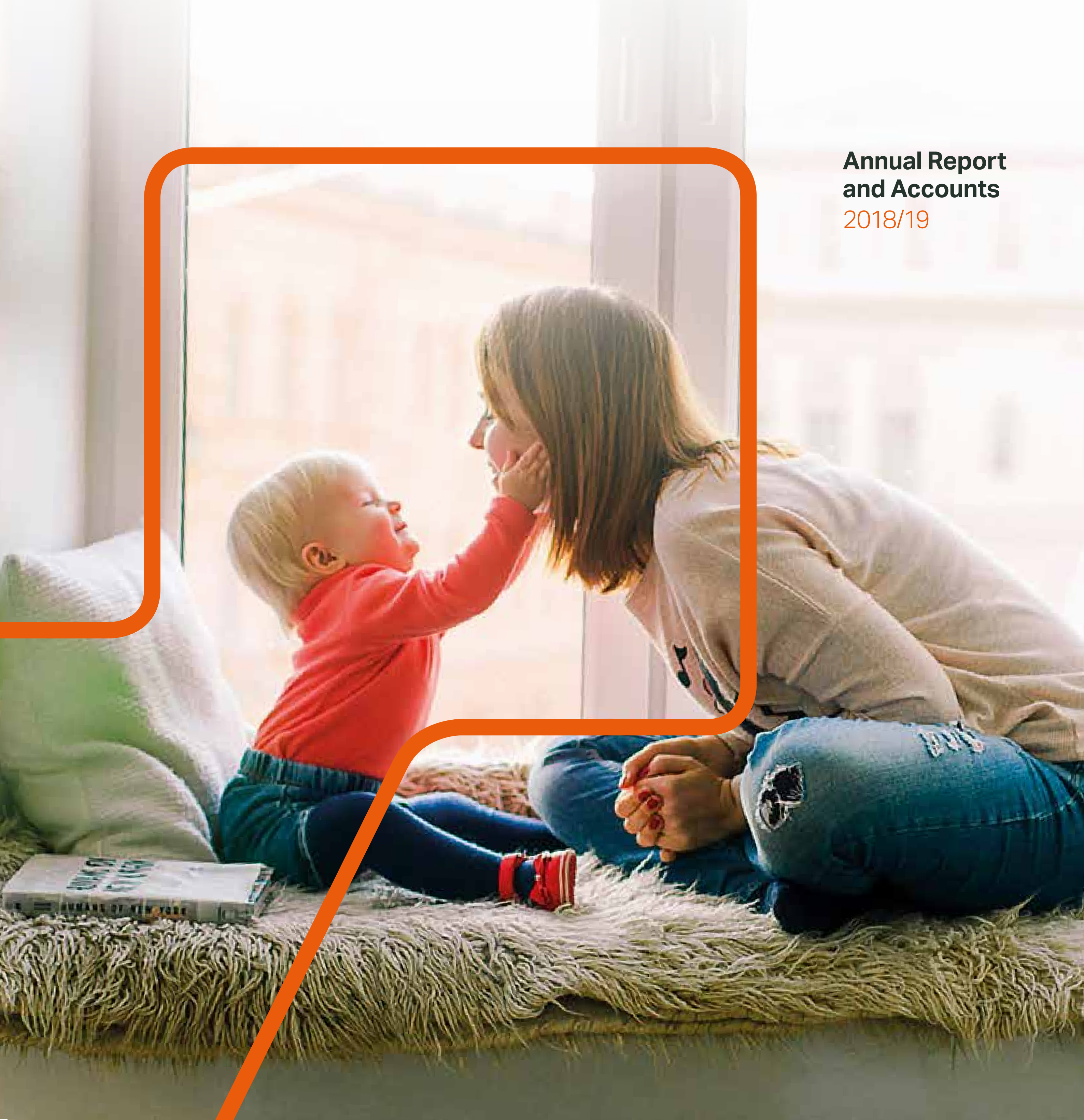
Transforming for generations to come



Annual Report and Accounts 2018/19

Welcome to our

Annual report

We are Cadent. Your gas network.

We own, operate and maintain the largest gas distribution network in the UK, providing our customers with the energy they need to stay safe, warm and connected.

Company registration number: 10080864

For our Safety & Sustainability report, visit us at www.cadentgas.com

Highlights of the year

Financial

Revenue
£1,995m
(2018: £1,852m)

Operating profit
£813m
(2018: £724m)

EBITDA ('Earnings before Interest, Tax, Depreciation, Amortisation, and Exceptional items')
£1,165m
(2018: £1,049m)

See our Chief Financial Officer's report on page 48 for reconciliation.

RAV ('Regulated Asset Value')
£9.7bn
(2018: £9.4bn)

Capital investment
£736m
(2018: £612m)

Operational

Network reliability
99.996%
(2018: 99.996%)

Mains replaced
1,701km
(2018: 1,625km)

Number of emergency calls answered within 30 seconds
93%
(2018: 92%)

Carbon monoxide alarms provided
24,162
(2018: 20,575)

Emergencies responded to within the hour
98.6%
(2018: 97.8%)

Fuel Poor Connections during this RIIO price control
28,131
(2018: 23,500)

Strategic report

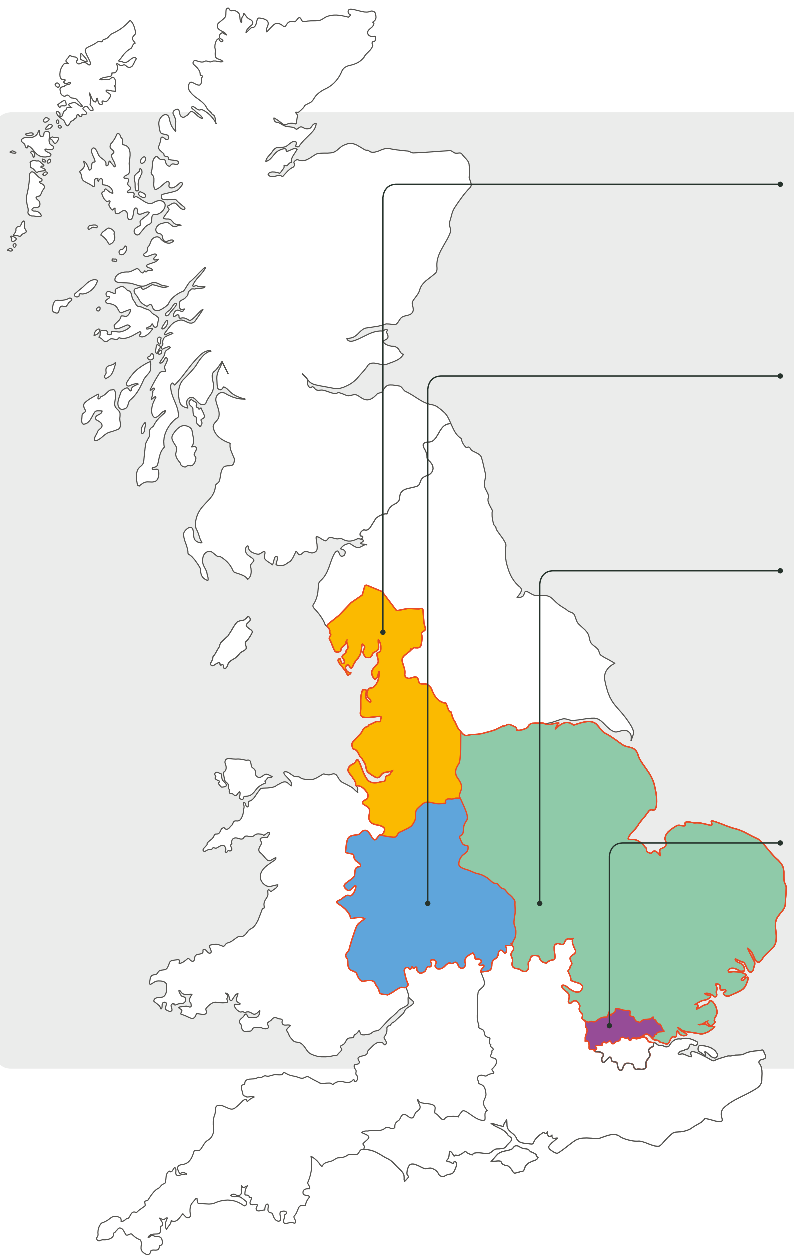
Who we are

Our vision is to set standards that all of our customers love and others aspire to

Across our four networks we provide services to diverse customer[1] and stakeholder groups. We supply gas to 11m homes and businesses across our four networks, with more than 131,000 kilometres of pipeline. Each area has its own geographical and social requirements.

50% of UK gas customers are served by our pipelines and we provide them with the energy they need to stay safe and warm, and protect them in an emergency. We are committed to improving the levels of service in our networks.

We also manage the national gas emergency service free phone line, taking calls and giving safety advice on behalf of the UK gas industry. In 2018/19 we answered 1.4m gas emergency calls.



North West

Sitting between the Pennines and the West Coast and encompassing Ambleside in Cumbria, at its northern-most tip, and Whitchurch in the South.

West Midlands

The only Cadent network without a coastline, landlocked amidst neighbouring networks – North West, East of England and Wales and West.

East of England

Made up of two distribution networks: East Anglia and East Midlands covering the east coast of Britain, from the Humber to the Blackwater, bordering on the North London network. On its West side it encloses much of the Pennines and runs down the middle of the country to Luton and St Albans.

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.

Direct employees at 31 March 2019

3,968

[1] Please see our glossary for a definition of customer.

Energy landscape

This year has marked a step change in climate change awareness in Britain, and indeed Europe.

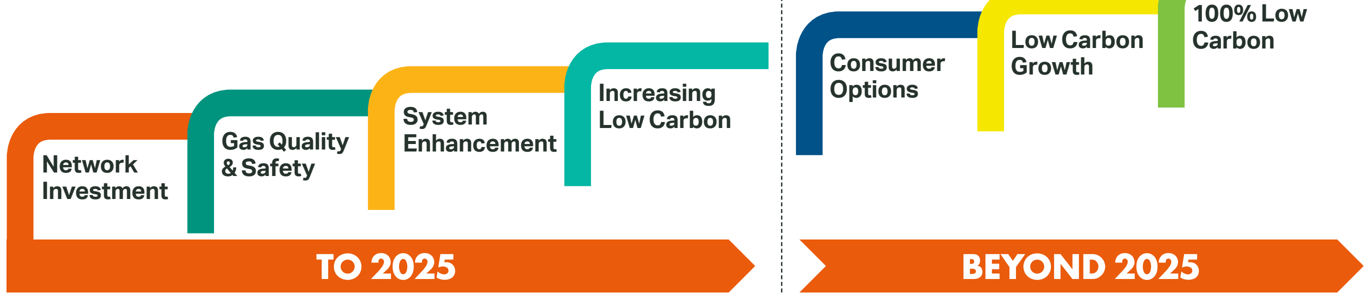
This growth in awareness has moved almost in lockstep with a growth in governmental focus on building a low carbon economy. In May 2019, the UK Government's Committee on Climate Change published its long-awaited Net Zero report, committing to building a net-zero carbon economy by 2050.

It is necessary for us to take our belief about the role gas can play in combatting climate change and show how that will work in practice. This year we have intensified our efforts to ensure that the voice of the gas industry is heard in shaping the debates taking place across the country every day. We have been at the forefront of industry collaboration to ensure that the gas networks have a unified vision of the role that we can play in a decarbonised world.

Working with the Energy Networks Association ('ENA') we have helped develop the 'Gas Decarbonisation Pathways Project' which for the first time provides politicians, policy makers and stakeholders with a clear articulation of the gas networks of the future – 100% low carbon from a combination of hydrogen and other low carbon gases. Collaboration amongst the gas distribution networks is key to delivering a 100% low carbon future. This year, in partnership with NGN (where we are partners in their H21 hydrogen project), we launched our HyDeploy project in the West Midlands, a project to prove that hydrogen can be blended with natural gas without requiring customers to change their appliances.

HyDeploy is a major step forward for our industry and working with partners we are looking at further investments, such as our Carbon Capture HyNet project in the North West to ensure the industry continues to play a vital role in reducing carbon in the UK's energy mix.

Gas Decarbonisation Pathways



For more information visit: http://www.energynetworks.org/gas/futures/gas-decarbonisation-pathways.html

Source: Energy Networks Association

Ongoing engagement

We are working to ensure our links with authorities at a local, regional and national level ensure our voice is heard in the future of energy debate. We await the Energy White Paper and Comprehensive Spending Review, both of which are likely to further the energy debate.

The regionalisation of our business is designed to create much greater engagement and relationships in the communities we serve. We recognise working alongside Metro Mayors this will help us to shape regional energy policy. We recognise that his is also a feature of the debate around nationalisation, where our plans are well advanced and sensible to deliver regional outcomes, particularly for those already struggling under the burden of fuel poverty.

We expect to see progress on our Future Billing Methodology project in 2019, an innovative scheme to allow us to better understand how far biomethane travels around our network, and as such offer customers more clarity in their billing. Alongside this, further work is expected on the HyNet project, whilst HyDeploy phase 2 is due towards the end of 2019.

We are mindful that these challenges are of vital importance to society.

Strategic report

Our vision and strategic priorities

2018/19 highlights

Putting customers and communities first

- Customer Engagement Group established and enhanced engagement undertaken with stakeholders
- Improvement strategy initiated for Multi Occupancy Buildings ('MOBs') customers
- CISBOT robotic replacement refurbishment process undertaking work in Westminster and London city centre locations
- Increase in number of complaints resolved on the same day from 45% (2017/18) to 75% (2018/19)
- Improvement in plant protection lead times from seven to under two days
- Working with United Utilities to develop a single utilities register for customers in vulnerable situations
- 151 Safety Seymour carbon monoxide awareness classes
- Delivered 4,608 Fuel Poor connections
- Efficiencies delivered and shared with customers

Ensuring a safe and reliable network

- 1,701km of iron mains replaced
- Delivered 99.996% availability of the network
- More than 97% emergency response time with average of 35mins
- Extensive High-Rise Building Survey Programme completed to improve data records
- Commenced diversion work to support HS2

Creating an inclusive environment

- New staff reward and terms and conditions for new starters developed
- Number one Apprentice Employer Award by the JobCrowd
- 644 volunteer hours through new Volunteering Matters partnership
- Working to increase attraction of the energy sector to BAME audience through Talent Source Network
- Leading the energy sector's Apprenticeship & Technical Education Advisory Group to share best practice and shape policy
- Recognition scheme – Cadent Congratulates – set up to recognise and celebrate individuals who have strongly displayed our values

Improving our environment

- Identify ways to reduce the impact of climate change by implementing mitigation and adaptation measures
- Ensure environmental sustainability is considered in our decision making and inspire a sustainable thinking culture
- Continually improve our environmental management system to protect the environment and reduce the risk

Supporting the energy transition

- HyDeploy approval to trial blending at Keele University
- HyNet North West vision for decarbonisation launched
- 32 new biomethane plants connected (or agreements to connect)
- Leakage reduced by 68%

Our purpose

Why we exist

To keep the energy flowing

Our vision

Where we want to go

To set standards all of our customers love and others aspire to

Our outcomes

What we focus on

- Delivering a resilient network to keep the energy flowing safely and reliably
- Providing a quality experience to all our customers, stakeholders and communities
- Improving the environment and tackling climate change
- Trusted to act for society

Our strategy

How we will deliver

- Design our business around the needs of our customers
- Drive innovation in the way we operate and maintain our assets
- Build partnerships to drive a collaborative whole systems approach to energy
- Play a central role in influencing decarbonisation and the future of energy
- Operate with a clear sense of public purpose
- Create a culture of empowerment and accountability

Our values

Principles to guide us

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

2019/20 priorities

Delivering a resilient network to keep the energy flowing safely and reliably

- New MOBs operating model in London
- Continued focus on mains replacement by increased workload and step-up in asset health investment
- 16,000 medium rise building surveys
- Separation of IS systems from National Grid

Providing a quality experience to all of our customers, stakeholders and communities

- Continual improvement in restoration of supply in MOBs
- Consistent customer satisfaction ('CSAT') across all experiences (focus on planned work in West Midlands and connections in London)
- Defining RIIO-2 outcomes and outputs
- Focus on fuel poor connections in West Midlands and North West
- Enhanced customer data techniques, including the application of AI and machine learning to better understand customer insights and drive action
- Transformation of operating model to network aligned approach initiated
- Culture change to enhance customer focus and productivity

Improving the environment and tackling climate change

- Zero avoidable waste to landfill strategy
- Remove single use plastics in offices and depots
- HyDeploy 2 project start to trial hydrogen blending on a public network
- Increase in biomethane and compressed natural gas ('CNG') filling station connections expected
- New CNG filling station connection in West Midlands
- Future Billing Methodology Field Trials

Trusted to act for society

- Launch of community fund of 1.25% of post-tax profits
- Continued Alzheimer's Society partnership
- Further engaging locally with regional authorities
- Supporting the Department for Transport ('DfT') in developing a new street works noticing system

Strategic report

Chairman's statement

In a year that has brought significant organisational change as well as external challenges, we have continued to deliver a safe and reliable supply of gas to our customers, while maintaining our financial performance.

We have made progress towards becoming the company we aspire to be, but recognise that there is more to be done. Although there have been improvements, delivering consistently high customer service across our four networks and enhancing efficiency remain our core focus areas as we approach the next regulatory review. Our customers should be at the heart of the decisions we make and through our continuous engagement with them we should understand their expectations and work hard to not only meet them but exceed them. It is with this in mind the Board has been supporting management in advancing a programme of organisational transformation to improve operational performance while managing costs.

The primary thrust of the programme has been to clarify accountability and devolve decision making to our networks, and to increase the flexibility of the workforce in the context of a construction market facing cost pressures and constraints on the availability of skilled labour.

As well as changes to organisational structures, the programme has called for a shift in mindset, but the business has risen to the challenge as people recognise the opportunity.

As we look ahead to the next price control period, RIIO-2, starting in 2021, several workstreams are working actively to prepare our business plan. The Board has strived to ensure that the business is engaging closely with its customers and stakeholders to develop plans that meet their needs, with the independent Customer Engagement Group initiated by Ofgem a key mechanism to challenge our 2021 business plan.

Sir Adrian Montague CBE
Chairman

A solid performance in a challenging year

Operating responsibly

Cadent is committed to operating in a safe, responsible and sustainable way, and the Board has a dedicated Safety & Sustainability Committee to oversee this aspect of the Group's operations. Supporting and challenging management to operate in a 'zero harm' manner, allow access to services for customers in a vulnerable situation and emphasise the strategic importance of sustainability are all important parts of the committee's remit. During the year the business has been working closely with the Health and Safety Executive and Ofgem to improve our processes in relation to the particular challenges of high rise buildings. We have been working hard to meet this challenge and have responded to redress the issues.

The Board has been working to identify the best way for Cadent to demonstrate this wider corporate and social responsibility. The community fund we are establishing is ground breaking in its commitment to support the communities we serve.

The future role of gas

Cadent also continues to play a key role in helping to shape the future of the industry through its participation on industry working groups and its market leading innovation projects (read more about these on page 40). Cadent's investment in thought leadership and cutting edge solutions signal our company's recognition of the vital role of gas in decarbonising heat and transport, for example by bringing renewable gas and/or hydrogen into the network. We firmly believe that gas will continue to be a core element of the UK's energy mix, and, working with partners, we are determined to be at the forefront of decarbonisation solutions.

> We firmly believe that gas will continue to be a core element of the UK's energy mix, and, working with partners, we are determined to be at the forefront of solutions.

Leadership

As announced previously, Chris Train will retire from Cadent in the summer. Having been appointed Chief Executive Officer in October 2016, when the company was still National Grid Gas Distribution, Chris has navigated the company through the complex process of separating the business from National Grid and transitioning to a new ownership structure. On behalf of the Board, I wish to thank Chris Train for his significant contribution to establishing Cadent as a standalone business. Our new Chief Executive Officer, Steve Fraser is due to take up his post in the Autumn. Steve Hurrell will continue as Interim Chief Executive Officer until Steve Fraser takes office.

Corporate governance

The focus of the Board and its Committees during the year is a reflection of the developments and challenges the business has faced. Preparation of the business case for the next set of regulatory price controls ('RIIO-2') has been, and remains, of particular importance, as we have reviewed the progress of the various workstreams. While there has been a great deal of work undertaken to date, there is more to do, and this will remain a key priority over the coming months.

The size of the Board has reduced following the resignation of National Grid Directors in anticipation of the sale of National Grid's remaining stake in Cadent to our existing consortium investors and reflects the maturity of Cadent as a standalone entity. The final separation of our IT infrastructure will be complete by end of March 2020.

Looking ahead

On behalf of the Board I wish to thank our dedicated employees and the management team for their hard work and commitment to the success of the business during another year of challenges and change. Looking ahead, the focus of the Board will be to oversee the completion of the ongoing transformation process and to ensure Cadent is well positioned as it submits its RIIO-2 business case to Ofgem later in the year.

The Board are pleased to have committed to setting up a community fund to continue our work with supporting communities and customers. This will be launched in the summer.

As a newly separate organisation, we have the opportunity to sharpen our focus to meet the needs of all of our stakeholders in an effective and efficient manner. As we complete our organisational transformation, our structure will allow us to deliver better outcomes we have committed to for our customers with renewed vigour, so we can continue to keep people safe and warm in their homes, as well as powering industry and fuelling transport, in a sustainable way.

Sir Adrian Montague CBE
Chairman
27 June 2019

Strategic report

Chief Executive's review

Society's expectations of energy companies have increased significantly and it is now more important than ever to achieve public legitimacy for our business and industry in the eyes of consumers.

It is into this environment that Cadent, as the largest Gas Distribution company in the UK, provides an essential service that keeps the energy flowing to over 11m homes, offices and businesses. Cadent is now a standalone gas distribution business, with new ownership and a brand new identity. We have the opportunity to significantly transform and re focus the long history of custom and practice that we inherited to meet these needs.

Under our new ownership, we are undertaking an unprecedented level of engagement with our customers and stakeholders across our regions to understand their priorities and we are using this insight to develop a business which meets their expectations. We have a very experienced board and have also established a highly skilled independent Customer Engagement Group to challenge us on the ambition of our plans and bring experience from different business sectors into our thinking.

Building on our research, we will set new standards on the quality of the services we deliver to all of our customers, stakeholders and communities, particularly those that find themselves in vulnerable situations. We need to develop a customer first approach that has an ethos of constantly maintaining availability of gas supplies to our customers by developing appropriate techniques and using innovative ways to achieve this goal. We will also push the boundaries on our role in supporting safety of customers in the home, helping alleviate fuel poverty and making our services more accessible to all types of customer.

We are driven in our desire to improve the environment and are taking a leading role in creating the vision of the transition to a sustainable energy system through our pioneering innovation projects. We will continue to focus on delivering an affordable service to current and future customers by driving the efficiency of the business. We also recognise that we need to deliver these outcomes in a way that builds trust in how we operate, making a real and sustainable difference to the communities we support. We will embrace the need for a wider social responsibility that delivers better, sustainable outcomes for all through collaboration and innovation. In addition, we will continue to be transparent in our operational and financial performance.

There is a long way to go until we achieve this goal and the journey has only just begun. Our plans will transform the business and we want customers to feel the benefits that this will bring; that we are committed to understanding their needs and courageous in changing our processes to make their lives easier. We will develop a real sense of community, both within Cadent and for the regions that we serve, by working more closely with them. We want to be a company that is known for being forward thinking, that delivers for all of its customers, particularly those in vulnerable situations – that recognises that without gas, all customers are vulnerable.

We are fully committed to delighting customers and bringing value and prosperity to the communities we serve. Actions speak louder than words and we are setting out our plans and the outcomes we are targeting to achieve in this pursuit of excellence.

Putting customers and communities at the heart of everything we do

A year in review

In 2018/19 our insights into current performance tells us we have significant improvements to make on costs and the quality of our service to all our customers. We are seeking to set standards for our customers, stakeholders and communities that they will love and have worked hard to engage and gather insight to deliver on our ambition. We have maintained our financial performance while operating with a new organisational structure and in the face of a challenging external environment.

Overcoming challenges

We have experienced significant historical challenges in the last two years which have brought external scrutiny from our regulators. In May 2019 we concluded discussions with Ofgem around a number of historical service related issues in respect to multi occupancy high rise buildings. We have taken action to address these issues, including implementing process improvements, and making a payment of £8.9m to the Energy Savings Trust to recognise the impact of these issues on our customers. We have been working hard to transform the service we deliver to our regions and specifically in our London network where we have established a new team to improve the services for our customers.

Transforming our business

We have worked hard over the last 12 months to engage, listen and learn from our customers. This has reinforced our plans to create a business that is more aligned to our four networks, which includes moving decision making closer to our customers and assets, improve efficiency and driving greater accountability for delivering better outcomes.

Moving our customer complaint resolution activity into our networks and local operating teams resulted in faster resolution of complaints by 66.7% compared to the previous year, and significantly reduced the cost of this activity. We have been working very hard with our partners to increase the pace and efficiency of our mains replacement programme. We have seen a solid start to improved performance in our London and East of England networks. We are at the beginning of this journey that is underpinned by a cultural and operational transformation and not all customers will have yet benefitted from these improvements and we must do better.

We have brought Operations and Construction directorates under the newly appointed Chief Operating Officer and aligned our Operate and Maintain function in each network under one director with our Emergency Response and Repair functions. As well as creating clearer accountability for operational delivery, these changes create the opportunity to be more flexible and efficient in the allocation of work across our operational workforce. For example, the Operations function commenced delivery of mains replacement projects in 2018/19, work that had previously been carried out solely by our Gas Distribution Strategic Partners. We will be progressively aligning our mains replacement programme with our networks as we transform our delivery model for this high intensity activity. We delivered a strong total expenditure performance for the year, with continuous improvement efficiencies in operating costs. Where good practice is developed in one network or part of our business, we now have processes in place to ensure this practice is shared with the rest of the business.

Steve Hurrell
Interim Chief Executive Officer

Our vision is to set standards that all of our customers love and that others will aspire to.

Strategic report

Chief Executive's review continued

Our Information Systems ('IS') transition has progressed well, with the last remaining elements to be addressed in our separation from National Grid due 2019/20. In establishing our own systems and infrastructure, we have looked at the best way to design flexibility, such that IS enables productivity and improved experience for our customers. This includes transforming our back-office systems for Human Resources, Supply Chain and Finance to allow the business to more effectively and efficiently manage these activities.

The safety of our customers, our people, and our extended workforce, as well as those who live near our assets and are affected by our activities, is of paramount importance. We have a strong safety culture, but no safety incidents are acceptable. We are building a refreshed focus on process safety and reinforcing our visible and effective safety culture to drive future improvements in our long-term ambition.

We have engaged our people about delivering higher levels of satisfaction to our customers. As well as changes to our organisational structures and processes, we are working to develop our culture and behaviours to bring our transformation to life. We see this as an essential activity to ensure our people have the capability and confidence to make the right decisions for our customers.

During the year we delivered a significant step up in investment across our replacement and asset health activities. This work was completed through our Gas Distribution Strategic Partners, other contract organisations, and our own direct labour workforce. We anticipate continued increases in investment over the remaining two years of this price control period.

Inspiring our people

We are proud of our talented and committed people who are equally proud and motivated to deliver for all our customers. We are focused on recruiting the right people, supporting them to understand their role and our values, and then enabling them to develop as we aspire to create a high-performance culture. Our people are essential to delivering our future vision and we are working to set the right balance of skills to ensure our operational performance can support our strategy.

We are committed to addressing our gender pay gap by consistently reviewing and addressing policies and practices. As we take positive steps forward, we appreciate it may take time to change as we work within our communities to inspire and attract a diverse range of talent.

We are constantly looking at how we can inspire, encourage and support our people. From the very earliest stages of education, through to our apprentice scheme and professional development programmes, we help our people to advance their careers, whatever their area of expertise.

Making a difference in our communities

The Board have committed to setting up a community fund to support communities and customers by investing 1.25% of our post-tax profits and this will be launched in the summer of 2019. This fund is a key part of how we can demonstrate a clear public purpose and our commitment to supporting the communities we serve.

Our focus continues to be on delivering positive change affecting people's lives today, while setting up our network for future generations. Safeguarding our customers and supporting them away from fuel poverty are priorities for our communities and we are delighted that our business is rising to these challenges. We have continued our collaborative approach and we have pioneered the industry in a number of areas and taken a lead on several cross-industry groups. We are proud of our safeguarding services and activities, including free locking cooker valves for those living with dementia, chairing the industry-wide Safeguarding Customers Working Group, promoting the Priority Services Register ('PSR') and our educational work to raise awareness of the dangers of carbon monoxide. We are working hard to make sure our people understand vulnerability, stay flexible, are ready to act and embed our understanding in our existing processes.

We are spearheading industry collaboration and establishing expert partnerships to make sure we tackle vulnerability effectively and our community fund investment will accelerate this work.

Shaping the UK's gas network

Climate change and energy policy have arguably never been higher up in the public consciousness and the political agenda. We have seen calls to declare a Climate Emergency and the ambitious emissions targets for the UK which were set by the Committee on Climate Change in their recent report 'Net Zero – the UK's contribution to stopping global warming and whose recommendations the UK Government has recently announced will be enshrined in law. There is now an almost universal acknowledgement that material action over the next 10 years is non-negotiable if we are to have any chance of ensuring we meet the challenges of decarbonising our economy and we can afford no distractions or delays.

As a responsible company with a deep understanding and expertise of the key issues connected to gas decarbonisation we have been helping to inform and direct energy policy, particularly in the challenging areas of heat and transport. We are doing this by working with stakeholders across national and local government, industry and investors. Local communities and regional groups are increasingly playing their role in informing our plans, helping us to ensure that our current operations and our future business plans are reflective of the needs and potential of the communities in which we live and work.

As well as the significant challenges in defining the UK's future energy mix there are also significant opportunities for the UK to become a global leader in low carbon energy. The size of the challenge means that cooperation and collaboration is vitally important and we are working alongside partners in the other gas distribution networks and gas producers, together with the low carbon transport sector to find alternative sources of clean energy and develop a clear pathway to a future energy system based on low carbon sources such as hydrogen, The potential for a clean and green economy is within our grasp and we are determined to play a leading role in ensuring that in this next decade the amazing potential of the gas network is fully realised.

Our vision

As we look back on the last year we have faced significant challenges, these have been met with true dedication and commitment from our talented people, this gives us renewed optimism to put customers at the heart of everything we do.

We are working on a truly transformational strategy which is committed to building on our strengths and changing the way we work and the way we deliver services to our customers now and in the future.

This is about our people and culture where we will be developing our people to build on existing skills and expertise but focusing on delivering the right outcomes for customers. With our vision and drive we will be leading the way in delivering value and quality of service. We will be creating a sustainable future, improving our environment and are dedicated to acting in a responsible and ethical way.

Our transformation plans will start to impact positively our performance during the remainder of this regulatory period but we see this drive improvements into the RIIO-2 period and we are fully committed to realising our vision to set standards all of our customers love and others aspire to. This journey has now started. We have set out a clear direction and are working towards delivering on our commitments as we continue to keep the energy flowing to make sure our customers are safe, warm and connected.

Steve Hurrell
Interim Chief Executive Officer
27 June 2019

Putting customers and communities first

Providing a high quality experience to all of our customers, stakeholders and communities.

Strategic report

Putting customers and communities first

Improving customer experiences

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.

To achieve high levels of customer performance, improved responsiveness and flexibility to changing demands, we set out the following strategy focusing on proactive communication, quicker reinstatement and improved customer experience:

- Broaden and deepen our engagement with customers and stakeholders engaging deliberately, with purpose and in a targeted way learning from our experiences and acting on these insights to shape our short-term business improvements and long-term approach.
- Transform our culture through building a customer focus from the bottom to the top through our new brand identity, investing in our people to build customer service capability, implementing a customer focused operating model and putting customer insight at the heart of all our decision making.
- Explore and invest in new technologies and innovation to support greater insight and deliver outstanding customer experiences, creating the capability to use big data to derive genuine customer insights.
- Work with Ofgem to shape a RIIO-2 framework which will provide the most value and benefit for all customers across the UK. Where the regulatory framework falls short of our customers' expectations we will seek to go beyond to deliver better customer outcomes.

Over the last 18 months we have been actively engaging with our customers and stakeholders to understand their needs, priorities and expectations from Cadent. We've spoken to over 20,000 customers across all of our operational regions using over 50 different engagement techniques. We've combined this with over 1m data points that we have gathered over the last three years either receiving services from us or being impacted in some way by our work. This has provided us with rich and incredibly insightful information that we are using to focus our business plan for RIIO-2 (April 2021 to March 2026), especially when determining the customer commitments that we intend to make.

Customer engagement group

In June 2018 Cadent set up its Customer Engagement Group ('CEG') with Zoe McLeod as chair. Zoe is a leading consumer advocate with more than 20 years' experience championing customer and community concerns. The CEG brings together 13 independent people from a variety of backgrounds to provide independent examination and challenge to Cadent, in particular on its upcoming business plan.

We've had 11 full CEG meetings and a further 14 CEG working group meetings covering more detailed topics such as our overall stakeholder engagement approach, the future role of gas and the role we play, finance, investments and vulnerability.

The CEG provides independent examination and challenge to Cadent. It gives views to the energy regulator, Ofgem, on whether the company's business plan for the next regulatory period addresses the needs and preferences of our stakeholders. These views will take the form of a report that will be submitted to Ofgem by the CEG, alongside Cadent's business plan.

Cadent's existing and future stakeholders include individual customers, citizens, consumers, organisations and communities that are impacted by the activities of Cadent.

To date our CEG has raised over 100 separate challenges to our plan, which we are addressing through our ongoing stakeholder engagement and the evolution of our business plan.

> **It's easy for companies to make promises that they will put customers and the public interest at the heart of their decision making, but our role as a Customer Engagement Group will be to ensure it genuinely happens. The company has expressed an ambition to be one of the best network companies and we intend to hold them to that. This is an exciting opportunity to make a difference to around 11m gas consumers and their communities in four network regions."**
>
> **Zoe McLeod**
> Customer Engagement Group Chair

Engaging with our customers and stakeholders

Enhanced engagement and data analytics – We spent c. £800,000 delivering new enhanced engagement work, this included the recruitment of a new full time team to overseeing the overall programme. This has resulted in a near 20% increase in total engagement spend for 2018/19 (the total being almost £4m). At the same time, we have built our customer data lake on Amazon's Web Services platform to create a single repository, allowing us to triangulate insights from business as usual operations, our enhanced engagement programme, external affairs led stakeholder engagement and publicly available data. This unlocks more forensic data analysis ability, so we can truly understand the needs of our customers, which is fed into our Insights Forum to drive action across the organisation.

Real time data driving far greater quality insights – We created a customer insights team that sits at the centre of the newly created Chief Operating Officer structure. In addition, we invested in a new SMS real time feedback provision (Rant and Rave) and recruited experienced data analysts and social media professionals to maximise the intelligence from customer insights to link this in with other existing insights.

Multi-channel communications – In addition to our investment into SMS channels for customer feedback, we are using this for proactive customer engagement regarding our work and services. We have increased our social media following by 132% and are using Facebook to engage with customers about our forthcoming mains replacement programme. We have developed a series of videos and infographics to engage with customers and stakeholders on who we are and the services we operate. We have enhanced our website, offering customers and stakeholders another route into Cadent.

Incentives aligned around the customer – Our key service provider contracts have been amended to add far greater financial incentives for delivering better customer service outcomes, encouraging far greater local ownership and engagement with stakeholders to deliver this. Additionally, we negotiated a new pay deal for all staff that links an element of their annual bonus to customer satisfaction and stakeholder engagement.

Technology enablement – We have invested in AI and machine learning to support the gathering of additional insights into the Customer Insights team, now allowing complex sentiment analysis to be used and acted upon. Furthermore, we have started the process to procure a new state of the art customer management system, which will allow customers to access real time information relating to work in their area and services that they are receiving, plus allow two way dialogue with our customer agents.

Establishing a customer centric operating model – We transformed our operating model from a highly centralised process-centric model into a regional delivery model that put greater emphasis on local accountabilities for delivering customer outcomes. Now we are in closer proximity to our customers, this puts the emphasis on our local teams to engage with their own stakeholders and customers, to shape and define standards, and to deliver them day after day.

Strategic report

Putting customers and communities first continued

Delivering outcomes for customers

We have worked hard to shape the business around customers to give a clear focus on delivery and performance. We have been moving forward to streamline our services around an uncompromising focus on people's needs.

A relentless drive to minimise time off gas improves the satisfaction of customers and brings benefits to the business. We have seen an improvement across the majority of the measures that are of interest to customers and a step change improvement in how we respond to complaints. Figure 1 shows average customer satisfaction ('CSAT') for each of our regions over the last six years, together with the forecast for 2018/19.

To understand the requirements of our diverse range of customers and stakeholders we continually engage across various channels to ensure that we are making decisions and taking actions in line with their expectations. As part of our preparation for RIIO-2 we have engaged with industry experts to learn best practice from across a wide range of customer-focused businesses to improve how we operate and engage with our customers.

Our passion is to work hand-in-hand with our customers and stakeholders to make sure our business is fit for present and future generations.

In the last 12 months we have worked tirelessly on:

- Ensuring the voices of all customer and stakeholder segments are heard.
- Fully utilising the millions of customer insights received throughout RIIO-1.
- Understanding our regional customer requirements and any differences.
- Tailoring our engagement approach to meet the needs of our customers and stakeholders.
- Gathering feedback and insight from all engagement with customers and stakeholders to ensure that we are continually learning and improving our proposals.
- Gaining support from customers and stakeholders for our RIIO-2 business plan.

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 2018/19, we have improved across all three primary customer facing areas, registering gains of over 0.3 in two areas, which is amongst the biggest improvement for all networks during RIIO-1.

Figure 1 – Customer satisfaction

Performance by Network	Emergency Work (out of 10)	Planned Work (out of 10)	Connections (out of 10)
East of England	9.45	8.62	8.22
North London	9.12	8.22	7.5
North West	9.35	8.26	8.69
West Midlands	9.39	7.75	8.35
Average	**9.33**	**8.21**	**8.19**

Case study:
Award winning engagement in Stratford-upon-Avon

Every year, we replace around 1,800km of ageing gas mains, as part of a 30 year rolling programme to upgrade older pipes and make them fit for a long-term future.

In one of our biggest and most high-profile mains upgrade projects of 2018/19, we spent three months replacing half a kilometre of mains outside Shakespeare's birthplace in Stratford-upon-Avon. This is one of the UK's centrepiece tourist attractions, which welcomes three million visitors every year.

Getting the communication right was critical. Through a combination of novel ideas and sound engagement with those affected by our work, we carried out potentially disruptive work outside one of Britain's busiest tourist destinations without a single complaint.

The team's approach included:

- **Engaging** with the public, councils, businesses and local organisations ahead of the work.
- **Creating** bespoke banners, featuring local landmarks to screen our excavations.
- **Trialing** a text message service, known as a 'listening post', to act on real-time feedback.

Our stakeholder engagement approach was judged as 'excellent and creative', winning a communications leadership award at Street Works UK 2018 awards.

Case study:
Responding to incidents

Our customers expect a reliable 'on demand' gas supply. But occasionally, and often because a third party has damaged our pipes, we lose gas to a significant area. We had three big such incidents in 2018/19 – with more than 1,000 customers 'off gas' in each case.

We have learned from previous incidents and acted on feedback to improve our communications when these occur.

In addition to continuing to create incident specific pages on our website, we are the first gas distribution network to create individual Facebook pages dedicated to supporting communications with impacted customers. We used these to post real-time updates, answer incoming questions and gather customer data to support restoring gas as quickly and safely as possible.

We developed this approach in 2018/19, building website pages for incidents in July 2018 in Deanshanger (Northamptonshire), in November 2018 in Eye (Suffolk) and in January 2019 in Wilstead (Bedfordshire).

We have been utilising social media more in the latest incidents in the East of England and have found this to be an excellent way to communicate with affected customers. It has assisted us to reach out to the community, not only from our own Cadent webpages but by linking in to local web pages coordinated by residents. We can reach people when they are away from their homes and it has assisted us with speeding up the process of isolating and restoring the gas supplies at properties. We work hard to keep in touch and support those who may not have access to online services.

In January 2019 in Wilstead, Bedfordshire, we used a digital information sign at the main entry point into the village, and we have made more use of our ability to send SMS messages. This contributed to us getting customer satisfaction scores of 9.42 out of 10.

Putting customers and communities first continued

Supporting our communities

It is important that we understand the needs and expectations of all our customers, recognising that no two customers are the same.

Whilst undertaking our works we may come across, or create, circumstances where customers are in vulnerable situations, and therefore it is essential that we provide additional services to keep them safe and warm in their homes. In addition, given our position as owners of the gas network, we have the opportunity to extend our network to help those who suffer from fuel poverty by providing access to a cheaper energy source.

We are developing a clearer understanding of vulnerability to ensure we identify and target our approach and support in the right way. We have engaged with our Stakeholder Advisory Panel and key external stakeholders (such as Citizens Advice), who have expertise in dealing with and supporting customers affected by situations that can result in vulnerability.

We have worked with our stakeholders to develop a safeguarding strategy which aims to enhance our core capabilities to implement the required activities and deliver our mission to safeguard customers.

Our strategy focuses on three distinct but parallel areas:

- Awareness of the dangers, and prevention, of carbon monoxide poisoning.
- Providing tailored services to address and tackle vulnerability.
- Providing subsidised connections to the gas grid for eligible households to help tackle fuel poverty.

Educating on carbon monoxide

In 2018/19 our dedicated teams issued safety advice to 294,990 customers, warning them of the dangers and signs of carbon monoxide (CO), and advising them of the three key steps to keep themselves and their loved ones safe. We supplied 24,162 carbon monoxide alarms to customers at elevated risk.

We have made significant strides in raising the awareness of carbon monoxide poisoning. We have achieved this by focusing on groups of customers who are most at risk and leveraging the power of educating Key Stage 2 children through our pioneering Safety Seymour campaign – an initiative aimed at raising awareness of carbon monoxide with school children aged 6-8. The sessions are designed to be fun, engaging and to be accessible to children whose first language may not be English.

At the end of the session, the children take home an alarm, an information pack and a treasure hunt (identifying the signs and symptoms of carbon monoxide) to complete with their family and friends.

We use data on carbon monoxide hot spots to identify target schools. Over the last four years we have reached around 9,000 school children and their families. Our Safety Seymour initiative has now been adopted by all the Gas Distribution businesses.

We are also looking at how we can prevent the underlying causes of carbon monoxide poisoning through support to ensure appliances are serviced and problems identified sooner.

Working in partnership to raise carbon monoxide awareness

Building on the success of Safety Seymour, we launched a sponsored multi-media campaign with Fun Kids Radio in February 2018, the UK's children's radio station. Northern Gas Networks ('NGN') agreed to share an £18,000 investment in this initiative. The first wave of content included on air broadcasts, podcasts, animated video and competitions. We know this reached 384,000 listeners through 60 broadcasts. The podcast was downloaded 3,260 times and social media posts drove 6,912 views of a webpage with educational CO content.

During 2018/19 we have targeted our activity to CO hotspot areas and specific social demographics to deliver our vital safety messages through our partners who are trusted by the customer and able to connect with those who are hard to reach. During 2018/19, we increased the number of formal partnerships we have with the 24 fire and rescue services in our four networks from six to 19. We've provided our partners with CO awareness training, educational materials and CO alarms to hand out during their visits.

We've also produced carbon monoxide video packages for London Fire Brigade. These are now used in the training of all 5,000 front-line employees and have been shared with the 18 other partnership forces. In January 2018, with Derbyshire Fire and Rescue Service, we launched 'memory diaries' designed to assist people living with dementia.

Providing extra support

We coordinated an industry-wide programme that ensures all energy companies look after customers with extra communication, access or safety needs. Thanks to our industry leading data-sharing programme, customers now only have to sign up to the Priority Services Register ('PSR') once with their gas, electricity or water provider. With their details recorded and shared, all energy businesses can deliver the right services to them, when they require them.

We've integrated new 'needs codes' into our systems, which make it simple to capture and share data consistently about customers in vulnerable situations. We developed a new Incident App, which provides a real time link between frontline colleagues and our customer support team. These are vital step-changes, as they minimise the amount of times customers in vulnerable situations need to engage with us, while still delivering the best possible service for them.

Tackling fuel poverty

During 2018/19 we supported the connection of 4,608 'fuel poor' households to the gas grid. Delivered on our behalf by Affordable Warmth Solutions ('AWS'), and through engagement with local authority and private sector partners, we invested £7.1m on 85 projects across our four networks.

In February 2018, AWS commissioned a mapping and profiling report, to help concentrate engagement activity to London boroughs with the highest levels of households in fuel poverty. Follow-up engagement with these boroughs enabled completion this year of a £371,379 scheme with the London Borough of Barking and Dagenham to switch 88 fuel poor households, previously heated only by inefficient, costly electric storage heaters. We also led a £1.4m scheme with Bracknell Forest Council to connect 498 properties on one of Britain's longest established residential park home estates, otherwise reliant on LPG. We will work with AWS to identify how we can help policy makers and the industry to create the framework to repeat what we have shown is possible in Dagenham and Bracknell. Our focus remains on achieving 36,616 fuel poor connections between 2013 and 2021.

Making a difference in our communities

Our people connect with volunteering for a variety of different reasons. For some it offers the opportunity to give something back to the community or make a difference to the people around them. For others it provides the chance to develop new skills or build on existing experience and knowledge. Regardless of the motivation, what unites volunteers is that they find it both challenging and rewarding. Volunteering Matters delivers Cadent's programme of team volunteering opportunities. In the last year we have improved employee engagement and supported them to connect with communities. Everyone can participate in our local communities and our social interactions are echoed through one of our core values – Community.

Lockable cooker valves fitted in 2018/19

442

60% increase on previous year

Case study:

Dementia friendly utility

Alzheimer's Society United Against Dementia

2018 was our second year of a two year partnership with Alzheimer's Society, as we continue our journey to being formally recognised as a dementia friendly utility. More than 850,000 people in the UK live with dementia. We cover half of the country and our employees interact with customers every day. In partnership with the Dementia Friends Initiative we have enabled 82% of our workforce (over 3,254 employees) to become more dementia aware and given them tools and techniques on how to communicate with someone living with dementia.

By June 2020, we will be ensuring that all customer connected employees have the right level of dementia awareness applicable to their role and where appropriate, providing employees with enhanced awareness and training to enable them to positively communicate with a customer, the customer's family or carer who is living with dementia.

Dementia is the leading cause of death in England and Wales ('ONS') and every three minutes a person will develop dementia.

"We're delighted that Cadent is partnering with us for a third year. The past two years has seen Cadent embed dementia friendly practices across their business as well as raise over £110,000 for Alzheimer's Society. Extending the partnership will help ensure we build on these successes as Cadent works towards becoming a dementia friendly utility."

Jeremy Hughes
Chief Executive Officer, Alzheimer's Society

Ensuring a safe and reliable network

We are committed to providing the highest standards of safety and reliability for our customers.

Strategic report

Ensuring a safe and reliable network

Our network reliably supplies gas for heat throughout the year and is highly flexible so that we can meet the need for energy on the coldest winter days.

This year we have focused on improving our operation, focusing on high reliability and responding rapidly to put things right. As a result, we have performed strongly against most measures with particular strengths in our response to reports of potential leaks and to completing repairs on our networks which finished the year at a long-term best. However, the environment in which we operate is changing rapidly and customers' needs are evolving to reflect this.

We have demonstrated the role the gas network must take in enabling the UK to meet its climate change commitments whilst continuing to provide affordable, reliable and flexible heat.

Delivering a reliable gas supply

We have continued to maintain a strong level of reliability across our networks with overall network reliability of 99.996%. Customers are very unlikely to have their supply interrupted in an unplanned way and the number of gas escapes that we have had to attend has fallen by 17% on the previous year. Our network has operated effectively and been resilient to changes in demand over the year underpinned by our ongoing maintenance, replacement and capital investment. We have experienced only a small number of supply loss incidents that were predominantly down to 'third parties' damaging our assets.

However, we have continued to face significant challenges with our assets in high rise multiple occupancy buildings. These are predominantly in our North London network where we have 79% of the overall high rise population. This year we have undertaken significant additional surveying in response to identifying that we had some high rise building records that were not complete. As we typically find a small proportion of immediate intervention work is required upon these surveys, we have seen an overall increase in the number of interventions required. In addition, we have not managed to bring down the overall time that these customers are without gas from the significant increase we saw through the latter half of 2017/18.

As this experience is not acceptable, we instigated a wide-ranging customer improvement plan for our customers living in high rise buildings which targets and uses innovation to increase the number of repairs we can carry out without interrupting the customers. We have enhanced our engagement with building owners and local authorities to restore supplies as quickly as possible in the event of an interruption, as well as improving the welfare facilities and compensation for customers experiencing an interruption. We are looking strategically at the asset management of these buildings to create a plan for each building in the event of works being required.

We have seen some very promising early signs that this plan is working, with some significant increases in the number of repairs we have been able to complete and a real reduction in the number of high rise buildings off supply over the early part of 2019. This will be a continued focus into the coming year and beyond.

Responding to gas emergencies

We operate the National Gas Emergency Service contact centre, taking calls and giving safety advice on behalf of the industry. In 2018/19 we answered 1.4m gas emergency calls of which 93% were answered within 30 seconds.

During the year we attended 393,620 reported gas escapes. Of these, approximately 83,201 (21%), 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)	1.36m	
Answered within 30 seconds	1.27m	93%
Reported gas escapes	393,620	
Escapes related to Cadent's network	83,201	21%
Escapes related to other matters (CO, boilers etc. – not all Cadent network related)	310,419	79%

We aim to respond to gas escapes and potential risks from carbon monoxide poisoning as soon as possible. In 2018/19 our average response was 32 minutes for those cases where the reporter was unable to remove the hazard based on our safety advice. This is an improvement from our 2017/18 average of 35 minutes.

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
2018/19 Controlled*	99.3%	98.8%	99.7%	99.4%
2018/19 Uncontrolled**	98.5%	98.1%	98.9%	98.9%

* 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.

Street Works UK

Reducing disruption

We have increased our focus and commitment to reducing the impact on customers and the environment when carrying out street works. Examples of how we have achieved this includes deploying robotic technology in North London and we will be rolling this out across all of our networks in the near future. Our engagement activities have seen our teams leading from the front in working with key stakeholders such as the Department for Transport on the Street Manager Project. This will see the replacement of the existing Electronic Transfer of Notices ('EToN') system with a new Street Manager system to facilitate faster, easier processing of permits and notices for excavating on roads and highways.

We have won two prestigious 'Street Works UK' awards, one by the West Midlands partnership in conjunction with Warwickshire County Council for a complex main renewal programme in Stratford-upon-Avon and the second for 'outstanding contribution to Street Works' by one of our employees.

We are determined to further improve our performance and to reduce the impact on our communities. For works where we have to operate in the highway, we have completed 98% of work within the time originally estimated.

Work completed within time estimate

98%

Strategic report

Ensuring a safe and reliable network continued

Working safely

Providing safe, clean energy is our purpose and ensuring that our operations are safe for the public and our workforce is central to our operating ethos. This year we have focused 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.

While we have made progress, we have found it challenging to move beyond our performance of 2017/18, with more of our workforce injured this year. We have seen a significant increase in injuries following road traffic collisions where our drivers were not at fault. Our lost time injury rate for 2018/19 was 1.13 per million hours worked.

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 2018/19, we have committed to further investment to ensure this continues.

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 a monthly Operational Safety Committee and ensure that the tone from the very top of the organisation is consistent through Board level training on Process Safety management.

Renewing our network for the future

In 2018/19 we replaced 1,701km of old iron gas mains across our network with a connection to a property every 8.5 meters on average. Through this replacement we are providing our customers with a modern gas supply which is safe and reliable today and which supports a zero carbon gas supply for the future. The new pipes significantly improve the safety of our network and pave the way for effective transportation of hydrogen to meet the UK's future energy needs. In replacing these pipes, we prioritise those pipes which pose the highest risk and we are ahead of our commitments to remove risk from our networks. We are however working hard to improve the pace at which we are replacing all pipes to ensure that we meet our commitments for the total length replaced. We have developed plans to accelerate this in order to achieve our challenging RIIO-1 target by the end of the price control period.

We have increased our programme of other asset health improvements to ensure we provide a reliable network for the future and to meet our Network Output Measures. We have increased our investment in asset health improvements by 18% upgrading and replacing assets from the high pressure above ground installations located outside of major conurbations all the way through to the refurbishment and replacement of individual pipeline isolation valves.

Full details of our performance against our regulatory obligations are available in our performance documents on our website.

Case study:

Reducing disruption for our customers with CISBOT

A small team of Cadent engineers completed a pipeline rehabilitation job in the heart of London's West End.

Working closely with robotics experts, our Cadent team successfully repaired 850 metres of large diameter gas main running beneath The Strand. This was a job that would normally take nine months, but our team had it wrapped up inside nine weeks.

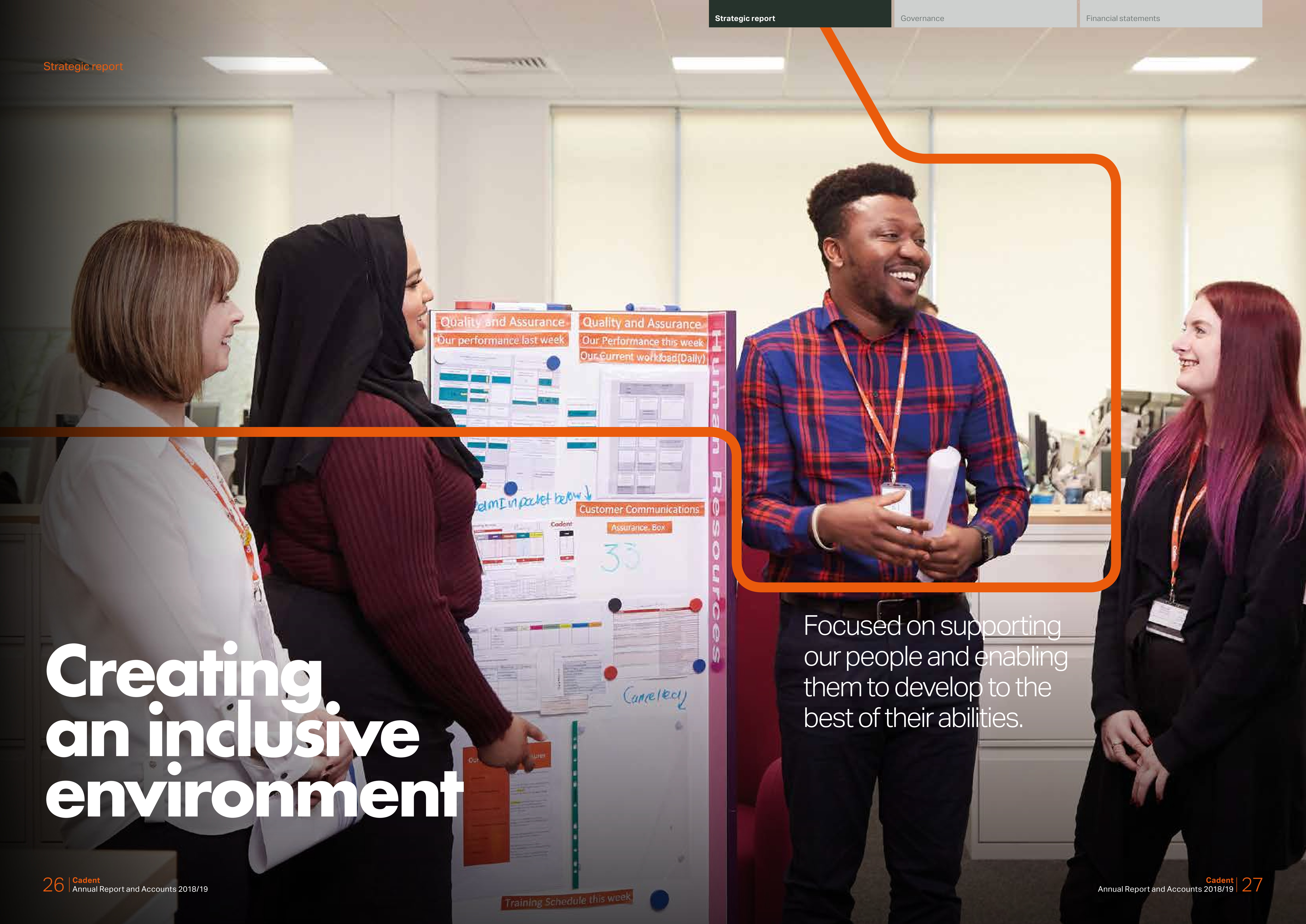
Their efficiency was down to an innovative new approach, using CISBOT robotic technology to restore and rehabilitate mains rather than replacing them. This meant there was no need for many excavations in an area of central London where gas works typically mean significant disruption for pedestrians and traffic. Not a single gas supply was affected during the works, which were followed up by a second operation in nearby Oxford Street, where footfall averages 13,560 people every hour during the day.

Rehabilitation rather than repair is the secret to CISBOT's success. It is a formula that is set to be rolled out on a further 33km of our pipeline in high-profile locations, including Regent Street, Long Acre and Park Lane in the final two years of our current regulatory period.

How CISBOT works

Once a single excavation is completed and shuttered, the CISBOT module is inserted into the gas main. The robot is operated by a joystick and touchscreen from a vehicle, with the operators watching on screens and rehabilitating each joint.

CISBOT is set to transform the way we work and extend the lives of our pipes by decades. Although it is not currently suitable for every kind of job we need to do, we plan to use it more and more in the future. That's great news for Londoners, as they will continue to enjoy the benefits of safe and reliable gas supplies, with much less disruption from our essential work.



Creating an inclusive environment

Focused on supporting our people and enabling them to develop to the best of their abilities.

Strategic report

Creating an inclusive environment

We have a dedicated workforce of over 4,000 people. It's our people who deliver our strategy and service for our customers.

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 2018/19, we have continued to establish our identity as Cadent and setting ourselves up for success. Instrumental in driving this has been the work we have completed in several areas including policy and procedure change, bulk transfer into Cadent's new Defined Contribution ('DC') pension scheme, improving our Employee Value Proposition ('EVP') and building our new company wide Competency/ Behaviour frameworks.

Our values are embedded into our ways of working such as our key people processes, for performance management, objective setting and our company recognition scheme.

Building for the future

We are contributing to the wider skills challenge in engineering and the energy sector through our collaboration and cooperation with peer energy and utility organisations in the UK. Through our membership of Energy & Utility Skills and its Skills Partnership group we have led the sector's Apprentice and Technical Education Advisory Group and supported the new 'Talent Source Network' programme aimed at increasing applications into our businesses from black and minority ethnic ('BAME') communities and hard-to-reach socially disadvantaged groups.

We are also promoting engineering as a career by joining together with other utility organisations, leveraging as one entity the interesting, exciting and valuable career proposition engineering can be.

This year we have built our Education and Skills Strategy that focuses on three elements: STEM enrichment (science, technology, engineering and maths), careers inspiration and careers experiences. The strategy focuses on building relationships with a key number of schools in our recruitment hotspots.

We continue to recruit around 50 apprentices each year and this year the first cohort completed the new apprenticeship standard 'Gas Network Craftsperson'. We were the first company in England to complete this standard and also celebrated with the 500th apprentice completing through Energy & Utilities Independent Assessment Service ('EUIAS') with an event at the House of Lords.

This year we also recruited nine graduates onto our Graduate Development Programme and five onto our Engineering Training Programme to help improve and sustain our talent pipeline. The recently improved Engineering Training Programme has been a success as it aligned the training more effectively for all functions. We have also completed a strategic review of the graduate development programme and are implementing changes from September 2019, with a focus on engineering graduates.

We had continued success as we won the number one Apprentice Employer in the Job Crowd top 50 companies and 20th place in the top 100 Graduate Employers across all sectors. In the Energy & Utilities sector we came top in the best Apprentice Employer.

Driving performance by building our skills and expertise

Our people are essential to delivering our vision. We need the right balance of skills to ensure our operational performance is future proofed.

We continue to bring in new talent to support our skills pipeline through apprentices, graduates and our Engineering Training Programme. During 2018/19 we delivered around 23,400 training days across our employee population of which 93% was focused on safety and technical competencies.

We have continued to oversee the effectiveness of our technical training delivery by improving the curriculum and planning to remove duplicated elements and increase on site training to 30% of delivery. Work continues to determine further opportunities in 2019/20.

We have also improved the process to assure the competence of our staff. This is achieved through modified training approaches in conjunction with onsite inspections and technical updates.

Our Leadership & Capability Catalogue has been completely overhauled to align with our new Competency/Behaviour frameworks and will launch in July 2019 for our operational transformation programme. We have long since encouraged a blended approach to learning and we are moving increasingly towards digital e-learning solutions; providing many more options for our people to shape their personal learning journeys; when, where and how they need it. Concurrent to our new catalogue, we will have leadership journeys that define relevant and recommended learning for people operating at different levels in our business and to support them at the point of transition to a new role.

Our new Cadent information systems platform is creating new opportunities to improve our ways of working, collaborate more and learn via social cohorts.

We are making strong progress in building our core capabilities curriculum in the areas of commerciality, change and customer with work planned on regulation once the RIIO-2 framework is fully defined. By way of example, we have built our new business simulation – Accelerating Strategy Execution at Cadent – that will launch in Q2, 2019/20 to align to our new vision, strategy and business plan. We also have added a rich range of e-learning from the Institute of Contract and Commercial Management to support our practitioners in this field.

Development of 'Learning Space' our new portal to connect all learning solutions has been completed for implementation in June 2019 – it carries a rich mix of content, tools and templates to support our learning. This is supported by Learning Link (Learning Management System) that helps us to plan, track and monitor the effectiveness of our training solutions.

Organisation Development and skills development centres

The Cadent Organisation Development team is a mix of experienced technical trainers and professionals in leadership, new talent and planning. Two main training centres, Hitchin and Hollinwood, are supported by satellite centres at Windsor Street and Slough to improve local delivery and hence support operational productivity.

The purpose of the function is to help the business acquire and develop talent, grow our capability and deliver all training, skills and professional capabilities needed to deliver our people plan. Our aspiration is to be recognised as a great place to grow for our people and those who aspire to join us.

The function's objectives centre on delivery of Leadership and Professional Development, Engineering and Safety Training, Employee Engagement, Developing our Talent Pipeline and our Education and Skills / Schools outreach programme.

Number of training days

23,400

delivered across our entire employee population

Diversity and inclusion

We are committed to equality, diversity and inclusion to support both a great experience for our employees and in promoting Cadent as a prospective employer for future talent. Our aspiration is to represent the diversity of our customers across our networks and to reflect the communities we serve.

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

By ensuring that our recruitment processes are fair and equitable, we aim to attract a wide range of candidates. Our strategic partnerships with EU Skills, coupled with our own internal initiatives are driving our commitment to equality across gender and ethnicity and supporting our social mobility ambition.

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

We are actively sharing our colleagues' stories and successes both internally and externally, and will continue to do so, to celebrate success, promote diversity and continue to encourage a diverse pool of talent.

Strategic report

Creating an inclusive environment continued

Taking positive steps for gender pay

In April 2019 we published our second gender pay gap report, which outlines our continued work to close the gender pay gap and highlights some additional key areas of future focus.

Our mean pay gap is 12.5% and whilst we recognise this has increased from last year, we are working hard within our business and across our industry to help change what has traditionally been a male dominated sector. We are taking positive steps forward, but this level of change takes time as we work within our communities to inspire and attract a diverse range of talent.

We signed the Energy & Utility Skills Inclusion commitment to make our industry more diverse and inclusive. This is a critical step which also informs our future plans. In addition to this, we are committed to consistently reviewing and addressing any imbalance we have within our business to make it a diverse and inclusive environment for everyone to thrive in.

When looking at our pay gap, in summary 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 the work undertaken by our field force employees, providing a 24/7 gas emergency service, their total package includes other payments in addition to basic pay, such as standby and flexibility payments. Whilst the methodology is regulated for the reporting of 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 gap is 51.8%, primarily driven by the difference in our Field Force package, which incorporates elements that are classified as a bonus, therefore raising the proportion in the calculation. As most of our field force employees are male and this is also the largest group of employees that make up our workforce, this has a significant impact on the bonus gap. The remainder of the gap in bonus relates to the fact that we have fewer women than men in senior managerial roles in the business.

In addition to our work with Energy & Utility Skills and promoting STEM, we continue to close the gap with:

- Development of our employer brand to attract a diverse audience and continue to ensure opportunities are available across our business.
- We support the continued development of our employees, such as the Spring Board and Spring Forward programmes, designed to coach, train and support the ongoing empowerment and confidence of women.
- Support for flexible working opportunities where possible.
- A requirement for assurance across our processes to ensure consistent and fair approaches are taken, providing challenges where necessary, such as performance and pay reviews.
- The formation of a Diversity and Inclusion Conscience Group to ensure this remains a key focus for our business.

A copy of our Gender Pay report can be found online at cadentgas.com/nggdwsdev/media/Downloads/about/Cadent_GeneralPayGapReport-2018.pdf

Celebrating success

Our new recognition scheme Cadent Congratulates was launched in October 2018. The scheme is designed to make it really easy to say 'thank you' to our colleagues creating a social culture that recognises each other via peer to peer recognition. Our people use a Social Wall to post their 'thank you's'; this is a great way of sharing the fantastic work across our business. Since the launch around 600 recognitions have been posted on the wall.

In addition to the Social Wall, colleagues can nominate each other for a monthly Value Award. Recognition is strongly linked to our values and we select up to five nominations per value per month. Nominations are considered by a Recognition panel with representatives from across our business to ensure a consistent approach. Only the best nominations that have exemplified our values will be awarded. Successful nominations receive financial award and also a pin badge. To date, 134 nominations have been received with 41 awards being made.

Each quarter we award a CEO Spotlight Award. These recipients are selected as the very best and demonstrate either outstanding work or behaviours that showcase our values. Winners receive financial recognition and a CEO Spotlight Award trophy.

Celebrating success is really important to us and receiving recognition from the wider community is highly valued. We celebrate individual stories and share the great work and behaviours reinforcing what success looks like.

Engaging our people

We understand that engaged employees are essential to the future success of our business and monitor this through our employee surveys.

The previous surveys have led to clear company wide themes for focus and attention:

- Building understanding of our strategic future and plans.
- Managing and supporting our people through change.
- Creating a work environment which enables productivity.

Leaders and a network of Engagement Champions across our business receive the quantitative and qualitative results and agree action plans for their areas. Our Engagement Champions meet on a quarterly basis to share their progress, experiences and best practice. Since launching our new intranet site, there is now greater opportunity to share the stories and communicate the progress being made in response to the survey.

Health and wellbeing

Our Executive led mental health steering group agreed recommendations and are embedding into business as usual. One of 106 companies who took part in the MIND Workplace Wellbeing Indicator survey, we were awarded 'Committed to Action'.

Pilots of manager and employee mental health awareness training have been delivered and are being developed for wider roll out.

Reduction in Hand Arm Vibration risk continues to be a focus and a process to support the business with the purchase of low magnitude tools and equipment has been developed. Two new vibration recording methods are being trialled.

We have developed a bespoke Display Screen Equipment E-learning product which reflects new ways of working and technologies.

We have implemented new Health and Wellbeing contracts both of which are promoting the engagement of individuals and teams in health and wellbeing programmes.

Building communities

Strengthening our reputation through the actions we take means our presence in communities is reliable, valued and trusted. Our responsible activities help us create closer connections locally with our customers and we recognise that we play an essential part in today's society, so we care about how our operations affect our stakeholders, employees and customers.

We communicate with our employees across a wide variety of topics and have established effective channels to do this, for example, emails, cascade briefings, SMS alerts and in-house newsletters. We believe that it is important to seek the views of our employees to inform decision making on matters which may affect them, and both formal and informal mechanisms are used to ensure that regular consultation takes place with employees and their trade union representatives.

We sponsor the 'EmployAbility – Let's Work Together' scheme which changes young disabled peoples' lives for the better. This is a joint scheme which works by giving interns from our partner Special Educational Needs and Disability ('SEND') schools experience working in a number of roles within the company. It is founded on strong relationships with local schools, Dorothy Goodman in Leicestershire and Oakwood, Woodlands and Exhall Grange in Warwickshire. It is an employee-led supported internship scheme for young people aged 17 to 19.

Since the scheme began in 2014 an average of 71% of interns gained paid employment either with us or with other local companies, compared to the national average of 6% and we were recently awarded 'Most Supportive Employer' by the National Autistic Society.

New schemes inspired by our programme are now running at Severn Trent in Coventry, Sheffield Teaching Hospitals NHS Foundation, John Lewis and Amey in Sheffield, and Yorkshire Water in Leeds.

Ethical practices

We are committed to strong corporate governance and high standards of ethical conduct. As part of this, we're committed to 'Always Doing the Right Thing' in the choices and decisions we make every day, both as individuals and as a company. The Board sets a strong 'tone from the top' on the importance of our high ethical standards, whilst employees are supported to act ethically by local 'Ethical Champions' in each area of the business, as well as by a dedicated Ethics team. Our ethical guide, 'Always Doing the Right Thing', on which all employees are trained, underpins our company's values, guiding the way we behave and how we work today, along with our aspirations for tomorrow. Through our Supplier Code of Conduct we outline our expectations of how our suppliers, and their supply chain partners, are to act when providing Cadent with goods or services, ensuring the way our suppliers do business aligns to our values and aspirations. We expect all our suppliers to act in accordance with the highest ethical standards, and to comply with all relevant laws, regulations and licences.

Our Modern Slavery Statement sets out the steps we have taken to prevent slavery and human trafficking in our business and supply chains and at the same time raises awareness of this important issue. We continue to review our processes to make sure we operate free from enforced labour, human trafficking and slavery, and provide regular guidance and training to our employees to embed our ethical code of conduct.

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

Improving our environment

Minimising our impact on the environment is something we take very seriously and is a core consideration in how we work.

Strategic report

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:

- Look for ways to reduce the impact of climate change by implementing mitigation and adaptation measures.
- Ensure environmental sustainability is considered in our decision making and inspire a sustainable-thinking culture.
- Continually improve our environmental management system to protect the environment and reduce the risk of environmental incidents.

For more information please read our Safety & Sustainability 2018/19 report.

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.

Safety & Sustainability Committee

Our Safety & Sustainability Committee provides key oversight and assurance on the management of 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.

Published in July 2019, our first Safety and Sustainability Report sets out our contribution to 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. We will publish the Safety and Sustainability Report annually to set out the metrics and measures we believe are important and how we will track performance against our ambition going forward.

To ensure our environmental obligations and responsibilities are managed in the right way, we work with internal and external stakeholders to identify applicable legal requirements along with any significant areas of potential risk to, or impact on, the environment. All of our operations are covered by an Environmental Management System ('EMS'), which in 2018 was certified to the ISO14001:2015 standard. The EMS sets out our environmental procedures to identify, manage and control potential environmental impacts of our operations. During 2018/19, we introduced a new level of environmental audits to ensure compliance across the business, and to provide assurance for the environmental management at our depots. The EMS defines our key objectives and ensures compliance with our obligations and supports our people to drive continual environmental improvements.

As part of our drive for continual improvement, we have continued with the environmental baseline exercise to assess the status and quality of the environmental practices at every occupied Cadent site. The results have provided a comprehensive insight into our risks and improvement opportunities 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.

Greenhouse gas ('GHG') emissions reduction since 1990

68%

Our target was 45% by 2020

Reducing our greenhouse gas emissions ('GHG')

We recognise the responsibility that businesses like ours have in helping to address global issues. We have publicly committed to medium and long-term targets to reduce our GHG emissions. We have already successfully reached our 2020 target ahead of schedule (68% 2018/19 vs 2020 target of 45%). We remain on track to meet our longer term target of reducing GHG emissions by 80% by 2050.

The majority of our GHG emissions are from gas losses from our networks (>95%), known as shrinkage. Through our repair, maintenance and mains replacement programme we have replaced damaged or low quality pipes with new and more sustainable, leak-free plastic alternatives.

Other main sources of our GHGs are energy consumption in offices and other business premises, along with fleet vehicles – primarily vans and company cars. We procure efficient vehicles for our fleet and strive to meet local or regional air quality requirements. Our programmes have already reduced the average carbon dioxide emissions of our company car fleet from 106 g/km in 2016/17 to 94g/km in 2018/19. We have 257 ultra low emission vehicles ('ULEVs') in our company car fleet. This year we have reduced the emissions cap on cars available on our company and salary sacrifice car schemes and offered 'green' incentives to company car users, encouraging efficient, low emissions choices, including ULEVs. We have implemented an energy management system across the business that monitors performance and identifies opportunities for reducing energy consumption.

We are committed to leading on sustainable gas usage and have identified wider use of renewable compressed natural gas ('CNG') 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 zero emission fuel for the future (at point of use).

Strategic report

Improving our environment continued

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 are able to secure access to certified renewable sources of electricity. Through 2018/19 nearly 90% of the electricity we used to light and power our offices and depots will be from renewable sources, offsetting greenhouse gas emissions and making a reduction in our Scope 2 carbon footprint.

We approved the construction of our first renewable generation plant, a solar panel array at an operational site. This pilot project will provide all the electricity needs on site and export surplus electricity to the local grid providing a model for future projects.

ULEVs in our company car fleet

257

Average emissions of our company car fleet

94g/km

Managing our resources

We coach and support our people and work with external partners to minimise the avoidable waste we produce. Through 2018/19 optimisation of waste management at specific locations has 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 12% of first use aggregate. We have set a goal of zero avoidable waste to landfill by 2021. In 2018/19, about 14% of our waste went to landfill, which is expected to reduce to 10% next year. However, to fully meet our targets we will need to continue changing our facilities and behaviours and embrace innovation.

Waste Management Action Group

In 2018 we launched our sustainable waste management strategy to challenge 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 are on target to remove all single use plastics in our offices and depots through a combination of incentives and removal of unsustainable choices.

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 waste stream audits to further remove waste items from general waste.

We have a target of net zero avoidable plastic in our supply chain by 2025 and are also assessing how we can extend our plastic reduction ambitions into our sourcing products and services. In 2018, we also started to request that potential suppliers can demonstrate how they will support this objective during the tendering process including the reduction of packaging or substitution for more sustainable alternatives.

Limiting our environmental footprint

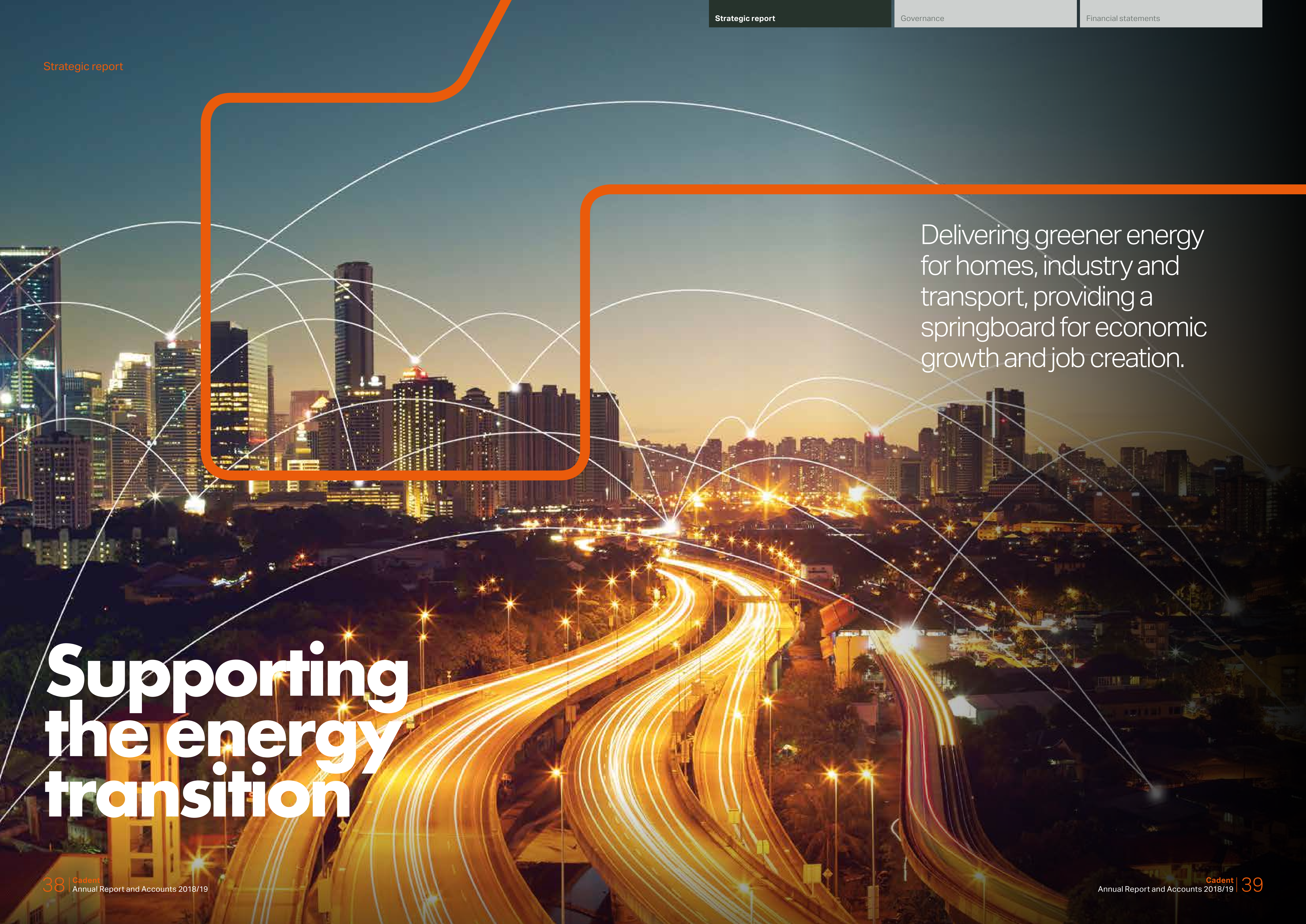
Although greenhouse gases and waste are considered our primary environmental issues, we also address other environmental impacts including monitoring water consumption in offices and depots and reducing the impact on biodiversity from our projects.

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 Sustainable 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.

For more information please see our Safety & Sustainability 2018/19 report available from cadentgas.com

Environmental training

To ensure that our people have the knowledge and skills to manage the environment in their day-to-day activities, we have reviewed and updated our internal environmental awareness training package and started to implement this within the business. 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.



Delivering greener energy for homes, industry and transport, providing a springboard for economic growth and job creation.

Supporting the energy transition

Strategic report

Supporting the energy transition

The future role of the UK's gas networks

The direction of energy policy and the shape, size and mix of the UK's energy network are the current focus of all energy sector stakeholders as well as policy makers and potential investors.

There are significant challenges in defining the UK's future energy mix, but also significant opportunities. Like much of the energy industry, we believe that the UK will benefit from a mix of energy sources rather than a single dominant energy. This will optimise the benefits of gas, electricity and other energies by using them in the contexts for which they are most cost effective, as well as continuing to give customers a choice.

Gas, for example, is unique in its ability to respond instantly to seasonal peaks in demand from domestic heat customers. Electricity simply cannot behave in this way, cost effectively, but green gases like hydrogen can.

The importance of continued funding for innovation

In everything we do we put our customers first and we attempt to demonstrate to government how we can support its objectives regarding the environment, energy policy, fuel poverty and economic growth. In 2018/19 we have made great strides in facilitating progress towards a greener future, supported by NIC and NIA funding. To realise the full potential of these innovations, it is vital that there is sufficient funding allocated as part of RIIO-2 and a supportive response from policy makers. Only then can we truly start to deliver the reductions in CO_2 for which we are all working towards.

Respecting regionality and customer choice

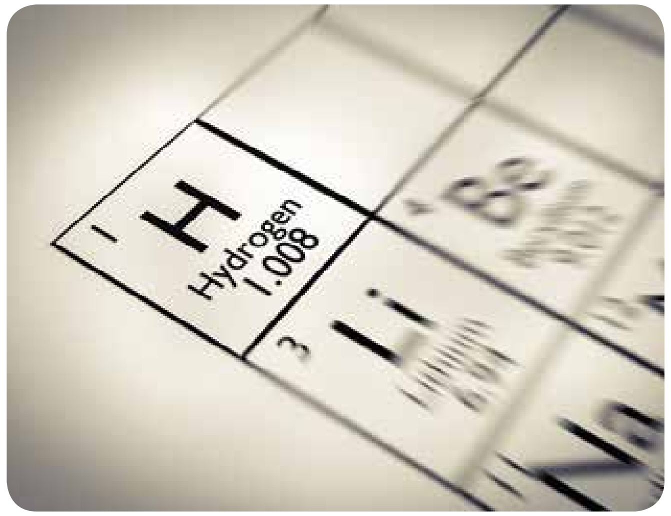
Each of the UK's gas networks is pursuing different possible solutions to the challenge of reducing carbon emissions. We support this regionality as it reflects the strengths of each network's location and the resources available within them. As the UK's biggest gas distribution network operator, we have a diverse range of locations from coastal, city centre, rural to industrial and we are interested in using the best approach for each setting, wherever that innovation has originated. In the same way we are happy to support our peers in delivering green gas solutions.

Collaboration across the industry, together with appropriate changes to policies and regulatory frameworks, will be critical in delivering carbon reduction while continuing to give customers a choice and meet their demands for flexible, instant heat for their homes.

Greening the UK's gas pipe network

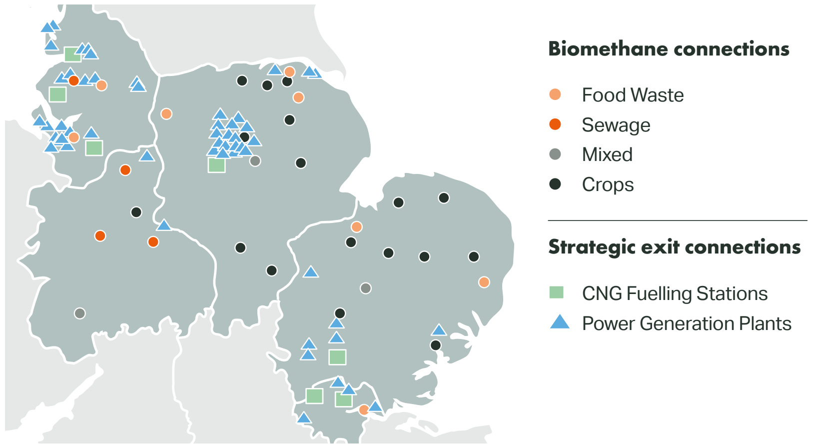
The UK's gas pipe network is an asset of enormous value and one which we can operate and should continue to serve the country for many years to come. Fortunately, this network can be adapted to deliver green gas such as hydrogen which produces zero CO_2 when burned. Our programme to renew and replace older pipes means that our network is capable of being repurposed for the transportation of green gases including hydrogen. Interestingly, all boilers manufactured since 1995 have been tested by manufacturers on a blended gas with up to 23% hydrogen so it is reassuring to see different parts of the energy sector thinking along the same lines.

All of this means that the transition to using more hydrogen blends across the UK will be considerably less expensive than other proposals involving new networks for electricity. This means minimal disruption for customers who will notice little difference and avoids widespread inconvenience and additional costs for customers in replacing their appliances.



Committed to decarbonising heat and transport

We lead the gas networks in supporting growth of the UK biomethane sector by turning food, farm and other wastes, otherwise destined for landfill, into a gas to fuel homes and HGVs. We now have 32 biomethane producing plants on our networks, with volumes entering our network equivalent to the heating demands of as many as 110,000 homes. Acting on stakeholder feedback, we held a series of workshops and events to facilitate the standardisation of GDN processes. We coordinated a very successful biomethane engagement day in March, with plans for another later in 2019.



Connection Type	East Anglia	East Midlands	North West	West Midlands	North London	Total
Biomethane	11	11	3	6	1	32
CNG fuelling stations	1	1	3	0	2	7
Power Generation Plants	6	27	24	2	4	63

We have seen an acceleration in the number of enquiries and quotations for CNG fuelling stations and Peaking Power Plants wanting to connect to our network; this includes connections to the medium pressure ('MP'), intermediate pressure ('IP') and local transmission ('LTS') pipelines. Previously, biomethane plants connecting to export gas to our LTS pipelines have historically been designed and constructed by Cadent in house. To support our customers in connecting more power generation plants and CNG fuelling stations, we have introduced the offering to connect to the LTS using our self-lay process; this is a process that has successfully been used for our entry connections since 2013. We hope by doing this we will be able to offer our customers more options for connecting to our network in a timescale that suits the project and more flexibility.

Supporting more efficient biomethane injection

The need of biomethane producers to add propane to bring the Calorific Value of the gas in line with our current billing method of Flow Weighted Average Calorific Value, is both a cost and reduces the green credentials of the gas. Cadent's Network Innovation Competition project Future Billing Methodology ('FBM') is exploring ways to remove the need to add propane. We are exploring the potential of altering the way we bill to allow the biomethane producers to avoid the need to add propane.

The project is due to deploy sensors onto the network to gather data on how the biomethane from two producers flows around the network. This will then give us evidence about the robustness of defining new billing areas directly related to biomethane injection.

The project will conclude in March 2021, at this point the implementation of any recommendations from the project will require industry engagement to support the regulatory and legislative changes that will be needed to put this into practice.

Our collaboration with industry helped to secure the government's decision to maintain incentivised natural gas fuelled HGVs in the 2018 Budget.

The result ensures that fuel duty on all alternative fuels will be fixed until 2032 with a review in 2024. It crucially aligns with the timetable for the Renewable Transport Fuel Obligation, which also runs until 2032, and enables certified renewable gas to be used to help decarbonise the UK's HGV fleet.

Strategic report

Supporting the energy transition continued

Pathways to hydrogen transport

We always aim to identify practical applications from our innovation and research activities and to maximise the synergies that are available to make our work as efficient and beneficial as possible. An outstanding example of this is how we have expanded the potential scope of our project HyNet in the North West.

The concept of HyNet is to produce hydrogen in the North West and deliver it using an upgraded gas network for use as industrial power and domestic heat. Of course, once this has been achieved, the hydrogen is more easily available for use in other settings such as transport. We have specifically investigated the opportunities for hydrogen transport in the North West and our HyMotion report (published in June 2019) provides a comprehensive analysis of this. It estimates the relative costs of trailer-delivered hydrogen versus network-delivered hydrogen and finds that the network can deliver up to 83% of savings. It also explains that hydrogen fuel cell electric vehicles ('FCEVs') offer faster charging and longer ranges than other electric vehicles and with the widespread availability of hydrogen fuel and hydrogen cars, the price to customers will be around the same as a conventional car. Commercial transport is also considered – buses, HGVs and trains – and pathways to them becoming hydrogen-fuelled are laid out. We have worked closely with Element Energy and Progressive Energy to produce this key report and have shared the findings widely to help progress action on these areas.

It is now widely accepted that the only way the UK can reach the 2050 targets is by including hydrogen in its future energy choices. Our research shows that an intelligent, coordinated repurposing of our gas network – which serves homes, industry and transport – can deliver low carbon benefits much more cost effectively than many other options.

Case study:
Delivering networked hydrogen for fuel cell production

We are an enabler of innovation and we work widely with experts and leading academics across the energy sector to explore solutions that will be of benefit to the whole sector and, of course, the environment. That's why we're working with the National Physics Laboratory on a project called Hydrogen Grid to Vehicle ('HG2V').

The utilisation of hydrogen in transport remains a cost effective and the most environmentally friendly route to replace petroleum-based fuels in transport applications and to improve air quality. To ensure the overall sustainability of its application, quality thresholds must be set, regulated, maintained and adhered to across the life cycle of the hydrogen fuel to be utilised.

The quality of hydrogen produced, transported, delivered and used is a key requirement for the use of hydrogen in fuel cells and in transport applications. In order to enable the large scale implementation of fuel cell production and use, we need to find a way of guaranteeing a level of purity in network-delivered hydrogen as, like any gas in a network of pipes, hydrogen will acquire impurities on its journey to is point of use.

The fuel cells utilised in FCEVs are exceptionally susceptible to reversible, and in some cases irreversible, degradation by trace contamination in the hydrogen fuel utilised. It is therefore essential that hydrogen supplied by producers and used in transport applications meets the requirements or set thresholds to ensure the durability and long life of FCEVs. Until this issue is resolved, the development of a network of hydrogen refuelling stations will be hampered.

Another challenge is the need for regulations and standards to ensure that hydrogen produced from a range of sources can safely be injected and introduced into the gas grids without negative effects on the structural conformation and end use of gas in the grid.

The project is therefore investigating three key points from the full life cycle of hydrogen in the grid:

- Contaminants that might arise
- Source of contaminations
- Effects of the contamination on the grid and its end application

Early findings are that most producers in the UK are currently producing hydrogen of a high purity. However, we need to investigate the possible risks or uncertainty that may arise from an upscale in production. Recent studies also indicate that the presence of hydrogen as a blend with natural gas (20% hydrogen blend) will lead to few changes in the structural integrity of the grid. Indications also show that the blend will be suitable for use in other applications in combustion and domestic appliances without any real infrastructural or technical changes in the conventional systems. An assessment on its suitability for transport applications and a techno economic assessment of the required extra infrastructure has to be carried out with the view to ascertain the overall advantages of using the hydrogen from the grid for transport applications.

An in-depth analysis of all mitigating challenges and changes required for new networks for hydrogen has to be carried out as well to give the basis for its roll out in the long run.

Hydrogen in our homes

The HyDeploy project which we reported on last year continues to progress well with our partners. We have successfully engaged stakeholders, tested their appliances and prepared the way for introducing a hydrogen blend in September 2019. This first stage at Keele University is being followed by a larger trial in the North East next year.

Safety

Naturally, safety is the number one priority for the UK's largest gas distribution network. We are maintaining this focus throughout the development of our green initiatives. A major part of the HyDeploy project (in which a blend of up to 20% hydrogen and natural gas is being tested in 100 domestic homes) 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.

Ideally placed to support other green initiatives

The gas network provides a ready-made infrastructure for the delivery of hydrogen for use in transport such as hydrogen trains, buses and fleet cars and in energy extensive industries. This would bring a reduction in CO_2 emissions from these sources.

Our HyNet project in the North West continues to gain support from regional stakeholders as it will provide the foundation upon which to build logistics networks and industrial clusters running on hydrogen.

Helping to make the UK a world leader in hydrogen production and use

By promoting the use of hydrogen in a number of 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.

Our Future of Gas activities are designed to address these principal requirements:

- Engaging with stakeholders to encourage partnership working towards real workable solutions.
- Developing and supporting technologies that can lower emissions.
- Providing evidence to inform policy decisions on future investment in decarbonising the energy market.
- Identifying the optimal energy solution for each region of the UK and its gas network.
- Respecting regionality enables us to harness the natural attributes of an area to generate energy.

Challenges of fuel supplies

Hydrogen can be produced in a number of ways including steam methane reforming and by using an electrolyser to extract hydrogen from water. Steam methane reforming is the most cost effective method for large scale production and produces few greenhouse gases when combined with carbon capture and storage processes. CO_2 can be stored in repurposed salt caverns, left empty following oil extraction. This has the advantage of repurposing infrastructure to enable it to continue to add value.

At the moment there is no large scale production of hydrogen in the UK and investment is required to achieve this. We are gradually increasing the amount of biomethane in the network, by connecting clients from the agriculture and food production sectors.

Case study:
Hydrogen in our homes is coming soon

We are now in the second year of a project to test a hydrogen blend in a domestic setting, being used for heat and cooking. 100 houses and 30 faculty buildings at Keele University will be taking part in the first every live trial of hydrogen in the UK, with the launch date in September 2019. The HyDeploy Consortium – led by Cadent in partnership with Northern Gas Networks, Progressive Energy, ITM Power, HSE and Keele University – have successfully reached the stage where an electrolyser is being installed on the campus. This follows gas safety checks in each of the 100 homes as well as bottle testing with hydrogen for every appliance. Reassuringly every single appliance that passed the gas safety checks also passed the hydrogen test.

The response by customers has been very positive because inconvenience and disruption have been kept to a minimum. We expect that when the blended gas starts to be used in homes, they will notice very little difference, but it is important that we collect the evidence to confirm this. We are delighted to be working with Keele University who are joining us as part of their own commitment to sustainability.

Financial review and risk management

Strategic report

Chief Financial Officer's report

Our second year of standalone operation has again delivered a strong set of financial results ahead of our 2018/19 targets and our prior year performance.

Introduction

Building on the process of establishing our new identity following separation from National Grid and the forthcoming sale of their remaining 39% stake, our focus has been on progressing our business transformation activities to ensure that we can deliver the levels of efficiency, reliability and customer service that our shareholders expect and our customers deserve.

The steps we have taken to embed a culture of effective and focused management of costs across our organisation have begun to show results with our 2018/19 regulatory controllable costs decreasing by £43m when compared to 2016/17 and the recently implemented changes to our organisation structure to become more network aligned provide confidence that our ongoing programme of transformation activities will enable us to reach our long-term goals. This strong financial performance in the year reflects the hard work of management and the dedication of our workforce.

Supplier invoices paid within 60 days

99%

RAV ('Regulated Asset Value')

£9.7bn

(2018: £9.4bn)

Julian Allsopp
Interim Chief
Financial Officer

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

RIIO-2

Ofgem has started work on the RIIO-2 price control which will cover the 5 year period from April 2021 to March 2026. We continue to work closely with Ofgem to develop the framework and understand the impact on our business. Decisions already taken by Ofgem include a move from RPI to CPIH inflation of our Regulated Asset Value ('RAV') and a proposed methodology for the cost of equity that points to a value that is lower than the current RIIO-1 price control. Our financial risk management framework takes account of the impact of the uncertainties over the future price control settlement and we will continue to actively monitor and respond to the impacts of the price control process as it progresses.

Investing to ensure the safety and reliability of our networks

Our balance sheet is dominated by the value of our physical assets and the corresponding borrowings that fund our capital investment programmes. When looked at through the regulatory lens, our investment then converts into our RAV. The RAV is a key metric, as is the effective delivery of our capital investment, to support the improvement of safety in our network in this price control.

Capital investment was £736m (2018: £612m) and is primarily associated with the ongoing gas mains replacement programme which saw 1,701km of mostly cast iron pipes replaced by polyethylene pipe during the year. The remaining capital investment was to maintain the integrity of our network infrastructure, at £267m (2018: £205m).

Our RAV grew by £0.3bn to £9.7bn in the year, against which we have an adjusted net debt (consistent with the regulatory measure) of £6,098m, being 63% of RAV.

Investment in our network increased to £736m in 2018/19.

Cash flow and net debt

Borrowings (both current and non-current) at 31 March 2019 were £6,735m (2018: £6,377m) mainly comprising of fixed rate and index linked debt.

Adjusted Net Debt	£m
Borrowings	6,735
Cash and financial investments	(337)
Derivatives	30
Net debt	6,428
Derivatives	2
Unamortised debt fees	11
Unamortised fair value adjustments	(301)
Accrued interest	(42)
Adjusted net debt	**6,098**

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 the year we successfully issued c. £680m of US Private Placement ('USPP') notes in sterling and US dollar through our financing subsidiary Cadent Finance plc, with proceeds used to repay existing Bank debt and for additional liquidity. Additionally, after issuing JPY 10bn (£68m) 15 year private placement notes, we entered into a cross-currency swap, which swaps the interest and principal repayment to sterling. These were also issued through Cadent Finance plc.

Net finance costs

Net finance costs of £147m (2018: £145m) were driven by external debt funding. The effective interest rate, including index-linked debt, for the year was 2.2%. The effective cash cost of interest (excluding the RPI uplift on index-linked debt) was 1.7%.

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. 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 2019, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash balance held in Money Market Funds totalled £182m and £150m held in fixed term deposits, following receipt of the debt proceeds issued in 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 £380m facility available to be lent down from the immediate holding company, Quadgas MidCo Limited. These facilities were undrawn at 31 March 2019.

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.

Operating financial performance

Revenue was £1,995m (2018: £1,852m) driven by our regulatory allowed revenues which account for c.99% of our turnover. 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 2019 include higher capacity income as a result of new connections, coupled with £62m higher non-regulatory income largely due to the £65m increase as a result of IFRS 15 (for further details please see note 1c).

Operating profit was £813m (2018: £724m) 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.

EBITDA Reconciliation	2019	2018
Operating profit pre IFRS 15	772	724
IFRS 15 Impact	41	–
Operating profit	813	724
Depreciation & amortisation	319	305
Exceptional items	33	20
EBITDA	**1,165**	1,049

Taxation

Our effective rate of corporation tax for the year is 18.6% (2018: 19.7%); the decrease in the effective rate reflects the recognition of an additional deferred tax asset.

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. 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 2019 was £583m (2018: £590m) in total.

Dividend

Our dividend policy is to balance the distribution of available surplus funds to shareholders, after having considered the forward committed cash requirements of the business to support our investment programmes and the managing of the appropriate level of gearing. The company had £5.4bn of distributable reserves including the profit in the period. During the year we paid dividends totalling £423m (2018: £418m). We will be reviewing our dividend policy as a result of the forthcoming sale by National Grid of its shareholding in Quadgas HoldCo Limited.

In addition, our recent announcement of the establishment of a community fund to support customers and communities in vulnerable situations will see us contribute 1.25% of our Post-Tax Profits, ensuring that customers share in our performance.

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 £75m during the course of the year including £39m as part of a deficit reduction plan agreed with the trustees.

On an IAS 19 basis the Defined Benefits pension scheme is in a net asset position of £690m at 31 March 2019 (2018: £507m) due to actuarial gains and higher returns on plan assets than the discount rate.

Exceptional costs

We continue to incur exceptional costs associated with the separation of our IT systems from National Grid (£16m in 2018/19) and our business transformation activities (£3m in 2018/19). Further exceptional costs related to the estimated impact of equalising Guaranteed Minimum Pensions for women amounted to £14m.

In addition, as part of our drive to improve the efficiency of our operations, Cadent announced on 13 May 2019 that it was offering a voluntary redundancy programme for all managers and staff. The cost of this programme cannot be determined with certainty at this stage as the programme is subject to employee consultation with the period of consultation running to 26 June 2019.

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 40.8 to 36.0 days during the course of the year. We have also paid 99% of our suppliers within 60 days. In addition, during March 2019, we amended our standard payment terms for all of our SME suppliers from 42 to 30 days and expect the benefits of these changes to be seen by this community and in our future reporting.

Impact of new accounting standards – IFRS 9, 15 and 16

Three new accounting standards are being introduced, two of which came into effect on 1 April 2018 (IFRS 9 and IFRS 15), with the third, IFRS 16, coming into effect on 1 April 2019 for Cadent Gas Limited.

IFRS 9 'Financial Instruments' addresses accounting for our financial assets and financial liabilities. As part of this, it introduces new rules for hedge accounting and a new impairment model for financial assets. In line with the prior year assessment the adoption of IFRS 9 'Financial Instruments' did not give rise to material transitional adjustments.

IFRS 15 'Revenue from Contracts with Customers' is based on the principle that revenue is recognised when the performance obligation to the customer is met. The impacts on the Group's results for the period are a cumulative adjustment to increase equity at 1 April 2018 by £712m, reduce accruals and deferred income by £858m and an increase in deferred tax by £146m. There has been an increase in revenue of £65m as a result of completed diversions in the year. There has also been a corresponding in year increase in operating costs of £24m, arising as there are no longer any credits from amortisation of historic contribution. Prior year comparatives have not been restated. Further details of the impact of IFRS 9 and IFRS 15 can be found in note 1c of the consolidated financial statements.

IFRS 16 'Leases' will primarily affect the accounting for the Group's operating leases and will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. After a detailed assessment carried out by the Group, the estimated right of use assets is £33m and £30m of associated liabilities on transition.

Julian Allsopp
Interim Chief Financial Officer
27 June 2019

Strategic report

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. It 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 management.

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.

In addition to the risk management process there are a number of 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.

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

This includes compliance with our licence conditions which is recognised as a principal risk.

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. 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 subsidiary.

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

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. 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 arranging funding facilities.

The Board is responsible for monitoring the policies, setting the 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 or in the utilities sector could result in losses not necessarily provided for at the statement of financial position date.

There are only 40 principal customers. 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 have mitigated the short-term risk of supply chain disruptions by engaging with our suppliers to understand their Brexit plans and 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 about 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.

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.

Our principal risks and uncertainties include:

Risk	Risk management
Health, safety and environment	
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 our staff and the communities we serve. 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 significant financial penalties or claims.	• We have robust safety and 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 and environmental 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 and efficient network. • In the event of an incident we have well-practised 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.
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.

Strategic report

Risk management and principal risks continued

Risk	Risk management
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 critical national infrastructure ('CNI') systems, may be a potential target for cyber threats. We must protect our business assets 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 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 March 2020. • We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber threat could adversely affect the company's business resilience. • We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with Business, Energy and Industrial Strategy ('BEIS') and the Centre for Protection of National Infrastructure on key cyber risks and development of an enhanced CNI security strategy. • Business Continuity Management ('BCM') and resilience steering groups are in place to ensure the effective management of BCM and resilience across our business. • 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 critical national infrastructure must comply with.
Failure to comply with legal and regulatory requirements or failure to deliver regulatory outputs	
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 indicate failures in delivering an adequate service to our customers. It could also result in disruption to the operational business, financial penalties and damage our reputation. Failure to deliver regulatory outputs would damage our credibility with the regulator and customers. It could also 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 a compliance 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.
Failure to secure critical skills 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 aging profile of our workforce and competition for limited skilled resources in our supply chain means this is a key risk that we must manage. Our people are essential to delivering our future vision. Without the right balance of skills our operational performance, customer service and ability to adapt to the future needs of the industry will be adversely affected.	• The aging workforce and ability to secure enough skilled workers is a risk for our industry. We are pursuing both internal and industry wide approaches to mitigate this risk. 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. • To build our internal resource pool and develop our future pipeline of talent, we have developed a series of entry talent programmes, including those for graduates and apprentices and have training programmes and facilities in place to ensure the skills we need are developed. • 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. • 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.

Risk	Risk management
Disruptive forces and regulatory responses	
The gas industry is evolving and we must respond. Comparative regulation is increasingly driving network operators to deliver greater efficiencies against increasing expectations from customers. In addition, the UK has to deliver stretching climate change targets which will require significant decarbonisation of energy heat and transport. Hence this makes innovation essential to our continued success to deliver for current and future customers. 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 run our business.	• We will maintain credibility for delivery through the careful management of our current regulatory obligations and workload. There is a dedicated process improvement team to facilitate the implementation of change plans where improvement is needed, and a dedicated innovation team to seek ways to improve and outperform our targets. • 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. These may include both negative threats, and potential new opportunities. • We have established a Stakeholder Advisory Panel to test our approach to engagement and strategy. • We undertake regional and national stakeholder engagement to understand policy, customer drivers and the regulatory landscape. • We have established a 'Future Role of Gas' programme looking at future scenarios and considering how the network needs to adapt and evolve to a decarbonised world. • There are extensive structures 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. • Involved in industry code development and market workgroups to monitor and input to industry change.
Failure to protect consumers' 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.	• Customer performance is recognised as a priority for our business and a dedicated 'Customer Performance' function has been established to ensure we are performing for our customers. • 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 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. • Strategic projects have been established to specifically tackle areas of historic poor performance, such as connections. • Special measures in place for customers identified by the Priority Services Register and mechanisms in place to help customers register as priority customers. • Customer Performance Committee which has been enhanced to a Customer Operations Performance Committee from April 2019.

Steve Hurrell
Interim Chief Executive Officer
27 June 2019

Governance

Governance:

Governance

Chairman's statement on corporate governance

The Board structure in Cadent is bedding down well following the business separation and establishment of a new independent Board in 2017/18.

In our last annual report, the focus of much of the discussion on governance was on our corporate governance priorities as a newly independent entity. This year, the Board has moved on from this to focus on our future business priorities, particularly in relation to the RIIO-2 price control. This has, rightly, been the topic on which we have spent the most time during the year as the different workstreams required to prepare Cadent for this process have progressed. The establishment of policy goals and the development of the business case have been, and continue to be, of particular importance to the Board. We are satisfied with the work that has been done so far, but recognise that there is still much to do over the coming months.

Our Committees have all been very busy this year providing valuable support to the Board in undertaking the important but detailed work that falls within their respective remits. The work of members of the Safety & Sustainability Committee in overseeing Cadent's involvement with both Ofgem's customer engagement group and also the Ministry of Housing's working groups looking at building regulations and fire safety in high-rise buildings is particularly worthy of note. These examples are illustrative of the importance that the Board places on ensuring that all stakeholders understand the role that we play within our sector both at a national and a local level.

Last year, we committed to undertake an externally facilitated evaluation of the Board and this exercise was undertaken during the year with assistance from Independent Audit Limited, using a questionnaire-based approach. This exercise confirmed the general view of Board members that the Board structure in Cadent is bedding down well following the business separation and establishment of a new independent Board in 2017/18. As ever, there are always possibilities for improvement and we are exploring those.

Needless to say, we will be devoting more time to regulatory review during the coming year. This is, of course, a key priority.

Sir Adrian Montague CBE
Chairman
27 June 2019

Governance

Board of Directors

The Board currently comprises 12 Directors. Of the 12 Directors, there are three Sufficiently Independent Directors, one Executive Director and eight Shareholder Nominated Directors appointed by Quadgas Investments BidCo Limited, the Consortium shareholder in our holding company, Quadgas HoldCo Limited.

Following notification by National Grid of its intention to sell its 39% shareholding in our holding company, Quadgas HoldCo Limited, the four directors nominated by National Grid resigned from the Board in October 2018.

In February 2019, Chris Train OBE announced his planned retirement at which point he resigned as a Director and Steve Hurrell (previously CFO) was appointed as Interim Chief Executive Officer. The Sufficiently Independent Directors are appointed in accordance with our Gas Transporter Licence and provide independent challenge and input to the Board.

There are a further six Alternate Directors to the Shareholder Nominated Directors, all of whom are appointed in accordance with our Articles of Association and the agreement between the shareholders of our holding company, Quadgas HoldCo Limited. Alternate Directors are appointed to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend.

Further details of the Directors as at the date of this annual report and their membership of the Board committees can be found in the following pages. The Directors' details which are listed are in respect of the Executive Director, Sufficiently Independent Directors and Shareholder Nominated Directors but do not include details for the Alternate Directors. Collectively, the Sufficiently Independent Directors and Shareholder Nominated Directors are the Non-Executive Directors on the Board.

Executive Director

Steve Hurrell
Interim Chief Executive Officer

Appointed
March 2017 – February 2019; CFO

February 2019 onward; Interim Chief Executive Officer

Committee membership
Finance; Business Separation Compliance

Skills and experience
Steve was appointed as CFO in March 2017 and, on Chris Train OBE's retirement, was appointed as Interim Chief Executive Officer in February 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 +£2billion 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.

Sufficiently Independent Directors

Sir Adrian Montague CBE
Chairman
Sufficiently Independent Director

Appointed
July 2017

Committee membership
Nomination (Chair)

Skills and experience
Sir Adrian has been a Director of Aviva plc since January 2013, became 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 Aviva plc, He is also Chairman of Manchester Airports Holdings Limited and a Trustee of the Commonwealth War Graves Foundation.

Dr Catherine Bell CB
Sufficiently Independent Director

Appointed
September 2016

Committee membership
Audit & Risk; Business Separation Compliance (Chair); 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
Sufficiently Independent Director

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.

Governance

Board of Directors continued

Shareholder Nominated Directors

Mark Braithwaite
Shareholder Nominated Director

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.

Howard Higgins
Shareholder Nominated Director

Appointed
March 2017

Committee membership
Business Separation Compliance; 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.

Mark Mathieson
Shareholder Nominated Director

Appointed
November 2018

Committee membership
None

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 10 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 hydro-electric 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.

Jaroslava Korpancova
Shareholder Nominated Director

Appointed
March 2017

Committee membership
Audit & Risk; Business Separation Compliance; 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.

Shareholder Nominated Directors

Iain Coucher
Shareholder Nominated Director

Appointed
January 2018

Committee membership
Nomination; Safety & Sustainability

Skills and experience
Iain's executive career spans the infrastructure, technology and defence sectors. He has run organisations with significant scale and complexity, many of which were regulated companies delivering essential, safety-critical public services. Iain is widely acknowledged as having delivered a successful turnaround of Network Rail. He oversaw the completion of the West Coast Route Modernisation, as well as restructuring the entire delivery model, including the internalisation of previously outsourced maintenance, doubling the size of the company.

Iain attended Imperial College, London, graduating in 1982 with a BSc (Eng) in Aeronautical Engineering. This was followed by an MBA from Henley Management College and, more recently, an MSc in Environmental Decision Making, from the Open University. He is currently studying for an MSc in Climate Change.

Other key external appointments
Iain is the Chief Executive of the Atomic Weapons Establishment ('AWE').

Deven Karnik
Shareholder Nominated Director

Appointed
March 2017

Committee membership
None

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.

David Xie
Shareholder Nominated Director

Appointed
May 2017 as Alternate Director, August 2018 as a Director

Committee membership
None

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.

Nick Axam
Shareholder Nominated Director

Appointed
May 2018 as Alternate Director, May 2019 as a Director

Committee membership
None

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.

Governance

Corporate governance

Corporate governance

Since we became a standalone business, we have developed the business in line with our strategic aims as described in the Strategic report. The Board recognises that, to support this strategy, they have a duty to continue to provide and develop a sound framework of corporate governance. The Board has built on the framework of sound corporate governance practices in place at the time of the sale and is committed to the progressive development of the corporate governance framework and practices which will support the business and its employees to deliver its strategic objectives for the benefit of all of our stakeholders over the longer term.

Corporate governance codes

The Board seeks to follow best practice in corporate governance appropriate to our size and the regulatory framework that applies to the company. The Board recognises the importance of adopting good corporate governance practices to manage the business in the best interests of all stakeholders. The company is not a listed company and therefore is not required to report on compliance with the UK Corporate Governance Code 2016 ('the Code').

We will continue to monitor developments in corporate governance practice. Over the forthcoming year, we will seek to further strengthen our governance practices as appropriate by reference to developing regulatory and statutory provisions.

Ownership structure

The chart below sets out the ownership structure of the company and the companies within our Group as at 26 June 2019.

National Grid Holdings One plc (39%*)

Quadgas Investments BidCo Limited (61%*)

Quadgas HoldCo Limited

Quadgas PledgeCo Limited

Quadgas MidCo Limited

Quadgas Finance plc

Cadent Gas Limited ('Cadent')

Cadent Services Limited

Cadent Finance plc

All companies are incorporated in England and Wales

* National Grid intends to dispose of its shareholding in Quadgas HoldCo Limited to Quadgas Investments BidCo Limited with completion due on 28 June 2019.

Key highlights of the year

Leadership:

- Search for replacement Chief Executive Officer.
- Updated terms of reference for Committees.

Effectiveness:

- External Board evaluation undertaken.
- Board training delivered on process safety and Directors' duties.
- Strategy days held on RIIO-2 and Operational Transformation.

Read more **PG 64 to 65**

Accountability:

- Approved a Group Non-Audit Services Policy.
- Approved and published a Tax Strategy Statement.
- Delivered an enhanced, comprehensive annual report and accounts for 2017/18.

Read more **PG 65**

Remuneration:

- Established remuneration arrangements and incentivised the right culture and behaviours across the management team and the wider work force.
- Review of our incentive plans.

Read more **PG 65**

Relations with shareholders and stakeholders:

- 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.

Read more **PG 65**

Leadership

The role of the Board

We would like to share with you the ongoing work of the Board, and the Committees which support it, in providing the Business with leadership. Details of our Directors can be found on pages 57 to 59.

The Board is focused on its principal role to promote the success of the company. In doing so, the Board considers the interests of our wide range of stakeholders, not only those of the shareholders but also in particular our customers, employees, suppliers, communities and the wider environment.

That framework is designed to deliver the efficient and effective management of our operations.

Our delegations framework starts with our shareholders, with the matters they have determined are for their approval, and those matters which they have delegated to the Board. To enable the efficient and effective running of the Board and the business, the Board has approved a framework of Delegations of Authority, with financial limits, within which the business operates.

The Board and its Committees

The Board has established a number of 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 give the correct level of attention and consideration to relevant matters. The Board and Committee governance structure can be found on page 67.

Governance

Corporate governance continued

How the Board operates

Our Board is led by our Independent Chairman, Sir Adrian Montague CBE, who is primarily responsible for the effective running of the Board.

The primary responsibility for the running of the business is led by our Chief Executive Officer, who until February 2019, was Chris Train OBE. Chris was succeeded by Steve Hurrell who is our Interim Chief Executive Officer and was previously our CFO.

To ensure the Board and business are clear on their roles, our Board has approved a statement of division of responsibilities between our Chairman and Chief Executive Officer.

Our Chairman's statement on pages 06 to 07, and our Interim Chief Executive Officer's review on pages 08 to 11, demonstrate their leadership of the company, showing how Sir Adrian leads the Board, as Chairman, and how Steve, and before him Chris Train OBE, runs the business.

The Interim Chief Executive Officer is currently the sole Executive Director on the Board. Julian Allsopp, previously our Financial Controller, was appointed as Interim CFO in February 2019 but is not a Director.

Our Non-Executive Directors bring a range and breadth of experience to the Board. Our Business will continue to benefit from their experience as we progress on our journey. A key part of their role is to support our Chairman and Board to remain focused on the longer term strategy for the business and the future role of gas.

To enable the Board and its Committees to perform effectively, a comprehensive schedule of meetings is in place. All Board and Committee meetings follow an annual schedule of business to be considered, covering matters in line with their matters reserved and terms of reference. In running the Board meetings, 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. For the Board to receive the support and input it needs for discussion at Board meetings, papers are prepared and distributed in advance of the meetings. Time is also allocated at all meetings to discuss any other business which all Directors are invited to raise.

In the following table we have presented our Directors' attendance at the Board meetings for the financial year 1 April 2018 to 31 March 2019. Attendance at Committee meetings is presented in the individual Committee Reports.

Board

Directors' attendance at scheduled Board meetings for the financial year 1 April 2018 to 31 March 2019 is summarised below.*

Members of the Board during 2018/19	Role	Attended/ Eligible to Attend	Appointed	Resigned
Sufficiently Independent Directors				
Sir Adrian Montague CBE	Chairman	13/13	24 July 2017	
Dr Catherine Bell CB		13/13	8 September 2016	
Kevin Whiteman		11/13	1 January 2018	
Executive Directors				
Chris Train OBE	Chief Executive Officer	11/11	8 September 2016	15 February 2019
Steve Hurrell**	CFO/Interim Chief Executive Officer	13/13	31 March 2017	
Shareholder Nominated Directors for National Grid				
Andy Agg		2/4	2 June 2016	20 July 2018
Chris Bennett		3/6	31 March 2017	29 October 2018
Stuart Humphreys		2/2	20 July 2018	29 October 2018
Nicola Shaw CBE		2/6	8 September 2016	29 October 2018
Chris Waters		3/6	31 March 2017	29 October 2018
Shareholder Nominated Directors for Quadgas Investments BidCo				
Jianmin Bao[1]		3/4	31 March 2017	23 August 2018
Martin Bradley[2]		5/6	31 March 2017	28 November 2018
Mark Braithwaite		13/13	31 March 2017	
Iain Coucher[3]		12/13	26 January 2018	
Michael Gregory[4]		12/13	22 May 2018	15 May 2019
Howard Higgins[5]		12/13	31 March 2017	
Deven Karnik		12/13	31 March 2017	
Jaroslava Korpancova[6]		12/13	31 March 2017	
Mark Mathieson[7]		7/7	28 November 2018	
David Xie[8]		8/9	23 August 2018	

* In addition to the scheduled meetings, the Board held an ad-hoc meeting in February 2019 to discuss the Chief Executive Officer's retirement, succession and other matters.
** CFO to 15 February 2019. Interim Chief Executive Officer from 15 February 2019.

1 Jianmin Bao's attendance included attendance by his appointed alternate, David Xie.
2 Martin Bradley's attendance included attendance by his appointed alternate, Richard Greenleaf.
3 Iain Coucher's attendance included attendance by his appointed alternate, Perry Noble.
4 Michael Gregory was appointed as an Alternate Director on 22 May 2017, and a Shareholder Nominated Director on 22 May 2018. Michael Gregory's attendance included attendance by his appointed alternate, Nick Axam.
5 Howard Higgins' attendance included attendance by his appointed alternate, Richard Greenleaf.
6 Jaroslava Korpancova's attendance included attendance by her appointed alternate, Eduard Fidler.
7 Mark Mathieson's attendance included attendance by his appointed alternate, Richard Greenleaf.
8 David Xie was appointed as an Alternate Director on 22 May 2017, and as a Shareholder Nominated Director on 23 August 2018. David Xie's attendance included attendance by his appointed alternate, Hua Su.

Alistair Ray was appointed as a Director on 31 March 2017 and resigned on 16 May 2018, before any Board meetings had been held in the financial year.

Governance

Corporate governance continued

Effectiveness

The composition of the Board

The Board brings a wealth of experience, knowledge and expertise to the company, having a balance and depth of skills which are critical for the effective leadership of the company for all stakeholders. 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 57 to 59.

The Board currently comprises 12 Directors. Of the 12 Directors, there are three Sufficiently Independent Directors, one Executive Director and eight Shareholder Nominated Directors appointed by Quadgas Investments BidCo Limited, the Consortium shareholder in our holding company, Quadgas HoldCo Limited.

In February 2019 Chris Train OBE announced his planned retirement at which point he resigned as a Director and Steve Hurrell (previously CFO) was appointed as Interim Chief Executive Officer. On 14 June 2019 we announced the appointment of Steve Fraser as our new Chief Executive Officer, who is due to take up his post in the Autumn. Please see the Nomination Committee Report on pages 68 to 69. Steve Hurrell will continue to act as Interim Chief Executive Officer until Steve Fraser takes office.

The appointment of at least two Sufficiently Independent Directors is a requirement of our Gas Transporter Licence. Dr. Catherine Bell and Kevin Whiteman have been appointed to these roles and play a valuable part in providing independent input and challenge to the Board.

Our Chairman, Sir Adrian Montague CBE, also a Sufficiently Independent Director, has been appointed in accordance with the agreement between the shareholders of our holding company, Quadgas HoldCo Limited.

There are a further six Alternate Directors to the Shareholder Nominated Directors, all of whom are appointed in accordance with our Articles of Association and the agreement between the shareholders of our holding company, Quadgas HoldCo Limited.

All Directors have been appointed for less than three years as at 31 March 2019.

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 Board reviews and considers any potential conflicts of interest as they arise.

Appointments to the Board

We have 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, senior Executives reporting to the Chief Executive Officer, our Chairman and Sufficiently Independent Directors.

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

Details of the work of the Nomination Committee during the year can be found in the Nomination Committee Report on page 68 to 69.

Commitment

During their employment with the company, the Executive Director(s) is/are required to gain the prior agreement of the Board before accepting employment or any directorships with 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.

Development and training

During the year our Directors have developed their knowledge of the Business and of their duties as Directors. This includes, by way of example:
- site visits;
- strategy days on RIIO-2;
- strategy days on our Organisational Transformation Project;
- a Directors' duties training session led by external legal advisers; and
- a process safety training day led by the Institute of Chemical Engineers.

Many of the Directors are members of professional organisations and bodies and, through those memberships, the Board benefits from the Directors' continuing professional development.

We will continue to develop our training and development programme to reflect the continuing development of the business and the Directors' collective and individual needs.

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 and our 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. To do this we run an annual programme of formal meetings, together with ad-hoc meetings and briefings where more timely input from the Board is required.

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, 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.

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. Examples of this are:
(a) the appointment of Russell Reynolds Associates Limited, a firm of external executive search consultants, which has supported the Nomination Committee; and
(b) the appointment of PricewaterhouseCoopers LLP to support the Remuneration Committee on executive reward levels.

The Board has been 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.

Evaluation

A Board evaluation process was undertaken during the year by an independent third party. This identified positive Board dynamics and observations from it are currently being considered by our Chairman and Board.

The key points noted from the Board evaluation include:
- Keeping Board composition under review.
- Considering Board succession, being mindful of diversity and employee engagement.
- Ensuring sufficient Board time is given to deep dives on key issues.
- Considering levels of delegation of decision-making to Board Committee.

Our Executive Director(s) undergo performance evaluations annually in preparation for the review and approval of the annual remuneration packages by the Remuneration Committee.

Re-election

Our Directors are not subject to shareholder re-election provisions.

Accountability

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 92 to 93. The Statement of Directors' Responsibilities in respect of the company's financial statements is set out on page 93.

Internal control and risk management

The Board has responsibility for determining the nature and extent of the risks it is willing to take and is committed to protecting and developing our reputation and business interests. It has set the risk appetite for the company and reviews the risk profile at least annually.

The Board is also responsible for ensuring that risk management and internal control systems are effective across the business. 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 of the 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. To read more about our risk management model and our principal risks and uncertainties, please read the 'Risk Management and Principal Risks' section of the Strategic Report on pages 50 to 53.

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

Audit & Risk Committee and auditor

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 pages 70 to 73.

Remuneration

A separate Directors' remuneration report is set out on pages 74 to 85 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.

Relations with stakeholders and shareholders

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 our holding company, Quadgas HoldCo Limited and this provides clarity on key decisions and actions on which we are required to have direct engagement with shareholders.

Ofgem and 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.

The Board is committed to stakeholder engagement and takes its responsibilities and duty to them under section 172 of the Companies Act 2006 very seriously. Further details of our work in this area can be found in the Strategic Report on pages 01 to 53.

Governance

Our governance team

1.

Our governance team is led by our Chairman of the Board and Chairs of our Board Committees.

Details of the membership of the Board Committee as at the date of this annual report are set out below.

2.

3.

4.

5.

6.

Our governance team is led by our Chairman of the Board and Chairs of our Board Committees. Details of the membership of the Board Committees as at the date of this annual report are set out below.

1. Sir Adrian Montague CBE

Chairman, Sufficiently Independent Director

Chair – Nomination Committee

Committee members:
Dr Catherine Bell CB (Sufficiently Independent Director)
Mark Braithwaite
Iain Coucher
Jaroslava Korpancova
Kevin Whiteman (Sufficiently Independent Director)

2. Mark Braithwaite

Shareholder Nominated Director

Chair – Audit & Risk Committee

Committee members:
Dr Catherine Bell CB (Sufficiently Independent Director)
Jaroslava Korpancova

3. Kevin Whiteman

Sufficiently Independent Director

Chair – Remuneration Committee

Committee members:
Dr Catherine Bell CB (Sufficiently Independent Director)
Mark Braithwaite
Jaroslava Korpancova

4. Howard Higgins

Shareholder Nominated Director

Chair – Safety & Sustainability Committee (formerly Safety & Health, Environment & Security Committee)

Committee members:
Dr Catherine Bell CB (Sufficiently Independent Director)
Iain Coucher

5. Jaroslava Korpancova

Shareholder Nominated Director

Chair – Finance Committee

Committee members:
Mark Braithwaite
Steve Hurrell
Julian Allsopp[2]

6. Dr Catherine Bell CB

Shareholder Nominated Director

Chair – Business Separation Compliance Committee

Committee members:
Howard Higgins
Jaroslava Korpancova
Steve Hurrell
Richard Court (Director of Regulatory Strategy)[3]

2 Julian Allsopp is a member of the Finance Committee in his role as Interim CFO.
3 Richard Court is not a Director but is a member of the Business Separation Compliance Committee in line with the Company's regulatory requirements.

Board and Committee structure:

To support the Board, a number of Board Committees are in place. For the purposes of this annual report, we show below the corporate governance structure that supports our operational business, and which we describe in the corporate governance commentary.

Cadent Gas Limited Board

- Nomination Committee
- Audit & Risk Committee
- Remuneration Committee
- Safety & Sustainability Committee
- Finance Committee
- Business Separation Compliance Committee

Governance

Nomination Committee report

Annual statement on behalf of the Nomination Committee

The Nomination Committee is taking a more considered approach to some of its broader responsibilities such as succession planning below Board level and diversity.

Membership and attendance during the year

	Attended/Eligible to attend	Joined	Resigned
Chair			
Sir Adrian Montague CBE (Sufficiently Independent Director)	5/5	July 2017	
Members			
Dr Catherine Bell CB (Sufficiently Independent Director)	5/5	June 2017	
Mark Braithwaite[1]	5/5	June 2017	
Iain Coucher	5/5	May 2018	
Jaroslava Korpancova	5/5	June 2017	
Kevin Whiteman (Sufficiently Independent Director)	3/5	May 2018	
Former member			
Nicola Shaw CBE[2]	2/2	June 2017	October 2018

1 Mark Braithwaite's attendance included attendance by his alternate, Martin Bradley, on his behalf.
2 Nicola Shaw CBE's attendance included attendance by her alternate, Chris Waters, on her behalf. Nicola stepped down from the Board and Committee on 29 October 2018.

Key highlights of the year

- Considered Board composition.
- Recommended the re-appointment of Dr Catherine Bell CB as a Sufficiently Independent Director
- Conducted search for permanent Chief Executive Officer.
- Appointed Russell Reynolds Associates Limited as Executive search consultant.
- Considered Executive level appointments.
- Considered succession planning.
- Reviewed accountabilities and responsibilities of senior management.
- Adopted revised terms of reference approved by the Board.

The work of the Nomination Committee over the latter part of 2018 was taken up with the succession of the Chief Executive Officer which culminated in the announcement that Chris Train OBE retired from the business on 15 February 2019. Two key tasks were necessary as a result of this development. First, it was agreed that Steve Hurrell would act as Interim Chief Executive Officer. Second, the process for the appointment of a Chief Executive Officer on a permanent basis commenced. The parameters for this search were set to ensure that we were able to consider the best range of candidates possible. We believe that this is important for such a significant appointment, particularly given its timing and context within the regulatory cycle.

As announced on 14 June 2019, our search resulted in the appointment of Steve Fraser as our new Chief Executive Officer, who is due to take up his post in the Autumn. Steve has over 20 years' experience of managing and transforming infrastructure business, currently as Chief Operating Officer and a main board Director of United Utilities Group plc, and we look forward to welcoming him to the Board.

The Nomination Committee is taking a more considered approach to some of its broader responsibilities such as succession planning below Board level and diversity. The Chief Executive Officer is a key player in the company's approach to both succession and diversity and therefore it would be premature for the Committee to take key decisions on such matters without the new Chief Executive Officer's input. That said, Cadent continues its efforts to develop its next generation of leaders and the Nomination Committee is fully supportive of those efforts. This report further describes the key activities of the Committee during the past 12 months.

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 doing so, the Committee keeps under review the balance of skills, knowledge, experience and diversity across the Board and in these roles. At all times, the Committee takes into account the challenges and opportunities we face in the long and short term and our leadership needs, with a view to ensuring our continued ability to operate effectively and engage productively with all stakeholders.

The Committee has three matters on which it will make 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 initial proposed terms of employment of any new Executive or Sufficiently Independent Director, including their initial remuneration package (in line with existing approved remuneration policies); and thirdly on any matters relating to the continuation in office of any Executive or Sufficiently Independent Director, including the suspension or termination of service of such person as an employee of the Group, subject to the provisions of the law, the policies of the Group, and the individual's service contract.

The Committee is made up of a minimum of three Non-Executive Directors, one of whom is required to be a Sufficiently Independent Director and none of whom are Executive Directors.

Meetings

The Committee met five times during the year.

May 2018

Main purpose

Considered succession planning.

Considered the composition of the Board.

Key additional attendees

Chief Executive Officer; Head of HR; Russell Reynolds*

July 2018

Main purpose

Approved the reappointment of Dr Catherine Bell CB as a Sufficiently Independent Director for a period of three years.

Considered succession planning.

Key additional attendees

Chief Executive Officer

November 2018

Main purpose

Adopted revised Terms of Reference approved by the Board.

Reviewed accountabilities and responsibilities of senior managers.

Key additional attendees

Chief Executive Officer; Russell Reynolds*

January 2019

Main purpose

Considered Executive level appointments.

Key additional attendees

Chief Executive Officer; Russell Reynolds*

March 2019

Main purpose

Considered Executive level appointments.

Key additional attendees

Interim Chief Executive Officer; Russell Reynolds*

* Russell Reynolds Associates Limited does not have any other connection with Cadent other than providing executive search consultancy to the Nomination Committee.

The company's commitment to inclusion and diversity can be found in the Strategic report on page 29.

On behalf of the Nomination Committee.

Sir Adrian Montague CBE
Chair of the Nomination Committee
27 June 2019

Governance

Audit & Risk Committee report

Annual statement on behalf of the Audit & Risk Committee

The Committee will play a key role in ensuring that our business systems, internal controls and data validation processes are robust.

Membership and attendance during the year

	Attended/Eligible to attend	Joined	Resigned
Chair			
Mark Braithwaite*	4/4	June 2017	
Members			
Dr Catherine Bell CB (Sufficiently Independent Director)	4/4	November 2017	
Jaroslava Korpancova[1]	4/4	June 2017	
Former member			
Chris Waters[2]	2/2	June 2017	October 2018

* Qualification: Fellow of the Institute of Chartered Accountants in England and Wales.

1 Jaroslava Korpancova's attendance included attendance by her appointed alternate, Eduard Fidler, on her behalf.

2 Chris Waters attendance included attendance by his appointed alternate, Andy Agg, on his behalf Chris Waters stepped down from the Board and the Committee on 29 October 2018.

Key highlights of the year

Financial reporting

- Reviewed and recommended to the Board the approval of the 2017/18 annual report and financial statements.
- Reviewed and recommended to the Board the approval of the interim financial statements.
- Developed the relationship with Deloitte.

Internal control, risk, compliance, fraud and whistleblowing:

- Reviewed processes and key risks being managed.
- Reviewed business conduct and controls.

Internal audit:

- Reviewed outcomes of 2017/18 internal audits, and the internal audit plan for 2018/19.

Non-audit services policy:

- Recommended to the Board a Group non-audit services policy.

External audit:

- Reviewed the external audit plan on the 2018/19 financial statements.
- Reviewed and approved the external audit report on the 2018/19 financial statements.

In this second year for Cadent as an independent company, we have consolidated, further developed and improved the systems and processes adopted within the Company. We have made them more robust and fit for purpose, having regard to the regulatory regime and an increased focus on governance which we fully support.

Following their appointment in 2017, we have continued to develop a very constructive working relationship with Deloitte, our statutory auditor and have addressed with them our financial reporting practices.

In May 2018, we merged our Internal Audit Team with our Risk and Assurance Team, reporting to a Head of Audit and Risk with whom I, as Chair of the Committee, have regular direct engagement and who attends all meetings of the Audit & Risk Committee. Great progress has been made during the year on all aspects of our audit, risk and assurance activities, particular highlights being:

- greater engagement with external experts to support the Internal Audit Team;
- introduction of a new risk management system; and
- a more structured assurance process based on the risks recorded in the new risk system.

In the coming year, we will be submitting our regulatory Business Plan to our regulator, Ofgem. The Audit & Risk Committee will play a key role in ensuring that our business systems, internal controls and data validation processes are robust. We have made great strides in those areas already and will continue to do so with a view to ensuring that we continuously improve our systems, controls and processes.

The coming year will be an important one for the Audit & Risk Committee as we continue to develop and improve the governance and quality of the company's risk management, internal control, financial reporting and assurance processes with a strong focus on customer needs. I look forward to reporting our further progress on all of these responsibilities in next year's annual report.

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 Directors. 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. Additionally, one member must be a Sufficiently Independent Director, bringing independent challenge, and Dr. Catherine Bell CB performs this role.

Meetings

The Committee is required to meet before the approval of the annual report and accounts. During the year the Committee met four times.

June 2018

Main purpose

Financial statements: Reviewed and recommended to the Board for approval the 2017/18 annual report and financial statements.

External audit: Reviewed the external auditor's report on their audit of the Company and other Group companies.

Business conduct: Reviewed business conduct controls and current cases.

Key additional attendees

Chairman of the Board; Chief Executive Officer; CFO; External Auditor; Head of Audit and Risk

November 2018

Main purpose

Financial statements: Reviewed and recommended the 2018/19 interim financial statements to the Board for approval.

Internal audit: Reviewed progress against the internal audit plan for the financial year 2018/19.

External audit: Considered the report on the 2018/19 interim financial statements and the audit plan for the year ending 31 March 2019.

Risk Management: Reviewed the effectiveness of risk management and improvements made during the year.

Terms of Reference: Adopted revised terms of reference approved by the Board.

Key additional attendees

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

July 2018

Main purpose

Financial statements: Reviewed and recommended to the Board for approval the 2017/18 regulatory accounts.

Internal audit update: Reviewed the outcomes of the 2017/18 internal audits and 2018/19 audits in specific areas.

Key additional attendees

Chairman of the Board; Chief Executive Officer; CFO; External Auditor; Head of Audit and Risk

March 2019

Main purpose

Financial statements: Reviewed progress against the external auditor's audit plan and considered the significant accounting matters.

Internal audit: Reviewed progress against the 2018/19 internal audit plan and approved the 2019/20 internal audit plan.

Compliance: Reviewed a report on compliance with legal and regulatory obligations.

Non-audit services policy: Reviewed and recommended to the Board for approval the Group non-audit services policy.

Key additional attendees

Chairman of the Board; Interim Chief Executive Officer; Interim CFO; External Auditor; Head of Audit and Risk

The Committee understands how important it is to have the right people at its meetings, who understand and have expertise in their area and can advise the Committee. In the table above, we have highlighted the key additional attendees at each of the meetings held.

Governance

Audit & Risk Committee report continued

Financial reporting

The Committee's reviews 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 note 1 of the financial statements on page 103.

Summary of key issues reviewed

Issue	How the issue was addressed by the Audit & Risk Committee
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. On the basis of the stability of the 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.
Contingent liabilities	The Committee has reviewed the ongoing correspondence with the HSE as theirits investigation into Cadent's record keeping for its high rise buildings progressed. The Committee was satisfied that the disclosure as a contingent liability was appropriate.
Pensions	The Committee reviewed the assumptions underpinning the latest valuation and assessed the impact of the requirement to equalise the retirement ages for men and women which will be treated as past service costs for accounting purposes.
Environmental provisions	The Committee reviewed the levels of environmental provisions held by the company as there are a number of uncertainties impacting the calculation of the provision such as future procurement efficiencies, the accuracy of site surveys and changes in the discount rate.
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 ensure they were appropriate. The Committee confirmed that management's classification of exceptional items associated with separation activities was appropriate and in line with the policy.
Ofgem investigation and discussions	The Committee reviewed the correspondence with Ofgem regarding a number of historical service related issues related to multi occupancy building. The Committee confirmed that the actions taken to address these issues had been correctly accounted for and appropriately disclosed including the payment made to the Energy Savings Trust.
Valuation of financial instruments	The Committee reviewed the assumptions underlying the valuation of the financial instruments and considered whether the assumptions were appropriate. The Committee considered the valuation process and the assumptions underlying those valuations and was satisfied there were no material issues noted during the period.

For the remaining key judgements and estimates, the Committee was satisfied with the assumptions made and the accounting treatments adopted.

Internal controls and risk management systems

Risk management is the responsibility of the Board. The Committee's responsibility is to review the adequacy and effectiveness of the company's internal systems of risk management and controls.

The Committee performs its role in this area through reviewing 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 Strategic report on pages 50 to 53.

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 the 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 the people who work for us. To provide oversight of these matters, the Committee reviews reports on business culture, business conduct and ethics. We have procedures in place to prevent, detect and investigate bribery and fraud and 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 whistleblowing policy and procedure in place, supported by both internal and external whistleblowing helplines and procedures to undertake independent investigation procedures of ethical concerns.

Internal audit

The business operates an assurance programme with three lines of defence: the first line is through a 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 may be 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 General Counsel and Company Secretary, but has direct accountability to the Chair of the Committee.

External Auditor

The External Auditor provides external assurance and we recognise the important role it plays in the audit of our financial statements. 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 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 2018/19 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.

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. 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 requirements of the FRC's Revised Ethical Standard (2016). 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
27 June 2019

Governance

Directors' remuneration report

Annual Statement on behalf of the Remuneration Committee

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

Membership and attendance during the year

	Attended/Eligible to attend	Joined	Resigned
Chair			
Kevin Whiteman (Sufficiently Independent Director)[1]	6/6	March 2018	
Members			
Dr Catherine Bell CB (Sufficiently Independent Director)	5/6	June 2017	
Mark Braithwaite	6/6	June 2017	
Jaroslava Korpancova	6/6	June 2017	
Former member			
Nicola Shaw CBE[2]	2/2	June 2017	October 2018

1 Kevin Whiteman was appointed as a member of the Committee in March 2018 and as Chair from 1 April 2018.

2 Nicola Shaw CBE's attendance included attendance by Chris Waters, on her behalf. Nicola stepped down from the Board and Committee on 29 October 2018.

Key highlights of the year

Remuneration principles and policies:

- Reviewed of remuneration principles and policies for our Executive Directors and wider workforce.

Executive Directors:

- Reviewed Executive Directors' salaries.*

Incentive plans:

- Reviewed long-term incentive plan structure and metrics for 2019 awards to reflect regulatory cycle transition.

Introduction

I am pleased to present the Directors' remuneration report for 2018/19.

In last year's report, Mark Braithwaite noted the Committee's intention to ensure that the approach to remuneration supports and incentivises the right culture and behaviours across the management team.

Having taken over as Chair at the beginning of the year, this has continued to be both my and the Committee's priority. We have therefore focused on ensuring that the reward principles are aligned with Cadent's strategy; driving performance and promoting excellence in the service that our company provides.

With the next price review approaching, the Board is keen to ensure that Cadent achieves market-leading customer service standards as soon as possible. I believe that remuneration drives performance and therefore the Remuneration Committee is working hard to ensure that the targets and metrics for Executives' remuneration are aligned to this objective. We have further work to do but the foundations have been laid.

A secondary consideration during the year has been the need to structure the three-year long-term incentive plan ('LTIP') so that it is appropriate to both the period prior to the price review as well as the remainder of the LTIP's three year horizon that follows the price review.

Activities of the Committee 2018/19

The Committee held five scheduled meetings during the year. In addition, the Committee held an ad hoc meeting in February 2019 to discuss arrangements for the Chief Executive Officer's retirement. Activities of the Committee included approving outcomes of 2017 incentive awards, salary reviews for the Executive Directors, setting targets for the 2018 STIP and LTIP, and reviewing the LTIP for 2019 in the light of the transition to RIIO-2 in 2021.

Business performance

Cadent has maintained financial and operational performance in a challenging and evolving market, with group EBITDA of £1,093m, an increase of 4% on prior year and network reliability of 99.996%. The business continues to deliver improved safety to our customers, replacing 103km of large diameter iron mains and providing 24,162 carbon monoxide alarms.

Performance for the year 2018/19

STIP

Performance under the STIP is assessed against a scorecard of measures, including economic, operational and business metrics. The company performed particularly well against customer service targets and the results of the economic metrics (namely group EBITDA and Funds from Operations to Net Debt) were above target. This resulted in a payout equal to 56.2% and 66.2% of the maximum STIP opportunity for Chris Train and Steve Hurrell respectively (equivalent to £261,000 and £147,000 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 page 78.

LTIP

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

Executive Director changes

Chris Train stepped down from the role of Chief Executive Officer and the Board on 15 February 2019. Further details on the treatment of his remuneration are set out on page 83. Steve Hurrell was appointed as Interim Chief Executive from this date.

Annual salary review and policy application for 2019/20

As disclosed in last year's report, Chris Train's salary was increased from £325,000 to £400,000 from 1 June 2018 and therefore his salary was not reviewed further during the year.

During the year, the Committee assessed the market alignment of remuneration for Steve Hurrell relative to similar sized companies from the UK private sector and utilities sector. As a result, the Committee determined that a salary increase from £255,500 to £300,000 was appropriate, effective from 1 October 2018.

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

The Committee considers that, during the previous financial period, we set a solid foundation for the company's executive remuneration, which we have been able to build on during the 2018/19 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
27 June 2019

Governance

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:

- **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 and communities
3. Driving efficiencies
4. Sustainability
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 an Executive Director will reflect whether they were internally promoted or externally appointed. If internally promoted: • retention of existing Defined Benefits ('DB') 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 30%; or • cash in lieu. If externally appointed: • DC benefits or equivalent cash in lieu. In line with market practice, pensionable pay for Executive Directors includes salary only.	DB: 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: annual contributions of up to 30% of salary. Life assurance provision of four times pensionable salary and a dependant's pension equal to one third of the Director's salary are provided on death in service. Cash in lieu: annual payments of up to 30% of salary. Life assurance and dependant's pension in line with DC (or DB where the Director was previously a member of a DB scheme).	Not applicable.

Governance

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 budget. 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 CFO is 80% of salary.	A majority of the STIP is based on performance against corporate measures (both financial and non-financial performance), with the remainder based on customer and financial 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 CFO is 160% of salary.	The LTIP is based on performance against corporate measures (both financial and non-financial performance), 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 other Sufficiently Independent Directors 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 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.

Non-Executive Directors, 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 27 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.

Service contracts and policy on payment for loss of office

In line with our policy, all Executive Directors have service contracts which are terminable by either party with twelve months' notice or less.

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.

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 pro-rated 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.

Governance

Directors' remuneration policy continued

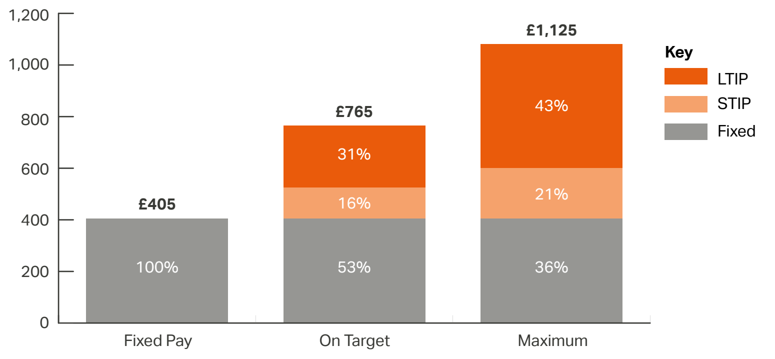
External appointments

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 Hurrell that could result from the current remuneration policy for the year 2019/20 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below.

Steve Hurrell
£000



Notes
1. 'Fixed pay' consists of salary, pension and benefits-in-kind as provided under the remuneration policy.
2. Salary for 2019/20.
3. Benefits-in-kind and pension are as shown in the Single total figure of remuneration table for 2018/19 on page 81.
4. STIP calculations are based on 80% of salary
5. LTIP calculations are based on 160% of salary
6. LTIP and STIP payout is 50% for on-target performance.

Governance

Annual report on remuneration

Statement of implementation of remuneration policy in 2018/19

Role of the Remuneration Committee

The Committee was established on 29 June 2017 and 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 to ensure it reflects our shareholders', customers' and regulator's interests.

Single total figure of remuneration – Executive Directors

The following table shows a single total figure of remuneration earned in respect of qualifying service for 2018/19, together with comparative figures for 2017/18.

	Salary £000		Benefits-in-kind £000		STIP £000		LTIP £000		Pension £000		Other £000		Total £000	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Chris Train OBE	387	325	21	19	261	241	–	–	75	444	128	128	872	1,157
Steve Hurrell	277	238	45	36	147	141	–	–	55	48	–	–	524	463

Notes:
Salary: Chris Train's salary was increased to £400,000 with effect from 1 June 2018. Steve Hurrell was appointed as CFO on 18 April 2017. His 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, training and development support and either a fully expensed car or a cash alternative to a car. For Steve Hurrell, this amount includes a reimbursement for costs relating to his travel expenses to Coventry from his work base of London and includes the tax costs on these benefits-in-kind, paid by the Company. This arrangement ceased on 30 January 2019.
STIP: STIP outcome based on performance assessment of 56.2% and 66.2% for Chris Train and Steve Hurrell respectively. The maximum STIP opportunities were 120% and 80% of salary for Chris Train and Steve Hurrell respectively. The figures for 2017/18 have been updated to reflect the STIP earned during the year – last year reflected the amounts paid during the year (which related to performance in the 2016/17 year).
Pension: Steve Hurrell received a cash allowance, based on 20% of salary, in lieu of participation in a pension arrangement payment. Chris Train participated in a defined benefit arrangement. His total accrued pension is spilt across two final salary arrangements; he participates in the unfunded scheme in respect of benefits in excess of the Lifetime Allowance. The increase in his accrued pension net of inflation over the year to 31 March 2019 was £4,284 pa and he made contributions of £10,816 during this period. As at 31 March 2019 Chris Train's total accrued pension was £189,928 pa. Benefits are payable from age 60, however please see page 83 regarding retirement arrangements for Chris Train in respect of pensions. For service prior to 1 April 2013, pensionable pay is normally the base salary in the 12 months prior to leaving the Company. For service from 1 April 2013 increases to pensionable pay are capped at the lower of 3% and the increase in inflation. The figure for Chris Train for 2017/18 has been updated to reflect contributions made by Chris during that year which have been deducted from the figure disclosed in last year's report.
Other: This element is in respect of the lapsed bonus payment to compensate for the loss of National Grid performance shares as agreed by the Remuneration Committee in 2017. The lapsed bonus paid out in full as the overall 2018/19 STIP outcome was above target. The figure for Chris Train in respect of 2017/18 has been updated to reflect the lapsed bonus element paid during that year. Last year's report included a one-off bonus of £195,000 for 2017/18 which was paid in 2017/18 but was earned in respect of performance in 2016/17.

Performance against targets for STIP 2018/19

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 earned in 2018/19 for the two Executive Directors are shown in the table below:

	Proportion of Maximum Opportunity	Threshold	Target	Stretch	Actual	Proportion of Maximum Achieved Chris Train	Proportion of Maximum Achieved Steve Hurrell
EBITDA (Group)	20%	£1,078m	£1,088m	£1,123m	£1,093m	57%	57%
Cash flow: Funds from Operations ('FFO') to Net Debt	20%	9.10%	9.21%	9.64%	9.64%	100%	100%
Safety: Tier 2 and/ Tier 3 replacement	8%	77km	99km	119km	103km	60%	60%
Customer service (ranking above average)	8%	1/9	2/9	3/9	2/9	50%	50%
Lost time incident performance	8%	1.1	0.9	0.80	1.13	0%	0%
Business outcomes	16%	Assessment by Remuneration Committee				37.5%	37.5%
Individual performance	20%	Assessment by Remuneration Committee				50.0%	100.0%
Total	100%					56.2%	66.2%

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.
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 is 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 IS separation process (from National Grid), Monetised Risk Output, High Rise Buildings in Multiple Occupancy surveys and Operational Transformation.

Governance

Annual report on remuneration continued

Statement of implementation of remuneration policy in 2018/19

2018/19 STIP as proportion of base salary

Max Opportunity STIP outcome	STIP £000
Chris Train 120% of salary 56.2% of max	**261**
Steve Hurrell 80% of salary 66.2% of max	**147**

Notes:
Maximum opportunities relate to actual salary received during the year.

LTIP 2018/21

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 will end 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.

Targets set for the 2018/21 LTIP awards for the two Executive Directors are shown in the table below.

	Proportion of Maximum Opportunity
Average totex outperformance	30%
Safety: Repex delivery	20%
Environmental: Shrinkage and emissions	15%
Social: Fuel poor connections	15%
Long-term asset health	20%

Notes:
Totex outperformance: Average totex outperformance (versus adjusted allowance) during LTIP period based on Ofgem reporting.
Repex delivery: Delivery of Repex programme, with targets expressed in cumulative km across three tiers (subject to not underperforming against individual tiers).
Shrinkage and emissions: Shrinkage and environmental emissions incentives (share of total industry incentive received) – cumulative for three years.
Fuel poor connections: Linked to social obligations.
Long-term asset health: Risk monetisation matrix based on regulatory agreed risk delta (£m of risk removed).

Single total figure of remuneration – Non-Executive Directors

The following table shows a single total figure of remuneration earned for Sufficiently Independent Directors in respect of qualifying service for 2018/19 and for 2017/18.

	Fees £000 2018/19	Fees £000 2017/18
Sir Adrian Montague CBE	**325**	224
Dr Catherine Bell CB	**60**	43
Kevin Whiteman	**60**	15

Notes:
Sir Adrian Montague CBE: Appointed as Chairman and a SID on 24 July 2017.
Kevin Whiteman: Appointed as a SID on 1 January 2018.

Retirement arrangements for Chris Train

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 will continue to receive his base salary of £400,000 per year. He is also entitled to receive training and development support of up to £5,000. The Committee have determined that Chris will be deemed to be a 'good leaver' under the terms of the incentive plans, in particular he will be eligible for:

- 2018/19 STIP – in recognition of his services, the Committee awarded a full year STIP of £261,000 based on performance outcomes set out on page 81. The STIP will be paid in July 2019.
- 2017 and 2018 LTIP – awards will vest at the normal vesting dates subject to performance and time pro-rating to the date of stepping down from the Board.
- Lapsed bonus award – to compensate for LTIP awards forfeited as part of Cadent's separation from National Grid, Chris Train was granted a cash award of £128,000 subject to STIP performance (with 100% of the award payable for overall STIP outcome of target or higher). The award will be paid in July 2019.
- Pensions – the benefits from the defined benefit pension arrangements were due to become payable from age 60 in October 2020. The Committee agreed that the benefits will become payable from August 2019 based on service to that point with no reduction applied for early payment.

Payments to past Directors

Other than the payments to Chris Train set out above, no payments were made to past Directors.

External appointments and retention of fees

Chris Train held a Director position at Energy Networks Association Limited until 15 February 2019 but received no Director fees for this position during the year ended 31 March 2019. Steve Hurrell was appointed as a Director of Energy Networks Association Limited on 4 March 2019 and received no fees for this position.

Advisers to the Remuneration Committee

During the year, the Committee appointed PwC as advisers to the Committee following a competitive selection process. PwC's fees for advice to the Committee in 2018/19 were £41,000.

As founder members of the Remuneration Consultants Group, PricewaterhouseCoopers LLP ('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 advisers 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 the views 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 Director of Human Resources ('HR') and the Head of Employee Relations ('ER'), Reward & Pensions. No other advisers have provided significant services to the Committee in the year.

Governance

Annual report on remuneration continued

Statement of implementation of remuneration policy in 2018/19

Statement of implementation for 2019/20

Remuneration policy will be implemented during 2019/20 as described below.

Salary

During the year, the Committee assessed the market alignment of remuneration for Steve Hurrell relative to similar sized companies from the UK private sector and utilities sector. As a result, the Committee determined that the following salary increase will be applied:

	From 1 October 2018	From 1 June 2018	At 31 March 2018
Steve Hurrell	£300,000	£255,500	£250,000

STIP measures for 2019/20

The STIP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2019/20 annual report on remuneration. The structure of the scheme will remain largely the same as that of 2018/19.

	Weighting
Group EBITDA	12%
Cash flow: Funds from Operations ('FFO') to Net Debt	12%
Customer service (ranking)	20%
Safety: Tier 2 and 3 replacement	8%
Sustainability standard and in-year targets	4%
Lost time incident performance	8%
Specified business outcomes	16%
Individual performance	20%

Steve Hurrell's target STIP will remain at the current level of 40% of salary (Maximum 80%).

LTIP for 2019/22

The Committee undertook a review of the LTIP structure and metrics during 2018/19, with a particular focus on addressing the issue that the 2019/22 LTIP cycle overlaps the RIIO cycle. A number of possible structures were considered, and it was agreed that it would be inappropriate to set targets at the grant of the award over the full three-year length of the performance period.

As a result, the Committee has approved that targets will initially be set for the first two years of the performance period, which runs to 31 March 2021 (ie the end of RIIO-1). The achievement of these targets will determine the level of vesting for two-thirds of the award. The targets for the final year of the performance period will be set at a later date when sufficient information is available in order to make an informed decision on appropriate targets into RIIO-2. The Committee will have the ability to adjust downwards the vesting in respect of the initial two years of the performance period based on performance over the full three-year performance period.

The Committee will review the LTIP structure again during 2019/20 ahead of granting LTIP awards for 2020/23.

The LTIP targets are considered commercially sensitive and consequently will be disclosed after the end of their performance period in the 2021/22 annual report on remuneration. Measures to be used for the 2019/22 award are shown in the table below:

	Weighting
RIIO-2 Customer Business Plan: Ofgem assessment	20%
RIIO-2 Customer Business Plan: Remuneration Committee assessment	20%
Average totex outperformance	25%
Long-term asset health: Risk removed from network	15%
Environmental: Shrinkage and emissions	10%
Social: Fuel Poor connections	10%

For 2019/22, the target and maximum will remain at 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 2019/20.

	From 1 June 2018 £000	From 1 June 2017 £000	Increase
Chairman	325	325	0.0%
Sufficiently Independent Director	60	60	0.0%

Notes:
Chairman: Sir Adrian Montague CBE was appointed on 24 July 2017.

The Directors' remuneration report has been approved by the Board and signed on its behalf by:

Kevin Whiteman
Chair of the Remuneration Committee
27 June 2019

Governance

Safety & Sustainability Committee report

(Formerly the Safety, Health, Environment & Security Committee)
Annual statement on behalf of the Safety & Sustainability Committee

This year has seen a fundamental shift in the work of the Committee. In addition to focusing on the key issue of safety, the Committee is also starting to reposition Cadent to respond to future challenges, in particular climate change and increased customer expectations.

Membership and attendance during the year

	Attended/Eligible to attend	Joined	Resigned
Chair			
Howard Higgins	5/5	June 2017	
Members			
Dr Catherine Bell CB (Sufficiently Independent Director)	5/5	June 2017	
Iain Coucher	5/5	May 2018	
Former members			
Stuart Humphreys[1]	1/1	September 2018	October 2018
Andy Agg[2]	2/2	June 2017	July 2018

1 Stuart Humphreys stepped down from the Board and the Committee on 29 October 2018.
2 Andy Agg's attendance included attendance by Chris Waters on his behalf. Andy stepped down from the Board and the Committee on 20 July 2018.

Alistair Ray was appointed to the Committee in June 2017 and resigned from the Board and Committee on 16 May 2018, before any Committee meetings had been held in the financial year.

Key highlights of the year

The Committee focused on ensuring there was a robust framework to enable the Committee to be assured that the safety and sustainability risks and opportunities were understood and effectively controlled.

Safety training:
- Facilitated the Board's process safety training.

SHES internal audit:
- Reviewed SHES internal audit plan.

Wellbeing of our employees:
- Monitored the work of Health and Wellbeing teams.

Framework and business plan:
- Reviewed the Sustainability Strategy Framework.
- Proposed the Safety and Sustainability business plan.

Crisis & incident management:
- Ensured key learning points from a serious incident were taken on board by management.

Whilst safety remains central to the work of the Committee, our focus on climate change and the way Cadent interacts with its customers has increased over the past year. To this end the Committee has been re-named the Safety & Sustainability Committee and Cadent will shortly publish its first annual Safety & Sustainability Report, which demonstrates the strategic importance of sustainability to Cadent's business model. Additionally, Cadent recently announced the launch of its community fund, with a focus on sustainability and providing additional support to customers in vulnerable situations. Whilst the community fund will be managed separately, the Safety & Sustainability Committee will take a keen interest in its focus and progress.

Reinforcing our commitment to lead from the top in creating a "zero harm" environment, earlier in the year the Committee facilitated process safety training sessions for members of the board and senior management, which ensured that there is a consistent understanding of this important issue across the whole leadership of the organisation. Site visits have also helped to broaden the Committee's understanding of Cadent's business and to observe the focus on safety and sustainability out in the field.

Employee and contractor safety remains a key area for the Committee and whilst the indicators remain stable, we see scope for further improvement. Of particular concern was the increase in no-fault road traffic accidents, which is now a focus area for the management team.

Throughout the year, members of the Committee have provided guidance and oversight on corrective action taken, and improvements implemented, to address historical service-related issues in relation to high-rise multi occupancy buildings.

Members of the Committee have also provided guidance and oversight on key issues related to Dame Hackitt's review of building safety. Members of the Committee will continue to work with key stakeholders on this important area going forward, including the Ministry of Housing as they implement the findings of Dame Hackitt's review.

Recognising the increasing focus on climate change, the Committee has scrutinised Cadent's environmental performance and reporting. The reduction in methane emissions has been impressive and is largely a consequence of the Iron Mains Risk Reduction Programme. Increasingly, the Committee will focus on the overall carbon footprint of the Company and challenge management to seek further reductions through a variety of initiatives, including procuring increasingly efficient vehicles for our fleet and incentivising employees to make environmentally friendly choices when it comes to company cars. The Committee has taken a keen interest in the pilot work being undertaken by Cadent to demonstrate the inclusion of hydrogen as a potential replacement for methane in support of the UK climate change ambitions.

Looking to the future, the Committee has much to do in helping management fulfil the safety and sustainability challenges of the new owners and Cadent's customers, as increasing levels of customer engagement provide us with a clear insight into customer priorities in this area. This year, for example, members of the Committee have participated in a number of the Customer Engagement Group sessions and this has been helpful in helping steer the work of the Committee to challenge Management on how the interactions and customer safety can be improved. I look forward to reporting on progress in next year's annual report, particularly in relation to our "zero harm" ambition and providing leadership to the industry in its journey to decarbonise gas supply in the UK.

Role and composition of the Safety & Sustainability Committee

The role of the Safety & Sustainability Committee is to assist the Board to fulfil its responsibilities in relation to safety and sustainability matters 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 where action or improvement is needed.

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

Further information on the implementation of the work of the Committee can be found in the separate Safety and Sustainability report available from www.cadentgas.com.

Meetings

During the year five meetings were held.

On behalf of the Safety & Sustainability Committee:

Howard Higgins
Chair of the Safety & Sustainability Committee
27 June 2019

May 2018

Main purpose

Reviewed the Safety and Sustainability Business Plan.

Approved the 2018/19 Safety, Health, Environment & Security ('SHES') internal audit plan.

Reviewed the SHES performance report.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Acting Head of SHES; Director, Safety & Network Strategy; Head of Audit & Risk

July 2018

Main purpose

Reviewed the Sustainability Strategy Framework.

Reviewed the Safety and Sustainability Business Plan.

Reviewed the SHES performance report.

Considered results of Data Validation Exercise.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Acting Head of SHES; Director, Safety & Network Strategy

September 2018

Main purpose

Reviewed the Safety Assurance Framework.

Reviewed the Sustainability Strategy Framework.

Considered an update on cyber security.

Considered an update on vehicle incidents.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Acting Head of SHES; Head of Digital Risk and Security; Director, Safety & Network Strategy; Head of Audit & Risk

November 2018

Main purpose

Adopted revised Committee Terms of Reference approved by the Board.

Reviewed the Sustainability Strategy Framework.

Considered the SHES performance report.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Acting Head of SHES; Director, Safety & Network Strategy

March 2019

Main purpose

Reviewed the Sustainability Strategy Framework.

Considered and set Annual Performance Targets on safety including no fault road traffic incidents and underground cable strikes.

Considered the updated Safety Assurance Framework.

Key additional attendees

Chairman of the Board; Interim Chief Executive Officer; Head of SHES; Director, Safety & Network Strategy; Director of Operations; Head of Audit and Risk

Governance

Finance Committee report

Annual statement on behalf of the Finance Committee

In the context of the next price control review discussions, we see the work we have done as a Committee during 2018 as important groundwork.

Membership and attendance during the year

	Attended/Eligible to attend	Joined	Resigned
Chair			
Jaroslava Korpancova	2/2	July 2017	July 2018
Members			
Steve Hurrell (CFO/ Interim Chief Executive Officer)	2/2	July 2017	
Mark Braithwaite	1/1	November 2018	
Julian Allsopp (Interim CFO)	1/1	February 2019	
Former members			
Andy Agg[1]	0/0	July 2017	July 2018
Martin Bradley[2]	2/2	July 2017	July 2018
Stuart Humphreys[3]	0/0	September 2018	October 2018

1 Andy Agg stepped down from the Board and Committee on 20 July 2018.
2 Martin Bradley stepped down from the Board and Committee on 28 November 2018.
3 Stuart Humphreys stepped down from the Board and Committee on 29 October 2018.

Alistair Ray was appointed to the Committee in June 2017 and resigned from the Board and Committee on 16 May 2018, before any Committee meetings had been held in the financial year.

Key highlights of the year

The Committee focused on identifying and reviewing key areas of financial risk and key financing transactions.

Considering long-term funding of the business:

- Reviewed a medium term note and prospectus.
- Reviewed a United States Private Placement ('USPP') offering.

Review of interest rates and inflation:

- Considered the merits of CPI and RPI in view of Ofgem's move to a CPI measurement of inflation.

Financial plan:

- Updated the Financing Plan in light of anticipated 2021 bond maturity.

During the year, the Finance Committee has continued to monitor the company's long-term financing, in particular its long-term debt to ensure that the capital structure remains appropriate to the needs of the business; fully aligned with the expectations and standards set by Ofgem and structured so that fluctuations in the cost of debt are minimised. In support of this, we have kept the liquidity and risk profiles of our debt under review and supported management in optimising them both. In these tasks, the Finance Committee has sought to consider the widest range of options in order to achieve our objectives. Thus, for example, we have spent time this year considering the merits of the CPI market as well as the RPI market.

In the context of the next price control review discussions, we see the work we have done as a Committee during the year as important groundwork to help the company meet the requirements for the cost of debt set by Ofgem. This will continue to be our most significant priority throughout next year and beyond.

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 also reviews and advises the Board on the Group's tax strategy including the impact of new tax law or policy on the Group. 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, taking into account the relevant skills, experience and commitments of each proposed member. The Committee is made up of at least three members, one of whom shall be the CFO.

Meetings

In accordance with its terms of reference, the Committee met twice during the year.

November 2018

Main purpose

Discussed Financing Plan update.

Reviewed a Medium Term Note Programme and Prospectus.

Approved the amendment of the Treasury Policy.

Reviewed historical insurable risk claims.

Reviewed pension scheme longevity risks.

Key additional attendees

Chairman of the Board; Head of Treasury

March 2019

Main purpose

Received an update on the USPP Offering.

Reviewed the debt maturity profile including the fixed maturity bond refinancing options.

Reviewed the proposed separation of the Defined Benefit Pension Scheme from the National Grid Scheme.

Adopted revised terms of reference approved by the Board.

Key additional attendees

Chairman of the Board; Head of Treasury

On behalf of the Finance Committee:

Jaroslava Korpancova
Chair of the Finance Committee
27 June 2019

Governance

Business Separation Compliance Committee report

Annual statement on behalf of the Business Separation Compliance Committee

The Committee ('BSCC') has received regular updates on the separation of systems, particularly the IT infrastructure, during the year.

Membership and attendance during the year

	Attended/Eligible to attend	Joined	Resigned
Chair			
Dr Catherine Bell CB (Sufficiently Independent Director)	1/1	June 2017	
Members			
Howard Higgins	1/1	June 2017	
Steve Hurrell (Interim Chief Executive Officer)	0/0	February 2019	
Jaroslava Korpancova	0/1	June 2017	
Richard Court (Director of Regulatory Strategy)[1]	1/1	June 2017	
Former members			
Chris Bennett[2]	1/1	June 2017	October 2018
Chris Train OBE (Chief Executive)[3]	1/1	June 2017	February 2019

1 Richard Court is not a Director but is a member of the Business Separation Compliance Committee in line with the Company's regulatory requirements.
2 Chris Bennett stepped down from the Board and Committee on 29 October 2018.
3 Chris Train OBE stepped down from the Board and Committee on 15 February 2019.

Alistair Ray was appointed to the Committee in June 2017 and resigned from the Board and Committee on 16 May 2018, before any Committee meetings had been held in the financial year.

Key highlights of the year

Business separation:

- The Committee has reviewed and continues to monitor the ongoing IS separation programme to ensure business separation controls are maintained.

Oversight:

- The Committee has reviewed and noted that the Business Separation Compliance Officer successfully completed their duties.

Annual compliance reports:

- The Committee has reported good business separation compliance to the National Grid plc Audit Committee and Ofgem, as required by our licence. A copy of the reports to Ofgem are available on our website https://cadentgas.com/about-us/corporate-governance

The Business Separation Compliance Committee ('BSCC') is unique among Cadent's Board Committees in that its mandate derives directly from the company's licence and obligations to Ofgem. The key licence requirement for the BSCC is to ensure that we manage and operate our networks independently, so that we do not give or receive an unfair commercial advantage from the National Grid Gas Transmission Network whilst National Grid retains an interest in both companies.

I am pleased to report that we have continued to make further progress in separating Cadent's information, systems and processes from National Grid. The separation of systems is scheduled for completion by the end of March 2020.

Following the anticipated sale of National Grid's stake in the company which is due to complete on 28 June 2019, National Grid will no longer be an Ultimate Controller of the company which we expect will remove our business separation licence conditions and the need for this Committee.

Role and composition of the Business Separation Compliance Committee

To oversee compliance with the Business Separation compliance conditions, our Gas Transporter Licence requires that we maintain a Business Separation Compliance Committee to monitor the work of the Business Compliance Officer in ensuring that we manage and operate our networks independently, so that we do not give or receive an unfair commercial advantage to or from the National Grid Gas Transmission Network or any other 'relevant' industry participants.

The Business Separation Compliance Committee ('BSCC') differs from the other Committees in three important respects. Firstly, it reports both to the Board and (in respect of the National Grid Gas Transmission Network) to the Audit Committee of National Grid plc. Both the Board and the Audit Committee of National Grid plc would be informed of any relevant business separation compliance issues. Secondly, it has a remit which is limited to a dual focus, namely the separation of our distribution networks from the National Grid Gas Transmission business and the separation from other 'relevant' industry participants (although no such other relevant industry participants have been identified). Thirdly, it is in the light of assurance provided by the BSCC that we provide an annual report to Ofgem on compliance with this condition of the Gas Transporter Licence.

The Committee also oversees the duties performed by the Business Separation Compliance Officer and Compliance Officer.

Membership of the Committee is by appointment by the Board. The Committee is chaired by Dr. Catherine Bell CB who is a Sufficiently Independent Director and provides the Committee with independent leadership. The Business Separation Compliance Officer and Compliance Officer, or their delegate, attends meetings of the Committee and reports on their duties, activities and compliance with the licence obligations.

It is important to note that the risk of business separation has reduced significantly since we separated operationally from National Grid and this risk will continue to reduce as we finalise the separation from National Grid of our information systems and architecture ('IS Systems'). Separation from National Grid of all IS systems is scheduled to be completed by March 2020.

Upon the completion of the sale by National Grid of its shares in our holding company, Quadgas HoldCo Limited, the role and function of the Committee will be reassessed in the light of our then prevailing licence obligations.

Meetings

In accordance with its terms of reference, the Committee met once during the year.

May 2018

Main purpose

- The Committee noted and recommended to the Board the annual business separation report.
- Noted and approved submission to the National Grid plc Audit Committee of the annual report.
- Noted and recommended to the Board the Annual compliance report.

Key additional attendees

Assurance Manager (Business Separation Compliance Officer)

Additional informal briefings take place between the Chair of the Committee and the Business Separation Compliance Officer and Compliance Officer to consider any matters being brought to the attention of the Committee.

On behalf of the Business Separation Compliance Committee:

Dr Catherine Bell CB
Chair of the Business Separation Compliance Committee
27 June 2019

Governance

Directors' report

The Directors present their report and the audited financial statements of the Group and the Company for the year to 31 March 2019.

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 51 to 53, 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:

Sir A A Montague CBE (Chairman)*	
A M Al-Ansari**	(Appointed 17 May 2018)
N J Axam***	
Dr C E D Bell CB*	
M W Braithwaite	
I M Coucher	
S Fennell**	(Appointed 15 May 2019)
E B Fidler**	(Appointed 28 November 2018)
R Greenleaf**	(Appointed 28 November 2018)
H C Higgins	
S G Hurrell	
D A Karnik	
J Korpancova	
M W Mathieson	(Appointed 28 November 2018)
P D Noble**	
H Su**	(Appointed 23 August 2018)
K I Whiteman*	
D J Xie***	
A J Agg	(Resigned 20 July 2018)
A B F Al-Thani**	(Resigned 17 May 2018)
J Bao	(Resigned 23 August 2018)
C P Bennett	(Resigned 29 October 2018)
M Bradley	(Resigned 28 November 2018)
M J Gregory***	(Appointed 20 July 2018, Resigned 15 May 2019)
S C Humphreys	(Resigned 29 October 2018)
A McMenamin**	(Resigned 29 November 2018)
A G Ray	(Resigned 16 May 2018)
L N Shaw	(Resigned 29 October 2018)
C Train OBE	(Resigned 15 February 2019)
C J Waters	(Resigned 29 October 2018)

* Sufficiently Independent Director ** Alternate Director
*** Alternate Director then Shareholder Nominated Director

Corporate governance

A full report on corporate governance can be found in the Governance section of this document and the Company's corporate governance statement on page 56. Both are incorporated by reference into this report.

Future developments

Details of future developments have been included within the Strategic report on page 05.

Dividends

During the year, the Company has paid interim ordinary dividends of £213m on 28 September 2018 (2018: interim ordinary dividends totalling £265m) and a further interim dividend of £210m on 27 March 2019 (2018: interim dividends totalling £153m).

Charitable and political donations

Charitable donations made during the year totalled £137,000 (2017/18: £131,000). The Company made no political donations during the year (2017/18: £20,000. As stated in the previous annual report, this amount was to sponsor an event at the Conservative Party Conference to promote the future role of gas but was incorrectly classified as a donation of £11,500 and political expenditure of £8,500 made by the Company to the Conservative and Unionist Party. We approached the Electoral Commission and asked for this to be corrected).

Research and development

Expenditure on research and development was £9m during the period (2018: £8m).

Employees

Information on the Group's employment policies and employee involvement can be found in the Creating an Inclusive Environment section of the report on pages 26 to 31.

Environmental policy

Information on the Group's environmental initiatives can be found in the Improving our Environment report on pages 32 to 37, where you will find Corporate responsibility reports, policies and other information.

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 the going concern assumption, 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.

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

To ensure a sustainable future for our customer and business, Cadent announced on 13 May 2019 that it was offering a voluntary redundancy programme for all managers and staff. The cost of this programme cannot be determined at this stage as the programme is subject to employee consultation with the period of consultation running to 26 June 2019. As the costs cannot be determined with certainty at this stage, as the programme is subject to employee consultation that ends on the 26 June, management have made reference to this in the disclosure with a note that the programme is estimated to cost between £15m–£20m being management's current best estimate.

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 132 to 137.

Major shareholdings

As at 31 March 2019, 100% of the Company's share capital was held by Quadgas MidCo Limited.

Auditor

A resolution to re-appoint 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 Hurrell
Interim Chief Executive Officer
27 June 2019

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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 2019 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 24 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 12 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 their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 June 2019

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Consolidated income statement

For the year ended 31 March 2019

	Notes	2019 £m	2019 £m	2018 £m	2018 £m
Revenue	4		1,995		1,852
Operating costs			(1,149)		(1,108)
Operating profit					
Before exceptional items	5	846		744	
Exceptional items	6	(33)		(20)	
Total operating profit	5		813		724
Finance income	9		15		2
Finance costs					
Before exceptional items and remeasurements	9	(144)		(147)	
Exceptional items and remeasurements	6/9	(18)		–	
Total interest payable and similar charges			(162)		(147)
Profit before tax					
Before exceptional items and remeasurements		717		599	
Exceptional items and remeasurements	6	(51)		(20)	
Total profit before tax			666		579
Tax					
Before exceptional items and remeasurements		(133)		(118)	
Exceptional items and remeasurements	6	9		4	
Total tax	10		(124)		(114)
Profit after tax					
Before exceptional items and remeasurements		584		481	
Exceptional items and remeasurements		(42)		(16)	
Profit for the year			542		465

The results reported above relate to continuing activities.

The notes on pages 103 to 140 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	2019 £m	2018 £m
Profit for the year	542	465
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	132	436
Tax on remeasurements of post-employment benefit obligations	(23)	(75)
Total items that will never be reclassified to profit or loss	109	361
Items that may be reclassified subsequently to profit or loss		
Net gains/(losses) in respect of cash flow hedges	–	16
Net gains/(losses) in respect of cost of hedging reserve	(1)	–
Amortisation of cost of hedging reserve	3	–
Tax on net gains/(losses) in respect of cash flow hedges	–	(3)
Total items that may be reclassified subsequently to profit or loss	2	13
Other comprehensive income for the year, net of tax	111	374
Total comprehensive income for the year	653	839

The results reported above relate to continuing activities.

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Consolidated statement of financial position

As at 31 March 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Intangible assets	12	63	59
Property, plant and equipment	13	9,254	8,843
Investments in associates	14	–	–
Pension and other post-retirement benefit assets	27	690	507
Other non-current assets	16	44	44
Derivative financial assets	17	8	13
Total non-current assets		10,059	9,466
Current assets			
Inventories	15	10	6
Trade and other receivables	16	216	236
Derivative financial assets	17	–	2
Current asset investments	18	332	161
Cash and cash equivalents		5	8
Total current assets		563	413
Total assets		10,622	9,879
Current liabilities			
Trade and other payables	19	(571)	(452)
Borrowings	21	(52)	(47)
Current tax liabilities		(56)	(55)
Provisions	22	(15)	(17)
Total current liabilities		(694)	(571)
Non-current liabilities			
Derivative financial liabilities	17	(38)	(6)
Borrowings	21	(6,683)	(6,330)
Deferred tax liabilities	10	(1,282)	(1,121)
Provisions	22	(71)	(71)
Accruals and deferred income	20	(27)	(894)
Total non-current liabilities		(8,101)	(8,422)
Total liabilities		(8,795)	(8,993)
Net assets		1,827	886
Equity			
Share capital	23	–	–
Share premium account	24	–	–
Cash flow hedge reserve		–	6
Cost of hedging reserve		6	–
Retained earnings		7,114	6,173
Other reserves		(5,293)	(5,293)
Total equity		1,827	886

The notes on pages 103 to 140 are an integral part of these financial statements.

The consolidated financial statements on pages 98 to 140 were authorised and approved for issue by the Board of Directors on 27 June 2019 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 2019

	Share Capital £m	Share Premium Account £m	Cash flow Hedge Reserve £m	Cost of Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 1 April 2018	–	–	6	–	(5,293)	6,173	886
Changes due to adoption of IFRS 15 & IFRS 9	–	–	(6)	4	–	713	711
Balance at 1 April 2018 (restated)	–	–	–	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	–	–	–	–	–	(423)	(423)
At 31 March 2019	–	–	–	6	(5,293)	7,114	1,827

	Share Capital £m	Share Premium Account £m	Cash flow Hedge Reserve £m	Cost of Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 1 April 2017	–	5,458	(7)	–	(5,293)	307	465
Profit for the year	–	–	–	–	–	465	465
Other comprehensive income for the year	–	–	13	–	–	361	374
Total comprehensive income for the year	–	–	13	–	–	826	839
Capital reduction	–	(5,458)	–	–	–	5,458	–
Equity dividends	–	–	–	–	–	(418)	(418)
At 31 March 2018	–	–	6	–	(5,293)	6,173	886

The cash flow hedge reserve in relation to cross-currency interest rate swap contracts will be recycled to the income statement over 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 reserves 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 103 to 140 are an integral part of these financial statements.

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Consolidated statement of cash flows

For the year ended 31 March 2019

	2019 £m	2018 £m
Cash flows from operating activities		
Total operating profit	813	724
Adjustments for:		
Exceptional items	33	20
Depreciation, amortisation and impairment	319	305
(Increase)/decrease in inventories	(4)	1
Decrease/(increase) in trade and other receivables	6	(19)
Increase in trade and other payables	16	43
Capital contribution income	(65)	(24)
Changes in provisions	2	(2)
Gain on disposal of property, plant and equipment	(1)	(1)
Changes in pensions and other post-retirement obligations	(53)	(32)
Cash flows relating to exceptional items	(14)	(18)
Cash generated from operations	1,052	997
Tax paid	(129)	(128)
Net cash inflow from operating activities	923	869
Cash flows from investing activities		
Purchases of intangible assets	(22)	(3)
Purchases of property, plant and equipment	(645)	(577)
Capital contributions	91	59
Disposals of property, plant and equipment	2	1
Interest received	1	–
Net (increase) financial investments	(171)	(102)
Net cash flow (used in) investing activities	(744)	(622)
Cash flows from financing activities		
Proceeds received from loans	750	540
Repayments of obligations under finance leases	(1)	–
Repayment of loans	(400)	(245)
Interest paid	(112)	(101)
Dividends paid to shareholders	(423)	(418)
Net cash flow (used in) financing activities	(186)	(224)
Net (decrease)/increase in cash and cash equivalents	(7)	23
Net cash and cash equivalents/(overdraft) at the start of the period	3	(20)
Net cash and cash equivalents/(overdraft) at the end of the period	(4)	3

Notes to the consolidated financial statements

For the year ended 31 March 2019

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 Business Park, Central Boulevard, Coventry, CV7 8PE, UK.

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 (see Directors' report on page 92) 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) 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 2019 and the Companies Act 2006.

(b) Basis of consolidation

The consolidated financial statements include the results of Cadent Gas Limited and its subsidiary, 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.

(c) New IFRS accounting standards and interpretations

The Group has applied IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time during the period coming into effect on 1 April 2018. The nature and effect of these changes are disclosed below.

IFRS 9 'Financial Instruments'

The Group adopted IFRS 9 from 1 April 2018. In accordance with the transition provisions in the standard, comparatives have not been restated.

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and rules for hedge accounting. Details for these new requirements as well as their impact on the financial statements are described below.

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets; the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The standard goes on to identify three categories of financial assets; amortised cost, fair value through profit or loss ('FVTPL') and fair value through other comprehensive income ('FVOCI').

A summary of all reclassifications, which have resulted in no change to the carrying value of any financial instrument, is shown below. All other financial instruments (cash and deposits, trade receivables, borrowings, derivative instruments etc.) measurement categories and carrying amounts remain the same.

Type of financial instrument	IAS 39 measurement category	IFRS measurement category	IAS 39 carrying amount 31 March 2018 £m	Adjustments relating to IFRS 9 transition £m	IFRS 9 carrying amount 31 March 2018 £m
Financial & other investments	Amortised cost	FVTPL	161	–	161

Financial & other investments relate to AAA rated money market funds that are repayable on demand. Due to the credit worthiness and short term nature of these investments the amortised cost amount is materially the same as the fair value.

Financial statements

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations continued

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Group's financial assets and loan commitments.

The introduction of the new impairment model has an impact on the Group's trade receivables measured at amortised cost. For trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component. Based on the assessment undertaken, there is an immaterial difference between IFRS 9 and IAS 39, hence no transition adjustment has been recorded.

An adjustment on transition of £1m was made to financial assets relating to a loan to a counterparty which should be held at a different carrying value under IFRS 9. This has been recognised through opening reserves in line with the standard.

Hedge accounting

IFRS 9 contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

IFRS 9 introduces an optional treatment for cross-currency swaps designated in hedge relationships, whereby the currency basis element can be bifurcated with changes in fair value recorded in other comprehensive income ('OCI'). The Group has elected to apply this accounting treatment.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit and loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed.

On transition a £2m increase was made to retained earnings, a £6m decrease to cash flow hedge reserve and the cost of hedging reserve was increased to £4m.

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 2018):

	IAS 39 carrying amount 31 March 2018* £m	Adjustments to relating to IFRS 9 transition £m	IFRS 9 carrying amount 1 April 2018* £m
Retained earnings	6,173	1	6,174
Cash flow hedge reserve	6	(6)	–
Cost of hedging reserve	–	4	4
Trade and other receivables	236	(1)	235

* The amounts in this column are before the adjustments from the adoption of IFRS 15.

IFRS 15 'Revenue from Contracts with Customers'

On 1 April 2018 the Group adopted IFRS 15, applying the modified retrospective approach. IFRS 15 provides a single, principles-based approach to the recognition of revenue from contracts with customers, focusing on the identification of performance obligations in a contract and requiring revenue to be recognised when or as those performance obligations are satisfied. The impacts on the Group's results are a cumulative adjustment to increase equity at 1 April 2018 by £712m, reduce accruals and deferred income by £858m and an increase in deferred tax by £146m. There has been an increase in revenue of £65m as a result of completed diversions in the year. There has also been a corresponding in year increase in operating costs of £24m, arising as there are no longer any credits from amortisation of historic contribution. This reflects a change to customer contributions received towards altering, diverting or relocating a tangible fixed asset. These customer contributions were included as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they related. Under IFRS 15, the revenue recognition has been revised with the income recognised once the performance obligation (altering, diverting or relocating a tangible fixed asset) has been completed. There is no change to the accounting for customer contributions received for connections which continues to be recognised when the connection has been completed and the performance obligation satisfied. There were no other material changes.

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations continued

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 2018):

	IAS 18 Carrying Amount 31 March 2018* £m	Adjustments to Customer Contributions (Altering, Diverting or Relocating a Tangible Fixed Asset) £m	IFRS 15 Carrying Amount 1 April 2018* £m
Accruals and deferred income (non-current)	(894)	878	(16)
Accruals and deferred income (current)	(151)	(20)	(171)
Deferred tax	(1,121)	(146)	(1,267)
Retained earnings	6,173	712	6,885

* The amounts in this column are before the adjustments from the adoption of IFRS 9.

IFRS 16 'Leases'

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group will apply the standard from its mandatory adoption date of 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group set up a project team which reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the current accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of £35m, see note 26. Of these commitments, approximately £1m relate to short-term leases and £0.1m to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately £33m on 1 April 2019, lease liabilities of £30m (after adjustments for prepayments recognised as at 31 March 2019). Overall net assets will be approximately £3m higher, and net current liabilities will be £9m lower due to the presentation of a portion of the liability as a current liability. In addition to this, the Group will continue to recognise finance leases with lease liability and asset carrying value of £6m.

The Group expects that net profit after tax will decrease by approximately £1m for FY20 as a result of adopting the new rules. EBITDA is expected to increase by approximately £10m, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately £9m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Other

Other standards and interpretations or amendments thereto, which have been issued and are not yet effective, are not expected to have a material impact on the company's consolidated financial statements.
- Annual improvements to IFRSs 2015–2017 Cycle; and
- Amendments to IAS 19 'Employee Benefits'.

(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.

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Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1 Summary of significant accounting policies continued

(d) Intangible assets continued

Internally generated intangible assets, such as software, are recognised only if an asset is created that can be identified; it is probable that the asset will generate future economic benefits; 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.

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. The amortisation period for software is up to eight 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 in which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received towards the cost of altering, diverting or relocating a tangible fixed asset are included in trade and other payables as deferred income and credited to revenue once the alteration, diversion or relocation has been completed.

Contributions received towards the cost of tangible assets from customers for connections to the gas distribution networks are initially recognised as deferred income and credited to revenue once the connection has been completed.

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

(g) Impairment of fixed assets

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

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

1 Summary of significant accounting policies continued

(h) 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.

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Group will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised using the effective interest method in the income statement.

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

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.

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Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1 Summary of significant accounting policies continued

(h) Financial instruments continued

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

(i) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which have 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 provision for impairment using the expected loss model.

(j) Trade and other payables

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

(k) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(l) Tax

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

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

1 Summary of significant accounting policies continued

(l) Tax continued

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.

(m) Provisions for liabilities

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

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

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

Other provisions consist of provisions not covered by insurance including employer liability claims, dilapidations and other provisions related to the operation of our gas networks. Where amounts are material, third party valuations are performed.

(n) Dividends

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

(o) 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.

Financial statements

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1 Summary of significant accounting policies continued

(o) Revenue continued

Other income comprises all activities outside the regulated business, including customer contributions received for altering, diverting or relocating a tangible fixed asset. Post IFRS 15, revenue from customer contributions is now recognised when the performance obligations are satisfied.

(p) 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, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

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.

(q) Pensions

The company operates various post-employment schemes, including both DB and DC pension plans.

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.

For DB pension plans, 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 plan 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 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 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.

(r) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Assets for use in the company's business where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, are included within borrowings. The interest element of the rental obligation is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

1 Summary of significant accounting policies continued

(s) 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.

(t) 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 balance sheet.

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.

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

- 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 – note 27; and
- the categorisation of certain items as exceptional item 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:

- **Presentational formats:** we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- **Financial instruments:** we normally opt to apply hedge accounting in most circumstances where this is permitted.

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:

- Estimation of liabilities for pensions and other post-retirement benefits – note 27.
- Environmental provision – note 22.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

4 Revenue

	2019 £m	2018 £m
Revenue from distribution of gas	1,890	1,809
Other income	105	43
	1,995	1,852

As the modified retrospective approach has been adopted, other income includes £65m (2018: £Nil) due to the adoption of IFRS 15 in the year. See note 1(c) for further details regarding the adoption of IFRS 15.

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

	2019 £m	2018 £m
Analysis of revenue by major customer		
Customer A	480	505
Customer B	204	141
	684	646

Two customers contributed 10% or more to the Group's revenue during the year to 31 March 2019 (2018: One).

5 Operating profit

	2019 £m	2018 £m
Operating profit is stated after charging:		
Depreciation and amortisation	319	305
Payroll costs (see note 7)	200	192
Inventory consumed	13	9
Purchases of gas	25	20
Rates	204	198
Operating leases	11	8
Research and development expenditure	6	8

Included within operating profit is an amount of £8.9m relating to a financial contribution to the Energy Savings Trust. The contribution was a result of the conclusion of discussions with Ofgem in relation to historical challenges, set out in subsequent public statements.

	2019 £000	2018 £000
Services provided by the company's auditor		
Audit services		
Fees payable to the Group's auditor for the audit of the financial statements	442	447
Fees payable for the audit of the subsidiary company financial statements	59	43
Other services		
Fees payable to the company's auditor for audit-related assurance services	77	62
Other non-audit services	117	105

Fees payable to the company's auditor 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 2019 relate to services provided in connection with the raising of debt or required by the regulator.

6 Exceptional items and remeasurements

	2019 £m	2018 £m
Exceptional items included within operating costs:		
Separation activities (i)	(16)	(20)
Restructuring costs (ii)	(3)	–
Guaranteed minimum pensions payments (iii)	(14)	–
	(33)	(20)
Remeasurements included within finance costs:		
Net losses on derivative financial instruments (iv)	(18)	–
Total included within profit before tax	(51)	(20)
Included within taxation:		
Tax on separation activities	3	4
Tax on restructuring costs	1	–
Tax on guaranteed minimum pension payments	2	–
Tax on remeasurements	3	–
	9	4
Total exceptional and remeasurements after tax	(42)	(16)
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	(27)	(16)
Total remeasurements after tax	(15)	–
	(42)	(16)

(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 will continue into the next financial year, so are financially material.

(iii) A pre-tax exceptional expense of £14m has been recorded in the year ended 31 March 2019 as a past service cost in respect of the equalisation of guaranteed minimum pension ('GMP') benefits. On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to GMP benefits.

(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.

7 Employment costs

The average number of persons (including Executive Directors) employed by the Group was 4,027 (2018: 4,102) and can be analysed as follows:

	2019	2018
Field force	1,726	1,756
Office and other administrative staff	2,336	2,346
Total	4,062	4,102

	2019 £m	2018 £m
Wages and salaries	182	180
Social security costs	22	22
Other pension costs	52	42
	256	244
Less: payroll costs capitalised	(56)	(52)
	200	192

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.

	2019 £000	2018 £000
Salaries and other short-term employee benefits	1,699	1,410
Post-employment benefits	130	492
	1,829	1,902

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Notes to the consolidated financial statements continued

For the year ended 31 March 2019

8 Directors' emoluments

The Directors' emoluments were as follows:

	2019 £000	2018 £000
Aggregate emoluments (including salary, fees, bonuses and benefits-in-kind)	1,699	1,410
Pension schemes	130	492
	1,829	1,902

There were no amounts paid to third parties for Directors' services.

Post-employment benefits were being accrued for one (2018: One) Director under a defined benefit scheme.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2019 £000	2018 £000
Total amount of emoluments and amounts receivable (excluding shares) under long-term incentive schemes	804	713
Defined benefit pension scheme		
– accrued pension at end of period	75	444

9 Finance income and costs

	2019 £m	2018 £m
Finance income		
Interest income from pensions	14	2
Interest income from financial instruments	1	–
Finance income	15	2
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	29	32
Other borrowings	106	98
Derivatives	9	15
Unwinding of discounts on provisions	–	2
Less: interest capitalised (i)	–	–
Finance costs	144	147
Remeasurements		
Net (gains)/losses on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Cash flow hedges	–	11
Derivatives not designated as hedges or ineligible for hedge accounting	18	(11)
Remeasurements included within finance costs	18	–
Finance costs	162	147
Net finance costs	147	145

(i) Interest on funding attributable to assets in the course of construction was capitalised during the period at a rate of 2.2% (2018: 2.2%). Capitalised interest of £Nil (2018: £128,000) qualifies for a current year tax deduction with tax relief claimed of £Nil (2018: £24,000).

(ii) Includes a net foreign exchange gain on financing activities of £8m (2018: loss of £19m). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

10 Taxation

Tax charged to the income statement

	2019 £m	2018 £m
Tax before exceptional items and remeasurements	133	118
Tax on other exceptional items and remeasurements	(9)	(4)
Total tax expense	124	114

Taxation as a percentage of profit before tax

	2019 %	2018 %
Before exceptional items and remeasurements	18.6	19.7
After exceptional items and remeasurements	18.6	19.7

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

	2019 £m	2018 £m
Current tax		
UK corporation tax at 19% (2018: 19%)	135	129
UK corporation tax adjustment in respect of prior years	(3)	(1)
Total current tax	132	128
Deferred tax		
UK deferred tax	(7)	(16)
UK deferred tax adjustment in respect of prior years	(1)	2
Total deferred tax	(8)	(14)
Total tax charge	124	114

Tax charged/(credited) to other comprehensive income and equity

	2019 £m	2018 £m
Deferred tax		
Cash flow hedges	–	3
Accelerated tax depreciation	146	–
Remeasurements of post-employment benefit obligations	23	75
Total tax charged to other comprehensive income and equity	169	78

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Notes to the consolidated financial statements continued

For the year ended 31 March 2019

10 Taxation continued

The tax charge for the year after exceptional items and remeasurements is lower (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%):

	Before Exceptional Items and Remeasurements 2019 £m	After Exceptional Items and Remeasurements 2019 £m	Before Exceptional Items and Remeasurements 2018 £m	After Exceptional Items and Remeasurements 2018 £m
Profit before tax				
Before exceptional items and remeasurements	717	717	599	599
Exceptional items and remeasurements	–	(51)	–	(20)
Profit before tax	717	666	599	579
Profit before tax multiplied by UK corporation tax rate of 19% (2018: 19%)	136	127	114	110
Effect of:				
Expenses not deductible for tax purposes	4	4	3	3
Non-taxable income	(1)	(1)	(1)	(1)
Corporation tax / deferred tax rate differential	(2)	(2)	(1)	(1)
Other	–	–	2	2
Prior year adjustments	(4)	(4)	1	1
Total tax	133	124	118	114
	%	%	%	%
Effective tax rate	18.6	18.6	19.7	19.7

Factors that may affect future tax charges

The Finance Act 2016 was enacted on 15 September 2016. The Act reduced the corporate tax rate to 17% from 1 April 2020. Deferred tax balances forecast to reverse in the period to 31 March 2020 have been provided for at 19%. Deferred tax balances forecast to reverse in the period after 31 March 2020 have been provided for at 17%. The tax impact of new accounting standards has been included in note 1c on page 103 where appropriate.

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 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 at 31 March 2019	–	–	(2)	(8)	(10)
Deferred tax liabilities at 31 March 2019	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 £1,282m (2018: £1,121m).

11 Dividends

	2019 £m	2018 £m
Interim dividend of £1,567.77 per ordinary share amounting to £265,000,000 was declared and paid on the 22 November 2017	–	265
Second interim dividend of £905.17 per ordinary share amounting to £153,000,000 was declared on 23 March 2018 and paid on 27 March 2018	–	153
Interim dividend of £1,260.13 per ordinary share amounting to £213,000,000 was declared and paid on the 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	–
	423	418

No further dividends are proposed for the current financial period.

12 Intangible assets

	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

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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	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

The net book value of motor vehicles and other equipment at 31 March 2019 includes £5,771,000 (2018: £5,845,000) relating to assets purchased under finance leases.

The cost of property, plant and equipment at 31 March 2019 included £1,462,000 (2018: £1,462,000) relating to interest capitalised, with £Nil (2018: £128,000) capitalised during the year.

The net book value of land and buildings comprises:

	2019 £m	2018 £m
Freehold	23	21
Long leasehold (over 50 years)	–	–
Short leasehold (under 50 years)	18	20
	41	41

14 Investments in associates

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

	Total £m
Cost	
At 1 April 2018 & 31 March 2019	–
Provision	
At 1 April 2018 & 31 March 2019	–
Net book value	
At 31 March 2018 & 31 March 2019	–

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

	2019 £m	2018 £m
Raw materials and consumables	10	6
	10	6

Inventories are stated after provisions for impairment of £307,000 (2018: £318,000).

16 Trade and other receivables

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade debtors	16	27
Amounts owed by fellow subsidiary undertakings	–	4
Other debtors	9	13
Prepayments and accrued income	191	192
	216	236
Amounts falling due after more than one year:		
Prepayments and accrued income	29	37
Other debtors	15	7
	44	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:

	2019 £m	2018 £m
At 1 April	4	4
Amounts utilised/written off in the year	–	–
Amounts credited in the income statement	(1)	–
At 31 March	3	4

The impact on the opening provision moving from the IAS 39 incurred cost model to the IFRS 9 expected loss model is £Nil.

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

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

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Notes to the consolidated financial statements continued

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16 Trade and other receivables continued

Other Income

Other income included within trade debtors relates to any income stream which involves rechargeable construction work done on the network where the costs can be charged to another party. Examples of other income would be 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 of days past due plus any specific adjustments. Specific adjustments have been made based on forward looking information specific to any counterparty or counterparty segment which would lead the Group to adjust the normal matrix based calculation.

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 prepayments and accrued income. These amounts relate to two different elements: capacity and commodity income.

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.

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:

	2019		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	–	–	–
Amounts falling due after more than one year	8	(38)	(30)
	8	(38)	(30)

	2018		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	2	–	2
Amounts falling due after more than one year	13	(6)	7
	15	(6)	9

17 Derivative financial instruments continued

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

	2019 £m	2018 £m
Cross-currency interest rate swaps	858	638
Inflation-linked swaps	400	400
	1,258	1,038

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

18 Current asset investments

	2019 £m	2018 £m
Investments in short-term money funds	332	160
Loans to other entities	–	1
	332	161

19 Trade and other payables

	2019 £m	2018 £m
Trade creditors	276	213
Amounts owed to immediate parent company	12	12
Other tax and social security	45	52
Other creditors	26	24
Accruals and deferred income	212	151
	571	452

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

20 Accruals and deferred income

	2019 £m	2018 £m
Accruals and deferred income	27	894
	27	894

Accruals and deferred income mainly comprises contributions to capital projects. Of the £867m reduction in accruals and deferred income balance during the year, £878m has arisen due to the IFRS 15 transition adjustment (see note 1). £27m represents capital contributions on projects expected to be completed after one year.

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Notes to the consolidated financial statements continued

For the year ended 31 March 2019

21 Borrowings

	2019 £m	2018 £m
Amounts falling due within one year		
Bank loans	2	2
Bank overdrafts	9	5
Bonds	40	39
Finance leases	1	1
	52	47
Amounts falling due after more than one year		
Bank loans	1,321	1,717
Bonds	5,357	4,607
Finance leases	5	6
	6,683	6,330

	2019 £m	2018 £m
Total borrowings are repayable as follows:		
Less than one year	52	47
In one–two years	–	399
In two–three years	1,038	1
In three–four years	–	1,038
In four–five years	92	1
More than five years	5,553	4,891
	6,735	6,377

The notional amount of borrowings outstanding as at 31 March 2019 was £6,154m (2018: £5,822m), £6,397m (2018: £6,038m) including accretion.

21 Borrowings continued

Summary of borrowings – 31 March 2019

Currency	Type	Notional (including accretion)**** £m	Rate	Maturity Date	Book Value £m	Fair Value £m
Fixed rate						
GBP	Listed	650	Fixed	22/09/2021	651	651
EUR*	Listed	643	Fixed	22/09/2024	644	647
GBP	Listed	850	Fixed	22/09/2028	855	844
GBP	Listed	700	Fixed	22/09/2038	704	684
GBP	Listed	800	Fixed	22/09/2046	798	766
GBP	Listed	300	Fixed	22/09/2040	296	309
JPY**	Listed	68	Fixed	19/07/2033	69	68
GBP	Unlisted	100	Fixed	19/03/2031	100	103
USD***	Unlisted	151	Fixed	19/03/2031	153	158
GBP	Unlisted	200	Fixed	19/03/2034	200	207
GBP	Unlisted	225	Fixed	19/03/2039	225	232
		4,687			4,695	4,669
Index linked						
GBP	Unlisted	80	RPI +	02/10/2023	93	92
GBP	Unlisted	78	RPI +	18/06/2024	88	87
GBP	Unlisted	78	RPI +	25/06/2024	88	87
GBP	Unlisted	78	RPI +	29/04/2024	90	89
GBP	Unlisted	77	RPI +	30/04/2024	87	89
GBP	Unlisted	77	RPI +	07/05/2024	87	89
GBP	Listed	142	RPI +	02/05/2039	218	225
GBP	Listed	146	RPI +	10/08/2048	243	257
GBP	Listed	146	RPI +	14/08/2048	240	253
		902			1,234	1,268
Floating rate						
GBP	Unlisted	393	LIBOR +	14/10/2021	391	396
GBP	Unlisted	400	LIBOR +	27/03/2027	400	392
		793			791	788
Overdraft		9			9	9
Finance lease obligation		6			6	6
Total		6,397			6,735	6,740

* Euro amount is €750m
** JPY amounts in ¥10bn
*** USD amounts in $200m
**** Index-linked debt notional is the accreted value

Cadent Finance plc issued £3,643m of fixed rate bonds on 22 September 2016 and £300m on 19 March 2018. On 19 July 2018, Cadent Finance plc further issued ¥10bn of fixed rate bonds, which was swapped to £68m at the same time. These were all issued under Cadent Finance's £6,000m Euro Medium Term Note Programme and are guaranteed by Cadent Gas Limited. On 19 March 2019, Cadent Finance issued £681m of private loan notes, of which $200m was swapped to £156m at the same time.

The unlisted index-linked debt was novated from National Grid Gas plc to Cadent Gas Limited on 1 October 2016 and the listed index-linked debt to Cadent Finance plc on 24 November 2016, both transfers made at fair value.

The floating debt is a combination of term debt drawn under the £1,700m term loan and Revolving credit facility ('RCF') agreed in October 2016, and drawn for the first time immediately before the date of sale and debt issued to the European Investment Bank ('EIB'), drawn down on 27 March 2017. On 28 March 2019, Cadent Gas Limited repaid the £400m Term B loan facility.

The fair value of borrowings at 31 March 2019 was £6,740m. Where market values were available, the fair value of borrowings (Level 1) was £3,901m. Where market values were not available, the fair value of borrowings (Level 2) was £2,839m, calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2019 was £6,397m (including accretion).

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Notes to the consolidated financial statements continued

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21 Borrowings continued

Obligations under finance leases

	Minimum Lease Payments 2019 £m	2018 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	4	3
After five years	2	4
Less: future finance charges	(1)	(1)
Present value of lease obligations	6	7

	Present Value of Minimum Lease Payments 2019 £m	2018 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	3	2
After five years	2	4
Present value of lease obligations	6	7
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1	1
Amounts due for settlement after 12 months	5	6
	6	7

It is the Group's policy to lease certain of its motor vehicles and other equipment under finance leases. The average lease length is eight years (2018: eight). For the year ended 31 March 2019, the average effective borrowing was 3.48% (2018: 3.49%). 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.

22 Provisions for liabilities

	Decommissioning £m	Environmental £m	Other £m	Total £m
At 1 April 2018	7	31	50	88
Charged to the income statement	–	1	7	8
Utilised	(3)	(1)	(4)	(8)
Released to the income statement	–	–	(2)	(2)
Unwinding of discount	–	–	–	–
At 31 March 2019	4	31	51	86

	2019 £m	2018 £m
Current	15	17
Non-current	71	71
	86	88

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas storage facilities expected to be incurred until 2020.

22 Provisions for liabilities continued

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% (2018: 1.0%)). Cash flows are expected to be incurred between 2019 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. The undiscounted amount of the provision at 31 March 2019 is £38m (2018: £37m), being the undiscounted best estimate liability having regard to these uncertainties.

Other provisions

The other provision represents all other provisions, including claims which are not covered by insurance.

23 Share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	–	–

24 Share premium

	2019 £m	2018 £m
Share premium	–	–

On the 25 January 2018, the company completed a capital reduction. Prior to the capital reduction, share capital consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid and share premium amounted to a balance of £5,457,732,588. The capital reduction resulted in the share premium account being reduced by £5,457,732,588 to Nil. Share capital post capital reduction remained unchanged and consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid.

25 Net debt

	2019 £m	2018 £m
Increase/(decrease) in cash and cash equivalents	(7)	23
Increase in financial investments	171	102
Increase in borrowings and related derivatives	(350)	(295)
Net interest paid on the components of net debt	112	101
Change in net debt arising from cash flows	(74)	(69)
Changes in fair value of financial assets and liabilities and exchange movements	(11)	13
Other non-cash changes	–	(6)
Net interest charge on the components of net debt	(144)	(145)
Movement in net debt (net of related derivative financial instruments)	(229)	(207)
Net debt (net of related derivative financial instruments) at the start of the year	(6,199)	(5,992)
Net debt (net of related derivative financial instruments) at the end of the year	(6,428)	(6,199)

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25 Net debt continued

Composition of net debt:

	2019 £m	2018 £m
Cash, cash equivalents and financial investments	337	169
Borrowings and bank overdrafts	(6,735)	(6,377)
Derivatives	(30)	9
Total net debt	(6,428)	(6,199)

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	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

	2019 £m	2018 £m
Contracts for future capital expenditure not provided in the financial statements	387	741
Letters of credit	300	300
	687	1,041

The Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2019 £m	2018 £m
Less than one year	10	8
In two–five years	16	10
More than five years	9	1
	35	19

In respect of the Group'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.

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 was established on 1 April 2017 as the DC pension scheme for the company. Under the rules of the plan, 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:

	2019 £m	2018 £m
Current period contributions	15	13

Defined benefit ('DB') scheme

The company's DB pension arrangements are held in the National Grid UK Pension 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 its membership is limited to the company's employees (active and deferred). 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 plan.

The cost of providing benefits in a DB plan 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 plan 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.

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

The National Grid UK Pension Scheme is a defined benefit pension scheme, 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 National Grid UK Pension Scheme was carried out at 31 March 2017. 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.

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27 Pensions continued

Defined benefit ('DB') scheme continued

The results of the 2017 valuation are shown below:

Last full actuarial valuation	31 March 2017	30 September 2015
Actuary	Willis Towers Watson	Willis Towers Watson
Market value of scheme assets at latest valuation	£7,004m	£16,551m
Actuarial value of benefits due to members	£7,233m	£18,176m
Market value as percentage of benefits	97%	91%
Funding deficit	£229m	£1,625m

The figures for 2015 cover the whole of the scheme as at that date, whereas the 2017 valuation covers only Section C, which is supported by the company. A valuation of Section C is currently being undertaken as at 31 March 2019.

Section C of the National Grid UK Pension Scheme

The company and the trustees have agreed a schedule of contributions, under which payments of £37.1m will be made each year from September 2018 until September 2021 and £31.4m in 2022, adjusted for the change in RPI from 31 December 2016 to three months prior to the date of payment.

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 2019 the value of this was required to be £285m. 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 £77m (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.

Guaranteed minimum pension ('GMP') equalisation

GMPs were intended to broadly replace State Earnings Related Pension Scheme ('SERPS') benefits for members of contracted out occupational pension schemes from April 1978 to April 1997. Inequalities in GMP stemmed from the statutory definition of GMP, resulting in benefits accruing at different rates between male and female members.

A High Court judgement in October 2018 confirmed that GMP benefits need to be equalised between men and women, but importantly also provided alternative prescribed methods of equalisation. This provided much needed clarity, as there has been uncertainty in pensions law for decades, as it pertains to GMP equalisation.

However, the scheme cannot directly equalise the GMPs, but needs to adjust other benefits in order to achieve this, through correcting the ongoing position and making back payments to affected members. This is a highly complex issue and we have estimated the cost of equalisation under the most effective permissible method to be £14m.

The key driver of this cost is the scheme's benefit structures, the membership profile and retirement choices made by members. Cadent Gas will continue to work closely with the trustee of National Grid UK Pension Scheme, the actuaries and legal advisers to implement and administer GMP equalisation, which is expected to take some years.

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. Plan 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.

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

27 Pensions continued

Risks continued

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

The recognition of the net defined benefit asset in relation to Section C of the National Grid UK Pension Scheme reflect 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.

Amounts recognised in the statement of financial position

The following tables represent the amounts in the financial statements.

	2019 Total £m	2018 Total £m
Present value of funded obligations	(5,981)	(6,306)
Fair value of plan assets	6,674	6,816
	693	510
Present value of unfunded obligations	(3)	(3)
Other post-employment liabilities	–	–
Net defined benefit asset	**690**	**507**

	2019 Total £m	2018 Total £m
Represented by:		
Liabilities	(5,984)	(6,309)
Assets	6,674	6,816
	690	507

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

	2019 Total £m	2018 Total £m
Included within operating costs		
Administration costs	3	3
Defined contribution scheme costs	15	13
Defined benefit scheme costs:		
Current service cost	20	29
Past service cost (disclosed as an exceptional item)	14	–
Special termination benefit (gain)/cost – redundancies	–	(3)
	52	42
Included within finance costs		
Net interest (credit)/cost	(14)	(2)
Total included in income statement	**38**	**40**
Remeasurements of net retirement benefit obligations	35	(429)
Return on plan assets (greater) or less than discount rate	(167)	(7)
Total included in the statement of other comprehensive income	**(132)**	**(436)**

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For the year ended 31 March 2019

27 Pensions continued

Reconciliation of the net defined benefit liability/(asset)

	2019 Total £m	2018 Total £m
Opening net defined benefit (liability)/asset	507	34
Costs recognised in the income statement	(23)	(27)
Employer contributions	75	60
Other movements	131	440
Closing net defined benefit asset	690	507

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

	2019 Total £m	2018 Total £m
Opening net defined benefit liability	6,309	6,970
Current service cost	20	29
Interest cost	156	162
Past service cost	14	–
Actuarial (gains)/losses – experiences	38	59
Actuarial (gains)/losses – demographic assumptions	(259)	(192)
Actuarial (gains)/losses – financial assumptions	256	(296)
Special termination benefit cost – redundancies	–	(3)
Settlement of defined benefit obligation	–	–
Benefits paid	(551)	(416)
Other	1	(4)
Closing net defined benefit liability	5,984	6,309

Changes in the fair value of plan assets

	2019 Total £m	2018 Total £m
Opening fair value of plan assets	6,816	7,004
Interest income	170	164
Return on assets (less)/greater than assumed	167	7
Administration costs	(3)	(3)
Employer contributions paid	75	60
Employee contributions	–	–
Benefits paid	(551)	(416)
Settlement of assets	–	–
Closing fair value of plan assets	6,674	6,816
Actual return on plan assets	337	170
Expected contributions to plans in the following year	80	61

27 Pensions continued

Asset allocations

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

	2019 Quoted £m	2019 Unquoted £m	2019 Total £m	2018 Quoted £m	2018 Unquoted £m	2018 Total £m
Equities	717	248	965	714	270	984
Corporate bonds	1,844	–	1,844	2,020	–	2,020
Property	–	363	363	–	402	402
Government securities	2,944	–	2,944	2,857	–	2,857
Diversified alternatives (i)	–	401	401	–	388	388
Other	–	157	157	–	165	165
Total	5,505	1,169	6,674	5,591	1,225	6,816

(i) Includes return seeking non-conventional asset classes of £312m (2018: £388m), secure income assets of £88m (2018: Nil) and other of £1m (2018: Nil).

The investment strategy for Section C of the National Grid UK Pension 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 2019 is as follows:

	2019 %	2018 %
Equities	15	14
Other	85	86
	100	100

Actuarial assumptions

Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

	2019 %	2018 %
Discount rate – Past service (i)	2.40	2.60
Discount rate – Future service (i)	2.45	2.65
Rate of increase in salaries (ii)	3.50	3.40
Rate of increase in RPI – Past service (iii)	3.25	3.15
Rate of increase in RPI – Future service (iii)	3.20	3.10

(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 2.20% (2018: 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.

	2019 years	2018 years
Today		
Males	20.8	21.8
Females	22.8	23.7
In 20 years		
Males	22.1	23.2
Females	24.3	25.3

Maturity profile of DB obligations

The weighted average duration of the DB obligation for future service obligations of the scheme is 24 years and 14 years for past service obligations.

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28 Financial risk management

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

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

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

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

- Credit risk.
- Liquidity risk.
- Interest rate risk.
- Currency risk.
- 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 carrying amount of financial assets and loss allowance are as follows:

For year ended 31 March 2019

	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount £m
Derivative financial assets	17	8	–	8
Trade debtors	16	19	(3)	16
Amounts owed by fellow subsidiary undertakings	16	–	–	–
Accrued income	16	166	–	166
Current asset investments	18	332	–	332

For year ended 31 March 2018

	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount £m
Derivative financial assets	17	15	–	15
Trade debtors	16	31	(4)	27
Amounts owed by fellow subsidiary undertakings	16	4	–	4
Accrued income	16	161	–	161
Current asset investments	18	161	–	161

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 2019, 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 credit rating A- or higher from Standard & Poor's ('S&P'), which should reduce the likelihood of significant losses. Management does not expect any significant losses from non-performance by these counterparties.

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.

	2019 £m	2018 £m
Accrued income	166	161
Collateral held	(17)	(14)
Exposure net of collateral	149	147

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 2019						
Assets						
Derivatives' financial instruments	8	–	8	–	–	8
Liabilities						
Derivatives' financial instruments	(38)	–	(38)	–	–	(38)
Total at 31 March 2019	(30)	–	(30)	–	–	(30)

	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 2018						
Assets						
Derivatives' financial instruments	15	–	15	–	–	15
Liabilities						
Derivatives' financial instruments	(6)	–	(6)	–	–	(6)
Total at 31 March 2018	9	–	9	–	–	9

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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 24 month period and maintain adequate liquidity for a continuous 12 month period.

We believe our contractual obligations, including those shown in capital and other commitments in note 26 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining current rating levels. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

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
As at 31 March 2019					
Non-derivative financial instruments					
Borrowings	–	–	(1,043)	(6,066)	(7,109)
Interest on payments on borrowings (i)	(131)	(132)	(129)	(1,880)	(2,272)
Other non-interest bearing borrowings	(571)	–	–	–	(571)
Derivative financial instruments					
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)

	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
As at 31 March 2018					
Non-derivative financial instruments					
Borrowings	–	(400)	–	(6,382)	(6,782)
Interest on payments on borrowings (i)	(101)	(102)	(103)	(1,696)	(2,002)
Other non-interest bearing borrowings	(452)	–	–	–	(452)
Derivative financial instruments					
Derivative contracts – receipts	15	17	18	758	808
Derivative contracts – payments	(12)	(12)	(12)	(826)	(862)
Total at 31 March 2018	(550)	(497)	(97)	(8,146)	(9,290)

(i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future debt issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the company can be required to settle.
(ii) The 2018 comparative has been updated to disclose gross derivative payments and receipts.

(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.

28 Financial risk management continued

(c) Interest rate risk continued

During 2019, 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 2019					
Financial investments	–	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 (ii)	(4,690)	(63)	(1,669)	(6)	(6,428)

	Fixed Rate £m	Floating Rate £m	RPI £m	Other (i) £m	Total £m
As at 31 March 2018					
Financial investments	–	169	–	–	169
Borrowings	(3,958)	(1,595)	(818)	(6)	(6,377)
Pre-derivative position	(3,958)	(1,426)	(818)	(6)	(6,208)
Derivative effect	9	400	(400)	–	9
Net debt position (ii)	(3,949)	(1,026)	(1,218)	(6)	(6,199)

(i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.
(ii) The impact of 2018/19 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 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)

	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
As at 31 March 2018					
Financial investments	169	–	–	–	169
Borrowings	(5,722)	(655)	–	–	(6,377)
Pre-derivative position	(5,553)	(655)	–	–	(6,208)
Derivative effect	(646)	655	–	–	9
Net debt position	(6,199)	–	–	–	(6,199)

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28 Financial risk management continued

(d) Currency risk continued

Effect of hedge accounting on the financial position and performance

a) The impact of hedging instruments designated in a hedge relationship as at 31 March 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

The impact of hedging instruments designated in a hedge relationship as at 31 March 2018 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	638	15	–	24	Derivative financial assets Derivative financial liabilities

b) 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) 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	–	(866)	8	Borrowings	–	6

The impact of hedged items designated in a hedge relationship as at 31 March 2018 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	–	(655)	(19)	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 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

28 Financial risk management continued

(d) Currency risk continued

The above hedging relationships affected the consolidated income statements for year ended March 2018 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	(8)	n/a

(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 2019 was 62% (2018: 62%).

(f) Fair value analysis

The financial instruments included on 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 2019				
Assets				
Available-for-sale investments	337	–	–	337
Derivative financial instruments	–	8	–	8
Liabilities				
Derivative financial instruments	–	(38)	–	(38)
Total	337	(30)	–	307

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2018				
Assets				
Available-for-sale investments	169	–	–	169
Derivative financial instruments	–	15	–	15
Liabilities				
Derivative financial instruments	–	(6)	–	(6)
Total	169	9	–	178

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.

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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. 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 inflation 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 2019 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.

	2019		2018	
	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	13	13	11	11
Amortisation charge on intangible assets	5	5	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
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments (i)	3	3	1	1
Pensions and other post-retirement benefits (pre-tax) (ii)				
Discount rate change of 0.5% (iii)	2	415	3	454
RPI rate change of 0.5% (iv)	2	397	2	437
Long-term rate of increase in salaries change of 0.5%	–	14	–	18
Change of one year to life expectancy at age 65	1	261	1	254
No hedge accounting for our derivative financial instruments (post tax)	2	–	13	–

(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.

	2019		2018	
	Income Statement £m	Net Assets £m	Income Statement £m	Net Assets £m
As at 31 March 2019				
Financial risk (post-tax)				
UK RPI rate change of 0.5%	7	–	4	–
UK interest rate change of 0.5%	2	–	6	–

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 2019;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale 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 22) 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 materially adverse effect on the company's results of operations, cash flows or financial position.

(c) Health and Safety Executive investigation

In early 2018, Cadent identified that a number of high rise buildings were not on our records and therefore were not part of the 10 year rolling survey programme for long life assets. Cadent immediately implemented a survey recovery programme to resolve the issue as quickly and effectively as possible. The recovery programme was completed on 24 September 2018. Cadent informed the Health and Safety Executive who opened an investigation into this issue. Cadent worked with the Health and Safety Executive as they progressed their investigation. A decision is awaited. The investigation could result in a financial penalty against Cadent in accordance with the guidelines that apply.

(d) Guarantees and letters of credit

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

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For the year ended 31 March 2019

31 Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a Director who holds a controlling stake in that company and who is also a Director of Cadent Gas Limited. The related parties identified include the immediate parent, ultimate parent, fellow subsidiaries, associated undertakings, investments and key management personnel.

	2019 £m	2018 £m
Income:		
Goods and services supplied to associates	1	1
Goods and services supplied to other related parties	45	43
	46	44
Expenditure:		
Services rendered from associates	12	18
Services rendered from other related parties	202	217
	214	235
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable from associates	–	–
Amounts receivable from other related parties		
	8	18
Amounts payable to associates	1	2
Amounts payable to other related parties		
	26	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 2019 and recognised as an expense (2018: £39,000) 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

To ensure a sustainable future for our customer and business, Cadent announced on 13 May 2019 that it was offering a voluntary redundancy programme for all managers and staff. The cost of this programme cannot be determined with certainty at this stage as the programme is subject to employee consultation with the period of consultation running to 26 June 2019. Management's current best estimate is a cost between £15m–£20m.

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.

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

The registered address for Cadent Finance plc is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

Company statement of financial position

As at 31 March 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Intangible assets	7	63	59
Property, plant and equipment	8	9,254	8,843
Other non-current assets	11	44	44
Investments	9	–	–
Pension and other post-retirement benefit obligations	6	690	507
Derivative financial assets	12	8	13
Total non-current assets		10,059	9,466
Current assets			
Inventories	10	10	6
Debtors	11	216	237
Derivative financial assets	12	–	2
Financial and other investments	13	332	161
Cash at bank and in hand		5	8
Total current assets		563	414
Total assets		10,622	9,880
Current liabilities			
Creditors	14	(608)	(537)
Borrowings	16	(12)	(8)
Provisions for liabilities	17	(15)	(17)
Total current liabilities		(635)	(562)
Non-current liabilities			
Derivative financial liabilities	12	(38)	(6)
Borrowings	16	(1,325)	(1,723)
Provisions for liabilities	17	(1,257)	(1,249)
Other non-current liabilities	15	(5,966)	(5,126)
Total non-current liabilities		(8,586)	(8,104)
Total liabilities		(9,221)	(8,666)
Net assets		1,401	1,214
Equity			
Share capital	18	–	–
Share premium account	19	–	–
Cash flow hedge reserve		–	7
Cost of hedging reserve		6	–
Retained earnings		6,347	6,159
Other reserves		(4,952)	(4,952)
Total equity		1,401	1,214

The company has elected to take the exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The profit for the period is disclosed in the statement of changes in equity.

The notes on pages 143 to 157 are an integral part of the financial statements.

The financial statements on pages 141 to 157 were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

S G Hurrell
Director,
Cadent Gas Limited

Company registration number: 10080864

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Company statement of changes in equity

For the year ended 31 March 2019

	Share Capital £m	Share Premium Account £m	Cash Flow Hedge Reserve £m	Cost of Hedging Reserve £m	Merger Reserve £m	Retained Earnings £m	Total £m
At 1 April 2018	–	–	7	–	(4,952)	6,159	1,214
Changes due to adoption of IFRS 9	–	–	(6)	4	–	2	–
	–	–	1	4	(4,952)	6,161	1,214
Profit for the period	–	–	–	–	–	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 period	–	–	(1)	2	–	609	610
Equity dividend	–	–	–	–	–	(423)	(423)
At 31 March 2019	**–**	**–**	**–**	**6**	**(4,952)**	**6,347**	**1,401**

	Share Capital £m	Share Premium Account £m	Cash Flow Hedge Reserve £m	Cost of Hedging Reserve £m	Merger Reserve £m	Retained Earnings £m	Total £m
At 1 April 2017	–	5,458	(6)	–	(4,919)	311	844
Profit for the period	–	–	–	–	–	447	447
Other comprehensive income for the period	–	–	13	–	–	361	374
Total comprehensive income for the period	–	–	13	–	–	808	821
Gas distribution acquisition	–	–	–	–	(33)	–	(33)
Capital reduction	–	(5,458)	–	–	–	5,458	–
Equity dividend	–	–	–	–	–	(418)	(418)
At 31 March 2018	–	–	7	–	(4,952)	6,159	1,214

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. On 1 October 2016 Cadent Gas Limited acquired the trade and assets of Gas Distribution from National Grid Gas plc. 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.

Notes to the company financial statements

For the year ended 31 March 2019

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 Business 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 period 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, standards not yet effective and related party transactions.

(b) New IFRS accounting standards and interpretations

As permitted under section 11.2 'Basic Financial Instruments' of FRS 102, the company has chosen to apply the recognition and measurement provisions of IFRS 9 'Financial instruments' for the first time during the period coming into effect on 1 April 2018. The nature and effect of these changes are disclosed below.

IFRS 9 'Financial Instruments'

The company adopted IFRS 9 from 1 April 2018. In accordance with the transition provisions in the standard, comparatives have not been restated.

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and rules for hedge accounting. Details for these new these new requirements as well as their impact on the financial statements are described below.

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The standard goes on to identify three categories of financial assets: amortised cost; fair value through profit or loss ('FVTPL'); and fair value through other comprehensive income ('FVOCI').

A summary of all reclassifications, which have resulted in no change to the carrying value of any financial instrument, is shown below. All other financial instruments (cash and deposits, trade receivables, borrowings, derivative instruments etc.), measurement categories and carrying amounts remain the same.

Type of financial instrument	IAS 39 measurement category	IFRS measurement category	IAS 39 carrying amount 31 March 2018 £m	Adjustments relating to IFRS 9 transition £m	IFRS 9 carrying amount 31 March 2018 £m
Financial & other investments	Amortised cost	FVTPL	161	–	161

Financial & other investments relate to AAA rated money market funds that are repayable on demand. Due to the credit worthiness and short-term nature of these investments the amortised cost amount is materially the same as the fair value.

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the company's financial assets and loan commitments.

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2019

1 Summary of significant accounting policies continued

(b) New IFRS accounting standards and interpretations continued

The introduction of new impairment model has an impact on the company's trade receivables measured at amortised cost. For trade receivables, the company applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component. Based on the assessment undertaken, there is an immaterial difference between IFRS 9 and IAS 39 hence no transition adjustment has been recorded.

An adjustment on transition of £1m was made to financial assets relating to a loan to a counterparty which should be held at a different carrying value under IFRS 9. This has been recognised through opening reserves in line with the standard.

Hedge accounting

IFRS 9 contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

IFRS 9 introduces an optional treatment for cross-currency swaps designated in hedge relationships, whereby the currency basis element can be bifurcated with changes in fair value recorded in other comprehensive income ('OCI'). The company has elected to apply this accounting treatment.

There is no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit and loss and the company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed.

On transition a £2m increase was made to retained earnings, a £6m decrease to cash flow hedge reserve and the cost of hedging reserve was increased to £4m.

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 2018):

	IAS 39 carrying amount 31 March 2018* £m	Adjustments to relating to IFRS 9 transition £m	IFRS 9 carrying amount 1 April 2018* £m
Retained earnings	6,159	2	6,161
Cash flow hedge reserve	7	(6)	1
Cost of hedging reserve	–	4	4
Trade and other receivables	237	(1)	236

(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. The amortisation period for software is up to eight 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 in 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.

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) Fixed asset 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.

(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.

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 statements

Notes to the company financial statements continued

For the year ended 31 March 2019

1 Summary of significant accounting policies continued

(g) Financial Instruments continued

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 when there is objective evidence that the company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised using the effective interest method in the income statement.

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 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 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.

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;
- loan receivables; and
- other receivables.

1 Summary of significant accounting policies continued

(g) Financial Instruments continued

The company measures the loss allowances at an amount equal to the lifetime 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 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 as a result of any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

Evidence that the financial asset is credit impaired includes the following:
- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the company that the company 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) 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.

(i) Tax

Current tax for the current period is provided at the amount expected to be paid or recovered using the tax rates and tax laws enacted or substantively enacted by the reporting date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

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.

(j) 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.

(k) 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.

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2019

1 Summary of significant accounting policies continued

(l) 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.

(m) Pensions

The company operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Where the plan is in deficit and where the company has agreed, with the plan, to participate in a deficit funding arrangement the company recognises a liability for this obligation and expenses such amounts in the income statement.

(n) 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.

(o) 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 balance sheet.

2 Critical accounting judgements and 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.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:
- The recognition of surpluses in respect of defined benefit pension schemes – note 6.
- Environmental provision – note 17.

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:
- Estimation of liabilities for pensions and other post-retirement benefits – note 6.
- Environmental provision – note 17.

3 Auditor's remuneration

Auditor's remuneration in respect of the company is set out below:

	2019 £000	2018 £000
Audit services		
Fees payable to the company's auditor and its associates for the audit of the financial statements	442	447
Fees payable for the audit of the subsidiary company financial statements	59	43
Other services		
Fees payable to the company's auditor for audit-related assurance services	77	62
Other non-audit services	117	105

Fees payable to the company's auditor 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 2019 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 4,062 (2018: 4,102). 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 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 and other post-retirement assets

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.

7 Intangible assets

	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 period	(26)
At 31 March 2019	**(74)**
Net book value:	
At 31 March 2019	**63**
At 31 March 2018	59

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2019

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 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

The net book value of motor vehicles and other equipment at 31 March 2019 includes £5,771,000 (2018: £5,845,000) relating to assets purchased under finance leases.

The cost of property, plant and equipment at 31 March 2019 included £1,462,000 (2018: £1,462,000) relating to interest capitalised, with £Nil (2018: £128,000) capitalised during the year.

The net book value of land and buildings comprises:

	2019 £m	2018 £m
Freehold	23	21
Long leasehold (over 50 years)	–	–
Short leasehold (under 50 years)	18	20
	41	41

9 Investments

	Shares in Subsidiary Undertakings £m	Investments in associates £m	Total £m
Cost			
At 1 April 2018 & 31 March 2019	–	–	–
Provision			
At 1 April 2018 & 31 March 2019	–	–	–
Net book value			
At 31 March 2018 & 31 March 2019	–	–	–

The company's subsidiary undertakings as at 31 March 2019 were as follows:

Name of Subsidiary	% Holding	Principal Activity	Country of Incorporation
Cadent Finance plc	100	Provision of long-term finance	England and Wales

The registered address of Cadent Finance plc is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

The investment 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

	2019 £m	2018 £m
Raw materials and consumables	10	6
	10	6

Inventories are stated after provisions for impairment of £307,000 (2018: £318,000).

11 Debtors

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade debtors	16	27
Amounts owed by fellow subsidiary undertakings	–	4
Other debtors	9	14
Prepayments and accrued income	191	192
	216	237
Amounts falling due after more than one year:		
Prepayments and accrued income	29	37
Other debtors	15	7
	44	44

Trade debtors are stated after provisions for impairment of £3,269,000 (2018: £3,645,000). Amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable upon demand.

12 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2019 Assets £m	2019 Liabilities £m	2019 Total £m
Amounts falling due within one year	–	–	–
Amounts falling due after more than one year	8	(38)	(30)
	8	(38)	(30)

	2018 Assets £m	2018 Liabilities £m	2018 Total £m
Amounts falling due within one year	2	–	2
Amounts falling due after more than one year	13	(6)	7
	15	(6)	9

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

	2019 £m	2018 £m
Cross-currency interest rate swaps	858	638
Inflation-linked swaps	400	400
	1,258	1,038

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

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2019

13 Financial and other investments

	2019 £m	2018 £m
Investments in short-term money funds	332	160
Loans to other entities	–	1
	332	161

14 Creditors: amounts falling due within one year

	2019 £m	2018 £m
Trade creditors	274	213
Amounts owed to subsidiary undertakings	40	39
Amounts owed to immediate parent company	12	12
Corporation tax	56	55
Other tax and social security	45	52
Other creditors	28	24
Accruals and deferred income	153	142
	608	537

15 Other non-current liabilities

	2019 £m	2018 £m
Amounts owed to subsidiary undertakings	5,358	4,607
Accruals and deferred income	608	519
	5,966	5,126

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 to capital projects.

16 Borrowings

	2019 £m	2018 £m
Amounts falling due within one year		
Bank loans	2	2
Bank overdrafts	9	5
Bonds	–	–
Finance leases	1	1
	12	8
Amounts falling due after more than one year		
Bank loans	1,320	1,717
Bonds	–	–
Finance leases	5	6
	1,325	1,723

16 Borrowings continued

	2019 £m	2018 £m
Total borrowings are repayable as follows:		
Less than one year	12	8
In one–two years	–	399
In two–three years	391	1
In three–four years	–	392
In four–five years	93	1
More than five years	841	930
	1,337	1,731

The notional amount of borrowings outstanding as at 31 March 2019 was £1,167m (2018: £1,564m), £1,276m (2018: £1,661m), including accretion.

The company's borrowings comprise a mixture of unlisted floating rate and index-linked debt which has been issued out of or novated into the company. The table overleaf summarises the bank debt, including their fair values.

Summary of borrowings – 31 March 2019

Currency	Type	Notional (including Accretion) £m	Rate*	Maturity Date	Book Value £m	Fair Value £m
Index linked						
GBP	Unlisted	80	RPI +	02/10/2023	91	92
GBP	Unlisted	78	RPI +	18/06/2024	88	87
GBP	Unlisted	78	RPI +	25/06/2024	88	87
GBP	Unlisted	78	RPI +	29/04/2024	90	89
GBP	Unlisted	77	RPI +	30/04/2024	87	89
GBP	Unlisted	77	RPI +	07/05/2024	87	89
		468			531	533
Floating rate						
GBP	Unlisted	393	LIBOR +	14/10/2021	391	396
GBP	Unlisted	400	LIBOR +	27/03/2027	400	392
		793			791	788
Overdraft		9			9	9
Finance lease obligation		6			6	6
Total		1,276			1,337	1,336

* Index-linked debt notional is the accreted value.

The unlisted index-linked debt was novated from National Grid Gas plc to the company on 1 October 2016 at fair value.

The floating debt is the term debt drawn under the £1,700m term loan and RCF agreed in October 2016, and drawn for the first time immediately before the date of sale and debt with a maturity of ten years issued to the EIB, drawn down on 27 March 2017.

The fair value of borrowings at 31 March 2019 was £1,336m (2018: £1,709m). Where market values were available, fair value of borrowings (Level 1) was £Nil (2018: £Nil). Where market values were not available, the fair value of borrowings (Level 2) was £1,336m (2018: £1,709m), calculated by discounting cash flows at prevailing interest rates.

None of the company's borrowings are secured by charges over assets of the company.

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2019

16 Borrowings continued

Obligations under finance leases

	Minimum Lease Payments 2019 £m	2018 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	4	3
After five years	2	4
Less: future finance charges	(1)	(1)
Present value of lease obligations	6	7

	Present Value of Minimum Lease Payments 2019 £m	2018 £m
Amounts payable under finance leases:		
Within one year	1	1
In the second to fifth years inclusive	3	2
After five years	2	4
Present value of lease obligations	6	7
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1	1
Amounts due for settlement after 12 months	5	6
	6	7

It is the company's policy to lease certain of its motor vehicles and other equipment under finance leases. The average lease length is eight years. For the year ended 31 March 2019, the average effective borrowing was 3.48% (2018: 3.49%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

17 Provisions for liabilities

	Decommissioning £m	Environmental £m	Deferred Taxation £m	Other £m	Total £m
At 1 April 2018	7	31	1,179	49	1,266
Charged to the income statement	–	1	(16)	7	(8)
Utilised	(3)	(1)	–	(4)	(8)
Released to the income statement	–	–	–	(1)	(1)
Unwinding of discount	–	–	–	–	–
Credited to other comprehensive income and equity	–	–	23	–	23
At 31 March 2019	**4**	**31**	**1,186**	**51**	**1,272**

	2019 £m	2018 £m
Current	15	17
Non-current	1,257	1,249
	1,272	1,266

17 Provisions for liabilities continued

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas storage facilities expected to be incurred until 2020.

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% (2018: 1.0%)). Cash flows are expected to be incurred between 2019 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. The undiscounted amount of the provision at 31 March 2019 is £38m (2018: £37m), being the undiscounted best estimate liability having regard to these uncertainties.

Deferred tax

Deferred taxation comprises:

	2019 £m	2018 £m
Accelerated capital allowances	1,078	1,098
Other timing differences	108	81
Deferred tax liability	1,186	1,179

Other provisions

The other provision represents all other provisions, including claims which are not covered by insurance.

18 Share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	–	–

19 Share premium

	2019 £m	2018 £m
Share premium	–	–

On the 25 January 2018, the company completed a capital reduction. Prior to the capital reduction, share capital consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid up. Share premium amounted to a balance of £5,457,732,588. The capital reduction resulted in the share premium account being reduced by £5,457,732,588 to Nil. Share capital post capital reduction remained unchanged and consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid.

Notes to the company financial statements continued

For the year ended 31 March 2019

20 Capital and other commitments

	2019 £m	2018 £m
Contracts for future capital expenditure not provided in the financial statements	387	741
Letters of credit	300	300
	687	1,041

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2019 £m	2018 £m
Less than one year	10	8
In two–five years	16	10
More than five years	9	1
	35	19

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.

21 Related parties

The following material transactions are with an associate of the company which is not wholly owned by Quadgas HoldCo 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.

	2019 £m	2018 £m
Goods and services supplied	1	1
Services received	12	17
Amounts receivable at 31 March	–	–
Amounts payable at 31 March	1	1

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

No amounts have been provided at 31 March 2019 (2018: Nil) and no expense has been recognised during the period 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.

22 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 17) 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) Health and Safety Executive investigation

In early 2018, Cadent identified that a number of high rise buildings were not on our records and therefore were not part of the 10 year rolling survey programme for long life assets. Cadent immediately implemented a survey recovery programme to resolve the issue as quickly and effectively as possible. The recovery programme was completed on 24 September 2018. Cadent informed the Health and Safety Executive who opened an investigation into this issue. Cadent worked with the Health and Safety Executive as they progressed their investigation. A decision is awaited. The investigation could result in a financial penalty against Cadent in accordance with the guidelines that apply.

(d) Guarantees and letters of credit

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

23 Subsequent events

To ensure a sustainable future for our customer and business, Cadent announced on 13 May 2019 that it was offering a voluntary redundancy programme for all managers and staff. The cost of this programme cannot be determined with certainty at this stage as the programme is subject to employee consultation with the period of consultation running to 26 June 2019. Management's current best estimate is a cost between £15m–£20m.

24 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.

Financial statements

Glossary

Term	Definition
Alternative Energy Programme	A programme to consider if alternative means of energy can be used in flats and apartments when gas is only used for cooking.
Annual report	the company's annual report and accounts for the year ended 31 March 2019
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
CNG	Compressed Natural Gas
Code	the UK Corporate Governance Code published in 2016
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
EMS	Environmental Management System
ENA	Energy Networks Association
EOS	Employee Opinion Survey
EVP	Employer Value Proposition
FRS	Financial Reporting Standards
Fuel poor connections	in 2018/19, end users that fit this category meet the following criteria: • They reside within one of the 25% most deprived areas, as measured by the government's Index of Multiple Deprivation ('IMD'). The IMD is defined separately for England, Scotland and Wales. • They are eligible for support under the Home Heating Cost Reduction Obligation aspect of the Energy Company Obligation ('ECO'), Nest (in Wales only) or the Home Energy Efficiency Programmes (in Scotland only). • They are classed as living in fuel poverty according to latest definition within their area, which varies between England, Wales and Scotland.
GDNs	Gas Distribution Networks
GDSP	Gas Distribution Strategic Partner (either Balfour Beatty or tRIIO)
GHG emissions	Greenhouse Gas emissions

Term	Definition
Gigawatt	A gigawatt is a unit of energy equal to a billion watts. There are 1,000 gigawatts in a terawatt.
Group	The Group comprises Cadent Gas Limited and Cadent Finance plc
GSCoC	Global Supplier Code of Conduct
HSE	Health and Safety Executive
HyDeploy	A project to inject a blend of natural gas and hydrogen into the network at Keele University.
Hynet Northwest	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
Locking Cooker Valve	A valve that turns off gas supply to cookers and gas appliances. It allows people in vulnerable situations to live independently, as when locked by a carer the gas cannot be turned on accidentally.
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
Priority Services Register	A service provided by energy suppliers and network operators to support customers in vulnerable situations. It provides extra support in emergencies or free services.
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.
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.

Glossary continued

Term	Definition
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.
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
WWU	Wales & West Utilities
2006 Act	The Companies Act 2006

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