Company Registration Number: 10080864

Cadent Gas Limited

(Previously National Grid Gas Distribution Limited)
(Previously National Grid Thirty Seven Limited)

Annual Report and Financial Statements

For the period from incorporation on 23 March 2016 to 31 March 2017

Cadent Gas Limited
Strategic Report
For the period from incorporation on 23 March 2016 to 31 March 2017

The Directors present their Strategic Report on the Group for the period from incorporation on 23 March 2016 to 31 March 2017.

Principal activities

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

We own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise approximately 131,000 kilometres (81,400 miles) of gas distribution pipeline and we transport gas from the gas national transmission system to around 10.9 million consumers on behalf of 40 gas shippers.

Executive summary

In November 2015, National Grid Plc announced plans to sell a majority stake of its gas distribution networks. As a result, the Company was incorporated on 23 March 2016 as National Grid Thirty Seven Limited and on 5 May 2016 the Company changed its name to National Grid Gas Distribution Limited. For the period from incorporation to 30 September 2016, the Company did not trade. On 1 October 2016, the trade and assets of National Grid Gas plc's regulated gas distribution networks were transferred to the Company as part of the separation of its gas distribution and gas transmission networks for £11,659million. Also on 1 October 2016, the Company acquired 100% of the shares in National Grid Gas Finance Plc, a financing company, alongside 45.57% of Xoserve Limited, a transaction services company, to form this Group.

On 31 March 2017, the Group was sold to Quadgas MidCo Limited. As part of this sale, the Company issued a further 118,573 ordinary shares of £1 by way of capitalisation of a shareholder loan of £5,458 million resulting in a share premium balance of £5,458 million.

On 2 May 2017 the Company changed its name to Cadent Gas Limited.

Strategy

Our purpose is to keep the energy flowing to our customers and communities 24/7 and 365 days a year. Our objectives are to deliver safe, reliable and sustainable energy infrastructure to meet the needs of our customers and communities now and in the future, and to generate value for our stakeholders.

We are focused on helping to shape and influence the future development of the gas industry and our network to provide the lowest cost and most secure pathway to the Government's 2050 climate change targets. We are evolving our network such that it can play a critical role in facilitating lower carbon and more renewable forms of gas to be transported to support decarbonisation in both the heat, transport and generation sectors.

Future developments

Our focus will remain on driving the performance of the business to deliver strong Group returns and increasing the value to our equity holders.

To achieve this, our regulated business will continue looking for ways to optimise performance. In 2017/18, we'll begin the process of preparing for the next price control (RIIO-GD2). The performance of our regulated business will be underpinned by continued investment, so we can make sure we deliver a safe, reliable and affordable service for our customers.

Priorities for the year ahead

- **Focus on productivity and performance** to deliver our output commitments to our customers and drive operational efficiency.

- **Making a positive daily impact on our customers** by removing inconsistencies in service delivery, minimising service interruptions and reducing the disruption caused by excavations, whilst ensuring we communicate well.

- Maintaining our **relentless focus on the safety** of our assets, employees, members of the public and partners.

- **Collaborating and innovating with the energy industry** to work with the UK Government on the future role of gas and the increased the use of new technologies.

- **Helping to shape and develop our plans for the next regulatory framework (RIIO-GD2)** with our stakeholders which will set out our commitments to customers and our revenues from April 2021 onwards.

Business environment

We manage our gas distribution networks to keep the gas flowing safely and reliably to help keep our 11 million customers connected, safe and warm. We are incentivised through Ofgem's regulatory framework called RIIO (Revenue = Incentives + Innovation + Output) to operate efficiently and deliver services that our customers and stakeholders value. These are expressed as output commitments across six key categories (safety, reliability, environment, social obligations, customers satisfaction and facilitating connections).

Our regulator, Ofgem, safeguards customers' interests by setting the level of charges we are allowed to recover associated with the output commitments we must deliver. Ofgem is able to make comparisons across all eight gas distribution networks. The output targets are defined such that we all maintain safe and reliable networks; make a positive contribution to sustainability and protect the environment; provide connections to supply new consumers and support new gas entry points into the network; meet social obligations such as reducing fuel poverty and raising awareness of the dangers of carbon monoxide; and provide an agreed standard of service to consumers and other stakeholders.

We collaborate as an industry on issues, such as innovation, safety and the future of networks to deliver outcomes that customers value.

Gas remains a critical part of the current and future energy mix as the prime source of heat, hot water and cooking for homes and businesses. We are working with our customers and stakeholders to develop our networks to accommodate gas from new sources, such as bio-methane, as well as exploring new technologies such as BioSNG (Bio-Substitute Natural Gas) and hydrogen blending as well as looking at how Compressed Natural Gas could be used to fuel transport vehicles.

Revenue

Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

- investment in network assets;
- operational "run the business" costs
- performance against incentives;
- regulatory return on equity and cost of debt; and
- inflation adjustments.

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet our output commitments as well as the efficiency and innovation targets included in the RIIO licence agreements.

Cash flow

Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business. Securing low-cost funding, carefully managing our cash flows and efficient development of our networks are essential to maintaining strong sustainable returns for our shareholders. Cash generation is underpinned by our charging methodology (part of the industry's network code) which being a capacity based regime provides stability and predictability of cashflows.

Investment

We invest efficiently in our networks to deliver strong regulated asset growth over the long term. This drives additional future revenues, which in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our ultimate shareholders.

This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

Results

We have delivered a period of strong financial performance.

<u>Revenue</u>

Revenue for the period from incorporation on 23 March 2016 to 31 March 2017 was £961 million arising from allowed revenue.

<u>Operating costs</u>

Operating costs for the period from incorporation on 23 March 2016 to 31 March 2017 of £562 million are primarily comprised of depreciation and amortisation, staff costs and rates.

<u>Net finance costs</u>

For the period from incorporation on 23 March 2016 to 31 March 2017, net finance costs before exceptional items and remeasurements of £93 million was principally driven by external debt funding and loans from National Grid Plc. The intercompany loans due to National Grid Plc were repaid in full or capitalised into share capital and share premium as part of the sale transaction.

<u>Exceptional items</u>

Exceptional costs included an increase in the provision for claims not covered by insurance. The costs have been incurred as a result of the loss of the cover provided by National Grid Plc group insurance captive at sale completion.

Exceptional finance costs included a loss of £6 million on financial remeasurements, relating to net gains and losses on derivative financial instruments.

<u>Taxation</u>

The tax charge on profits before exceptional items and remeasurements was £55 million with an effective rate of 17.9%.

Consolidated statement of financial position commentary

The consolidated statement of financial position sets out all the Group's assets and liabilities at the period end, analysed between the net assets we have for use in the business. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Intangible assets and property, plant and equipment

Intangibles assets were £88 million as at 31 March 2017 which largely relates to software. Intangible asset additions of £11 million and intangibles transferred as part of the gas distribution acquisition of £94 million were offset by amortisation of £17 million.

Property, plant and equipment was £8,509 million as at 31 March 2017. This is composed of capital assets and the renewal and extension of our regulated networks, with additions in the period of £281 million and property, plant and equipment transferred as part of the gas distribution acquisition of £8,364 million offset by £135 million of depreciation in the period and disposals of £1 million in the period.

Pensions

We operate pension arrangements on behalf of our employees the majority of whom are members of the defined benefits section of the National Grid UK Pension Scheme (NGUKPS) which is closed to new entrants. Membership of the defined contribution section of the National Grid Pension Scheme is offered to all new employees.

Liabilities and assets of the NGUKPS were sectionalised on 1 January 2017 from the rest of the NGUKPS and the Group recognised its share of the liability amounting to a deficit of £155 million at that date. Since sectionalisation, there have been actuarial gains for NGUKPS which has resulted in a net asset position of £37 million at 31 March 2017 due to changes in long term yield curves and higher returns on plan assets than the discount rate.

Trade and other receivables and trade and other payables

Trade and other receivables of £225 million are outstanding as at 31 March 2017 relating to amounts owed by shippers who utilise our network and prepayments.

Trade and other payables of £376 million is largely for payments due to our gas distribution strategic partners for services provided in relation to our regulated asset base and deferred income relating to capital contributions to extend our network.

Current and deferred tax liabilities

Current tax liabilities were £67 million at 31 March 2017 relating to the current year performance. The net deferred tax liability of £1,057 million largely relates to timing differences between depreciation and capital allowances.

Provisions

Provisions (both current and non-current) of £103 million principally relate to environmental provisions, decommissioning provisions and uninsured losses provisions.

Borrowings

There were significant movements in borrowings during the period as the Group required funding to support the acquisition of the gas distribution business from National Grid Plc. At 31 March 2017 the borrowings (both current and non-current) of £6,042 million mainly comprised fixed rate and index linked debt.

What we've achieved during 2016/17

During this busy period our operational teams have focussed on delivery to ensure we continue to provide a safe and reliable service for our customers and build upon the previous years' performance.

There were two notable operational incidents during the period, both in our East of England network at Ampthill and Oundle, in November and January respectively, the former of which was caused by third party damage to our assets resulting in a loss of gas supply to around 6,000 properties. In both instances we were able to respond swiftly and effectively to restore supplies to residents within 6 days, with a fantastic response received from impacted customers for our efforts via social media. All 575 affected vulnerable customers were individually visited as part of the process.

In both instances, we were able to gain learning and fresh insight from the incidents to implement and cascade best practice across our networks. This included the use of the Incident App to capture live data, ensuring accurate and timely information flows to central command as homes were visited to isolate gas supplies.

Working alongside our Gas Distribution Network (GDN) contemporaries, we continue to develop a strong and compelling narrative around the Future of Gas and its role in delivering our customers with sustainable, low cost energy for the future that contribute towards climate change commitments.

In addition to our two BioSNG Network Innovation Competition projects, we commenced a three year project at Keele University in collaboration with Northern Gas Networks and HyDeploy to demonstrate that a blend of hydrogen and natural gas can be distributed and utilised safely and efficiently without disruptive changes for customers whilst decarbonising the gas grid. As the first practical demonstration of its kind since the UK's conversion from town gas, this project adds to our strong portfolio to create the evidence required to help inform energy policy and drive our future strategy.

Recognising that energy pathways are increasingly driven locally as well as centrally, we continue to refine our strategy and increase our presence and emphasis on regional engagement to further our reputation as a national company with local impact. We have been actively exploring opportunities with regional seats on the Confederation of British Industry and the local mayoral elections – all of which helps our voice to be heard.

In recent months much effort and attention has been given to develop and ready ourselves for the launch of our new brand, and to create plans to communicate our new identity to our employees and stakeholders.

Following the successful Hive-out of our business from National Grid Gas Plc on 1 October 2016, the six-months through to 31 March 2017 has been an exciting period for our organisation, culminating with the completion of the sale of the Group to the buyer consortium. We are now looking forward to the opportunities ahead.

Key performance indicators and principal risks and uncertainties

The Directors use a range of financial and non-financial metrics, reported periodically, against which the performance of the Company is measured. Where our performance targets have not been achieved, action plans have been put in place to deliver improved performance.

Note: The table below sets out a subset of the metrics the Company uses to monitor performance. It should not be taken to be the complete list of metrics used and does not, for example, include those relating to the safety of members of the public.

Strategic element	Regulatory Output	KPIs and definition	Our performance
Deliver operational excellence	**Safety**	**Employee lost time injury frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis. Our ambition is to achieve a world-class safety performance of below 0.1.	**2016/17: 0.12** **(Target: Less than 0.1)** [1]
	Reliability	**Network reliability** Reliability of company's gas network as a percentage against the internal target. The targets set by Ofgem are on an individual gas distribution network basis.	**2016/17: 99.998%** **(Target: Higher than 99.999%)**
Engage externally	**Customer satisfaction**	**Customer satisfaction** Our score in customer satisfaction surveys. Ofgem set a baseline target.	**2016/17: 8.46 out of 10** **(Target: Higher than 8.30[2])**
	Complaints	**Complaints handling** Our score in complaints handling.	**2016/17: 10.00** **(Target: Less than 11.57[2])**
	Stakeholders	**Stakeholder engagement** Our score in stakeholder engagement.	**2016/17: 6.0 out of 10** **(Target: Higher than 6.0)**
Drive growth		**Kilometres of network replaced** Number of kilometres of main pipe replaced.	**2016/17: 1,755** [3] **(Target: Higher than 1,824)**

[1] Both target and actual is an annual 12-month rolling number
[2] Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.

[3] Our programme has been developed to deliver our output of length replaced across all of our networks economically and sustainably over the eight year RIIO period rather than on an individual year basis.

Risk & Compliance Process 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 managing risks firmly with the Business. There is a central team who set the risk management framework, facilitate reporting, provide advice and challenge to the business.

Directors and Heads of Function regularly review their risks to assess their current status, progress of mitigation plans and to identify emerging or developing risks. The Executive Committee reviews the Company's risk profile on a quarterly basis bringing together top down and bottom up risk management.

In line with our values, of curiosity and continuous improvement we are always seeking better ways to deliver our risk management process. In addition, the Audit 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.

In addition to these controls, the Board discharges its responsibility for monitoring the effectiveness of the risk management process and internal controls through the certificate of assurance process. This process requires directors to review the processes operating in their own areas to escalate positive assurance to the Board that processes remain effective.

Our principal risks and uncertainties include:

1. **Health, safety and environment and Catastrophic asset failure**

   Safety remains a top priority and whilst major incidents are rare, human factors, asset and system malfunctions carry an inherent risk to our staff and the communities we serve.

   A major incident could result in reputational damage, loss of credibility with regulators, significant fines or financial claims and cause disruption for our customers.

   Risk management:

   - Robust safety and environmental management systems, underpinned by Safety Case as required by Gas Safety Management Regulations.
   - Leadership and commitment to health, safety and environmental matters.
   - Process safety and strong safety culture, supported by robust incident investigation and review processes.
   - Robust risk based investment and replacement programmes.
   - Crisis management response procedures.
   - Structures in place for cross-industry sharing of best practice and learning.
   - Special measures in place for customers identified by the priority services register.
   - Insurance against damage claims.

2. **Cyber breach**

   Due to the nature of our business 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.

Risk management:

- Cyber controls are currently provided under an arm's length agreement from National Grid's Digital Risk and Security team.
- 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.

3. 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 could result in financial penalties, disruption of the operational business and reputational damage.

Failure to deliver regulatory outputs would damage our credibility with the regulator particularly with regard to the next price control.

Risk management:

- Comprehensive delivery plans are in place and monitored for delivery of regulatory outputs.
- Regular monitoring and escalated reporting of KPIs focused on regulatory outputs.
- Compliance culture is maintained through an established 'tone from the top' and cascade through demonstrated behaviour and internal communications.
- Licence management assurance procedure in place to monitor compliance.
- Horizon scanning in place to identify and ensure we prepare for regulatory changes and developments.

4. Failure to maintain critical skills and engagement

Being able to attract, retain and train engaged employees is essential to the success of our business. Resilient employees, capable of adapting to the needs of the industry will also be essential to our future success.

Our people are essential to delivering our future vision. Without the right balance of skills our operational performance and ability to adapt to the future needs of the industry will be adversely affected.

Risk management:

- Strategic workforce planning for our operationally critical roles, identifies future resource needs including internal developmental and external recruitment strategies, including succession planning, to mitigate against our ageing workforce risk.
- A series of entry talent programmes, including those for graduates and apprentices, have been established to ensure a pipeline of talent into the organisation.
- Our reward packages are competitively benchmarked to attract the right calibre of staff and provide the right incentives to align performance to the business objectives.
- We continue to promote inclusion and diversity.

- Regular monitoring of employee engagement takes place via our employee engagement survey and other more informal mechanisms, allowing us to identify any areas of concern.
- We have effective training and development programmes supported by a specialist learning team and well-resourced training facilities.

5. Failure to keep up with innovation

The gas industry is evolving and we must respond. Comparative regulation is increasingly driving network operators to seek competitive advantage making innovation essential to continued success.

Without sufficient innovation our performance will not keep pace with the other distribution networks reducing our financial performance.

Risk management:

- Our innovation strategy is directly linked to our business strategy. Our portfolio covers both near term and long term objectives and linked projects. The short term focus is on operational innovation, particularly for 'no-dig' technologies to improve customer outcomes and financial performance. The long term projects are directly linked to our Future of Gas programme, looking to develop technologies that can underpin the decarbonised gas network of the future.
- Innovation is encouraged in all teams, to empower our employees and generate a culture of curiosity and continuous improvement.

6. Failure to communicate effectively with the stakeholders

As a regulated business our future opportunities are directly affected by factors driving the landscape of the energy industry including 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.

Risk management:

- Gain credibility for delivery - comprehensive delivery plans are in place and monitored for delivery of regulatory outputs. There is a dedicated process improvement team to facilitate the implementation of change plans where outputs diverge from targets, and a dedicated innovation team to seek ways to improve and outperform our targets.
- Monitor stakeholder feedback and industry commentary to manage our external reputation, there is a dedicated media team in place to manage this. Proactively engage with key industry figures to support this and strengthen our brand.
- Demonstrate how the RIIO framework provides the right incentives to industry participants to deliver the best for our customers.
- Put customers at the heart of our strategy, improve customer satisfaction scores and opinion and develop our values of commitment, courage, curiosity and community.

7. Failure to identify and effectively manage treasury and tax exposures and to meet the Group's funding requirements and obligations.

Potential for liquidity shortfall of future repayment obligations and tax payments are not planned in good time.

Potential for a breach of the covenants associated with our Financing Agreements.

Risk management:

- A formal treasury policy in place which includes managing exposure to counterparty, liquidity and market risk, overseen by the Board.
- A continuous review of banking covenant obligations is performed.

8. Macro-economic factors, such as Retail Price Index (RPI), impacting negatively on the business.

Higher RPI may cause increasing cost pressure as employee and external material and labour costs increase in advance of a true-up in regulatory allowances.

Lower RPI levels may drive down allowances whilst cost pressures remain higher.

Lower RPI levels will also reduce new debt capacity due to Net Debt / RAV covenants and may therefore reduce dividends.

Risk management:

- Monitoring the potential exposure to fluctuating factors through forecasts from a range of financial institutions.
- Inflation sensitivities reported quarterly through the business valuation process.
- A significant proportion of our Group debt is RPI-linked to provide an economic hedge between allowed revenues and some of our financing costs.

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 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 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 Cadent Gas Limited has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

<u>Liquidity risk</u>

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.

<u>Credit risk</u>

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 IAS 39, 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 forty principal customers. The credit worthiness of each of these is closely monitored. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management therefore closely monitor 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.

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.

Investments in short-term receivables and payables are not exposed to interest rate risk due to their short-term nature.

The Group uses derivative financial instruments to change the basis of interest cash flows from fixed to either inflation-linked or an alternative fixed profile to more accurately match the revenue profile. The cash flows exchanged under the derivatives are calculated by reference to a notional principal amount. The notional principal reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

Inflation risk

The Group's revenues are linked to movements in inflation, as measured by the Retail Prices Index (RPI). To economically hedge exposure to RPI, the company links a portion of its funding costs to RPI by either issuing RPI linked bonds or by using derivative financial instruments. The Group's revenues are linked to RPI via returns on the Regulated Asset Value (RAV) and an increase in RPI would increase revenues, mitigating an increase in finance expense.

Foreign exchange risk

To the extent that the Company enters into loan and derivative agreements in currencies different to that of the Company's functional currency, there is an exposure to movements in exchange rates. At the reporting date the Company has loan balances denominated in Euros.

Hedging

The Group does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments. At 31 March 2017, the Group's derivatives are designated in formal hedging relationships and are therefore not measured at fair value through the Income Statement.

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

C Train
Chief Executive
30 June 2017

Cadent Gas Limited
Directors' Report
For the period from incorporation on 23 March 2016 to 31 March 2017

The Directors present their Report and the audited financial statements of the Group and the Company for the period from incorporation on 23 March 2016 to 31 March 2017.

Principal activities and business review

A full description of the Group's and Company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 1 to 13, 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:

A J Agg	(Appointed 2 June 2016)
C Train	(Appointed 8 September 2016)
L N Shaw	(Appointed 8 September 2016)
C H Elphick*	(Appointed 8 September 2016)
C E Bell*	(Appointed 8 September 2016)
J Bao	(Appointed 31 March 2017)
C P Bennett	(Appointed 31 March 2017)
M Bradley	(Appointed 31 March 2017)
M W Braithwaite	(Appointed 31 March 2017)
H C Higgins	(Appointed 31 March 2017)
P F Hofbauer	(Appointed 31 March 2017)
S G Hurrell	(Appointed 31 March 2017)
D Karnik	(Appointed 31 March 2017)
J Korpancova	(Appointed 31 March 2017)
A G Ray	(Appointed 31 March 2017)
C J Waters	(Appointed 31 March 2017)
P D Noble	(Appointed 24 April 2017)
M J Gregory	(Appointed 22 May 2017)
D J Xie	(Appointed 22 May 2017)
A B F Al-Thani	(Appointed 22 May 2017)
R Greenleaf	(Appointed 22 May 2017)
A McMenamin	(Appointed 22 May 2017)
A Morgan	(Appointed 23 March 2016, Resigned 8 September 2016)
C Burns	(Appointed 23 March 2016, Resigned 8 September 2016)
M D Noble	(Appointed 8 September 2016, Resigned 8 September 2016)
M C Cooper	(Appointed 2 June 2016, Resigned 31 March 2017)

* sufficiently Independent Director

Future developments

Details of future developments have been included within the Strategic Report on page 2.

Dividends

During the period, the Company has paid interim ordinary dividends totalling £1 million on 23 November 2016 and a further interim dividend of £94 million on 21 March 2017.

Political donations and political expenditure

The Company did not make any political donations during the period.

Research and development

Expenditure on research and development was £10 million during the period.

Directors' indemnity

Quadgas Holdco Limited has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, Quadgas Holdco Limited places Directors' and Officers' liability insurance for each Director.

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 conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit 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 Committee and the Board review the draft consolidated financial statements. The Audit Committee receives reports from management and the external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Governance Framework

The Board of the Company is collectively responsible for its governance and has effective oversight of the Company and its business and compliance with all relevant laws and regulations, including compliance with its Gas Transporter Licence. Following 1 October 2016, the Board established a number of committees which enable appropriate focus to be given to audit and risk matters, business separation compliance, finance, and safety, health and environment matters. Since the end of the financial year the Board has also established a Remuneration Committee and a Nomination Committee. Day to day management of the business is led by the Executive Committee.

In the period to 31 March 2017 the number of Board and Committee Meetings is as follows:

Board: Met 12 times.
Audit Committee: Met 3 times.
Business Separation Compliance Committee: Met once.
Finance Committee: Met once
Safety, Health & Environment Committee: Met 2 times.

Post balance sheet events

On the 2 May 2017 the Company changed its name to Cadent Gas Limited from National Grid Gas Distribution Limited.

Disclosure of information to auditors

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 auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Employees

We communicate with our employees across a wide variety of topics and have established effective channels to do this, for example: emails, the company intranet, cascade briefings, sms alerts, voice messages 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 are committed to equality, inclusion and diversity and aim to support employees in achieving and maintaining a good balance between their work and personal lives. We promote equality in the development and application of our policies, through our recruitment processes and in training and development opportunities.

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

Cadent Gas Limited
Directors' Report (continued)
For the period from incorporation on 23 March 2016 to 31 March 2017

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:

C Train
Chief Executive
30 June 2017

Registered office:
Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE

Registered in England and Wales
Company registration number: 10080864

Independent auditors' report to the members of Cadent Gas Limited

Report on the financial statements

Our opinion

In our opinion:

- Cadent Gas Limited's group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the Company's affairs as at 31 March 2017 and of the group's profit and cash flows for the period from 23 March 2016 to 31 March 2017 (the "period");
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the Company statement of financial position as at 31 March 2017;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the statement of consolidated cashflows for the period then ended;
- the consolidated statement of changes in equity for the period then ended;
- the Company statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the group financial statements is IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the Company financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Independent auditors' report to the members of Cadent Gas Limited (continued)

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 period 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 addition, in light of the knowledge and understanding of the group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Cadent Gas Limited (continued)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Cadent Gas Limited
Consolidated Income statement
For the period from incorporation on 23 March 2016 to 31 March 2017

	Notes	2017 £m	2017 £m
Revenue	4		**961**
Operating costs			**(562)**
Operating profit			
Before exceptional items		**399**	
Exceptional items	6	**(11)**	
Total Operating profit	5		**388**
Income from interests in associated undertakings			**-**
Finance income	9		**1**
Finance costs			
Before exceptional items and remeasurements	9	**(93)**	
Exceptional items and remeasurements	6/9	**(6)**	
Total interest payable and similar charges			**(99)**
Profit before tax			
Before exceptional items and remeasurements		**307**	
Exceptional items and remeasurements		**(17)**	
Total profit before tax			**290**
Tax			
Before exceptional items and remeasurements		**(55)**	
Exceptional items and remeasurements		**3**	
Total tax	10		**(52)**
Profit after tax			
Before exceptional items and remeasurements		**252**	
Exceptional items and remeasurements		**(14)**	
Profit for the period			**238**

The results reported above relate to continuing activities. Cadent Gas Limited was incorporated on 23 March 2016 and no comparatives are available.

The notes on pages 26 to 72 are an integral part of the financial statements.

Cadent Gas Limited
Consolidated Statement of comprehensive income
For the period from incorporation on 23 March 2016 to 31 March 2017

	2017 £m
Profit for the period	**238**
Other comprehensive income	
Items that will not be reclassified to profit or loss	
Remeasurements of post-employment benefit obligations	**197**
Tax on items that will never be reclassified to profit or loss	**(33)**
Total items that will never be reclassified to profit or loss	**164**
Items that may be reclassified subsequently to profit or loss	
Net gains/(losses) in respect of cash flow hedges	**(8)**
Tax on items that may be reclassified subsequently to profit or loss	**1**
Total items that may be reclassified subsequently to profit or loss	**(7)**
Other comprehensive income/(loss) for the period, net of tax	**157**
Total comprehensive income for the period	**395**

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and in exchange rates. The net loss for the period was £7m.

Cadent Gas Limited
Consolidated Statement of financial position
As at 31 March 2017

	Notes	2017 £m
Non-current assets		
Intangible assets	13	**88**
Property, plant and equipment	14	**8,509**
Investments in associates	15	**-**
Pension and other post-retirement benefit assets	27	**34**
Other non-current assets	17	**52**
Total non-current assets		**8,683**
Current assets		
Inventories	16	**7**
Trade and other receivables	17	**225**
Derivative financial assets	18	**2**
Current asset investments	19	**59**
Cash and cash equivalents		**-**
Total current assets		**293**
Total assets		**8,976**
Current liabilities		
Trade and other payables	20	**(376)**
Borrowings	22	**(60)**
Current tax liabilities	10	**(67)**
Provisions	23	**(21)**
Total current liabilities		**(524)**
Non-current liabilities		
Derivative financial liabilities	18	**(11)**
Borrowings	22	**(5,982)**
Deferred tax liabilities	10	**(1,057)**
Provisions	23	**(82)**
Accruals and deferred income	21	**(855)**
Total non-current liabilities		**(7,987)**
Total liabilities		**(8,511)**
Net assets		**465**
Equity		
Share capital	24	**-**
Share premium account		**5,458**
Cash flow hedge reserve		**(7)**
Retained earnings		**307**
Other reserves		**(5,293)**
Total equity		**465**

The notes on pages 26 to 72 are an integral part of these financial statements.

The consolidated financial statements on pages 21 to 72 were approved for issue by the Board of Directors on 30 June 2017 and were signed on its behalf by:

C Train
Director
Cadent Gas Limited
Company registration number: 10080864

Cadent Gas Limited
Consolidated Statement of changes in equity
For the period from incorporation on 23 March 2016 to 31 March 2017

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 23 March 2016	-	-	-	-	-	-
Profit for the period	-	-	-	-	238	238
Other comprehensive income for the period	-	-	(7)	-	164	157
Total comprehensive income for the period	-	-	(7)	-	402	395
Issue of share capital	-	5,458	-	-	-	5,458
Gas Distribution acquisition	-	-	-	(5,165)	-	(5,165)
Pension sectionalisation	-	-	-	(128)	-	(128)
Dividends paid	-	-	-	-	(95)	(95)
At 31 March 2017	-	5,458	(7)	(5,293)	307	465

The cash flow hedge reserve on 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 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 amount is amortised. 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.

Cadent Gas Limited
Consolidated Statement of cashflows
For the period from incorporation on 23 March 2016 to 31 March 2017

	2017
	£m
Cash flows from operating activities	
Total operating profit	388
Adjustments for:	
Exceptional items	11
Depreciation, amortisation and impairment	152
Changes in working capital	(16)
Capital contribution income	(11)
Changes in provisions	(7)
Loss/(gain) on disposal of property, plant and equipment	1
Changes in pensions and other post-retirement obligations	6
Cash generated from operations	524
Tax paid	-
Net cash inflow from operating activities	524
Cash flows from investing activities	
Purchases of intangible assets	(11)
Purchases of property, plant and equipment	(151)
Capital contributions	44
Disposals of property, plant and equipment	-
Investments	(59)
Interest received	-
Net cash flow used in investing activities	(177)
Cash flows from financing activities	
Proceeds received from loans	1,189
Repayment of loans	(1,449)
Interest paid	(15)
Dividends paid to shareholders	(95)
Net cash flow (used in) financing activities	(370)
Net (decrease)/increase in cash and cash equivalents	(23)
Net cash and cash equivalents at the start of the period	-
Cash acquired	3
Net cash and cash equivalents/(overdraft) at the end of the period	(20)

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. 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 consolidated financial statements are set out as below. These policies have been consistently applied to the current period presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the Group have been prepared on the going concern basis (see strategic report on page 15) 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC interpretations issues and effective and ratified by the European Union as at 31 March 2017 and the Companies Act 2006.

(b) Basis of consolidation

The consolidated financial statements include the results of Cadent Gas Limited and its subsidiary 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 or the Group has the power to exercise significant influence.

1 Summary of significant accounting policies (continued)

(c) Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairment of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if 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 8 years.

(d) Property, plant and equipment and depreciation

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

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

1 Summary of significant accounting policies (continued)

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

All contributions received prior to 1 July 2009 towards the cost of tangible fixed assets and contributions received post 1 July 2009 towards altering, diverting or relocating a tangible fixed asset are included in trade and other payables 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 relate.

Contributions received post 1 July 2009 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. Contributions received post 1 July 2009 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.

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 are held at cost less any provisions for impairment.

(f) Impairment of fixed assets

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

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

1 Summary of significant accounting policies (continued)

(g) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the income statement as it accrues.

Borrowings, which include interest-bearing loans and overdrafts, 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

Where the Company has derivative financial instruments:

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.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of derivative instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

1 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Where possible, derivatives held as hedging instruments are formally designated as hedge as defined in IAS 39. Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement.

(h) Trade and other receivables

Trade, loan and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

(i) Trade and other payables

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

(j) Inventories

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

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

(k) Tax

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

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

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

1 Summary of significant accounting policies (continued)

(k) Tax (continued)

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

(l) Provisions for liabilities

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

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

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

(m) Dividends

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

1 Summary of significant accounting policies (continued)

(n) Revenue

Revenue comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services, Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

(o) 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 not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

(p) Pensions

The Company operates various post-employment schemes, including both defined benefit (DB) and defined contribution (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.

1 Summary of significant accounting policies (continued)

(p) Pensions (continued)

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.

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.

(q) 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.

1 Summary of significant accounting policies (continued)

(r) New IFRS accounting standards and interpretations not yet adopted

The Group enters into a significant number of transactions that fall within the scope of IFRS 9 ‘Financial Instruments’, IFRS 15 ‘Revenue from Contracts with Customers’ and IFRS 16 ‘Leases’. We are assessing the likely impact of these standards on the financial statements.

IFRS 9 ‘Financial Instruments’

IFRS 9 ‘Financial Instruments’ (IFRS 9) is effective for the year ending 31 March 2019. The changes to IFRS 9 principally impact the accounting for the classification of financial instruments, impairment of financial instruments and hedge accounting. The key change influences the future assessment of impairments using an ‘expected loss’ method rather than the current ‘incurred loss’ method; this will result in impairments typically being recorded earlier.

To date we have not identified any significant changes to the accounting for financial liabilities, the impact on accounting for financial assets and derivatives is anticipated to be limited.

We are currently evaluating the impact of the hedge accounting guidance in the new standard. It is possible that changes in requirements will allow the opportunity to apply hedge accounting in a wider range of scenarios.

IFRS 15 ‘Revenue from Contracts with Customers’

IFRS 15 ‘Revenue from Contracts with Customers’ (IFRS 15) is effective for the year ending 31 March 2019. The new standard provides enhanced detail and a five step revenue recognition approach to reflect the transfer of goods and services to customers.

The core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

This differs from the principle under the current revenue standard that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

Detailed reviews of revenue arrangements are under way and will continue into 2017/18 as we finalise our assessment of the impact of the new standard.

IFRS 16 ‘Leases’

IFRS 16 ‘Leases’ (IFRS 16) is effective for the year ending 31 March 2020, subject to EU endorsement. The Group enters into a significant number of operating lease transactions. Under IFRS 16, our operating leases will be accounted for on the balance sheet as ‘right-of-use’ assets. This treatment will increase both our assets and liabilities and subsequently, an increase to finance costs and depreciation and a reduction in rental costs. The outcome of our conclusions will have an impact on how we account for our operating leases.

Other

Other standards and interpretations or amendments thereto which have been issued, but are not yet effective, are not expected to have a material impact on the Company’s consolidated financial statements.

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 surpluses in respect of defined benefit pension schemes – note 27
- The categorisation of certain items as exceptional items – note 6
- Environmental and decommissioning provisions – note 23

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.
- **Customer contributions:** contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- **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:

- Review of residual lives, carrying values and impairment charges for intangible assets and property, plant and equipment – notes 13 and 14;
- Estimation of liabilities for pensions and other post-retirement benefits – note 27;
- Valuation of financial instruments and derivatives – notes 18 and 28;
- Revenue recognition and assessment of unbilled revenue – note 4;
- Environmental and decommissioning provisions – note 23.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 29.

3 Segmental analysis

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

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

4 Revenue

	2017
	£m
Revenue from distribution of gas	**936**
Other income	**25**
	961

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

Analysis of revenue by major customer

	2017
	£m
Customer A	**278**
Customer B	**105**
	383

No other single customer contributed 10% or more to the Group's revenue during the period 23 March 2016 to 31 March 2017.

5 Operating profit

	2017 £m
Operating profit is stated after charging/(crediting):	
Depreciation and amortisation	**152**
Payroll costs	**99**
Inventory consumed	**6**
Purchases of gas	**10**
Rates	**76**
Operating leases	**4**
Research and development expenditure	**10**

	2017
Services provided by the Company's auditor	**£'000**
Audit services	
Fees payable to the Group's auditors and its associates for the audit of the financial statements	**881**
Other services	
Fees payable to the company's auditors for audit-related assurance services	**62**
Other non-audit services	**125**

Fees payable to the Company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors such as regulatory accounts. Other non-audit services relate to services provided in connection with the raising of debt or structuring activities.

6 Exceptional items and remeasurements

	2017 £m
Included within operating costs:	
Insurance provision (i)	**(11)**
Included within finance costs:	
Remeasurements	
Net losses on derivative financial instruments (ii)	**(6)**
Total included within profit before tax	**(17)**
Included within taxation:	
Tax on insurance reserves	**2**
Tax on remeasurements	**1**
	3
Total exceptional and remeasurements after tax	**(14)**
Analysis of total exceptional items and remeasurements after tax	
Total exceptional items after tax	**(9)**
Total remeasurement after tax	**(5)**
	(14)

(i) The insurance provision exceptional item relates to an increase in the provision for claims for certain years. The potential costs to be incurred as a result of the loss of the National Grid Plc group insurance captive on sale completion.

(ii) 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 4,085.

	2017
	£m
Wages and salaries	90
Social security costs	11
Other pension costs	21
Share-based payments	1
	123
Less: payroll costs capitalised	(24)
	99

Key management comprises the Board of Directors of the Company together with those Executive Directors of Quadgas Holdco Limited who have managerial responsibility for the businesses of Quadgas Holdco Limited.

	2017
	£'000
Salaries and other short-term employee benefits	171
Post-employment benefits	157
Share-based payments	384
	712

8 Directors emoluments

The Directors' emoluments were as follows:

	2017 £'000
Aggregate emoluments (including salary, fees, bonuses and benefits in kind)	171
Aggregate amounts receivable under long-term incentive schemes	384
Pension schemes	157
	712

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

Post-employment benefits are accruing for 1 Director under a defined benefit scheme.

During the period there was 1 Director who exercised share options in or received ordinary shares as part of long term incentive plans of the previous ultimate parent company, National Grid plc.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2017 £'000
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes	171
Defined benefit pension scheme	
- accrued pension at end of period	157
- accrued lump sum at end of period	-

During the period the highest paid Director exercised share options in or received ordinary shares as part of long term incentive plans of the previous ultimate parent company, National Grid plc.

9 Finance income and costs

	2017 £m
Finance income	
Interest income from bank deposits	-
Interest income from financial instruments	1
Finance income	1
Finance costs	
Interest expense on financial liabilities held at amortised cost:	
Bank loans and overdrafts	6
Other borrowings	82
Derivatives	4
Unwinding of discounts on provisions	1
Other interest	1
Less: interest capitalised (i)	(1)
Finance costs	93
Remeasurements	
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):	
Ineffectiveness on derivatives designated as:	
Fair value hedges	-
Cash flow hedges	6
Derivatives not designated as hedges or ineligible for hedge accounting	-
Remeasurements included within finance costs	6
Finance costs	**99**
Net finance costs	**98**

i) Interest on funding attributable to assets in the course of construction was capitalised during the period at a rate of 3.4%. Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £0.2m.

ii) Includes a net foreign exchange loss on financing activities of £10m. These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

Borrowing costs attributable to assets in the course of construction have been capitalised based on a capitalisation rate of 3.4% which is the weighted average of rates applicable to the Group's general borrowings outstanding during the period.

10 Taxation

Tax charged to the income statement

	2017 £m
Tax before exceptional items and remeasurements	**55**
Exceptional tax on items not included in profit before tax	**-**
Tax on other exceptional items and remeasurements	**(3)**
Tax on total exceptional items and remeasurements (note 6)	**(3)**
Total current tax expense	**52**

Taxation as a percentage of profit before tax

	2017 %
Before exceptional items and remeasurements	**18.0**
After exceptional items and remeasurements	**17.8**

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

	2017 £m
Current tax	
UK corporation tax at 20%	**67**
Total current tax	**67**
Deferred tax	
UK deferred tax	**(15)**
Total deferred tax	**(15)**
Total Tax charge	**52**

Tax charged to other comprehensive income and equity

	2017 £m
Deferred tax	
Cash flow hedges	**(1)**
Remeasurements of net retirement benefit obligations	**33**
Total tax charged to other comprehensive income	**32**

10 Taxation (continued)

The tax charge for the period after exceptional items and remeasurements is lower than the standard rate of corporation tax in the UK of 20%:

	Before exceptional items and Remeasure-ments 2017 £m	After exceptional items and Remeasure-ments 2017 £m
Profit before tax		
Before exceptional items and remeasurements	**307**	**307**
Exceptional items and remeasurements	**-**	**(17)**
Profit before tax	**307**	**290**
Profit before tax multiplied by UK corporation tax rate of 20%	**61**	**58**
Effect of:		
Expenses not deductible for tax purposes	**2**	**2**
Non-taxable income	**(1)**	**(1)**
Transfer pricing	**(7)**	**(7)**
Deferred tax impact of change in UK tax rate	**-**	**-**
Other	**-**	**-**
Total tax	**55**	**52**
	%	**%**
Effective tax rate	**17.9**	**17.9**

Factors that may affect future tax charges

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 uncertain whether the introduction of this legislation will be delayed. It is not anticipated that there will be any interest restriction in the group for the foreseeable future.

10 Taxation (continued)

Taxation included within the statement of financial position
The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current reporting period:

	Accelerated tax depreciation £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total
At 23 March 2016	-	-	-	-	-
Deferred tax on Gas Distribution acquisition	1,069	-	-	(2)	1,067
Pension sectionalisation	-	(27)	-	-	(27)
Charged/(credited) to income statement	(11)	-	(3)	(1)	(15)
Credited to other comprehensive income and equity	-	33	(1)	-	32
At 31 March 2017	1,058	6	(4)	(3)	1,057
Deferred tax assets at 31 March 2017	-	-	(4)	(3)	(7)
Deferred tax liabilities at 31 March 2017	1,058	6	-	-	1,064
At 31 March 2017	1,058	6	(4)	(3)	1,057

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 £1,057m. At the balance sheet date there were no material current deferred tax assets or liabilities.

11 Dividends

	2017 £m
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
	95

No further dividends are proposed for the current financial period.

12 Business combination

Gas Distribution trade and assets

On 1 October 2016, Cadent Gas Limited (formerly National Grid Gas Distribution Limited) acquired the trade and assets of National Grid Gas plc's regulated gas distribution networks. Details of the purchase consideration, net assets acquired and merger reserve are below.

The initial purchase consideration was £11,659 million, funded through intercompany loans which have since been fully settled and replaced with external borrowings.

The assets and liabilities recognised as a result of the acquisition are as follows:

	1 October 2016 £m
Cash and cash equivalents	3
Trade receivables	245
Inventories	6
Plant and equipment	8,226
Other tangible assets	138
Intangible assets	94
Trade payables	(212)
Capital contributions	(845)
Deferred tax liability	(1,067)
Provisions	(93)
	6,494

At the time of the acquisition of the trade and assets, Cadent Gas Limited was part of the National Grid Plc group and therefore IFRS 3 was not applicable due to the business being under common control and the Company elected to apply predecessor accounting. Therefore, a merger reserve of £5,165m was recognised as the difference between the purchase consideration and net assets.

Subsequently, Cadent Gas Limited recognised its share of the pension sectionalisation and the recognition of pension deficit of £155m and £27m of associated deferred tax was recognised against the merger reserve.

12 Business combinations (continued)

National Grid Gas Finance Plc

On 1 October 2016, the Group acquired 100% of the share capital of National Grid Gas Finance plc, a financing company, for £50,000. The cost of the assets and liabilities acquired are as follows:

	2017 £m
Amounts falling due within one year:	
Receivables	**8**
Intercompany loans	**3,621**
Payables	**(8)**
External borrowings	**(3,621)**
Net assets acquired	**-**
Cash consideration	**-**

No goodwill was recognised on acquisition as the consideration was equal to the net assets acquired.

Receivables had a gross contractual value of £8m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Acquisition-related costs included within the Group's operating profit for the period amounted to £nil.

The acquired businesses of Gas Distribution and National Grid Gas Finance Plc contributed £961m revenue and £237m to the Group's net profit for the periods between the date of acquisition and the Statement of Financial position date. Had the acquisition been completed on the first day of the period, Group revenue and net profit for the period would be for an additional half year, which would be approximately double the current performance.

13 Intangible assets

	Software £m
Cost:	
At 23 March 2016	-
Gas Distribution acquisition	94
Additions	11
Disposals	-
At 31 March 2017	105
Accumulated amortisation:	
At 23 March 2016	-
Amortisation charge for the period	(17)
Disposals	-
At 31 March 2017	(17)
Net book value:	
At 31 March 2017	**88**
At 23 March 2016	-

14 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
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	-	-	-	-	-

The cost of property, plant and equipment at 31 March 2017 included £1,482,000 relating to interest capitalised.

The net book value of land and buildings comprises:

	2017 £m
Freehold	**21**
Long leasehold (over 50 years)	**-**
Short leasehold (under 50 years)	**19**
	40

15 Investments in associates

The Group's only associate is in respect of its 45.57% equity stake in Xoserve Limited, which confers significant influence , which was acquired on 1 October 2016.

	Total £m
Cost	
At 23 March 2016	-
Additions	-
At 31 March 2017	-
Provision	
At 23 March 2016	-
Impairment	-
At 31 March 2017	-
Net book value	
At 31 March 2017	-
At 23 March 2016	-

On 1 October 2016 the Company purchased 45,570 ordinary shares of 1p each in Xoserve Limited for £456 and also impaired this investment on the same date as no future value is attributable to this investment.

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.

16 Inventories

	2017 £m
Raw materials and consumables	7
	7

Inventories are stated after provisions for impairment of £593,000.

17 Trade and other receivables

	2017 £m
Amounts falling due within one year:	
Trade debtors	**15**
Amounts owed by fellow subsidiary undertakings	**5**
Other debtors	**10**
Prepayments and accrued income	**195**
	225
Amounts falling due after more than one year:	
Prepayments and accrued income	**44**
Other debtors	**8**
	52

Trade debtors are stated after provisions for impairment of £1,712,000. Amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable upon demand.

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

18 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2017 Assets £m	2017 Liabilities £m	2017 Total £m
Amounts falling due within one year	**2**	**-**	**2**
Amounts falling due after more than one year	**-**	**(11)**	**(11)**
	2	**(11)**	**(9)**

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

	2017 £m
Interest rate swaps	-
Cross-currency interest rate swaps	638
Foreign exchange forward currency	-
Forward rate agreements	-
Inflation linked swaps	-
	638

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

19 Current asset investments

	2017 £m
Investments in short-term money funds	**59**
	59

20 Trade and other payables

	2017 £m
Trade creditors	**176**
Other tax and social security	**45**
Other creditors	**9**
Accruals and deferred income	**146**
	376

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

21 Accruals and deferred income

	2017 £m
Accruals and deferred income	**855**
	855

Accruals and deferred income mainly comprises contributions to capital projects.

22 Borrowings

	2017 £m
Amounts falling due within one year	
Bank loans	**2**
Bank overdrafts	**20**
Bonds	**38**
	60
Amounts falling due after more than one year	
Bank loans	**1,708**
Bonds	**4,274**
	5,982

	2017 £m
Total borrowings are repayable as follows:	
Less than 1 year	**60**
In 1-2 years	**-**
In 2-3 years	**399**
In 3-4 years	**-**
In 4-5 years	**1,035**
More than 5 years	**4,548**
	6,042

The notional amount of borrowings outstanding as at 31 March 2017 was £5,515m, £5,699m including accretion.

The Group's borrowings comprise a mixture of listed and unlisted fixed rate, floating rate and indexed linked debt. Listed debt has been issued out of or novated into the Group's finance conduit, Cadent Finance Plc (formerly National Grid Gas Finance Plc), unlisted debt has been issued out of or novated into Cadent Gas Limited (formerly National Grid Gas Distribution Limited). The table below summarises the bank and bond debt, including their fair values.

22 Borrowings (continued)

Summary of Borrowings

Currency	Type	Notional** £m	Rate	Maturity Date	Book value £m	Fair Value £m
Fixed Rate						
GBP	Listed	650	Fixed	22/09/2021	649	654
EUR*	Listed	643	Fixed	22/09/2024	635	625
GBP	Listed	850	Fixed	22/09/2028	855	848
GBP	Listed	700	Fixed	22/09/2038	703	691
GBP	Listed	800	Fixed	22/09/2046	798	797
		3,643			**3,640**	**3,616**
Index Linked						
GBP	Unlisted	439	RPI +	02/10/2023 - 07/05/2024	521	522
GBP	Listed	133	RPI +	02/05/2039	210	212
GBP	Listed	136	RPI +	10/08/2048	233	240
GBP	Listed	136	RPI +	14/08/2048	229	237
		844			**1,192**	**1,211**
Floating Rate						
GBP	Unlisted	1,193	LIBOR +	14/10/2019 - 23/03/2027	1,189	1,198
		1,193			**1,189**	**1,198**
Overdraft		**20**			**20**	**20**
TOTAL		**5,699**			**6,042**	**6,045**

* Euro amount is €750m

**Index Linked debt notional is the accreted value

The fixed rate bonds were issued on 22 September 2016 by Cadent Finance Plc (formerly National Grid Gas Finance Plc) under its £6,000m Euro Medium Term Note Programme and are guaranteed by Cadent Gas Limited (formerly National Grid Gas Distribution Limited) following the transfer of assets on 1 October 2016.

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

The Floating rate debt is a combination of Term Debt drawn under the £1,700m Term Loan and Revolving Credit Facility agreed in October 2016, and drawn for the first time immediately before the date of sale and debt issued to the EIB, drawn down on 27 March 2017.

The fair value of borrowings at 31 March 2017 was £6,045m. Where market values were available, the fair value of borrowings (Level 1) was £3,636m. Where market values were not available, the fair value of borrowings (Level 2) was £2,409m, calculated by discounting cash flows at prevailing interest rates.

None of the Group's borrowings are secured by charges over assets of the Group.

23 Provisions for liabilities

	Decommissioning £m	Environmental £m	Other £m	Total £m
At 23 March 2016	-	-	-	-
Gas Distribution acquisition	26	26	41	93
Charged to the income statement	-	4	13	17
Utilised	(5)	-	(2)	(7)
Released to the income statement	-	-	(1)	(1)
Unwinding of discount	-	1	-	1
At 31 March 2017	**21**	**31**	**51**	**103**

	2017 £m
Current	**21**
Non-current	**82**
	103

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%). Cash flows are expected to be incurred between 2017 and 2068.

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 2017 as £36m 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.

24 Share capital

	2017 £m
Allotted, called up and fully paid	
169,030 ordinary shares of £1 each	-

On incorporation, the Company issued 1 ordinary share of £1 for a cash consideration of £1.

On 30 September 2016 the Company issued a further 50,456 ordinary shares of £1 for a cash consideration of £50,456.

On 31 March 2017 the Company issued a further 118,573 ordinary shares of £1 by way of capitalisation of a shareholder loan of £5,457,581,161, resulting in a share premium balance of £5,457,732,588.

25 Net debt

	2017 £m
Decrease in cash and cash equivalents	(23)
Increase in financial investments	59
Increase in borrowings & related derivatives	(1,189)
Net interest paid on the components of net debt	15
Change in net debt arising from cash flows	(1,138)
Changes in fair value of financial assets and liabilities and exchange movements	(13)
Other non-cash changes	(4,752)
Net interest charge on the components of net debt	(92)
Movement in net debt (net of related derivative financial instruments)	(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	-
Net debt (net of related derivative financial instruments) at the end of the period	(5,992)

Composition of net debt:

	2017 £m
Cash, cash equivalents and financial investments	59
Borrowings and bank overdrafts	(6,042)
Derivatives	(9)
Total net debt	(5,992)

25 Net debt (continued)

Analysis of changes in net debt:

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total £m
Cost							
At 23 March 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gas Distribution acquisition	**3**	**-**	**3**	**-**	**-**	**-**	**3**
Cashflow	**(3)**	**(20)**	**(23)**	**59**	**(1,180)**	**6**	**(1,138)**
Fair value gains and losses and exchange movements	**-**	**-**	**-**	**-**	**10**	**(23)**	**(13)**
Interest charges	**-**	**-**	**-**	**-**	**(88)**	**(4)**	**(92)**
Other non-cash changes	**-**	**-**	**-**	**-**	**(4,764)**	**12**	**(4,752)**
At 31 March 2017	**-**	**(20)**	**(20)**	**59**	**(6,022)**	**(9)**	**(5,992)**

Balances at 31 March 2017 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	-	-	-	-	-	-	-
Current assets	-	-	-	59	-	2	61
Current liabilities	-	(20)	(20)	-	(40)	-	(60)
Non-current liabilities	-	-	-	-	(5,982)	(11)	(5,993)
At 31 March 2017	**-**	**(20)**	**(20)**	**59**	**(6,022)**	**(9)**	**(5,992)**

26 Capital and other commitments

	2017 £m
Contracts for future capital expenditure not provided in the financial statements	**792**
Letters of credit	**300**
	1,092

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

	2017 £m
Less than 1 year	**9**
In 2-5 years	**20**
More than 5 years	**4**
	33

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.

The National Grid YouPlan (YouPlan) is a DC scheme that was launched in 2013 and under the rules of the plan, the Company double matches contributions to YouPlan up to a maximum of 6% of employee salary. YouPlan is the qualifying scheme used for automatic enrolment and new hires are enrolled into YouPlan.

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

	2017 £m
Current period contributions	5

Defined benefit (DB) scheme

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 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 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.

27 Pensions (continued)

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 30 September 2015. As part of this valuation, based on long-term financial assumptions, a contribution rate to meet future benefit accrual was agreed of 36% of pensionable earnings (31% by employers and 5% by employees). In addition, the Company makes payments to the scheme to cover administration costs and the Pension Protection Fund levy.

The results of the 2015 valuation are shown below:

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

With effect from 1 January 2017, the National Grid UK Pension Scheme was split into three sections, each of which are legally and actuarially separate. The figures shown within these financial statements cover Section C, which is supported by Cadent Gas Limited. The first actuarial valuation for Section C will be carried out at 31 March 2017 and the valuation process has commenced.

27 Pensions (continued)

Section C of the National Grid UK Pension Scheme
The Company and the Trustees have agreed a schedule of contributions, under which payments of £34m plus an adjustment for RPI will be made in 2017/18 and will thereafter rise in line with RPI. 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 2017 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. A DC section of the scheme was offered for employees joining after this date, which has since been replaced by The National Grid YouPlan (YouPlan).

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 US and 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.

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.

Amounts recognised in the statement of financial position

	2017 Total £m
Present value of funded obligations	(6,967)
Fair value of plan assets	7,004
	37
Present value of unfunded obligations	(3)
Other post-employment liabilities	-
Net defined benefit asset	34

27 Pensions (continued)

Represented by:	
Liabilities	(6,970)
Assets	7,004
	34

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

	2017 Total £m
Included within operating costs	
Administration costs	1
Included within operating costs	
Defined contribution scheme costs	5
Defined benefit scheme costs:	
Current service cost	8
Past service costs – augmentations	-
Past service (credit)/cost – redundancies	-
Past service cost/(credit) – plan amendments	-
Settlement (credit)/cost	2
Special termination benefit cost – redundancies	3
	18
Included within operating costs	
Net interest cost	1
Included within exceptional items and remeasurements	
Administration costs	-
Total included in income statement	20
Remeasurements of net retirement benefit obligations	(49)
Return on plan assets (greater) or less than discount rate	(148)
Exchange adjustments	-
Total included in the statement of other comprehensive income	(197)

Reconciliation of the net defined benefit liability/(asset)

	2017 Total £m
Opening net defined benefit (liability)/asset	-
Net pension liability acquired on sectionalisation	(157)
Costs recognised in the income statement	(15)
Employer contributions	9
Other movements	197
Closing net defined benefit asset	**34**

27 Pensions (continued)

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

	2017 Total £m
Opening net defined benefit liability	-
Net pension liability acquired on sectionalisation	7,018
Current service cost	8
Interest cost	44
Actuarial (gains)/losses – experiences	12
Actuarial (gains)/losses – demographic assumptions	(85)
Actuarial (gains)/losses – financial assumptions	24
Special termination benefit cost – redundancies	3
Settlement of Defined Benefit Obligation	13
Benefits paid	(67)
Closing net defined benefit liability	**6,970**

Changes in the fair value of plan assets

	2017 Total £m
Opening fair value of plan assets	-
Pension asset acquired on sectionalisation	6,861
Interest income	43
Return on assets (less)/greater than assumed	148
Administration costs	(1)
Employer contributions paid	9
Employee contributions	-
Benefits paid	(67)
Settlement of assets	11
Closing fair value of plan assets	**7,004**
Actual return on plan assets	191
Expected contributions to plans in the following year	62

27 Pensions (continued)

Asset allocations

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

	2017 Quoted £m	2017 Unquoted £m	2017 Total £m
Equities	945	281	1,226
Corporate bonds	1,965	-	1,965
Property	-	348	348
Government securities	2,820	-	2,820
Diversified alternatives (i)	-	355	355
Other	-	290	290
Total	5,730	1,274	7,004

i) Includes return seeking non-conventional asset classes.

Target asset allocations

The investment strategy for Section C of the National Grid UK Pension Scheme (NGUKPS) 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 target asset allocation at 31 March 2017 is as follows:

	%
Equities	**18**
Other	**82**
	100

27 Pensions (continued)

Actuarial assumptions
Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

	2017
	%
Discount rate (i)	**2.4**
Rate of increase in salaries (ii)	**3.45**
Rate of increase in RPI (iii)	**3.2**

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.

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 2.2%.

iii) This is the key assumption that determines assumed increases in pensions in payment and deferment. The assumptions were 3.2% for increases in pensions in payment and 3.2% for increases in pensions in deferment.

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2017
	years
Today	
Males	**22.8**
Females	**24.6**
In 20 years	
Males	**25.0**
Females	**26.8**

Maturity profile of DB obligations
The weighted average duration of the DB obligation for each category of scheme is 17 years.

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.

28 Financial risk management (continued)

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; and
- Capital risk.

(a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. 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.

Treasury 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 Cadent Gas Limited.

As at 31 March 2017, we had a number of exposures to individual counterparties. 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. Management does not expect any significant losses from non performance by these counterparties.

Customer credit risk
Our principal commercial exposure is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the regulatory asset value (RAV) for each credit rating. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. 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 17.

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.

28 Financial risk management (continued)

(a) Credit risk (continued)

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.

As at 31 March 2017	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivatives financial instruments	2	-	2	-	-	2
Liabilities						
Derivatives financial instruments	(11)	-	(11)	-	-	(11)
Total at 31 March 2017	(9)	-	(9)	-	-	(9)

(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 commitments and contingencies 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.

28 Financial risk management (continued)

(b) Liquidity risk (continued)

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

	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 2017					
Non-derivative financial liabilities					
Borrowings	-	-	(400)	(6,055)	(6,455)
Interest on payments on borrowings (i)	(100)	(102)	(102)	(1,644)	(1,948)
Other non-interest bearing liabilities	(376)	-	-	-	(376)
Derivative financial liabilities					
Derivative contracts - receipts	4	4	4	20	32
Derivative contracts - payments	(12)	(13)	(12)	(54)	(91)
Total at 31 March 2017	(484)	(111)	(510)	(7,733)	(8,838)

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

(c) Interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue 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 22 (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 2017, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed rate £m	Floating rate £m	RPI £m	Total £m
As at 31 March 2017				
Financial investments	-	59	-	59
Borrowings	(3,641)	(1,209)	(1,192)	(6,042)
Pre-derivative position	(3,641)	(1,150)	(1,192)	(5,983)
Derivative effect	(9)	-	-	(9)
Net debt position (i)	(3,650)	(1,150)	(1,192)	(5,992)

i) The impact of 2016/17 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 2017, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling £m	Euro £m	Total £m
As at 31 March 2017			
Financial investments	59	-	59
Borrowings	(5,407)	(635)	(6,042)
Pre-derivative position	(5,348)	(635)	(5,983)
Derivative effect	(644)	635	(9)
Net debt position	(5,992)	-	(5,992)

(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.

28 Financial risk management (continued)

(e) Capital risk management (continued)

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 regulatory asset value (RAV) gearing calculated as net debt 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 2017 was 62%.

(f) Fair value analysis

The derivative 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 2017				
Assets				
Available-for-sale investments	59	-	-	59
Derivative financial instruments	-	2	-	2
Liabilities				
Derivative financial instruments	-	(11)	-	(11)
Total	59	(9)	-	50

Level 1: Financial instruments with quoted prices for identical instruments in active markets.
Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.
Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

29 Sensitivity analysis

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

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

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

The sensitivities included in the table below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 10% increase in unbilled revenue at 31 March 2017 would result in an increase in the income statement of £17 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	Income statement £m	Net assets £m
As at 31 March 2017		
One year average increase in useful economic lives (pre-tax)		
Depreciation charge on property, plant and equipment	6	6
Amortisation charge on intangible assets	2	2
Estimated future cash flows in respect of provisions change of 10% (pre-tax)	10	10
Assets and liabilities carried at fair value change of 10% (pre-tax)		
Derivative financial instruments (i)	(1)	(1)
Pensions and other post-retirement benefits (ii) (pre-tax)		
Discount rate change of 0.5% (iii)	(4)	(547)
RPI rate change of 0.5% (iv)	4	534
Long-term rate of increase in salaries change of 0.5%	-	27
Change of one year to life expectancy at age 65	-	299
Unbilled revenue at 31 March change of 10% (post-tax)	17	17
No hedge accounting for our derivative financial instruments (post tax)	(6)	(6)

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.

29 Sensitivity analysis (continued)

	Income statement £m	Net assets £m
As at 31 March 2017		
Financial risk (post-tax)		
UK RPI rate change of 0.5% (i)	(4)	-
UK interest rate change of 0.5%	(6)	-

i) Excludes sensitivities to LPI curve.

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 2017;
- 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 23) has been set up to deal with the costs of statutory decontamination of the National Grid Gas Distribution's UK old gas-manufacturing sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

Through the ordinary course of operations, the Company is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial position.

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.

National Grid Plc and its subsidiaries were treated as intercompany during the year until the sale of the business, at which point they became related parties and treated as external companies.

	2017 £m
Income:	
Goods and services supplied	**12**
Expenditure:	
Services rendered	**113**
Corporate services received	**2**
Interest paid on borrowings from fellow subsidiaries	**-**
	115
Outstanding balances at 31 March in respect of income and expenditure:	
Amounts receivable	**21**
Amounts payable	**17**
Borrowings payable to parent	
Due within one year	**-**
Due after more than one year	**-**

Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears.

No amounts have been provided at 31 March 2017 and no expense has been recognised during the period in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 7.

On 1 October 2016, Cadent Gas Group acquired the trade and assets of National Grid Gas plc's regulated gas distribution networks. Details of the acquisition are disclosed in note 12.

32 Subsequent events

On the 2 May 2017 the Company changed its name to Cadent Gas Limited from National Grid Gas Distribution Limited.

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 is Cadent Gas Limited as Quadgas MidCo Limited and Quadgas Holdings Topco Limited have not prepared accounts to 31 March 2017. Quadgas Holdings Topco Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

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 (formerly National Grid Gas 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.

Cadent Gas Limited
Company Statement of financial position
As at 31 March 2017

	Notes	2017 £m
Non-current assets		
Intangible assets	7	**88**
Property, plant and equipment	8	**8,509**
Other non-current assets	11	**52**
Investments	9	**-**
Pension and other post-retirement benefit obligations	6	**34**
Total non-current assets		**8,683**
Current assets		
Inventories	10	**7**
Debtors	11	**225**
Derivative financial assets	12	**2**
Financial and other investments	13	**59**
Cash at bank and in hand		**-**
Total current assets		**293**
Total assets		**8,976**
Current liabilities		
Creditors	14	**(466)**
Borrowings	16	**(22)**
Provisions for liabilities	17	**(21)**
Total current liabilities		**(509)**
Non-current liabilities		
Derivative financial liabilities	12	**(11)**
Borrowings	16	**(1,708)**
Provisions for liabilities	17	**(1,206)**
Other non-current liabilities	15	**(4,698)**
Total non-current liabilities		**(7,623)**
Total liabilities		**(8,132)**
Net assets		**844**
Equity		
Share capital	18	**-**
Share premium account		**5,458**
Cash flow hedge reserve		**(6)**
Retained earnings		**311**
Other reserves		**(4,919)**
Total equity		**844**

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 notes on pages 75 to 90 are an integral part of the financial statements.

The financial statements on pages 73 to 90 were approved by the Board of Directors on 30 June 2017 and signed on its behalf by:

C Train
Director, Cadent Gas Limited
Company registration number: 10080864

Cadent Gas Limited
Company Statement of changes in equity
For the period from incorporation on 23 March 2016 to 31 March 2017

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Merger Reserve £m	Retained earnings £m	Total £m
At 23 March 2016	-	-	-	-	-	-
Profit for the period	-	-	-	-	242	242
Other comprehensive income for the period	-	-	(6)	-	164	158
Total comprehensive income for the period	-	-	(6)	-	406	400
Issue of share capital	-	5,458	-	-	-	5,458
Gas Distribution acquisition	-	-	-	(4,791)	-	(4,791)
Pension sectionalisation	-	-	-	(128)	-	(128)
Dividends paid	-	-	-	-	(95)	(95)
At 31 March 2017	-	**5,458**	**(6)**	**(4,919)**	**311**	**844**

The cash flow hedge reserve on 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 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 £4,791m 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 amount is amortised. 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.

1 Summary of significant accounting policies

Cadent Gas Limited is a private company and is incorporated and domiciled in the United Kingdom. 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 period 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) Intangible assets

Intangible fixed assets which consist of software licenses are carried at amortised historical cost less any provisions for impairment. Software licenses 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 8 years.

1 Summary of significant accounting policies (continued)

(c) Property, plant and equipment and depreciation

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

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

Contributions received towards the cost of 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.

The accounting treatment for contributions received from customers for connections to the gas distribution network, differs from IFRS where the contributions prior to 1 July 2009 are recognised on a straight line basis in the income statement over the estimated useful economic lives of the assets to which they relate, whereas under FRS102 all such contributions are recognised once the connection has been completed and applied retrospectively.

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 office equipment	Up to 10

1 Summary of significant accounting policies (continued)

(d) Fixed asset investments

Investments in subsidiary undertakings are held at cost less any provisions for impairment.

(e) 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.

(f) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the income statement as it accrues.

Borrowings, which include interest-bearing loans and overdrafts, 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

1 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Where the Company has derivative financial instruments:

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.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of derivative instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

(g) Inventories

Inventories are stated at cost less any provision for deterioration and obsolescence.

(h) 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 balance sheet 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.

(i) 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 off the related property, plant and equipment.

1 Summary of significant accounting policies (continued)

(i) Provisions for liabilities (continued)

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.

(j) 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.

(k) 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.

(l) 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.

1 Summary of significant accounting policies (continued)

(m) 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.

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 and decommissioning provisions – note 17

3 Auditors' remuneration

Auditors remuneration in respect of the Company is set out below:

	2017 £'000
Audit services	
Fees payable to the Group's auditors and its associates for the audit of the financial statements	791
Other services	
Fees payable to the Company's auditors for audit-related assurance services	62
Other non-audit services	-

Fees payable to the Company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors such as regulatory accounts.

4 Number of employees, including Directors

	2017 Monthly Average number
Gas distribution	4,085

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 benefit obligations

Substantially all the Company's employees are members of either the defined benefit National Grid UK Pension Scheme or the National Grid YouPlan defined contribution trust.

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 23 March 2016	-
Gas Distribution acquisition	94
Additions	11
At 31 March 2017	105
Accumulated amortisation:	
At 23 March 2016	-
Amortisation charge for the period	(17)
At 31 March 2017	(17)
Net book value:	
At 31 March 2017	**88**
At 23 March 2016	-

8 Property, plant and equipment

	Land and buildings £m	Plant and Machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total
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)**
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	-	-	-	-	-

The cost of property, plant and equipment at 31 March 2017 included £1,482,000 relating to interest capitalised.

The net book value of land and buildings comprises:

	2017 £m
Freehold	**21**
Long leasehold (over 50 years)	**-**
Short leasehold (under 50 years)	**19**
	40

9 Investments

	Shares in Subsidiary Undertakings £m	Other investments £m	Total £m
Cost			
At 23 March 2016	-	-	-
Additions	-	-	-
At 31 March 2017	-	-	-
Provision			
At 23 March 2016	-	-	-
Impairment	-	-	-
At 31 March 2017	-	-	-
Net book value			
At 31 March 2017	**-**	**-**	**-**
At 23 March 2016	-	-	-

On 1 October 2016 the Company purchased 50,000 ordinary shares of £1 each in Cadent Finance Plc (formerly National Grid Gas Finance Plc) for cash consideration of £50,000.

On 1 October 2016 the Company purchased 45,570 ordinary shares of 1p each in Xoserve Limited for £456 and also impaired this investment on the same date.

The Company's subsidiary undertakings as at 31 March 2017 were as follows:

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Finance Plc (formerly National Grid Gas Finance Plc)	100	Provision of long term finance	England and Wales

The registered address of Cadent Finance Plc (formerly National Grid Gas Finance Plc) is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

The other investment represents a 45.57% holding in Xoserve Limited, which provides information, data processing, invoicing and supply point administration services to the Group. Xoserve Limited is registered in England & Wales.

10 Inventories

	2017 £m
Raw materials and consumables	7
	7

Inventories are stated after provisions for impairment of £593,000.

11 Debtors

	2017 £m
Amounts falling due within one year:	
Trade debtors	**15**
Amounts owed by fellow subsidiary undertakings	**5**
Other debtors	**10**
Prepayments and accrued income	**195**
	225
Amounts falling due after more than one year:	
Prepayments and accrued income	**44**
Other debtors	**8**
	52

Trade debtors are stated after provisions for impairment of £1,712,000. 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:

	2017 Assets £m	2017 Liabilities £m	2017 Total £m
Amounts falling due within one year	**2**	**-**	**2**
Amounts falling due after more than one year	**-**	**(11)**	**(11)**
	2	**(11)**	**(9)**

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

	2017 £m
Interest rate swaps	-
Cross-currency interest rate swaps	638
Foreign exchange forward currency	-
Forward rate agreements	-
Inflation linked swaps	-
	638

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

13 Financial and other investments

	2017 £m
Investments in short-term money funds	**59**
	59

14 Creditors: amounts falling due within one year

	2017 £m
Trade creditors	**176**
Amounts owed to subsidiary undertakings	**38**
Corporation tax	**67**
Other tax and social security	**45**
Other creditors	**9**
Accruals and deferred income	**131**
	466

15 Other non-current liabilities

	2017 £m
Amounts owed to subsidiary undertakings	**4,274**
Accruals and deferred income	**424**
	4,698

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

	2017 £m
Amounts falling due within one year	
Bank loans	**2**
Bank overdrafts	**20**
Bonds	**-**
Other loans	**-**
	22
Amounts falling due after more than one year	
Bank loans	**1,708**
Bonds	**-**
Other loans	**-**
	1,708

	2017 £m
Total borrowings are repayable as follows:	
Less than 1 year	**22**
In 1-2 years	**-**
In 2-3 years	**399**
In 3-4 years	**-**
In 4-5 years	**390**
More than 5 years	**919**
	1,730

The notional amount of borrowings outstanding as at 31 March 2017 was £1,573m, £1,652m, including accretion.

The Company's borrowings comprise a mixture of unlisted floating rate and indexed linked debt which has been issued out of or novated into the Company. The table below summarises the bank debt, including their fair values.

Summary of Borrowings

Currency	Type	Notional** £m	Rate	Maturity Date	Book value £m	Fair Value £m
Index Linked						
GBP	Unlisted	439	RPI +	02/10/2023 - 07/05/2024	521	522
		439			**521**	**522**
Floating Rate						
GBP	Unlisted	1,193	LIBOR +	14/10/2019 - 23/03/2027	1,189	1,198
		1,193			**1,189**	**1,198**
Overdraft		**20**			**20**	**20**
TOTAL		**1,652**			**1,730**	**1,740**

* Euro amount is €750m

**Index Linked debt notional is the accreted value

16 Borrowings (continued)

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 10 years issued to the EIB, drawn down on 27 March 2017.

The fair value of borrowings at 31 March 2017 was £1,740m. Where market values were available, fair value of borrowings (Level 1) was £Nilm. Where market values were not available, the fair value of borrowings (Level 2) was £1,740m, calculated by discounting cash flows at prevailing interest rates.

None of the Company's borrowings are secured by charges over assets of the Company.

17 Provisions for liabilities

	Decommissioning £m	Environmental £m	Deferred Taxation £m	Other £m	Total £m
At 23 March 2016	-	-	-	-	-
Gas Distribution acquisition	26	26	1,134	41	1,227
Pension sectionalisation	-	-	(27)	-	(27)
Charged to the income statement	-	4	(15)	13	2
Utilised	(5)	-	-	(2)	(7)
Released to the income statement	-	-	-	(1)	(1)
Unwinding of discount	-	1	-	-	1
Credited to other comprehensive income and equity	-	-	32	-	32
At 31 March 2017	**21**	**31**	**1,124**	**51**	**1,227**

	2017 £m
Current	**21**
Non-current	**1,206**
	1,227

Decommissioning provision

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

17 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%). Cash flows are expected to be incurred between 2017 and 2068.

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 2017 as £36m being the undiscounted best estimate liability having regard to these uncertainties.

Deferred tax

Deferred taxation comprises:	**2017**
	£m
Accelerated capital allowances	**1,125**
Other short-term timing differences	**(1)**
Deferred tax liability	**1,124**

Other provisions

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

18 Share capital

	2017
	£m
Allotted, called up and fully paid	
169,030 ordinary shares of £1 each	-

On incorporation, the Company issued 1 ordinary share of £1 for a cash consideration of £1.

On 30 September 2016 the Company issued a further 50,456 ordinary share of £1 for a cash consideration of £50,456.

On 31 March 2017 the Company issued a further 118,573 ordinary shares of £1 by way of capitalisation of a shareholder loan of £5,457,581,161, resulting in a share premium balance of £5,457,732,588.

19 Capital and other commitments

	2017 £m
Contracts for future capital expenditure not provided in the financial statements	**792**
Letters of credit	**300**
	1,092

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

	2017 £m
Less than 1 year	**9**
In 2-5 years	**20**
More than 5 years	**4**
	33

20 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.

	2017 £m
Goods and services supplied	**-**
Services received	**14**
Amounts payable at 31 March	**-**

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2017 and no expense has been recognised during the period in respect of bad or doubtful debts from the above related party transaction.