Cadent
Your Gas Network

Transforming experiences

Customers, Communities and Colleagues

Annual report and accounts
2019/20

Contents

Highlights

Financial

Revenue
£2,115m
(2019: £1,995m)

Operating profit
£924m
(2019: £813m)

EBITDA
(Earnings before Interest, Tax, Depreciation, Amortisation, and Exceptional items')

£1,320m
(2019: £1,165m)

See our Chief Financial Officer's report on page 62 for reconciliation.

RAV
(Regulated Asset Value)

£10.0bn
(2019: £9.7bn)

Capital investment
£856m
(2019: £736m)

Operational

Network reliability
99.998%
(2019: 99.996%)

Mains replaced
1,809km
(2019: 1,701km)

Percentage of emergency calls answered within 30 seconds
91%
(2019: 93%)

Carbon monoxide alarms provided
20,609
(2019: 24,162)

Emergencies responded to within an hour
98%
(2019: 98.6%)

Fuel poor connections during RIIO price control
30,383
(2019: 28,131)

We are Cadent. Your Gas Network.

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

We are proud to keep the energy flowing.

Our values

Courage
Challenging ourselves to shape the future and do things better.

Commitment
Dedication to deliver our promises, keeping focused on safety and doing the right thing.

Community
We're one business, focused on the needs of the communities we serve.

Curiosity
Exploring and embracing new ways of thinking and working to meet the needs of our customers and stakeholders.

* Please see our glossary for a definition of customer.

Our networks

We look after over 131,000 kilometres of pipeline and almost 50% of Great Britain's gas customers are served by our pipelines. Each area has its own geographical and social requirements and we are committed to improving our levels of service with a localised customer operating model that is able to respond to the specific needs of the communities we serve.

What we do

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

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

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

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

We manage the National Gas Emergency Service for all gas customers in the UK. If something goes wrong, we are the first point of call to make sure it's dealt with calmly, quickly and safely. In 2019/20, we answered 1.4m gas emergency calls.

What we don't do

We don't produce gas.

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

We don't repair gas appliances.

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

East of England

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

Number of customers	4m
Gas pipes replaced	709km
Fuel poor connections	10,755

North London

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

Number of customers	2.2m
Gas pipes replaced	361km
Fuel poor connections	2,567

North West

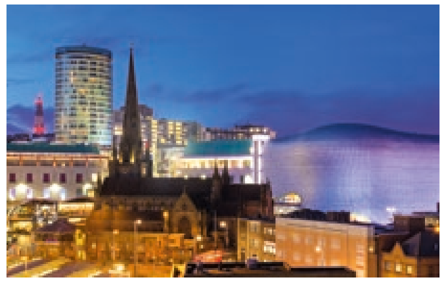
Sitting between the Pennines and the West Coast encompassing Ambleside in Cumbria, at its northern most tip, and Whitchurch in the south. Around 40% of the gas distributed into the North West network is used by businesses and for industrial purposes; this is far higher than any other gas distribution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

Number of customers	2.6m
Gas pipes replaced	479km
Fuel poor connections	10,428

West Midlands

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

Number of customers	1.9m
Gas pipes replaced	315km
Fuel poor connections	6,633



For more information please read our Strategic Performance Overview
cadentgas.com

2019/20 highlights

Putting our customers and communities first

- Undertaken our most diverse and tailored Customer Engagement process
- Improved accessibility for hard to reach customers
- Transformed our approach to multi-occupancy buildings
- Improvements achieved in customer satisfaction measures and complaints handling
- Created the Cadent Foundation
- Over 269 Safety Seymour carbon monoxide awareness classes delivered
- Delivered over 30,383 network extensions and connections to support those in fuel poverty
- Exceeded our three year fundraising target of £200,000 for the Alzheimer's Society
- 89% of colleagues are Dementia Friends
- Created a new Trust charter

Read more on pages 16-25

Ensuring a safe and reliable network

- 1,809km of iron mains replaced
- Increased our remediation of our larger iron mains using a robotic technology CISBOT
- Maintained our record of high safety standards with a further annual decrease in our Lost Time Injury Frequency Rate
- Significant reduction in unplanned interruptions for multi-occupancy buildings
- Exceeded our emergency response standards
- Started diversion works to support HS2
- Successful separation of our IS systems from National Grid
- Supported Department for Transport initiative to improve efficiency of street works in the UK
- Positive engagement and communication response during incidents

Read more on pages 26-31

Creating an inclusive environment

- Signed the "Time to Change" pledge
- Awarded "Disability Confident" employer status
- Partnership with EU Jobs and Women's Engineering Society
- Increased the number of female executives
- Supported new talent through a range of opportunities and training
- Improved our gender pay gap
- Launched new Employee Communities

Read more on pages 32-37

Improving our environment

- Developed an Environmental Action plan
- Leakage of gas from our networks reduced
- First ever solar panel array installed
- Diverting over 97% of waste from landfill
- Publication of our first Safety & Sustainability Report
- Undertaken GRESB benchmarking
- Launched low/zero emission vehicles to our fleet
- ESG Benchmark score was 66% and ranked in the top 20% of European organisations
- Greenhouse gas emission reduction by 70%

Read more on pages 38-45

Supporting the energy transition

- Connection of three additional biomethane plants
- Connection of the Europe's largest bio-Compressed Natural Gas filling station
- First hydrogen being injected in our gas distribution system with HyDeploy
- Further development of the HyNet project in the North West
- Future Billing Methodology Field Trials commenced

Read more on pages 46-52

Read about our culture of innovation
Annual Innovation Summary 2019/20
cadentgas.com

Our strategic objectives for 2021–2026

Our strategic objectives as set out in our RIIO-2 Business Plan submission to Ofgem will transform experiences and set stretching ambitions for the outputs we will deliver for our customers, whilst keeping a clear focus on managing affordability through reducing bills in real terms over the period.

Our strategic objectives for 2021–2026

A Plan which has been built on insight from the **most tailored and extensive customer and stakeholder engagement process** we have ever undertaken

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

Our most stretching and tailored output commitments ever

A Plan which builds **trust that we are acting in the best interests of our communities** and embracing whole system thinking

An Environmental Action Plan which **demonstrates our leadership on tackling climate change** by innovating and driving momentum to create pathways to decarbonisation

A Plan which focuses on **improving the experience for all our customers,** including targeted support through our vulnerability strategy

A Plan which maintains the **outstanding levels of safety and reliability** that our customers rely on

A Plan underpinned by a **cultural and operational transformation** designed around delivering for all our customers and creating an environment for our employees to thrive and be proud of the service they deliver

A Plan with value at its heart, delivering improved outputs, cost savings and a real reduction in annual customer bills

Providing a resilient network to keep the energy flowing

99.9%
Reliability keeping customers on gas.

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

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

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

Tackling climate change and improving the environment

14-17%
Reduction in leakage from our network.

Road to net zero

CO_2
Significant step towards carbon neutrality in our operation by 2026.

HyNet
Innovation to decarbonise the North West with hydrogen.

Clean Gas
Enabling capacity for greener resources.

Delivering a quality experience for all of our customers and stakeholders

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

Affordability
Offering a suite of targeted interventions.

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

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

Trusted to act for our communities

£6m p.a.
>1% post-tax profit invested back into our communities through our charitable foundation – c. £6m p.a.

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

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

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

On the 9th July 2020 we received Ofgem's draft determinations of our plan. We will work closely with Ofgem to achieve a final determination that allows us to begin to deliver our commitments for 2021 – 2026.

Chairman's statement

It is a pleasure to welcome you to our 2019/20 Annual report. I am pleased with the outcomes we have delivered for the business and customers during a year that saw Cadent transition fully into a standalone entity.

"This has been an important and transformational year for Cadent."

Sir Adrian Montague CBE
Chairman

New leadership, stronger governance

I would like to begin by welcoming Cadent's new Chief Executive Officer (CEO), Steve Fraser, who took up the position in September. I would also like to thank Steve Hurrell, who performed admirably as interim CEO and has now returned to his role as Chief Financial Officer (CFO). Steve Fraser brings a wealth of experience in leading and transforming infrastructure businesses, including in his previous role as Chief Operating Officer at United Utilities. His ambitious vision includes delivering operational improvements, transforming the experience for customers and leading on the future of gas. The Board and I are supporting him and his leadership team fully to realise this vision.

Steve has already made significant changes to the Cadent management team, with the support and approval of the Board. His focus has been on decentralising the business and creating a management structure that is centred on the networks and customers. We now have a Chief Operating Officer (COO), Howard Forster, and four new Network Directors. They are part of a leadership structure that is designed to support accountability and decision-making by bringing operational planning closer to the customer and Network Directors closer to the board. On both counts, we are seeing positive results.

With National Grid having fully divested from the business in 2019, we now have a smaller, more dynamic Board. As Chairman, my priority is to provide the right balance of challenge, accountability, responsibility and support to help drive Cadent's transformation. The Board meets every two months, (there have been more frequent virtual meetings providing updates during the COVID-19 pandemic), and we have strengthened operational reporting to provide clear oversight of what is happening on the ground. I am pleased with the outcomes of this work.

Planning for the future

On 9 December 2019, Cadent submitted its final 2021-2026 RIIO-2 Business Plan to Ofgem. This submission followed a period of intense consultation that included over 1m interactions with customers and stakeholders. The plan sets out Cadent's ambition to transform the service it delivers for customers, communities and employees and we received the challenge we expected from the Customer Engagement Group. On the 9 July 2020, Ofgem released their draft determinations of the plan and we will work closely with Ofgem ahead of their final determination in December 2020 to try and safeguard that the resulting business plan sets the right level of ambition and stretching targets that are needed to deliver faster, better and more effectively for all our stakeholders.

Transforming the customer experience

In May of last year, we reached a settlement with Ofgem following historical issues we had identified and taken to the regulator. We acknowledged and apologised unreservedly to our customers and committed to transforming the business, putting customers at the heart of it.

Customers are the bedrock of the business and I am pleased that the renewed focus on customer satisfaction – particularly in North London – is starting to deliver results. While we still have some way to go, we have seen improvements in both customer service and complaint handling over the past year. These are key touch points in our relationship with customers and they will continue to be a priority.

Developing a culture of accountability

Alongside transforming the organisational structure, we are working to create a culture of accountability at every level. By bringing the planning of resources and projects closer to the point of delivery, at the individual network level, we are strengthening accountability for local decision-making. I have visited a number of local teams and I know they are relishing this greater accountability and control over their work. It is benefitting employee morale and motivation, as well as delivering significant operational efficiencies and an improved customer experience.

The changes to the organisational structure and strong focus on cost management have enabled us to deliver another set of positive financial results. This reflects the hard work of management and the dedication of the entire Cadent workforce to supporting the transformation.

Leading on safety from the top

When it comes to developing a strong safety culture, the tone at the top is all-important. The Board has a crucial responsibility to lead by example through its commitment to 'zero harm' to people. My perception is that safety awareness in the business is high. I also know it requires constant focus to maintain a high level of awareness and accountability, which is why we begin every Board meeting with a discussion about safety. Many of the accidents we see are road traffic accidents and we have focused on improving road safety and enhancing defensive driving training over the past year.

Making a positive and lasting difference

In May 2019, we announced the Board's decision to commit 1.25% of after tax profits to a community fund. The Cadent Foundation has been established and supports charities and organisations who provide benefit to communities and people that are in vulnerable situations; it also aims to support those that want to protect and preserve our natural environment and create a sustainable energy future.

Delivering vital services to customers during this time

Since the start of the COVID-19 pandemic it has been important for Cadent, as for everybody to comply with the Government's guidance on safety and wellbeing of all our customers and colleagues. Initially, we adjusted our workload to prioritise critical and emergency works whilst deferring more routine work. As restrictions eased we carefully restarted our wider programme of works in accordance with guidance. We are determined to keep up our services to the customer whilst at the same time keeping our people safe. Read more on page 13.

During this time, I have been impressed by the exceptional compassion of our employees who have helped in their local communities by delivering essential goods and supporting foodbanks and other charities. The goodwill they have shown has been remarkable and we welcome the positive feedback we have received.

Shaping the future of gas

The debate about future of gas has been rapidly climbing up the political agenda. As the UK's largest gas distribution company by a considerable margin, it is natural that Cadent should take a role as a leading voice for the industry.

Gas currently powers around 80% of homes in the UK and clean gas has a crucial role to play in the future energy mix as we transition towards a low-carbon future. At the start of 2020, Cadent became the first gas distribution network in the UK to deliver hydrogen to homes through our HyDeploy project. This marks a major step towards proving the case for the future use of hydrogen. We are also developing an extensive project to introduce a hydrogen blend into a much larger part of the network with HyNet in the North West. This complex and ambitious project will make a significant contribution to reducing carbon and will show what can be achieved by using large-scale hydrogen production to support decarbonisation in a cost-effective way. We will continue to engage with Government and regulators to create a supportive regulatory regime which is essential to securing the level of investment needed to support the journey towards net zero.

In conclusion

I would like finish by acknowledging the employees and management who have worked so hard to deliver improvements for customers and the transformation of the business over the past year. The employees I have met share an intense pride in what they do and have a firm belief in the future of the gas industry. On behalf of the Board I would like to pass on a vote of thanks for their dedication and commitment to establishing Cadent as a leading force in the industry.

Sir Adrian Montague CBE
Chairman

12 August 2020

Chief Executive's review

"I am proud of our people, values and commitment to deliver for our customers in what has been a challenging year."

Steve Fraser
Chief Executive Officer

I welcome you to Cadent's Annual report, my first as CEO. I am delighted to have joined during a major transformation of our business and also when the energy industry is working towards a decarbonised future. Since September, I have seen a huge amount of change that has been necessary to begin our journey to be a leader in our sector and to be a business that our customers love and that we're all excited to be part of.

Investing in our future

We have made significant steps forward over the last 12 months to transform our business. We are already seeing the benefits of moving to a business aligned to our four networks as it brings decision making closer to our customers and assets. I fully believe that changing our business in this way will increase the engagement from all of our colleagues and enable us to operate efficiently and effectively for our customers.

Following the appointment of our four Network Directors last spring, we've moved at pace to establish the network organisations they lead. They now have everything they need to resource, plan and deliver all emergency, repair and maintenance work within their networks. This significant change in the way we operate brings our leadership and teams closer to the communities we serve, allowing us to have a greater local impact whilst having the benefits and support of a large business.

We have significantly invested in our assets, replacing and remediating ageing pipes to improve the resilience and safety of the gas networks. I am particularly pleased with the progress we have seen on reducing interruptions within multi-occupancy buildings in North London.

During the year, our core Information Systems transitioned away from National Grid and this has progressed well. The scale of this undertaking was vast, complex and created some challenges. The whole business responded as one team to ensure we maintained our normal levels of service. The end result of this transition is a technology platform which is up to date, fully in support and gives us a fantastic foundation to transform our day-to-day operations.

Inspiring our people

We are focused on recruiting the right people, supporting them to understand their role and our values, and then enabling them to develop to the best of their abilities. Throughout 2019/20, we have continued to build on our strong values and creating a culture that reflects the business we want to be. These values are embedded into our ways of working such as our key people processes, performance management, objective setting and our recognition scheme. We are committed to developing our people throughout their whole career with us and provide a number of training and learning opportunities for our people to thrive in their role and to be the very best they can be.

I am immensely proud of all the people I have met and strongly believe that to maintain this talent and dedication, we need to work hard to inspire the next generation to become the future engineers and scientists our country desperately needs.

I am determined that we will rise to the challenge of that ambition. To meet the net zero challenge and to ensure we build a low carbon future, we need to make sure we are reaching the best and the brightest – no matter what their background. However, there is still a significant gender gap at all points of entry and we have a way to go before our workforce really reflects the communities in which we live and work. I have made steps with my leadership team to ensure I have the very best people in every role and this represents a wide spectrum of diversity; this has given me a hugely talented and inclusive team.

Every day I meet passionate and brilliant people who are capable of making our business and industry the very best it can be. I am committed to supporting them and helping to create an exciting, rewarding and attractive industry to work in.

Transforming experiences – Customer, Communities, Colleagues

Operating a safe and reliable network is paramount for our customers and stakeholders, however, to transform experiences, more is expected. They expect us to be flexible in how we operate and to focus on minimising the disruption caused by our work. They have asked us to ensure that our services are inclusive and accessible to all and that we are transparent in how we operate, supporting the communities in which we serve. Additionally, they expect us to provide enhanced services to those in vulnerable situations, including those living in fuel poverty, and to ensure that we are delivering great value for money by operating efficiently, continually seeking ways to reduce costs and ultimately the impact we have on customer bills.

It is against this backdrop that we submitted our RIIO-2 Business Plan to Ofgem in December 2019. In it, we make four commitments; I want to take a moment to reflect on each of those commitments, and our progress towards delivering them.

Providing a resilient network to keep the energy flowing

We have taken significant steps to modernise our gas networks and last year we renewed 1,809km of gas mains taking our overall replacement figures from 2012/13 – 2019/20 over 11,000km. This work additionally prepares our network to meet the challenges of the UK's net zero commitments. I am pleased with our progress however there is more to do to ensure continued safety and reliability.

This year we have achieved 99.998% reliability, with one of the lowest levels of supply disruption seen since the start of the RIIO-1 period.

I'm pleased to say that we've had a good year in delivering our safety commitments. The safety of our customers, our people and our extended workforce, as well as those living near our assets is of paramount importance. I know this is an area we can never be complacent about. We will continue to reinforce our process and personal safety culture to give our people the tools, knowledge and confidence to make good decisions.

A quality experience for all our customers and stakeholders

I am passionate about improving the experience that our customers have when they come into contact with us, which is why our customer strategy goes well beyond basic customer satisfaction and complaint handling measures. We are striving to identify and better understand the needs of all of our customers and stakeholders and will set high standards and benchmarks to add value and improve their experience when coming into contact with us. I'm pleased that our customer scores have improved over the last two years, which is a considerable annual improvement when compared to any Gas Distribution Network (GDN) during RIIO-1.

Our Customer Vulnerability Strategy has been developed over the last 18 months with input from thousands of our customers, stakeholders and expert organisations working to support those who are in vulnerable situations or have additional needs. We are committed to continue our leading role in creating a single Priority Services Register and will be relentless in raising awareness to the dangers of carbon monoxide.

We are really pleased with the work we have done so far and will continue to challenge ourselves to go above and beyond for those most in need.

Chief Executive's review
continued

Tackling climate change and improving the environment

There has never been a more critical time to address Climate Change and deliver net zero emissions for the benefit of all of us and we take our role very seriously in this. We know that the scale of investment and change needed to deliver this in an affordable, secure and sustainable way should not be understated. It is important that government, regulators and businesses strike the appropriate balance between delivering the critical long-term needs for future consumers with affordability for existing consumers. The need to stimulate and incentivise the necessary investment and commitment in both public and private sectors will be critical to achieving net zero.

In the last 12 months we have continued to be at the forefront of developing practical pathways for clean gasses such as biomethane, BioSNG and hydrogen through landmark innovation projects – and in early 2020, we became the first gas company to trial a 20% blend of hydrogen into a public gas network through our HyDeploy project at Keele University.

In the North West, we have also seen significant progress with the HyNet project. Working as part of the HyNet consortium we have developed plans for at-scale hydrogen production via Steam Methane Reformation and Carbon Capture between Liverpool and Manchester, and associated hydrogen gas distribution infrastructure. Earlier in 2020, Government funding was announced to support HyNet moving to its next stage of development. This was an excellent commitment towards tackling climate change and improving the environment, and one I was delighted to see Government take.

This year we also launched our first biomethane powered HGVs, compressed natural gas, electric and hydrogen vehicles into our fleet, so we deliver equipment to our depots across the country in an environmentally friendly way. You can read more about the progress we have made with our fleet on page 45.

Trusted to act for our communities

Being an active part of the communities we serve is the foundation of our business. We demonstrate our commitment by the interactions we have and the decisions we make every day in support of our communities. The great work our networks demonstrate at a local level can be highlighted through the range of volunteering and charity efforts where we have shown outstanding support to our local communities. You can read more about the ways we have supported our colleagues and communities throughout the report. We have a strategy which is supported by our independent Customer Engagement Group (CEG) who have been relentless in challenging us to do better.

This year we launched our Trust Charter as we believe acting in a trustworthy way is more than just about how we engage with people it's about what we deliver for them too. This charter is the culmination of much hard work to ensure we put our customers at the centre of everything we do, and build trust based on our actions.

As we finished the year we were confronted with the COVID-19 pandemic, we have all had to learn and adapt quickly during a difficult and challenging time. We have introduced a COVID-19 statement to describe more fully our actions and any implications to the business. I have been impressed by the commitment and support shown throughout the business. There has been a great determination to deliver outstanding services for our customers, especially those in vulnerable situations, so they continue to receive the services they need. We understand there will be many challenges ahead and we are prepared to face them head on. We all have a part to play to address the new ways of working whilst we continue to deliver for our customers and support the rebuild of our economy.

> **"I want our customers to feel a change in the way we understand them and meet their needs. We have set high standards for ourselves and must be courageous in changing the way we serve them."**

Delivering on our commitments

I have been incredibly impressed by the strength and determination of everyone in the business to aspire to build a company that truly delivers for our customers, stakeholders and society as a whole. This year we have taken major steps towards that goal. That's not to say we don't have challenges, but in these times of economic and social uncertainty I believe the steps we have taken over the last 12 months set a solid foundation for the future.

I believe that the plans we have in place for the future will help us meet our vision for our customers and I look forward to working with Ofgem ahead of their final determinations to agree, and begin to deliver, our Business Plan commitments for 2021 – 2026. This is a moment to reflect on our achievements over the past year but also a time to accelerate our plans. Everyone at Cadent should be proud of what we have achieved over the last 12 months and we should look forward to the exciting future ahead.

Steve Fraser
Chief Executive Officer

12 August 2020

COVID-19 Statement

Supporting our customers, communities and colleagues in a challenging time

In March 2020, at the start of the COVID-19 pandemic, we took immediate steps to implement our business continuity plans ahead of the lockdown announcement by the Government on the 23 March. We quickly adapted and prepared; carrying out specific risk assessments for our essential services, prioritising emergency response and urgent safety issues to keep the gas flowing and the National Gas Emergency Service fully operational. Our critical operations continued with the appropriate policies and Personal Protective Equipment (PPE) and office safeguarding in place.

We took the decision to move our office-based staff out of their usual location and asked them to work from home. Following a significant systems upgrade in 2019, we already had the technical capabilities to support this action and the business has continued to operate as usual.

During the lockdown period, our customer facing iron mains replacement and new connections work were suspended in line with Government guidance.

We continued the critical maintenance and repair work needed, whilst making sure we followed Government guidance and taking extra safety precautions when we enter customers' homes, businesses, schools and hospitals. Many of our customers found themselves in vulnerable situations, beyond those registered on the Priority Services Register (PSR). We put in place numerous additional checks and processes to allow our people to respond accordingly.

We have worked closely with Ofgem, the Health and Safety Executive (HSE) and the Department for Business, Energy and Industrial Strategy (BEIS) to make sure we maintained an effective response across the industry. We were proud to become the first GDN to sign the COVID-19 Business Pledge. The pledge encourages businesses and other organisations to find creative ways of supporting the NHS and the public throughout the crisis and this includes taking measures to ensure their own staff's mental and physical health.

This has been demonstrated throughout our networks as we have proactively taken steps beyond business as usual, to deliver a huge response to keep our customer and colleagues safe, supporting those who need us the most, through a range of initiatives and volunteering opportunities as well as supporting our NHS in their vital work.

Maintaining clear and concise information for our customers and colleagues through a range of communication channels has been essential throughout the lockdown and easing periods as well as launching a radio campaign to provide reassurance as we carry out essential work.

In April, a full remobilisation plan was developed to enable us to move forward with our work effectively once restrictions eased. In May, we carried out a trial mains replacement project in Doncaster to measure customers' acceptability of our work. This trial was very successful and further trials were carried out in each network during May and early June. As restrictions eased on the 15 June, we have continued to work closely with the HSE and BEIS to ensure that the safety related considerations of restarting our mains replacement work, which involved customer contact has been able to resume at the earliest opportunity.

We do not currently see an early return to our offices for our office-based staff unless there are operational or health and wellbeing concerns. The office environment that they return to has been transformed, to provide the necessary safeguarding to reassure any safety concerns. This includes heat cameras at entrances, one way signage around the offices and desk spacing compliant with Government guidance.

We continue to follow all necessary guidance whilst working closely with Ofgem, HSE and BEIS to navigate the pandemic and continuously monitor our business continuity plans and working practices to make sure our people stay safe and we keep the energy flowing for our 11m customers.

COVID-19 Statement
continued

Financial impact

The COVID-19 pandemic has had a negligible impact on our income statement, statement of financial position and statement of cash flows for the 2019/20 financial year.

The effects during the short period leading up to the year end were; as a result of self-isolation and shielding guidelines we have experienced increased levels of staff absence but this has not impacted on our ability to maintain the high standards of customer response and service; a very small impact of additional and different PPE; and the small cost of establishing access to home workers of our virtual private network (VPN). We took a very early decision to continue to pay all of our employees normally and have not utilised the Government furlough scheme. Aside from the deferral of VAT Cadent has not benefited from other Government support schemes.

For 2020/21, we expect some continuing impact, driven by additional direct COVID-19 costs for items such as PPE and employee absence for self-isolation and shielding reasons. We also anticipate that the refocusing of our capital programmes, in particular the iron mains replacement programme, will cause a reduction in the volume of work delivered however we are anticipating higher unit costs to deliver this work programme will been seen for some time to come. We are actively engaging with Ofgem regarding the treatment of any affected regulatory output measures linked to COVID-19 and how these will be dealt with in the remaining year of this regulatory period RIIO-1 and the implications to our RIIO-2 Business Plan submission for output commitments made from April 2021, together with the treatment of costs directly or indirectly incurred as a result.

The Audit and Risk Committee discussed the implications of remote working on the application of financial controls and reporting in their meeting in July 2020. The committee was satisfied that effective controls remained in place.

Shipper income and credit risk

Our transportation income, which represents over 93% of our total revenues is invoiced to shippers based on their agreed capacity with only around 3% of these revenues linked to volume of gas used. This linkage provides a significant insulation from fluctuations in gas demand that have or might result from COVID-19. To the extent that revenues do reduce as a result of lower gas consumption any shortfall will be recoverable through transportation revenues in subsequent years.

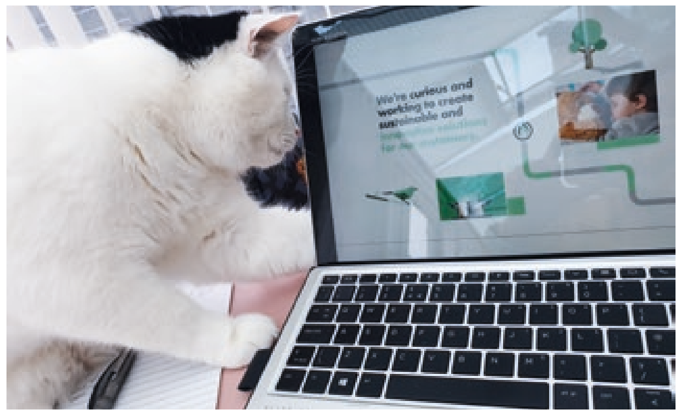
We have assessed whether there is any impact of COVID-19 on the recoverability of trade and other receivables. Given the nature of the business our principal commercial exposure relates to shipper income which is governed by Section V of the Gas Transportation Uniform Network Code. There are a number of actions we take to mitigate credit risks including the holding of security in the form of cash, obtaining letters of credit and ensuring major diversionary work is invoiced and paid in advance of the work commencing.

Changes to the Uniform Network Code are required to be agreed across the gas industry with involvement from Ofgem and we have actively engaged with Ofgem to help protect shippers and suppliers by supporting the proposal for the 'COVID-19 Liquidity Relief Scheme'. This will involve the relaxation of network charge payment terms for those suppliers and shippers who are facing cash flow challenges as a result of COVID-19 whilst ensuring that Cadent is not exposed to any credit losses that might emerge should a shipper subsequently fail. We have capped our exposure to the timing of these deferrals to £50m and all deferrals are scheduled to be repaid prior to March 2021. We believe that this is in the best interest of the wider gas supply market whilst ensuring that the transportation sector is insulated from these risks.

Liquidity risk

We have assessed whether there is any impact of COVID-19 on our liquidity risk. Between March and June 2020 Cadent took advantage of the VAT deferral scheme deferring a total of £69m to be paid to HMRC by 31 March 2021. At 31 March 2020, Cadent had undrawn credit facilities and cash totalling £844m made up of available Revolving Credit Facilities of £500m, investments in short-term money funds of £327m and cash of £17m. We also retain the capacity to raise additional debt if required from the debt capital markets, the recent interest in the debt transaction completed in March 2020 demonstrates significant demand remains for Cadent debt. With no term debt due to mature until September 2021 and the high degree of predictability of our regulated revenue and operating and capital expenditure, Cadent has assessed the liquidity risk as low but we continue to monitor this very closely.

Notwithstanding the high degree of certainty over our cash flows we have assessed a series of sensitivities to cash flow (including to revenues, operating expenditure, capital investment, inflation and interest rates) and believe that the level of cash and undrawn facilities provides adequate protection against reasonably possible downside changes in our assumptions should COVID-19 persist.



Supply chain

We continue to work with our supply chain so that our systems and networks have the necessary materials and parts to allow us to continue to operate our critical activities and maintain the safety of our assets. We have successfully increased procurement of the appropriate PPE to ensure the safety of our employees and their interactions with customers to allow our safety critical work to be completed whilst complying with the relevant guidance. This now also applies to the resumption of our connections and iron mains replacement customer facing work. As a mitigation against the Brexit risk we had already increased our inventory levels of priority materials; these inventory levels will be maintained going forwards as a precaution against COVID-19 and our departure in December from the EU. Our regular engagement with Government and our regulators, as well as following all restrictions regarding management of the spread of COVID-19, is expected to continue for the foreseeable future. We have met supplier liquidity issues with a more flexible payment regime to help sustain those business affected.

Pensions

In light of COVID-19 and the resulting impact on financial markets there is significant uncertainty over certain pension asset valuations, particularly of the property (£273m) and unquoted equities (£730m) portfolios which together represent c.15% of the £6,492m asset value as at 31 March 2020. A higher degree of caution has been attached to the property valuations received from external parties due to the unknown future impact that COVID-19 might have on the real estate market. For the property portfolio, our valuation reports from our surveyors are subject to material valuation uncertainty clauses as set out in the Royal Institution of Chartered Surveyors (RICS) guidance due to the impact COVID-19 has had on previous market evidence, however, we do not believe that this is likely to result in a material change in the value disclosed. For unquoted equities where it was not possible to obtain valuations at 31 March 2020 (£54m of the £730m unquoted equities portfolio) a benchmark reduction based on market evidence has been applied.

Going concern

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

Management have performed analysis of the potential impact of the COVID-19 pandemic on revenue, profit and cash flows. As the vast majority of revenue is set in accordance with the regulatory charging methodology which, being a capacity-based regime, provides relative stability and predictability of cash flows, the overall impact was limited. The analysis included modelling both the base case and a reasonable worst case scenario cash flow forecast that factored in the key impacts of COVID-19 including additional one-off increases in other costs such as cleaning, safety equipment, IT and employee absence, the refocusing of our capital programmes, reduced revenues as a result of lower gas consumption and additional working capital requirements from the shipper relief scheme or from any potential supplier failure. The forecasts were considered against the ability to access existing undrawn facilities alongside its ability to access long-term debt markets (a recent transaction in Cadent Finance Plc in March 2020 was significantly oversubscribed) and short-term cash positioning. Where required, available mitigating actions to maintain liquidity (including for example reducing discretionary costs and deferring expenditure) were considered as part of the assessment. It was concluded that sufficient headroom existed in the forecast and against the requirements of our key banking covenants of net debt to RAV and Interest Cover Ratio. Management therefore concluded that no reasonably possible downside scenario existed wherein Cadent would be unable to continue as a going concern. After due consideration and having concluded there were no material uncertainties, it was recommended to the Board in August 2020 that the financial statements be prepared on the going concern basis.

Our year in review

Putting our customers and communities first

"The best way for us to learn about our customers is to embed ourselves within their communities: to be both visible and available at a local level, securing the trust of our customers and those who represent them."

Mark Belmega
Director of Customer Strategy

Putting our customers and communities first

There is an expectation across all areas of society that businesses provide great services to all their customers. There is a demand for availability, responsiveness and flexibility from customers in all sectors and regulated companies like Cadent are no exception.

Transforming our services

Our vision is to set the standards that all of our customers love and others aspire to. Customers expect more from their service providers than ever before, and our insight shows that they have even greater expectations of utility companies.

We want to do much more than simply maintain and replace the gas pipes; our aim is to provide a service that our customers love, keeping them safe, warm and independent in their homes.

Customers expect us to be flexible in how we operate and to focus on minimising disruption levels from our work. They have asked us to ensure that our services are inclusive and accessible to all and that we are transparent in how we operate, supporting the communities in which we serve. Additionally, they expect us to provide enhanced services to customers in vulnerable situations, including those living in fuel poverty.

We are making great progress

Our strategy, which enables a customer centric approach, is based on six pillars, each designed to support our people to put customers at the heart of their decision making and focus. The diagram to the right describes these six pillars and the progress we've made against each over the year.

Customer Strategy

Our aim: To provide outstanding service levels to all of our customers, no matter what their personal circumstances.

Customer-centric operating model
- Localising Complaints Handling
- Operational Transformation
- Connections Transformation

Multi-channel inclusive communications
- 10x Social Media Presence
- Website Accessibility
- SMS Usage Increase

Enhanced engagement and real-time insights
- Future Contracting Strategy
- Staff Pay Deal
- New Terms and Conditions

Our customers

Targets and incentives aligned to customer needs
- Rant and Rave
- Surveys (e.g. social media discussion forums)
- Sentiment analysis

Big data and analytics
- Customer Data (Xoserve)
- Regional Database Management System (RDMS)
- Customer Insights Forum

Technology-driven automation and efficiencies
- AI and Machine Learning
- New CRM System – single customer interface
- Chatbots and webchat

A joined-up approach across Cadent, linking people, processes, systems and data

Protecting against scams

In November 2019, we joined forces with National Trading Standards and major names in the UK energy, water and communications sector to launch Utilities Against Scams (UAS), to train our colleagues to help spot, stop and prevent customers being duped by scams. We will commit resources to provide consistent training for colleagues interacting daily with customers in their home, on the phone, or digitally. They can then easily spot warning signs, provide help and report potential scams. Scams are becoming more commonplace, more sophisticated and harder to spot. We are in an ideal position to support people who may be targeted, to spot tell-tale signs and act. Utilities Against Scams creates a clear and consistent approach in how we do this. We continue to share top tips for customers on our social media channels and our website in conjunction with distributing a wide range of materials such as notepads and window stickers to highlight tips and guidance.

A focused approach to improving experiences

At the beginning of the year we identified four strategic customer improvement projects that have run throughout the year. We used the insights gained through our stakeholder engagement programme and those received everyday through our interactions with customers.

Customer Transparency
- Review of all end to end mains replacement communications
- Website refresh including suite of videos giving context for works and what customers can expect
- Increased use of SMS to manage planned appointments and provision of updates to customers
- Targeted engineer training focusing on on-site communications

Domestic Connections
- Network alignment to back office planning and customer facing teams, single point of customer contact through our Site Managers
- Account management for high volume customers with jeopardy management for 'at risk' appointments
- Improved online services including self quote options
- Customer incentives implemented across delivery partners

Reinstatement and Site Tidiness
- Delivery of backfill reinstatement jobs through Repair teams rather than utilising sub-contractors
- Best practice, cross-network group established to drive consistency and accelerate improvement initiatives
- Reinstatement optimisation pilots launched across E2E, focused on improving handovers and customer experience

Supply Interruption
- Improved operational focus for same day emergency response for customers off gas
- Purge and Relight service levels reduced by 50% to drive more efficient supply restoration for customers
- Operational transformation programme delivered for customers in multi-occupancy buildings, driven by our North London network and rolled out across our footprint

Putting our customers and communities first
continued

Customer satisfaction

We have achieved a considerable improvement in many of our customer service measures. In particular, we have focused on minimising the volume and average duration of gas supply interruptions for our customers. You can read more about this on page 30.

Based on feedback received directly from our customers, and insights gained from a range of data sources (for example customer satisfaction surveys, SMS feedback, complaints and social media), we have noted significant improvement in customer service levels as a result.

For each of our four networks we measure customer satisfaction across the three primary customer facing areas of our business: emergency response and repair, planned works and connections. During 2019/20, we have improved across all three areas, which is a considerable annual improvement when compared to any GDN during RIIO-1.

Improving the Connections experience

Over the past few years, our customer satisfaction scores for connections in North London have been lower than in other networks, and this year we set out to understand why, and crucially, what we could do to deliver lasting change. We analysed our complaints, enquiries and customer satisfaction data to understand what we needed to improve and engaged with stakeholders and partners to review industry best practice and strategies for success.

This enabled us to identify and act upon the following four areas of improvement:

- Getting the first customer touchpoint right: We have adjusted our back-end processes to ensure we can deliver a quotation for customers efficiently during first contact, giving them clarity and certainty on next steps and expected timelines
- Ensuring a site survey within three days: We are now working towards a commitment that within three days of accepting a quotation, a Site Manager will visit the customer to discuss the details of their work
- Doorstep planning: As part of the site survey, we now offer customers options on the dates for physical works completion, giving them the flexibility to adjust timescales
- Engineer incentivisation: We have introduced new customer performance incentives for teams, giving them an opportunity to increase their earnings based on customer satisfaction returns scoring above 8 out of 10

As a result of these changes, we have seen significant improvements in our North London network connections performance, including several consecutive months of customer satisfaction scores of 9.30/10 and above. We have delivered 97% of quotes within three days and have substantially improved our complaints handling score. We are using the learnings from North London to improve connections performance across all of our regions.

Customer satisfaction

Performance by Network	Emergency Response & Repair	Planned Works	Connections
East of England	9.49	8.47	8.46
North London	9.08	7.97	8.73
North West	9.49	8.41	8.34
West Midlands	9.47	8.11	8.05

Scored out of 10.

Supporting customer complaints

We have continued to refine our processes to find the optimum balance between central oversight and expertise with local performance drive and accountability. With these changes now in place our overall responsiveness to complaints and enquiries has improved further. The table below shows our continued improvement in this area.

The regulatory complaints score is driven from speed of resolution, number of repeat complaints and ombudsman cases. The lower the score the better the performance. See Glossary for full definition.

Complaints	2018/19 (D1*%)**	2019/20 YTD (D1%)
East of England	2.81 (76%)	3.06 (74%)
North London	3.50 (72%)	3.15 (73%)
North West	3.20 (74%)	2.35 (79%)
West Midlands	4.43 (69%)	2.25 (79%)

* Same day closure.
** Scoring of complaints resolution – Ofgem state scores should be below 11.57.

"We have continued to deliver improvements to our overall customer experience including our responsiveness to complaints, ensuring we really learn from our customers' insights. We are realising the benefits from our network aligned operating model and empowering our operational teams to go above and beyond."

Dan Adcock
Head of Customer Centre

Supporting local foodbanks

Last year we supported a number of foodbanks within our networks and local to our main offices. Our independent charitable foundation, Cadent Foundation, made a £240,000 commitment to support the Trussell Trust in response to the COVID-19 pandemic. Our people have also been helping out foodbanks with their own initiatives. Garston-based first-call operative (FCO) Micky Nutt, helped provide hundreds of meals for local Widnes Foodbank by collecting Love2Shop vouchers the company had given colleagues at Christmas. With £595 worth of vouchers, Micky bought products the foodbank told us they needed and then delivered it to the warehouse. We handed over 190kgs of food, which we now know has enabled them to make up 454 meals.

Meanwhile our big-hearted colleagues in Birmingham turned the tables on supermarket panic buying during the lockdown by donating a van full of groceries to the city's Narthex Sparkhill Foodbank. Habib Rehman, an FCO from Erdington, organised the foodbank appeal in response to the pandemic. Local teams emptied their cupboards, added extra items to their shopping trolleys and donated cash, enabling Habib to deliver a van full of groceries to the foodbank. The foodbank was really appreciative, their supplies were running quite low, so the delivery arrived at just the right time. It's good to know that we're helping those most in need during a very difficult time.

Putting our customers and communities first
continued

Engaging with our stakeholders

Effective, well defined, ongoing engagement is a critical element in ensuring that we continue to deliver the best possible experience to our customers now and into the future.

Our stakeholder engagement activities enable us to:

- Support the delivery and shape the development of our RIIO-2 Business Plan
- Assess how we are performing against our company vision statement and the four strategic objectives that underpin our vision
- Build trust and stronger relationships with our stakeholders
- Establish and maintain a fully engaged workforce with clear and consistent focus and strong delivery plans
- Be a key enabler in helping us to anticipate changing customer or societal needs and expectations as well as shape the future, in particular when we consider the current uncertainty that exists around future energy policy and joining up thinking across (and beyond) the industry

Centrally defined, regionally delivered

This regional approach to engagement delivery is essential to the success of our central engagement strategy. Our network spans four distinct geographical areas with stakeholders, customers and communities that are diverse, with differing needs.

Customer strategy

Our customer strategy underpins our enhanced engagement strategy and programme of activities, allowing us to gather real-time data from stakeholders and convert this into immediate action to be delivered in an agile way, so that the outcomes and benefits can be realised immediately.

Customer vulnerability strategy

Our customer vulnerability strategy applies a focused lens on engaging with those customers who need extra support from us. Often, we utilise strategic partners to deliver engagement as some of the most vulnerable people in our networks are the hardest for us to reach.

Data-driven decision-making

These three strategies are informed by robust data that enable us to develop the solutions that our customers need and identify areas in our network where we can make a sustainable difference.

Customer Engagement Group

Our independent Customer Engagement Group (CEG) has provided robust challenge for our RIIO-2 Business Plan, but also our ongoing customer and stakeholder engagement processes and our strategic approach to delivering consistently great outcomes for our customers. We meet with our CEG and have established a number of smaller working groups to allow more regular and detailed challenge be applied to areas such as how we engage with customers, our investment strategy and our approach to support customers in vulnerable situations. The CEG has interaction with our Board providing direct feedback, challenge and assurances.

Summary of our strategies

Customer vulnerability strategy

Our aim: Keep all of our customers safe, warm and independent in their home regardless of their personal circumstances.

Strategic Approaches

Positioning Robust governance through all levels of the organisation	**Data** Enhanced use of data and better understand vulnerability	**Services** Co-created through ongoing stakeholder engagement
Partnerships A truly joined-up partnership environment	**Training** Investing in our people to support them to be able to act	**Leadership** At the forefront of promotion and awareness

Core Objectives

Improving accessibility and inclusivity of our services	Going beyond to never leave a customer vulnerable without gas	Raising awareness of the dangers of carbon monoxide (CO)	Tackling affordability and supporting customers in fuel poverty	Increasing registrations on the Priority Services Register (PSR)

Supporting customers in vulnerable situations

We have considered a number of factors in this area, including what we mean by vulnerability, and the outcomes that customers and stakeholders tell us that they want. We have created our definition of vulnerability alongside numerous expert stakeholders (e.g. Citizens Advice) and have subsequently tested it with Customer Forums.

We define customer vulnerability as a situation, be it transient or permanent that can impact a customer at some point during their life. Vulnerability can arise through changes that happen both inside and outside the energy industry. Those customers who find themselves in a vulnerable situation are more affected by our action or inaction than other customers.

Our strategy for how vulnerability is best managed, factors in our internally generated data, feedback from customers and stakeholders, our own lessons learnt and evolving best practice noted from others. Our thinking is informed by Ofgem's definition of consumer vulnerability, and also takes into consideration the levels and types of vulnerability faced by our customers today and how this is likely to change over time.

Improving accessibility and inclusivity of our services

We have worked hard across the year to provide greater equality of access to our services, and be smarter about what those services should be. We have extended our existing contract with Language Line to provide all colleagues with 24/7 – 365 days a year access to translation services.

In addition, we are also using SignLive, who provide a live British Sign Language (BSL) service on the doorstep, enabling us to use modern technology, like smart phones and tablets, to have three-way conversations with customers who cannot hear.

We have added Recite Me to our website, which supports customers with neurodiverse needs and learning difficulties, by giving them the tools to customise the look of our website so that it works best for them. It includes a translation tool into 100 languages; 35 of which are spoken.

We have produced a new suite of customer videos which is available in the most prevalent languages in our networks. These have been shared with our partners and across social media; using geotargeting, we have engaged over 200,000 hard-to-reach people.

Putting our customers and communities first
continued

To ensure our website is accessible for users who have impaired vision, learning disabilities and deafness/impaired hearing, we have worked with the Digital Accessibility Centre (DAC) to make improvements. This includes over 50 major adaptations overall and we were recently awarded DAC Accreditation, conforming to level AA of the Web Content Accessibility Guidelines (WCAG 2.1).

Priority Services Register (PSR)

We continue to play the leading role seeking to establish a single PSR across all UK utilities, building on the success of establishing a common set of codes now universally applied across the energy industry. We are ensuring that the needs codes drive smarter actions, and have improved our systems and processes to reflect this approach. These changes benefit all Gas Distribution Networks, and this collaboration enables utilities to proactively design new procedures to provide a better experience for customers in vulnerable situations. Our ultimate aim is to make the PSR more tailored to customers' needs and increase registrations.

We continue to lead utilities (gas, electricity, water and communications) on how to practically embed the Mental Capacity Act (2005) into everyday interactions to support customers who suffer from fluctuating or reduced mental capacity.

Raising awareness of carbon monoxide (CO)

In 2019/20 we have built on the previous success of Safety Seymour, an initiative aimed at raising awareness of carbon monoxide with school children aged 6-8. He has continued his mission by visiting a further 8,070 school children across our networks, an increase of 20% on last year. Safety Seymour is recognised by the industry as best practice, and has been adopted by the other GDNs, who are promoting Safety Seymour in their networks. Due to the success of Safety Seymour, this year has also seen the creation of another CO education programme targeting children in their last two years of primary school. The CO Crew will further consolidate children's awareness from Safety Seymour and has been trialled this year. Following feedback and testing, this will launch fully across our footprint in 2020/2021.

We have partnered with Hazard Alley, a children's safety centre in Milton Keynes, to help deliver Safety Seymour sessions to over 10,290 children in our East Midlands area and have worked collaboratively on ensuring CO messaging is delivered as part of their home safety sessions at the safety centre.

Working with Queen Alexandra College in Birmingham, we have crafted Safety Seymour training for young adults with learning difficulties, which is especially important for those going into independent living. We have also led on a joint GDN initiative to build on last year's successful campaign through Fun Kids Radio, utilising podcasts and online services to broadcast the hugely successful Safety Seymour initiative.

We continue to work closely with

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Fire and Rescue services in our networks

Engaging in new ways to reduce fuel poverty

There are many families who have to choose between heating and eating and this can have a serious effect on physical health and mental wellbeing. Working in partnership with Affordable Warmth Solutions (AWS) we can tackle fuel poverty across our networks.

Over the past 12 months, 2,252 homes across our footprint have received a free or discounted fuel poor gas connection. These connections can be split into two categories, community schemes and one-off connections. 1,281 connections were made as part of community schemes, whereby the gas network was extended through laying new mains to serve multiple properties in housing estates, cul-de-sacs and mobile home parks not previously connected to the gas network.

In addition, 971 one-off connections were made, whereby a single service is laid to a fuel poor home; bringing that property onto the gas network and a more cost-effective method of heating their home.

Connected for Warmth

This year, we have supported AWS to launch Connected for Warmth, a new industry-wide scheme offering fully funded gas central heating systems to over 1,000 low-income private sector homes.

To promote Connected for Warmth and support our broader engagement strategy, AWS has invested in a unique marketing vehicle which introduces our services and expert advisors to communities in a relaxed, informal setting. This has proven to be much more engaging than using traditional methods such as direct mail and advertising, as it facilitates positive, potentially lifechanging face-to-face conversations without the pressure of doorstep visits.

Making a difference

Alzheimer's Society

In the UK today 850,000 people are living with dementia, and 225,000 will develop dementia this year. That's one person every three minutes. The Alzheimer's Society is our corporate charity partner. Our employees have shown great commitment to the cause. Sponsored skydiving to marathon running have collectively helped us to exceed our £200,000 three year partnership target, ahead of June 2020. Dementia awareness still features as one of our partnership commitments and we pledged to take that awareness out into schools in our networks, receiving extremely positive feedback in the North West from the first sessions delivered. In February, we also pledged to continue to make a positive difference to the communities we serve by extending our partnership with Alzheimer's Society until March 2021, taking a lead in supporting customers in vulnerable situations.

89%

of our colleagues are Dementia Friends

Advancing the role of Dementia Friendly Utilities

We lead and chair the National Mental Capacity Forum (NMCF) Utilities Working Group, and this year we have used this platform to spearhead a series of cross-industry safeguarding initiatives. At the UK Energy Innovation Awards 2019, we launched a new cross-industry project to develop a pipeline of dementia-friendly utilities innovations, and fully funded and delivered a 'Dementia – Call 4 Action' workshop in collaboration with Energy Innovation Centre and Alzheimer's Society.

All attendees, including innovators, networks and charities, received Dementia Friends awareness and were asked to use this insight to collaborate on innovative ideas to support people living with dementia. We are reviewing the proposals and progressing the most appropriate ideas into production.

Volunteering

Our volunteer commitments demonstrate our value of Community. Activities over the period included decorating a 12 bedroom homeless accommodation and cleaning Southend Beach in a day. Our commitments also offer the opportunity for our people to enhance their personal development, building on or developing new leadership skills and qualities. The teams often go above and beyond in their efforts to make a positive difference to the communities they serve, typically helping organisations who need it the most. Increased engagement over the year has supported 125 colleagues delivering 788 volunteering hours which have directly benefitted over 41,000 people across our networks.

Our year in review

Ensuring a safe and reliable network

"We are driving improvements in our networks that are required to keep the energy flowing safely and reliably whilst keeping investment at an affordable level."

Howard Forster
Chief Operating Officer

Ensuring a safe and reliable network

Our people are at the heart of a commitment to keep customers safe, warm and connected across four networks, each with their own geographical and social requirements. To achieve this, it is critical that our people understand customers individual needs and feel supported, engaged and trusted to act for the communities in which we serve.

Transforming our operations

In early 2019, we started a transformation programme to bring local decision making closer to our assets giving our four networks the accountability to develop strategies which reflect the needs of customers, improve performance and deliver great outcomes.

We have made significant progress against our business transformation programme developing our four networks through our Network Directors to focus our detailed operating model on 28 areas , each with clear accountability for delivering its customer, regulatory, safety and financial targets. Our organisational transformation relies on us being set up to work differently with a focus on building local capabilities including; Emergency and Repair, Local Asset Management, supported through collaboration and practices of Commitment Based Management and delivering Customer Connections.

We have been working on developing local supply chain partnerships with a focus on upgrading our networks and increasing customer engagement. These changes have been driving improvements and we are already seeing a positive impact on the overall customer experience

We've also started to establish the foundations for the delivery of future mains replacement programme. Whilst most of our programme to the end of this RIIO period will be delivered by our two Strategic Partners, we have initiated new Construction Service arrangements in our North West, West Midlands and East of England networks modelled on the way we will operate in the next RIIO period from April 2021 using four Construction Management Organisations. This has required us to create Investment Planning Offices, so we can bring critical design decisions in-house ahead of RIIO-2. As well as developing these new arrangements, we've continued to drive the programme to deliver against our RIIO-1 Ofgem and HSE targets with continual improvements in delivery rates throughout the year.

Delivering a reliable gas supply

Our customers expect gas to be there when they need it, and expect us to respond quickly when it isn't. We manage over 131,000km of pipeline and this can present us with a range of challenges. In 2019/20, we have focused on reducing the number of times customers gas supply is interrupted and increasing the speed at which we get their gas switched back on when there is a problem. As a result we have seen a significant reduction in the number of unplanned interruptions in 2019/20 compared to the previous year, including more than halving the number of times multi-occupancy buildings have experienced an unplanned interruption. Our network performance is underpinned by a focus on safety and wellbeing of customers, employees, contractors and members of the public. We are proud to provide overall network reliability of 99.998% which delivers a service that our customers rely on and demonstrates our commitment to improve experiences.

Improving service in multi-occupancy buildings

We have transformed our approach to those living in multi-occupancy buildings. By reviewing our processes, resource requirements and innovations we have dramatically improved customers' experiences. Improvements have been achieved when it comes to the quality of survey undertaken and the level of detail relating to the asset condition. This is proving so successful that work to rectify defects at the base of gas risers can now be completed without any interruption to the customers' supply; using the Micro-stop system to undertake Live Service transfers on buildings has facilitated this improvement.

Rapid response to emergencies

Almost 25 years after the North London gas network first started using motorbikes, the fleet has undergone a major expansion with our emergency biker capability being tripled to include both its North West and East of England networks. Over the past year, the North West network has blazed the expansion trail with a successful trial of the bikes where engineers reached potentially life threatening incidents 50% faster, than by van. The motorbikes enable our engineers to get to incidents faster but with enough onboard storage capacity to still carry the tools and equipment they need to safeguard life and property.

They're especially useful in congested urban areas like London, Manchester and around the M25 in places like Hertfordshire, as our engineers can filter around through the traffic and get to where they're needed fast. From ensuring major events in London have not been disrupted to our recent successes in Manchester, we have shown that motorbikes still have a strong future as working vehicles in the 21st century.

In 2019/20, we have carried out surveys on more than 3,553 gas risers in high-rise building across our networks and on 9,476 gas risers in medium-rise buildings to ensure our pipelines are safe and maintained. As a result of these surveys we replaced and refurbished 954 gas risers in multi-occupancy buildings.

We have multi-occupancy managers in place who are focused on communicating effectively with customers, building owners and local authorities to deliver a successful result for customers. Whilst this has been an achievement for all networks, our North London network has led the company in delivering this step change in performance and continues to push forward to find further innovative opportunities to minimise disruptions.

Responding to gas emergencies

We operate the National Gas Emergency Service contact centre, taking calls and giving safety advice on behalf of the UK gas industry. In 2019/20, we answered 1.4m gas emergency calls of which 91% were answered within 30 seconds.

During the year, we attended 356,879 reported gas escapes. Of these, approximately 75,297 (20%), were directly related to our network. The rest of the calls were for other matters such as suspected carbon monoxide, faulty boilers or meter problems for which we provide assistance to ensure public safety.

Responding to gas emergencies	Total	%
Calls to emergency number (for the whole of the UK gas sector)	1.4m	
Answered within 30 seconds	1.3m	91%
Reported gas escapes	356,879	
Escapes related to Cadent's network	75,297	20%
Escapes related to other matters (CO, boilers etc. – not all Cadent network related)	281,582	80%

We aim to respond to gas escapes and potential risks from carbon monoxide poisoning as soon as possible. In 2019/20 our average response was 34 minutes (32 minutes 2018/19) for those cases where the reporter was unable to remove the hazard based on our safety advice.

The table below shows that our standards of service exceeded the regulatory target for response times, which is 97% within one hour for uncontrolled** escapes and 97% within two hours for controlled* escapes.

Standards of service	East of England	North London	North West	West Midlands
2019/20 Controlled*	98.80%	98.50%	99.46%	98.94%
2019/20 Uncontrolled**	97.74%	97.64%	98.51%	98.33%

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

** Uncontrolled refers to all other escapes.

Ensuring a safe and reliable network
continued

Reducing disruption

Our customers have told us that disruption caused by gas works is one of the key areas we need to improve, including road congestion, reinstatement of holes in the highway and interruptions to their gas supply. We have been focusing on reducing the time it takes to carry out our work and have worked closely with our partners to improve the speed of response. We have developed new communication materials, videos and literature to ensure our customers are updated and understand the work we are doing.

In 2019/20, utilising robotic technology called CISBOT has allowed us to refurbish over 17km of pipes which has contributed to a reduction in leakage on large diameter pipes, particularly in Central London, by over 30% from previous years. We are also now deploying CISBOT as a reactive tool on emergency gas escapes which has seen real benefits across all our networks. All of this work has been carried out without interrupting supply to our customers and using this method has received support and praise from the general public. In our North London network, we have signed up to the TfL Roadworks Charter which shows our commitments to ensure roadworks are carried out safely, support sustainable travel, and be efficient by maximising resources for customers.

This fast, efficient and non-disruptive technology reduces the risks of gas escapes and extends the life of gas mains bringing many benefits to customers; no need to close busy roads, no disruption to gas supplies and completes work much quicker than using traditional methods.

Working safely

We have continued to focus on ensuring our people are safe from the hazards of working on a gas network, that the public and our colleagues are safe in the vicinity of our works and that we don't impact other companies' equipment, such as water, electric and telecommunications assets.

We have made a significant reduction in lost time injuries to our workforce this year. This is demonstrated by the fall in our Lost Time Injury Frequency Rate from 1.13 in 2018/19 to 0.7 in 2019/20.

We have management systems and controls in place to ensure that natural gas is delivered safely and reliably to every customer. Although we have had no process safety incidents resulting in injuries or significant property damage during 2019/20 we continue to maintain our focus in this area. This has included training our senior leaders in process safety and introducing higher proportion of leading measures into our monitoring of process safety performance.

We work actively to manage both personal safety and major hazard safety (often referred to as process safety). This includes ensuring management focus and visibility through stand-down days and Safety Leadership Days. We share learning from incidents at the monthly Executive Safety and Engineering Committee, track actions to make sure they are implemented and have introduced an annual survey of our safety culture covering all levels of the organisation.

Renewing our network for the future

We have continued to invest in our network, improving reliability whilst reducing operational costs. This often unseen work involves internally inspecting high pressure pipelines, upgrading old equipment, and improving our assets to have better understanding and control of our network.

Since 2012/13, we have replaced over 11,000km and have developed plans to accelerate the programme to achieve our RIIO-1 target by the end of the price control period (now subject to the impact of COVID-19). Our plans include implementing additional contracts to provide more resource and using more of our direct labour repair teams in the summer to work on mains replacement projects.

As the UK moves to meet its climate change objectives, we anticipate that further investment in the resilience of our networks will be required to provide the capability to efficiently and sustainably transport a range of low carbon fuels.

In addition to mains replacement, we have expanded our programme of other asset improvements to ensure we provide a reliable network for the future significantly increasing our expenditure compared to previous years. This includes upgrading and replacing assets from high pressure, above-ground installations outside major urban areas, through to pressure reduction governors in towns and valves securing individual buildings.

1,809km
mains replaced

Angels dressed in orange: Wirksworth, Derbyshire

Residents of a small town in Derbyshire were amazing when our engineers had to turn off their gas supply in October 2019 after a burst water main damaged a gas pipe and water flooded the gas network. 900 homes and businesses in Wirksworth were without gas whilst engineers worked with the local water company to stop the water flooding our pipe, completing a repair to the pipes, whilst other engineers visited every property to safety switch off the gas supply at the meter, ensuring water didn't reach the gas appliances.

Over 10,000 litres of water were pumped out of the gas network before our engineers from the East of England network were able to restore the gas to every resident. Although some residents were without gas for nearly a week, we did not receive a single complaint about the water ingress incident and our efforts to restore the gas supplies. East of England Network Director, Darren Elsom, said: "The response from the community in Wirksworth has been nothing short of amazing throughout the incident. We are very grateful for the patience, support and kind messages we've had from the community. It makes a huge difference to our staff, who have been working long hours to get people back on gas, to feel so welcome."

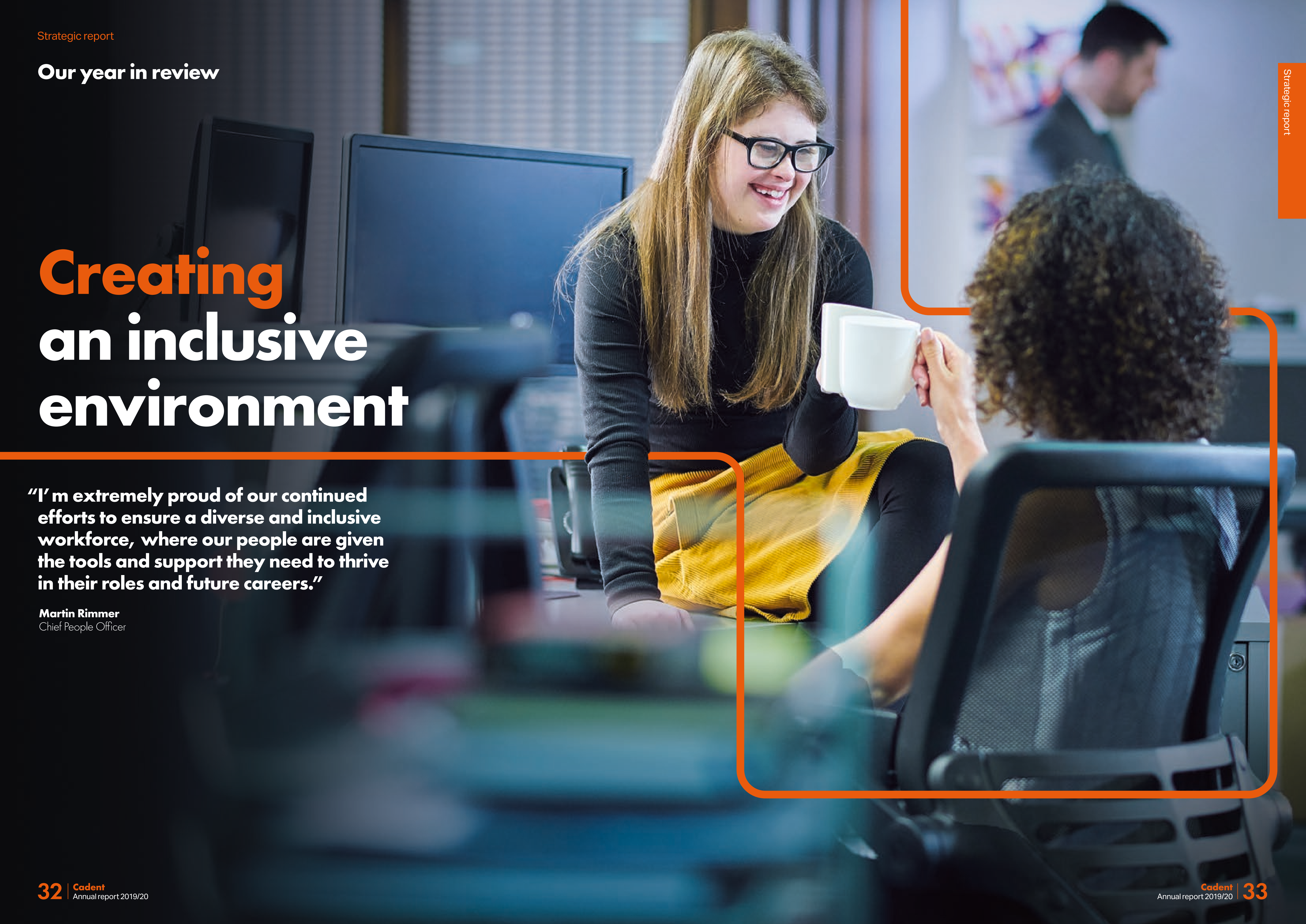
Protecting our customers: Toddbrook Reservoir, Whaley Bridge

We don't usually get involved with incidents which aren't gas related, however in August 2019 that was about to change. We were made aware that the Toddbrook Reservoir in Whaley Bridge, Derbyshire could burst its banks at any moment and the police had declared a major incident and were evacuating 6,500 residents.

We had two above ground installations and ten bridges with gas pipes attached to them and gas supplies to over 3,500 properties in Whaley Bridge and the surrounding area that were in the flood zone. The North West network acted quickly, and engineers were sent to site and the incident room set up to manage the pending flood risk. If the dam had burst the resulting flooding could have destroyed 50 properties in the immediate vicinity of the dam, damaged hundreds more and caused flooding as far away as South Manchester.

We were part of the multi-agency response to the ongoing emergency situation in Whaley Bridge and the surrounding area, as we protected the gas network. After seven days residents were able to return to their homes after the reservoir had been drained of most of its water. As the residents were given 15 minutes to evacuate, we were on site to check every single property to ensure their gas appliances were safely switched back on, if they had been turned off and to help any customer if they had a problem.

Strategic report



Creating an inclusive environment

"I' m extremely proud of our continued efforts to ensure a diverse and inclusive workforce, where our people are given the tools and support they need to thrive in their roles and future careers."

Martin Rimmer
Chief People Officer

Strategic report

Creating an inclusive environment

We are focused on recruiting the right people, supporting them to understand their role, our values and culture, and enabling them to develop to the best of their abilities.

Recruiting, developing and rewarding our people

Our Education and Skills strategy originally devised in 2018/19 has grown as we have implemented components across the board to support our talent pipeline for the future. Our strategy focuses on three elements: STEM enrichment (science, technology, engineering and maths), careers inspiration and careers experiences. As part of the strategy, including two of our senior female engineers as Ambassadors, we have built several partnerships with schools and colleges, including an all girl's school, which also supports our Diversity and Inclusion strategy. We have extended this partnership by working in conjunction with Youth Employment UK and these educational institutions to develop and deliver interactive lessons to educate young people around STEM and the work we undertake.

In addition to graduate recruitment events, we have undertaken interactions with over 7,000 pupils through education and skills events. Our efforts in education and skills have been recognised through the Youth Employer Award, and we were awarded for recognition of our strategy supporting young people into employment. Our sponsorship of the British Science Festival along with several local careers and skills fairs has increased visibility of our employer brand to both new talent and experienced talent pools.

We contribute to the wider sector skills challenge through several methods, largely through collaboration with Energy and Utility Skills (EUS) and through our membership with the Apprentice and Technical Education Advisory Group.

Within new talent, we continue to recruit our technical apprentices and complete final assessments for Gas Network Team Leaders (Level 2), to support our repair workforce. We have also developed a new repair apprenticeship, to replace the Gas Network Team Leaders programme in 2020, along with Asset Management apprenticeships.

This year also saw the launch of non-technical programmes; including a degree apprenticeship and a new commercial trainee programme incorporating the Associate Project Management Apprenticeship. As part of our People Strategy, we also initiated our first formal development scheme for current employees, namely the Team Leader Apprenticeship at Level 2. All these activities help us to achieve appropriate returns on our apprenticeship levy, which in 2019/20 is 60.3% compared to 50.3% in the previous year.

This year our engineering graduate programme comprised of a small cohort of engineers, as we implemented our new scheme. A two-year programme with a renewed engineering focus helping graduates focus on the role and embedding training (both technical and leadership) in between placements. We will seek to build on the success of the scheme over the coming years.

Our graduate and engineering training programmes have been accredited by the IMechE and we rank well in the Job Crowd top companies to work for; placing 29th out of 100 for graduates and 21st out of 50 for apprentices.

In addition to the development of new talent coming in to our organisation, we support the ongoing upskilling and development of our people, ensuring that our current workforce maintain their competencies, with 33% of these courses delivered locally to support our business in operational requirements.

Within our Leadership and Capability area, the focus for 2019/20 has been on three key areas derived from our people strategy: (1) building levels of leadership journeys (such as, Leads Others, Leads Managers and Leads a Function), (2) Establishing our 'Learning Space' portal as the access point to search or to easily engage our learning experts to help identify the right solutions , and finally (3) the introduction of a new digital learning platform, with learning assets on a whole range of topics now being available for everyone. To support our people effectively, we have progressed in tailoring these learning solutions to meet the differing needs of our field and office-based audiences.

From a reward perspective, we assess salaries, benefits, pensions and other elements of remuneration regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessments, our aim is to be at mid-market level for all job bands, including those that are subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits. Our flexible benefits include an array of offerings and are reviewed regularly to again ensure we are competitive and providing benefits our people find valuable and engaging.

We believe that celebrating success is fundamental and for us to share that recognition is highly valued to our people. We celebrate individual stories, sharing great work and behaviours, re-enforcing what success looks like. Each quarter we award CEO Spotlight Awards as part of our Cadent Congratulates employee recognition scheme. These recipients are selected as the best from the nominations in the last quarter and demonstrate outstanding work or behaviours. Winners receive a financial reward and a CEO Spotlight trophy, and where possible, the award is presented by the CEO or an alternative member of the Executive team. To date, we have awarded 18 CEO Spotlight Awards.

Educating future talent

We are proud to have been principal sponsor at the British Science Festival 2019. This event held at Warwick University in September brought the public together with the UK's top scientists and speakers. We provided insight and education on the net zero challenge, climate change and tackling the challenge of fuel poverty. We explored alternative technologies, such as hydrogen, and looked at issues around cost, affordability and practicality. Our ambition is to capture people's imaginations and to inspire a new generation to study and pursue careers in science, technology and engineering. We provided a range of material onsite to support those who wanted to discover what we're doing to shape the future of the energy industry. We were also onsite to discuss with aspiring students about what comes next after finishing school, whether that is entering the world of work, attending university or joining one of our challenging and exciting training opportunities available.

Creating a fully diverse and inclusive environment

We are committed to equality, diversity and inclusion and have made progress to strengthen our position towards our vision that; we are a diverse and inclusive organisation representative of the communities we serve, where everyone has an equal chance to succeed and be themselves. Our strategy will shape our policies, our working practices and how we operate day to day. In December 2019, we appointed a Diversity & Inclusion (D&I) Manager and D&I Executive Sponsor and have since made positive steps, so our employees have a great experience and our customers believe in what we do. D&I will be apparent throughout our employee life cycle and initiatives will be targeted towards Talent, Leadership or Culture, and we will measure ourselves to remain accountable.

We seek to ensure D&I are part of ways in which we attract, recruit, develop and retain people. We attend targeted diverse career events and have amended job description wording to remove indirect perceived barriers preventing women and BAME (Black, Asian and Minority Ethnic) candidates from applying. Furthermore, we utilise the 'EU Jobs' programme, which aims to encourage job applications from BAME communities and hard-to reach socially disadvantaged groups.

Number of employees

3,818

as at 31st March 2020

Creating an inclusive environment
continued

We include a statement in our job advertisements to highlight that we offer flexible working in the organisation; to promote a healthy work life balance and support those who require reasonable adjustments to perform at their best. To drive equality, we have started to monitor diversity data throughout the recruitment process, enabling us to monitor progress. We also work hard to ensure that our social media campaigns build on the diversity we already have within the organisation.

Other recent successes to achieve our vision include:

- Signing the Armed Forces covenant to demonstrate our support to service leavers entering the business, our current reservists and those that have previously served, as well as being a point of contact for partners and relatives.
- Establishing a strategic partnership with EU Jobs and Women's Engineering Society to work collaboratively within our sector to address imbalances.
- Being awarded Disability Confident Level 2, which shows our commitment for equality through working practices.
- Creating three new Employee Communities launched in 2020; Embrace, Pride at Work and Women in Cadent.
- Equipping our Leadership Team and hiring managers to challenge their Unconscious Bias. We will also be rolling out toolkits to support teams with inclusive behaviours.
- Increasing the number of females in leadership roles to 37% and the number of female Directors to 40%.

Furthermore, there is now greater focus to celebrate our diverse mix of employees, role models and their stories. We have published RIIO-2 commitments focused on increasing D&I in our workforce and supporting women in the workplace. This demonstrates our commitment to improving diversity and inclusion, and continuous drive for a diverse pool of talent.

EmployAbility

We sponsor the 'EmployAbility – Let's Work Together' supported internship scheme to build confidence, develop skills, raise aspirations and provide a step on the career ladder for students with special educational needs and disabilities ('SEND'). Students from our partner SEND schools join us for a year to complete three work placements, while studying for a BTEC in work skills. During that time, they are supported by Job Coaches employed by our partner schools and funded by the Department for Work and Pensions.

The programme has enjoyed long-term success rates, with 73% of interns achieving paid employment, against the national average for this group of just 6%. Whilst other interns have gone on to further education in mainstream colleges. Furthermore, we were recently awarded 'Most Supportive Employer' by the National Autistic Society. Our experience shows that supported internships can be lifechanging for interns and provide a valuable talent pool for our business.

Disability Confident Employer

In May 2019, we successfully earnt the badge of Disability Confident Employer. Our achievement signifies that we are demonstrating the core actions required to be a Disability Confident Employer. These include: our award-winning Employability scheme, a fully accessible recruitment process, highlighting our status in job adverts and through key dates such as Mental Health Awareness Day. We also have a Diversity and Inclusion policy, providing unconscious bias training and tools, guidance and support to our employees concerning reasonable adjustments, mental health and wellbeing. Our dedication to break down perceptions and champion these initiatives demonstrates our diversity and inclusion commitment within the communities we serve.

Taking positive steps for gender pay

In February 2020, we published our third gender pay report, which outlines our continued work to close the gender pay gap.

Our mean pay gap is 8.7% (2018/19: 12.5%). Although this is an improvement from last year, we recognise that there is still much to do within our business and industry to change perceptions in what is traditionally a male dominated sector.

When looking at our pay gap, it is mainly driven by a lower proportion of women in senior roles and Field Force roles compared to the wider workforce. Due to the nature of work undertaken by our Field Force staff, providing a 24/7 gas emergency service, their total package includes other elements in addition to base pay such as, stand-by and flexibility payments. Whilst the methodology is regulated for the Gender Pay Gap report, if we use a salary only calculation then we have a positive gender pay gap for women, highlighting the impact to the gender pay gap of the various elements within the total package across our different employee populations.

Our bonus pay gap is 45.8% (2018/19: 51.8%), mainly driven by the difference in our Field Force staff package, which incorporates elements classed as a bonus, therefore raising the proportion in the calculation. As most of our Field Force staff are male and this is the largest group of employees that make up our workforce, this has a significant impact on our bonus gap. We have recently increased the number of female executives to 37% in the year and continue to take clear, positive and inclusive actions to address our gender pay gap, including supporting and attracting talented women, equipping and empowering our leaders, and maintaining an inclusive culture.

Health and wellbeing

Health and wellbeing is integral to the success of our business. We are building a culture of personal ownership by employees for their health and wellbeing with business support, increasingly focused on early, proactive engagement and targeting risks. We have focus areas that correspond to our main health and wellbeing risks along with promotion of healthy lifestyle choices and support services open to all our people.

In February, Steve Fraser and Martin Rimmer, our Chief People Officer signed the Time to Change Pledge. This is underpinned by a detailed 12-month action plan which will deliver four key objectives:

- Increase knowledge and literacy on Mental Health across our business with a targeted communications campaign with three distinct areas, Recognise/Manage/Thrive. We will use Lived Experience Leadership examples to support this.
- We will develop a network of Time to Change Champions to support local delivery of our action plan.
- We will develop a network of Mental Health First Aiders. Target numbers 1:10.
- We deliver a bespoke Managing Mental Health training course to 30% of managers.

A project charter has also provided focus of Hand Arm Vibration and we have commenced a review of our risk assessments for both Noise and Vibration. Digital Monitoring watches will be rolled out to at risk employees to enable easier and more accurate monitoring of vibration exposure. Our annual Health Assessment Program was delivered to 1,047 Operational Employees achieving 96.8% compliance. In November, more than 50 employees completed a walking challenge via our Wellbeing platform, in total over 3m steps were taken in a four-week period and prizes were awarded to individuals and teams.

Learning Space

As part of Learning Space, Percipio is our new on-demand learning platform and is a key part of changing our learning culture. As the initial part of our People Strategy, the platform provides quick and easy access to relevant learning content available in various formats; including videos, e-learning and audio books. Percipio is available via both desktop and mobile, making it more accessible to our people who require flexibility whilst serving our communities across broad geographical regions.

Following its introduction in autumn 2019, the platform and its array of over 30,000 learning options has been accessed by hundreds of employees. We will continue to update the learning content, ensuring relevant resources are available. As we progress through the coming year, further elements of our People Strategy will be introduced to drive the development of our people.

Learning Options Available

30,000

via Percipio learning platform

Our year in review

Improving our environment

"Managing the environment is more than minimising our impact; it's about implementing best practice environmental solutions to drive efficiency, save money and preserve natural resources."

Ed Syson
Chief Safety and Strategy Officer

Improving our environment

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.

For more information please see our Safety & Sustainability 2019/20 report.

Safety & Sustainability Committee

Our Safety & Sustainability Committee provides key oversight and assurance of the management of safety and sustainability issues on behalf of the Board. The committee is supporting us in developing a forward looking, goal-oriented strategy to deliver more sustainable outcomes for our customers, the environment and communities that we serve. Our Safety & Sustainability report sets out our delivery of more sustainable outcomes, best practice governance and transparency. These include working with customers in vulnerable situations, the future role of gas and energy decarbonisation alongside environmental sustainability and responsible business practices. Safety is the foundation of our business and is at the forefront of the minds of our employees, we aim to ensure that every aspect of our work is as safe as it can be, whether that's as part of our gas operations or in our non-operational activities. We understand that being transparent about our performance to all stakeholders is essential to maintaining the trust of customers and employees alike. An important part of building this foundation is by improving our range of engagement activities underpinned by a clear Safety, Health, Environment and Security (SHES) framework.

For more information please see our Safety & Sustainability 2019/2020 report available from cadentgas.com

Greenhouse gas ('GHG') emissions reductions since 1990

70%

Our target was 45% by 2020

To ensure that we fully manage our environmental obligations and responsibilities, we work with internal and external stakeholders to identify applicable compliance requirements along with any significant areas of environmental impact. Our operations are covered by an Environmental Management System, which in 2018 was certified to the latest ISO14001:2015 standard. The Environmental Management System sets out our environmental procedures to identify, manage and control potential environmental impacts of our operations and activities. During 2019/20, we completed a series of internal environmental audits to ensure compliance across the business, and to provide assurance for the environmental management at our depots. The Environmental Management System defines our key objectives and ensures compliance with our obligations and supports our employees to drive continual environmental improvements. Cadent was not subject to any environmental fines or prosecutions in 2019/20.

As part of our continual improvement, we have progressed with the environmental baseline exercise to assess the status and quality of the environmental practices at every occupied site. The results have provided a comprehensive insight into our risks and areas for improvement year on year. Based on these findings, we have established action plans and targets that will ensure we can deliver targeted and measurable improvements in both the short and medium term.

We will continually update our Safety & Sustainability report and publish a report, typically annually, to set out the metrics and measures we believe are important and how we will track performance against our ambition going forward. In 2019, we submitted our first Global Real Estate Sustainability Benchmark (GRESB) Assessment. GRESB is the environmental, social and governance (ESG) benchmark for infrastructure. The Cadent ESG Benchmark score was 66% and was ranked in the top 20% of European organisations.

Reducing our greenhouse gas emissions ('GHG')

We recognise the responsibility that businesses like ours have in helping the UK meet its greenhouse gas target. We have committed to medium and long-term targets to reduce our greenhouse gas emissions. We have already successfully reached our 2020 target ahead of schedule (70% 2019/20 vs 2020 target of 45%).

More than 95% of our greenhouse gas emissions are from gas losses from our networks, known as shrinkage. Through our repair, maintenance and mains replacement programme we have replaced damaged or low-quality pipes with new plastic alternatives which results in lower leakage from the network. Leakage from our network in 2019 was 0.45% of total throughput and our mains replacement programme will reduce this further.

Streamlined Energy Carbon Reporting

The table on page 42 quantifies our business carbon footprint in tonnes of CO_2 equivalent and shows performance of our emission reduction activities against our RIIO targets.

Whilst the majority of our greenhouse gas emissions are from shrinkage, other significant sources are energy consumption in offices and other business premises, along with fleet vehicles, primarily vans and company cars.

We have engaged a utilities management bureau service that validates and reports on our utility costs and consumption across our properties and assets. In our larger office buildings we have systems that help us control and monitor the efficient use of electricity and water. In 2019, we completed the Phase 2 Energy Saving Opportunity Scheme assessment, further understanding our energy use in buildings and transport to help identify further cost-effective energy save measures. The output from the report detailed how we can set short-, medium- and long-term action plans to reduce energy consumption across our depots, operational sites and fuel use in fleet transportation. We work to ensure that we procure efficient vehicles for our fleet and we have placed a cap on company car emissions and we offer 'green' incentives to company car users. These incentives are aimed at encouraging efficient, low emissions choices which are taken up by 65% of drivers.

We have implemented an energy management system across the business that monitors performance and identifies opportunities for reducing energy consumption. The majority of greenhouse gas emission data is captured at corporate level. To meet the requirements for the Regulatory Reporting Business Carbon Footprint table, an apportionment methodology has been applied to report data by network.

For 2019/20, we decreased our overall business carbon footprint emissions.

Scope 1 emissions: In 2019/20 Cadent's Scope 1 emissions (excluding Shrinkage) decreased by 0.6% compared to 2018/19, driven by a reduction in Commercial fleet emissions.

The emissions for business mileage (company cars) were 9% higher, and Cadent continues to focus on reducing business mileage and increasing the uptake or low/no emission company cars. Direct (Cadent-owned) commercial vehicles emissions are 2% lower than for the previous year. This reflects higher activity across our networks and increasing numbers of Euro VI (or better) compliant vehicles. Of the gas consumed at operational and non-operational offices and depots, in 2019/20 we saw an overall 6.6% increase in emissions (tCO_2e), as a reflection of an increase in gas throughput in the network.

Improving our environment

continued

Scope 2 emissions: Emissions related to electricity consumption across operational and non-operational sites has decreased in 2019/20 by over 27%. Most of this, however is accounted for by a reduction in the published DEFRA conversion factor. We procure a high proportion of renewable electricity through our energy provider.

Scope 3 emissions: Emissions increased by 26% compared to the previous year. This was due to an increase in tCO_2e emissions associated with Polyethylene pipe procurement through the reporting year and reflective of the higher rate of mains laying and replacement compared to 2018/19.

Travel: Emissions associated with air travel, rail, and casual mileage decreased by 82% when compared with the previous year. Emissions associated with air travel reduced by 85%, reflecting our business focus on reducing business mileage, increased use in alternative virtual meeting options and increased use of lower emission vehicles.

Overall, we are on track to outperform our emissions targets through the RIIO-1 period and we are ahead of our Business carbon footprint Scope 1 and 2 targets for 2020/21.

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.

Renewable energy

We are always looking for opportunities to reduce our environmental footprint, particularly in relation to our energy consumption and greenhouse gas emissions. Through our energy procurement contracts, we can secure access to certified renewable sources of electricity. Through 2019/20 over 90% of the electricity we used to light and power our offices and depots was from renewable sources, offsetting greenhouse gas emissions and making a reduction in our Scope 2 carbon footprint.

In 2019, we built our first ever solar panel array at an operational site which will generate enough energy to meet the electrical demand from above ground gas installations in north Norfolk.

GHG emissions and energy use data for period 1 April 2019 to 31 March 2020

Scope 1 and 2 (Direct emissions)	Current reporting year 2019/20	Comparison reporting year 2018/19
Gas usage from our sites /tCO_2e Scope 1	1,044.00	811.13
Natural gas shrinkage (Leakage +Theft of Gas+ Own use of gas)/tCO_2e Scope 1	1,632,973.70	1,694,053.20
Fuel usage from Commercial vehicles, company cars and grey fleet/tCO_2e Scope 1	19,841.00	20,077.00
Purchased electricity for own use (Location based) /tCO_2e Scope 2	7,318.80	8,992.00
Total Scope 1 and 2 /tCO_2e	1,661,177.50	1,723,933.33
Scope 1 and 2 Energy consumption /kWh As above	2,452,504,563.14	2,534,811,041.03
Intensity metric: Total scope 1 and 2 tCO_2e per £m turnover	785.43	864.13
Intensity metric: Total scope 1 and 2 tCO_2e per km of our gas network	12.68	13.16
Scope 3 (Indirect emissions)		
Business travel /tCO_2e Rail, Air, Ferry, Car Hire	278.00	1,574.23
Emissions from production and delivery of purchased PE pipe /tCO_2e	20,039.00	12,897.00
Contractor vehicles /tCO_2e	17,648.56	15,653.00
Mains Replacement contractor fuel use		
Total Scope 3 emissions /tCO_2e As above	37,965.56	30,124.23
Total annual net emissions /tCO_2e	1,699,143.06	1,754,057.56
Intensity metric: Total emissions /tCO_2e per km of network length	12.97	13.39
Intensity metric: Total emissions /tCO_2e per £m turnover	803.38	879.23
Intensity metric: Total emissions /tCO_2e per GWh throughput	6.24	6.82

Background – Methodology

Data provided here is in line with annual Business Carbon Footprint reporting to Ofgem using DEFRA conversion factors. Conversion factors are updated annually. Additional lines such as contractor vehicles have been added here for full disclosure and in line with annual returns to Ofgem. Where market-based factors are stated these are provided annually by our electricity suppliers. Total annual net emissions figure uses location-based methodology. Intensity metrics have been discussed via the Energy Networks Association (ENA).

Blazing an eco-friendly trail

Located at an existing site in Brisley, North Norfolk, the solar array comprises 388 solar panels and will deliver savings of both carbon emissions and costs. The site is an ideal choice for the new solar panels as it is large enough to accommodate the solar panels whilst maintaining a low visual impact as it is well screened by trees. North Norfolk is well suited to solar generation and the photovoltaic panels will generate electricity on cloudy days as well as in full sun.

Electricity generated at the new array will be fed into the local electricity distribution network, providing a clean and renewable source for energy, supplying local homes, schools, businesses and community facilities. In addition to the significant environmental benefits we will also be saving on the energy costs for the site. The panels have a peak generation capacity of 130KWh and the site will generate an estimated 120MW hours a year. That will be enough electricity for the site and nine other Above Ground Installations (AGI) in the region.

Each panel has an operational lifespan of 25 years and they are equipped with power optimisers to maximise efficiency. The design enables faults to be swiftly identified and repaired without impairing the efficiency of the system.

Director of East of England Network Darren Elsom said: "Cadent is committed to being innovative, efficient and to making a positive contribution to the environment. This project is a textbook example of how we can do all of those things and achieve a great result."

Company car fleet below 99 CO_2 g/km

367

Average emissions of our company car fleet

94g/km

Percentage of electric/hybrid fleet

39%

Improving our environment
continued

Managing our resources
We engage our people and work with external partners to minimise the avoidable waste we produce. Through 2019/20, optimisation of waste management at specific locations helped improve our recycling rates and cost efficiency. Our Gas Distribution Strategic Partners are incentivised to recover, reuse or recycle 90% of the spoil they generate from excavations and street works, and use less than 30% first use aggregate for backfilling. Overall, our partners are outperforming these targets, currently diverting over 97% of spoil from landfill and only importing 13% of first use aggregate. We have set a goal of zero avoidable waste to landfill by 2021. In 2019/20, 7.8% of our waste went to landfill, which is a 6% reduction from 2018/19. However, to fully meet our targets we will need to further develop our facilities, behaviours and embrace innovation.

Waste Management Action Group
In 2019, our sustainable waste management strategy challenged the business to deliver a step change in the way we generate and dispose of waste. This has started with a programme targeting the removal of all single-use plastics and improving the internal waste segregation in offices and depots. We have removed all single use plastics from our offices and depots through a combination of incentives and removal of unsustainable choices and are now targeting single-use plastics in the supply chain.

To support the waste management strategy, the Waste Management Action Group provides an oversight in our business with employees and waste management partners to ensure that good practice is identified and communicated across teams. The action group also provides a platform for continual improvement in waste management performances, identifying cost savings from skip collection optimisation and carrying out waste stream tip audits to further improve waste segregation and reduction.

We have a target to eliminate all avoidable plastic across the supply chain by 2025 and we are evaluating how we can extend our plastic reduction ambitions into our sourcing products and services. In 2019, we asked that potential suppliers demonstrate how they will support this objective during the tendering process including the reduction of packaging or substitution for more sustainable alternatives.

Environmental training
To ensure that our people have the knowledge and skills to manage the environment in their day-to-day activities, we provide environmental awareness training. The training course not only offers employees the background information for energy, waste and environmental management, but the interactive sessions enable them to have the confidence to identify ways to manage environmental risk and impacts.

Limiting our environmental footprint
Although greenhouse gases and waste are considered our primary environmental issues, we also address other environmental impacts including monitoring water consumption in offices and depots and reducing the impact on biodiversity from our projects.

Across our activities we consider air quality risk as well as emissions. This is most relevant in the context of our commercial vehicle fleet which produce emissions resulting from the combustion of fossil fuels. Our Transport team is working with internal and external stakeholders to understand the scale of government ambition on the future use of fossil fuel powered vehicles and to ensure that our approach meets or exceeds anticipated standards by considering the use of alternative fuels with a lower impact on air quality.

Decarbonising our fleet
In March 2020, CNG Fuels announced the opening of Europe's largest low carbon biomethane refuelling station for heavy goods vehicles. We have been a proud partner from the start of this important project, reinforcing the surrounding gas network in Warrington and making the connection between the network and the refuelling station. The station presented an opportunity to engage farming and food waste consortia to connect to the gas network to sell their biomethane for use as fuel and we have been actively promoting the opportunities. We've also been working very successfully with companies such as Air Liquide and other compressed natural gas station developers to deliver their ambitious program of refuelling stations. Read page 51 to find out more about these developments.

The carbon emission reductions from using biomethane for freight transport are significant and there are further benefits for our communities through reductions in NOx emissions and improvements in air quality. We are supportive of the growth in biomethane as an alternative to diesel as it provides an important step for fleet operators who are seeking to rise to the challenge of decarbonising fleets of heavy goods vehicles in line with the UK commitment for net zero carbon emissions by 2050.

We are decarbonising our own National Distribution Centre HGV distribution fleet, by converting to CNG, which will reduce our greenhouse gas emissions by more than 500 tonnes per year. In addition, we are running three CNG vans in our North West and West Midland networks to understand how these will work with the demand of roadside working. In addition to CNG, we're also running operational trials of electric vans and hydrogen cars in our fleet in North London, exploring the potential to use electric motorcycles for our first responder riders and have plans to make every one of the 1,100 vans used by our emergency engineers zero emissions by 2026.

Supporting the energy transition

"Our gas network is a hugely valuable asset. In the future it will be used to deliver low-carbon energy to communities as part of a whole system transition to net zero."

Dr Angela Needle
Director of Strategy

Supporting the energy transition

The UK's ambition to become net zero by 2050 has fundamentally changed the way society thinks about energy.

Across the country, local authorities, large energy users, homes and businesses are considering what this ambition means for them in outlining their own transition plans. We are doing the same in two main ways. How we operate a low carbon business in the way we serve our customers but also how we lead the decarbonisation of the UK energy system by supporting the use of low and zero carbon gases such as Biogas and hydrogen.

We strongly believe that in the future there will be a more diverse energy system which will both provide customer choice and drive the pace of emissions reductions. We see a continued need for a gas distribution system to provide future green gases for industrial use, power generation, balancing of energy supply, heavy transport, and heating for homes and buildings (particularly to meet peak demands).

There has been a significant increase in pace and interest in hydrogen as an energy vector and we are pleased with the progress that is being made and the co-ordinated effort in demonstrating the importance of hydrogen in decarbonising the UK.

Collaboration and innovation to deliver net zero

As a gas transporter we have a pivotal role in facilitating a move to low and zero carbon gases in the UK. We are working with companies across the industry to ensure efficient and coordinated development for the benefit of consumers. The impact of such a change would be felt broadly across the UK. We are working with national organisations such as the Energy Networks Association (ENA), the Energy Utilities Alliance (EUA), and the Confederation of British Industry (CBI) to provide a common perspective to government but also with regional and local authorities to help plan their energy transition.

We also understand that the move to net zero requires a combined Energy System that makes best use of both electricity and gas infrastructure to achieve its aims. The significant investment required to deliver the hydrogen infrastructure to support net zero will need a supportive regulatory regime that gives investors confidence that there will be fair return for the risk and affordable for customers. We have recently submitted our plans in our RIIO-2 submission which show how we will work closer with the electricity Distribution Network Operators to provide solutions that drive value and efficiency for our customers.

Net zero requires us to think differently about what we do. We are investing in research and innovation into how the use of hydrogen will impact, not only on the way we go about doing the work we do today in a safe way, but also upon how the transition will affect consumers and the decisions they make.

Pathway to industrial decarbonisation

We have been working across the gas industry to develop a pathway to the transition to green gases that makes sense economically, starting with where the demand is the greatest. Industrial decarbonisation is one such opportunity because the demand for a gas to fuel industrial processes and large-scale decarbonisation opportunities are present in the same location. We are developing an industrial cluster in the North West through a project called HyNet.

HyNet will enable rapid decarbonisation of industry through the production of hydrogen and the capture and storage of CO_2. This will then enable hydrogen to be used for transport systems and blended into the gas supply for heating.

Read more about HyNet on page 52

HyDeploy, Keele University, Staffordshire

HyDeploy is the UK's first live pilot to inject zero carbon hydrogen into a gas network to heat homes and businesses.

The HyDeploy demonstration is injecting up to 20%, by volume, of hydrogen into Keele University's existing natural gas network, feeding 100 homes and 30 faculty buildings. We chose Keele for the trial because it has its own private gas network and the buildings on the campus closely mirror what you would expect to find in a small UK town.

Backed by Ofgem's Network Innovation Competition, the £7m project is led by us in partnership with Northern Gas Networks (NGN), Keele University, the Health and Safety Executive (HSE) Science Division, integrated hydrogen energy systems manufacturer ITM-Power, and independent clean energy company Progressive Energy.

Decarbonising how the UK heats its homes and workplaces is one of the most difficult challenges we face. Most people use fossil fuels for heat, with some 85% of homes heated by gas. Gas networks can transport the huge amounts of energy needed for heat.

The purpose of the HyDeploy trial is to show that hydrogen can be blended with natural gas and used in the same way consumers currently use natural gas. The 20% volume blend means that customers can continue to use their gas supply as normal, without any changes being needed to gas appliances or pipework, while still cutting carbon emissions. If a 20% hydrogen blend was rolled out across the country it could save around 6m tonnes of carbon dioxide emissions every year.

The hydrogen is produced on site by an electrolyser, which uses electricity to split water molecules into hydrogen and oxygen. We began blending hydrogen into the network at end of October 2019. Cadent, NGN and Ofgem are funding a further two trials on public gas networks, in Winlaton, near Newcastle later in 2020, and in the North West of England in 2021. These will then enable hydrogen to be injected into the network at a level determined by the HyDeploy trials just like biomethane. For the West Midlands this project has provided a unique opportunity to engage, prepare and train our engineers to operate a blended or full hydrogen network, which will be critical skills on our pathway to decarbonisation.

The ability to blend hydrogen and to operate the network will be a critical capability supporting our HyNet project where we plan to inject hydrogen at scale into the Liverpool and Manchester networks.

HyDeploy

Supporting the energy transition

continued

Pathway to transport decarbonisation

It is widely recognised that a significant amount of transport will be electrified over the coming years. However, there are aspects of heavy goods transport, trains and buses where electricity is less viable and green gases such as biomethane and hydrogen for fuel cells are more appropriate, and economically feasible.

We are supporting development of national bio compressed natural gas ('bio-CNG') refuelling infrastructure, with nine public-access stations connected to our network, a further three under development, and new investment continuing to support future growth across the UK. Our own National Distribution Centre fleet now benefit from operating nine bio-CNG trucks, avoiding emissions of up to 500 tCO_2e/year with a new bio-CNG refuelling station expected to open at our NDC site in May 2020.

Preparing for hydrogen vehicles

Our research and innovation portfolio explores key aspects associated with the future use of hydrogen in transport. This includes refuelling infrastructure costs e.g. HyMotion (2019); the impact of blends on conventional internal combustion engines and; and understanding the impact of gas impurities on hydrogen Fuel Cell Electric Vehicles.

Our experience in bio-CNG infrastructure deployment and more recently in developing an awareness of refuelling infrastructure requirements has identified several key challenges. These include key aspects such as policy frameworks that support the development and investment in alternative transport fuels.

Our future work programme seeks to address these challenges through a combination of improving current working practices, effective stakeholder consultation and engagement, and participation in relevant hydrogen transport research and demonstrations. For example, a new Future Role of Gas in Transport study, conducted in collaboration with other gas distribution networks, seeks to understand the feasibility of converting existing compressed biogas infrastructure to hydrogen by focusing on technological, regulatory, and commercial aspects to protect the historic customer investment in our gas transportation assets.

We are also exploring a hydrogen gas separation (de-blending) demonstration to evaluate the feasibility of extracting hydrogen from hydrogen/natural gas mixtures, a capability that would support customised end-user solutions including high purity hydrogen for fuel cell applications. Such a capability was recognised as an important low regret action in the recent ENA report "Pathways to net zero; Decarbonisation of the Gas Networks in Great Britain."

Finally, efforts are also being targeted at decarbonising our own First Call Operative fleet, circa 1,100 vehicles. This initiative is expected to deliver a reduction in emissions of 4,000 tCO_2e/year by 2026.

Encouraging biomethane connections

We continue to support the growth of the UK biomethane sector by turning food, farm and other wastes into a gas to fuel homes and transport. There are 35 biomethane producing plants connected to our networks, with the potential volumes entering our network equivalent to the heating demands of as many as 218,690 homes.

Connection Type	East Anglia	East Mids	North West	West Mids	North London	Total
Biomethane	11	11	3	9	1	35
CNG fuelling stations	1	2	4	0	2	9
Power Generation Plants	6	30	26	4	5	71

Ensuring that our network meets the needs of our future customers is a challenging task and particularly so with fast changing requirements to meet net zero. Distributed gas inputs, principally from biomethane production, requires network capacity to be provided at lower pressure tiers where demand may be limited. It is important to manage these potential constraints especially in low demand periods and in some more remote areas of the country to enable new biomethane connections to be as successful as possible.

Existing biomethane plants are also requesting to increase their injection capacity rather than build new facilities. This is against the backdrop of uncertainty with the Renewable Heat Incentive especially for the plant operators and investors.

The impacts of new types of exit connections from the gas distribution system must be considered in parallel with the challenges of entry. Electricity peaking plants that ramp up quickly and operate over the peak energy periods are connecting onto the distribution networks in large numbers. This sudden demand on the distribution networks make pressure management more challenging as the distribution system is called on to balance renewable energy for the electricity grid.

Adapting to continual changes on the network and the balancing of entry and exit requirements requires smarter network management to ensure that we can support future biomethane connections and provide essential support to the electricity network.

Through NIA funding we will be implementing a solution to allow more biomethane injection into an area of the East of England network which has many biomethane plants but with current capacity constraints. We will install a compressor to connect the lower pressure tiers to the high pressure system together with smart pressure control. This combined solution will provide greater capacity for biomethane into our network by increasing the accessible demand available to these supplies.

This project is the first of its kind and we aim to demonstrate the benefits of an optimised network solution for the first time in the UK.

Supporting growth of biomethane into the grid

Air Liquide and Cadent have been working together since 2016 on renewable gas projects. Air Liquide now have four biomethane plants, connected to our network. In addition, they also have three bus stations, supplied with biomethane and they are projecting to have four stations for truck refuelling, supplied through connections to the our gas network. Partnerships to support the conversion of transport to renewable gas infrastructure are becoming more important for the UK to meet its carbon budget over the next decade.

Three out of the four Anaerobic Digestion biomethane plants which are connected to our network are connected to the high pressure system providing a potential 320GWh pa of production capacity into the network, all coming from digestion of food waste.

David Hurren, UK CEO, Air Liquide Biogas Solutions Europe, said:

"The advantage of connection to the high pressure network is greater availability of capacity for injection during the warm summer nights when demand on the network is inherently lower. The connection to >7barg system is more complex, however Cadent are to be congratulated amongst the gas networks in pioneering their Self Lay process, enabling competent third party organisations to design and construct the connection pipeline which has facilitated an increase in the connection of biomethane to the high pressure network. There has unquestionably been learning on both sides, as with any new infrastructure process, but those challenging times have deepened our understanding from both sides about what is needed to further develop the renewable gas contribution to the network.

We are now moving to a second phase of collaboration to streamline and focus on operational needs for both sides, to ensure the maximum amount of biomethane can be put into the grid, and then taken out for heat and transportation which are the two most difficult to address areas on carbon reduction."

Of the 35 biomethane plants connected to our network, 12 are connected to the high pressure system with 11 of these constructed by competent third parties using the Self Lay framework.

Cadent supports development of the largest bio-CNG refuelling station in Europe

The Warrington bio-CNG refuelling station located adjacent to the M62, which is owned and operated by CNG Fuels, can refuel 12 trucks simultaneously from ten dispensers. The station is capable of dispensing more than 300GWh of biomethane per year, which equates to a reduction in greenhouse gas emissions from HGVs of up to 100,000 tonnes each year. Meeting the increased gas demand meant we needed to reinforce the gas network.

The station cost approximately £5m to develop and approximately two years to consent and build, with construction lasting around six months. The station opened in November 2019 and is expected to serve a minimum of 200 trucks by the end of 2020. Most of these trucks are expected to use this facility as their primary source of fuel. As a multi-user facility which is open 24/7/365 days a year, the station is unmanned and provides a public-access resource for other local operators. Major customers include Hermes with a total of 83 trucks, and Home Bargains, with ten trucks. ASDA and Argos also use the facility with potential for significant new customers later in 2020.

Supporting the energy transition
continued

Pathway to hydrogen in our homes

This year has seen a significant change of pace in innovation around hydrogen in homes. The Department of Business Energy and Industrial Strategy (BEIS) continues with its Hy4Heat project which is exploring many aspects of home hydrogen use in terms of its impact on appliances, metering and safety. Appliance manufacturers such as Worcester Bosch have launched their hydrogen-ready boiler. Through our innovation funding we have continued to deliver the HyDeploy project and have been successfully blending 20% hydrogen, by volume, into the gas network at the Keele University.

Safety

Safety is one of our core values and we are maintaining this focus throughout the development of our green initiatives. A major part of the HyDeploy project has been to assure safety before we start delivering the blended gas. Working with our partners Progressive Energy and the Health and Safety Executive, we have safety tested every single gas appliance in 100 homes. In addition to the gas safety checks, we have also tested all 130 appliances with bottled hydrogen. All appliances passed this test which is strong initial evidence that customers will not need to replace their gas appliances should a hydrogen blend be made available more widely. Further work is also being carried out across the industry to establish the safety aspects that would need to be considered and established as safe for 100% hydrogen trials.

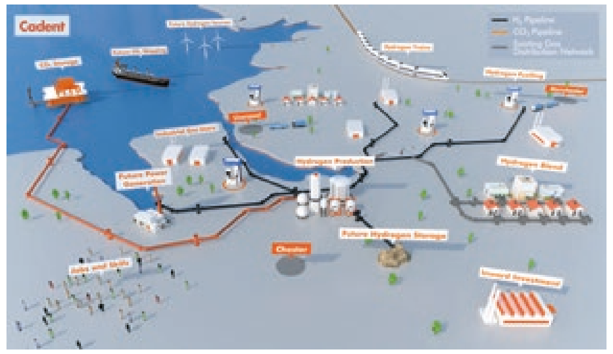
Planning the transition

The gas network provides a ready-made infrastructure for the delivery of hydrogen to all types of consumers. By promoting the use of hydrogen in several applications across the UK, we are also helping others to see the wider potential benefits to the economy, job creation and for intellectual capital and the opportunity to create a hydrogen economy to make the UK a world leader in this area.

HyNet

HyNet is an integrated hydrogen/CCUS (Carbon capture utilisation and storage) project in the North West which will decarbonise heavy industry in the Cheshire, Liverpool and Manchester regions and provide hydrogen to decarbonise domestic heat, heavy transport and flexible power generation. We developed the idea and it was funded by Ofgem's Network Innovation Allowance funds (NIA). As the project has moved from feasibility into engineering design, several industrial consortia have been formed to progress the different elements of the HyNet project chain which has seen investment to date of £14.5m from Government.

By making use of existing oil and gas infrastructure for CO_2 transport and storage and using existing captured CO_2 from a fertiliser plant run by CFI as the anchor source, it represents a low-cost route to initial deployment of CCUS in the UK. The proposed CO_2 storage facilities are operated by ENI the Italian oil and gas company in Liverpool Bay and represent some of the best storage opportunities on the UK Continental Shelf. They are relatively close to shore and have existing infrastructure that can be re-used once gas production stops at the beginning of 2024.



Initial CO_2 capture will serve several major industrial emitters in the region, including the Ince Fertiliser Plant and Stanlow Oil Refinery. This will be followed by the supply of low carbon hydrogen via a new dedicated hydrogen pipeline to industry, transport, power and into the existing gas network as a blend by 2026. We estimate that the HyNet project would deliver regional gross social benefit across the project lifetime of £14bn and would see the creation of 4,500 highly skilled jobs per annum. Creating the first hydrogen economy will bring inward investment both into the North West and the UK and provide a platform to provide clean gas to a diverse set of consumers.

The next milestone in the delivery of HyNet is to start the detailed design work in 2020 for each element of the infrastructure. This is already under way for the hydrogen production plant and the consortium will apply for funding to progress the storage and hydrogen pipeline elements. If successful, we will lead the design and planning work for the new 80km hydrogen pipeline.

Strategic report

Section 172 statement

Section 172 statement

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

Key stakeholders

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

Stakeholder	Why they matter to Cadent	What matters to them	How the Board interacts
Shareholders	Provision of equity finance Provision of Non-Executive Directors	Predictable, sustainable financial returns Responsible business management and conduct Governance, safety and transparency	The majority of Board members are shareholder-appointed nominees AGM and annual report
Employees	Our people execute our strategy in delivering our services for our customers Source of innovation and ideas for business improvement	Recognition, reward and development opportunities Safe, supportive and inclusive environment Employee engagement with management and effective internal communications	Reports upon employee related matters and regular internal communications updates from the Chief Executive Officer and Chief People Officer are provided to Board meetings to ensure the employee related issues and perspectives are factored into relevant decisions Inviting members of management to attend and present employee related topics at Board meetings Review of results of employee opinion surveys Engaging with employees during site visits
Customers	Generate the Company's revenue and profit	Continued safe and economical supply of gas The Company's availability and responsiveness	Regular review of customer satisfaction scores to assist strive for enhanced KPI performance Independent Customer Engagement Group
Communities and the Environment	The Company's activities impact local communities and the environment. By working to make these social impacts more positive and environmental impacts less harmful, the company earns its right to operate in accordance with its values and environmental and social responsibilities	Engagement with the community Sponsorship and charitable donations to further social and environmental causes The company demonstrating its environmental and social responsibilities	Established and launched The Cadent Foundation (see the Safety & Sustainability report, available at www.cadentgas.com) and received reports upon its activities Discussions with investors on ESG expectations and developing a Trust Charter Reports from management upon local community and environmental initiatives, including feedback received from customers generally, the Independent Customer, Engagement Group and the public
Suppliers	Provide the business support services and products required to operate the business	Trusted partnerships and prompt payments Predictable, profitable continuing orders	Business updates on supplier relationships from the Chief Executive Officer, Chief Operating Officer and Network Directors who are engaged in regular dialogue with the management teams (see page 63)
Ofgem	Regulates the company's conduct under its licence and approves its business plans under the regulatory framework	Execution of the business plan Compliance with licence conditions and responsible behaviour	Receives regular reports from the company's regulatory team including on the RIIO-2 Business Plan Direct engagement with Ofgem leadership
UK Government	The future role of gas in UK Government's energy policies and strategy directly impacts the company's longer term prospects and strategy	Security of affordable energy supplies to UK consumers and businesses Industry input to help shape policy and strategy	Receives regular updates from the company's Future Role of Gas team Direct engagement with BEIS and UK Treasury
Debt providers	Provision of access to affordable debt funding to support the company's liquidity needs from time to time	Predictable, sustainable financial returns	The Group's financing arrangements are overseen by the Board's Finance Committee, with meetings and presentations by the Head of Treasury to the committee describing engagement with the holders of debt instruments. Members of the committee engage directly with debt holders and potential debt holders throughout the year
Citizens	The support and tolerance of the general public is important when the company responds to incidents and/or its operations cause necessary disruption (including the COVID-19 crisis)	Gas safety and being protected from harm to individuals and their property Minimal disruption to their daily lives and business activities	Debrief on major incidents including public reactions and the steps taken by management to engage with the households, businesses and wider communities affected by any such incidents

Section 172 statement
continued

Key decisions

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

- Approval of RIIO-2 Business Plan submission to Ofgem.
- Endorsement of the company's customer improvement plans.
- Approval of the company's entry into a transaction and associated documents in relation to the agreement between the shareholders of Quadgas Holdings TopCo Limited following National Grid's divestment of its remaining stake in the Quadgas Group.
- Approval of 2018/19 separation compliance reports and discontinuation of the Business Separation Compliance Committee.
- Approval of a settlement with Ofgem around a number of historical service related issues in respect to multi occupancy high rise buildings.
- Approval of company's pay negotiation mandate with trade unions.
- Approval of pension transfer strategy.
- Approval of debt refinancing and renewal of the Group's EMTN programme.
- Launch of the Cadent Foundation, approval of its governance structure with devolution of authority to a donor advised fund to set the Foundation's beneficiaries and funding criteria.
- Approval of Steve Fraser's appointment (and remuneration package as Chief Executive Officer).
- Approval of plans for new office building in Ansty, Coventry.
- Approval of Modern Slavery Statement and updates to Delegations of Authority.

The Board considers that, in taking these decisions, the long-term interests of the company and the interests of relevant stakeholders were considered, some examples of which are set out below.

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

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

In reviewing and approving for submission the company's RIIO-2 Business Plan, the Board carefully considered the company's longer-term strategic and operational ambitions, and the pricing model to support this. It sought assurance from the company that the business plan was built on customer perspectives and feedback, as well as its accuracy, ambition, efficiency, deliverability and financeability. The Board's active role in the development of the business plan, includes spending time in workshops and discussions with the company's operational teams, acting as a 'critical friend', to challenge them and test their understanding of how they plan to deliver our commitments. It has also challenged the executive team to ensure that the plan is stretching but deliverable, that it appropriately addresses long-term risk, including climate change risk and has reviewed and challenged costs and outputs.

This does not mean that the company cannot take calculated risks within a carefully defined appetite framework and pursue opportunities, provided that the long-term consequences are carefully considered. One example of this is our work on the future of gas. The Board recognises the threat that climate change poses to society, and is involved in the exploration of new techniques and technologies that, if successful and adopted, will contribute to the UK's ambitions by supporting a 'greener' energy mix using hydrogen fuel blends capable of being delivered to homes and business through repurposing much of our existing networks. You can read more about this from page 40 onwards. We keep the company's future of gas activities and ambitions, and the underlying levels of investment and stakeholder engagement, under regular review, and also consider what the long-term consequences would be for the company were we to decide not to pursue these kind of initiatives and future opportunities.

Having regard to the interests of the company's employees

During the year, the Board has been kept regularly updated on progress with the company's transformation programme. This has involved reshaping the business to deliver improved cost effectiveness and efficiencies appropriate to an organisation of Cadent's size and nature, while ensuring it has the key skills and resources required to deliver on our plans and ambitions in putting the customer at the heart of the operating model. The transformation programme has had a consequence for many employees, and the Board has been very mindful to ensure appropriate consultation was taking place and that affected employees were treated fairly, with dignity and respect, including the ability to voice their concerns and ideas.

A Transformation Committee was established to provide executive oversight to the programme, and Mark Mathieson was appointed to this Committee as a Director representative on behalf of the Board to ensure we stayed close to its work programme and related employee engagement activities. The transformation activities have involved adjusting the operating model to give more accountability and responsibility to our network leaders and their teams so that they may provide a more efficient service to customers. The Board also approved a voluntary redundancy programme which was taken up by over 200 employees. Careful management of this programme has achieved future savings and efficiencies, whilst maintaining the required skills and resource we require. It was important to us that the Transformation Programme was also enacted and completed swiftly to minimise uncertainty and any anxiety among the workforce. Most measures, including the voluntary redundancy programme and new operation model, were concluded during the 2019/20 reporting year, with the financial and operational benefits expected to be seen in the 2020/21 financial year and beyond.

The Board reviewed the results of employee opinion surveys conducted recently across the business and discussed these with the Chief People Officer and Network Directors.

Employee safety remains an important part of the company's overall approach to safety and both the Board, and the Safety & Sustainability Committee reviewed and assessed safety performance and improvement plans regularly throughout the year. During the year, we focused on the importance of the health and wellbeing of our employees and stakeholders, with renewed attention on the management of three specific areas, these being vibration exposure; managing musculoskeletal injuries; and mental health wellbeing.

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

During the process of developing the RIIO-2 Business Plan the company undertook an unprecedented level of stakeholder engagement. This included Board members participating in various meetings of the independent Customer Engagement Group that was established by the company, having been initiated by Ofgem through the RIIO2 Framework, for the specific purpose of testing the company's proposals with the customer experience in mind. This engagement helped develop the business plan in line with those matters that are of the most importance to the company's customers.

Throughout the year the Board monitored customer satisfaction scores and discussed trends and improvement plans with the Chief Executive Officer and Chief Operating Officer.

As well as considering the need to ensure robust and constructive relationships with the company's critical suppliers, we also oversaw the company's plans to respond to the scenario of the UK's exit from the European Union on a 'no-deal' basis, and this involved considering the likely impact on the company's supply chain and challenges that those suppliers would also face. The Board assessed the company's contingency planning and were satisfied with the company's preparations and engagement with key suppliers to seek to ensure continuation of supplies in this scenario.

Another very important business relationship is that maintained with UK Government, and BEIS in particular. The company plays an important role in transporting gas to homes and businesses via our infrastructure assets, and gas is a key component of the UK's current energy mix. As the UK pursues its ambitions towards net zero this will require major adjustments in the energy mix, and the company is well-positioned to play a leading role within the gas industry in developing the technological and operational means to deliver a greener gas fuel mix through repurposing existing infrastructure. Maintaining an open and constructive dialogue with UK Government on our ambitions helps ensure that Government is kept apprised of developments and informed of future strategic options in support of climate ambitions. To this end, the Board met with representatives of BEIS and UK Treasury during the year to discuss the company's work on the future role of gas.

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

The company has established the Cadent Foundation, to make a positive and lasting difference to the communities that we serve and the wider society within Cadent's network. This includes 'green' community projects; projects that will help people in vulnerable situations and projects that provide a better and healthier community to live in and use. Cadent has committed to invest 1.25% of its post-tax annual profits to the Cadent Foundation.

During the year the Board approved plans to relocate the company's main office workers in Hinckley and Coventry to a new, purpose-built site in Ansty, Coventry. In making this decision, we considered a number of factors including the benefits for employees of an improved working environment where more of their colleagues are on the same site, the opportunity to seek a 'greener' footprint through the design and fuel supply options for the new building, and the financial business case for the proposal. The Board also discussed the potential to encourage more use of electric vehicles within the company's commercial vehicle and company car fleets.

The Board routinely receives updates on progress with the company's mains replacement programme and challenges management on its ambitions in this area. This programme serves to reduce the amount of 'shrinkage' experienced through the leakage of gas from older pipes. Such shrinkage means that the energy expended in the production and transportation of the fuel is not efficiently transferred to customers, and therefore this results in less captured output for the same amount of emissions produced or, put another way, more emissions need to be produced to meet the same level of customer demand. This programme is therefore an important way in which the company may contribute to ensuring the efficient transportation of fuel produced and the consequential environmental impact.

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

The Board has spent time during the year considering the generic lessons that may be learned from the published findings of the recent regulatory investigation at Southern Water. Some key points that were analysed including the importance of embedding and promoting a culture of openness and transparency where our people are encouraged, and have the courage and means, to speak up without fear of reprisals; promoting the company's value of Curiosity, so that if something does not seem right it is appropriately challenged; and the importance of swiftly raising important information up the management line to the right levels of the organisation so that appropriate decisions and action can be taken. These are important lessons as the company moves to a renewed operating model where more accountability and responsibility has been devolved to our network management teams to enable decisions to be taken closer to the customer.

During the year, the Board also approved a refresh of the company's guide to business ethics, "Doing the Right Thing" which encapsulates the expectations required to promote the desired culture and maintain the company's reputation for high standards of business conduct.

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

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

Financial review and risk management

"Our business transformation is key to delivering improved levels of efficiency and service."

Steve Hurrell
Chief Financial Officer

Financial review and risk management

"We have again delivered a strong set of financial results ahead of our 2019/20 targets and our prior year performance."

Steve Hurrell
Chief Financial Officer

Our significant investment programme continues to drive growth in our RAV

Net debt:

£6.7bn
(2019: £6.4bn)

RAV (Regulated Asset Value)

£10.0bn
(2019: £9.7bn)

Introduction

Our continued focus this year has been on progressing our business transformation activities to ensure that we can deliver the levels of efficiency, reliability and customer service that our Board expect and our customers deserve as well as preparing ourselves for RIIO-2. During the year to March 2020 we have hugely advanced towards separation of our systems and processes from National Grid. Additionally, the acquisition of the remaining 39% shareholding in Quadgas HoldCo Limited from National Grid by the consortium was completed.

The steps we continue to take to embed a culture of effective and focused management of costs across our organisation continue to show results with our 2019/20 underlying regulatory controllable costs[1] decreasing by £61m since 2016/17. We have made significant progress against our business transformation programme developing our four networks through our Network Directors to focus our detailed operating model on 28 areas, each with clear accountability for delivering its customer, regulatory, safety and financial targets. We have developed appropriate controls around this new way of operating to ensure financial and business control is safeguarded.

We have further affirmed our commitment to support communities and customers that we serve by establishing the Cadent Foundation, in which we are investing 1.25% of our after-tax profits, ensuring that communities share in our performance.

1 Underlying regulatory controllable costs exclude one-off redundancy (£15m), transformation (£8m) and RIIO GD2 (£10m) related costs. For the definition of regulatory controllable costs, see the glossary on page 182.

Investing to ensure the safety and reliability of our networks

Our balance sheet is dominated by the value of our physical assets and the corresponding borrowings, as set out in the table below, that fund our capital investment programmes. Capital investment was £856m (2019: £736m) and is primarily associated with the ongoing gas mains replacement programme which saw 1,809km of mostly cast iron pipes replaced by polyethylene pipe during the year. Increased investment from the previous year was driven by the ramping up of our major capital works programmes including the HS2 diversions activity.

Cash flow and net debt

Net debt reconciliation

Borrowings (both current and non-current) at 31 March 2020 were £7,014m (2019: £6,735m) mainly comprising of fixed rate and index-linked debt.

Net Debt (see note 25 of the Financial Statements)	£m
Borrowings	7,014
Cash and financial investments	(344)
Derivatives	33
Lease liabilities	31
Net debt	6,734

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. 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 2019/20 was £1,257m, £114m higher than in 2018/19, primarily due to increases in our regulated revenues and the cost reductions achieved through our transformation programme[1].

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.

Debt issuance

Driven by the need to fund our capital investment programme we have a material amount of debt, with varying maturities and requirements for new incremental debt, therefore we operate a pro-active policy of meeting credit investors and our relationship banks regularly to provide updates and information to facilitate ongoing access to the capital markets.

In readiness for RIIO-2 we have worked to improve the resilience of our debt portfolio; ensuring that our financing strategy was focused on securing the required debt in advance of our needs in order to reduce any financing risk. In the year, we successfully refinanced our outstanding loan facilities extending the maturity to 2024 (previously 2021). This included repaying the existing syndicated term loan of £393m and drawing a new syndicated term loan of £300m. The undrawn Revolving Credit Facility was replaced with a new facility with maturity date of 2024. We also issued a 16-year fixed rate bond of £300m under the £6bn Euro Medium Term Note programme and repaid £400m of the £650m 2021 maturity notes issued in 2016 under a Tender offer. In March, we were pleased to issue the UK's first transition bond – a 12-year EUR 500m bond – to invest in the retrofit of gas distribution network assets, principally the iron mains replacement programme. The bond was very positively received by investors and was oversubscribed by a factor of 8 times. Cadent will use the proceeds of the bond to replace pipeline to facilitate in the future to carry low-carbon gases and reduce methane leakage.

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

Net finance costs

Net finance costs of £159m (2019: £147m) were driven by external debt funding. The effective interest rate, including index-linked debt, for the year was 2.3%. The effective cash cost of interest (excluding the RPI uplift on index-linked debt) was 1.8%.

1 A presentational adjustment has been made to reclassify £80m of cash flows from capital contributions from investing activities to operating activities in 2019/20. The comparative value of £91m has also been restated in the consolidated statement of cash flows. See note 1(s) of the financial statements for further information.

Financial review and risk management

continued

Credit ratings

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

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 2020, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash held in Money Market Funds was £327m, following receipt of the debt proceeds issued in the latter part of the year. 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 £500m with a further £200m facility available to be lent down from the immediate holding company, Quadgas MidCo Limited.

We also maintain a Bond programme through Cadent Finance Plc which allows efficient access to debt capital markets, in a range of different currencies. The combination of short-term liquid funds and access to longer term borrowings allows us to keep a healthy level of liquidity which has become increasingly important in the wake of COVID-19. Further details of the impacts of COVID-19 and our response can be found on page 14.

Regulatory gearing

The level of gearing relative to our RAV is a key measure within the regulatory framework and also forms part of our banking covenants. Adjusted net debt (see reconciliation to statutory net debt below) expressed as a percentage of RAV indicates the level of debt employed to fund our regulated business. As a result of investment during the year and the regulatory formula, our RAV grew by £0.3bn to £10.0bn in the year, against which we have an adjusted net debt (consistent with the regulatory measure) of £6,355m, being 64% of RAV.

Adjusted net debt	£m
Statutory net debt	**6,734**
Derivatives	(39)
Unamortised debt fees	14
Unamortised fair value adjustments	(284)
Accrued interest	(44)
Lease liabilities	(26)
Adjusted net debt	**6,355**

Operating financial performance

Revenue was £2,115m (2019: £1,995m) driven 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 periods. Revenues for the year ended 31 March 2020 include higher capacity income driven by inflation and the collection of additional passthrough costs as well as higher connections and diversions income driven by the completion of several significant projects in the year.

Operating profit was £924m (2019: £813m) with operational expenditure largely comprising charges associated with our usage of the National Grid Gas Transmission network, business rates and employment costs of our direct workforce and contract partners. COVID-19 did not have any material impact on operating profit in 2019/20. Details of the impact of COVID-19 and our response can be found on page 14.

EBITDA Reconciliation	Reference	2020	2019
Operating profit	Page 114	924	813
Depreciation & amortisation	Note 5	343	319
Exceptional items	Note 6	53	33
EBITDA		**1,320**	1,165

Taxation

Our effective rate of corporation tax for the year, before exceptional items and remeasurements, is 19.1% (2019: 18.6%). After exceptional items and remeasurements the effective rate increases to 37.0% (2019: 18.6%) due to an exceptional deferred tax charge of £137m in the year (2019: nil) following the change to the UK corporation tax rate.

In common with other utilities, 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. The provision is calculated at the rate of tax applicable when the provision is expected to reverse. Since the Government had previously legislated that the UK corporation tax rate would reduce to 17% from 1 April 2020, deferred tax had therefore been provided on that basis at 31 March 2019. Budget 2020 however introduced further legislation to increase the UK corporation tax rate to 19% from 1 April 2020 and the charge of £137m in the year reflects the restatement of the tax rate at which we now expect the provision to reverse.

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.

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2020 was £408m direct taxes (2019: £330m) and £219m indirect taxes (2019: £253m).

Dividend

This year we have reviewed our dividend policy as a result of the sale by National Grid of its remaining shareholding in Quadgas HoldCo Limited. Our dividend policy balances the distribution of available funds to shareholders, after having considered the forward committed cash requirements of the business to support our investment programmes and managing to an appropriate level of gearing. The company had £5.5bn of distributable reserves at 31 March 2020 including the profit in the period. During the year, we paid dividends totalling £275m (2019: £423m).

Pensions

We operate pension arrangements on behalf of our employees many of whom are members of Section C of the Defined Benefits section of the National Grid UK Pension Scheme ('NGUKPS') which is closed to new entrants. Membership of the Defined Contribution scheme is offered to all new employees.

With respect to the Defined Benefit pension arrangements the company made contributions of £72m during the course of the year including £40m as part of a deficit reduction plan agreed with the Trustees.

On an IAS 19 basis the Defined Benefits pension schemes are in a net asset position of £917m at 31 March 2020 (2019: £690m) due to actuarial gains and higher returns on plan assets than the discount rate. In light of COVID-19 there was some uncertainty over certain asset valuations of our property and unquoted equities portfolio as at 31 March 2020 however updated valuations were obtained in June 2020 which supported only a minimal decrease to the asset valuations. Full details of the impacts of COVID-19 can be found on page 15.

One of the remaining steps of separation from National Grid is the creation of a new pension scheme into which existing members of the Section C of NGUKPS will be transferred, on a like for like basis, during the financial year 2020/21. A new corporate trustee company was incorporated on 19 December 2019, 'Cadent Gas Pension Trustee Limited' as well as two holding companies 'Cadent Gas Pension Property Company 1 Limited' and 'Cadent Gas Pension Property Company 2 Limited' incorporated on 25 March 2020 and a further holding company 'Cadent Gas Pension Services Limited' incorporated on 17 June 2020.

Exceptional costs

As part of our drive to transform the business, we have incurred exceptional transformation costs this year. Restructuring costs totalling £34m have been recognised, of which £25m relates to a voluntary redundancy programme announced in May 2019 (severance payments of £7m and additional pension liabilities of £18m).

As we pushed to complete the separation of our IT systems from National Grid, we incurred exceptional costs of £17m associated with this work (2019: £15m).

Supplier payment practices

We are committed to ensuring that we treat our supply chain partners fairly and this is evidenced by the improvement in average payment days reported to BEIS from 36 to 32 days during the course of the year. In part this improvement reflects a reduction in our standard payment terms for SME businesses from 42 to 30 days. In February 2020 we implemented new procurement systems which allow for e-invoicing and will allow for future improvement in payment transparency for our suppliers.

Accounting policies

Our Group financial statements are prepared in accordance with International Financial Reporting Standards that have been endorsed by the European Union. The company financial statements are prepared in accordance with FRS 102.

Impact of new accounting standards – IFRS 16

IFRS 16 'Leases' is applicable to reporting periods beginning on or after 1 January 2019 and has therefore been adopted by the Group for the period commencing 1 April 2019.

In line with the assessment disclosed in the Group's annual report and accounts for the year ended 31 March 2019, the adoption of IFRS 16 'Leases' resulted in the recognition of £33m right-of-use assets and £30m lease liabilities (after adjustments for prepayments recognised as at 31 March 2019). Overall net assets at 1 April 2019 increased by £2m and net current liabilities were £9m higher due to the presentation of a portion of the liability as a current liability. In addition to this, the Group continues to recognise lease liabilities and assets of £6m relating to pre-existing finance lease liabilities recognised under IAS 17 as at 31 March 2019.

Profit after tax has decreased by £2m for the year ended 31 March 2020 as a result of adopting the new standard.

Operating cash flows have increased and financing cash flows decreased by approximately £9m as repayment of the principal portion of the lease liabilities is classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence this has not had a significant impact on the financial statements.

Brexit

As described elsewhere in the Strategic report, we have considered the issues and consequences of the UK's exit from the EU on 31 January 2020 and the subsequent transition period to December 2020 and do not believe this to have a material effect on the financial results for the year.

Steve Hurrell
Chief Financial Officer

12 August 2020

Risk management and principal risks

Risk management overview

The Board is committed to protecting and developing our reputation and business interests. It has overall responsibility for risk management within the business and has set the risk appetite for the company and reviews the risk profile at least annually.

We have adopted a risk management model which places responsibility for actively managing risks firmly with the business. There is a central team who set the risk management framework, facilitate reporting and provide advice and challenge to the business.

Executive Committee members regularly review their risks to assess their current status, including impact and likelihood, progress of mitigation plans and to identify emerging or developing risks.

The Executive Committee reviews the company's risk profile on a regular basis, bringing together top down and bottom up risk assessment.

In line with our value of curiosity, we are always seeking better ways to deliver our risk management process. The Audit & Risk Committee reviews the effectiveness of the overall risk management policy and process on an annual basis.

We have adopted the internationally recognised 'Three Lines of Defence Model' in order to assure the Executive, Audit & Risk Committee and Board that risks have been identified and are being suitably managed. In addition to the risk management process there are several further second line assurance processes operated by specialist teams embedded within the business. These teams provide assurance over the effectiveness of the financial and non-financial internal controls operating across the business. Our in-house Internal Audit Team are supported by specialist co-source providers to form the Third Line of Defence. An independent reporting line directly to the Audit & Risk Committee to ensure that the Internal Audit Team can provide an expert, independent and objective opinion on the current state of controls to the Audit & Risk Committee.

The Board discharges its responsibility for monitoring the effectiveness of the risk management process and internal controls through the Audit & Risk Committee's annual review and regular assurance reports.

This includes compliance with our licence conditions which is recognised as part of our 'failure to comply with legal and regulatory requirements or failure to deliver regulatory outputs' principal risk.

Climate Change risk management

We support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). The processes we use to identify, assess and manage risks are embedded in the business and have been used to address the Climate Change risk as outlined below.

Financial risk management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the company's material financial risks, including liquidity, credit, interest rate risks and market risks including foreign currency risks together with pandemics, as a result of the emerging COVID-19 issues in March. These risks are monitored through a Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Cadent Gas Limited and its subsidiaries.

Treasury Policy also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. The Treasury team monitors the exposure that we have with any one counterparty against agreed limits and these limits are monitored regularly and updated where appropriate by the Board for changes in credit ratings.

Liquidity risk

Liquidity risk is the risk that the Group will have insufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced, and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets and committed funding facilities.

As at 31 March 2020, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash balance held in Money Market Funds totalled £327m, following receipt of debt proceeds issued at the end of the year. All funds held with the Money Market Funds are immediately available. We also have access to Revolving Credit Facilities (RCFs) from our relationship banking group. This allows for drawings of up to £500m at Cadent Gas Limited with a further RCF facility of £200m being available at Quadgas Midco Limited. As at 31 March 2020 the £500m Cadent Gas Limited facility was undrawn and £130m was available from the Quadgas MidCo Limited facility that could be lent to Cadent Gas Limited.

As at 31 March 2020 the COVID-19 pandemic prompted a thorough review with regard to required levels of liquidity. Cadent initiated additional analysis to assess existing facilities and align liquidity levels with possible COVID-19 scenarios. This analysis concluded that the significant financial resources available to Cadent are sufficient, no additional liquidity has been sought. Monitoring of the situation is ongoing.

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.

Credit risk

The Group takes on exposure to credit risk, which 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. The Group has dedicated standards, policies and procedures to control and monitor credit risk. The counterparties under treasury activities consist of financial institutions. 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. The exposure to counterparty credit risk will continue to be monitored. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

Significant changes in the economy could result in losses not necessarily provided for at the statement of financial position date.

There are only 40 principal Shippers (customers) that we trade with. The creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal customers (e.g. default of a gas shipper) could have a significant impact on the business in terms of disruption to revenue recovery, the exposure to such credit losses would be 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 process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the business's management therefore closely monitors credit risk and adherence to this process.

Market risk

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 Board is required to review and approve policies for managing these risks on an annual basis.

The Board approves all new hedging instruments entered into. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Head of Treasury under delegated authority from the Board. The Group has no significant transactional foreign exchange, equity or commodity exposure.

The Group has exposure to interest rate risk and inflation risk and this is explained in the sections below.

The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

The company has limited direct exposure to impacts of Brexit, however, we recognise the potential macroeconomic impacts which are addressed through our financial risk management.

We will continue to monitor the progress of trade negotiations and the potential impacts to our business of a new trade deal with the EU or a no deal outcome. The main short-term risk that we face is potential supply chain disruptions. We continue to engage with our suppliers to understand their Brexit plans and are closely monitoring their delivery performance. We have also taken a prudent approach and increased our stock levels to preserve the delivery of operational activities. Other risks will continue to be reviewed as more information becomes available regarding the final outcome and the impact that it could have for us in the long term, but analysis carried out to date did not reveal a wider material risk in relation to Brexit for our business.

Although the risk remains subject to monitoring, the overall potential risk to the business is considered to be low and has therefore not been included as a principal risk.

The emerging potential risks of COVID-19 are also being monitored through our crisis management framework under executive supervision. A detailed risk assessment is in place and continues to be updated as the situation evolves to ensure that we consider and manage health and operational safety risks in line with government advice.

Interest rate risk

Interest rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market interest rates. The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The Group's fixed rate borrowings and derivatives are exposed to a risk of change in their fair value due to changes in interest rates.

Risk management and principal risks

continued

Our Principal risks and uncertainties include:

Risk	Action
Failure to protect customers' interests	
We must keep both current, and future consumers, safe and warm whilst delivering good value for money. Although a small proportion of the overall bill, we are mindful of the effect that network costs have on our consumers' energy bills and are committed to improving the service levels they can expect from us. This is a key feature of our RIIO-2 Business Plan which we submitted in December 2019.	• Customer performance is recognised as a priority for our business. We have engaged customers extensively and worked closely with our Customer Engagement Group to ensure that customer interests are at the heart of RIIO-2 Business Plan. • We are pioneering developments in a cross-industry safeguarding customers group looking at services that are provided to customers in vulnerable situations. • We continue to invest in our networks to maintain and improve service levels. • Customer performance is recognised as a priority for our business. We have engaged customers extensively and worked closely with our Customer Engagement Group to ensure that customer interests are at the heart of RIIO-2 Business Plan. • We are pioneering developments in a cross-industry safeguarding customers group looking at services that are provided to customers in vulnerable situations. • We continue to invest in our networks to maintain and improve service levels. • We have a culture of continuous improvement to drive down cost and better serve our customers. • We have established clear customer targets which are closely monitored, with improvement plans in place where necessary. This is monitored and governed by our Customer Performance Operations Committee. • There is a commitment, at all levels of the organisation, to improve customer performance. This is reinforced through regular employee communications, which share good practice across the organisation. • Special measures are in place for customers identified by the Priority Services Register and mechanisms in place to help customers register as priority customers.
Health, safety, environment and security	
Safety will always be a top priority and whilst major incidents are rare, human factors, asset and system malfunctions carry an inherent risk of harm to those who work for us and the communities we serve. We are also mindful of the impact that our operations could have on the environment in which we work, and take care to ensure that we manage our environmental risks to minimise these potential impacts. In order to ensure we continue to keep the energy flowing it is imperative that we secure our people and assets so that we can maintain the essential service that our customers rely on. A major incident could cause disruption for our customers and loss of credibility with our regulators. It could also result in damage to our reputation and regulatory enforcement including significant financial penalties or claims.	• We have robust safety and ISO14001 accredited environmental management systems in place which are underpinned by a Health & Safety Executive accepted safety case. • There is visible leadership and commitment to health, safety, environmental and security matters, including regular leadership safety visits, which has created a strong safety culture throughout the organisation. • We operate process safety controls which are supported by robust incident investigation and review processes. • We have long-term, risk-based investment and replacement programmes to ensure that we maintain a safe, secure and efficient network. • Our dedicated Security and Property teams monitor developing security threats, provide visible deterrents at our keys sites and ensure that appropriate personal security advice is provided to colleagues. • In the event of an incident we have well-practiced crisis management response procedures in place. • To support continual improvement across the industry there are structures in place for cross-industry sharing of good practice and learning.

Risk	Action
Climate change and changes in operating landscape	
Climate change is a substantial existential risk and opportunity for many organisations which plays out in three ways: Firstly, given the nature of our infrastructure and the essential services that we provide, we have a unique opportunity to help drive forward the UK's hydrogen economy to decarbonise our heat and transport systems which will be essential for the UK to deliver its stretching climate change targets and meet the changing expectations of consumers and society. Secondly, we are also aware of our own potential to contribute to climate change and are actively seeking ways to reduce this. Thirdly, our own operations may be impacted by the effects of climate change – for example the effects of more severe winters and flood events may put strain on our operating model. As a regulated business, our future opportunities are directly affected by factors driving the landscape of the energy industry. These include emergent technologies, political events, changes in consumer habits and social trends, media coverage, public opinion and government views, which are reflected in the decisions of policy makers and regulators to define the way in which we can run our business.	• Cadent has a unique role to play in the de-carbonisation of the UK's heat and transport systems. Our 'Future Role of Gas' programme looks at future scenarios and how we can support the delivery of the UK's hydrogen economy. • This year we have pioneered innovation projects to demonstrate the viability of hydrogen networks through large scale demonstration projects such as HyDeploy and HyNet. • By working with partners to connect more sustainable sources of gas, such as biomethane, we are already providing consumers with access to more sustainable energy. • We are also taking steps to reduce our own carbon footprint through our mains replacement and use of gas powered HGV vehicles. • We monitor external developments to understand potential disruptive forces, including emerging technologies, changes in societal norms and the political consensus which may affect our business plan to ensure that we proactively plan for and respond to them. • We will maintain credibility for delivery through the careful management of our current regulatory obligations and workload. • We undertake regional and national stakeholder engagement to understand policy, customer drivers and the regulatory landscape. • There are extensive programmes in place through the Energy Networks Association, Energy Innovation Centre and with BEIS, Ofgem and third parties to share innovations with other gas distribution networks and across utilities and third parties to ensure we are implementing best practice and coordinating our approach to solving decarbonisation.
Failure to effectively manage assets and maintain network reliability	
To ensure that we efficiently maintain a safe and reliable network for our customers, we must implement an effective asset management framework. It must, through appropriate policies and procedures, good quality asset data, suitable investment and competent personnel, deliver an effective process for preserving the integrity of both individual assets and the operation of our networks as a whole to deliver the right service to our customers and stakeholders. Failure to effectively manage risk on individual assets or on our networks could lead to asset failures which may result in customer service failures, a safety or environmental incident or failure to meet our regulatory standards of service. This could also damage our reputation and may lead to additional costs, enforcement action or financial penalties.	• We have an asset management framework in place that is independently accredited to ISO55001 standard. • We have engineering and asset management teams in place to manage the framework and ensure good quality asset decisions and investments are made. • The framework is supported by decision support tools to aid complex decision making and ensure resilience is maintained. • Engineering policies and procedures are in place to ensure that assets are appropriately operated and maintained. • A replacement programme is in place and agreed with our regulators to ensure that ageing assets are replaced. • In the event of asset failure, insurance is in place to compensate for damage arising. • In the event of an incident we have well-practiced crisis management response procedures in place. • Our RIIO-2 Business Plan submission has set out investment cases to justify continued investment in our network to ensure that customer standards of service are maintained going forwards.

Risk management and principal risks
continued

Risk	Action
Failure to secure critical resources and engagement	
The people who work for us are essential to the success of our business. Both our direct workforce and those engaged through our partners and supply chain must be resilient and capable of adapting to the needs of the industry. The ageing profile of our workforce and competition for limited skilled resources in means this is a key risk that we must manage. In operating an emergency service, 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.	• To build our internal resource pool and develop our future pipeline of talent, we have developed a series of talent and training programmes, including those for graduates and apprentices. • To attract and retain the right people, our reward packages are competitively benchmarked and incentivise performance aligned to the performance of the company's objectives. • To ensure that employees remain engaged we undertake regular monitoring of employee engagement which allows us to identify and address any areas of concern. • Strategic workforce planning helps us understand our future resourcing needs, including those operationally critical roles to evaluate the best mitigation strategies. • Succession plans are in place for operationally critical roles. • As this is an industry wide issue we also support development of the STEM subjects through associated bodies such as the ENA. • We work closely with our Strategic Partners to monitor the availability of skilled teams to undertake our mains replacement work and have targeted recruitment programmes. • Our dedicated Supply Chain Team work closely with our partners and suppliers to identify critical supplies and closely monitor and manage stock levels throughout the year to ensure critical supplies are maintained. • We monitor and work closely with our strategic partners to ensure delivery of key projects and programmes with suitable escalation routes and governance in place for risks and issues to be identified and resolved.
Cyber breach or critical system failure	
Due to the nature of our business, we rely on technological systems to support our operational delivery. We recognise, that our infrastructure systems, may be a potential target for cyber threats. We must protect our business assets, personal data and infrastructure and be prepared for a malicious attack. To ensure that we efficiently maintain a safe and reliable network for our customers, we implement an effective IS asset management framework. It must, through appropriate policies and procedures, good quality asset data, suitable investment and competent personnel, preserve the integrity of both individual assets and the operation of our networks as a whole.	• Critical processes and systems are understood, and security controls are designed on a risk-based approach. • Cyber controls are currently provided under an arm's length agreement from National Grid's Digital Risk and Security team which is scheduled to finish by the end of July 2020. • We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme started in 2010 and continues to be modified and updated. This programme reduces the risk that a cyber threat could adversely affect the company's business resilience. • We continually invest in cyber controls that are commensurate with the changing nature of the security landscape. This includes collaborative working with Business, Energy and Industrial Strategy (BEIS) and the National Cyber Security Centre on key cyber risks and development of an enhanced CNI security strategy. • Our Business Continuity Management (BCM) steering group oversees the management of BCM across Cadent. BCM plans are in place for critical processes and routinely tested. • Our Digital Risk and Security team have been engaging with the appropriate agencies to ensure we have appropriate controls in place to manage our obligations under the Network Information Security Regulations which all providers of essential services must comply with.

Risk	Action
Failure to comply with legal and regulatory requirements or failure to deliver regulatory outputs	
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. Failure to comply with legal and regulatory requirements could result in disruption to the operational business, penalties and damage our reputation. Failure to deliver regulatory outputs would fall short of our own expectations and indicate unacceptable failures in delivering an adequate service to our customers. It could also damage our credibility with the regulator and customers and impact our ability to earn future returns	• We have structured our business around the delivery of our regulatory outputs. Dedicated operational teams are in place to focus on the delivery of our standards of service, delivery of our mains replacement programme and upgrading our network assets. • Detailed outputs were set at the beginning of the RIIO price control and these are carefully monitored through a governance framework which includes weekly issues calls and monthly customer performance reviews to ensure that emerging risks and issues are escalated and managed in a timely manner. • There is a strong compliance culture. This is reflected in our values of 'courage' and 'commitment'. To sustain this culture, all employees are trained in our ethical guide, 'Always Doing the Right Thing' and suppliers are expected to sign up to our supplier code of conduct. This is also supported by a strong 'tone from the top' and internal communication programme. • We operate an assurance process which includes the review of our compliance with legal and regulatory obligations and is reported through the organisation to our Audit & Risk Committee and Board. • We have a horizon scanning forum to identify, and ensure we prepare, for regulatory changes and developments.
Pandemic risk	
A pandemic outbreak is an externally driven, long-term cyclical risk, with human history featuring irregular but periodic pandemic outbreaks. The likelihood of a pandemic occurring is understood to be increasing due the loss of biodiversity and increasing anti-microbial resistance, which is a subset of this wider risk. The immediate impact of an outbreak is also generally increasing due to the inter-connectivity of the modern world. However, society ability to respond to outbreaks is ever improving in terms of action to limits a pandemic's spread; advances in medical responses and technological innovation which provide a route by which activities can continue, in a modified form, during a pandemic outbreak. The impact of a pandemic risk is highly dependent on the nature and attributes of the specific pathogen but include: Operational impacts – non-availability of people both colleagues and in the supply chain, due to illness, caring responsibilities or medically advised restrictions; Macroeconomic impacts – significant uncertainly and an actual reduction in output impacting inflation, the cost of debt and the stability of suppliers. Due to the essential nature of our core services and care for our customers and colleagues as well as those we come into contact with, Cadent has to be prepared for pandemic outbreaks. This risk has crystalized in the current COVID-19 outbreak which is specifically addressed in our COVID-19 statement on page 13.	• An external threat scanning process to alert us to any developing widespread health issues. • Internal sickness absence and occupational health processes. • Up to date, relevant and periodically tested business continuity plans, with a focus on the continuance of essential services. • A dedicated Health team that both supports and advises directly and has the ability to call upon external support where required. • A crisis management framework with rapidly implementable 'Gold, Silver and Bronze' governance. Supported by a wide range of two directional communication channels to support colleagues both as individuals and co-workers. • Deep and wide experience within the leadership team of incident and crisis response including experience of a pandemic outbreak exercise. • A comprehensive and well-understood risk assessment and risk management process that takes account of uncertainty in available information and can adapt and respond well to situational changes. • Strong links to stakeholders including those within government, Ofgem and the HSE. • Structured and collaborative arrangements with Trade Unions. • Financial structuring that can adapt to short-term 'shocks' in the wider economic environment and regulatory support to sustain the business during prolonged impact. • Immediate scenario modelling, particularly in relation to work force planning and liquidity, to gauge key actions • The ability of the non-operational teams to rapidly reprioritise workload and respond to rapid changes in operational requirements for example homeworking.

Governance

"The Board continues to provide oversight and guidance to the company in the delivery of its objectives."

Sir Adrian Montague CBE
Chairman

Contents

Chairman's statement on Corporate Governance

"The Board continues to focus on the company's preparation and readiness for RIIO-2."

Sir Adrian Montague CBE
Chairman

In accordance with our requirement to provide a statement of corporate governance arrangements, I confirm that Cadent has adopted the Wates Corporate Governance Principles for Large Private Companies ('Wates Principles'). The Corporate Governance report that follows explain how we have applied those principles. This complements the Directors' performance of their duty under Section 172 of the Companies Act 2006, which you can read more about on pages 53 to 57.

During this year, the Board has continued to focus on Cadent's development of the business plan for the RIIO-2 price control, ultimately leading to its approval and submission to Ofgem in December 2019. Throughout this process, the Board has had oversight of the significant steps being taken to transform the service Cadent provides and to ready it to deliver future commitments. We have ensured that we have the right level of information and interaction to do this effectively. This has included improved operational reporting, engagement with the new leadership team and Network Directors as well as strategic debate on key areas, such as workforce relations, our Customer Improvement Plan and our Decarbonisation Programme. The Board has also been pleased to contribute to stakeholder engagement which the company has undertaken throughout this period, in particular with the Customer Engagement Group.

The matters reviewed during development of the business plan, have enabled the Board to reflect broadly on the Company's purpose, its strategic priorities, risks and opportunities. This has included consideration of how we may best serve our customers, the communities within which we operate and our shareholders in a responsible and sustainable manner. The Board is satisfied that the business plan we have submitted will enable Cadent to achieve its ambitions.

Alongside this, our Committees have had another busy year supporting management and the Board in giving detailed focus on the important matters within their respective remits. You can read more about this in the Committee reports that follow.

Latterly, our attention has shifted to the challenging times brought about by the COVID-19 pandemic. In this unprecedented situation, the Board has appreciated the approach that Cadent has taken both to maintaining essential services for our customers, within Government guidelines, and maintaining a regular dialogue with the Board; providing information supporting that approach.

Sir Adrian Montague CBE
Chairman

12 August 2020

Board of Directors

Board of Directors

Details of the Directors of Cadent Gas Limited and their membership of the Board Committees, for the 2019/20 financial year, can be found in the following pages.
The Directors' details which are listed include our two Executive Directors, three Sufficiently Independent Directors (including the Chairman) and eleven Shareholder Nominated Directors, the three Sufficiently Independent Directors (including the Chairman) and the 11 Shareholder Nominated Directors appointed by Quadgas Holdings TopCo Limited ('TopCo'), the ultimate parent company of Cadent Gas Limited. These pages do not include details for any Alternate Directors appointed from time to time, in accordance with the company's articles of association and the agreement between the shareholders of TopCo, to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend. Collectively, the Sufficiently Independent Directors and Shareholder Nominated Directors are the Non-Executive Directors on the Board.

Executive Directors

Steve Fraser
Chief Executive Officer

Appointed
September 2019

Skills and experience
Steve Fraser has over 20 years' experience of managing and transforming infrastructure businesses.

Steve has a degree in Management Studies and a Masters in Engineering Management from UMIST. He holds a diploma in Advanced Management from Harvard University.

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

He became a Director of Bethell Group where he worked to establish them as a leading player in the energy services sector prior to joining United Utilities in 2005 to run the global outsourcing division Energy and Contracting Services working across the UK, Europe and The Middle East. Steve then became Managing Director of United Utilities Water in 2010 and from there joined the main Board as Chief Operating Officer.

Steve Hurrell
Chief Financial Officer

Appointed
March 2017 – February 2019; Chief Financial Officer

February 2019 – August 2019; Interim Chief Executive Officer

September 2019 onwards, Chief Financial Officer

Committee membership
Finance

Skills and experience
Steve was appointed as Chief Financial Officer in March 2017, becoming Interim Chief Executive Officer in February 2019 until Steve Fraser's appointment as Chief Executive Officer in September 2019. Prior to Cadent, he served as the CFO of Airwave Solutions Limited, an infrastructure fund business, where he was instrumental in redirecting the focus of the business and its cost base to delivering efficiently, thereafter successfully refinancing the Group's +£2bn of debt which in 2016 led to a successful sale of the company. In addition to Airwave Solutions Limited, Steve, in more recent years, has worked at Tube Lines Limited and Jarvis plc.

Board of Directors
continued







Sufficiently Independent Directors

Sir Adrian Montague CBE
Chairman

Appointed
July 2017

Committee membership
Nomination (Chair)

Skills and experience
Sir Adrian was a Director of Aviva plc from January 2013 to May 2020 becoming its senior independent Non-Executive Director in May 2013 and its Non-Executive Chairman in April 2015.

Sir Adrian's previous roles include Chairman of 3i Group plc, Anglian Water Group Limited, Friends Provident plc, British Energy Group plc, Michael Page International plc and Cross London Rail Links Limited. He is a former Deputy Chairman of Network Rail Limited, Partnerships UK plc and UK Green Investment Bank plc. Sir Adrian has previously been appointed as Chief Executive of the Treasury Taskforce, a Trustee of the Historic Royal Palaces, Global Head of Project Finance at Dresdner Kleinwort Benson and was a partner of Linklaters LLP (then Linklaters & Paines).

Sir Adrian was awarded a CBE in 2001.

Sir Adrian is a qualified solicitor.

Other key external appointments
Sir Adrian is currently Chairman of Manchester Airports Holdings Limited and a Trustee of the Commonwealth War Graves Foundation.

Dr Catherine Bell CB

Appointed
September 2016

Committee membership
Audit & Risk; Nomination; Remuneration; Safety & Sustainability

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

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

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

Other key external appointments
Catherine currently sits on the Board of Horder Healthcare. Catherine is a Member of the Competition Appeals Tribunal and is a pension trustee of the Charity for Civil Servants.

Kevin Whiteman

Appointed
January 2018

Committee membership
Nomination; Remuneration (Chair)

Skills and experience
Kevin was Chief Executive of Kelda Group and Yorkshire Water for a period of eight years. Kevin was Non-Executive Chairman of both companies from 2010 to March 2015.

Kevin was previously Chief Executive Officer of the National Rivers Authority and Regional Director of the Environment Agency, as well as holding a number of senior positions within British Coal. He was also Chairman of Wales and West Gas Networks (UK) Limited and has been a trustee for WaterAid UK.

Kevin is a Chartered Engineer.

Other key external appointments
Kevin is Non-Executive Chairman of NG Bailey. He is also Senior Independent Director of Severfield plc, a large structural steel company.

Shareholder Nominated Directors

Mark Braithwaite

Appointed
March 2017

Committee membership
Audit & Risk (Chair); Nomination; Remuneration; Finance

Skills and experience
Mark is a Senior Managing Director in Macquarie Infrastructure and Real Assets ('MIRA'). Mark was previously Chief Financial Officer of Thames Water, the UK's largest water and wastewater services company.

Prior to joining Thames Water, Mark was Finance Director of the customer and energy divisions at EDF Energy plc, and before that held a number of senior finance positions at Seeboard plc. Mark is a Non-Executive Director on a number of portfolio companies for MIRA and is also a trustee of Leadership Through Sport & Business, a UK social mobility and employability charity.

Mark is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Association of Corporate Treasurers.

Other key external appointments
Mark holds other non-executive Directorship roles for companies within MIRA's investment portfolio.

Mark Mathieson

Appointed
November 2018

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

Most recently, he was CEO at Green Highland Renewables, the UK's largest developer and owner of run-of-river hydroelectric schemes.

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

Other key external appointments
Mark currently sits on the Board of Nortegas Energía Grupo. He is also a sufficiently independent Non-Executive Director of Smart DCC Ltd.

Howard Higgins

Appointed
March 2017

Committee membership
Safety & Sustainability (Chair)

Skills and experience
In his role as Managing Director at Macquarie Infrastructure and Real Assets ('MIRA'), Howard provides specialist support across the regions on the acquisition, transition and management of energy and utility businesses. He also provides global coordination of all health, safety and environmental activities across the MIRA portfolio, reporting to the Macquarie Group Board.

Howard has played a key role in most global energy and utility transactions and transitions undertaken by MIRA since he joined in 2003.

Prior to joining MIRA, Howard held a number of executive positions at energy and utility companies, including CEO of BG Storage and Operations Director of Transco, then the GB gas transmission and distribution company.

Howard is a Chartered Engineer and a member of the Institution of Mechanical Engineers.

Other key external appointments
Howard holds other non-executive Directorships roles for companies within MIRA's investment portfolio.

Jaroslava Korpancova

Appointed
March 2017

Committee membership
Audit & Risk; Finance (Chair); Nomination; Remuneration

Skills and experience
Jaroslava joined Allianz Capital Partners in 2008 and was, among other transactions, a key participant in the following acquisitions: the 75 year concession to own, manage and operate the on-street parking system of the city of Chicago; stakes in the Norwegian offshore gas system, Gassled; the gas transmission and transport system in the Czech Republic, Net4Gas; Porterbrook, one of the major UK rolling stock leasing companies; and Thames Tideway Tunnel, the £4.2bn project to construct a new super sewer under the River Thames.

Jaroslava was awarded a Master of Arts degree in Law from Cambridge University, is a member of the New York Bar and a Solicitor of the Supreme Court of England and Wales.

Other key external appointments
Jaroslava is a Director of Affinity Water Limited and Net4Gas s.r.o. and Managing Director of Allianz Capital Partners GmbH.

Board of Directors
continued







Shareholder Nominated Directors continued

Eduard Fidler

Appointed

November 2018 as Alternate Director,

June 2019 as a Director

Skills and experience

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

Other key external appointments

Eduard is a Non-Executive Director of Elenia Oy, and Delgaz Grid SA.

Perry Noble

Appointed

April 2017 as Alternate Director,

March 2020 as a Director

Skills and experience

Perry is a partner in Federated Hermes Infrastructure ('Hermes') where he is responsible for overseeing the origination, execution and asset management of key investments, and plays a leading role in investor relations. Perry is a member of the Hermes Infrastructure Investment Committee.

Perry was previously a partner at Freshfields Bruckhaus Deringer where he specialised in acting for clients in infrastructure project financings and M&A transactions. He also served as the Asia Managing Partner and Global Head of Finance, and was a member of the firm's executive management committee. Prior to joining Hermes, Perry was Non-Executive Chairman of the M25 PPP company.

Perry is a qualified solicitor.

Other key external appointments

Perry holds various non-executive Directorships for other companies in Hermes' investment portfolio.

David Xie

Appointed

May 2017 as an Alternate Director,

August 2018 as a Director

Skills and experience

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

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

Other key external appointments

David is a Non-Executive Director of Heathrow Airport Holdings Limited.

Jianmin Bao

Appointed

June 2019

Skills and experience

Jianmin has extensive expertise in the infrastructure sector. He started his career with China Construction Bank and then joined the Export-Import Bank of China where he was Head of the Export Credit Department. Jianmin joined the Global Investment Banking Division of HSBC China in 2006 where he was Director of the China Transportation Team, Manager of HSBC Northern China Area, and Vice President of HSBC Beijing branch. Jianmin joined China Investment Corporation (CIC) in 2011 and, since 2015, he has overseen investment projects in infrastructure, energy, oil and gas, minerals and related investment funds at CIC Capital Corporation.

Other key external appointments

Jianmin is a Non-Executive Director of Heathrow Airport Holdings Limited.

Deven Karnik

Appointed

March 2017

Skills and experience

Deven is the Head of Infrastructure at Qatar Investment Authority ('QIA'). He has over 20 years of principal investing and investment banking experience in power, utilities and infrastructure. Prior to joining QIA in 2013, Deven was a Managing Director at Morgan Stanley and before that he was a Managing Director at Dresdner Kleinwort. He has also worked at Jardine Fleming and Binder Hamlyn. Deven has previously served as a Director of Affinity Water Limited.

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

Other key external appointments

Deven is a Non-Executive Director of HK Electric Investments Limited and an alternate Non-Executive Director of Heathrow Airport Holdings Limited.

Nick Axam

Appointed

May 2018 as an Alternate Director,

May 2019 as a Director

Skills and experience

Nick is a Director at Dalmore Capital, responsible for the asset management of Dalmore's regulated utility investments. Prior to Dalmore, Nick led the Investment Management and Corporate Finance team at DUET Group, an Australian listed energy infrastructure fund. Prior to this, Nick worked for Macquarie Infrastructure and Real Assets ('MIRA') from 2006, focusing on the acquisition and management of infrastructure assets in UK, Europe and Australia.

Nick is a Chartered Accountant and a member of the Chartered Accountants Australia and New Zealand.

Other key external appointments

Nick is a Non-Executive Director of WoDS Transmission plc.

Simon Fennell

Appointed

May 2019 as an Alternate Director

June 2019 as a Director

Skills and experience

Simon is an Investment Director at Amber Infrastructure, a leading sponsor, developer, fund and asset manager of infrastructure, real estate and sustainable energy projects.

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

During his time at Amber he has contributed to the origination and asset management of a wide variety of infrastructure assets in the PPP, water, and energy sectors.

Other key external appointments

He is a fellow of the Institute of Chartered Accountants in England and Wales and holds other Directorship roles within Amber Infrastructure's investment portfolio.

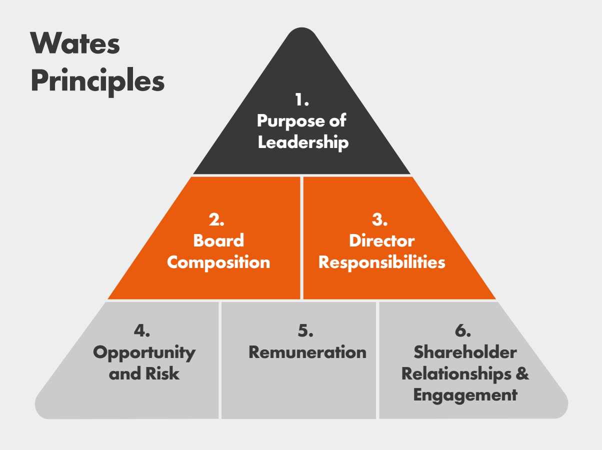
Corporate Governance report

Corporate Governance codes

The company is a large privately-owned company. The Board's philosophy is to follow best practice in corporate governance appropriate to a company of its size and the regulatory framework that applies to it, recognising that robust corporate governance practices underpin effective management of the business which is in the best interests of all stakeholders. Accordingly, the Board has resolved to adopt the Wates Principles as the most appropriate corporate governance code to follow.

Ownership structure

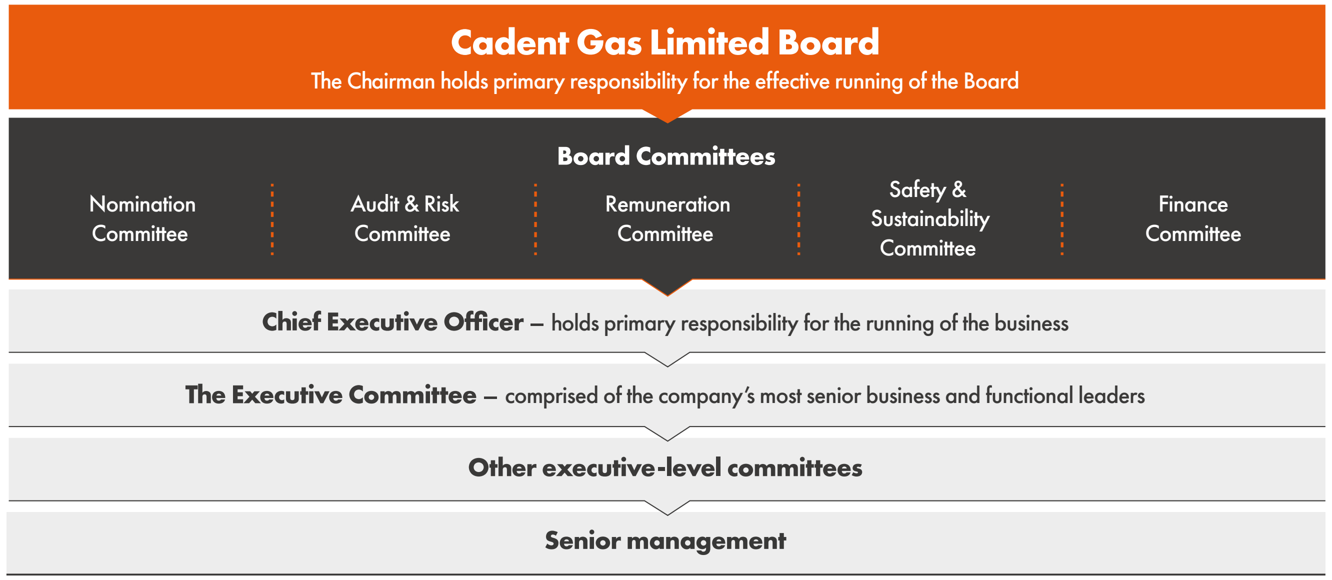
The chart below sets out the ownership structure of the company and the companies within our Group as at 31 March 2020.



At the Board meeting in January 2020, it was resolved to disband the Board's Business Separation Compliance Committee ('BSCC') as the company had received confirmation it was no longer necessary to comply with Ofgem's licence requirement with regard to its business separation from National Grid. The BSCC met just once during the year, in May 2019, at which it reviewed the company's business separation compliance in respect of the preceding financial year ended 31 March 2019, recommending to the Board the annual report from the company to Ofgem, and approving the annual report from the company to the audit committee of National Grid plc as the shared Ultimate Controller of the Cadent distribution networks and the Ultimate Controller of the National Transmission System business.

Our governance framework

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



In addition to the core Committees, there is an Advisory Board for the Cadent Foundation and a Steering Committee overseeing Cadent's involvement, as a core participant, in the Grenfell Public Inquiry.

Purpose and leadership

The Board is focused on its principal role to promote the success of the company. In doing so, the Board considers a range of factors and stakeholder interests.

Purpose and vision

The Board recognises the importance of ensuring that the company and its workforce operates with a clear sense of purpose and collective vision. During the year, we have carefully considered this as part of the development of our RIIO-2 Business Plan submission. In the relatively short period since the company has been operating on a stand-alone basis, the Board considers that it has defined a simple and clear purpose that our stakeholders can understand: to 'Keep the Energy Flowing'. The Board has however approved a refreshed, more ambitious vision, to fulfil that purpose, as part of the development of the business plan. During the year, the Board monitored and provided stewardship over the way in which management directs the workforce to fulfil the company's purpose and achieve its vision, from incident response, to the programme of mains replacement, to the company's participation in important work on the future role of gas and the path to net zero. There has been encouraging progress but there is always more to do. Nevertheless, the Board is comfortable that the company's stated purpose and brand are becoming increasingly aligned and reflect our renewed focus on customer.

Values and culture

The Board has required evidence and assurance from management that the company's stated values of Courage, Commitment, Community and Curiosity are embedded into the organisation through the behaviours and culture of the workforce. To that end, in the context of the senior leadership conference hosted by Steve Fraser in December 2019, and attended by Non-Executive Director representatives, the Board considered the key messaging ahead of the conference and received feedback from the Executive Directors afterwards. To provide indicators of the company's culture, the Board also reviews the results of employee opinion surveys, monitors customer feedback scores, receives reports from the company's Chief People Officer and, through the Audit & Risk Committee, reviews the level and nature of reporting to the company's whistleblowing hotline and internal audit findings.

The Board also spent time during the year in considering what governance and cultural lessons could be taken from the published findings of the recent regulatory investigations into Southern Water.

You can read more about this in our Section 172 Statement on page 57.

Strategy

One of the Board's key leadership roles is to help develop the company's strategy and business model to generate long-term sustainable value. This was a particularly important year in this regard as our RIIO-2 submission set out for Ofgem our business plan for the next regulatory period. Accordingly, substantial Board time was allotted to consideration of this submission to support the management team during the year. The Board has also taken in comments and feedback from a range of stakeholders including our Customer Engagement Group, resulting in us agreeing our strategic priorities as set out on pages 16 onwards. The Board considers that the strategy, along with the company's values, supports appropriate behaviours and practices within the workforce. We recognise the need to carefully balance the company's short-term needs with our long-term aspirations, and the presence and experience of the combination of our Nominated Non-Executive Directors and Sufficiently Independent Directors facilitates this.

Corporate Governance report
continued

Board composition

Each of our Directors have been carefully selected to the Board bringing a wealth of experience, knowledge and expertise to the company. They have a balance and depth of skills and diverse backgrounds which are critical for the effective leadership of the company for all stakeholders and to mitigate against 'group thinking'. Of particular note is the experience the Board has in the areas of the regulated utility sector, infrastructure, government and regulation. To read more about our Directors' skills and experience, please read their biographies on pages 73 to 77. We acknowledge that the Board may benefit from more gender diversity, however the Board does not operate a formal Board Diversity Policy or set targets for gender representation on the Board, since Board appointments are a matter reserved to the shareholders of TopCo. Our shareholders are, of course, encouraged within their own organisations to consider Board diversity when nominating Directors to the Board.

Our sufficiently independent Directors are appointed in accordance with our Gas Transporter Licence to provide independent challenge and input to the Board.

A key part of the Non-Executive Directors' role is to support executive management in developing and remaining focused on the longer term strategy for the business, including the future role of gas, as well as to keep under review the principal and emerging risks to the successful execution of the strategy.

All Directors have been appointed for less than four years as at 31 March 2020.

Appointments to the Board

The Board has established a Nomination Committee to consider and make recommendations to the Board for the long and short-term strategy plans for succession of our Executive Directors, members of our Executive Committee, other senior Executives reporting to the Chief Executive Officer, our Chairman and Sufficiently Independent Directors.

Steve Hurrell, Chief Financial Officer, served as Interim Chief Executive Officer from February 2019 until 2 September 2019 when Steve Fraser was appointed as Chief Executive Officer, at which time Steve Hurrell resumed his former role as Chief Financial Officer. The process leading to Steve Fraser's selection and appointment was reported in the company's annual report for the preceding financial year ended 31 March 2019.

The appointment of our Shareholder Nominated Directors is governed by an agreement between the shareholders of TopCo.

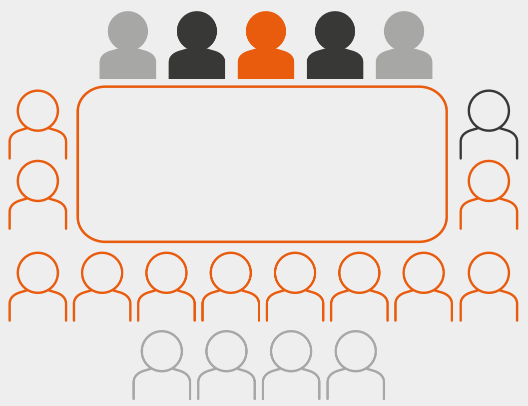
Details of the work of the Nomination Committee during the year can be found in the Nomination Committee report on page 95.

Board and Committee meetings

To enable the Board and its Committees to perform effectively, a comprehensive schedule of meetings is in place, ensuring all Board and Committee meetings follow an annual schedule of business, covering matters in line with their matters reserved and terms of reference. In addition, strategic reviews, ad-hoc meetings and briefings are arranged where more extensive input from the Board or its Committees is required. In managing the Board, Sir Adrian ensures enough time is given to all agenda items and actively encourages and facilitates contributions from all Directors.

Our Board focuses on providing direction and input to the business. A regular programme of operational and regulatory matters, both short-term and longer term in nature, are presented to the Board for consideration. Matters brought to the Board are adapted according to the needs of the business, to accommodate any matters the Board Committees have raised and, importantly, to reflect any changes in our external environment. Time is also allocated at all meetings to discuss any other business which all Directors are invited to raise.

Our Board composition



- **Non-Executive Chairman and Sufficiently Independent Director** (Sir Adrian Montague CBE) appointed in accordance with the agreement between the shareholders of the company's ultimate parent company, Quadgas Holdings TopCo Limited ('TopCo').
- **2 Additional Sufficiently Independent Directors** (Dr Catherine Bell and Kevin Whiteman).
- **2 Executive Directors** (Chief Executive Officer and Chief Financial Officer)
- **11 Shareholder Nominated Non-Executive Directors** nominated by TopCo, each represent one of the members of the investor consortium in TopCo.
- **The Company Secretary and General Counsel**
- **4 Alternate Directors**, appointed in accordance with the agreement between the shareholders of TopCo Limited to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend.

Board information and support

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

Our Chairman is supported by the company Secretariat to arrange the annual schedule of Board and Committee meetings and the business to be considered. Before each meeting, typically a week ahead, the Board and Committees receive a detailed agenda and papers. The papers are drafted and sponsored by senior Executives within the company and, where required, senior Executives will be invited to the meeting to present and discuss the matters contained in their paper. We follow a pre-set template for Board papers to allow consistency of reporting, enable a focus on the key matters and for the Board to be clear about what is being asked of them. During our meetings, the Directors may request additional actions to be taken and those actions are agreed by the Board and a follow-up procedure, managed by the company Secretariat team, ensures their completion. Outside of the formal Board and Committee meeting cycle, the Directors are kept informed of matters of interest and concern to them, either through written papers, or discussions with the Chief Executive Officer or senior executives.

Effectiveness

Ordinarily the Board would commission an evaluation of its effectiveness on an annual basis. The last evaluation process was undertaken in August 2018 by Independent Audit Limited, an independent third party. The Board decided in July 2019 to postpone the annual effectiveness review until 2020 to enable Steve Fraser to settle into the business following his appointment in September 2019. Independent Audit were invited in early 2020 to support our internal board review using their online tool Thinking Board ®, which took place in May 2020. The Report was presented to the Board in July 2020. Following a period for consideration and discussion, a recommended action plan will be presented to the September Board. The process and outcome of the effectiveness review will be summarised in the company's annual report for the financial year ending 31 March 2021.

Our Executive Directors undergo performance evaluations annually, and the results of these are considered in the review and approval of the annual remuneration packages by the Remuneration Committee.

Development and training

During the year, our Directors continued to develop their knowledge of the Business and kept abreast of their duties as Directors by a combination of activities, including:

- site visits;
- strategy days on RIIO-2;
- 'deep dive' sessions on key business topics; and
- briefings from the General Counsel and company Secretary on Directors' duties and latest corporate governance requirements.

Steve Fraser undertook a tailored induction programme designed to efficiently provide him with a detailed understanding of the business and enable him to become effective in his role as Chief Executive Officer as quickly as possible after joining the company in September 2019.

We recognise that the Directors, in their roles as Directors or members of a Committee, may need to take independent professional advice to perform their duties, and this has been made available to them.

The Board is supported by the company Secretary who has provided advice on corporate governance matters. The Board will continually review our internal corporate governance practices and external developments in corporate governance and will seek the advice of the company Secretary to support it in implementing sound and effective corporate governance practices.

Board & Committee membership and attendance

The Board planned and held 7 formal meetings during the year. The table on the following page, shows the number of scheduled meetings attended by each Director (or their appointed Alternate Director) and the maximum number of scheduled meetings which each Director could have attended.

In addition to the scheduled meetings reflected in the table on the following page, the Board held the following ad-hoc meetings:

- A meeting in May 2019 to discuss and approve Steve Fraser's appointment as Chief Executive Officer (and to endorse his remuneration package);
- An additional meeting in June 2019 to approve revisions to the Shareholders Agreement and Consortium Agreement to which the company is a party, following the disposal by National Grid of its remaining shareholding in Quadgas HoldCo Limited; and
- A meeting in December 2019 to discuss the RIIO-2 Business Plan.

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

Corporate Governance report

continued

Board & Committee membership & attendance

	Appointment date	Committee Membership	Board	Audit & Risk Committee	Finance Committee	Nomination Committee	Remuneration Committee	Safety & Sustainability Committee	Business Separation Compliance Committee
Total meetings held			7	6	7	4	6	4	1
Sufficiently Independent Directors									
Sir Adrian Montague CBE	24/07/2017	**N**	7/7			4/4			
Dr Catherine Bell CB	08/09/2016	AR N R SS **B**	7/7	6/6		4/4	6/6	4/4	1/1
Kevin Whiteman[1]	01/01/2018	N **R**	5/7			3/4	5/6		
Executive Directors									
Steve Fraser	02/09/2019		4/4						
Steve Hurrell	31/03/2017	F B	7/7		7/7				1/1
Shareholder Nominated Directors									
Nick Axam[2]	15/05/2019		7/7						
Jianmin Bao[3]	28/06/2019		5/5						
Mark Braithwaite[4]	31/03/2017	**AR** F N R	7/7	6/6	7/7	3/4	6/6		
Simon Fennell[5]	18/07/2019		5/5						
Eduard Fidler[6]	18/07/2019		5/5						
Howard Higgins	31/03/2017	**SS** B	7/7					4/4	1/1
Deven Karnik[7]	31/03/2017		4/7						
Jaroslava Korpancova[8]	31/03/2017	AR **F** N SS R	7/7	6/6	7/7	4/4	5/6		1/1
Mark Mathieson	28/11/2018		7/7						
David Xie[9]	22/05/2017		7/7						
Former Directors	Resignation date								
Iain Coucher[10]	24/03/2020	N SS	7/7			4/4		4/4	
Michael Gregory	15/05/2019		0/0						

NB. any attendance of alternate Directors for main Directors has been counted in their attendance record above and is noted below.

1 Kevin Whiteman was unable to attend the meetings in May 2019 and January 2020 due to a prior commitment.
2 Prior to Nick Axam's appointment as a Shareholder Nominated Director on 15 May 2019 he was an Alternate Director (appointed since 17/05/2018) for Michael Gregory. Nick's attendance in July 2019 was by his alternate, Simon Fennell.
3 Jianmin Bao was appointed as a Shareholder Nominated Director on 28 June 2019. He was unable to attend the meetings throughout the year due to a prior commitment. His attendance was by his appointed alternate, Hua Su (appointed since 23/08/2018).
4 Mark Braithwaite was unable to attend the Remuneration Committee meeting in May 2019 due to a prior commitment, his attendance was therefore by Howard Higgins, on his behalf.
5 Prior to Simon Fennell's appointment as a Shareholder Nominated Director on 18 July 2019 he was an Alternate Director for Nick Axam from 15 May 2019.
6 Prior to Eduard Fidler's appointment as a Shareholder Nominated Director on 18 July 2019 he was an Alternate Director for Jaroslava Korpancova from 29 November 2018.
7 Deven Karnik was unable to attend the meetings in May, July and November 2019 due to a prior commitment. His attendance in July and November 2019 was by his appointed proxy, Mark Braithwaite.
8 Jaroslava Korpancova's attendance in July 2019 for the Board and Audit & Risk Committee meetings was by her appointed alternate, Eduard Fidler.
9 David Xie's attendance in May, July and September 2019 and in January 2020 was by his appointed alternate, Hua Su (appointed since 23/08/2018).
10 Iain Coucher's attendance in July 2019 for Board and Committee meetings was by his appointed alternate, Perry Noble (appointed since 24/04/2017).

Committee membership key

- AR Audit & Risk Committee
- F Finance Committee
- N Nomination Committee
- R Remuneration Committee
- SS Safety & Sustainability Committee
- B Business Separation Compliance Committee
- Chair of a Committee

Director responsibilities

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

Agreement between shareholders of Quadgas Holdings TopCo Limited

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

Conflicts of interest

Given the composition of the Board, with Non-Executive Shareholder Nominated Directors, we are aware that potential conflicts of interest may arise. Our Directors are conscious of their statutory duties in relation to conflicts of interest and their duty to make the Board aware of any situations which may create a conflict of interest. The Company Secretary maintains a register of Directors' interests and the Board reviews and considers any potential conflicts of interest as they arise. In January, three Directors noted a potential conflict of interest with regard to the company's insurance programme renewal, due to their positions at third party companies and it was agreed that they would not participate in the discussions or any decisions to be taken on this matter.

Commitment

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

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

Group policies framework

During the year, as part of the company's transformation programme, management undertook a holistic review of the policy framework leading to this being simplified, made more consistent across policy areas and improving alignment of policies to the company's risk appetite. The governance over the policy framework was also defined as part of this review, with the establishment of an executive-level Policy Committee to oversee the operation of the policy framework and to ensure policy review at the appropriate frequency and forum (including the Board for several Group policies). The company operates a guide to ethical business conduct, "Always Doing the Right Thing" which was refreshed during the year. The company also operates a number of Group policies that reflect appropriate governance for a company of its size and standing. These include: anti-corruption and bribery; whistleblowing; data protection; social media; records management; health & safety; environmental; gifts and hospitality and HR policies and processes. The Board has also approved the Group's Tax Strategy Statement which has been published on the company's website https://cadentgas.com/about-us/our-company/corporate-governance

Delegations of Authority

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

Committees

The Board has established several Committees to carry out specific duties. This allows the Board to operate more efficiently, concentrating on providing leadership and decision making for the business. We are dedicated to making sure that both the Board and its Committees are clear on their roles and are supported to ensure the Board can provide an appropriate level of focus and consideration to relevant matters. Each of our Committees has Board-approved terms of reference setting out their respective remits, and these terms of reference are kept under regular review including to reflect emerging best practice. The Board and Committee governance framework can be found on page 79. You can read about each Committee in the Committee reports that follow this section.

Integrity of information

It is important that the information provided to the Board is reliable so that we may monitor and challenge the company's performance and make well-informed decisions. See page 81 above in relation to our approach to Board information and support. The Board also engages with and obtains information directly from certain stakeholders to complement and provide independent assurances, to complement the information in the reports of management – see our Section 172 Statement on pages 53 to 57 for more information.

Corporate Governance report
continued

Financial and business reporting
The Board understands its responsibility to present a fair, balanced and understandable assessment of our position and performance, business model and strategy through the production of an annual report and financial statements and the Board is satisfied that it has met this obligation. This assessment is primarily provided in the Directors' report on pages 108 to 109. The approach taken to a comment letter received from the Financial Reporting Council is set out in the Audit & Risk Committee report at page 91. The Statement of Directors' responsibilities in respect of the company's financial statements is set out on page 109.

Internal control and assurance
The Board, through the Audit & Risk Committee, receive assurance that the company's internal systems and controls are operating effectively and that the quality and integrity of information provided to it is reliable. The Internal Audit team are mandated to support this assurance requirement through its work. The External Auditor also provides a level of important additional assurance. The Board has delegated the responsibility for monitoring the relationship with the external auditor to the Audit & Risk Committee. Further information about how that relationship is maintained can be found in the Audit & Risk Committee report on page 94.

Where issues are identified, these are considered by the Audit & Risk Committee and/or the Board with plans for remediation, and these plans are monitored to conclusion.

Opportunity and risk

Opportunity
The Board has considered how the company, in fulfilling its purpose, creates and preserves value over the long-term. Our business model is set out on page 2 and the Board keeps this under periodic review. The RIIO-2 price control period has provided a point of reflection on this, as we have needed to consider how the company's operating model will support the achievement of our strategic priorities over the next six years and beyond, and the contribution that our stakeholders can make to our value creation.

The Board closely monitors the company's participation in activities on the future role of gas in the UK's energy mix, with the overriding challenge of meeting UK Government's ambitions on net zero. Stewardship is provided by the Board to utilise opportunities to move the company in a way which will help secure long-term value. At the same time the Board remains fully cognisant of the need to balance these ambitions with the fundamental business requirement to ensure our infrastructure is operated and maintained safely and that our response services are as effective and efficient as possible for the benefit of our customers, all within the agreed price control framework. Our Delegations of Authority (described on page 83 above) set authority limits on significant capital and operational expenditure.

Risk
The Board has responsibility for the company's overall approach to strategic decision-making and effective risk management (financial and non-financial), including reputational risk. The Board assigns its responsibility for ensuring that risk management and internal control systems are effective across the business, to the Audit & Risk Committee. The Committee annually reviews the risk appetite and profile, risk process and regular compliance reports. This includes compliance with our licence conditions which is recognised as a principal risk and reviewed as part of the routine compliance process. The Audit & Risk Committee also receives regular reports on specific and emerging risks that are identified through the operation of the risk management system and how these are being managed. To read more about our risk management model and our principal risks and uncertainties, please read the Financial review and risk management section of the Strategic report on pages 58 to 69.

Responsibilities
The Board, supported by the Audit & Risk Committee, maintains oversight over the company's internal control framework and is supportive of management's ongoing plans to strengthen this and provide a greater level of sophistication to the framework. As stated above, regular reports are provided to enable the Audit & Risk Committee and Board to gain an understanding of the principal and emerging risks and to make robust decisions. The Board's role with regard to risk management is described in the previous section headed 'Risk' above.

Remuneration
A separate Directors' remuneration report is set out on pages 98 to 107 and provides details of the remuneration policy, level and components of remuneration and procedure for fixing the individual remuneration packages of Executive Directors and members of the Executive Committee. The Board has established a Remuneration Committee to support its decisions with regard to remuneration, and you can read about the work of the Committee in the Remuneration Committee report on pages 96 to 97.

Stakeholder relationships and engagement
The Board is committed to stakeholder engagement and the Directors take their responsibilities and duty to them under section 172 of the Companies Act 2006 seriously.

For the purposes of the requirements of The Companies (Miscellaneous Reporting) Regulations 2018, the Board considers that engagement with employees and having regard to employee interests, as well as the need to foster the company's business relationships with suppliers, customers and others, and the effect of that on the Board's decision making, are matters of strategic importance. You can read more about the Board's approach to stakeholder engagement in our Section 172 Statement in the Strategic report on pages 53 to 57.

Formal arrangements are in place to ensure that shareholders are sent material information. Our shareholders share the same agreed purpose of developing the business in line with the Business Plan. Having this common objective means that the Board and our shareholders are aligned in the commitment to having strong and effective governance of the business to deliver the Business Plan. Certain shareholder reserved matters are set out within an agreement between the shareholders of TopCo and this provides clarity on key decisions and actions on which we are required to have direct engagement with shareholders.

The company established a Customer Engagement Group to give consumers a stronger voice in the price control settlement process and the day-to-day business of the networks, to improve the quality of the Business Plan and to support Ofgem's assessment of the Business Plan. More information about the company's stakeholder engagement activities with regard to the RIIO-2 process is set out in that business plan which is published on the company's website www.cadentgas.com

Safety & Sustainability Committee report

"Throughout the year, the Committee has focused on safety performance and the new challenges and opportunities faced by Cadent to contribute to a sustainable future and low-carbon economy."

Howard Higgins
Chair of the Safety & Sustainability Committee

Key highlights of the year

Financial Reporting:

Throughout the year, the Committee maintained and improved their understanding of the safety and sustainability challenges and opportunities, focusing on a safety strategy designed to deliver a rapid improvement in safety performance. We also considered Cadent's strategic approach to sustainability, including the impact of climate change and how we interact with customers.

Safety Assurance:

- Focused on the company's safe driving initiatives.
- Reviewed the extreme weather winter response plans.
- Reviewed the company's approach to monitoring process safety performance.
- Reviewed and enhanced the company's safety and sustainability targets for 2020/21.

Safety and Sustainability internal audit:

- Reviewed safety and sustainability internal audit plan.

Wellbeing of our employees:

- Continued support and investment in the health and wellbeing of the workforce, both physical and mental.

Framework and business plan:

- Endorsed the company's first Safety & Sustainability report for publication.
- Reviewed and enhanced the Safety and Sustainability strategy.
- Review and endorsed the companies Environmental Management Plan.

The Committee provides strategic guidance and input into our Safety & Sustainability report. This report sets out priorities, progress, challenges, ambitions and how we are measuring our performance against these. It serves as a reminder of the importance of Cadent's safety and sustainability performance and the need to challenge ourselves, set clear targets and implement strategies to improve this. The report reflects the actions taken to deliver our business activities in a responsible way, aligning with the needs of our customers, reducing our impact on the environment and ensuring safety remains a priority.

During the year, Cadent developed a Trust Charter, an outcome from our community engagement insight. There are five core priorities in line with the feedback we received: 1) Building trust through every action; 2) Making a positive difference to our communities; 3) Supporting our employees; 4) Sustainable engagement to deliver better outcomes; and 5) Being transparent in how we operate. As referenced in last year's report, in summer 2019, the Cadent Foundation was launched. You can read more about this in the Safety & Sustainability report, available at www.cadentgas.com

Throughout the year, the Committee provided insight and input into shaping the evolving safety and sustainability strategy. The key elements of this strategy are set out in the Strategic Report pages 38 onwards and are summarised below.

With regard to safety, we aspire to be the leading utility company in the UK. Safety is a key measure against which we will demonstrate this. We have publicly committed in our Safety & Sustainability Report that we will never compromise on safety. Ensuring the safety of our people, our customers and the general public remains our first priority.

During the year, we focused on the importance of the health and wellbeing of our employees and stakeholders, with renewed attention on three specific areas – vibration exposure, managing musculoskeletal injuries and mental health conditions. In addition, we undertook a detailed review of current safety performance and actions being taken to deliver further improvements in safety performance.

Our sustainability strategy includes lowering our greenhouse gas emissions, reducing leakage from our networks, diverting waste from landfill with the goal of zero avoidable waste to landfill by 2021/22, including zero single use plastics in our offices and depots and zero avoidable plastic in our supply chain by 2025. Historically, this has focused on the direct activities of the business, however as we implement a new repex delivery model we will over time include these activities within our reporting. We are working on limiting our carbon footprint and finding alternatives to natural gas with a commitment to decarbonising heat and transport.

Over the next year, the Committee will support management and the Board by overseeing the further development of the strategic plans that will enable the company to contribute to UK Government commitments for a net zero carbon economy by 2050.

Meetings

During the year four meetings were held.

July 2019

Main purpose

- Approved and endorsed the company's first Safety & Sustainability report for publication.
- Reviewed the Safety, Health, Environment & Security ('SHES') performance report.
- Reviewed the company's process Safety risk control standards and key performance indicators.

Key additional attendees

Chairman of the Board; Interim Chief Executive Officer; Head of Safety and Sustainability; Head of Audit & Risk; Chief Strategy & Safety Officer

January 2020

Main purpose

- Reviewed the Board escalation process for Safety incidents.
- Reviewed the Quarterly Safety & Environment performance report.
- Reviewed the ESG benchmarking action plan.
- Designated the entire Committee with responsibility for process Safety.
- Discussed the Safety and Sustainability strategy.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; Head of Audit & Risk; External Auditor

September 2019

Main purpose

- Reviewed the Safety performance strategy.
- Discussed the construction management organisation structure for mains replacement programme.
- Discussed the company's safe driving initiatives.
- Reviewed the Sustainability benchmark assessment results.
- Reviewed benchmarking of safety performance.
- Approved the Committee forward business plan.
- Reviewed the S&S performance report.
- Reviewed the winter plan summary, planning for extreme weather conditions.
- Reviewed the S&S Internal audit plan.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; Head of Safety and Sustainability; Chief Operating Officer; Head of Audit & Risk; Chief Strategy & Safety Officer

March 2020

Main purpose

- Discussed the Safety and Sustainability strategy.
- Reviewed the Quarterly Safety & Environment performance report.
- Reviewed the Safety and Environmental targets for 2020/21.
- Reviewed the Environment management report.
- Discussed the Internal Audit update on Safety and Sustainability.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; Chief Strategy & Safety Officer; Chief Operating Officer; Head of Safety and Sustainability; Head of Audit & Risk

Role and composition of the Safety & Sustainability Committee

The role of the Safety & Sustainability Committee is to assist the Board by providing assurance regarding the adequacy and effectiveness of our safety and sustainability management systems and their application.

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

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

Further information on implementation of the Committee's work can be found in the separate Safety & sustainability report available at www.cadentgas.com.

On behalf of the Safety & Sustainability Committee:

Howard Higgins
Chair of the Safety & Sustainability Committee

12 August 2020

Finance Committee report

"The Committee remains focused on delivering competitive financing of our activities for the benefit of customers and creating alignment through our financing with our environmental commitments."

Jaroslava Korpancova
Chair of the Finance Committee

Key highlights of the year

The focus of the Committee was on the continued financial stability and success of Cadent. Particular attention was given to ensure implementation of long-term financing with proactive engagement and review of plans around our nearer term debt maturities and replacing our revolving facilities agreements. The Committee studied the proposals to develop and launch the first Transition Bond framework to align with the company's strong environmental commitments.

Considering long-term funding of the business:

- Discussed the medium-term note programme ('EMTN') update.
- Discussed the insurance programme update.
- Approved updated revolving facilities.
- Discussed the issuance of debt via the EMTN programme to be used as part of a tender process to part prepay bonds maturing in September 2021.

Review of pension scheme:

- Considered a proposal to create a new Defined Benefit pension scheme.
- Considered the pension scheme funding position and arrangements.

Financial plan:

- Reviewed and recommended the approval of the Financing Plan.
- Reviewed and updated the Treasury policy.
- Reviewed the financial robustness of the company's RIIO-2 business plan before submission to Ofgem.

The Finance Committee has focused on the evolving financial markets and the implications to our debt and refinancing requirements, in order to maintain and improve the capital structure of the Cadent Group. Continued support to refinance debt, and the success in diversifying our source of debt across currencies, maturities and markets, means we consider that Cadent has a strong financial position.

A significant, ongoing priority for the Finance Committee is the UK Government's proposals to replace RPI with CPIH, with the company addressing RPI provisions in its current and future contracting arrangements. The Committee continues to assess the robustness of the overall RIIO-2 framework. In looking at the financeability of RIIO-2 the Committee anticipated that the company's RIIO-2 Business Plan investment would be approximately £3.2bn.

During the year, the Committee reviewed a proposal for the issue of new corporate bonds to take advantage of preferential market conditions ahead of the maturity of other facilities.

The Committee undertook a detailed review of the financial implications for the company of proposed changes to the company's Defined Benefits pension scheme, and advised the Board on the options presented.

Looking to the future, the Committee will continue to monitor the markets, focusing on liquidity and long-term sustainability. The future 2021-2026 business plan focuses on efficient financing with overall lower bills for customers.

Role and composition of the Finance Committee

The role of the Finance Committee is to monitor, report and make recommendations to the Board on all aspects of financial risk management including insurance, interest rate risk, funding and other treasury matters together with approving the appointment of banks and other counterparties. The Committee monitors the company's insurance programme, claims and risk management activity in relation to insurable risks, legacy uninsured risks and other insurance issues together with rating agency developments, liquidity management and creditor investor relations.

The Committee is required to report to the Board on its proceedings and makes recommendations it deems appropriate on any area within its remit where action or improvement is needed.

The members of the Committee are appointed by the Board in consultation with the Chair of the Committee. The Committee is made up of at least three members, one of whom shall be the CFO.

On behalf of the Finance Committee:

Jaroslava Korpancova
Chair of the Finance Committee

12 August 2020

Meetings

During the year seven meetings were held.

May 2019

Main purpose

- Reviewed the company's pension scheme and pensions investment strategy.
- Reviewed pension scheme longevity risks.
- Approved the annual Treasury policy update.

Key additional attendees

Interim Chief Executive Officer; Interim Chief Financial Officer; Head of Treasury; Head of HR

June 2019

Main purpose

- Reviewed and approved the replacement and extension of bank facilities with new term loan and revolving credit facilities agreements.

Key additional attendees

Chairman of the Board; Interim Chief Executive Officer; Head of Treasury; Interim Chief Financial Officer

September 2019

Main purpose

- Discussed further re-financing with new longer duration fixed rate bonds.
- Discussed the UK Government's proposals to replace RPI and CPIH, and overlay inflation swaps.
- Reviewed the financing considerations for the RIIO-2 Business Plan.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Head of Treasury

November 2019

Main purpose

- Discussed further re-financing with new longer duration fixed rate bonds.
- Discussed the UK Government's proposals to replace RPI and CPIH, and overlay inflation swaps.
- Reviewed the financing considerations for the RIIO-2 Business Plan. Discussed the appropriate levels of gearing to be included in the RIIO-GD2 Business Plan.
- Reviewed the company's liquidity position and proposals to issue new corporate bonds.

November 2019 continued

- Reviewed the successful bond issuance to part prepay existing bonds maturing in September 2021 via a tender process.
- Discussed the medium term note programme update.
- Discussed the Insurance programme update.
- Reviewed the progress of the proposed changes to the company's pension arrangements.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Head of Treasury

January 2020

Main purpose

- Discussed the current financial market and company's liquidity.
- Reviewed and approved the proposed long-term Euro debt funding.

Key additional attendees

Chairman of the Board; Head of Treasury

February 2020

Main purpose

- Discussed the implications of the FRC enquiry relative to the proposed Bond issuance with Linklaters LLP.

Key additional attendees

Chairman of the Board; External Auditor; representatives from Linklaters LLP

March 2020

Main purpose

- Approval of minutes of previous meetings in January and February 2020.
- Discussed the implications of the FRC enquiry relative to the proposed Bond issuance with Linklaters LLP.

Key additional attendees

Chairman of the Board; External Auditor; representatives from Linklaters LLP

Audit & Risk Committee report

"The Committee continues to support the business through robust review of risk and assurance processes."

Mark Braithwaite
Chair of the Audit & Risk Committee

Key highlights of the year

Financial Reporting:

- Reviewed and recommended to the Board the approval of the 2018/19 annual report and financial statements.
- Reviewed and recommended to the Board the approval of the interim financial statements.
- Oversight of the company's consideration and response to a comment letter from the Financial Reporting Council.

Internal control, risk, compliance, fraud and whistleblowing

- Reviewed processes, the management of key risks, business conduct and internal controls.
- Oversaw enhancements to our risk and assurance processes.
- Reviewed the robustness of the company's RIIO-2 Business Plan with a focus on the interests of customers and the risks related to climate change.
- Reviewed and approved a new 'Speak Up' (Whistleblowing) policy.

Internal audit:

- Reviewed outcomes of 2019/20 internal audits and approved the proposed Internal Audit plan for 2020/21.

External audit:

- Recommended the reappointment of the external auditors for 2019/20.
- Reviewed the external audit plan on the 2019/20 financial statements.
- Reviewed the external auditor's report on the 2019 interim financial statements.
- Reviewed the external auditors report on the 2018/19 financial statements.

The Audit & Risk Committee has continued to review the effectiveness of the overall risk management policy and processes in place, regularly reviewing the risk profile, bringing together top down and bottom up risk management.

This year there was a particular focus on reviewing the company's RIIO-2 submission and how this set the company up for long-term success, in the interests of its customers and wider stakeholders. The Committee played a strong role in supporting the new CEO Steve Fraser and management, as well as reinforcing the company's strong ethical tone. This was underpinned by ensuring that the Committee provided robust challenges and review of management decision-making, in particular that adequate account was taken of climate change risks.

Our approach to assurance is dynamic, enabling us to respond to evolving risks and changes such as COVID-19, as they occur, as well as maintaining a proactive overview. Specialist embedded teams operate a number of assurance processes, providing assurance over the effectiveness of the financial (including liquidity, credit, interest rate risks and market risks) and non-financial internal controls operating across the business.

The Committee was pleased to see Steve Fraser, our new CEO, continuing the good work of his predecessors in continuing to operate robust controls whilst delivering on the company's transformational vision. The Committee noted and supported the company's culture of open reporting and 'Speaking- up' and affirmed management's commitment and openness in responding to any concerns. This was further demonstrated by the proactive steps taken to promote ethical behaviour. The Committee's work provided assurance that the existing controls are robust and where investigations had found controls which required improvement, the business acted promptly. Data privacy and IT controls continued to be an area of focus given the significant changes in Cadent's systems environment.

Looking to the future, the Committee's priorities are continuing to develop and improve our internal controls and assurance processes, with input from our internal and external auditors.

Role and composition of the Audit & Risk Committee

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

The Committee is appointed by the Board, with a minimum requirement of three Non-Executive Directors, two of whom shall be Investor nominated Non-Executive Directors; none of whom are Executive Directors and one member must be a Sufficiently Independent Director, bringing independent challenge. Dr Catherine Bell CB performs this latter role. Key to the successful operation of the Committee is the requirement that one member is a financial expert with recent and relevant experience and Mark Braithwaite, as Chair, brings this experience to the Committee.

The Committee's membership and attendance at meetings are available on page 82. For the remaining key judgements and estimates, the Committee was satisfied with the assumptions made and the accounting treatments adopted.

Financial Reporting Council ('FRC') financial statements review

The Committee also had oversight of the company's consideration and response to a comment letter received from the Financial Reporting Council ('FRC') in January 2020. The letter required a response to three accounting matters relating to the disclosures in the 2018/19 accounts in respect of the revenue recognition (following the implementation of IFRS 15) and provisions and highlighted further observations on the audited 2018/19 Annual Report and Accounts. The FRC was satisfied with the response and closed their enquiries. No changes were required in respect of last year's accounts, but the disclosure improvements and observations suggested have been made within the 2019/20 annual report and accounts.

The FRC review provides no assurance that the report and accounts are correct in all material respects. The review and the FRC role is not to verify the information provided but to consider compliance with reporting requirements. The FRC accepts no liability for any reliance on their review by the company or any third party, including but not limited to investors and shareholders.

Audit & Risk Committee report
continued

Meetings

The Committee is required to meet before the approval of the annual report and accounts. During the year six meetings were held.

June 2019

Main purpose

- **External audit:** Reviewed Deloitte's audit report, as the external auditor, on their audit of the company and other Group companies for year ending 31 March 2019. Recommended the reappointment of Deloitte as auditors for 2019/20.
- **Financial statements:** Reviewed and recommended to the Board for approval the 2018/19 annual report and financial statements, including the adoption of the going concern assumption.
- **Business conduct:** Reviewed business conduct controls and ethics.
- **Risk management:** Reviewed the company's data privacy programme.

Key additional attendees

Chairman of the Board; Interim Chief Executive Officer; Interim Chief Financial Officer; Head of Audit & Risk; External Auditor

July 2019

Main purpose

- **Internal audit:** Reviewed the internal audit programme and progress of the audit plan for the financial year 2019/20. Reviewed the outcome of the externally led review of Guaranteed Standards of Performance (GSOP) and regulatory compliance.
- **Risk management:** Reviewed the company's risk maturity and Executive risk profile following implementation of the improved risk management process and the 'Resolver' risk data system.
- **Assurance update:** Assessed the effectiveness of the enterprise level controls in place.
- **Compliance:** Reviewed the progress of the Regulatory Reporting Pack submission to Ofgem.

Key additional attendees

Chairman of the Board; Interim Chief Executive Officer; Interim Chief Financial Officer; Chief Information Officer; Head of Audit & Risk; External Auditor

November 2019

Main purpose

- **Financial statements:** Reviewed and recommended the six months ended 30 September 2019 interim financial statements to the Board for approval.
- **External audit:** Considered the report on the 2019 interim financial statements and the audit interim review report for the six months ended 30 September 2019, including the new IFRS 16 (Leases) reporting requirement.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; Head of Audit & Risk; External Auditor

January 2020

Main purpose

- **External audit:** Considered the audit plan for the 2019/20 financial period.
- **Assurance:** Reviewed the assurance report detailing issues up to end-September 2019.
- **Risk management:** Reviewed the effectiveness of risk management and improvements made during the year, including the progress made on the data maturity assessment and executive risk overview.
- **Business conduct:** Reviewed ethics and business conduct reporting and case management.
- **Internal audit:** Reviewed the audit charter, internal audit activity update and audit plan update.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; Head of Audit & Risk; Chief Information Officer; External Auditor

February 2020

Main purpose

- Reviewed a letter received from the FRC which required a response to three accounting matters relating to the disclosures in the 2018/19 accounts in respect of revenue recognition (following the implementation of IFRS 15) and provisions, highlighting further observations on the audited 2018/19 annual report and accounts. See FRC financial statements review on page 91 for further details.
- Reviewed and discussed the content of the proposed response to the FRC and the action points resulting therefrom.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; External Auditor

March 2020

Main purpose

- **External audit:** Reviewed progress against the external auditor's audit plan and considered the significant accounting matters.
- **Non-audit services policy:** Approved the update to the non-audit services policy, resulting from the release of the FRC's Revised Ethical Standard (2019) regarding auditor independence.
- **Risk management:** Approved a revised Risk Appetite framework, to align the Group's principle risks, including a climate change risk.
- **Internal audit:** Reviewed progress against the 2019/20 internal audit plan and approved the proposed 2020/21 internal audit plan.
- **Ethics and Business conduct:** approved a new 'Speak Up' (Whistleblowing) policy.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; Head of Audit & Risk; External Auditor

Financial reporting & summary of significant issues reviewed

The Committee's review of the financial statements included reviews of the accounting policies, significant financial reporting issues and key judgements and estimates underpinning the financial statements, as disclosed within notes 1 and 2 of the financial statements on pages 119 to 130. The significant financial reporting issues considered in relation to the accounts are detailed in the table below.

Areas of focus	Conclusions
Going concern basis for the financial statements	The Committee reviewed the evidence and assumptions underpinning the use of the going concern basis in preparing the accounts and in making the statements in the Strategic report on going concern particularly in light of COVID-19. The assessment involved consideration of the extent of any operational disruption, demand for the company's services, the extent of any contractual obligations due or anticipated within one year, any potential liquidity and working capital shortfalls and access to existing sources of capital. On the basis of the limited operational disruption, long-term regulatory framework and associated cash flows and the liquidity arrangements in place through the company's financing facilities, the Committee was satisfied that it was appropriate to adopt the going concern assumption.
IFRS 16 Leases	The Committee reviewed the new IFRS 16 (Leases) standard applicable to reporting periods beginning on or after 1 January 2019, therefore adopted for the company for the period commencing on 1 April 2019, with disclosure for the first time required in the 2019/20 annual report. The Committee challenged management on completeness and concluded that a thorough process had been carried out to identify and value the relevant contractual arrangements falling within the scope of the standard and was satisfied with the conclusions reached.
Cadent's commitment to the Cadent Foundation	The Committee reviewed the accounting considerations for the Cadent Foundation including challenging whether control existed and whether a constructive obligation existed at year end. Consideration over control was particularly important given this would change whether or not consolidation was required. The Committee concluded that having considered the accounting guidance, Cadent does not control the Cadent Foundation and therefore it is accounted for as a separate entity.
Pensions	The Committee considered whether the recognition of the surplus was appropriate following consideration of legal and actuarial advice and the guidance in accounting standards. The Committee questioned the key assumptions adopted in the calculation of the surplus and concluded the assumptions were appropriate. The Committee considered whether the approach taken for the valuation of assets was appropriate given the volatility of markets in 2020 caused by COVID-19. The Committee concluded that revised procedures to update the valuations for more recent valuations or to apply a benchmark reduction for certain unquoted securities was needed.
Exceptional items	The Committee considered the application of the Group's accounting policy during the year and reviewed the items included within exceptional items to challenge whether they were appropriate to be included. The Committee confirmed that management's classification of exceptional items associated with separation and restructuring activities, particularly amounts in relation to the voluntary redundancy programme, was appropriate and in line with the policy.
Fixed assets	The Committee concluded that management had appropriately considered the useful lives and carrying values of property, plant and equipment and intangible assets including reviewing any contractual arrangements and operational requirements relating to particular assets. They also considered management's review of classification between capex and opex given that this has been raised as a significant audit risk by the external auditors.
Provisions	The Committee reviewed the level of provisions including the provision for claims and the environmental provision held by the company for the estimated restoration and remediation costs relating to old gas manufacturing sites. There are a number of judgements impacting both calculations in relation to the underlying cash flows and discount rate applied. Regarding the provision for claims the Committee confirmed that through use of independent actuaries, the company employed techniques and assumptions that were appropriate to project the liabilities. The Committee also reviewed the calculation of the environmental provision including judgements concerning the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs and the impact of alternative technologies on the underlying cash flows. The Committee confirmed the discount rate applied in each case was appropriate.
IT provisions	The Committee reviewed the implementation of Cadent's IT controls following separation of our systems from the National Grid and challenged management to continue the focus on IT controls given the significant system changes taking place in the coming year.
s.172 statement	The Committee discussed the increased focus on climate-related risks and disclosures, including the new section 172 statement of the Companies Act 2006, which describes how the Directors have carried out their section 172 duties to act in a way that would be most likely to promote the success of the company for the benefit of the members as a whole. It was noted that this continued to be an important area of focus for the business, and the business was taking measures such as replacing cast iron pipes, making the network hydrogen-ready and reducing leakage, all of which contributed to an improved future environment and increased safety. The Committee concluded that appropriate disclosures were required for climate-related risks and s.172 to reflect the work carried out in these areas and these have been included in this annual report and accounts.

Audit & Risk Committee report
continued

Internal controls and risk management systems

The Board has overall responsibility for monitoring the company's system of internal control and risk management. The Board discharges this responsibility via the Audit & Risk Committee.

The Committee performs its role in this area through reviewing the adequacy and effectiveness of management reports on risk management, the risk register and compliance reports. The Committee is supported in these reviews by additional reports prepared by the Internal Audit team.

Details of the principal risks and uncertainties that could affect business operations can be found in the Risk management and principal risks section of the Strategic report on pages 66 to 69.

The focus on key business risks is monitored through the Committee's interaction with the Executive Committee and Safety & Sustainability Committee, the latter having a specific focus on safety risks.

To support internal controls and risk management systems, we have clear expectations of appropriate business conduct and a strong framework to manage and monitor the conduct of our employees. To provide oversight of these matters, the Committee reviews reports on business culture, business conduct and ethics regularly.

We have procedures in place to prevent, detect and investigate bribery and fraud including any material non-compliance; any cases of which are brought to the attention of the Committee. The Committee is made aware of any weaknesses in fraud or other controls that the management team have detected or where specific cases have been identified and the investigation has detected systemic control weaknesses.

The business recognises the importance of supporting individuals who want to report ethical concerns, whether these are connected to financial matters or any other matter. We have a new 'Speak-up' (whistleblowing) policy and procedure in place, supported by both internal and external whistleblowing helplines and measures to undertake independent investigation of ethical concerns.

Internal Audit

The business operates an assurance programme with three lines of defence: the first line is through senior management review of management controls and internal control measures; the second line of defence is provided through assurance activities reporting to senior management functional assurance; and the third line of defence is performed by the Internal Audit team.

The Internal Audit Team operates to an agreed annual audit plan, with updates on progress against that plan being brought to the Committee. Key significant audit findings are raised and progress against actions to address these findings is reviewed by the Committee. The Committee will report any significant matters to the Board and will request additional detail as required. The oversight provided by the Committee supports the Internal Audit team in maintaining the focus of the management team in closing out actions against audit findings.

The Internal Audit team are invited to each Audit & Risk Committee meeting, irrespective of whether they are presenting on internal audit matters, ensuring the team is aware of the key matters of concern to the Committee.

The Internal Audit team is led by the Head of Audit and Risk, who functionally reports to the Chief Financial Officer, but has direct accountability to the Chair of the Committee.

External Auditor

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

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

The Committee has no set policy on the tendering frequency of the External Auditor or of the tenure of the External Auditor (other than for the listed financing companies within the Group where there is a ten-year mandatory tendering process) but will ensure that good corporate governance is maintained in reviewing the tenure of the External Auditors. The Committee regularly considers the marketplace, benchmarking the current level of service the company receives along with the fees paid, and the value delivered. There were no contractual obligations that acted to restrict the Committee's choice of External Auditor.

Following completion of the 2019/20 audit process, the Committee is satisfied with the performance of Deloitte LLP as External Auditor and has recommended to the Board the reappointment of Deloitte LLP for the coming year, and propose to shareholders at the company's Annual General Meeting for approval.

Non-audit services

On the recommendation of the Audit & Risk Committee and approval by the Board, we have adopted a Group non-audit services policy. The policy is reviewed annually by the Audit & Risk Committee, and changes were approved in March 2020. This policy is in line with the recommendations set out in the Financial Reporting Council's ('FRC's') Guidance on Audit Committees (2016) and the most recent requirements of the FRC's Revised Ethical Standard (2019), regarding auditor independence. For services which are non-recurring in nature, prior approval must be sought from this Committee.

On behalf of the Audit & Risk Committee:

Mark Braithwaite
Chair of the Audit & Risk Committee

12 August 2020

Nomination Committee report

"The Nomination Committee continues to focus on ensuring our Board and senior management team have the appropriately diverse range of skill sets and experience to drive the performance of our business forward."

Sir Adrian Montague CBE
Chair of the Nomination Committee

Key highlights of the year

- Reviewed Board composition.
- Considered succession planning at executive and senior management level.
- Appointed the Chief Executive Officer.
- Appointed the Chief Operating Officer.
- Reviewed the accountabilities, responsibilities and skill sets of the Executive and senior management.

Over the past 12 months, the Nomination Committee focused upon the appointments of a new Chief Executive Officer and Chief Operating Officer, to continue the transformation of the operational functions of the business that had been put in train. This was to achieve our aim of more flexibility and efficiency across the operational workforce.

In September 2019, Steve Fraser formally joined the business as Chief Executive Officer, and is leading Cadent's management, under the stewardship of our Board, onto the next step of its journey of transforming the business. The Nomination Committee will continue to focus, in conjunction with our investors, upon ensuring that the compositions of the Board, Executive and senior management teams comprise the appropriate diverse range of skill sets and experience to drive the performance of our business forward.

Looking to the future, the Nomination Committee will also continue its focus upon our succession planning and, in conjunction with the Chief Executive Officer, seek to enhance our senior management and Executive teams, wherever necessary, as the business evolves and new challenges emerge.

Role and composition of the Nomination Committee

The Nomination Committee is responsible for reviewing the long and short-term strategy and plans for succession of all Executive Directors, members of the Executive Committee, senior Executives reporting to the Chief Executive, the Chairman and the Sufficiently Independent Directors, in conjunction with our investors. In doing so, the Committee keeps under review the balance and diversity of skills, knowledge, experience of Board members and those in these roles.

The Committee has three categories of business, upon which it makes recommendations to the Board. Firstly, in respect of potential candidates to fill Executive and Sufficiently Independent Director roles as and when they arise, or to fill strategic appointment requirements; secondly in relation to the terms of the proposed service contracts of Executive Directors or Sufficiently Independent Directors, including their initial remuneration package (in line with existing approved remuneration policies and in conjunction with the Remuneration Committee); and thirdly on any matters relating to the continuation in office of any Executive Director or Sufficiently Independent Director (including the suspension or termination of service).

The Committee is made up of a minimum of three Non-Executive Directors, one of whom is required to be a Sufficiently Independent Director, two of whom shall be Investor nominated non-executive Directors, and none of whom are Executive Directors. The Committee's membership and attendance at meetings are available on page 82. During the year five meetings were held.

The company's commitment to inclusion and diversity can be found in the 'Creating an inclusive environment' section, in the Strategic report on pages 32 to 37.

On behalf of the Nomination Committee:

Sir Adrian Montague CBE
Chair of the Nomination Committee

12 August 2020

Directors' Remuneration Committee report

"The Committee continues to ensure that remuneration outcomes are closely linked to Cadent's performance."

Kevin Whiteman
Chair of the Remuneration Committee

Key highlights of the year

New joiners:
- Approved remuneration arrangements for new Chief Executive Officer.

Salary review:
- Reviewed Executive Directors' salaries.

Incentive plans:
- Setting incentive targets for STIP and LTIP awards made during the year.
- Review of long-term incentive plan structure and metrics for 2020 awards to reflect regulatory cycle transition.

Introduction

I am pleased to present the Directors' remuneration report for 2019/20.

In last year's report, I noted that ensuring that the approach to remuneration supports and incentivises the right culture and behaviours across the management team was both my and the Committee's priority. This continues to be the case with a strong focus on ensuring that the reward principles are aligned with promoting excellence in Customer Service and transforming the business ready for the transition to the next price control period, RIIO-2.

A key focus of the Remuneration Committee has been to ensure that Executive remuneration is appropriately aligned to the market, with the benchmarking of the remuneration arrangements for a number of new Executive team members over the last year, including Steve Fraser, the new Chief Executive Officer along with a new Chief Operating Officer, Chief Regulation Officer and Chief People Officer.

The Remuneration Committee and I recognise that the COVID-19 pandemic will have a significant impact upon the targets and measures set for both the short-term and long-term incentive plans for this coming year. The Committee will therefore use its discretion to take into account the quality of Cadent's response to the COVID-19 situation in continuing to deliver for customers and maintain a secure, reliable, safe system during this period, as well as the appropriateness of the original targets.

Role and Composition of the Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulator's interests. The Committee is made up of a minimum of three Non-Executive Directors (including the Chair of the Committee), one of whom is required to be a Sufficiently Independent Director, two of whom shall be Investor nominated non-executive Directors, and none of whom are Executive Directors. The Committee's membership and attendance at meetings are available on page 82.

Activities of the Committee 2019/20

The Committee held five scheduled meetings during the year. In addition, the Committee held an ad hoc meeting in May 2019 to discuss the joining arrangements for the new Chief Executive Officer. Other activities of the Committee during the year included approving outcomes of the 2018/19 STIP awards, salary reviews for the Executive Directors, setting targets for the 2019/20 STIP and LTIP, consideration of the LTIP for 2020/21 in the light of the transition to RIIO-2 in 2021 and reviewing the recruitment arrangements for other senior roles within the Committee's remit.

Business performance

Cadent has again delivered a strong set of financial results ahead of its 2019/20 targets and prior year performance . The Group achieved an EBITDA of £1,208m[1], an increase of 11% on prior year, with COVID-19 not having any material impact on 2019/20 performance. Details of the impact of COVID-19 and our response can be found on pages 13 to 15. The business achieved network reliability of 99.998% and continues to deliver improved safety to customers, replacing 1,809km of mostly cast iron pipes by polyethylene pipes and providing 20,609 carbon monoxide alarms.

1 EBITDA used to calculate the STIP excludes the impact of IFRS 15 (£106m) and IFRS 16 (£6m).

Performance for the year 2019/20

STIP

Performance under the STIP is assessed against a scorecard of measures, including customer, economic, sustainability and business metrics. The company performed particularly well against financial and safety targets, where outcomes were in line with stretch performance. The scorecard outcomes, together with the Remuneration Committee's assessment of the individual performance element, resulted in a payout equal to 69.3% and 63.3% of the maximum STIP opportunity for Steve Fraser and Steve Hurrell respectively (equivalent to £374,000 and £152,000 respectively).

The Committee did not exercise any discretion in its determination of STIP outcomes for the year.

Further details of the STIP are provided on pages 103 and 104.

LTIP

The first LTIP award granted in 2017/18 is due to vest in 2020/21 based on performance in the three years to 31 March 2020.

Performance under the LTIP was assessed by the Committee against a scorecard of measures. The stretching economic and operational targets were not met, however good performance was achieved in respect of preparation for RIIO-2. This resulted in a payout equal to 15% of the maximum LTIP opportunity for Steve Hurrell (equivalent to £65,000).

The Committee did not exercise any discretion in its determination of LTIP outcomes for the year.

Further details of the LTIP are provided on page 105.

Executive Director changes

Steve Fraser was appointed as Chief Executive Officer and joined the Board on 2 September 2019. Further details on the treatment of his remuneration, including buyout awards to replace awards forfeited from his previous employer, are set out on page 106.

Steve Hurrell served as Interim Chief Executive Officer from 15 February 2019 to 31 August 2019. During this period, no changes were made to his base salary or other elements of remuneration. However, to remunerate Steve for the additional duties and responsibilities undertaken in this period as Interim Chief Executive Officer, a responsibility allowance of £250,000 was paid to him.

Annual salary review and policy application for 2020/21

On appointment, Steve Fraser's salary was set at £600,000 and was not reviewed further during the year.

Steve Hurrell's salary will increase by 3% (to £309,000) from 1 June 2020, broadly in line with the increase for the wider workforce.

Disclosure enhancements

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

Conclusion

For the 2019/20 financial year, the Committee believes that it has correctly implemented policy and that it has appropriately and reasonably exercised its judgement as discussed above.

Kevin Whiteman
Chair of the Remuneration Committee

12 August 2020

Directors' Remuneration policy

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

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

Our peer groups

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

Reward principles

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

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

Remuneration principles

A. Alignment with Cadent's strategy

B. Pay for performance

C. Competitiveness

D. Consistency

E. Simplicity

Cadent's executive remuneration

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

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

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

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

Strategic priorities

1. Delivering a safe and reliable network
2. Performing for our customers
3. Driving efficiencies
4. Sustainability and communities
5 Shaping the future of gas
6. Engaging our people
7. Driving excellent financial performance

Salary (to attract, motivate and retain high-calibre individuals while not over-paying)

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

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

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

Pension (to reward sustained contribution and assist attraction and retention)

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for a new Executive Director will reflect whether they were internally promoted or externally appointed. For internally promoted Executive Directors: • retention of existing Defined Benefits (DB) benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or • retention of existing Defined Contribution (DC) benefits with discretion to enhance contribution rate to up to 15% of salary; or • cash in lieu of pension up to 15% of salary. If externally appointed: • DC benefits (or equivalent cash in lieu of) equal to the pension available to the workforce (currently up to 12% of salary). In line with market practice, pensionable pay for Executive Directors includes salary only.	Steve Hurrell receives a DC pension contribution or cash in lieu of pension equal to 20% of salary. Steve Fraser receives a DC pension contribution or cash in lieu of pension equal to 12% of salary. For internally promoted Executive Directors: DB: retention of a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. DC: retention of annual contributions of up to 15% of salary. Life assurance provision of eight times pensionable salary is provided on death in service. Group income protection is also provided. Cash in lieu: retention of annual payments of up to 15% of salary. Life assurance and group income protection in line with DC (or DB where the Director was previously a member of a DB scheme).	Not Applicable

Directors' Remuneration policy
continued

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

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the business plan. Awards are paid in cash in July. Awards are subject to clawback and malus provisions.*	The maximum award for the Chief Executive Officer is 120% of salary. The maximum award for the Chief Financial Officer is 80% of salary.	A majority of the STIP is based on performance against corporate measures (both financial and non-financial), with the remainder based on performance against individual objectives. Individual objectives are role-specific. The Committee sets measures that it considers appropriate in each financial year and has discretion to increase or reduce the amount payable, taking account of overall business performance, significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% of the maximum award, respectively.

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

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

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

Fees for NEDs

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

NEDs, other than the Chairman and Sufficiently Independent Directors (SIDs), receive no fees. No Shareholder Nominated Directors are separately remunerated by the company in their capacity as Directors of the company. SID fees are recommended by the Remuneration Committee and approved by the Board; the Chairman's fees are set by the Committee and approved by the Board.

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

NEDs, including the Chairman, do not have employment contracts. The SIDs' appointments are subject to Letters of Appointment.

There is no provision for termination payments.

Differences in remuneration policy for all employees

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

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

Consideration of remuneration policy elsewhere in the company

In setting the remuneration policy the Committee considers the remuneration packages offered to employees across the company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are assessed regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessment our aim is to be at mid-market level for all job bands, including those that are subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration being considered.

Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the remuneration policy at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and company performance.

Benefits consistent with those offered to other Executive Directors under the remuneration policy at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the remuneration policy at the time of appointment.

Ongoing incentive pay (STIP and LTIP) for new Executive Directors will be in accordance with the remuneration policy at the time of appointment.

For an externally appointed Executive Director, the company may offer additional cash payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to Cadent. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost. In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible.

In exceptional circumstances, the Committee may use discretion to grant an additional short- or long-term incentive award on joining, where it believes such an award is necessary to secure the recruitment of an Executive Director.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-Executive Director will be set in line with the policy at the time of appointment.

Directors' Remuneration policy
continued

Service contracts and policy on payment for loss of office

Executive Directors have service contracts which are terminable by either party, normally with six months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. Such payments would be phased on a monthly basis, over a period not greater than six months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period.

In the event of a Director being made redundant, a minimum of statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension. For the avoidance of doubt, such compensation would be made in addition to any contractual payments.

On termination of employment, no STIP or LTIP award would generally be payable. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case a STIP or LTIP award would be payable on the termination date, based on performance during the financial year up to termination. Examples of circumstances in which a Director would be treated as a 'good leaver' include redundancy, retirement, illness, injury, disability and death. Any STIP or LTIP award would be prorated and would be subject to performance achieved against the objectives for the scheme performance period.

Sufficiently Independent Directors' (including the Chairman) appointments are subject to three months' notice by either party. No compensation is payable to SIDs if they are required to stand down.

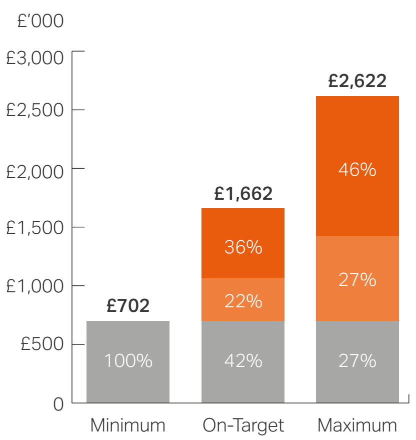
External appointments

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

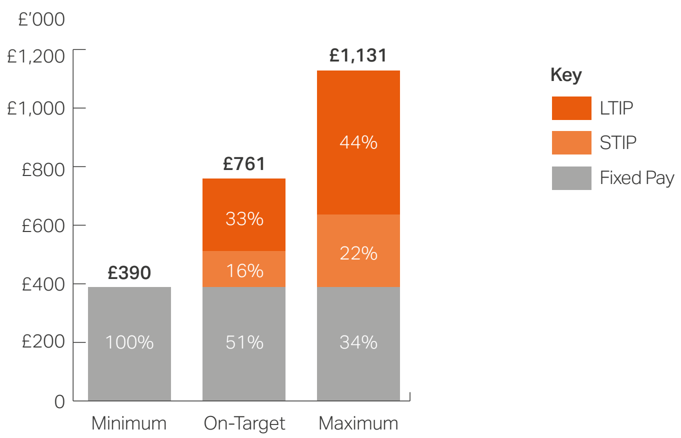
Total remuneration opportunity

The total remuneration for Steve Fraser and Steve Hurrell that could result from the current remuneration policy for the year 2020/21 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below.

Steve Fraser



Steve Hurrell



Notes
1. 'Fixed pay' consists of salary, pension and benefits-in-kind as provided under the remuneration policy.
2. Salary for 2020/21.
3. Benefits-in-kind are as shown in the Single Total Figure of Remuneration table for 2019/20 on page 103.
4. Pension of 12% of salary for Steve Fraser and 20% of salary for Steve Hurrell.
5. STIP calculations are based on 120% of salary for Steve Fraser and 80% of salary for Steve Hurrell.
6. LTIP calculations are based on 200% of salary for Steve Fraser and 160% of salary for Steve Hurrell.
7. LTIP and STIP payout is 50% of maximum for on-target performance.

Annual Report on remuneration

Single total figure of remuneration – Executive Directors

The following table shows a single total figure of remuneration earned in respect of qualifying service for 2019/20, together with comparative figures for 2018/19.

	Salary £000		Benefits-in-kind £000		STIP £000		LTIP £000		Pension £000		Other £000		Total £000	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Steve Fraser	350	–	30	–	374	–	–	–	42	–	–	–	796	–
Steve Hurrell	300	277	19	45	152	147	65	–	60	55	250	–	846	524

Notes:

Steve Fraser was appointed to the Board as Chief Executive Officer on 2 September 2019.

Salary: Steve Fraser's salary was set at £600,000 on appointment. The figure above is related to his service starting from September 2019. Steve Hurrell's salary was increased from £255,500 to £300,000 from 1 October 2018.

Benefits-in-kind: Benefits-in-kind include private medical insurance, life assurance, and a cash alternative to a car. For Steve Fraser, this amount includes an allowance relating to his relocation expenses.

STIP: STIP outcome based on performance assessment of 69.3% and 63.3% of maximum for Steve Fraser and Steve Hurrell respectively. Cadent did not buyout Steve Fraser's short-term bonus in respect of 2019/20 performance at his previous employer, which was forfeited on his departure. As such, the Committee determined that his 2019/20 Cadent STIP opportunity would be based on an annual salary of £600,000 and a pro-rated STIP opportunity of 90% of salary based on the period from 1 July 2019 to 31 March 2020. The maximum STIP opportunity for Steve Hurrell was 80% of salary. Further details are set out below.

LTIP: LTIP outcome based on performance assessment of 15% of maximum for Steve Hurrell, calculated with reference to his average eligible earnings over the performance period. The LTIP earned relates to the performance for the three years from 2017/18 to 2019/20.

Pension: Steve Hurrell received a cash allowance, based on 20% of salary, in lieu of participation in a pension arrangement payment. Steve Fraser received a cash allowance, based on 12% of salary, in lieu of participation in a pension arrangement payment. This is in line with the updated policy on pensions for externally appointed Directors.

Other: This element is in respect of the responsibility allowance paid to Steve Hurrell in respect of his role as the Interim Chief Executive between 15 February 2019 and 31 August 2019.

Performance against targets for STIP 2019/20

STIP awards are earned by reference to the financial year and paid in July. In relation to the bonus measures, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and target and stretch performance.

The outcomes of STIP awards for 2019/20 are shown in the table below:

						Outcome (% of max)	
	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)	Actual	Steve Fraser	Steve Hurrell
EBITDA	12%	£1,155m	£1,180m	£1,205m	£1,208m	100%	100%
Cash flow: Funds from Operations (FFO) to Net Debt	12%	9.25%	9.51%	9.77%	10.40%	100%	100%
Safety: T2/3 replacement	8%	118km	138km	158km	143km	63%	63%
Customer service (ranking above average)	20%	3/9	4/9	5/9	3/9	0%	0%
Lost Time Incident Performance	8%	1.0	0.90	0.70	0.70	100%	100%
Sustainability standard and in-year targets	4%	See commentary below				48%	48%
Business outcomes	16%	Assessment by Remuneration Committee (including quantitative targets)				65%	65%
Individual performance	20%	Assessment by Remuneration Committee				100%	70%
Total	100%					69.3%	63.3%

Notes:

EBITDA (Group): Group EBITDA excludes the impact associated with the implementation of IFRS 15 as the impact of this was not known when the targets were set and also excludes IFRS 16. Group EBITDA is before exceptionals and remeasurements.

Funds from Operations to Net Debt: This is a measure of cash flow generation used in determining Cadent's credit ratings.

Safety: Delivery of Tier 2 and 3 mains replacement programme (secondary OFGEM output).

Customer Service: Targets Cadent's ranking across the eight gas distribution networks against (1) average customer satisfaction, (2) complaint metric and (3) stakeholder engagement. Every time Cadent's network ranks fourth or better, it scores a point. There are a maximum of nine points to achieve.

Lost Time Incidents: Lost Time Injury Frequency Rate calculated by reference to number of incidents divided by aggregate hours worked (on a rolling 12-month basis).

Business Outcomes: Included Monetised Risk Output, Data Maturity and Operational Transformation.

Annual Report on Remuneration
continued

Sustainability performance

The assessment of the sustainability metric was based on two metrics:

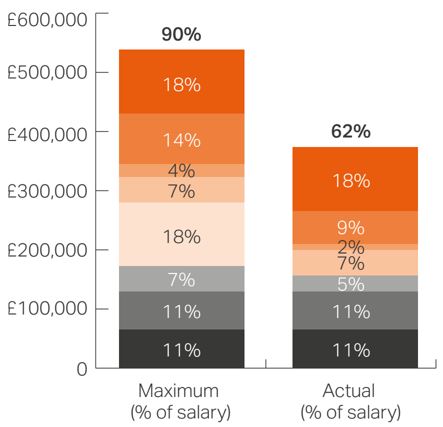
- Waste recycling rates (excluding GDSP) – Improvement by 0.5% for recycling, total improvement in recycling and diversion rates (waste diverted from landfill, normally energy recovery) by 4.55%.
- Reduction in Non-GDSP Waste to landfill – Cadent reduced waste to landfill by 19.3% in 2019/20 compared to 2018/19.

Overall the outcome was assessed to be just below target for this element (48% of maximum).

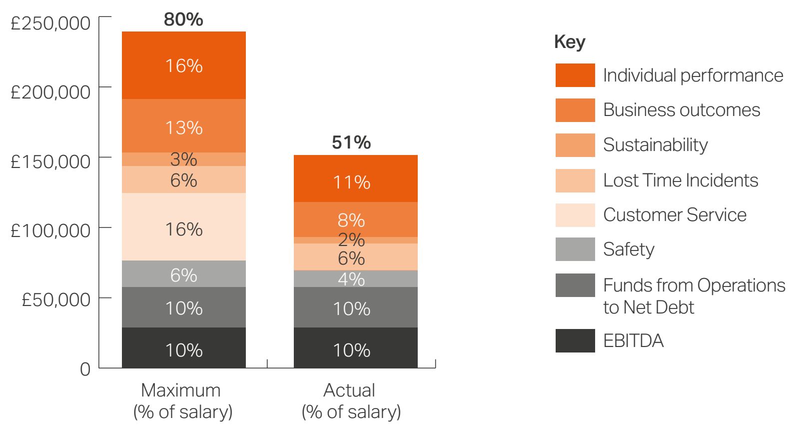
Cadent did not buyout Steve Fraser's short-term bonus in respect of 2019/20 performance at his previous employer, which was forfeited on his departure. As such, the Committee determined that his 2019/20 Cadent STIP opportunity would be based on an annual salary of £600,000 and a pro-rated STIP opportunity of 90% of salary based on the period from 1 July 2019 to 31 March 2020.

2019/20 STIP as proportion of base salary

Steve Fraser



Steve Hurrell



	Max STIP	Outcome	STIP £000
Steve Fraser	90% of salary	69.3% of max	374
Steve Hurrell	80% of salary	63.3% of max	152

Notes:
Maximum opportunity for Steve Fraser is pro-rated from 120% of salary to reflect period from 1 July 2019 to 31 March 2020.
Maximum opportunity for Steve Hurrell relates to actual salary received during the year.

Performance against targets for 2017-2020 LTIP

LTIP awards are earned by reference to rolling three-year financial periods and paid in the July following the end of the third year. The performance period for the first LTIP award ended on 31 March 2020 and this award will vest in July 2020. In relation to the bonus measures and in the same way as for the STIP, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and target and stretch performance.

The performance targets for the LTIP 2017-20 awards are shown in the table below:

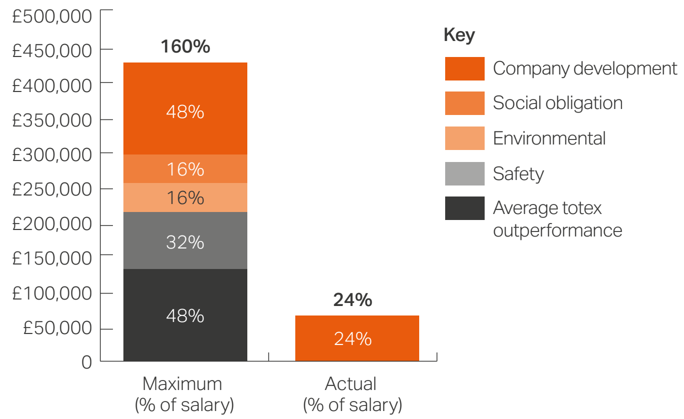
	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)
Average totex outperformance	30%	8.9%	9.5%	11.4%
Safety	20%	T1: 4,944km T2 & T3: 267km	T1: 4,944km T2 & T3: 276km	T1: 4,944km T2 & T3: 285km
Environmental	10%	45%	50%	55%
Social obligation	10%	EOE: 10,217 London: 2,419 NW: 11,232 WM: 7,149	EOE: 10,430 London: 2,470 NW: 11,466 WM: 7,298	EOE: 10,643 London: 2,520 NW: 11,700 WM: 7,447
Company development	30%	Assessment by Remuneration Committee		
Total	100%			

Notes:
Average totex outperformance: The average totex outperformance is measured against the adjusted allowance during the LTIP period based on Ofgem reporting.
Safety: This is a measure of the delivery of Repex programme, with targets expressed in cumulative km across three tiers (subject to not underperforming against individual tiers).
Environmental: Shrinkage and Environmental Emissions incentives (share of total industry incentive received) – cumulative for three years.
Social obligation: fuel poor connection, measured by the connections to each prescribed area.
Company development: Measured based on RIIO-2 preparation and plan development; being on track for delivery of eight-year Ofgem RIIO-GD1 outputs, both considered in the context of Customer Service and Customer Outcomes.

Threshold performance targets were not met in respect of the average totex outperformance, safety, environmental and social obligation metrics. The Remuneration Committee assessed performance in respect of the company development metric and was pleased with the progress of ongoing preparations for RIIO-2 in respect of RIIO-GDI outputs, noting positive improvements in service interruptions and customer complaints. As a result, the Remuneration Committee determined an outcome of 50% of maximum in respect of this element was appropriate. The overall outcome for the 2017-2020 LTIP was 15% of maximum. Steve Hurrell's maximum opportunity was 160% of salary, and therefore the outcome corresponds to 24% of salary (and is based on his average salary earned over the performance period).

2017-20 LTIP as proportion of base salary

Steve Hurrell



	Max LTIP	Outcome	LTIP £000
Steve Hurrell	160% of salary	15% of max	65

Annual Report on Remuneration
continued

Single total figure of remuneration – Non-Executive Directors
The following table shows the single total figure of remuneration earned for Sufficiently Independent Directors in respect of qualifying service for 2019/20 and for 2018/19.

	Fees £000	
	2019/20	2018/19
Sir Adrian Montague CBE	325	325
Dr Catherine Bell CB	60	60
Kevin Whiteman	60	60

Appointment arrangements for Steve Fraser as Chief Executive Officer

On 2 September 2019, Steve Fraser joined the Board as an Executive Director and was appointed Chief Executive Officer. Steve Fraser's remuneration package was determined to consist of the following elements, in line with the remuneration policy:

- Annual salary of £600,000.
- Pension allowance of 12% of salary.
- STIP award up to a maximum of 120% of salary.
- LTIP award up to a maximum of 200% of salary.

The Remuneration Committee agreed to buyout awards as compensation for long-term awards forfeited from his previous employer on joining Cadent:

- 2017 LTIP – based on a three year performance period ending 31 March 2020; and
- 2018 LTIP – based on a three year performance period ending 31 March 2021.

The amount of the cash payments paid to Steve, in relation to the long-term awards forfeited, will be based on the closing United Utilities share price on the relevant vesting date multiplied by the number of United Utilities shares which would have vested in respect of Steve's forfeited awards. This number of shares will be determined by Cadent based on the original number of shares granted to Steve, dividend equivalents accrued up to 31 March 2019, the final performance outcomes of the awards (as disclosed by United Utilities in their Annual Report & Accounts, updated for any estimated performance outcomes where applicable), and time pro-rated based on the proportion of the performance period which had elapsed at the date of leaving employment with United Utilities.

The amounts paid will be reported in the single figure table of the Remuneration Reports for the financial year in which the payments are made.

Payments for loss of office
There were no payments for loss of office during the year.

Payments to past Directors
As disclosed in last year's report, Chris Train stepped down from the role of Chief Executive Officer and the Board on 15 February 2019 and commenced a six-month period of garden leave. During this period, he received £145,000 in respect of salary and £8,000 in respect of benefits (car, holiday and private healthcare).

As also disclosed in last year's report, as part of his leaving arrangements, Chris remained entitled to receive the 2017/18 LTIP award at the normal vesting date, pro-rated to the date of stepping down from the Board and subject to the performance outturn. Based on the outcome of 15% of maximum, Chris will receive a payment of £85,766.

As disclosed in the 2018/19 report, Chris Train became entitled to receive his funded and unfunded defined benefit pension from August 2019 without reduction and Cadent made a payment of £101,022 to the funded pension to reflect this. His total pension entitlement at the date of his retirement (11 August 2019) was £192,162 per annum. He elected to take a transfer value in respect of his funded benefits and his residual pension of £102,162 pa became payable from this date.

Advisors to the Remuneration Committee
In 2018/19, the Committee appointed PwC as advisors to the Committee following a competitive selection process.

PwC's fees for advice to the Committee in 2019/20 were £82,000.

As founder members of the Remuneration Consultants Group, PwC operate under the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK.

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the Chief Executive Officer, and of the Chief Executive Officer on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the General Counsel and Company Secretary who acts as Secretary to the Committee, the Chief People Officer and HR Director, Centre of Expertise. No other advisors have provided significant services to the Committee in the year.

Statement of implementation for 2020/21
Remuneration policy will be implemented during 2020/21 as described below.

Salary
Steve Fraser's salary was set on employment on 1 September 2019 and was not reviewed further during the year. Steve Hurrell's salary was last increased on 1 October 2018. He will receive a 3% increase effective from 1 June 2020, broadly in line with that of the wider workforce.

	From 1 June 2020	From 1 September 2019	From 1 October 2018
Steve Fraser	£600,000	£600,000	-
Steve Hurrell	£309,000	£300,000	£300,000

STIP measures for 2020/21
The STIP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2020/21 annual report on remuneration. The structure of the scheme will remain largely the same as that of 2019/20.

	Weighting
EBITDA	12%
Funds from Operations (FFO) to Net Debt	12%
Customer service	16%
Safety: Tier 2&3 replacement	8%
Sustainability standard and in-year targets	8%
Lost Time Injury Frequency Rate Performance	8%
Specified business outcomes	16%
Individual performance	20%

Steve Fraser's target STIP will be at 60% of salary (maximum of 120% of salary), while Steve Hurrell's target STIP will be 40% of salary (maximum 80% of salary).

The Remuneration Committee retains absolute discretion over the 2020/21 measures and targets, taking into account both Cadent's COVID-19 response in continuing to deliver for customers and the impact of COVID-19 on the ability of the business to meet the targets set.

LTIP to be awarded in 2020/21
The company is awaiting OFGEM's response to proposals in respect of RIIO-2. The Committee believes it is appropriate to determine the performance measures and targets for the LTIP to be granted in 2020/21 when this has been finalised. The performance measures and targets will be disclosed in next year's Directors' Remuneration report.

For 2020–23, the target and maximum will be 100% and 200% of salary respectively for Steve Fraser, and 80% and 160% of salary respectively for Steve Hurrell.

Fees for NEDs (SIDs)
Sufficiently Independent Directors' fees for the forthcoming year are detailed in the table below. No changes will be made for 2020/21.

	Fee
Chairman	£325,000
Sufficiently Independent Director	£60,000

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

Kevin Whiteman
Chair of the Remuneration Committee

12 August 2020

Directors' report

Principal activities and business review

A full description of the Group's and company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic report on pages 1 to 69, which are incorporated by reference into this report.

Directors

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

Current Directors

Sir A A Montague CBE (Chairman)*	
A M Al-Ansari**	
N J Axam***	
J Bao	(Appointed 28 June 2019)
Dr C E D Bell CB*	
M W Braithwaite	
H N M De Run**	(Appointed 6 April 2020)
S Fennell***	(Appointed 15 May 2019)
E B Fidler***	
S R Fraser	(Appointed 2 September 2019)
R Greenleaf**	
H C Higgins	
S G Hurrell	
D A Karnik	
J Korpancova	
M W Mathieson	
P D Noble**	
H Su**	
K I Whiteman*	
D J Xie***	

Former Directors who resigned during the period

I M Coucher	(Resigned 24 March 2020)
M J Gregory***	(Resigned 15 May 2019)

* Sufficiently Independent Director ** Alternate Director.
*** Alternate Director then Shareholder Nominated Director.

Corporate governance

A full report on corporate governance can be found on pages 78 to 85. Incorporated by reference into this report.

Future developments

Details of future developments have been included within the Strategic report on pages 6 and 7.

Dividends

During the year, the company has paid interim ordinary dividends of £175m on 27 September 2019 (2019: interim ordinary dividends amounting to £213m) and a further interim dividend of £100m on 23 March 2020 (2019: interim dividends totalling £210m).

Charitable and political donations

Direct charitable donations made by the company during the year totalled £205,000 (2018/19: £137,000). Further information about our chosen charity the Alzheimer's society can be found on page 25.

In addition, the company paid £9.1m during the year to The Cadent Foundation for it to distribute to selected beneficiaries in support of good causes including charities.

The company made no political donations during the year (2018/19: £Nil).

Research and development

Expenditure on research and development was £7.3m during the period (2018/19: £9m).

Employees

Information on the Group's employment policies (including on the selection, employment, training, career development and promotion of disabled employees) and employee involvement can be found in the Creating an inclusive environment section of the report on page 32 to 37.

Environmental policy

Information on the Group's environmental initiatives can be found in the Improving our environment report on pages 38 to 45, where you will find our environmental responsibility reports, policies and other information including the new Streamlined Energy and Carbon Reporting framework which sets out our UK energy use, associated greenhouse gas emissions and energy efficiency measures taken, which is incorporated into this Directors' report by reference.

Directors' indemnity

Cadent Gas Limited gives Directors' indemnities to Cadent Gas Officers. Quadgas HoldCo Limited gives indemnities to Officers of other Group companies. Separately there is a Directors' and Officers' liability insurance policy for the benefit of the Group's Directors.

Going concern

Having made enquiries and reviewed management's assessment of going concern including the uncertainties posed by COVID-19 on our cash flows and the subsequent impact on headroom against available facilities, the Directors consider it appropriate to prepare the financial statements on a going concern basis. 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. Further detail is provided in the going concern section of the COVID-19 analysis included on page 15.

Control and risk management

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

- The risk assurance function and management conduct various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and, where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit & Risk Committee is also kept appraised of such developments.
- The financial statements are subject to review by the financial reporting function for unusual items, unexplained trends and completeness. Any unexplained items are investigated.
- The financial reporting function compares the financial statements to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the financial reporting function.
- The Audit & Risk Committee and the Board review the draft consolidated financial statements. The Audit & Risk Committee receives reports from management and the external auditor on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Post balance sheet events

There are no post balance sheet events.

Treasury management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the company's material financial risks, including liquidity, credit, interest rate risks and foreign currency risks. These risks are monitored through a Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for the Group. Details on our financial risk management are set out in note 28 on pages 152 to 158.

Major shareholdings

As at 31 March 2020, 100% of the company's share capital was held by Quadgas MidCo Limited.

Auditor

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

Disclosure of information to auditor

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Steve Fraser
Chief Executive Officer

12 August 2020

Financial Statements

"We continue to deliver improvements in operating profit and have increased investment in our networks for the 3rd consecutive year."

Steve Hurrell
Chief Financial Officer

Contents

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Cadent Gas Limited (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 34 in the consolidated financial statements; and
- the related notes 1 to 23 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Group and of the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

12 August 2020

Consolidated income statement

For the year ended 31 March 2020

	Notes	2020 £m	2020 £m	2019 £m	2019 £m
Revenue	4		2,115		1,995
Operating costs			(1,138)		(1,149)
Operating profit					
Before exceptional items	5	977		846	
Exceptional items	6	(53)		(33)	
Total operating profit	5		924		813
Finance income	9		18		15
Finance costs					
Before exceptional items and remeasurements	9	(162)		(144)	
Exceptional items and remeasurements	6/9	(15)		(18)	
Total interest payable and similar charges			(177)		(162)
Profit before tax					
Before exceptional items and remeasurements		833		717	
Exceptional items and remeasurements	6	(68)		(51)	
Total profit before tax			765		666
Tax					
Before exceptional items and remeasurements	10	(159)		(133)	
Exceptional items and remeasurements	10	(124)		9	
Total tax			(283)		(124)
Profit after tax					
Before exceptional items and remeasurements		674		584	
Exceptional items and remeasurements		(192)		(42)	
Profit for the year			482		542

The results reported above relate to continuing activities.

The notes on pages 119 to 162 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Profit for the year		482	542
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	27	176	132
Tax on remeasurements of post-employment benefit obligations	10	(33)	(23)
Tax arising as a result of the reversal of the expected reduction in the UK tax rate	10	(13)	–
Total items that will never be reclassified to profit or loss		130	109
Items that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges		(16)	–
Net losses in respect of cost of hedging reserve		(3)	(1)
Amortisation of cost of hedging reserve		3	3
Tax on net losses in respect of cash flow hedges	10	3	–
Total items that may be reclassified subsequently to profit or loss		(13)	2
Other comprehensive income for the year, net of tax		117	111
Total comprehensive income for the year		599	653

The results reported above relate to continuing activities.

The notes on pages 119 to 162 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	12	90	63
Property, plant and equipment	13	9,775	9,254
Investments in associates	14	–	–
Pension and other post-retirement benefit assets	27	917	690
Trade and other receivables	16	21	44
Derivative financial assets	17	40	8
Total non-current assets		10,843	10,059
Current assets			
Inventories	15	10	10
Trade and other receivables	16	240	216
Current asset investments	18	327	332
Cash and cash equivalents		17	5
Total current assets		594	563
Total assets		11,437	10,622
Current liabilities			
Trade and other payables	19	(594)	(571)
Borrowings[1]	21	(52)	(52)
Lease liabilities[1]	22	(11)	–
Current tax liabilities		–	(56)
Provisions	23	(15)	(15)
Total current liabilities		(672)	(694)
Net current liabilities		(78)	(131)
Total assets less current liabilities		10,765	9,928
Non-current liabilities			
Derivative financial liabilities	17	(73)	(38)
Borrowings[1]	21	(6,962)	(6,683)
Lease liabilities[1]	22	(20)	–
Deferred tax liabilities	10	(1,466)	(1,282)
Provisions	23	(79)	(71)
Accruals and deferred income	20	(12)	(27)
Total non-current liabilities		(8,612)	(8,101)
Total liabilities		(9,284)	(8,795)
Net assets		2,153	1,827
Equity			
Share capital	24	–	–
Cash flow hedge reserve		(13)	–
Cost of hedging reserve		6	6
Retained earnings		7,453	7,114
Other deficit		(5,293)	(5,293)
Total equity		2,153	1,827

1 Borrowings in the comparative period include finance leases, as accounted for under IAS 17. In the current period these liabilities have instead been recorded as part of lease liabilities, as required by IFRS 16. See note 1 (c) for further details.

The notes on pages 119 to 162 are an integral part of these financial statements.

The consolidated financial statements on pages 114 to 162 were authorised and approved for issue by the Board of Directors on 12 August 2020 and were signed on its behalf by:

S G Hurrell
Director,
Cadent Gas Limited

Company registration number: 10080864

Consolidated statement of changes in equity

For the year ended 31 March 2020

	Share Capital £m	Cash flow Hedge Reserve £m	Cost of Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 1 April 2019	–	–	6	(5,293)	7,114	1,827
Changes due to adoption of IFRS 16	–	–	–	–	2	2
Balance at 1 April 2019 (restated)	–	–	6	(5,293)	7,116	1,829
Profit for the year	–	–	–	–	482	482
Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve	–	(13)	(3)	–	130	114
Amortisation of cost of hedging reserve	–	–	3	–	–	3
Total comprehensive income for the year	–	(13)	–	–	612	599
Equity dividends (note 11)	–	–	–	–	(275)	(275)
At 31 March 2020	–	(13)	6	(5,293)	7,453	2,153

	Share Capital £m	Cash flow Hedge Reserve £m	Cost of Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 1 April 2018	–	–	4	(5,293)	6,886	1,597
Profit for the year	–	–	–	–	542	542
Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve	–	–	(1)	–	109	108
Amortisation of cost of hedging reserve	–	–	3	–	–	3
Total comprehensive income for the year	–	–	2	–	651	653
Equity dividends (note 11)	–	–	–	–	(423)	(423)
At 31 March 2019	–	–	6	(5,293)	7,114	1,827

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

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas Plc. This merger reserve will reduce distributable profits. As the amounts included in other deficits are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

The notes on pages 119 to 162 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2020

	2020 £m	2019 Restated[1] £m
Cash flows from operating activities		
Total operating profit	924	813
Adjustments for:		
Exceptional items	53	33
Depreciation, amortisation and impairment	343	319
Increase in inventories	–	(4)
Decrease in trade and other receivables	1	6
Increase in trade and other payables	36	16
Capital contribution income	(107)	(65)
Changes in provisions	10	2
Gain on disposal of property, plant and equipment	(2)	(1)
Changes in pensions and other post-retirement obligations	(55)	(53)
Capital contributions received[1]	80	91
Cash flows relating to exceptional items	(26)	(14)
Cash generated from operations	1,257	1,143
Tax paid	(212)	(129)
Net cash inflow from operating activities	1,045	1,014
Cash flows from investing activities		
Purchases of intangible assets	(36)	(22)
Purchases of property, plant and equipment	(819)	(645)
Disposals of property, plant and equipment	1	2
Interest received	1	1
Net decrease/(increase) in financial investments	5	(171)
Net cash flow used in investing activities	(848)	(835)
Cash flows from financing activities		
Proceeds received from loans	1,024	750
Repayment of loans	(797)	(400)
Repayment of lease liabilities (2019 – repayments under finance leases)	(10)	(1)
Interest paid	(126)	(112)
Dividends paid to shareholders	(275)	(423)
Net cash flow used in financing activities	(184)	(186)
Net increase/(decrease) in cash and cash equivalents	13	(7)
Net cash and cash equivalents/(overdraft) at the start of the period	(4)	3
Net cash and cash equivalents/(overdraft) at the end of the period	9	(4)
Comprising:		
– Cash	17	5
– Overdraft	(8)	(9)

1 A presentational adjustment has been made to reclassify cash flows from capital contributions from investing activities to operating activities. See note 1(s) for further detail.

Notes to the consolidated financial statements

For the year ended 31 March 2020

1 Summary of significant accounting policies

Cadent Gas Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom and is registered in England and Wales. The address of its registered office is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

(a) Basis of preparation

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.

As at the date of approving these financial statements, the impact of COVID-19 on the Group's operations are continually being monitored and subject to rapid change. The Directors have assessed the impact by modelling both a base case and a reasonable worst case scenario. As the vast majority of revenue is set in accordance with the regulatory charging methodology which, being a capacity-based regime, provides relative stability and predictability of cash flows, the impact was limited. The reasonable worst case scenario includes:

- one-off increases in other costs such as cleaning, safety equipment, IT and employee absence;
- the refocusing of our capital programmes, in particular the iron mains replacement programme, causing a reduction in the volume of work delivered but with higher unit costs to deliver this work programme;
- reduced revenues as a result of lower gas consumption; and
- additional working capital requirements from the shipper relief scheme or from any potential supplier failure.

Having considered the reasonable worst case scenario (more detail can be found on page 15), 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 in light of the recent transaction in Cadent Finance Plc in March 2020 where the order book was well in excess of the amount required and it was concluded that the Group has the ability to continue to have access to the debt capital markets if needed.

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 Director's 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.

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.

Consolidated financial statements

The consolidated financial statements of Cadent Gas Limited have been prepared in accordance with IFRS, IAS, IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2020 and the Companies Act 2006.

(b) Basis of consolidation

The consolidated financial statements include the results of Cadent Gas Limited and its subsidiaries, Cadent Gas Pension Trustees Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited, Cadent Gas Pension Services Limited, Cadent Finance Plc and associate undertaking. 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.

During 2019/20, Cadent Gas entered into an agreement with the Charities Trust to contribute 1.25% of profit after tax into a Donor Advised Fund ("DAF"). After consideration, we have concluded that the DAF is not controlled by Cadent as the Charities Trust have the power to overrule decisions that do not align with the objectives of the Foundation and the requirements of IFRS 10 have not been met in respect of (1) rights to variable returns and (2) its ability to affect the amount of investor returns. Therefore this has not been consolidated as part of the Cadent Gas Limited Group.

(c) New IFRS accounting standards and interpretations

The Group adopted IFRS 16 'Leases' from 1 April 2019. In accordance with the transition provisions in the standard, the Group has applied the modified retrospective (or 'simplified transition') approach and has not restated comparative amounts for the year prior to first adoption.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

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

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations continued

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.

Prior to the financial year beginning 1 April 2019, leases were classified as either finance leases or operating leases under IAS 17, see note 22 for details. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group, except where certain exemptions apply (as described below).

Applying IFRS 16 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.

Under IFRS 16, 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.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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 weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 1.51%.

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

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

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations continued

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

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

Variable lease payments

Some leases contain variable payment terms. These include:

- Leases for equipment which contain fixed valued 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.

The table below presents a reconciliation from operating lease commitments disclosed at 31 March 2019 to lease liabilities recognised at 1 April 2019.

	£m
Operating Lease commitments disclosed under IAS 17 at 31 March 2019	35
Effect of discounting the above amounts	(5)
Add: Finance lease liabilities recognised under IAS 17 at 31 March 2019	6
(Less): short-term leases recognised on a straight-line basis as expense	(1)
(Less): low value leases not recognised as a liability	–
Add: option to purchase payments and embedded leases	1
Lease liability recognised as at 1 April 2019	**36**
Of which are:	
Current lease liabilities	10
Non-current lease liabilities	26
	36

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. See details in note 13 'Property, Plant and Equipment'.

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.

Impact on lessor accounting

The Group does not undertake significant activities as a lessor and did not need to make any adjustments as a result of the adoption of IFRS 16 on its lessor accounting.

Finance leases under IAS 17

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations continued

Financial impact of the application of IFRS 16

Profit after tax has decreased by £2m for the year ended 31 March 2020 as a result of adopting the new standard.

The adoption of IFRS 16 'Leases' resulted in the recognition of £33m right-of-use assets and £30m lease liabilities (after adjustments for prepayments recognised as at 31 March 2019). On transition overall net assets increased by £2m and net current liabilities were £9m higher due to the presentation of a portion of the liability as a current liability. In addition to this, the Group continues to recognise lease liabilities and assets of £6m relating to pre-existing finance lease liabilities recognised under IAS 17 as at 31 March 2019.

Operating cash flows have increased and financing cash flows decreased by approximately £9m as repayment of the principal portion of the lease liabilities is classified as cash flows from financing activities.

In line with the standard, 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 amount of short-term leases for the year ended 31 March 2020 is £2m and low value leases is £0.1m.

In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 April 2019):

	IAS 17 carrying amount 31 March 2019 £m	Adjustments to recognise right-of-use assets and lease liabilities £m	IFRS 16 carrying amount 1 April 2019 £m
Property, plant and equipment	9,254	33	9,287
Lease liabilities <1 year*	–	(10)	(10)
Lease liabilities >1 year*	–	(26)	(26)
Borrowings <1 year*	(52)	1	(51)
Borrowings >1 year*	(6,683)	5	(6,678)
Trade and other receivables	216	(1)	215
Retained earnings	7,114	2	7,116

* Pre-existing finance leases at 31 March 2019 are included within borrowings under IAS 17.

Other

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 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

- Amendments to IFRS 9 Prepayment features with negative compensation;
- Amendments to IAS 28 Long-term interests in Associated and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs;
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement; and
- IFRIC 23 Uncertainty over Income Tax Treatments.

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

- IFRS 17 Insurance contracts*;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendment to IFRS 7, IFRS 9 and IAS 9 – Interest rate benchmark reform;
- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 Business Combinations – definition of a business*;
- Amendments to IAS 1 and IAS 8 – definition of material; and
- Amendment to IAS 1 – classification of liabilities*.

* Denotes that the standard or interpretation has not yet been adopted by the EU (European Union).

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations continued

Other continued

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, except as noted on the next below.

Amendment to IFRS 7, IFRS 9 and IAS 9 – Interest rate benchmark reform (phase 1)

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The IASB has embarked on a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform. For Phase 1, the IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Our current portfolio of derivatives consist of those in a designated hedge relationship (cross-currency interest rate swaps) and those not designated in a hedge relationship (our RPI swaps). The cross-currency interest rate swaps and underlying hedged items designated in hedge relationships all pay/receive fixed rates of interest, so no impact is anticipated in this context.

Financial instruments held currently by the Group that directly reference IBOR are term debt, liquidity facilities and RPI swaps. The volume of supplier contracts that reference IBOR are minimal.

The valuation of our derivatives will be impacted on IBOR transition, owing to changes in the market convention of arriving at a discounted fair value.

It is currently expected that SONIA ('Sterling Overnight Index Average') will replace GBP LIBOR. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

At the time of reporting, industry working Groups have reviewed methodologies for calculating adjustments between GBP LIBOR and SONIA.

The Group has performed an assessment of its contracts and financial instruments to determine those that reference IBOR, and associated findings have been presented to the Group Finance Committee. We continue to strive to promote awareness of the issue, and introduce a robust internal structure of governance and control to manage the transition. Policies and procedures will be revised where relevant to monitor any possible financial impact e.g. comparison of derivative fair values owing to differing discounting methodologies.

Additionally, we continue to closely monitor external developments in the relevant markets as rate of progress is expected to converge over the next 12 months. Of our existing contracts that directly reference IBOR, we expect transition developments to be slower in those contracts influenced by the Loan Market Association (LMA).

The amendment is mandatory and should be applied for annual periods beginning on or after 1 January 2020. Earlier application is permitted.

(d) Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

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 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

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 – five years

Computer licenses – three years

(e) Property, plant and equipment and depreciation

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.

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. 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.

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 performance obligation has been met for example the alteration, diversion or relocation has been completed.

Contributions received towards the cost of tangible assets from customers for connections to the gas distribution networks are initially recognised as deferred income and credited to revenue once the performance obligation has been met for example the connection has been completed.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(f) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of 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.

1 Summary of significant accounting policies continued

(g) Financial instruments

Initial recognition

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

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

Classification and measurement

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

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); and
- 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; and
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. Impairments are calculated using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

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

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

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

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

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

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

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

Derecognition

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Derecognition continued

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

Impairment of financial assets

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. The company 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 by any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

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

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

(h) Trade and other receivables

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

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

(i) Trade and other payables

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

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

- once the project is complete; or
- over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further details on assessment of performance obligations see note 1 (n) Revenue.

(j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(k) Tax

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

1 Summary of significant accounting policies continued

(k) Tax continued

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.

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

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

(l) Provisions for liabilities

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

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

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

Other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions related to the operation of our gas networks. Where amounts are material, third party valuations are performed.

(m) Dividends

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

(n) Revenue

Revenue 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 gas 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1 Summary of significant accounting policies continued

(n) Revenue continued

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). 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. Cadent judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available. For call handling services, the performance obligation is satisfied over time with the provision of an emergency call handling service to customers. For metering services, the performance obligation is satisfied on completion of the installation or the repair and control passes when the meter is operational. Customers for metering services are typically the gas supplier and distinct from the ongoing supply of gas. Typical payment terms are 30 days for our other revenue.

(o) Exceptional items and remeasurements

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 deferred tax rate changes.

Remeasurements comprise gains or losses recorded in the income statement arising from the changes in fair value of derivative financial instruments to the extent that hedge accounting is not achieved or it is not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

(p) Pensions

The company operates two post-employment schemes, including both a defined benefit (DB) and a defined contribution (DC) pension scheme.

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

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

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

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

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

1 Summary of significant accounting policies continued

(q) Leases

As explained in note 1(c), the Group has changed its accounting policy for leases. The new policy is described in detail in note 1(c).

Prior to the financial year beginning 1 April 2019, assets for use in the Group's business where the Group had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, were included within borrowings. The interest element of the rental obligation was charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Operating lease payments were charged to the income statement on a straight-line basis over the term of the lease.

(r) Other reserves

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas Plc. On 1 October 2016 Cadent Gas Limited acquired the trade and assets of the Gas Distribution business from National Grid Gas Plc. This acquisition was accounted for as a business combination under common control as the entities were under the common control of National Grid Plc. As such, Cadent Gas Limited selected to apply predecessor accounting and this resulted in the excess of the consideration paid over the carrying value of the net assets, being recorded as a separate component of equity and a merger reserve of £5,165m was recognised. Subsequent to this, Cadent Gas Limited recognised its share of the pension sectionalisation and the recognition of pension deficit of £128m net of deferred tax was recognised against the merger reserve. This merger reserve will reduce distributable profits. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

(s) Cash and cash equivalents

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

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.

In preparing the financial statements for the 2020 financial year, the Group has determined that cash received in the form of capital contributions from customers, previously classified as investing activities, are more appropriately classified as cash flows from operating activities. IAS 7 defines operating activities as the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. Whilst capital contributions are received for the purpose of the creation of long-term fixed assets, the Group also generates revenue from the activity through the completion of projects to create the assets. Therefore the Group has deemed that the cash flows received from capital contributions should be classified as operating cash flows.

The cash received in the 2018/19 financial year from capital contributions was £91 million. This amount has been restated in the prior year comparative figure in the consolidated statement of cash flows. This has increased net cash generated from operations by £91m from £1,052m to £1,143m and increased net cash flow used in investing activities by £91m from £744m to £835m (see consolidated statement of cash flows).

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

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 certain items as exceptional items under the exceptional item framework that follows a three – step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is within the Group's control and how frequently such an event typically occurs – **note 6**.

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Financial instruments: we normally opt to apply hedge accounting in most circumstances 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:

- 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 – **notes 12 & 13**.
- The estimation of liabilities for pensions and other post-retirement benefits include a number of key assumptions which include life expectancy of members, expected salary and pension increases, discount rate and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied – **note 27**.
- In light of COVID-19 and the resulting impact on financial markets there is significant uncertainty over certain pension asset valuations, particularly of the property (£273m) and unquoted equities (£730m) portfolios as at 31 March 2020. A higher degree of caution has been attached to the property valuations received from external parties due to the unknown future impact that COVID-19 might have on the real estate market. For the property portfolio, our valuation reports from our surveyors are subject to material valuation uncertainty clauses as set out in the RICS guidance due to the impact COVID-19 has had on previous market evidence, however, we do not believe that this is likely to result in a material change in the value disclosed. For unquoted equities amounting to £54m where it was not possible to obtain valuations at 31 March 2020, a benchmark reduction based on market evidence was applied – **note 27**.
- In calculating the environmental provision a number of uncertainties affect the calculation including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies, and changes in the discount rate applied – **note 23**.
- 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 – **note 23**.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in **note 29**.

3 Segmental analysis

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

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

4 Revenue

	2020 £m	2019 £m
Revenue from distribution of gas	1,971	1,890
Other income	144	105
	2,115	1,995

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

	2020 £m	2019 £m
Analysis of revenue by major customer		
Customer A	481	480
Customer B	209	204
	690	684

One customer contributed 10% or more to the Group's revenue during the year to 31 March 2020 (2019: Two).

5 Operating profit

	2020 £m	2019 £m
Operating profit is stated after charging:		
Depreciation and amortisation	343	319
Payroll costs (see note 7)	200	200
Inventory consumed	10	13
Purchases of gas	12	25
Rates	208	204
Research and development expenditure	7	6

	2020 £000	2019 £000
Services provided by the company's auditor		
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	552	442
Fees payable for the audit of the subsidiary company financial statements	46	59
Other services		
Fees payable to the company's auditors for audit-related assurance services	80	77
Other non-audit services	155	117

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors such as interim reviews. Other non audit services in 2020 relate to services provided in connection with the raising of debt or required by the regulator.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

6 Exceptional items and remeasurements

	2020 £m	2019 £m
Exceptional items included within operating costs:		
Separation activities[i]	19	16
Restructuring costs[ii]	34	3
Guaranteed minimum pensions payments[iii]	–	14
	53	33
Remeasurements included within finance costs:		
Net losses on derivative financial instruments[iv]	15	18
Total included within profit before tax	68	51
Included within taxation:		
Exceptional charge arising		
Deferred tax charge arising as a result of the reversal of the expected reduction in the UK tax rate[v]	137	–
Tax on other exceptional items and remeasurements		
Tax on separation activities	(4)	(3)
Tax on restructuring costs	(6)	(1)
Tax on guaranteed minimum pensions payments	–	(2)
Tax on remeasurements	(3)	(3)
	124	(9)
Total exceptional and remeasurements after tax	192	42
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	180	27
Total remeasurements items after tax	12	15
	192	42

i As a result of the acquisition of the company by Quadgas MidCo Limited from National Grid Plc, a number of separation activities have arisen, which are exceptional by nature as this is not in the ordinary course of the business.

ii The Group is undergoing a reorganisation exercise. These activities are infrequent and exceptional in nature, and are financially material. On the 13 May 2019 Cadent Gas Limited announced a voluntary redundancy programme for all managers and staff. Costs of £25m associated with this have been included within restructuring costs, of which £18m relates to pension strain. A further £9m relating to consulting and project costs to support the reorganisation exercise have been incurred.

iii A pre-tax exceptional expense of £14m was recorded in the year ended 31 March 2019 as a past service cost in respect of the equalisation of guaranteed minimum pension ('GMP') benefits. No such amount is required for the year ended 31 March 2020.

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

v The resolution moved by the Chancellor of the Exchequer that the Corporation tax rate for financial year 2020 and 2021 shall be 19% was given statutory effect under the provisions of the Provisional Collection of Taxes Act 1968 on 11 March 2020 and therefore on the basis that this rate will apply for the foreseeable future deferred tax has been restated from 17% of temporary differences to 19% of temporary differences. As this is an infrequent adjustment that was out of the company's control and financially material it has been recognised as an exceptional cost.

7 Employment costs

The average number of persons (including Executive Directors) employed by the Group was 3,938 (2019: 4,062) and can be analysed as follows:

	2020	2019
Field force	1,690	1,726
Office and other administrative staff	2,248	2,336
Total	3,938	4,062

	2020 £m	2019 £m
Wages and salaries	182	182
Social security costs	22	22
Other pension costs	54	52
	258	256
Less: payroll costs capitalised	(58)	(56)
	200	200

7 Employment costs continued

Key management comprises the Board of Directors of the company including Executive and Non-executive Directors who have managerial responsibility for the businesses of Cadent Gas Limited.

	2020 £000	2019 £000
Salaries and other short-term employee benefits	1,985	1,699
Post-employment benefits	102	130
	2,087	1,829

8 Directors' emoluments

The Directors' emoluments were as follows:

	2020 £000	2019 £000
Aggregate emoluments (including salary, fees, bonuses and benefits in kind)	1,985	1,699
Pension schemes	102	130
	2,087	1,829

There were no amounts paid to third parties for Directors' services.

Post-employment benefits were being accrued for Nil (2019: One) Director under a defined benefit scheme.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2020 £000	2019 £000
Total amount of emoluments and amounts receivable (excluding shares) under long-term incentive schemes	786	804
Defined benefit pension scheme		
– accrued pension at end of period	60	75

9 Finance income and costs

	2020 £m	2019 £m
Finance income		
Interest income from pensions	17	14
Interest income from financial instruments	1	1
Finance income	18	15
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	23	29
Other borrowings	133	106
Derivatives	5	9
Unwinding of discounts on provisions and lease liabilities	1	–
Finance costs	162	144
Remeasurements		
Net losses on derivative financial instruments included in remeasurements[i]:		
Ineffectiveness on derivatives designated as:		
Cash flow hedges	–	–
Derivatives not designated as hedges or ineligible for hedge accounting	15	18
Remeasurements included within finance costs	15	18
Finance costs	177	162
Net finance costs	159	147

i Includes a net foreign exchange loss on financing activities of £35m (2019: £8m gain). 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 2020

10 Taxation

Tax charged to the income statement

	2020 £m	2019 £m
Tax before exceptional items and remeasurements	159	133
Exceptional tax relating to UK tax rate change (see note 6)	137	–
Tax on other exceptional items and remeasurements	(13)	(9)
Total tax expense	283	124

Taxation as a percentage of profit before tax

	2020 %	2019 %
Before exceptional items and remeasurements	19.1	18.6
After exceptional items and remeasurements	37.0	18.6

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

	2020 £m	2019 £m
Current tax		
UK corporation tax at 19% (2019: 19%)	142	135
UK corporation tax adjustment in respect of prior years	–	(3)
Total current tax	142	132
Deferred tax		
UK deferred tax current year	3	(7)
UK deferred tax arising as a result of the reversal of the expected reduction in the UK tax rate	137	–
UK deferred tax adjustment in respect of prior years	1	(1)
Total deferred tax	141	(8)
Total tax charge	283	124

Tax charged/(credited) to other comprehensive income and equity

	2020 £m	2019 £m
Deferred tax		
Cash flow hedges	(3)	–
Accelerated tax depreciation	–	146
Remeasurements of post– employment benefit obligations[i]	46	23
Total tax charged to other comprehensive income and equity	43	169

i £13m relates to tax arising as a result of the reversal of the expected reduction in the UK tax rate.

The tax charge for the year after exceptional items and remeasurements is higher (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%):

10 Taxation continued

	Before Exceptional Items and Remeasurements 2020 £m	After Exceptional Items and Remeasurements 2020 £m	Before Exceptional Items and Remeasurements 2019 £m	After Exceptional Items and Remeasurements 2019 £m
Profit before tax				
Before exceptional items and remeasurements	833	833	717	717
Exceptional items and remeasurements	–	(68)	–	(51)
Profit before tax	833	765	717	666
Profit before tax multiplied by UK corporation tax rate of 19% (2019:19%)	158	145	136	127
Effect of:				
Expenses not deductible for tax purposes	2	2	4	4
Non-taxable income	(2)	(2)	(1)	(1)
Current tax/deferred tax rate differential	–	–	(2)	(2)
Deferred tax impact of change in UK tax rate	–	137	–	–
Prior year adjustments	1	1	(4)	(4)
Total tax	159	283	133	124

Factors that may affect future tax charges

The resolution moved by the Chancellor of the Exchequer that the Corporation tax rate for financial year 2020 and 2021 shall be 19% was given statutory effect under the provisions of the Provisional Collection of Taxes Act 1968 on 11 March 2020 and therefore deferred tax has been restated to 19% of temporary differences. The tax impact of the new accounting standard IFRS 16 Leases will not be material for the foreseeable future.

Taxation included within the statement of financial position

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

	Accelerated Tax Depreciation £m	Pensions £m	Financial Instruments £m	Other net Temporary Differences £m	Total £m
At 1 April 2019	1,175	117	(2)	(8)	1,282
Charged/(credited) to income statement	136	9	(3)	(1)	141
Charged/(credited) to other comprehensive income and equity	–	46	(3)	–	43
At 31 March 2020	1,311	172	(8)	(9)	1,466
Deferred tax assets	–	–	(8)	(9)	(17)
Deferred tax liabilities	1,311	172	–	–	1,483
At 31 March 2020	1,311	172	(8)	(9)	1,466

	Accelerated Tax Depreciation £m	Pensions £m	Financial Instruments £m	Other net Temporary Differences £m	Total £m
At 1 April 2018	1,040	82	1	(2)	1,121
Charged/(credited) to income statement	(11)	12	(3)	(6)	(8)
Charged to other comprehensive income and equity	146	23	–	–	169
At 31 March 2019	1,175	117	(2)	(8)	1,282
Deferred tax assets	–	–	(2)	(8)	(10)
Deferred tax liabilities	1,175	117	–	–	1,292
At 31 March 2019	1,175	117	(2)	(8)	1,282

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £1,466m (2019: £1,282m).

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

11 Dividends

	2020 £m	2019 £m
Interim dividend of £1,260.13 per ordinary share amounting to £213,000,000 was declared and paid on 28 September 2018	–	213
Second interim dividend of £1,242.38 per ordinary share amounting to £210,000,000 was declared on 21 March 2019 and paid on 27 March 2019	–	210
Interim dividend of £1,035.32 per ordinary share amounting to £175,000,000 was declared and paid on 27 September 2019	175	–
Second interim dividend of £591.61 per ordinary share amounting to £100,000,000 was declared on 19 March 2020 and paid on 23 March 2020	100	–
	275	423

No further dividends are proposed for the current financial period.

12 Intangible assets

	Software £m
Cost:	
At 1 April 2019	137
Additions	46
Disposals	–
At 31 March 2020	**183**
Accumulated amortisation:	
At 1 April 2019	(74)
Amortisation charge for the period	(19)
Disposals	–
At 31 March 2020	**(93)**
Net book value:	
At 31 March 2020	**90**
At 31 March 2019	63

	Software £m
Cost:	
At 1 April 2018	107
Additions	30
Disposals	–
At 31 March 2019	137
Accumulated amortisation:	
At 1 April 2018	(48)
Amortisation charge for the period	(26)
Disposals	–
At 31 March 2019	(74)
Net book value:	
At 31 March 2019	63
At 31 March 2018	59

13 Property, plant and equipment

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Right-of-use Assets* £m	Total £m
Cost						
At 1 April 2019	55	9,682	80	138	–	9,955
Initial application of IFRS16	–	–	–	–	33	33
Additions	6	693	93	18	5	815
Reclassifications	16	53	(73)	(1)	5	–
Disposals	(1)	(1)	–	(3)	–	(5)
At 31 March 2020	**76**	**10,427**	**100**	**152**	**43**	**10,798**
Accumulated depreciation and impairment						
At 1 April 2019	(14)	(625)	–	(62)	–	(701)
Charge for the period	(7)	(283)	–	(24)	(10)	(324)
Disposals	–	–	–	2	–	2
At 31 March 2020	**(21)**	**(908)**	**–**	**(84)**	**(10)**	**(1,023)**
Net book value:						
At 31 March 2020	**55**	**9,519**	**100**	**68**	**33**	**9,775**
At 31 March 2019	41	9,057	80	76	–	9,254

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

The cost of property, plant and equipment at 31 March 2020 included £1,462,000 (2019: £1,462,000) relating to interest capitalised, with £Nil capitalised during the year (2019: £Nil).

Additions to the right-of-use assets during the 2019/20 financial year were £5m.

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

	31 March 2020 £m	1 April 2019* £m
Land and buildings	21	27
Plant and Machinery	2	1
Motor vehicles and other equipment	10	10
	33	38

* In the previous year, the Group only recognised leased assets in relation to leases that were classified as 'finance leases' under IAS 17 'Leases'. For adjustments recognised on adoption of IFRS 16 on 1 April 2019, refer to note 1(c). Both right-of-use assets and assets initially recognised in previous periods under IAS 17 are included in property, plant and equipment in the consolidated statement of financial position.

The net book value of land and buildings comprises:

	2020 £m	2019 £m
Freehold	41	23
Long leasehold (over 50 years)	–	–
Short leasehold (under 50 years)	14	18
	55	41

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

13 Property, plant and equipment continued

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2018	50	9,070	20	112	9,252
Additions	5	606	74	21	706
Reclassifications	–	7	(14)	7	–
Disposals	–	(1)	–	(2)	(3)
At 31 March 2019	55	9,682	80	138	9,955
Accumulated depreciation and impairment					
At 1 April 2018	(9)	(363)	–	(37)	(409)
Charge for the period	(5)	(262)	–	(26)	(293)
Disposals	–	–	–	1	1
At 31 March 2019	(14)	(625)	–	(62)	(701)
Net book value:					
At 31 March 2019	41	9,057	80	76	9,254
At 31 March 2018	41	8,707	20	75	8,843

14 Investments in associates

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

Details of the associate undertaking are set out below:

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

Outstanding balances with associates are shown in note 31.

15 Inventories

	2020 £m	2019 £m
Raw materials and consumables	10	10
	10	10

Inventories are stated after provisions for impairment of £909,000 (2019: £307,000).

16 Trade and other receivables

	2020 £m	2019 £m
Amounts falling due within one year:		
Trade debtors	10	16
Amounts owed by other Group companies	1	–
Other debtors	19	9
Prepayments	37	25
Accrued income	173	166
	240	216
Amounts falling due after more than one year:		
Prepayments	6	29
Other debtors	15	15
	21	44

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:

	2020 £m	2019 £m
At 1 April	3	4
Amounts utilised/written off in the year	–	–
Amounts credited in the income statement	–	(1)
At 31 March	3	3

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 COVID-19 on the recoverability of trade and other receivables. The impact was deemed to be limited given the nature of the business in that our principal commercial exposure relates to shipper income which is governed by Section V of the Gas Transportation Uniform Network Code. There are a number of actions the Group takes to mitigate credit risks and any changes to the Uniform Network Code will need to be agreed across the gas industry with involvement from Ofgem. These include holding security in the form of cash, obtaining letters of credit and ensuring major diversionary work is invoiced in advance of the work commencing.

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

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

Other income

Other income included within trade debtors relates to any income stream which involves rechargeable construction work done on the network where the costs can be charged to another party. Examples include diversions income for diversions of gas pipes, charges for damages to gas pipes and rechargeable emergency repairs.

The loss allowance of the receivable balance is calculated using the expected loss model and is calculated using a matrix based on the number days past due plus any specific adjustments. Specific adjustments have been made based on forward looking information specific to any counterparty or counterparty segment which would lead the Group to adjust the normal matrix based calculation.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

16 Trade and other receivables continued

Other income continued

2020	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	4	–	1	1	7	13
Expected credit loss	–	–	(1)	–	(2)	(3)
Balance after loss allowance	4	–	–	1	5	10

2019	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	6	3	2	1	7	19
Expected credit loss	–	–	(1)	–	(2)	(3)
Balance after loss allowance	6	3	1	1	5	16

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.

Due to the credit risk control practices outlined above the Group expects to be able to reduce the credit exposure to near zero before any shipper customer balances become level 3.

2020	Not due £m	Current £m	1-6 months £m	6–12 months £m	Over 1 year £m	Total £m
Total balance	173	–	–	–	–	173
Expected credit loss	–	–	–	–	–	–
Balance after loss allowance	173	–	–	–	–	173

2019	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	166	–	–	–	–	166
Expected credit loss	–	–	–	–	–	–
Balance after loss allowance	166	–	–	–	–	166

17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2020		
	Assets £m	Liabilities £m	Total £m
Amounts falling due after more than one year	40	(73)	(33)
	40	(73)	(33)

	2019		
	Assets £m	Liabilities £m	Total £m
Amounts falling due after more than one year	8	(38)	(30)
	8	(38)	(30)

17 Derivative financial instruments continued

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

	2020 £m	2019 £m
Cross-currency interest rate swaps	1,299	858
Inflation linked swaps	400	400
Foreign exchange forward currency	4	–
	1,703	1,258

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

18 Current asset investments

	2020 £m	2019 £m
Investments in short-term money funds	327	332
	327	332

19 Trade and other payables

	2020 £m	2019 £m
Trade creditors	280	276
Amounts owed to immediate parent company	–	12
Other tax and social security	59	45
Other creditors	56	26
Accruals and deferred income	199	212
	594	571

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

20 Accruals and deferred income

	2020 £m	2019 £m
Accruals and deferred income (due after more than one year)	12	27
	12	27

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

21 Borrowings

	2020 £m	2019 £m
Amounts falling due within one year		
Bank loans	3	2
Bank overdrafts	8	9
Bonds	41	40
Finance leases under IAS 17*	–	1
	52	52
Amounts falling due after more than one year		
Bank loans	1,230	1,321
Bonds	5,732	5,357
Finance leases under IAS 17*	–	5
	6,962	6,683

* Due to the adoption of IFRS 16 'Leases', lease liabilities for year ended 31 March 2020 are now shown separately to borrowings within the financial statements Comparative information has not been restated. See note 1(c) and note 22.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

21 Borrowings continued

	2020* £m	2019* £m
Total borrowings are repayable as follows:		
Less than one year	52	52
In one – two years	249	–
In two – three years	–	1,038
In three – four years	91	–
In four – five years	1,400	92
More than five years	5,222	5,553
	7,014	6,735

* Due to the adoption of IFRS 16, in the current financial year we have presented lease liabilities as a separate line item in the consolidated statement of financial position, therefore lease liabilities are not included above for the current year. As comparatives have not been restated under IFRS 16, the prior year figures still include finance lease liabilities under IAS 17.

Summary of Borrowings – 31 March 2020

Currency	Type	Notional (including accretion)* £m	Rate	Maturity Date	Book value (£m)	Fair Value £m
GBP	Listed	250	Fixed	22/09/2021	250	249
EUR**	Listed	643	Fixed	22/09/2024	663	656
GBP	Listed	850	Fixed	22/09/2028	855	852
GBP	Listed	700	Fixed	22/09/2038	704	706
GBP	Listed	800	Fixed	22/09/2046	799	802
GBP	Listed	300	Fixed	21/03/2040	295	318
JPY***	Listed	68	Fixed	19/07/2033	76	69
GBP	Listed	300	Fixed	10/10/2035	298	290
EUR*****	Listed	439	Fixed	11/03/2032	437	406
GBP	Listed	100	Fixed	19/03/2031	101	105
USD****	Listed	151	Fixed	19/03/2031	161	169
GBP	Listed	200	Fixed	19/03/2034	199	211
GBP	Listed	225	Fixed	19/03/2039	224	238
		5,026			5,062	5,071
Index-linked						
GBP	Unlisted	82	RPI-linked	02/10/2023	92	88
GBP	Unlisted	82	RPI-linked	18/06/2024	88	84
GBP	Unlisted	82	RPI-linked	25/06/2024	88	85
GBP	Unlisted	82	RPI-linked	29/04/2024	89	86
GBP	Unlisted	82	RPI-linked	30/04/2024	88	86
GBP	Unlisted	82	RPI-linked	07/05/2024	88	86
GBP	Listed	146	RPI-linked	02/05/2039	221	225
GBP	Listed	150	RPI-linked	10/08/2048	247	257
GBP	Listed	150	RPI-linked	14/08/2048	243	253
		938			1,244	1,250
Floating Rate						
GBP	Unlisted	300	LIBOR +	11/07/2024	300	289
GBP	Unlisted	400	LIBOR +	27/03/2027	400	376
		700			700	665
Overdraft		8			8	8
Total		6,672			7.014	6,994

* Indexed-linked debt notional is the accreted value.
** Euro amount is 750m.
*** Yen amount is 10bn.
**** Dollar amount is $200m.
***** Euro amount is 500m.

21 Borrowings continued

On 12 July 2019, Cadent Gas Limited refinanced its outstanding debt facilities extending the maturity to 2024 (previously 2021). This included repaying the existing syndicated term loan of £393m and drawing a new syndicated term loan of £300m. The undrawn Revolving Credit Facility of £500m was replaced to extend the maturity to 2024. The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

On 10 October 2019, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued a 16 year fixed rate bond with a notional value of £300m and a coupon of 2.25% under its £6bn Euro Medium Term Note Programme, this bond is guaranteed by and proceeds were on lent to Cadent Gas Limited.

On 11 October 2019, Cadent Finance Plc repurchased and cancelled £400m notional value of notes, under a Tender Offer launched on 1 October 2019. The notes repaid were part of the £650m 2021 maturity notes issued in 2016, this leaves £250m of this issue outstanding.

On 11 March 2020, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued a 12 year fixed rate transition bond with a notional value of €500m and a coupon of 0.75% under its £6bn Euro Medium Term Note Programme, this bond is guaranteed by and proceeds were on lent to Cadent Gas Limited. This was swapped to c.£436m and a rate of 1.81% immediately on issue.

The fair value of borrowings at 31 March 2020 was £6,994m. Where market values were available, the fair value of borrowings (Level 1) was £4,279m. Where market values were not available, the fair value of borrowings (Level 2) was £2,715m, calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2020 was £6,672m (2019: £6,397m) (including accretion).

22 Lease liabilities

	2020 £m	1 April 2019* £m
Current	11	10
Non-current	20	26
	31	36

* In the previous year, the Group only recognised lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. These were presented as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 April 2019, please refer to note 1 (c).

	2020 £m
Lease liabilities are repayable as follows:	
Year 1	11
Year 2	7
Year 3	3
Year 4	2
Year 5	1
More than 5 years	7
	31

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

22 Lease liabilities continued

The below comparatives are the finance lease liabilities and operating lease commitments under IAS 17.

	Minimum lease payments 2019 £m
Amounts payable under finance leases:	
Within one year	1
In the second to fifth years inclusive	4
After five years	2
Less: future finance charges	(1)
Present value of lease obligations	6

	Present value of minimum lease payments 2019 £m
Amounts payable under finance leases:	
Within one year	1
In the second to fifth years inclusive	3
After five years	2
Present value of lease obligations	6
Analysed as:	
Amounts due for settlement within 12 months (shown under current liabilities)	1
Amounts due for settlement after 12 months	5
	6

The Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2019 £m
Less than one year	10
In two – five years	16
More than five years	9
	35

See reconciliation of operating lease commitments disclosed at 31 March 2019 to lease liabilities recognised at 1 April 2019 in note 1(c).

All lease liabilities are denominated in sterling.

Amounts recognised in the income statement

	2020 £m
Depreciation of right-of-use assets (see note 13)	10
Expense relating to short-term leases (included within operating expenses)	2
Expense relating to leases of low-value assets that are not short-term leases (included within operating expenses)	–
Expense relating to variable lease payments not included in lease liabilities (included within operating expenses)	10

The total cash outflow for leases for the year ended 31 March 2020 was £10m.

23 Provisions for liabilities

	Decommissioning £m	Environmental £m	Other £m	Total £m
At 1 April 2019	4	31	51	86
Charged to the income statement	–	–	22	22
Utilised	(2)	(1)	(10)	(13)
Released to the income statement	–	–	(1)	(1)
Unwinding of discount	–	–	–	–
At 31 March 2020	2	30	62	94

	Decommissioning £m	Environmental £m	Other £m	Total £m
Current	2	1	12	15
Non–current	–	29	50	79
At 31 March 2020	2	30	62	94

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas storage facilities expected to be incurred until 2021.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0% (2019: 1.0%)). Cash flows are expected to be incurred between 2020 and 2069.

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 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. See note 29 for analysis of the sensitivities associated with our estimate.

The undiscounted amount of the provision at 31 March 2020 is £38m (2019: £38m) being the undiscounted best estimate liability having regard to these uncertainties. See note 29 for analysis of the sensitivities associated with our estimate.

Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions relating to the operation of our gas networks. Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The majority of claims are expected to be settled within ten years.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

24 Share capital

	2020 £m	2019 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	–	–

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

25 Net debt

Net debt is a 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.

	2020 £m	2019 £m
Increase/(decrease) in cash and cash equivalents	13	(7)
(Decrease)/increase in financial investments	(5)	171
Increase in borrowings and related derivatives*	(227)	(350)
Repayment of lease liabilities*	10	–
Net interest paid on the components of net debt	125	112
Change in net debt arising from cash flows	(84)	(74)
Changes in fair value of financial assets and liabilities and exchange movements	(27)	(11)
Other non-cash changes	(35)	–
Net interest charge on the components of net debt	(160)	(144)
Movement in net debt (net of related derivative financial instruments)	(306)	(229)
Net debt (net of related derivative financial instruments) at the start of the year	(6,428)	(6,199)
Net debt (net of related derivative financial instruments) at the end of the year	(6,734)	(6,428)

Composition of net debt:

	2020 £m	2019 £m
Cash, cash equivalents and financial investments	344	337
Borrowings and bank overdrafts*	(7,014)	(6,735)
Derivatives	(33)	(30)
Lease liabilities	(31)	–
Total net debt	(6,734)	(6,428)

* In 2018/19 borrowings includes movements in relation to finance leases under IAS 17. In 2019/20 movements in lease liabilities relate to those recognised under IFRS 16 'Leases'. For details of amounts recognised on adoption of IFRS 16, see notes 1(c) and 22..

25 Net debt continued

Analysis of changes in net debt:

	Cash and cash Equivalents £m	Bank Overdrafts £m	Net Cash and cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Lease Liabilities £m	Total £m
Cost								
At 1 April 2019	5	(9)	(4)	332	(6,726)	(30)	–	(6,428)
Adoption of IFRS 16	–	–	–	–	6	–	(36)	(30)
At 1 April 2019 (restated)	5	(9)	(4)	332	(6,720)	(30)	(36)	(6,458)
Cash flow	12	1	13	(5)	(96)	(6)	10	(84)
Fair value gains and losses and exchange movements	–	–	–	–	(35)	8	–	(27)
Interest charges	–	–	–	–	(155)	(5)	–	(160)
Other non-cash changes	–	–	–	–	–	–	(5)	(5)
At 31 March 2020	**17**	**(8)**	**9**	**327**	**(7,006)**	**(33)**	**(31)**	**(6,734)**

Balances at 31 March 2020 comprise:

	Cash and cash Equivalents £m	Bank Overdrafts £m	Net Cash and cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Lease Liabilities £m	Total £m
Non-current assets	–	–	–	–	–	40	–	40
Current assets	17	–	17	327	–	–	–	344
Current liabilities	–	(8)	(8)	–	(44)	–	(11)	(63)
Non-current liabilities	–	–	–	–	(6,962)	(73)	(20)	(7,055)
At 31 March 2020	**17**	**(8)**	**9**	**327**	**(7,006)**	**(33)**	**(31)**	**(6,734)**

	Cash and cash Equivalents £m	Bank Overdrafts £m	Net Cash and cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Total £m
Cost							
At 1 April 2018	8	(5)	3	161	(6,372)	9	(6,199)
Cash flow	(3)	(4)	(7)	171	(236)	(2)	(74)
Fair value gains and losses and exchange movements	–	–	–	–	17	(28)	(11)
Interest charges	–	–	–	–	(135)	(9)	(144)
At 31 March 2019	5	(9)	(4)	332	(6,726)	(30)	(6,428)

Balances at 31 March 2019 comprise:

	Cash and cash Equivalents £m	Bank Overdrafts £m	Net Cash and cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Total £m
Non-current assets	–	–	–	–	–	8	8
Current assets	5	–	5	332	–	–	337
Current liabilities	–	(9)	(9)	–	(43)	–	(52)
Non-current liabilities	–	–	–	–	(6,683)	(38)	(6,721)
At 31 March 2019	5	(9)	(4)	332	(6,726)	(30)	(6,428)

26 Capital and other commitments

	2020 £m	2019 £m
Contracts for future capital expenditure not provided in the financial statements	556	387
Letters of credit	300	300
	856	687

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

27 Pensions

The Group operates a number of pension schemes for its employees.

Defined contribution ('DC') scheme

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

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

Prior to that, employees contributed to the National Grid YouPlan. At 31 August 2018 a bulk transfer of £85.5m was effected from YouPlan to MyPension and all DC benefits are now managed under MyPension.

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

	2020 £m	2019 £m
Current period contributions	16	15

Defined benefit ('DB') scheme

The company's DB pension arrangements are held in the National Grid UK Pension Scheme (the Scheme). With effect from 1 January 2017 the Scheme was split into three sections, each of which is legally and actuarially separate. Section C is supported by the company and active membership is limited to the company's employees. Sections A and B are supported by companies within the National Grid Group.

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

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

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

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

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

The Scheme is funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a board consisting of company and member appointed 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 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 2019. 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. In addition, the company makes payments to the Scheme to cover administration costs and the Pension Protection Fund levy.

The results of the 2019 valuation are shown below:

Last full actuarial valuation	31-Mar-2019	31-Mar-2017
Actuary	Willis Towers Watson	Willis Towers Watson
Market value of scheme assets at latest valuation	£6,674	£7,004
Actuarial value of benefits due to members	£6,755	£7,233
Market value as percentage of benefits	99%	97%
Funding deficit	£81m	£229m

The 2017 and 2019 valuations cover only Section C, which is supported by the company.

27 Pensions continued

Defined benefit ('DB') scheme continued

Section C of the Scheme

The company and the Trustees have agreed a schedule of contributions with payments of £22m per year during FY22 and FY23. Payments will be made quarterly from April 2021 with the final payment due by September 2022.

The company has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to the company's credit rating or gearing levels. At 31 March 2020 the value of this was required to be £257m. This was provided via £300m in letters of credit. The assets held as security will be paid to Section C in the event that the company is subject to an insolvency event, if the company is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, if the company fails to make the required contributions in relation to Section C, if the company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days, or if the company grants any charges over its assets other than where agreed with the Trustees. The assets held as security will be released back to the company if the Scheme moves into surplus. In addition, the company will make a further payment of £72m (increased in line with RPI) into Section C if the company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

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.

Following the sale of National Grid's remaining stake in the company in June 2019, the company has put in place its own DB pension arrangement, the Cadent Gas Pension Scheme, in order to request a transfer of the assets and liabilities of Section C into the scheme. A new corporate trustee company was incorporated on 19 December 2019, Cadent Gas Pension Trustee Limited and two holding companies 'Cadent Gas Pension Property Company 1 Limited' and 'Cadent Gas Pension Property Company 2 Limited' were incorporated on 25 March 2020. On 17 June 2020 a further company was incorporated 'Cadent Gas Pension Services Limited'. A bulk transfer is targeted during the 2020/21 financial year. All costs associated with the creation of this new scheme have been treated as an exceptional item.

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: equities, 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.

The Chancellor's announcement on 4 September 2019 on the future of the RPI makes it likely that RPI will be aligned with CPIH from 2030 if not earlier. The market response to the announcement created uncertainty about the extent to which this potential change is priced into breakeven inflation rates implied by the gilt markets. Historically, CPIH inflation has been around 1% lower than RPI inflation but the reduction in long-term market estimates of RPI inflation as a result of the announcement was much smaller than expected. In prior years, the RPI inflation assumption adopted was based on market implied RPI inflation less an inflation risk premium adjustment of 0.2% per annum. Due to the uncertainty in the market, this inflation risk premium adjustment has been increased to 0.3% per annum in FY20 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.

Each 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.

COVID-19, which has had a global impact since early 2020, has led to a deterioration in the asset valuations used in the IAS 19 assessment of the surplus position of Section C. In particular, it has resulted in an increased level of volatility in asset markets and a worsening in market conditions. There is significant uncertainty over certain pension asset valuations, particularly of the property (£273m) and unquoted equities (£730m) portfolios as at 31 March 2020. A higher degree of caution has been attached to the property valuations received from external parties due to the unknown future impact that COVID-19 might have on the real estate market. For the property portfolio, our valuation reports from our surveyors are subject to material valuation uncertainty clauses as set out in the RICS guidance due to the impact COVID-19 has had on previous market evidence, however, we do not believe that this is likely to result in a material change in the value disclosed. For unquoted equities amounting to £54m where it was not possible to obtain valuations at 31 March 2020, a benchmark reduction based on market evidence was applied.

The recognition of the net defined benefit asset in relation to Section C of the 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. The Trustees must seek the agreement of the company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

27 Pensions continued

Amounts recognised in the statement of financial position

The following tables represent the amounts in the financial statements.

	2020 Total £m	2019 Total £m
Present value of funded obligations	(5,572)	(5,981)
Fair value of plan assets	6,492	6,674
	920	693
Present value of unfunded obligations	(3)	(3)
Net defined benefit asset	917	690

	2020 Total £m	2019 Total £m
Represented by:		
Liabilities	(5,575)	(5,984)
Assets	6,492	6,674
	917	690

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

	2020 Total £m	2019 Total £m
Included within operating costs		
Administration costs	4	3
Defined contribution scheme costs	16	15
Defined benefit scheme costs:		
Current service cost	16	20
Past service cost (disclosed as an exceptional item)	18	14
	54	52
Included within finance costs		
Net interest credit	(17)	(14)
Total included in income statement	37	38
Remeasurements of net retirement benefit obligations	(190)	35
Return on plan assets greater or less than discount rate	14	(167)
Total included in the statement of other comprehensive income	(176)	(132)

Reconciliation of the net defined benefit asset

	2020 Total £m	2019 Total £m
Opening net defined benefit asset	690	507
Costs recognised in the income statement	(21)	(23)
Employer contributions	72	75
Other movements	176	131
Closing net defined benefit asset	917	690

27 Pensions continued

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

	2020 Total £m	2019 Total £m
Opening net defined benefit liability	5,984	6,309
Current service cost	16	20
Interest cost	139	156
Past service cost	18	14
Actuarial losses – experiences	(40)	38
Actuarial losses/(gains) – demographic assumptions	189	(259)
Actuarial (gains)/losses – financial assumptions	(339)	256
Benefits paid	(392)	(551)
Other	–	1
Closing net defined benefit liability	5,575	5,984

Changes in the fair value of plan assets

	2020 Total £m	2019 Total £m
Opening fair value of plan assets	6,674	6,816
Interest income	156	170
Return on assets (less)/greater than assumed	(14)	167
Administration costs	(4)	(3)
Employer contributions paid	72	75
Benefits paid	(392)	(551)
Closing fair value of plan assets	6,492	6,674
Actual return on plan assets	142	337
Expected contributions to plans in the following year	22	80

Asset allocations

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

	2020 Quoted £m	2020 Unquoted £m	2020 Total £m	2019 Quoted £m	2019 Unquoted £m	2019 Total £m
Equities	507	226	733	717	248	965
Corporate bonds	2,088	–	2,088	1,844	–	1,844
Property	–	273	273	–	363	363
Government securities	2,742	–	2,742	2,944	–	2,944
Diversified alternatives[i]	–	504	504	–	401	401
Other	–	152	152	–	157	157
Total	5,337	1,155	6,492	5,505	1,169	6,674

i Includes return seeking non-conventional asset classes of £296m (2019: £312m), secure income assets of £208m (2019: £88m) and other of £Nil (2019: £1m).

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

27 Pensions continued

Asset allocations continued

The investment strategy for Section C of the Scheme 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 2020 is as follows:

	2020 %	2019 %
Equities	11	15
Other	89	85
	100	100

Actuarial assumptions

Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

	2020 %	2019 %
Discount rate – Past service[i]	2.25	2.40
Discount rate – Future service[i]	2.20	2.45
Rate of increase in salaries[ii]	1.80	3.50
Rate of increase in RPI – Past service[iii]	2.55	3.25
Rate of increase in RPI – Future service[iii]	2.40	3.20

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 prior to 1 April 2014. The assumption for the rate of increase in salaries for service after this date is 2.15% (2019: 2.20%).

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.

	2020 years	2019 years
Today		
Males	21.3	20.8
Females	24.5	22.8
In 20 years		
Males	22.6	22.1
Females	25.9	24.3

Maturity profile of DB obligations

The weighted average duration of the DB obligation for future service obligations of the scheme is 26 years and 16 years for past service obligations.

28 Financial risk management

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

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

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

28 Financial risk management continued

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 Group has assessed whether there is any impact of COVID-19 on credit risk. 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 the credit rules within the Uniform Network Code. There are a number of actions the Group takes to mitigate any credit risk and changes to credit rules have been agreed across the gas industry with involvement from Ofgem.

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

For year ended 31 March 2020

	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount
Cash and cash equivalents		17	–	17
Derivative financial assets	17	40	–	40
Trade receivables	16	13	(3)	10
Accrued income	16	173	–	173
Current asset investments	18	327	–	327

For year ended 31 March 2019

	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount
Cash and cash equivalents		5	–	5
Derivative financial assets	17	8	–	8
Trade receivables	16	19	(3)	16
Accrued income	16	166	–	166
Current asset investments	18	332	–	332

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 2020, 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

28 Financial risk management continued

(a) Credit risk continued

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.

	2020 £m	2019 £m
Accrued income	173	166
Collateral held	(33)	(17)
Exposure net of collateral	140	149

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

Offsetting financial assets and liabilities

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

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

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

Cadent Gas has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

	Gross Carrying Amounts £m	Gross Amounts Offset £m	Net Amount Presented in Statement of Financial Position £m	Financial Instruments £m	Cash Collateral Received/ Pledged £m	Net Amount £m
As at 31 March 2020						
Assets						
Derivative financial instruments	40	–	40	–	–	40
Liabilities						
Derivative financial instruments	(73)	–	(73)	–	–	(73)
Total at 31 March 2020	(33)	–	(33)	–	–	(33)

	Gross Carrying Amounts £m	Gross Amounts Offset £m	Net Amount Presented in Statement of Financial Position £m	Financial Instruments £m	Cash Collateral Received/ Pledged £m	Net Amount £m
As at 31 March 2019						
Assets						
Derivative financial instruments	8	–	8	–	–	8
Liabilities						
Derivative financial instruments	(38)	–	(38)	–	–	(38)
Total at 31 March 2019	(30)	–	(30)	–	–	(30)

28 Financial risk management continued

(b) Liquidity risk

We determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in capital and other commitments in note 26 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining an investment grade credit rating. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

The Group has assessed whether there is any impact of COVID-19 on its liquidity risk. Currently there has not been a significantly adverse impact on cash flows but the Group Treasury function continue to monitor this in line with forecasts for future requirements.

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:

	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
At 31 March 2020					
Non-derivative financial liabilities					
Borrowings	–	(250)	–	(6,842)	(7,092)
Lease liabilities[i]	(11)	(7)	(3)	(10)	(31)
Interest on payments on borrowings[ii]	(134)	(133)	(130)	(1,862)	(2,259)
Other non-interest bearing liabilities	(594)	–	–	–	(594)
Derivative financial liabilities					
Derivative contracts – receipts	25	25	25	1,482	1,557
Derivative contracts – payments	(27)	(27)	(27)	(1,584)	(1,665)
At 31 March 2020	(741)	(392)	(135)	(8,816)	(10,084)

i In the previous year, the Group recognised finance lease liabilities under IAS 17 within borrowings. In the current year lease liabilities under IFRS 16 are included within lease liabilities.

ii 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.

	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
At 31 March 2019					
Non-derivative financial liabilities					
Borrowings	–	–	(1,043)	(6,066)	(7,109)
Interest on payments on borrowings[i]	(131)	(132)	(129)	(1,880)	(2,272)
Other non-interest bearing liabilities	(571)	–	–	–	(571)
Derivative financial liabilities					
Derivative contracts – receipts	22	23	23	1,009	1,077
Derivative contracts – payments	(19)	(19)	(19)	(1,108)	(1,165)
Total at 31 March 2019	(699)	(128)	(1,168)	(8,045)	(10,040)

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

28 Financial risk management continued

(c) Interest rate risk

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

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

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.

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 2020, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed rate £m	Floating rate £m	RPI £m	Other[i] £m	Total £m
As at 31 March 2020					
Financial investments[i]	–	344	–	–	344
Borrowings	(5,062)	(708)	(1,244)	–	(7,014)
Lease liabilities[ii]	–	–	–	(31)	(31)
Pre-derivative position	(5,062)	(364)	(1,244)	(31)	(6,701)
Derivative effect	26	400	(459)	–	(33)
Net debt position[iii]	(5,036)	36	(1,703)	(31)	(6,734)

	Fixed rate £m	Floating rate £m	RPI £m	Other[i] £m	Total £m
As at 31 March 2019					
Financial investments[i]	–	337	–	–	337
Borrowings	(4,695)	(800)	(1,234)	(6)	(6,735)
Pre-derivative position	(4,695)	(463)	(1,234)	(6)	(6,398)
Derivative effect	5	400	(435)	–	(30)
Net debt position[iii]	(4,690)	(63)	(1,669)	(6)	(6,428)

i Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.
ii In the previous year, the Group recognised finance lease liabilities under IAS 17 within borrowings. In the current year lease liabilities under IFRS 16 are included within lease liabilities.
iii The impact of 2019/20 short-dated interest rate derivatives is included.

(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 2020, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
As at 31 March 2020					
Financial investments	344	–	–	–	344
Borrowings	(5,677)	(1,100)	(76)	(161)	(7,014)
Lease liabilities[i]	(31)	–	–	–	(31)
Pre-derivative position	(5,364)	(1,100)	(76)	(161)	(6,701)
Derivative effect	(1,370)	1,100	76	161	(33)
Net debt position	(6,734)	–	–	–	(6,734)

i In the previous year, the Group recognised finance lease liabilities under IAS 17 within borrowings. In the current year lease liabilities under IFRS 16 are included within lease liabilities.

28 Financial risk management continued

(d) Currency risk continued

During 2019, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
As at 31 March 2019					
Financial investments	337	–	–	–	337
Borrowings	(5,869)	(644)	(69)	(153)	(6,735)
Pre-derivative position	(5,532)	(644)	(69)	(153)	(6,398)
Derivative effect	(896)	644	69	153	(30)
Net debt position	(6,428)	–	–	–	(6,428)

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 2020 are as follows:

	Notional Amount (GBP m)	Carrying Amount of the Hedging Instrument: Assets	Carrying Amount of the Hedging Instrument: Liabilities	Fair Value	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported
Cash flow hedges					
Cross-currency interest rate swaps	1,299	40	(14)	21	Derivative financial assets Derivative financial liabilities

The impact of hedging instruments designated in a hedge relationship as at 31 March 2019 are as follows:

	Notional Amount (GBP m)	Carrying Amount of the Hedging Instrument: Assets	Carrying Amount of the Hedging Instrument: Liabilities	Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported
Cash flow hedges					
Cross-currency interest rate swaps	858	8	(3)	(10)	Derivative financial assets Derivative financial liabilities

b) The impact of hedged items designated in a hedge relationship as at 31 March 2020 are as follows:

	Carrying Amount of the Hedged Item (GBP m): Assets	Carrying Amount of the Hedged Item (GBP m): Liabilities	Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported	Cash flow Hedge Reserve	Cost of Hedging Reserve
Cash flow hedges						
Non GBP denominated debt	–	(1,337)	(35)	Borrowings	(13)	6

The impact of hedged items designated in a hedge relationship as at 31 March 2019 are as follows:

	Carrying Amount of the Hedged Item (GBP m): Asset	Carrying Amount of the Hedged Item (GBP m): Liabilities	Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported	Cash flow Hedge Reserve	Cost of Hedging Reserve
Cash flow hedges						
Non GBP denominated debt	–	(866)	8	Borrowings	–	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 2020 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)	–	Exceptional items and remeasurements	35	Finance costs before exceptional items and remeasurements

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

28 Financial risk management continued

(d) Currency risk continued

The above hedging relationships affected the consolidated income statements for year ended March 2019 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	–	–	Exceptional items and remeasurements	(9)	Finance costs before exceptional items and remeasurements

(e) Capital risk management

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

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by RAV gearing calculated as adjusted net debt (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. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5–65%. The RAV gearing ratio at 31 March 2020 was 64% (2019: 62%).

(f) Fair value analysis

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2020				
Assets				
Fair value through profit and loss ('FVTPL') instruments	344	–	–	344
Derivative financial instruments	–	40	–	40
Liabilities				
Derivative financial instruments	–	(73)	–	(73)
Total	344	(33)	–	311

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2019				
Assets				
Fair value through profit and loss ('FVTPL') instruments	337	–	–	337
Derivative financial instruments	–	8	–	8
Liabilities				
Derivative financial instruments	–	(38)	–	(38)
Total	337	(30)	–	307

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.

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 equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 10% increase in unbilled revenue at 31 March 2020 would result in an increase in the income statement of £17m and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2020		2019	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
As at 31 March				
One year average increase in useful economic lives (pre-tax)				
Depreciation charge on property, plant and equipment	15	15	13	13
Amortisation charge on intangible assets	3	3	5	5
Environmental provision change in discount rate of 0.5%	3	3	3	3
Environmental provision change in undiscounted cash flow of 10%	3	3	3	3
Employer liability claims change in discount rate of 0.5%	1	1	1	1
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments[i]	3	3	3	3
Pensions and other post-retirement benefits[ii] (pre-tax)				
Discount rate change of 0.5%[iii]	2	417	2	415
RPI rate change of 0.5%[iv]	2	359	2	397
Long-term rate of increase in salaries change of 0.5%	–	34	–	14
Change of one year to life expectancy at age 65	1	227	1	261
Change in value of unquoted properties by 5%	–	14	–	18
Change in value of unquoted equities by 5%	–	37	–	32
No hedge accounting for our derivative financial instruments (post tax)	15	15	2	2

i The effect of a 10% change in fair value assumes no hedge accounting.

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.

	2020		2019	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
As at 31 March				
Financial risk (post-tax)				
UK RPI rate change of 0.5%	7	7	7	7
UK interest rate change of 0.5%	2	2	2	2

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

29 Sensitivity analysis continued

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI. 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 2020;
- 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 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 23) has been set up to deal with the costs of statutory decontamination of the Cadent Gas Limited's old gas-manufacturing sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

Through the ordinary course of operations, the company is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any of these proceedings to have a material, adverse effect on the company's results of operations, cash flows or financial position.

(c) Guarantees and letters of credit

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

31 Related party transactions

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

On 27 June 2019, National Grid Plc exercised the options over the further 14% interest in Quadgas HoldCo Limited (an indirect parent company of Cadent Gas Limited) and on 28 June 2019, National Grid Plc exercised the options over the remaining 25% interest in Quadgas HoldCo Limited. Post completion, 100% of the share capital in Quadgas HoldCo Limited is now owned by the consortium company Quadgas Investments BidCo Limited.

During the period ended 27 June 2019 the Group recorded £15m of income from National Grid Plc, and £42m of expenditure. At the balance sheet date of 31 March 2020 National Grid Plc are no longer considered a related party. There are nil balances outstanding with National Grid Plc in the table below.

	2020 £m	2019 £m
Income:		
Goods and services supplied to associates	–	1
Goods and services supplied to other related parties	15	45
	15	46
Expenditure:		
Services rendered from associates	10	12
Services rendered from other related parties	42	202
	52	214
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable from associates	–	–
Amounts receivable from other relates parties	–	8
Amounts payable to associates	1	1
Amounts payable to other related parties	–	26
Borrowings payable to parent		
Due within one year	–	–
Due after more than one year	–	–

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 2020 and recognised as an expense (2019: £Nil) during the period in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 7.

32 Subsequent events

There are no post balance sheet events.

33 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings Topco Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest Group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings Topco Limited and Quadgas MidCo Limited respectively. Quadgas Holdings Topco Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

34 Subsidiary undertakings

The list below contains all subsidiaries included within the Cadent Gas Group.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Finance Plc	100	Provision of long-term finance	England and Wales
Cadent Gas Pension Trustee Limited	100	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100	Management of pension services	England and Wales

* Indirect ownership.

The registered address of Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

Company statement of financial position

As at 31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	7	90	63
Property, plant and equipment	8	9,747	9,254
Investments	9	–	–
Pension and other post-retirement benefit obligations	6	917	690
Debtors	11	21	44
Derivative financial assets	12	40	8
Total non-current assets		10,815	10,059
Current assets			
Inventories	10	10	10
Debtors	11	241	216
Financial and other investments	13	327	332
Cash at bank and in hand		17	5
Total current assets		595	563
Total assets		11,410	10,622
Current liabilities			
Creditors	14	(573)	(608)
Borrowings	16	(12)	(12)
Provisions for liabilities	17	(15)	(15)
Total current liabilities		(600)	(635)
Net current liabilities		(5)	(72)
Total assets less current liabilities		10,810	9,987
Non-current liabilities			
Derivative financial liabilities	12	(73)	(38)
Borrowings	16	(1,234)	(1,325)
Provisions for liabilities	17	(1,422)	(1,257)
Creditors	15	(6,417)	(5,966)
Total non-current liabilities		(9,146)	(8,586)
Total liabilities		(9,746)	(9,221)
Net assets		1,664	1,401
Equity			
Share capital	18	–	–
Cash flow hedge reserve		(13)	–
Cost of hedging reserve		6	6
Retained earnings		6,623	6,347
Other deficit		(4,952)	(4,952)
Total equity		1,664	1,401

The company has elected to take exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The profit for the period of £421m (2019: £500m) is disclosed in the statement of changes in equity.

The notes on pages 165 to 180 are an integral part of the financial statements.

The financial statements on pages 163 to 180 were approved by the Board of Directors on 12 August 2020 and signed on its behalf by:

S G Hurrell
Director,
Cadent Gas Limited

Company registration number: 10080864

Company statement of changes in equity

For the year ended 31 March 2020

	Share Capital £m	Cash Flow Hedge Reserve £m	Cost of Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 1 April 2019	–	–	6	(4,952)	6,347	1,401
Profit for the year	–	–	–	–	421	421
Other comprehensive income excluding amortisation of cost of hedging reserve	–	(13)	(3)	–	130	114
Amortisation of cost of hedging reserve	–	–	3	–	–	3
Total comprehensive income for the year	–	(13)	–	–	551	538
Equity dividend	–	–		–	(275)	(275)
At 31 March 2020	**–**	**(13)**	**6**	**(4,952)**	**6,623**	**1,664**

	Share Capital £m	Cash Flow Hedge Reserve £m	Cost of Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 1 April 2018	–	1	4	(4,952)	6,161	1,214
Profit for the year	–	–	–	–	500	500
Other comprehensive income excluding amortisation of cost of hedging reserve	–	(1)	(1)	–	109	107
Amortisation of cost of hedging reserve	–	–	3	–	–	3
Total comprehensive income for the year	–	(1)	2	–	609	610
Equity dividend	–	–		–	(423)	(423)
At 31 March 2019	–	–	6	(4,952)	6,347	1,401

The cash flow hedge reserve on cross-currency interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid.

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. This merger reserve will reduce distributable reserves each year by the amount amortised. In the year ended 31 March 2020 distributable reserves were reduced by an accumulated realisation of £398m (31 March 2019: £284m). As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Notes to the company financial statements

For the year ended 31 March 2020

1 Summary of significant accounting policies

We are required to include the stand-alone balance sheet of our parent company, Cadent Gas Limited, under the Companies Act 2006, and the statement of changes in equity under Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'). The following disclosures provide additional information to the stakeholders.

Cadent Gas Limited is a private company, incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the company have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value. Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

(i) Parent company financial statements

The parent company financial statements have been prepared in accordance with applicable UK accounting and financial reporting standards (FRS) and the Companies Act 2006. The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the year is disclosed in the statement of changes in equity.

As permitted by FRS 102, the company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, fair value disclosures, sensitivity analysis, standards not yet effective, related party transactions and statement of cash flows.

(b) New IFRS accounting standards and interpretations

Amendment to IFRS 7, IFRS 9 and IAS 9 – Interest rate benchmark reform (phase 1).

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. This is also applicable to IFRS and is discussed in detail in note 1 of the consolidated financial statements.

(c) Intangible assets

Intangible fixed assets which consist of software licences are carried at amortised historical cost less any provisions for impairment. Software licences are reviewed each year and where they are redundant an impairment charge is made to the income statement.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

Amortisation periods

Computer software – five years

Computer licenses – three years

(d) Property, plant and equipment and depreciation

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.

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. 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.

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.

Notes to the company financial statements continued

For the year ended 31 March 2020

1 Summary of significant accounting policies continued

(d) Property, plant and equipment and depreciation continued

Contributions received towards the cost of tangible fixed assets from customers for connections to the gas distribution network are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the asset to which they relate.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(e) Investments

Investments in subsidiary undertakings and associated companies are held at cost, less any provisions for impairment. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that investments are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed separately.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

(f) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

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

(g) Financial instruments

Initial recognition

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

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

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Classification and measurement

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

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); and
- 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; and
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

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

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

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

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

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

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

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

Derecognition

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

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

Notes to the company financial statements continued

For the year ended 31 March 2020

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Impairment of financial assets

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

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

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

The company measures the loss allowances at an amount equal to the 12 month expected credit loss (representing a stage 1 financial model). The way this is calculated is based on the applied impairment methodology, as described below:

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

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

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

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

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

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

(h) Trade and other receivables

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

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

(i) Trade and other payables

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

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

- once the project is complete; or
- over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further detail see note 1(n) Revenue.

(j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(k) Tax

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

1 Summary of significant accounting policies continued

(k) Tax continued

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(l) Provisions for liabilities

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

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

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

(m) Dividends

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

(n) Revenue

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

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis.

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

(o) Pensions

The company operates two post-employment schemes, including both a defined benefit (DB) and a defined contribution (DC) pension scheme.

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

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

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

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

Notes to the company financial statements continued

For the year ended 31 March 2020

1 Summary of significant accounting policies continued

(p) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Assets for use in the company's business where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, are included within creditors. The interest element of the rental obligation is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

Under IFRS there is no concept of a finance lease, and the majority of leases are recognised in the statement of financial position by capitalising a right-of-use asset and recognising an associated lease liability. Depreciation of right-of-use assets and interest on lease liabilities is recognised in the income statement.

(q) Cash and cash equivalents

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

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical Accounting Judgements

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

- The recognition of revenue in relation to connections and whether the service was distinct from the provision of future network services. We judged that the economic benefit for the connection service can be reliably measured once the new connection is completed and hence revenue is recognised at that point.
- The recognition of a surplus in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under FRS 102. We have concluded that the company has an unconditional right to a refund from the plan, in the event of a winding-up – **note 6**; and
- The categorisation of certain items as exceptional items under the exceptional item framework that follows a three – step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is within the company's control and how frequently such an event typically occurs – **note 6 of the consolidated accounts**.

Key sources of estimation uncertainty

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

- Determination of useful lives and carrying values of property, plant and equipment and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets – **notes 7 & 8**. Sensitivities have been considered in note 29 of the consolidated accounts.
- 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, discount rate and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied **– note 6**.
- In light of COVID-19 and the resulting impact on financial markets there is significant uncertainty over certain pension asset valuations, particularly of the property (£273m) and unquoted equities (£730m) portfolios as at 31 March 2020. A higher degree of caution has been attached to the property valuations received from external parties due to the unknown future impact that COVID-19 might have on the real estate market. For the property portfolio, our valuation reports from our surveyors are subject to material valuation uncertainty clauses as set out in the RICS guidance due to the impact COVID-19 has had on previous market evidence, however, we do not believe that this is likely to result in a material change in the value disclosed. For unquoted equities amounting to £54m where it was not possible to obtain valuations at 31 March 2020, a benchmark reduction based on market evidence was applied – **note 6.**

2 Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

- In calculating the environmental provision a number of uncertainties affect the calculation including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies, and changes in the discount rate applied – **note 17**.
- 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 – **note 17**.

3 Auditor's remuneration

Auditor's remuneration in respect of the company is set out below:

	2020 £000	2019 £000
Audit services		
Audit fee of company	552	442
Other services		
Fees payable to the company's auditors for audit-related assurance services	62	60
Other non-audit services	90	96

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditor such as interim reviews. Other non-audit services in 2020 relate to services provided in connection with the raising of debt or required by the regulator.

4 Number of employees, including Directors

The average number of persons (including Executive Directors) employed by the company was 3,938 (2019: 4,062). Further details are provided in note 7 to the consolidated financial statements.

5 Key management compensation

Key management comprises the Board of Directors of the company, including Executive and Non-Executive Directors who have managerial responsibility for Cadent Gas Limited. Details of key management personnel compensation are provided in note 7 to the consolidated financial statements.

6 Pensions

Substantially all the company's employees are members of either the defined benefit National Grid UK Pension Scheme or the MyPension defined contribution scheme.

The disclosures required by FRS 102 are the same as those required by IAS 19 (revised) and are provided in note 27 to the consolidated financial statements.

Notes to the company financial statements continued

For the year ended 31 March 2020

7 Intangible assets

	Software £m
Cost:	
At 1 April 2019	137
Additions	46
Transfers	–
At 31 March 2020	**183**
Accumulated amortisation:	
At 1 April 2019	(74)
Amortisation charge for the year	(19)
Disposals	–
At 31 March 2020	**(93)**
Net book value:	
At 31 March 2020	**90**
At 31 March 2019	63

	Software £m
Cost:	
At 1 April 2018	107
Additions	30
At 31 March 2019	137
Accumulated amortisation:	
At 1 April 2018	(48)
Amortisation charge for the year	(26)
At 31 March 2019	(74)
Net book value:	
At 31 March 2019	63
At 31 March 2018	59

8 Property, plant and equipment

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2019	55	9,682	80	138	9,955
Additions	6	693	93	18	810
Reclassifications	16	53	(73)	4	–
Disposals	(1)	(1)	–	(3)	(5)
At 31 March 2020	**76**	**10,427**	**100**	**157**	**10,760**
Accumulated depreciation and impairment					
At 1 April 2019	(14)	(625)	–	(62)	(701)
Charge for the year	(7)	(283)	–	(24)	(314)
Disposals	–	–	–	2	2
At 31 March 2020	**(21)**	**(908)**	**–**	**(84)**	**(1,013)**
Net book value:					
At 31 March 2020	**55**	**9,519**	**100**	**73**	**9,747**
At 31 March 2019	41	9,057	80	76	9,254

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(d) for the estimated useful lives of each asset category, and note 29 of the consolidated financial statements on page 159 for sensitivity analysis over the residual lives of assets.

The net book value of motor vehicles and other equipment at 31 March 2020 includes £5,007,000 (2019: £5,771,000) relating to assets purchased under finance leases.

The cost of property, plant and equipment at 31 March 2020 included £1,462,000 (2019: £1,462,000) relating to interest capitalised, with £Nil (2019: £Nil) capitalised during the year.

The net book value of land and buildings comprises:

	2020 £m	2019 £m
Freehold	**41**	23
Long leasehold (over 50 years)	**–**	–
Short leasehold (under 50 years)	**14**	18
	55	41

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2018	50	9,070	20	112	9,252
Additions	5	606	74	21	706
Reclassifications	–	7	(14)	7	–
Disposals	–	(1)	–	(2)	(3)
At 31 March 2019	55	9,682	80	138	9,955
Accumulated depreciation and impairment					
At 1 April 2018	(9)	(363)	–	(37)	(409)
Charge for the year	(5)	(262)	–	(26)	(293)
Disposals	–	–	–	1	1
At 31 March 2019	(14)	(625)	–	(62)	(701)
Net book value:					
At 31 March 2019	41	9,057	80	76	9,254
At 31 March 2018	41	8,707	20	75	8,843

Notes to the company financial statements continued

For the year ended 31 March 2020

9 Investments

	Shares in subsidiary undertakings £m	Investments in associates £m	Total £m
Cost			
At 1 April 2019 & 31 March 2020	–	–	–
Provision			
At 1 April 2019 & 31 March 2020	–	–	–
Net book value:			
At 31 March 2019 & 31 March 2020	–	–	–

The company's subsidiary undertakings as at 31 March 2020 were as follows:

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Finance Plc	100	Provision of long-term finance	England and Wales
Cadent Gas Pension Trustee Limited	100	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100	Management of pension services	England and Wales

* Indirect ownership.

The registered address of Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

The investments in associates represents a 45.57% holding in Xoserve Limited, which provides information, data processing, invoicing and supply point administration services to the Group. The registered address of Xoserve Limited is Lansdowne Gate, 65 New Road, Solihull, B91 3DL.

10 Inventories

	2020 £m	2019 £m
Raw materials and consumables	10	10
	10	10

Inventories are stated after provisions for impairment of £909,000 (2019: £307,000).

11 Debtors

	2020 £m	2019 £m
Amounts falling due within one year:		
Trade debtors	10	16
Amounts owed by other Group companies	1	–
Other debtors	19	9
Prepayments	38	25
Accrued income	173	166
	241	216
Amounts falling due after more than one year:		
Prepayments	6	29
Other debtors	15	15
	21	44

Trade debtors are initially stated at the transaction price and are subsequently measured after a loss allowance has been made £2,690,000 (2019: £3,269,000). Amounts owed by other Group companies are unsecured, interest free and repayable upon demand.

12 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2020 Assets £m	2020 Liabilities £m	2020 Total £m
Amounts falling due after more than one year	40	(73)	(33)
	40	(73)	(33)

	2019 Assets £m	2019 Liabilities £m	2019 Total £m
Amounts falling due after more than one year	8	(38)	(30)
	8	(38)	(30)

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

	2020 £m	2019 £m
Cross-currency interest rate swaps	1,299	858
Inflation linked swaps	400	400
Foreign exchange forward currency	4	–
	1,703	1,258

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

13 Financial and other investments

	2020 £m	2019 £m
Investments in short-term money funds	327	332
	327	332

14 Creditors: amounts falling due within one year

	2020 £m	2019 £m
Trade creditors	279	274
Amounts owed to subsidiary undertakings	41	40
Amounts owed to immediate parent company	–	12
Corporation tax	–	56
Other tax and social security	59	45
Other creditors	56	28
Accruals and deferred income	138	153
	573	608

15 Creditors: amounts falling due after more than one year

	2020 £m	2019 £m
Amounts owed to subsidiary undertakings	5,732	5,358
Accruals and deferred income	685	608
	6,417	5,966

Amounts owed to subsidiary undertakings reflect external debt raised by Cadent Finance Plc and passed on to Cadent Gas Limited. The amounts are usually passed on to Cadent Gas Limited on identical terms to the amounts raised in Cadent Finance Plc. The amounts are unsecured with phased repayments to April 2048.

Deferred income mainly comprises contributions received in respect of capital projects.

Notes to the company financial statements continued

For the year ended 31 March 2020

16 Borrowings

	2020 £m	2019 £m
Amounts falling due within one year		
Bank loans	3	2
Bank overdrafts	8	9
Finance leases	1	1
	12	12
Amounts falling due after more than one year		
Bank loans	1,230	1,320
Finance leases	4	5
	1,234	1,325

	2020 £m	2019 £m
Total borrowings are repayable as follows:		
Less than one year	12	12
In one – two years	1	–
In two – three years	–	391
In three – four years	92	–
In four – five years	740	93
More than five years	401	841
	1,246	1,337

The notional amount outstanding of the debt portfolio at 31 March 2020 was £1,073m (2019: £1,167m), £1,205m (2019: £1,276m), including accretion.

The company's borrowings comprise a mixture of unlisted floating rate and indexed-linked debt which has been issued out of or novated into the company. The table below summarises the bank debt, including their fair values.

Currency	Type	Notional (including accretion)* £m	Rate	Maturity Date	Book value (£m)	Fair Value £m
Index-linked						
GBP	Unlisted	82	RPI-linked	02/10/2023	92	88
GBP	Unlisted	82	RPI-linked	18/06/2024	88	84
GBP	Unlisted	82	RPI-linked	25/06/2024	88	85
GBP	Unlisted	82	RPI-linked	29/04/2024	89	86
GBP	Unlisted	82	RPI-linked	30/04/2024	88	86
GBP	Unlisted	82	RPI-linked	07/05/2024	88	86
		492			533	515
Floating Rate						
GBP	Unlisted	300	LIBOR +	11/07/2024	300	289
GBP	Unlisted	400	LIBOR +	27/03/2027	400	376
		700			700	665
Overdraft		8			8	8
Finance Lease obligation less than one year		1			1	1
Finance lease obligation more than one year		4			4	4
Total		1,205			1,246	1,193

* Index-linked debt notional is the accreted value.

16 Borrowings continued

On 12 July 2019, Cadent Gas Limited refinanced its outstanding debt facilities extending the maturity to 2024 (previously 2021). This included repaying the existing syndicated term loan of £393m and drawing a new syndicated term loan of £300m. The undrawn Revolving Credit Facility of £500m was replaced to extend the maturity to 2024. The company continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

The fair value of borrowings at 31 March 2020 was £1,193m (2019: £1,336m). Where market values were available, fair value of borrowings (Level 1) was £Nil (2019: £Nil). Where market values were not available, the fair value of borrowings (Level 2) was £1,193m (2019: £1,336m), calculated by discounting cash flows at prevailing interest rates.

None of the company's borrowings are secured by charges over assets of the company.

Obligation under finance leases

	Minimum lease payments 2020 £m	Minimum lease payments 2019 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	3	4
After five years	2	2
Less: future finance charges	(1)	(1)
Present value of lease obligations	5	6

	Present value of Minimum lease payments 2020 £m	Present value of Minimum lease payments 2019 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	3	3
After five years	1	2
Present value of lease obligations	5	6

Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1	1
Amounts due for settlement after 12 months	4	5
	5	6

It is the company's policy to lease certain of its fixtures and equipment under finance leases. The average lease length is eight years. For the year ended 31 March 2020, the average effective borrowing was 3.48% (2019: 3.48%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

Notes to the company financial statements continued

For the year ended 31 March 2020

17 Provisions for liabilities

	Decommissioning £m	Environmental £m	Deferred tax £m	Other £m	Total £m
At 1 April 2019	4	31	1,186	51	1,272
Charged to the income statement	–	–	114	22	136
Utilised	(2)	(1)	–	(10)	(13)
Released to the income statement	–	–	–	(1)	(1)
Unwinding of discount	–	–	–	–	–
Credited to other comprehensive income and equity	–	–	43	–	43
At 31 March 2020	**2**	**30**	**1,343**	**62**	**1,437**

	Decommissioning £m	Environmental £m	Deferred tax £m	Other £m	Total £m
Current	2	1	–	12	15
Non-current	–	29	1,343	50	1,422
	2	**30**	**1,343**	**62**	**1,437**

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas storage facilities expected to be incurred until 2021.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0% (2019: 1.0%)). Cash flows are expected to be incurred between 2020 and 2069.

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 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. See note 29 of the consolidated financial statements for analysis of the sensitivities associated with our estimate.

The undiscounted amount of the provision at 31 March 2020 is £38m (2019: £38m) being the undiscounted best estimate liability having regard to these uncertainties. See note 29 of the consolidated financial statements for analysis of the sensitivities associated with our estimate.

Deferred tax

Deferred taxation comprises:

	2020 £m	2019 £m
Accelerated capital allowances	**1,186**	1,078
Other timing differences	**157**	108
Deferred tax liability	**1,343**	1,186

Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions relating to the operation of our gas networks. Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The majority of claims are expected to be settled within 10 years.

18 Share capital

	2020 £m	2019 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	**–**	–

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

19 Capital and other commitments

	2020 £m	2019 £m
Contracts for future capital expenditure not provided in the financial statements	**556**	387
Letters of credit	**300**	300
	856	687

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2020 £m	2019 £m
Less than one year	**10**	10
In two-five years	**10**	16
More than five years	**8**	9
	28	35

In respect of the company's commitment to property and vehicle leases, there are no contingent rentals payable, or restrictions on dividends, debt or further leasing imposed by these lease arrangements. Escalation of rents is via rent reviews at agreed intervals.

20 Related Parties

The following material transactions are with a subsidiary of the company which is not wholly owned by Quadgas Holdings TopCo Limited and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 102.

	2020 £m	2019 £m
Income:		
Goods and services supplied to associates	**–**	1
Goods and services supplied to other related parties	**15**	45
	15	46
Expenditure:		
Services rendered from associates	**10**	12
Services rendered from other related parties	**42**	202
	52	214
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable from associates	**–**	–
Amounts receivable from other relates parties	**–**	8
Amounts payable to associates	**1**	1
Amounts payable to other related parties	**–**	26
Borrowings payable to parent		
Due within one year	**–**	–
Due after more than one year	**–**	–

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

No amounts have been provided at 31 March 2020 (2019: Nil) and no expense has been recognised during the year in respect of bad or doubtful debts from the above related party transaction.

Details of key management compensation are provided in note 7 to the consolidated financial statements.

Notes to the company financial statements continued

For the year ended 31 March 2020

21 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 23 of the consolidated accounts) represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

Through the ordinary course of operations, the company is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the company's results of operations, cash flows or financial position.

(c) Guarantees and letters of credit

Fellow subsidiaries have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of bonds, guarantees or letters of credit.

22 Subsequent events

There are no post balance sheet events.

23 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest Group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas MidCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

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

Glossary

Term	Definition
Annual report	the company's annual report and accounts for the year ended 31 March 2020
articles	the articles of association of the company
AWS	Affordable Warmth Solutions
BAME communities	Black, Asian and minority ethnic communities
BEIS	Department for Business, Energy and Industrial Strategy
bioSNG	bio-substitute natural gas
Board	Board of Directors of Cadent Gas Limited
BSC	Business Separation Compliance
Cadent or company	Cadent Gas Limited
CAP	Competency Assurance Programme
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Chair	Chairman of a Board Committee
Chairman	Chairman of the Board
CISBOT	A cast iron pipe-repair robot that seals the joints in natural gas pipelines from the inside
Complaints	The algorithm is driven from % day 1 closures, % day 31 closures, repeated complaints and ombudsman complaints received. Read more on Page 161 – https://www.ofgem.gov.uk/system/files/docs/2018/04/riio-gd1_gas_distribution_rigs_version_5.0.pdf
CNG	Compressed Natural Gas
Consumer	A person who purchases goods and services for personal use
CSAT	Customer satisfaction
Customer	In the Strategic report and Governance sections when we refer to customer, we are referring to our consumers, suppliers and shipper. Within the Financial statements when we refer to customer, we are referring only to our direct customers
Data Lake	A storage repository that holds a vast amount of raw data in its native format until it is needed
DB	Defined Benefit
DC	Defined Contribution
Directors	the Directors of Cadent Gas Limited
DNCC	Distribution Network Control Centre
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation, and Exceptional items
EIB	European Investment Bank
ESG	Environmental, Social, and Governance (ESG) – three central factors in measuring the sustainability and societal impact of an investment in a company or business
FRC	Financial Reporting Council
Gigawatt	A gigawatt is a unit of energy equal to a billion watts. There are 1,000 gigawatts in a terawatt
GRESB	GRESB (Global Real Estate Sustainability Benchmark) assesses and benchmarks Environmental, Social and Governance (ESG) performance
Group	The Group comprises Cadent Gas Limited, Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited
GSCoC	Global Supplier Code of Conduct
GSOP	Guaranteed Standards of Performance
HSE	Health and Safety Executive
HyDeploy	A project to inject a blend of natural gas and hydrogen into the network at Keele University

Glossary continued

Term	Definition
HyNet	A conceptual study to introduce hydrogen into the gas network in an industrial part of Manchester and Liverpool
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
LTIP	Long-Term Incentive Plan
National Gas Emergency Service	0800 111 999 a free emergency number that anyone can call if they smell gas or suspect carbon monoxide
NED	Non-Executive Director
NEETS	A young person who is no longer in the education system and who is not working or being trained for work
NGN	Northern Gas Network
NGUKPS	National Grid UK Pension Scheme
NIA	Network Innovation Allowance
NIC	Network Innovation Competition
Ofgem	Office of Gas and Electricity Markets
P&L	Profit & Loss
PE pipes	Polyethylene pipes
PSR	The Priority Services Register is a service provided by energy suppliers and network operators to support customers in vulnerable situations. It provides extra support in emergencies or free services
Regulatory controllable costs	Those operating activity costs that are deemed as part of the price control allowances as being within the control of the licence holder
RAV	Regulated Asset Value
Repex	Replacement Expenditure
RIIO	Ofgem's regulatory framework (Revenue = Incentives + Innovation + Outputs)
RIIO Stakeholder Incentive Submission	A report made as part of Ofgem's Stakeholder Engagement Incentive Scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses
RIIO-1	The RIIO-1 price control sets out the outputs that the Gas Distribution Networks ('GDNs') need to deliver for their consumers, and the associated revenues they are allowed to collect, for the eight year period from 1 April 2013 until 31 March 2021
RIIO-2	RIIO-2 will be the next price control for Cadent and the other three network companies, who own and operate the gas distribution networks in Great Britain. This will be the second price control period using the RIIO framework and will start in April 2021
RPI	Retail Price Index
Safety Seymour	A schools' programme for Key Stage 1 children to educate them on the dangers of carbon monoxide poisoning
Scope 1	All Direct Emissions from owned or controlled sources
Scope 2	Indirect Emissions from the generation of purchased electricity, steam, heating and cooling
Scope 3	All Other Indirect Emissions that occur in a Cadent's value chain
SEND	Special Educational Needs and Disability
SGN	The gas distribution company that covers Scotland and a section of southern England including parts of Devon, Milton Keynes and South London
SHES	Safety, Health, Environment and Security
SID	Sufficiently Independent Director
SND	Shareholder Nominated Director
Stakeholder Engagement Incentive Scheme	Ofgem's scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses

Term	Definition
STEM	Science, Technology, Engineering and Mathematics
STIP	Short-Term Incentive Plan
TWh	Terawatt hours, a measure of energy use
UK GAAP	United Kingdom Generally Accepted Accounting Practice
USPP	US Private Placement
Wates Principles	The six Wates Corporate Governance Principles for large private companies
WWU	Wales & West Utilities
2006 Act	The Companies Act 2006

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