities	22	**(78)**	(60)
Deferred tax liabilities	10	**(2,788)**	(2,806)
Provisions	23	**(63)**	(67)
Accruals and deferred income	20	**(30)**	(16)
Total non-current liabilities		**(13,838)**	(13,229)
Total liabilities		**(14,594)**	(13,827)
Total net assets		**3,707**	3,874
Equity			
Share capital	24	**4,739**	4,739
Cash flow hedge deficit		**(35)**	(22)
Cost of hedging reserve		**14**	6
Retained earnings		**(1,011)**	(849)
Total equity		**3,707**	3,874

The notes on pages 50 to 118 are an integral part of the financial statements.

The consolidated financial statements on pages 45 to 118 were authorised and approved for issue by the Board of Directors on 19 July 2023 and were signed on its behalf by:

M W Braithwaite
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 2023

	Share capital £m	**Cash flow hedge deficit £m**	**Cost of hedging reserve £m**	**Retained earnings £m**	**Total £m**
At 1 April 2022	**4,739**	**(22)**	**6**	**(849)**	**3,874**
Profit for the year	**-**	**-**	**-**	**358**	**358**
Other comprehensive (loss)/income excluding amortisation of cost of hedging reserve	**-**	**(13)**	**1**	**(308)**	**(320)**
Amortisation of cost of hedging reserve	**-**	**-**	**7**	**-**	**7**
Total comprehensive (loss)/income for the year	**-**	**(13)**	**8**	**50**	**45**
Equity dividends (note 11)	**-**	**-**	**-**	**(212)**	**(212)**
At 31 March 2023	**4,739**	**(35)**	**14**	**(1,011)**	**3,707**

	Share capital £m	Cash flow hedge deficit £m	Cost of hedging reserve £m	Retained earnings £m	Total £m
At 1 April 2021	4,739	(14)	1	(687)	4,039
Loss for the year	-	-	-	(473)	(473)
Other comprehensive (loss)/income excluding amortisation of cost of hedging reserve	-	(8)	(1)	446	437
Amortisation of cost of hedging reserve	-	-	6	-	6
Total comprehensive (loss)/income for the year	-	(8)	5	(27)	(30)
Equity dividends (note 11)	-	-	-	(135)	(135)
At 31 March 2022	4,739	(22)	6	(849)	3,874

The cash flow hedge 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 results reported above relate to continuing activities.

The notes on pages 50 to 118 are an integral part of the financial statements.

Quadgas Holdings TopCo Limited

Consolidated statement of cash flows

For the year ended 31 March 2023

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Total operating profit		**891**	625
Adjustments for:			
Exceptional items	6	**7**	12
Depreciation, amortisation and impairment	12/13	**468**	450
(Increase)/decrease in inventories	15	**(4)**	1
(Increase)/decrease in trade and other receivables		**(19)**	40
Increase)/(decrease) in trade and other payables	30	**57**	(13)
Capital contribution income		**(43)**	(46)
Changes in provisions		**-**	2
Gain on disposal of property, plant and equipment		**(3)**	(2)
Changes in pensions and other post-retirement obligations		**(27)**	(28)
Capital contributions received		**78**	52
Cash flows relating to exceptional items		**(14)**	(8)
Cash generated from operations		**1,391**	1,085
Tax paid		**(76)**	(81)
Net cash inflow from operating activities		**1,315**	1,004
Cash flows from investing activities			
Purchases of intangible assets		**(2)**	(5)
Purchases of property, plant and equipment	31	**(849)**	(856)
Disposals of property, plant and equipment		**3**	2
Net (increase)/decrease in financial investments		**(445)**	747
Net cash flow used in investing activities		**(1,293)**	(112)
Cash flows from financing activities			
Proceeds received from loans		**435**	40
Repayment of loans		**-**	(550)
Repayment of lease liabilities		**(16)**	(10)
Interest paid		**(223)**	(246)
Dividends paid to shareholders	11	**(212)**	(135)
Net cash flow used in financing activities		**(16)**	(901)
Net increase/(decrease) in cash and cash equivalents		**6**	(9)
Net cash and cash equivalents at the start of the period		**31**	40
Net cash and cash equivalents at the end of the period		**37**	31
Comprising:			
Cash[1]		**37**	32
Overdraft		**-**	(1)
		37	31

[1] Cash of £37 million (2022: £32 million) includes £17 million (2022: £11 million) which has specific restrictions over its use. See Note 1(s) for details.

Notes to the consolidated financial statements

For the year ended 31 March 2023

1 Summary of significant accounting policies

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, Jersey JE1 1AD. 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 as below. These policies have been consistently applied to the current period presented, unless otherwise stated.

(a) Basis of preparation

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the ‘functional currency’). The financial statements are presented in pounds sterling which is also the company’s functional currency.

Going concern

The financial statements for the Group have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value.

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

Despite ongoing macro-economic volatility including the significant uncertainty impacting inflation, energy prices, and the ongoing conflict in Ukraine, the 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.

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 assesment 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 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 short to medium-term impact expected from climate change, the Directors are aware of the everchanging risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group’s financial statements.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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 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.

Associates are accounted for on an equity basis where the Group holding is 20% or more and the Group has the power to exercise significant influence.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

Cadent 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 Foundation and the requirements of IFRS 10 have not been met in respect of (1) rights to variable returns and (2) its ability to affect the amount of investor returns. Therefore this has not been consolidated as part of the 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 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

• Amendments to IAS 16, Proceeds before intended use
• A number of narrow-scope amendments to IFRS 3, IAS 37 and some annual improvements on IFRS 1, IFRS 9, and IAS 41

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

• Amendments to IFRS 17 and IFRS 4, Insurance contracts, deferral of IFRS 9
• Amendments to IAS 12, Deferred tax*
• Amendments to IAS 1, Presentation of financial statements' on classification of liabilities*
• Amendments to IFRS 16, Lease Liability in a sale and leaseback*
• Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8*

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

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

1 Summary of significant accounting policies

(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.

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. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period (other than goodwill) are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if all of the following criteria are satisfied: an asset is created that can be identified; the technical feasibility of completing the intangible asset so that it will be available for use; the intention to complete the intangible asset and use it; the ability to use the intangible asset; it is probable that the asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets 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, hydrogen, or a mixture of the two and therefore an indefinite useful life remains appropriate.

1 Summary of significant accounting policies (continued)

(d) Intangible assets (continued)

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

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 economical life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment assets includes assets which the Group’s interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

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 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 connection has been completed.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

1 Summary of significant accounting policies (continued)

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

Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting warming by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target of reducing all greenhouse gas emissions to net zero in the future will impact how our network can be used. In preparing these financial statements we have assumed that our network can be adapted to use alternative technologies and hence will have useful lives that extend beyond 2050 in line with our policy albeit at this stage there is insufficient information to determine how specific assets will be used.

We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives.

The broad based assumptions applied do not allow for meaningful sensitivities on our useful economic lives at individual asset classes under the different scenarios proposed. The granularity is not available by asset. As a result, we have applied some broad sensitivities based on our existing asset lives and what additional depreciation would be required if any of the scenarios would effectively result in shortened lives (e.g. net zero by 2050, mixed use by 2045). See note 29 for further details.

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30-50
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. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of 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, 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 provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Accretion on inflation linked borrowings is accounted for on an accrual basis to the income statement, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments (‘derivatives’) are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

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

1 Summary of significant accounting policies (continued)
(h) Financial instruments (continued)
Classification and measurement (continued)

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

Derecognition

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

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

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; and
- 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.

1 Summary of significant accounting policies (continued)
(h) Financial instruments (continued)

Impairment of financial assets (continued)

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.

(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 detail 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.

1 Summary of significant accounting policies (continued)

(l) Tax (continued)

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 and jointly controlled entities except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

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

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

(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 record 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 provisions (whether covered by insurance or not) including employer liability claims, dilapidations 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.

1 Summary of significant accounting policies (continued)

(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 on a monthly basis. The customers for the distribution of gas are Shippers. The single performance obligation for these revenue streams was deemed to be the provision of a safe gas transportation network between the National Gas Transmission network to end consumers (customers of the shippers) and being able to transport gas around the network.

The performance obligation is satisfied over time as the shippers immediately control and consume the benefits that Cadent Gas provides over time by having a network available to shippers (capacity) and transporting the gas around the network (commodity). Although capacity and commodity revenue are invoiced separately, the services are not distinct (the nature of the promise is to transfer a combined service) and only one performance obligation exists.

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

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).

1 Summary of significant accounting policies (continued)

(o) Revenue (continued)

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 we receive amounts from customers in relation to Supplier of Last Resort (SoLR) claims, we have deemed that we are operating as an agent in this transaction as we pay the amounts collected directly onto the SoLR with no control over the amount and we do not receive any commission. We therefore present the amounts collected and amounts paid on a net basis per the requirements of IFRS 15. See note 2 for further details.

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

(p) Exceptional items and remeasurements

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

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

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairment of non-current assets, integration of acquired businesses, gains or losses on disposals of businesses or investments, debt redemption costs as a consequence of transactions such as significant disposals or issues of equity and the impact on brought forward deferred tax balances arising from corporation tax rate changes.

Remeasurements comprise gains and losses recorded in the income statement arising from the changes in fair value of the derivative financial instrument (with the exception of the amount relating to accretion which is included within interest) to the extent that hedge accounting is not achieved or it is not effective. These fair values increase or decrease because of changes in the financial indices and prices over which we have no control.

1 Summary of significant accounting policies (continued)

(q) Pensions

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

The 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.

(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.

1 Summary of significant accounting policies (continued)

(r) Leases (continued)

Measurement

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

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

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

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

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

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

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

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

1 Summary of significant accounting policies (continued)

(r) Leases (continued)

Variable lease payments

Some leases contain variable payment terms. These include:
• Leases for equipment which contain fixed value increases over the life of the lease e.g. final balloon payments. These are included in the lease liability as the amounts are known;
• A gas storage facility for which the rental payments are linked to RPI, and potential future increases in lease payments are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset; and
• Leased equipment where the lease payments are variable as they are based on usage. These costs are not included in the lease liability in line with IFRS 16 because the payments do not meet the definition of a liability until the use occurs. Instead these are recognised in the profit and loss account as and when the expense is incurred.

Right of use assets

Right-of-use assets are measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. The right-of-use assets are presented within property, plant and equipment in the consolidated statement of financial position.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

(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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

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

• The determination and judgement that connections and supply services are not distinct services and therefore there is only one performance obligation for revenue from the distribution of gas. We judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available, and hence the performance obligation is distinct and revenue is recognised once the new connection is completed;

• The recognition of a surplus in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. We have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up – **note 27**;

• The categorisation of restructuring costs as an exceptional item under the exceptional framework. In making this determination, management have concluded that, after taking into account the facts and circumstances, the restructuring programme is within our control and occurs reasonably frequently, and therefore have applied a materiality threshold over the life of the exercise consistent with our accounting policies. This is consistent with judgements made in previous years relating to this and other restructuring programmes – **note 6**;

• The 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;**

• For the purpose of valuing our intangible assets, the judgement is that the Cadent Gas network can be used for alternative technologies beyond 2050. Climate change is a global challenge and an emerging risk to business, people and the environment across the world. We have a role to play in limiting effect of climate change by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of our network. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how our network is used. The UK Government's current plans include the production and use of Hydrogen and to achieve net zero, although there remains uncertainty about significant aspects of the UK energy sector plans under net zero. We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives. Given the information currently available regarding these plans and the initial feasibility studies completed regarding the use of alternative gases through our network and the large scale production of these gases, we have judged that our network will continue to be used to transport gas (methane, hydrogen, other alternatives such as biomethane or a combination of these) beyond 2050, and that these gases will be available in sufficient quantities. See overleaf for the estimates we have made regarding useful lives when applying this judgement to our financial statements – **notes 12 & 13**; and

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

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

Critical Accounting Judgements (continued)

• Where we receive amounts from customers in relation to SoLR claims, we have deemed that we are operating as an agent in this transaction as we pay the amounts collected directly onto the SoLR with no control over the amount and we do not receive any commission. We therefore present the amounts collected and amounts paid on a net basis per the requirements of IFRS 15. In the 12 months to 31 March 2023 the Group has paid claims amounting to £377 million (2022: £3 million) to its SoLR and has received additional compensating income of £379 million (2022: £3 million).

IFRS provides certain options available within accounting standards. We have made the choice to apply hedge accounting to financial instruments in most cases where this is permitted.

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, discount rate, regulatory weighted average cost of capital, inflation and terminal value cash flow. The value-in-use is 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 and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. Changes made to the UELs could have a material impact on the depreciation recognised in the next financial year. The UK's target to achieve net zero by 2050 may impact the UELs of our plant and machinery with a current deemed life of up to 50 years if our network can no longer be used beyond this point. We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Scenarios range from high hydrogen through our existing network, through to slow decarbonisation driving a multi heat solution through to a high electrification route and we are continuing to assess what impact these scenarios would have on our asset lives. Currently our assets are being depreciated out to 2055. See note 29 for impact on depreciation charge under different modelling scenarios. Given the information currently available about how the UK will achieve net zero using alternative technologies (particularly greener gases such as hydrogen and biomethane) and ahead of the 2026 Government Heat Policy decision, it is still reasonable to assume that the network will continue to be used beyond 2050 in its current form or adapted to accommodate hydrogen or biomethane. Management have therefore assumed that our network assets can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy. However, if future developments in technology or the climate change agenda indicate that the UELs of our network assets are limited to 2050, the depreciation charge recognised in future periods would increase by a material amount – **notes 12 & 13**;

• 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 – **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;**

• The fair value of derivative financial instruments relating to index-linked swaps are measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates and inflation rates. Projected cash flows are then discounted back using discount factors that are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate **- note 17;** and

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 operations occur in 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.

4 Revenue

	2023	2022
	£m	£m
Revenue from distribution of gas	**2,279**	1,926
Other income	**61**	58
	2,340	1,984

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

Analysis of revenue by major customer

	2023	2022
	£m	£m
Customer A	**602**	445
Customer B	**353**	238
Customer C	**280**	149
	1,235	832

Three customers contributed 10% or more to the Group's revenue during the year to 31 March 2023 (2022: two).

5 Operating profit

	2023 £m	2022 £m
Operating profit is stated after charging:		
Depreciation and amortisation	**468**	450
Payroll costs (see note 7)	**255**	244
Inventory consumed	**13**	12
Shrinkage	**62**	58
Rates	**212**	212
Research and development expenditure	**28**	13
Exit capacity charges	**161**	164
Asset management fee	**5**	6

Shrinkage is the leakage of methane from our gas networks and is addressed through the mains repair, maintenance and replacement programme. This activity means we replace damaged or low-quality pipes with new plastic alternatives which means lower leakage from the network.

Services provided by the company's auditor	2023 £'000	2022 £'000
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	**36**	32
Fees payable for the audit of the subsidiary company financial statements	**1,066**	882
Other services		
Fees payable to the company's auditors for audit-related assurance services	**152**	131
Other non-audit services	**243**	201

Fees payable to the company'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 2023 relate to services provided in connection with the raising of debt, grant claims or as required by the regulator.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2023

6 Exceptional items and remeasurements

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

	2023	2022
	£m	£m
Exceptional items included within operating costs:		
Restructuring costs (i)	**7**	12
	7	12
Remeasurements included within finance costs:		
Net (gains)/losses on derivative financial instruments (ii)	**(160)**	75
Total included within profit before tax	**(153)**	87
Included within taxation:		
Exceptional charge arising		
Deferred tax charge arising as a result of the increase of the UK tax rate (iii)	**-**	610
Tax on other exceptional items and remeasurements		
Tax on restructuring costs	**(1)**	(2)
Tax on remeasurements	**40**	(19)
	39	589
Total exceptional and remeasurements after tax	**(114)**	676
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	**6**	620
Total losses/(gains) on remeasurements after tax	**(120)**	56
	(114)	676

(i) The Group is undergoing an ongoing operational transformation programme to improve the efficiency of our operations by restructuring the business. During the year the group have recognised a further £7 million in exceptional costs bringing cumulative costs to £59 million since the beginning of the restructure in 2019. These activities are infrequent and exceptional in nature, and are financially material over the course of the exercise. This programme is expected to be finalised within the next financial year.

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

(iii) In the prior year there was an increase to the deferred tax liability for the Group of £636 million, with an exceptional charge of £610 million recognised in the income statement and £26m recognised in other comprehensive income. This was as a result of an announcement in the March 2021 Budget that legislation would be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%. The Finance Bill 2021-22 received Royal Assent in June 2021 and therefore deferred tax balances forecast to reverse in the period from 1 April 2023 were restated to 25% of temporary differences.

Quadgas Holdings TopCo Limited

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

7 Employment numbers and costs

The average number of persons (including Executive Directors) employed by the Group was 6,018 (2022: 5,945).

	2023	2022
Field force	**2,746**	2,804
Office and other administrative staff	**3,272**	3,141
	6,018	5,945

	2023	2022
	£m	£m
Wages and salaries	**291**	269
Social security costs	**36**	31
Other pension costs	**45**	48
	372	348
Less: payroll costs capitalised	**(117)**	(104)
	255	244

Key management compensation

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.

	2023	2022
	£'000	£'000
Salaries and other short-term employee benefits	**4,749**	3,963
Post-employment benefits	**163**	153
	4,912	4,116

8 Directors' emoluments

The Directors' emoluments were as follows:

	2023	2022
	£'000	£'000
Aggregate emoluments (including salary, fees, bonuses and benefits in kind)	**4,749**	3,963
Pension schemes	**163**	153
	4,912	4,116

Highest paid Director

The highest paid Director's emoluments for the Group were as follows:

	2023	2022
	£'000	£'000
Total amount of emoluments and amounts receivable (excluding shares) under long-term incentive schemes	**2,485**	2,448
Defined benefit pension scheme		
- accrued pension at end of period	**76**	73

9 Finance income and costs

	2023	2022
	£m	£m
Finance income		
Pension interest income	**29**	9
Interest income from financial instruments	**6**	1
Total interest receivable and similar income	**35**	10
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**81**	38
Bonds (i)	**306**	234
Interest payable on intercompany financing	**60**	60
Derivatives (ii)	**134**	68
Unwinding of discounts on provisions and lease liabilities	**2**	1
Total interest payable and similar charges	**583**	401
Remeasurements		
Net gains on derivative financial instruments included in remeasurements (iii):		
Ineffectiveness on derivatives designated as cash flow hedges	**(3)**	(3)
Derivatives not designated as hedges or ineligible for hedge accounting	**(157)**	77
Other	**-**	1
Remeasurement (gains)/losses included within finance income/costs	**(160)**	75
Net finance costs	**388**	466

(i) Included within finance costs in bonds is £70m (2022: £37m) of accretion on RPI-linked debt instruments with 7-10 year tenor (cumulative: £232m) and £126m (2022: £61m) RPI-linked debt instruments of >10years tenor (cumulative: £384m).

(ii) Included within finance costs in derivatives is £62m (2022: £34m) of accretion on RPI-linked swaps with tenor>10 years (cumulative: £140m), £73m (2022: £39m) on CPI-linked swaps (cumulative: £112m) with 7-10 years tenor and £31m (2022: £10m) on CPI-linked swaps (cumulative: £41m) with tenor >10 years.

(iii) Includes a net foreign exchange loss on financing activities of £67m (2022: £7m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

10 Taxation

Tax charged to the income statement

	2023	2022
	£m	£m
Tax before exceptional items and remeasurements	**106**	43
Exceptional tax relating to UK tax rate change (see note 6)	**-**	610
Tax on other exceptional items and remeasurements	**39**	(21)
Total tax expense	**145**	632

Taxation as a percentage of profit before tax

	2023	2022
	%	%
Before exceptional items and remeasurements	**30.3**	17.5
After exceptional items and remeasurements	**28.8**	397.5

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

	2023	2022
	£m	£m
Current tax		
UK corporation tax at 19% (2022: 19%)	**73**	80
UK corporation tax adjustment in respect of prior years	**(14)**	(1)
Total current tax	**59**	79
Deferred tax		
UK deferred tax current year	**54**	(57)
UK deferred tax arising as a result of the increase in the tax rate	**-**	610
UK deferred tax adjustment in respect of prior years	**32**	-
Total deferred tax	**86**	553
Total tax charge	**145**	632

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

	2023	2022
	£m	£m
Deferred tax		
Financial instruments	**(2)**	(2)
Remeasurements of net retirement benefit obligations [i]	**(102)**	183
Total tax (credited)/charged to other comprehensive income and equity	**(104)**	181

[i] £Nil of the tax charge in 2023 (2022: £26m) relates to the impact of the enacted increase in the UK tax rate.

The tax charge for the period after exceptional items and remeasurements is higher (2022: higher) than the standard rate of corporation tax in the UK of 19% (2022: 19%).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

10 Taxation (continued)

	Before exceptional items and remeasure-ments 2023 £m	**After exceptional items and remeasure-ments 2023 £m**	Before exceptional items and remeasure-ments 2022 £m	After exceptional items and remeasure-ments 2022 £m
Profit before tax				
Before exceptional items and remeasurements	**350**	**350**	246	246
Exceptional items and remeasurements	**-**	**153**	-	(87)
Profit before tax	**350**	**503**	246	159
Profit before tax multiplied by UK corporation tax rate of 19% (2022: 19%)	**66**	**96**	47	30
Effect of:				
Expenses not deductible for tax purposes	**3**	**3**	3	3
Non-taxable income	**(1)**	**(1)**	(1)	(1)
Corporate interest restriction	**12**	**12**	-	-
Corporation tax/deferred tax rate differential	**11**	**20**	(3)	(7)
Deferred tax impact of change in UK tax rate	**-**	**-**	-	610
Super deduction capital allowances	**(3)**	**(3)**	(1)	(1)
Land remediation	**-**	**-**	(1)	(1)
Adjustments in respect of prior years	**18**	**18**	(1)	(1)
Total tax	**106**	**145**	43	632

Factors affecting future tax charges

As a result of the high rate of inflation in FY23, the assumptions and forecasts supporting the basis relating to Corporate Interest Restriction (CIR) have been revisited and a Group Ratio election made in the year ended 31 March 2022 and assumed in the year ended 31 March 2023 rather than Fixed Rate Ratio. This will significantly reduce the CIR in each period and the financial statements will be prepared on this basis going forward whilst high rates of inflation persist.

The main rate of UK corporation tax will increase from 19% to 25%, effective 1 April 2023.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

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 2022	**2,087**	**536**	**268**	**(67)**	**(18)**	**2,806**
(Credited)/charged to income statement	**(1)**	**-**	**14**	**74**	**(1)**	**86**
(Credited)/charged to other comprehensive income and equity	**-**	**-**	**(102)**	**(2)**	**-**	**(104)**
At 31 March 2023	**2,086**	**536**	**180**	**5**	**(19)**	**2,788**
Deferred tax assets	**-**	**-**	**-**	**-**	**(19)**	**(19)**
Deferred tax liabilities	**2,086**	**536**	**180**	**5**	**-**	**2,807**
At 31 March 2023	**2,086**	**536**	**180**	**5**	**(19)**	**2,788**

	Accelerated Tax Depreciation £m	Gas Distribution Licence £m	Pensions £m	Financial Instruments £m	Other net Temporary Differences £m	Total £m
At 1 April 2021	1,609	407	78	(10)	(12)	2,072
Charged/(credited) to income statement	478	129	7	(55)	(6)	553
Charged/(credited) to other comprehensive income and equity	-	-	183	(2)	-	181
At 31 March 2022	2,087	536	268	(67)	(18)	2,806
Deferred tax assets	-	-	-	(67)	(18)	(85)
Deferred tax liabilities	2,087	536	268	-	-	2,891
At 31 March 2022	2,087	536	268	(67)	(18)	2,806

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 £2,788m (2022: £2,806m).

11 Dividends

	2023 £m	2022 £m
Interim dividend of 0.0196 pence per ordinary share amounting to £100,000,000 was declared on the 20 January 2022 and paid on the 21 January 2022	-	100
Second dividend of 0.0069 pence per ordinary share amounting to £35,000,000 was declared on the 23 March 2022 and paid on the 28 March 2022	-	35
Interim dividend of 0.0196 pence per ordinary share amounting to £100,000,000 was declared on the 22 September 2022 and paid on the 27 September 2022	**100**	-
Second dividend of 0.0219 pence per ordinary share amounting to £112,000,000 was declared on the 25 January 2023 and paid on the 30 January 2023	**112**	-
	212	135

No further dividends were proposed for the current financial period.

12 Intangible assets

	Goodwill	Licence	Software	Total
	£m	£m	£m	£m
Cost:				
At 1 April 2022	3,312	2,143	185	5,640
Additions	-	-	2	2
Disposals	-	-	(4)	(4)
At 31 March 2023	**3,312**	**2,143**	**183**	**5,638**
Accumulated amortisation and impairment				
At 1 April 2022	(1,599)	-	(115)	(1,714)
Amortisation charge for the year	-	-	(20)	(20)
At 31 March 2023	**(1,599)**	**-**	**(135)**	**(1,734)**
Net book value:				
At 31 March 2023	**1,713**	**2,143**	**48**	**3,904**
At 31 March 2022	1,713	2,143	70	3,926

12 Intangible assets (continued)

	Goodwill £m	Licence £m	Software £m	Total £m
Cost:				
At 1 April 2021	3,312	2,143	182	5,637
Additions	-	-	3	3
At 31 March 2022	3,312	2,143	185	5,640
Accumulated amortisation:				
At 1 April 2021	(1,599)	-	(94)	(1,693)
Amortisation charge for the year	-	-	(21)	(21)
At 31 March 2022	(1,599)	-	(115)	(1,714)
Net book value:				
At 31 March 2022	1,713	2,143	70	3,926
At 31 March 2021	1,713	2,143	88	3,944

Quadgas Holdings TopCo Limited holds a balance of £1,713m in relation to goodwill, and £2,143m 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, hydrogen, other green gases or a mixture 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 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.

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 2023 where despite slightly lower revenue caused by demand as gas prices increased and increasing costs as a result of inflationary pressures, the results were broadly in line with the budget. The embedded debt outperformance provides c.1% Return on Regulated Equity (RORE) in the medium term resulting in outperformance against the baseline allowed return.

The assumptions used in the Cadent Gas Financial Plan 2022 for the 3 years to March 2026 have been applied to the calculations undertaken in completing the impairment test, as detailed below. This Plan includes outturn data for the year to March 2022, our latest best estimate for the year to March 2023 which was broadly in line with outturn and 3 years of forecast data.

The total expenditure (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 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). This is consistent with the assumptions used for the Ofgem Final Determinations for RIIO-2.

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 4.97% (2022: 4.55%) and in management's view is forecast to increase in future price controls through indexation of the risk free rates.

Longer term, we have continued to assume that the Cadent Gas Repex programmes reduce in scale post-2032 following completion of the Health and Safety Executive (HSE) mandated iron mains replacement programme but the maintenance of the network and the service levels to customers is maintained. As noted above, we have not incorporated into the base case any investment in the network to make it hydrogen or biomethane-ready at this stage.

Discount rate

Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 7.1% (2022: 5.4%). 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.

12 Intangible assets (continued)

Inflation

In the RIIO-2 period the CPIH assumption at March 2023 of 4.51% (2022: 2.35%) is broadly based on the Ofgem assumptions contained within the price control model used for price setting. Given current forecasts for inflation, these assumptions are conservative.

The longer-term CPIH assumption of 2.0% (2022: 2.0%) is consistent with the Bank of England target rate for the Consumer Price Index (CPI) and external long run forecasts which show a range of potential outcomes between 1.8% - 3.2% by 2027. Given the range of potential outcomes, we have adopted the Bank of England target of 2.0% as our long run CPIH assumption post RIIO-2.

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 (2022: 1.2x) by reviewing external sources of information on similar transactions. There has been no change in the market to warrant a revision to 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 of Quadgas Holdings TopCo Limited 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 such as Hydrogen Home and HyNet to support it’s 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 ccommodate 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, there is a wide range of projections for hydrogen demand volumes and use cases, and the time frame this will all occur over. However, the Government’s Ten Point Plan, the Energy White Paper, the Hydrogen Strategy and the Heat and Buildings Strategy all propose a significant role for the gas infrastructure and particularly hydrogen in supporting delivery of the UK’s net zero ambition.

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

Despite significant volatility in the financial assumptions in the year, 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.

12 Intangible assets (continued)

Terminal value cash flow (continued)

We have performed sensitivity analysis on the impairment test and concluded that there are no reasonable possible changes in the key assumptions that would reduce the existing significant headroom to nil. 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	
	2023	2022
	£m	£m
CPI decrease of 0.5%	**747**	832
Pre-tax discount rate increase of 0.5%	**888**	999
Terminal value decrease in multiple of 0.05	**256**	286
Cost of Equity within Regulatory WACC decrease of 0.5% (i)	**306**	326

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

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
At 1 April 2022	205	13,699	44	183	82	14,213
Additions	18	740	68	30	31	887
Reclassifications	18	14	(39)	7	-	-
Disposals	-	(1)	-	(3)	(6)	(10)
At 31 March 2023	**241**	**14,452**	**73**	**217**	**107**	**15,090**
Accumulated depreciation and impairment						
At 1 April 2022	(37)	(1,680)	-	(102)	(20)	(1,839)
Charge for the period	(15)	(397)	-	(27)	(9)	(448)
Disposals	-	-	-	3	6	9
At 31 March 2023	**(52)**	**(2,077)**	**-**	**(126)**	**(23)**	**(2,278)**
Net book value:						
At 31 March 2023	**189**	**12,375**	**73**	**91**	**84**	**12,812**
At 31 March 2022	168	12,019	44	81	62	12,374

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 (2022: £1,785 million) and plant and machinery depreciation is £289 million (2022: £241 million) relating to fair value adjustments arising from the acquisition of Cadent Gas Limited by Quadgas MidCo Limited.

The cost of property, plant and equipment at 31 March 2022 includes £1,462,000 (2022: £1,462,000) relating to interest capitalised, with £Nil (2022: £Nil) capitalised during the year.

The UK's target to achieve net zero by 2050 may impact the UELs of our plant and machinery with a current deemed life of up to 50 years if our network can no longer be used beyond this point. We recognise that there are a range of possible futures regarding how our network is used and the role that hydrogen has to play. Given the information currently available about how the UK will achieve net zero using alternative technologies (particularly greener gases such as hydrogen and biomethane), and ahead of the 2026 Government Heat Policy decision, it is still reasonable to assume that the network will continue to be used beyond 2050 in its current form or adapted to accommodate hydrogen or biomethane.

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

	2023 £m	2022 £m
Land and buildings	**61**	54
Plant and machinery	**1**	2
Motor vehicles and other equipment	**22**	6
	84	62

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

13 Property, plant and equipment (continued)

The net book value of land and buildings comprises:

	2023	2022
	£m	£m
Freehold	**142**	136
Long leasehold (over 50 years)	**39**	22
Short leasehold (under 50 years)	**8**	10
	189	168

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and other equipment	Right-of -use assets	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2021	153	13,048	60	169	40	13,470
Additions	14	629	61	18	46	768
Reclassifications	45	30	(77)	2	-	-
Disposals	(7)	(8)	-	(6)	(4)	(25)
At 31 March 2022	205	13,699	44	183	82	14,213
Accumulated depreciation and impairment						
At 1 April 2021	(30)	(1,290)	-	(98)	(16)	(1,434)
Charge for the period	(14)	(397)	-	(10)	(8)	(429)
Disposals	7	7	-	6	4	24
At 31 March 2022	(37)	(1,680)	-	(102)	(20)	(1,839)
Net book value:						
At 31 March 2022	168	12,019	44	81	62	12,374
At 31 March 2021	123	11,758	60	71	24	12,036

14 Investments in associates

The Group's only associate is in respect of its 45.57% equity stake in Xoserve Limited, which was previously fully impaired.

	Total £m
Cost	
At 1 April 2022 & 31 March 2023	-
Provision	
At 1 April 2022 & 31 March 2023	-
Net book value:	
At 1 April 2022 & 31 March 2023	**-**

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

Details of the associate undertaking are set out below:

Company	Class of share held	Place of business and country of incorporation	Percentage held	Principal activities
Xoserve Limited	Convertible redeemable, ordinary share of £0.01 designated as an A Share in the capital of the company	Registered address Lansdowne Gate, 65 New Road, Solihull, B91 3DL. Incorporated in England and Wales.	45.57%	Gas transportation transaction services

Outstanding balances with associates are shown in note 33.

15 Inventories

	2023 £m	2022 £m
Raw materials and consumables	**15**	11
	15	11

Inventories are stated after provisions for impairment of £806,000 (2022: £720,000).

16 Trade and other receivables

	2023	2022
	£m	£m
Amounts falling due within one year:		
Trade debtors	**8**	12
Other debtors	**6**	2
Prepayments	**7**	6
Accrued income	**190**	159
	211	179
Amounts falling due after more than one year:		
Prepayments	**-**	1
	-	1

In determining the recoverability of trade and other receivables the Group considers any change in credit worthiness of the counterparty from the date credit was initially granted up to the reporting date.

The movement in loss allowance for the year was as follows:

	2023	2022
	£m	£m
At 1 April	**11**	4
Amounts utilised/written off in the year	**-**	-
Amounts credited to the income statement	**-**	7
At 31 March	**11**	11

When judging if a financial asset should be valued using the lifetime expected loss calculation the Group needs to assess if there has been a significant increase in credit risk.

The Group takes a simplified approach and considers all receivables to be in stage 2 immediately. When assessing if a financial asset has reached level 3 (credit impaired), the following information is considered:

- existing or anticipated adverse changes in economic conditions that are expected to lead to a significant decrease in the counterparty's ability to meet its debt obligations;
- actual or expected significant reduction of the profitability of the counterparty; and
- significant movement in credit risk derived from observable market data relating to the same or similar counterparty.

The Group has assessed whether there is any impact of the effects of rising gas prices and the current conflict in Ukraine on the recoverability of trade and other receivables. The impact was deemed to be limited given the nature of the business in that our principal commercial exposure relates to shipper income which is governed by Section V of the Gas Transportation Uniform Network Code. There are a number of actions the Group takes to mitigate credit risks and any changes to the Uniform Network Code will need to be agreed across the gas industry with involvement from Ofgem. These include holding security in the form of cash, obtaining letters of credit and ensuring major diversionary work is invoiced in advance of the work commencing.

The impairment under the expected credit loss has been calculated by grouping customers into two distinct segments with significantly different customer bases and customer credit profiles. These segments are distinguished as follows:

- other income: diversions receivables, damages receivables, emergencies receivables, and other receivables; and
- shipper income: capacity accrued income, commodity accrued income.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

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 would be diversions of gas pipes, charges for damages to gas pipes, 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 of days past due plus any specific adjustments. Specific adjustments have been made based on forward looking information specific to any counterparty or counterparty segment which would lead the Group to adjust the normal matrix based calculation.

2023	**Not due £m**	**Current £m**	**1-6 months £m**	**6-12 months £m**	**Over 1 year £m**	**Total £m**
Total balance	**5**	**-**	**1**	**1**	**4**	**11**
Expected credit loss	**-**	**-**	**-**	**-**	**(3)**	**(3)**
Balance after loss allowance	**5**	**-**	**1**	**1**	**1**	**8**

2022	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	3	2	6	1	3	15
Expected credit loss	-	-	-	(1)	(2)	(3)
Balance after loss allowance	3	2	6	-	1	12

Shipper Income

Shipper income relates to all income received from gas shippers and is included within accrued income. These amounts relate to two different elements: capacity and commodity income. Typically shippers will settle within 14 days.

The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit rating, letter of credit from a financial institution, parent company guarantee, independent assessment, payment history allowance and advanced cash deposits.

The shippers are required to pay on strict schedules and failure to pay on the predetermined date will result in sanctions being placed on the customer account which are designed to reduce the Group's risk, such as refusal to give more credit.

The increase in gas prices had a wide impact on our industry and a number of shippers and gas suppliers ceased trading in the previous year. Our exposure to credit losses from these counterparties is mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a SoLR process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities. At 31 March 2023 the outstanding debt with these failed customers was £8 million (2022: £8 million), which remains outstanding and is subject to our existing credit procedures.

16 Trade and other receivables (continued)

2023	**Not due £m**	**Current £m**	**1-6 months £m**	**6-12 months £m**	**Over 1 year £m**	**Total £m**
Total balance	**190**	**-**	**-**	**-**	**8**	**198**
Expected credit loss	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Balance after loss allowance	**190**	**-**	**-**	**-**	**-**	**190**

2022	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	159	-	-	6	2	167
Expected credit loss	-	-	-	(6)	(2)	(8)
Balance after loss allowance	159	-	-	-	-	159

17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2023 Assets £m	**2023 Liabilities £m**	**2023 Total £m**
Amounts falling due within one year	**-**	**-**	**-**
Amounts falling due after more than one year	**43**	**(252)**	**(209)**
	43	**(252)**	**(209)**

	2022 Assets £m	2022 Liabilities £m	2022 Total £m
Amounts falling due within one year	1	-	1
Amounts falling due after more than one year	7	(271)	(264)
	8	(271)	(263)

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

	2023 £m	2022 £m
Cross-currency interest rate swaps	**2,046**	1,922
Inflation linked swaps	**1,600**	1,400
Foreign exchange forward currency	**5**	2
	3,651	3,324

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

18 Current asset investments

	2023 £m	2022 £m
Investments in short-term money funds	**526**	81
	526	81

Amounts relate to investments in money market funds with short-dated maturities.

19 Trade and other payables

	2023	2022
	£m	£m
Trade creditors	**172**	132
Other tax and social security	**64**	39
Other creditors	**62**	53
Accruals	**102**	95
Deferred income	**100**	99
	500	418

Due to the short-term nature of trade creditors, the fair value approximates its book value.

20 Accruals and deferred income

	2023	2022
	£m	£m
Accruals and deferred income	**30**	16
	30	16

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

21 Borrowings

	2023	2022
	£m	£m
Amounts falling due within one year		
Bank loans	**157**	91
Bank overdrafts	**-**	1
Bonds	**64**	59
	221	151
Amounts falling due after more than one year		
Bank loans	**902**	950
Bonds	**8,823**	8,157
Shareholder loan	**902**	902
	10,627	10,009

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.

21 Borrowings (continued)

	2023	2022
	£m	£m
Total borrowings are repayable as follows:		
Less than 1 year	**221**	151
In 1-2 years	**1,197**	92
In 2-3 years	**-**	1,127
In 3-4 years	**400**	-
In 4-5 years	**149**	400
More than 5 years	**8,881**	8,390
	10,848	10,160

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

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

On 4 November 2022, Quadgas MidCo Limited, a subsidiary of Quadgas Holdings TopCo Limited, refinanced its outstanding debt facilities. The Revolving Credit Facility of £200 million (drawn to a level of £50 million at 31 March 2023) was replaced to extend the maturity to November 2027 (previously to July 2024).

On 4 November 2022, Cadent Gas Limited, a subsidiary of Quadgas Holdings TopCo Limited, refinanced its outstanding debt facilities. The undrawn Revolving Credit Facility of £500 million was replaced to extendthe maturity to November 2027 (previously to July 2026) and a new Revolving Credit Facility of £150 million was entered with maturity to November 2024.

On 7 March 2023,Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, issued an 11 year fixed rate green bond with a notional value of £300 million and a coupon of 5.75% under its £7 billion Euro Medium Term Note Programme, this bond is guaranteed by and proceeds were on lent to Cadent Gas Limited.

During the year Quadgas Finance plc, a subsidiary of Quadgas Holdings TopCo Limited, has entered into RPI/CPI basis swaps totalling £200 million and maturing in 2033. On 5 April 2023 Quadgas Finance plc entered into a further £50 million of RPI/CPI basis swaps maturing in 2032. These swaps allow the company to effectively lock-in the prevailing market wedge between RPI and CPI and replace the company’s exposure to RPI with exposure to CPI, which is better aligned to regulatory allowances which are based on CPIH.

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

21 Borrowings (continued)

The fair value of borrowings at 31 March 2023 was £8,987 million (2022: £9,894 million). Where market values were available, the fair value of borrowings (Level 1) was £4,193 million (2022: £4,594 million). Where market values were not available, the fair value of borrowings (Level 2) was £4,794 million (2022: £5,300 million), calculated by discounting cash flows at prevailing interest rates. The spread between fair value and book value of borrowings has widened in the year due to higher discount rates and a widening of the credit spreads.The notional amount of borrowings outstanding as at 31 March 2023 was £10,499 million (2022: £9,842 million) including accretion.

Summary of Borrowings

Currency	Type	Notional (inc accretion)* £m	Rate	Maturity Date	Book value £m	Fair Value £m
Fixed Rate						
EUR[1]	Listed	643	Fixed	22-Sep-24	655	634
GBP	Listed	850	Fixed	22-Sep-28	854	734
GBP	Listed	100	Fixed	31-Jan-30	101	103
EUR[2]	Listed	537	Fixed	19-Mar-30	549	444
GBP	Listed	100	Fixed	19-Mar-31	100	81
USD[3]	Listed	151	Fixed	19-Mar-31	162	150
EUR[4]	Listed	439	Fixed	11-Mar-32	433	335
GBP	Listed	30	Fixed	15-Dec-32	31	32
GBP	Listed	45	Fixed	31-Jan-33	45	48
JPY[5]	Listed	68	Fixed	19-Jul-33	61	62
GBP	Listed	300	Fixed	14-Mar-34	300	307
GBP	Listed	200	Fixed	19-Mar-34	200	156
GBP	Listed	300	Fixed	10-Oct-35	299	215
GBP	Listed	700	Fixed	22-Sep-38	699	495
GBP	Listed	225	Fixed	19-Mar-39	225	165
GBP	Listed	300	Fixed	21-Mar-40	296	218
GBP	Listed	800	Fixed	22-Sep-46	800	508
USD[6]	Listed	38	Fixed	31-Oct-24	41	40
GBP	Listed	149	Fixed	31-Oct-27	150	131
GBP	Listed	350	Fixed	17-Sep-29	354	298
GBP	Listed	103	Fixed	31-Oct-29	103	86
GBP	Listed	70	Fixed	30-Aug-30	71	58
GBP	Listed	100	Fixed	10-Mar-31	100	80
USD[7]	Listed	32	Fixed	10-Mar-31	36	31
GBP	Listed	40	Fixed	31-Oct-32	40	32
GBP	Listed	206	Fixed	10-Mar-33	207	159
EUR[8]	Listed	19	Fixed	10-Mar-33	19	15
GBP	Listed	225	Fixed	30-Aug-33	227	181
GBP	Listed	100	Fixed	21-Jan-36	100	73
GBP	Listed	125	Fixed	31-Mar-37	125	97
GBP	Unlisted	902	Fixed	30-Apr-42	902	902
		8,247			8,285	6,870
Index Linked						
GBP	Unlisted	102	RPI-linked	02-Oct-23	104	102
GBP	Unlisted	98	RPI-linked	29-Apr-24	102	99
GBP	Unlisted	99	RPI-linked	30-Apr-24	102	99
GBP	Unlisted	99	RPI-linked	07-May-24	101	99
GBP	Unlisted	97	RPI-linked	18-Jun-24	100	98
GBP	Unlisted	97	RPI-linked	25-Jun-24	100	98
GBP	Listed	172	RPI-linked	02-May-39	251	188
GBP	Listed	178	RPI-linked	10-Aug-48	287	186
GBP	Listed	178	RPI-linked	14-Aug-48	282	183
GBP	Listed	53	RPI-linked	31-Mar-37	53	39
GBP	Listed	99	RPI-linked	31-Mar-37	101	72
GBP	Listed	354	RPI-linked	31-Mar-42	352	235
GBP	Listed	99	RPI-linked	31-Mar-42	101	63
		1,725			2,036	1,561
Floating Rate						
GBP	Unlisted	400	SONIA	23-Mar-27	400	414
GBP	Unlisted	50	SONIA	27-Apr-23	49	50
GBP	Listed	77	SONIA	31-Mar-37	78	92
		527			527	556
Overdraft		-			-	-
TOTAL		10,499			10,848	8,987

* Indexed linked debt notional is the accreted value

[1] Euro amount is 750m
[2] Euro amount is 625m
[3] Dollar amount is 200m
[4] Euro amount is 500m
[5] JPY amount is 10bn
[6] Dollar amount is $50m
[7] Dollar amount is $44m
[8] Euro amount is €22m

22 Lease liabilities

a) Amounts recognised in the balance sheet

	2023	2022
	£m	£m
Current	12	8
Non-current	78	60
	90	68

	2023	2022
Lease liabilities are repayable as follows:	£m	£m
Year 1	12	8
Year 2	10	6
Year 3	9	4
Year 4	6	4
Year 5	5	3
Onwards	48	43
	90	68

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 2.60% for the current financial year (2022: 2.20%)

In line with IFRS 16 Leases short-term leases (less than 12 months) and low value leases (less than £3,500) will continue to be recognised on a straight-line basis as an expense in profit or loss. The value of such payments can be seen in the table below.

b) Amounts recognised in the statement of profit or loss

	2023	2022
	£m	£m
Depreciation of right-of-use assets (see note 13)	9	8
Expense relating to short-term leases (included within operating expenses)	2	4
Expense relating to variable lease payments not included in lease liabilities (included within operating expenses)	1	1

The total cash outflow for leases for the year ended 31 March 2022 was £16 million (2022: £10 million).

23 Provisions for liabilities

	Environmental	Restructuring	Other	Total
	£m	£m	£m	£m
At 1 April 2022	48	1	39	88
Charged to the income statement	1	7	3	11
Utilised	(2)	(7)	(3)	(12)
Released to the income statement	(1)	-	-	(1)
At 31 March 2023	**46**	**1**	**39**	**86**

	Environmental	Restructuring	Other	Total
	£m	£m	£m	£m
Current	12	1	10	23
Non-current	34	-	29	63
At 31 March 2023	**46**	**1**	**39**	**86**

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the Group (discounted using a real rate of 1.0% (2022: 1.0%)). Cash flows are expected to be incurred between 2023 and 2083.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and climate change regulations, and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact on the calculation of the provision.

The undiscounted amount of the provision at 31 March 2023 was £58 million (2022: £59 million), being the undiscounted best estimate liability having regard to these uncertainties.

Restructuring

The constructive obligation to restructure arose when Cadent announced the formal restructuring plan to those affected by it on 19 April 2021. The associated costs are expected to be settled within 1 year. See note 6.

23 Provisions for liabilities (continued)

Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims and other provisions relating to the operation of our gas networks.

The estimation of the provision for claims (whether insured or not) is based on projections of liabilities that are subject to potentially large amounts of estimation, since the ultimate liability of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes and social/economic conditions such as inflation. In our judgement, through the use of independent actuaries we have employed techniques and assumptions that are appropriate to project the liabilities.

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

24 Share capital

	2023	2022
	£m	£m
Allotted, called up and fully paid		
510,907,851,095 ordinary shares of £0.0093 each	**4,739**	4,739
	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 measure which shows the overall debt situation. Net debt is calculated by netting the value of a company's liabilities and debts with its cash and other similar short-term financial assets.

	2023	2022
	£m	£m
Increase/(decrease) in cash and cash equivalents	**6**	(9)
Increase/(decrease) in financial investments	**445**	(747)
(Increase)/decrease in borrowings & related derivatives	**(435)**	510
Repayment of lease liabilities	**16**	10
Net interest paid on components of net debt	**223**	246
Change in liabilities arising from financing activities	**255**	10
Changes in fair value of financial assets	**220**	(77)
Foreign exchange movements	**(68)**	(2)
Other non-cash changes	**(38)**	(56)
Net interest charge on the components of net debt	**(575)**	(399)
Movement in net debt (net of related derivative financial instruments)	**(206)**	(524)
Net debt (net of related derivative financial instruments) at the start of the period	**(10,378)**	(9,854)
Net debt (net of related derivative financial instruments) at the end of the period	**(10,584)**	(10,378)

Composition of net debt:

	2023	2022
	£m	£m
Cash, cash equivalents and financial investments	**563**	113
Borrowings and bank overdrafts	**(10,848)**	(10,160)
Derivatives	**(209)**	(263)
Lease liabilities	**(90)**	(68)
Total net debt	**(10,584)**	(10,378)

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

25 Net debt (continued)

Analysis of changes in net debt:

	Cash and cash equiva-lents £m	Bank overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease liabilities £m	Total £m
Cost								
At 1 April 2022	32	(1)	31	81	(10,159)	(263)	(68)	(10,378)
Cash flow	5	1	6	445	(180)	(32)	16	255
Fair value gains and losses	-	-	-	-	-	220	-	220
Foreign exchange movements	-	-	-	-	(68)	-	-	(68)
Interest charges	-	-	-	-	(441)	(134)	-	(575)
Other non-cash changes	-	-	-	-	-	-	(38)	(38)
At 31 March 2023	**37**	**-**	**37**	**526**	**(10,848)**	**(209)**	**(90)**	**(10,584)**

Balances at 31 March 2023 comprise:

	Cash and cash equiva-lents £m	Bank overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease liabilities £m	Total £m
Non-current assets	-	-	-	-	-	43	-	43
Current assets	37	-	37	526	-	-	-	563
Current liabilities	-	-	-	-	(221)	-	(12)	(233)
Non-current liabilities	-	-	-	-	(10,627)	(252)	(78)	(10,957)
At 31 March 2023	**37**	**-**	**37**	**526**	**(10,848)**	**(209)**	**(90)**	**(10,584)**

	Cash and cash equiva-lents £m	Bank overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease liabilities £m	Total £m
Cost								
At 1 April 2021	45	(5)	40	828	(10,580)	(120)	(22)	(9,854)
Cash flow	(13)	4	(9)	(747)	756	-	10	10
Fair value gains and losses	-	-	-	-	(2)	(75)	-	(77)
Foreign exchange movements	-	-	-	-	(2)	-	-	(2)
Interest charges	-	-	-	-	(331)	(68)	-	(399)
Other non-cash changes	-	-	-	-	-	-	(56)	(56)
At 31 March 2022	32	(1)	31	81	(10,159)	(263)	(68)	(10,378)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2023

25 Net debt (continued)

Balances at 31 March 2022 comprised:

	Cash and cash equiva-lents £m	Bank Overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease liabilities £m	Total £m
Non-current assets	-	-	-	-	-	7	-	7
Current assets	32	-	32	81	-	1	-	114
Current liabilities	-	(1)	(1)	-	(150)	-	(8)	(159)
Non-current liabilities	-	-	-	-	(10,009)	(271)	(60)	(10,340)
At 31 March 2022	32	(1)	31	81	(10,159)	(263)	(68)	(10,378)

26 Capital and other commitments

	2023	2022
	£m	£m
Contracts for future capital expenditure not provided in the financial statements	**346**	304
Letters of credit	**150**	300
	496	604

27 Pensions

The Group operates two pension schemes for its employees.

Defined contribution (DC) scheme

For the DC pension arrangement, the Group 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 Group's DC arrangement, was established on 1 February 2019 under Master Trust. Under the standard contribution structure, the Group double matches member contributions to MyPension up to a maximum member contribution of 6%. MyPension is the qualifying scheme used for automatic enrolment and new hires are enrolled into MyPension.

The amount recognised as an expense for the defined contribution scheme was:

	2023	2022
	£ m	£ m
Current period contributions	**29**	27

Defined benefit (DB) scheme

The Cadent Gas Pension Scheme (CGPS- 'the Scheme') was established to receive a transfer from Section C of the National Grid UK Pension Scheme. The bulk transfer took place in 30 September 2020 and Section C has now been wound up.

Members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The company underwrites both financial and demographic risks associated with this type of scheme.

The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The Group's obligation in respect of the Scheme is calculated by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

27 Defined benefit (DB) scheme (continued)

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 and following consultation and agreement with the company, the qualified actuary certifies the ongoing rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable.

The last full actuarial valuation for the Scheme was carried out at 31 March 2022. As part of this valuation, based on long-term financial assumptions, a contribution rate to meet future benefit accrual was agreed of 52.1% of pensionable earnings less any member contributions.

The results of the lastest valuations are shown below:

Last full actuarial valuation	**31 March 2022**	31 March 2019
Actuary	**Willis Towers Watson**	Willis Towers Watson
Market value of scheme assets at latest valuation	**£6,542m**	£6,674m
Actuarial value of benefits due to members	**£6,441m**	£6,755m
Market value as percentage of benefits	**102%**	99%
Funding surplus/(deficit)	**£101m**	£(81)m

Cadent Gas Pension Scheme

The Group has established a security arrangement with a charge in favour of the Trustees. This amount may change over time linked to the company's gearing level and credit quality. As at 31 March 2023 the value required was £100 million (2022: £144 million), a reduction linked to payment of deficit contributions in the last two financial years.

27 Pensions (continued)

Cadent Gas Pension Scheme (continued)

The Scheme ceased to allow new hires to join from 1 April 2002, with new hires since that date having the option of joining the DC arrangement.

Risks

The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the UK debt markets and will fluctuate as yields change. Scheme funds are invested in a variety of asset classes, principally: government securities, corporate bonds and property. Consequently, actual returns will differ from the underlying discount rate adopted and therefore have an impact on the net balance sheet liability.

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

On 25 November 2020, the Government and UK Statistics Authority's joint consultation response on RPI reform was published. This confirmed their intention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI including housing (known as CPIH) with effect from 2030.

The RPI inflation adopted is based on market implied RPI inflation less an inflation risk premium adjustment of 0.3% per annum to allow for some but not all the expectation that RPI inflation will be lower in the future.

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

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2023

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.

Changes in the underlying market conditions during 2022/23 have resulted in a increase to both the discount rate and inflation assumptions used in valuing Cadent's pension liabilities. These changes, amongst other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2023 decreasing to £4,195m (2022: £5,476m). Coupled with an decrease in the fair value of the scheme assets in the year to £4,924m (2022: £6,559m), the net pension surplus has decreased by 33%.

The recognition of the net defined benefit asset in relation to CGPS reflects legal and actuarial advice that 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. 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

	2023 Total £m	2022 Total £m
Present value of funded obligations	**(4,192)**	(5,472)
Fair value of plan assets	**4,924**	6,559
	732	1,087
Present value of unfunded obligations	**(3)**	(4)
Net defined benefit asset	**729**	1,083

Represented by:	**2023 Total £m**	2022 Total £m
Liabilities	**(4,195)**	(5,476)
Assets	**4,924**	6,559
	729	1,083

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

27 Pensions (continued)

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

	2023 Total £m	2022 Total £m
Included within operating costs		
Administration costs	**5**	4
Defined contribution scheme costs	**29**	27
Defined benefit scheme costs:		
Current service cost	**11**	13
Past service costs	**-**	4
	45	48
Included within finance costs		
Net interest credit	**(29)**	(9)
Total included in income statement	**16**	39
Remeasurements of net retirement benefit obligations	**(1,122)**	(370)
Return on plan assets greater or less than discount rate	**1,532**	(260)
Total included in the statement of other comprehensive income	**410**	(630)

Reconciliation of the net defined benefit asset

	2023 Total £m	2022 Total £m
Opening net defined benefit asset	**1,083**	426
Credit/(costs) recognised in the income statement	**13**	(12)
Employer contributions	**43**	39
Other movements	**(410)**	630
Closing net defined benefit asset	**729**	1,083

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

	2023 Total £m	2022 Total £m
Opening net defined benefit liability	**5,476**	6,020
Current service cost	**11**	13
Interest cost	**141**	114
Past service cost	**-**	4
Actuarial losses– experiences	**435**	63
Actuarial (gains)/losses – demographic assumptions	**(124)**	(92)
Actuarial (gains) – financial assumptions	**(1,433)**	(330)
Benefits paid	**(311)**	(316)
Closing net defined benefit liability	**4,195**	5,476

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

27 Pensions (continued)

Changes in the fair value of plan assets

	2023	2022
	Total	Total
	£m	£m
Opening fair value of plan assets	**6,559**	6,446
Interest income	**170**	123
Return on assets greater than assumed	**(1,532)**	271
Administration costs	**(5)**	(4)
Employer contributions paid	**43**	39
Benefits paid	**(311)**	(316)
Closing fair value of plan assets	**4,924**	6,559
Actual return on plan assets	**(1,362)**	394
Expected contributions to plans in the following year	**22**	35

Asset allocations

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

	2023	**2023**	**2023**	**2022**	**2022**	**2022**
	Quoted	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Equities	**-**	**181**	**181**	1	229	230
Corporate bonds	**1,922**	**-**	**1,922**	2,867	-	2,867
Property	**-**	**300**	**300**	-	355	355
Government securities (ii)	**1,720**	**-**	**1,720**	2,476	-	2,476
Diversified alternatives (i)	**-**	**676**	**676**	-	579	579
Other	**-**	**125**	**125**	-	52	52
Total	**3,642**	**1,282**	**4,924**	5,344	1,215	6,559

i) Includes return seeking non-conventional asset classes of £440 million (2022: £202 million) and secure income assets of £236 million (2022: £377 million).

ii) Includes short sold Gilts of £394 million (2022: £411 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 2023 is as follows:

	2023	2022
	%	%
Equities	**4**	3
Other	**96**	97
	100	100

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2023

27 Pensions (continued)

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

	2023	2022
	%	%
Discount rate – Past service (i)	**4.75**	2.65
Discount rate – Future service (i)	**4.65**	2.60
Rate of increase in salaries (ii)	**2.10**	2.65
Rate of increase in RPI – Past service (iii)	**3.25**	3.65
Rate of increase in RPI – Future service (iii)	**3.15**	3.40

i) The discount rate for pension liabilities has been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK debt market at the reporting date. Future and past discount rates are set based on the expected duration of scheme liabilities.

ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service before 1 April 2013. The assumption for the rate of increase in salaries for service before this date is 3.15% (2022: 3.55%).

iii) This is the key assumption that determines assumed increases in pensions in payment and deferment. Consistent with the derivation of the discount rate, the RPI assumption reflects the duration of the active liabilities to be adopted in the calculation of future service obligations.

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2023	2022
	years	years
Today		
Males	**20.0**	20.9
Females	**22.6**	24.3
In 20 years		
Males	**21.3**	22.1
Females	**24.2**	25.7

Maturity profile of DB obligations
The weighted average duration of the DB obligation for future service obligations of the scheme is 23 years and 12 years for past service obligations.

28 Financial risk management

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

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

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board 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.

The increase in gas prices had a wide impact our industry and a number of shippers and gas suppliers ceased trading in the previous financial year. The Group assesed whether there is any impact on our credit risk and it was deemed to be limited given the nature of the business. Our exposure to credit losses from these counterparties is mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a supplier of last resort (SoLR) process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities.

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

For the year ended 31 March 2023

	Notes	Gross carrying amount	Loss allowance	Net carrying amount
		£m	£m	£m
Cash and cash equivalents		**37**	**-**	**37**
Derivative financial assets	17	**43**	**-**	**43**
Trade debtors	16	**11**	**(3)**	**8**
Accrued income	16	**198**	**(8)**	**190**
Current asset investments	18	**526**	**-**	**526**

28 Financial risk management (continued)

(a) Credit risk (continued)

For the year ended 31 March 2022

	Notes	Gross carrying amount	Loss allowance	Net carrying amount
		£m	£m	£m
Cash and cash equivalents		32	-	32
Derivative financial assets	17	8	-	8
Trade Debtors	16	15	(3)	12
Accrued income	16	167	(8)	159
Current asset investments	18	81	-	81

Counterparty credit risk
Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. Our limits are managed by the central treasury department of the Group.

As at 31 March 2023, we had exposure to various financial institutions. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Derivative financial assets are only entered into with banks with a strong Investment Grade Credit rating, which should reduce the likelihood of significant losses. Management does not expect any significant losses from non performance by these counterparties.

Customer credit risk
The Group's principal commercial exposure relates to income from shippers which is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the RAV for each credit rating. The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit rating, letter of credit from a financial institution, parent company guarantee, independent assessment, payment history allowance and advanced cash deposits.

	2023 Total	2022 Total
	£m	£m
Accrued income	**190**	159
Collateral held	**(37)**	(26)
Exposure net of collateral	**153**	133

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

28 Financial risk management (continued)

(a) Credit risk (continued)

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present 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 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 2023	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	43	-	43	-	-	43
Liabilities						
Derivative financial instruments	(252)	-	(252)	-	-	(252)
Total at 31 March 2023	(209)	-	(209)	-	-	(209)

28 Financial risk management (continued)

(a) Credit risk (continued)

At 31 March 2022	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	8	-	8	-	-	8
Liabilities						
Derivative financial instruments	(271)	-	(271)	-	-	(271)
Total at 31 March 2022	(263)	-	(263)	-	-	(263)

(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 current rating levels. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

28 Financial risk management (continued)

(b) Liquidity risk (continued)

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

At 31 March 2023	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 and beyond £m	Total £m
Non-derivative financial instruments					
Borrowings	**(40)**	**(1,217)**	**-**	**(10,539)**	**(11,796)**
Lease Liabilities	**(12)**	**(10)**	**(9)**	**(59)**	**(90)**
Interest on payments on borrowings (i)	**(300)**	**(298)**	**(288)**	**(3,157)**	**(4,043)**
Other non-interest bearing liabilities	**(500)**	**-**	**-**	**-**	**(500)**
Derivative financial liabilities					
Derivative contracts - receipts	**209**	**90**	**88**	**1,530**	**1,917**
Derivative contracts - payments	**(152)**	**(45)**	**(43)**	**(2,173)**	**(2,413)**
Derivative financial assets					
Derivative contracts - receipts	**13**	**713**	**8**	**237**	**971**
Derivative contracts - payments	**(19)**	**(689)**	**(5)**	**(217)**	**(930)**
Total at 31 March 2023	**(801)**	**(1,456)**	**(249)**	**(14,378)**	**(16,884)**

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

At 31 March 2022	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial instruments					
Borrowings	(91)	(99)	(1,167)	(9,948)	(11,305)
Lease Liabilities	(7)	(6)	(4)	(50)	(67)
Interest on payments on borrowings (i)	(241)	(243)	(238)	(3,163)	(3,885)
Other non-interest bearing liabilities	(418)	-	-	-	(418)
Derivative financial liabilities					
Derivative contracts - receipts	53	59	58	1,349	1,519
Derivative contracts - payments	(22)	(22)	(22)	(1,906)	(1,972)
Derivative financial assets					
Derivative contracts - receipts	12	12	687	190	901
Derivative contracts - payments	(18)	(18)	(688)	(183)	(907)
Total at 31 March 2022	(732)	(317)	(1,374)	(13,711)	(16,134)

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

28 Financial risk management (continued)

(c) Interest rate risk

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, swaptions and forward rate agreements.

We hold some borrowings on issue and derivatives that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues. During the year Quadgas Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, has entered into RPI/CPI basis swaps totalling £200 million and maturing in 2033. These swaps allow the company to effectively lock-in the prevailing market wedge between RPI and CPI and replace the company's exposure to RPI with exposure to CPI, which is better aligned to regulatory allowances which are based on CPIH. These are in addition to the £1 billion CPI-linked swaps and £400 million of RPI-linked swaps already held.

The table in note 21 (Borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

During 2023, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2023	**Fixed rate £m**	**Floating rate £m**	**RPI £m**	**Other £m**	**Total £m**
Financial investments [(i)]	**-**	**563**	**-**	**-**	**563**
Borrowings [(ii)]	**(8,285)**	**(527)**	**(2,036)**	**-**	**(10,848)**
Lease Liabilities	**-**	**-**	**-**	**(90)**	**(90)**
Pre-derivative position	**(8,285)**	**36**	**(2,036)**	**(90)**	**(10,375)**
Derivative effect	**1,013**	**400**	**(1,622)**	**-**	**(209)**
Net debt position [(ii)]	**(7,272)**	**436**	**(3,658)**	**(90)**	**(10,584)**

[i] Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

[(ii)] Index linked represents RPI and CPI derivative instruments.

[(iii)] The impact of 2022/23 short-dated interest rate derivatives is included.

During 2022, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2022	Fixed rate £m	Floating rate £m	RPI £m	Other £m	Total £m
Financial investments [(i)]	-	113	-	-	113
Borrowings [(ii)]	(7,736)	(567)	(1,857)	-	(10,160)
Lease Liabilities	-	-	-	(68)	(68)
Pre-derivative position	(7,736)	(454)	(1,857)	(68)	(10,115)
Derivative effect	948	400	(1,612)	1	(263)
Net debt position [(ii)]	(6,788)	(54)	(3,469)	(67)	(10,378)

[i] Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

[(ii)] Index linked represents RPI and CPI derivative instruments.

[(iii)] The impact of 2021/22 short-dated interest rate derivatives is included.

28 Financial risk management (continued)

(d) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.

Our policy for managing foreign exchange risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash forecasts are less certain, our policy is to hedge a proportion of the cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

During 2023, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2023	**Sterling £m**	**Euro £m**	**Japanese Yen £m**	**Dollar £m**	**Total £m**
Financial investments	**563**	**-**	**-**	**-**	**563**
Borrowings	**(8,892)**	**(1,656)**	**(61)**	**(239)**	**(10,848)**
Lease Liabilities	**(90)**	**-**	**-**	**-**	**(90)**
Pre-derivative position	**(8,419)**	**(1,656)**	**(61)**	**(239)**	**(10,375)**
Derivative effect	**(2,165)**	**1,656**	**61**	**239**	**(209)**
Net debt position	**(10,584)**	**-**	**-**	**-**	**(10,584)**

During 2022, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2022	Sterling £m	Euro £m	Japanese Yen £m	Dollar £m	Total £m
Financial investments	113	-	-	-	113
Borrowings	(8,273)	(1,601)	(62)	(224)	(10,160)
Lease Liabilities	(68)	-	-	-	(68)
Pre-derivative position	(8,228)	(1,601)	(62)	(224)	(10,115)
Derivative effect	(2,150)	1,601	62	224	(263)
Net debt position	(10,378)	-	-	-	(10,378)

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 2023 are as follows:

	Notional amount (GBP m)	**Carrying amount of the hedging instrument**		**Fair value changes**	**Line item in consolidated statement of financial position where hedging instrument is reported**
		Assets	**Liabilities**		
Cash flow hedges					
Cross-currency interest rate swaps	**2,046**	**43**	**(30)**	**65**	**Derivative financial assets** **Derivative financial liabilities**

The impact of hedging instruments designated in a hedge relationship as at 31 March 2022 were as follows:

	Notional amount (GBP m)	Carrying amount of the hedging instrument		Fair value changes	Line item in consolidated statement of financial position where hedging instrument is reported
		Assets	Liabilities		
Cash flow hedges					
Cross-currency interest rate swaps	1,922	7	(59)	1	Derivative financial assets Derivative financial liabilities

28 Financial risk management (continued)

b) The impact of hedged items designated in a hedge relationship as at 31 March 2023 are as follows:

	Carrying amount of the hedged item (GBP m)					
	Assets	**Liabilities**	**Fair value changes**	**Line item in consolidated statement of financial position where hedged item is reported**	**Cash flow hedge deficit**	**Cost of hedging reserve**
Cash flow hedges						
Non GBP denominated debt	**-**	**(1,956)**	**(67)**	Borrowings	**(35)**	**14**

The impact of hedged items designated in a hedge relationship as at 31 March 2022 were as follows:

	Carrying amount of the hedged item (GBP m)					
	Assets	Liabilities	Fair value changes	Line item in consolidated statement of financial position where hedged item is reported	Cash flow hedge deficit	Cost of hedging reserve
Cash flow hedges						
Non GBP denominated debt	-	(1,887)	(7)	Borrowings	(22)	6

c) The impact of the hedging relationships on the consolidated income statement and other comprehensive income.

The above hedging relationships affected the consolidated income statements for year ended March 2023 are as follows:

	Change in value of hedging instrument recognised in OCI	**Hedge ineffectiveness recognised in consolidated income statement**	**Line item in consolidated income statement where the hedge ineffectiveness is reported**	**Amount reclassified from cash flow hedge reserve to consolidated income statement**	**Line item in the consolidated income statement**
Cash flow hedges					
Interest rate risk & FX risk	**(13)**	**3**	Exceptional items and remeasurements	**67**	Finance costs before exceptional items and remeasuremen ts

The above hedging relationships affected the consolidated income statements for year ended March 2022 are as follows:

	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in consolidated income statement	Line item in consolidated income statement where the hedge ineffectiveness is reported	Amount reclassified from cash flow hedge reserve to consolidated income statement	Line item in the consolidated income statement
Cash flow hedges					
Interest rate risk & FX risk	(8)	3	Exceptional items and remeasurements	(1)	Finance costs before exceptional items and remeasuremen ts

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 (statutory net debt adjusted for unamortised debt fees, unamortised fair value adjustments, accrued interest and derivatives) expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. The net debt to RAV ratio at Cadent Gas Limited level at 31 March 2023 is 59% (2022: 61%).

(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 2023	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	**563**	**-**	**-**	**563**
Derivative financial instruments	**-**	**43**	**-**	**43**
Liabilities				
Derivative financial instruments	**-**	**(127)**	**(125)**	**(252)**
Total	**563**	**(84)**	**(125)**	**354**

As at 31 March 2022	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	113	-	-	113
Derivative financial instruments	-	8	-	8
Liabilities				
Derivative financial instruments	-	(158)	(114)	(272)
Total	113	(150)	(114)	(151)

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 £200 million of RPI-CPI basis inflation swaps maturing in 2033 both are traded based on a spread to liquid RPI inflation markets. As the market for CPI swaps is still maturing with the spreads not currently observable in their own liquid market, these swaps have been classified as Level 3 instruments. The fair values for these instruments are calculated by using market forecasts of inflation rates to produce a series of future cashflows which are then discounted back to a net present value to which model-derived credit adjustments are applied. 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 £9.5 million, with an increase in the inflation indices reducing the fair values and vice versa. Fair values will also be impacted by movements in interest rate curves which are used to derive the discount rates used in calculating the net present values of the instruments.

	2023	2022
	£m	£m
At 1 April	**(114)**	-
Net Loss for the period	**(11)**	(114)
Settlements	**-**	-
At 31 March	**(125)**	(114)

The net loss of the period is shown within interest cost in the income statement.

29 Sensitivity analysis

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

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

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

The sensitivities included in the table below all have an approximately equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 5% increase in value of unquoted properties would increase net assets by £15m. A 5% decrease would have an equal but opposite effect, except for goodwill impairment as previous impairments cannot be reversed.

29 Sensitivity analysis (continued)

	2023		2022	
	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	**(54)**	**(54)**	(43)	(43)
Additional depreciation charge if the useful lives of network assets end in 2045 *	**(131)**	**(131)**		
Additional depreciation charge if the useful lives of network assets end in 2040 *	**(255)**	**(255)**		
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 – 0.5%	**-**	**-**	-	-
Pensions and other post-retirement benefits (ii) (pre-tax)				
Discount rate decrease of 0.5% (iii)	**(1)**	**(252)**	(2)	(443)
Discount rate increase of 0.5% (iii)	**1**	**230**	2	394
RPI rate change of 0.5% (iv)	**(1)**	**(222)**	2	344
Long-term rate of increase in salaries change of 0.5%	**-**	**(11)**	1	42
Change of one year to life expectancy at age 65	**-**	**(154)**	-	231
Change in value of unquoted properties by 5%	**-**	**15**	-	18
Change in value of unquoted equities by 5%	**-**	**9**	-	11
Index-linked derivatives				
Change in one year rate of inflation by 1% (v)	**15**	**15**	12	12

i) The changes in assumptions for goodwill in 2023, 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 market's forecast of the underlying inflation indices over the following twelve months.

* New sensitivity included in 2023

29 Sensitivity analysis (continued)

	2023		2022	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
No hedge accounting for our derivative financial instruments (post tax)	**(13)**	**(13)**	9	9
Financial risk (post-tax)				
UK RPI rate change of 0.5%	**11**	**11**	10	10
UK CPI rate change of 0.5%	**6**	**6**	5	5
UK interest rate change of 0.5%	**3**	**3**	1	1

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 2023;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and FVTPL investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

30 Cash flow from movement in trade and other payables

The following adjustments have been made to reconcile from the movement in balance sheet heading to the amount presented in the cash flow from the movement in trade and other payables. This is in order to more appropriately reflect the cash impact of the underlying transactions.

	2023	2022
	£m	£m
Trade and other payables		
Opening balance at 1 April	**(418)**	(579)
Closing balance at 31 March	**(500)**	(418)
Balance Sheet movement	**82**	(161)
Less		
Movement in payables, of a capital nature, reclassified to investing activities		
- Property, plant and equipment	**(7)**	145
- Intangible	**-**	2
Movement in payables, reclassified elsewhere in operating activities		
- Exceptional	**3**	-
- Group tax relief	**-**	-
- Capital Contributions	**(21)**	1
Movement as shown in Consolidated Cash Flow Statement	**57**	(13)

31 Cash flow from purchases of property, plant and equipment

	2023	2022
	£m	£m
Property, plant and equipment additions (note 13)	**(887)**	(768)
Add		
Movement in property, plant and equipment payables, of a capital nature, reclassified to investing activities (note 30)	**7**	(145)
Other	**-**	11
Less		
Right of use assets additions (note 13)	**31**	46
Movement as shown in Consolidated Cash Flow Statement	**(849)**	(856)

32 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 23) has been set up to deal with the costs of statutory decontamination of Cadent Gas Limited's UK 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.

	2023	2022
	£m	£m
Expenditure:		
Services rendered from associates	**13**	16
Corporate services received	**5**	6
Interest paid on borrowings from Consortium	**60**	61
	78	83
Dividends paid to Consortium		
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts payable to associates	**1**	-
Borrowings payable to Consortium	**902**	902
Amounts receivable from Consortium member	**-**	2

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Amounts of £Nil have been provided at 31 March 2023 and recognised as an expense (2022: £Nil) during the year in respect of bad or doubtful debts for related party transactions.

Information relating to pension fund arrangements is disclosed in note 27. For details of dividends paid and Directors' and key management remuneration, refer to notes 11 and 7 respectively.

34 Subsequent events

On 3 April 2023, having provided sufficient notice to the lender, Cadent Gas Limited, a subsidiary of Quadgas Holdings TopCo Limited, repaid a bank loan with a contractual maturity date of 2 October 2023. This bank loan was index-linked with a notional value of £60 million and carrying value of £104 million as at 31 March 2023.

On 27 March 2023, Cadent Gas Limited, a subsidiary of Quadgas Holdings TopCo Limited, submitted notice to the same lender that the next two tranches of debt maturing 29 April 2024 and 30 April 2024 would be repaid on 2 May 2023. These loans were also index linked, had notional values of £60 million and as at 31 March 2023 had carrying values of £102 million and £102 million respectively. As at the balance sheet date Cadent Gas Limited had an option to withdraw the prepayment notices for these two tranches of debt and so they have been shown in the balance sheet at their respective contractual maturity dates and categorised as having a maturity greater than one year. These loans were repaid on 2 May 2023.

On 5 April 2023, Quadgas Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited entered, into £50 million of RPI/CPI basis swaps maturing in 2032. These swaps allow the company to effectively lock-in the prevailing market wedge between RPI and CPI and replace the company’s exposure to RPI with exposure to CPI, which is better aligned to regulatory allowances which are based on CPIH.

On 21 April 2023, Cadent Gas Limited, a subsidiary of Quadgas Holdings TopCo Limited, entered into a £150 million bilateral term loan with one of its relationship banks. The loan is drawable from 21 May 2023 until 21 January 2024 and has a maturity of seven years from the point of drawdown.

On 5 July 2023, Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, issued a 6 year fixed rate Green bond with a notional value of €500 million and coupon of 4.25% under its £7 billion Euro Medium Term Note Programme. This bond is guaranteed by, and proceeds were on lent to, Cadent Gas Limited. This was swapped to c£432 million immediately on issue.

On 7 July 2023, Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, repurchased and cancelled €303 million notional value of existing notes, under a Tender Offer launched on 26 June 2023. The notes repaid were part of the €750 million 2024 maturity notes issued in 2016. Following this tender offer, €447 million of this issue remains outstanding.

35 Ultimate parent company

There is no ultimate parent or controlling company as it is owed 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.

Copies of Quadgas Holdings TopCo Limited’s consolidated financial statements can be obtained from the Company Secretary, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.

36 Subsidiary undertakings

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

Name of subsidiary	% Holding	Principal activity	Country of
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*	Management of pension services	England and Wales

* Indirect holding

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