

Cautionary Statement – This information represents management information for the six months period ended 30 September 2017. The information contained is unaudited.

Cadent Gas Limited

Consolidated management income statement

Six months ended 30 September 2017

		Six months ended 30 September 2017	
	Notes	£m	£m
Revenue			909
Operating costs			<u>(552)</u>
Operating profit			
Before exceptional items		357	
Exceptional items	4	<u>(8)</u>	
Total Operating profit			349
Income from interests in associated undertakings			-
Finance income	5		-
Finance costs			
Before exceptional items and remeasurements	5	(75)	
Exceptional items and remeasurements	5	<u>(9)</u>	
Total interest payable and similar charges			(84)
Profit before tax			
Before exceptional items and remeasurements		282	
Exceptional items and remeasurements	4	<u>(17)</u>	
Total profit before tax			265
Tax			
Before exceptional items and remeasurements	6	(53)	
Exceptional items and remeasurements	6	<u>3</u>	
Total tax			(50)
Profit after tax			
Before exceptional items and remeasurements		229	
Exceptional items and remeasurements	4	<u>(14)</u>	
Profit for the period			<u>215</u>

The results above relate to continuing operations. Cadent Gas Limited was incorporated on 23 March 2016 and the transfer of trade and assets of the gas distribution business to Cadent Gas Limited occurred on 1 October 2016. There is no standalone comparative trading information for the six months ended 30 September 2016 as the results were included within National Grid Gas Plc. For the six months ended 30 September 2016 the Company did not trade.

Cadent Gas Limited

Consolidated management statement of comprehensive income

Six months ended 30 September 2017

	Six months ended 30 September	
	2017 £'m	2017 £'m
Profit for the period		<u>215</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of post-employment benefit obligations	185	
Tax on items that will never be reclassified to profit or loss	<u>(32)</u>	
Items that may be reclassified subsequently to profit or loss:		153
Net gains/(losses) in respect of cash flow hedges	13	
Tax on items that may be reclassified subsequently to profit or loss	<u>(2)</u>	
		<u>11</u>
Other comprehensive income for the period		<u>164</u>
Total comprehensive income for the period		<u>379</u>

The results above relate to continuing operations. Cadent Gas Limited was incorporated on 23 March 2016 and the transfer of trade and assets of the gas distribution business to Cadent Gas Limited occurred on 1 October 2016. There is no standalone comparative trading information for the six months ended 30 September 2016 as the results were included within National Grid Gas Plc. For the six months ended 30 September 2016 the Company did not trade.

Cadent Gas Limited

Consolidated management statement of financial position

Six months ended 30 September 2017

		30 September 2017 £'m	31 March 2017 £'m
	Notes		
Non-current assets			
Intangible assets		73	88
Property, plant and equipment	8	8,654	8,509
Interests in associates		-	-
Pension / other post-retirement benefit assets	11	259	34
Other non-current assets		38	52
Derivative financial assets	9	13	-
		<u>9,037</u>	<u>8,683</u>
Current assets			
Inventories		7	7
Trade and other receivables		220	225
Derivative financial instruments		-	2
Current asset investments		130	59
Cash and cash equivalents		8	-
		<u>365</u>	<u>293</u>
Total assets		<u>9,402</u>	<u>8,976</u>
Current liabilities			
Trade and other payables		(405)	(376)
Borrowings	10	(30)	(60)
Current tax liabilities	6	(44)	(67)
Provisions		(23)	(21)
		<u>(502)</u>	<u>(524)</u>
Non-current liabilities			
Derivative financial liabilities	9	(6)	(11)
Borrowings	10	(6,019)	(5,982)
Deferred tax liabilities		(1,084)	(1,057)
Provisions		(75)	(82)
Accruals and deferred income		(872)	(855)
		<u>(8,056)</u>	<u>(7,987)</u>
Total liabilities		<u>(8,558)</u>	<u>(8,511)</u>
Net assets		<u>844</u>	<u>465</u>
Equity			
Share capital		-	-
Share premium account		5,458	5,458
Cash flow hedge reserve		4	(7)
Retained earnings		675	307
Other reserves		(5,293)	(5,293)
Total equity		<u>844</u>	<u>465</u>

Cadent Gas Limited

Consolidated management statement of changes in equity

Six months ended 30 September 2017

Equity attributable to owners of the company

	Share Capital £'m	Share Premium Account £'m	Cashflow hedge reserve £'m	Other reserves £'m	Retained Earnings £'m	Total £'m
Balance at 1 April 2017	-	5,458	(7)	(5,293)	307	465
Profit for the period	-	-	-	-	215	215
Other comprehensive income for the period	-	-	11	-	153	164
Total comprehensive income for the period	-	-	11	-	368	379
Dividends	-	-	-	-	-	-
Balance at 30 September 2017	-	5,458	4	(5,293)	675	844

Equity attributable to owners of the company

	Share Capital £'m	Share Premium Account £'m	Cashflow hedge reserve £'m	Other reserves £'m	Retained Earnings £'m	Total £'m
Balance at 23 March 2016	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Gas Distribution acquisition	-	-	-	-	-	-
Pension sectionalisation	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Balance at 30 September 2016	-	-	-	-	-	-

Cadent Gas Limited was incorporated on 23 March 2016 and the transfer of trade and assets of the gas distribution business to Cadent Gas Limited occurred on 1 October 2016.

Cadent Gas Limited

Consolidated management cash flow statement

Six months ended 30 September 2017

	Six months ended 30 September 2017 £'m	Period ended 31 March 2017 £'m
Cash flows from operating activities		
Total operating profit	349	388
Adjustments for:		
Exceptional items	8	11
Depreciation, amortisation and impairment	151	152
Changes in working capital	45	(16)
Capital contribution income	(12)	(11)
Changes in provisions	(10)	(7)
Loss/(gain) on disposal of property, plant and equipment	-	1
Changes in pensions and other post-retirement obligations	(53)	6
Cashflows relating to exceptional items	(8)	-
Cash generated from operations	470	524
Tax paid	(67)	-
Net cash from operating activities	403	524
Investing activities		
Purchases of intangible assets	-	(11)
Purchases of property, plant and equipment	(271)	(151)
Capital contributions	25	44
Disposals of property, plant and equipment	-	-
Investments	(71)	(59)
Interest received	-	-
Net cash (used in)/from investing activities	(317)	(177)
Financing activities		
Proceeds received from loans	15	1,189
Repayment of loans	(15)	(1,449)
Interest paid	(82)	(15)
Dividends paid to shareholders	-	(95)
Net cash (used in)/from financing activities	(82)	(370)
Net increase/(decrease) in cash and cash equivalents	4	(23)
Cash and cash equivalents at beginning of period	(20)	-
Cash acquired	-	3
Cash and cash equivalents at end of period	(16)	(20)

Cadent Gas Limited

Notes to the consolidated set of management accounts

Six months ended 30 September 2017

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

The half year management accounts cover the six month period ended 30 September 2017.

The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2017, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and as adopted by the EU, and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2018 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2017.

In preparing this half year financial information, the areas of judgement made by management in applying the Cadent Gas Limited's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2017.

2. Segmental analysis

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

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

3. Seasonality

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

Cadent Gas Limited

Notes to the consolidated set of management accounts (continued)

Six months ended 30 September 2017

4. Exceptional items and remeasurements

Exceptional items and remeasurements are items of income and expenditure that, in the judgment of management, should be disclosed separately on the basis that they are important to an understanding of our financial performance and may significantly distort the comparability of financial performance between periods. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

	Six months ended 30 September 2017 £m
Included within operating costs:	
Separation costs	(8)
Included within finance costs:	
Remeasurements	
Net losses on derivative financial instruments	(9)
Total included within profit before tax	<u>(17)</u>
Included within taxation:	
Tax on separation costs	1
Tax on remeasurements	2
	<u>3</u>
Total exceptional and remeasurements after tax	<u>(14)</u>
Analysis of total exceptional items and remeasurement	
Total exceptional items after tax	(7)
Total remeasurement after tax	(7)
	<u>(14)</u>

Cadent Gas Limited

Notes to the consolidated set of management accounts (continued)

Six months ended 30 September 2017

5. Finance income and costs

	Six months ended 30 September 2017
	£m
Finance income	
Interest income from financial instruments	-
Finance income	-
Finance costs	
Interest expense on financial liabilities held at amortised cost:	
Bank loans and overdrafts	73
Other borrowings	-
Derivatives	-
Unwinding of discounts on provisions	1
Other interest	1
Less: interest capitalised	-
Finance costs	75
Remeasurements	
Net gains/(losses) on derivative financial instruments included in remeasurements:	
Ineffectiveness on derivatives designated as:	
Fair value hedges	-
Cash flow hedges	13
Derivatives not designated as hedges or ineligible for hedge accounting	(4)
Remeasurements included within finance costs	9
Finance costs	84
Net finance costs	84

6. Tax

The tax charge for the period from continuing operations, excluding tax on exceptional items and remeasurements, is £53m (period to 31 March 2017: £55m). The effective tax rate of 18.9% for the period is based on the best estimate of the annual income tax rate expected for the full year, excluding tax on exceptional items and remeasurements.

The Finance Act 2015 (No.2) was enacted on 18 November 2015. The Act reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Act 2016 received Royal Assent on 15 September 2016. The Act further reduced the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. 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%.

Draft legislation to potentially restrict interest deductibility for the accounting periods starting after 31 March 2017 has been published. It is not anticipated that there will be any interest restriction in the group for the foreseeable future.

Cadent Gas Limited

Notes to the consolidated set of management accounts (continued)

Six months ended 30 September 2017

7. Dividends

	Six months ended 30 September 2017 £'000	Period ended 31 March 2017 £'000
Amounts recognised as distributions to equity:		
Initial interim dividend for the period from incorporation on 23 March 2016 to 31 March 2017 of £20 per ordinary share	-	1
Second interim dividend for the period from incorporation on 23 March 2016 to 31 March 2017 of £1,863 per ordinary share	-	94
	<hr/>	<hr/>
	-	95
	<hr/> <hr/>	<hr/> <hr/>

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 2017	44	8,512	8	80	8,644
Additions	5	266	-	9	280
Reclassifications	-	-	-	-	-
Disposals	-	-	-	-	-
At 30 September 2017	<hr/> 49	<hr/> 8,778	<hr/> 8	<hr/> 89	<hr/> 8,924
Accumulated depreciation and impairment					
At 1 April 2017	(4)	(117)	-	(14)	(135)
Charge for the period	(2)	(122)	-	(11)	(135)
Disposals	-	-	-	-	-
At 30 September 2017	<hr/> (6)	<hr/> (239)	<hr/> -	<hr/> (25)	<hr/> (270)
Net book value:					
At 30 September 2017	<hr/> 43	<hr/> 8,539	<hr/> 8	<hr/> 64	<hr/> 8,654
At 31 March 2017	<hr/> 40	<hr/> 8,395	<hr/> 8	<hr/> 66	<hr/> 8,509

Cadent Gas Limited

Notes to the consolidated set of management accounts (continued)

Six months ended 30 September 2017

8. Property, plant and equipment (continued)

	Land and buildings £m	Plant and Machinery £m	Assets in the course of construction £m	Motor vehicles and other equipment £m	Total £m
Cost					
At 23 March 2016	-	-	-	-	-
Gas Distribution acquisition	39	8,226	21	78	8,364
Additions	1	259	6	15	281
Reclassifications	4	28	(19)	(13)	-
Disposals	-	(1)	-	-	(1)
At 31 March 2017	44	8,512	8	80	8,644
Accumulated depreciation and impairment					
At 23 March 2016	-	-	-	-	-
Charge for the period	(4)	(117)	-	(14)	(135)
Disposals	-	-	-	-	-
At 31 March 2017	(4)	(117)	-	(14)	(135)
Net book value:					
At 31 March 2017	40	8,395	8	66	8,509
At 23 March 2016	-	-	-	-	-

Cadent Gas Limited

Notes to the consolidated set of management accounts (continued)

Six months ended 30 September 2017

9. Fair value measurement

Certain of the Group's financial instruments are measured at fair value. The following table categorises these financial assets and liabilities by the valuation methodology applied in determining their fair value using the fair value hierarchy described below.

	30 September 2017				31 March 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 March 2017								
Assets								
Available-for-sale investments	130	-	-	130	59	-	-	59
Derivative financial instruments	-	13	-	13	-	2	-	2
Liabilities								
Derivative financial instruments	-	(6)	-	(6)	-	(11)	-	(11)
Total	130	7	-	137	59	(9)	-	50

Financial assets and liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to fair value, with the exception of borrowings, which are held at amortised cost.

The estimated fair value of total borrowings using market values at 30 September 2017 is £5,986m (31 March 2017: £6,045m).

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

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

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

Cadent Gas Limited

Notes to the consolidated set of management accounts (continued)

Six months ended 30 September 2017

10. Net debt

	Six months ended 30 September 2017 £m	Period ended 31 March 2017 £m
Decrease in cash and cash equivalents	4	(23)
Increase in financial investments	71	59
Increase in borrowings & related derivatives	-	(1,189)
Net interest paid on the components of net debt	82	15
Change in net debt arising from cash flows	<u>157</u>	<u>(1,138)</u>
Changes in fair value of financial assets and liabilities and exchange movements	2	(13)
Other non-cash changes	2	(4,752)
Net interest charge on the components of net debt	<u>(73)</u>	<u>(92)</u>
Movement in net debt (net of related derivative financial instruments)	88	(5,995)
Cash acquired as part of Gas Distribution acquisition	-	3
Net debt (net of related derivative financial instruments) at the start of the period	(5,992)	-
Net debt (net of related derivative financial instruments) at the end of the period	<u>(5,904)</u>	<u>(5,992)</u>
Composition of net debt:		
Cash, cash equivalents and financial investments	138	59
Borrowings and bank overdrafts	(6,049)	(6,042)
Derivatives	7	(9)
Total net debt	<u>(5,904)</u>	<u>(5,992)</u>

Cadent Gas Limited

Notes to the consolidated set of management accounts (continued)

Six months ended 30 September 2017

11. Retirement benefit schemes

	30 September 2017	31 March 2017
	£m	£m
Present value of funded obligation	(6,574)	(6,967)
Fair value of plan assets	6,836	7,004
	<u>262</u>	<u>37</u>
Present value of unfunded obligations	(3)	(3)
Other post-employment liabilities	-	-
Net asset	<u><u>259</u></u>	<u><u>34</u></u>
Represented by:		
Liabilities	(6,577)	(6,970)
Assets	6,836	7,004
	<u><u>259</u></u>	<u><u>34</u></u>
Key actuarial assumptions		
Discount rate	2.7%	2.4%
Rate of increase in RPI	3.2%	3.2%

The net pensions and other post-retirement benefit obligations position, as recorded under IAS19, at 30 September 2017 was a surplus of £259m compared to £34m at 31 March 2017. The increase in the surplus of £225m primarily reflects the increase in the discount rates in the UK and additional contributions resulting in a decrease in liabilities of £393m which is partially offset by returns on assets being greater than assumed by £168m.

12. Commitments and Contingencies

At 30 September 2017 there were commitments for future capital expenditure contracted but not provided for £590 million (31 March 2017: £792 million). We also have other commitments relating primarily to operating leases and contingencies in the form of letters of credit. These commitments and contingencies are described in further detail on page 57 of the Annual Report and Financial Statements 2016/17.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

13. Related party transactions

Related party transactions in the six months ended 30 September 2017 were the same in nature to those disclosed on page 71 of the Annual Report and Financial Statements 2016/17. There were no related party transactions in the period that have materially affected the financial position or performance of the Group.