Cadent
Your Gas Network

Shaping a better future

Customers, Communities and Colleagues

Annual report and accounts
2020/21

Find out more about how we are shaping the future for our Customers, Communities and Colleagues.

Our operations

Maintaining resilient networks and quality experience for all of our customers, stakeholders and colleagues

Read more on pages 29-49

Transforming the environment, our future and social purpose

Ensuring we are adapting to the environmental and social challenges facing our industry and society

Read more on pages 50-77

We are Cadent.
Keeping people warm, while protecting the planet.

We provide the energy our customers need to stay safe, warm and connected. Our responsibility is to look after the gas pipes so they can continue to deliver safe, reliable and low carbon energy for years to come.

We are continually finding smarter and more sustainable ways to develop our networks and work closely with local communities to deliver a high quality service that our 11 million customers expect.

We are proud to keep the energy flowing.

Highlights of the year

Financial

Revenue
£2,075m
(2020: £2,115m)

Operating profit
£901m
(2020: £924m)

Capital investment
£1,025m
(2020: £856m)

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

£1,287m
(2020: £1,320m)
See our Financial review and risk management section on pages 18-22

RAV
(Regulated Asset Value)

£10.2bn
(2020: £10.0bn)

Operational

Network reliability
99.998%
(2020: 99.998%)

Emergencies responded to within the hour
99.0%
(2020: 98.0%)

Number of customer calls answered in the RIIO-1 period
over 15m
(2013-2021)

Percentage of emergency calls answered within 30 seconds
91%
(2020: 91%)

Mains replaced
1,743km
(2020: 1,809km)

Fuel Poor Connections during RIIO price control
34,674
(2020: 30,383)

Contents

"Welcome to our 2021 Annual Report which highlights our performance during these challenging times. The way our people have pulled together during a difficult year has been truly outstanding. We have demonstrated our commitment by putting the customer at the heart of everything we do, achieving operational efficiencies and making a positive and lasting difference to communities."

Steve Fraser
Chief Executive Officer

Our business model

What we do

We look after the gas pipes and equipment that supply gas to 11m homes and businesses.

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

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

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

We manage the National Gas Emergency Service for all gas customers in the UK. If something goes wrong, we are the first point of call to make sure it's dealt with calmly, quickly and safely. In 2020/21, we answered 1.3m gas emergency calls.

What we don't do

We don't produce gas.

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

We don't repair gas appliances.

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

Our strategic objectives

Delivering a quality experience for all of our customers and stakeholders

We promise to provide a service experience of the highest quality to all of our customers, tailoring it to their needs.

Providing a resilient network to keep the energy flowing

We are focused on delivering a resilient network to keep the energy flowing safely and reliably to all of our customers.

Tackling climate change and improving the environment

We are committed to meeting the net zero challenge and supporting the transition to a resilient energy system.

Trusted to act for our communities

We are strengthening our reputation through the actions we take, ensuring our service is transparent, valued and trusted.

Turning insight into action

We use stakeholder insights to prioritise the actions we take across our business.

Our engagement

Customers

Increasing our engagement with customers to identify their priorities and meet their needs.

Communities

Delivering engagement at a local level to respond to the diverse needs of our networks.

Colleagues

Creating an inclusive culture where employees, contractors and partners are given a voice.

Investors

Providing confidence and value through robust data, governance and outcomes.

Our new values that guide us to deliver on our commitments

We work together

We take responsibility

We drive performance

We shape the future

Our networks

We look after over 131,000kms of pipeline and almost 50% of Great Britain's gas customers. We deliver our services from 28 operating areas through our four networks, each with their own geographical and social requirements. We are improving levels of service with a localised customer operating model that can respond to the specific needs of our communities.

North West

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

2.7m homes and businesses

Over 1,200 colleagues

West Midlands

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

2.0m homes and businesses

Over 900 colleagues

North London

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

2.3m homes and businesses

Over 1,200 colleagues

Eastern

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

4m homes and businesses

Over 1,700 colleagues

2020/21 strategic highlights

Our operations

- Replaced 1,743km in a year severely impacted by access issues arising from COVID-19
- Delivered overall network reliability of 99.998%
- Exceeded our emergency response standards
- Answered 1.3m emergency calls of which 91% answered in 30 seconds
- Increased our cross collaboration works with other utilities
- Maintained our record of high safety standards with a further annual decrease in our Lost Time Injury Frequency Rate
- Reduced unplanned interruptions for multi-occupancy buildings
- Progressed diversion works to support HS2
- Enhanced communication response with customers and stakeholders during incidents
- Appointed new operational partners in each network, leading and supporting over 38 Local Delivery Partners delivering our mains replacements programme in RIIO-2
- Established Investment Planning Offices to meet commitments set out in our Business Plan
- Awarded for Customer Experience at the Utility Week Awards

Read more on pages 29-37

Our customers

- Enhanced our customer experience approach across the business with key achievements in connections and mains replacement work
- Improved our accessible and inclusive communications for all including improved signage
- Increased use of opt-in SMS and WhatsApp services
- Delivered new vehicle signage to help our customers understand who we are and what we do
- Improved social and website engagement
- Improved customer satisfaction measures and complaints handling; meeting and exceeding targets
- Lead communications for all safeguarding events and activity
- Moved Safety Seymour initiative to complete virtual learning online
- Launched CO Crew initiative and delivered teacher portal
- Improved literature for the Priority Services Register, carbon monoxide awareness and fuel poverty
- Used British Sign Language and translations across video content
- Targeted communications for non-English speaking customers with eight language options
- Launched hydrogen chatbot with Google Cloud and Connections chatbot
- Established over 80 strategic partnerships and worked with all Fire and Rescue Services in our networks
- Worked with our partners to tackle social isolation in a variety of ways
- Delivered 4,291 network extensions and connections to support those in fuel poverty
- Increased match giving donations by allocating £4 for every £1 raised
- Funded over £4.8m to local charities and communities through the Cadent Foundation

Read more on pages 38-43

99.998%

overall network reliability score

4,291

network extensions and connections delivered to support those in fuel poverty

£4.8 million

to local charities and communities through the Cadent Foundation

Our colleagues

- Launched new values and new purpose
- Established new Education and Skills partners
- Recognised through the Youth Employer Award
- Welcomed our largest graduate intake
- New ranking on the Job Crowd – 11th out of 100 for graduates and ninth out of 50 for apprentices
- Signed pledges; Social Mobility Foundation, Youth Friendly Employer, BAME Apprentice Alliance and the Race at Work Charter and Employers Domestic Abuse Covenant
- Trained 600 colleagues in mental health first aid
- Won five awards at the IGEM Gas Industry Awards
- Increased the number of female executives
- Supported new talent through a range of opportunities and training
- Established five new Employee Communities

Read more on pages 44-49

Our environment

- Reduced greenhouse gas emission by 69% from the 1990 baseline
- Issued our second transition bond in March 2021
- Diverted over 97% of waste from landfill
- GRESB (ESG) benchmarking score 75% vs 66% in 2019/20
- Launched new biodiversity strategy
- Introduced additional zero emissions vehicles that will get our engineers to emergencies pollution free
- Separated our Safety & Sustainability Committee into two committees
- Committed to a carbon target that aligns to Science-Based Target on a well below two degrees trajectory
- Secured membership to Support the Goals, achieving a five-star rating to deliver against the UN Sustainable Goals
- Certified Environmental Management System, which in 2020 was re-certified to the latest ISO14001:2015 standard
- Partnered with the Supply Chain Sustainability School

Read more on pages 50-62

Our future

- Supported launch of the Hydrogen Home funded with the help of the UK government's Hy4Heat Innovation programme
- HyDeploy injected a blend of up to 20% by volume of hydrogen into the existing gas supply
- HyNet in the North West phase progress commenced, which will ultimately lead to a final investment decision for the baseline projects in 2023 and operation in 2025
- Led Transport Pathways project and launched HG2V report
- Regional modelling MyHeat tool developed to model zero pathways for future network impact
- Partnered with Greater Manchester Combined Authority to demonstrate how Manchester could reach its net zero target
- Received Highly commended for the Net Zero Award at the Utility Week Awards 2021

Read more on pages 63-70

11th

out of 100 for graduates
and ninth out of 50 for apprentices
New ranking on the Job Crowd

75%

GRESB (ESG) benchmarking score

Highly commended

for the Net Zero Award at the
Utility Week Awards 2021

Our strategic objectives for RIIO-2 (2021-2026)

To enable us to lead the way in this role over the next five years, we submitted a robust and very ambitious business plan to Ofgem in December 2019. The plan was built on the most extensive and tailored customer and stakeholder engagement programme, to ensure we can continue to deliver a safe and reliable energy network now, and lead the development of a net zero future.

We have thoroughly reviewed Ofgem's Final Determination on our plan, published in December 2020, and have engaged with them collaboratively throughout the process. After a great deal of careful deliberation, we have decided to take the next step in the regulatory process and appeal their decision to the Competition and Markets Authority (CMA). This is because we do not believe the final determination strikes the right balance, between bill reductions and future investment, that is necessary to enable us to deliver the best service to customers and wider society.

We believe our Business Plan delivers for our customers: over £500m worth of efficiencies; a real reduction in their gas bill of over 10% for an average customer, a bill of less than £120 a year (less than 33p/day)*; improved customer services; and leading the way to a low carbon economy, to meet the UK's net zero targets.

Dr Tony Ballance
Chief Strategy and Regulatory Officer

*This represents only the 25% network costs of a total gas bill.

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

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

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

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

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

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

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

Providing a resilient network to keep the energy flowing

99.9%
Reliability keeping customers on gas.

1,640km
Of old metallic mains replaced each year – a distance greater than John O'Groats to Land's End.

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

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

Tackling climate change and improving the environment

Road to net zero

13-16%
Reduction in leakage from our network.

CO_2
Significant step towards carbon neutrality in our operations.

HyNet
Innovation to decarbonise the North West with hydrogen.

Clean Gas
Enabling capacity for greener resources.

Delivering a quality experience for all of our customers and stakeholders

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

Affordability
Offering a suite of targeted interventions.

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

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

Trusted to act for our communities

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

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

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

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

Chairman's statement

"I am pleased to introduce our 20/21 Annual report at the end of what has been an unprecedented year for all of us. I am proud of the outcomes we have achieved during this challenging period. Our people have shown what is possible when we pull together to maintain essential services and put the needs of our customers front and centre."

Sir Adrian Montague CBE
Chairman

COVID-19 has dominated the past year and impacted in ways none of us could have imagined. I would like to begin by expressing my sympathies to all those affected – including our people, customers and the local communities where we live and work.

Like every business, when the pandemic first emerged, we faced uncertainties around how we would manage the business and what we would be able to deliver. We provide an essential service at the leading edge of public utilities, and it was critical that we continued to operate and maintain standards to keep our people safe and meet the needs of our customers.

Resilience during unprecedented times

Our people needed to continue going into customers' homes and businesses, taking immense care to do this safely and following strict Government guidance. We immediately introduced new ways of working and these became easier as the year progressed, however not without ongoing challenges throughout the various restrictions. We paused our mains replacement programme temporarily in March and it was restarted in June 2020. Our delivery has remained strong throughout the rest of the year.

In many ways, we succeeded in maintaining business as usual and this is testament to the resilience of the business and its people. Our teams responded brilliantly to the extremely challenging situation. We took an early decision that we would continue to pay everyone throughout, including if they were unwell or unable to work due to COVID-19. We wanted to ensure that the financial wellbeing of our employees gave them the security they needed and removed the additional pressure of dealing with the pandemic. The relationship with our people has been admirable and there have been many stories of people going the extra mile to support local communities and those in vulnerable situations.

Planning for the future

In December 2020, Ofgem published their final determination of our RIIO-2 Business Plan and I can confidently say that the investment in time and energy shown by the team involved here at Cadent has been excellent. Our Business Plan sets out the ambition and targets needed to transform the service it delivers for customers, communities and employees. In June 2018, we appointed a Customer Engagement Group to give customers a voice throughout the price control process. Their engagement and input has been forthright and challenging – the result being that we submitted a very robust business case. On behalf of the Board, I would like to give a vote of thanks to all those involved for engaging with the enthusiasm and determination they did.

Our stable financial structure is a fundamental building block of the price review, with equity and cash returns being an important consideration. We have watched this very carefully in relation to our price determination with Ofgem and this has been the driving factor that has influenced our decision to appeal to the CMA in March and we await the outcomes in the Autumn.

Transforming the business

I would like to recognise the great progress Steve Fraser has made in delivering the transformation process. Since joining Cadent in September 2019, this significant achievement is enormously encouraging and a credit to Steve and the entire senior leadership team. The changes Steve has made to the Cadent leadership team have made us stronger and we have seen great people join the business.

I would like to thank Kevin Whiteman who left Cadent in December 2020 to take up a position with a leading FTSE company. Kevin managed the Remuneration Committee with aplomb during his three years of office and we wish him the best in his new position. I am very pleased with the appointment of Paul Smith who brings a wealth of executive experience in power utilities and renewables. Paul will take over the leadership of the Remuneration Committee going forwards.

Another key decision during the year was to split the existing Safety & Sustainability Committee to create two dedicated committees. Howard Higgins has done a sterling job in leading the combined committee for the past four years. However, it had become increasingly clear that the two areas require and deserve dedicated focus and leadership. Sustainability will determine the future of our business and the new Sustainability Committee with its expert members will report to the Board to shape future strategy. The Safety Committee will allow for a stronger focus on data and overview of safety challenges and improvements. Both committees were established in November and held their first meetings in December. I look forward to seeing them in action during the coming year.

Leading the future of gas

The Board is looking purposefully ahead to a new era involving hydrogen. Five years ago, the widespread expectation was that the UK's future would be almost entirely electric. However, the challenges in establishing the right amount of electrical generation capacity and upgrading the distribution system have become increasingly apparent. Renewable energy will be crucial for developing the cities of the future and new homes will be powered with electricity. The UK only replaces around 2-3% of its housing stock every year and gas currently heats around 86% of homes. Clean gas has a vital role to play in the future energy mix of the UK as we transition towards a low-carbon future. Continuing to make use of existing gas infrastructure to support domestic and industrial heating alongside electric energy will provide long-term value for consumers and the country as a whole.

As the UK's largest gas distribution network, Cadent is a leading voice for the industry on the future potential of hydrogen. We are actively engaging with Government and regulators to build awareness of the opportunities offered by clean gas in the journey towards net zero. As we look ahead to the 26th UN Climate Change Conference of the Parties (COP26) in November, we will be interacting with Government and other stakeholders to promote hydrogen as part of the solution for a low carbon future.

Transforming the customer experience

I am hugely proud of the improvements we have delivered for customers and the commitment to continue this momentum to be one of the best gas companies in the UK. To achieve it, we will be taking more direct responsibility for customer relationships. As we evolve our strategic partnerships, we will be working closely with our four new Construction Management Organisations and local supply chain partners to manage and improve customer engagement. This change represents a very important moment for the business, driving local decision making closer to customers and into the communities that we serve. As we grow and evolve to meet the needs of our customers, people and stakeholders, we must continue to strengthen our position to become a more diverse business. Equality, inclusion and diversity is a fundamental part of the business, and this is something I will be focusing on in the months ahead.

Committed to a better future: Cadent Foundation

In May 2019, we announced the Board's decision to commit 1.25% of after tax profits to a £20 million community fund which supports communities and customers in vulnerable situations. As Chair of the Cadent Foundation Advisory Board, I have seen the positive outcomes it has delivered in its first year. In response to COVID-19, we recognised the need to support those in vulnerable situations and committed an emergency grant to the Trussell Trust in March 2020 of £240,000. A further grant was allocated to the Royal Voluntary Service in April of £100,000. We also committed up to £125,000 in small grants to charities and groups delivering to those most vulnerable in their local communities. The Foundation has made great progress in a relatively short time to make a positive and lasting impact. We want to engage and encourage charities that address the root causes and consequences of complex social issues, to contribute ideas so they can make a real difference to our communities. Read more in the Annual Impact report: documents.cadentgas.com/view/867546/

I would like to finish by acknowledging our people and senior leadership team who have worked so hard to deliver throughout the year. I have been unable to get out and meet as many of them as I would have liked, and I look forward to more face-to-face contact over the coming year as we support efforts to rebuild and recover from the impacts of COVID-19.

Sir Adrian Montague CBE
Chairman

14 July 2021

Chief Executive's review

"We want our customers and stakeholders to see us as a force for good and our sustainability agenda is part of our strategy to achieve this. We will work with all our stakeholders to achieve this ambition and shape a sustainable future for generations to come."

Steve Fraser
Chief Executive Officer

I would like to begin by extending my heartfelt sympathies to all those affected by the pandemic, particularly those who lost family members and friends. My condolences are with those colleagues we have lost, and we hold them in our thoughts as we journey to a new normal.

I would like to thank everyone for their outstanding commitment and determination during the year. We really stepped up to the challenge during unprecedented times through hard work and determination whilst delivering for our customers and keeping people safe. I am sure it is clear to our people the efforts that we made to support everyone across our business. We adopted new flexible ways of working, maintained fair pay across the whole company, and supported our colleagues to help balance responsibilities at home and work. I would also like to thank our Chairman, Board of Directors and Shareholders for their support to enable us to navigate the pandemic and come through as a much stronger and resilient company. We know that we have delivered the very best outcomes for our customers and colleagues in what has been a difficult year.

I am particularly grateful to our front line colleagues who continued to enter customers' homes and businesses when required, potentially putting themselves at risk to ensure our customers could stay safe, warm and connected to the essential service we deliver every day. It is easy to forget how challenging this must have been, especially at the height of great uncertainty.

We gave our colleagues greater flexibility to help the lives of our customers especially those who find themselves in the most vulnerable circumstances. The memories that come to mind are the grocery visits we funded for those most in need, and the 40,000 meals through FareShare we donated by joining the nationwide effort to stop vulnerable children and families going hungry. These are just a couple of examples of how we grasped the difficulties of the last 12 months and turned them into a positive. It makes me so proud to work for a company that demonstrates this compassion and impact on the communities we serve.

The significant IT systems upgrade we undertook in 2019, ensured we had the technical capabilities to support our office-based staff to work from home and enable the business to operate as usual. At the same time, we learned new and better ways of doing things, which we will harness going forward. The experience has shown that we can be more productive by working creatively and we will look to maintain more flexible ways of working in the future.

Transforming the business and building agile teams

I am particularly pleased with the progress we made in transforming the business over the last 12 months. We have a first-class leadership team strengthened by bringing new people into the business and promoting our talented leaders. The addition of Diane Bennett, Ranjit Blythe, Dr Kate Jones, Martin Rimmer and Dr Tony Ballance, has transformed the leadership team.

A large company like ours does not change overnight, but we have stabilised the business and built a solid foundation for the future.

We can already see the benefits and impact we have achieved by operating as a local business for our communities. Our depot centric model gives us the capability to drive further improvements in our performance and take us closer to our ambitions.

As we now move into a new regulatory period, we need to ensure we have the right organisation to help us deliver on the commitments we have made. It is important that we can do this in the most effective and efficient way possible. In May 2021, we reviewed how we structure ourselves more broadly as an organisation.

We have taken the time to review our current organisational design to ensure we are set up for success. Following this review, we have established a new 'People Framework' that will rebalance and redefine roles. This means applying a consistent approach with clear, common definitions of roles at each organisational level and consistent job profiles across our functions. Our proposals include changes to our structure, to reshape and build a stronger, simpler and more agile business. We carried out a meaningful and fair consultation in relation to this proposal which ended on the 4 July and our new organisation will be in place on the 1 September.

Delivering for customers

Despite the significant challenges during the year, we met most operational targets and those which we didn't meet were solely down to the impact of the pandemic. It's fair to say the last year has been our best year of operational performance in the RIIO-1 period. I am extremely pleased with how our colleagues delivered this impressive outcome, while maintaining our industry-leading safety performance.

We also delivered significant improvements in customer service and emergency repair, with the implementation of better systems. This led to greater efficiencies and improvements in every element of customer performance that we are measured upon. Our steps to renew the supply chain and decisions to move to a much more geographic and localised supplier base is already showing positive results.

Securing the right investment

Following Ofgem's final determination of our five year RIIO-2 Business Plan, we decided to take the next step in the regulatory process and appeal Ofgem's decision to the CMA. Our plan was developed after listening carefully to our customers and stakeholders and with the intention of setting a new efficiency benchmark for the industry.

Our investment plans reflect the urgent challenges we face to successfully navigate the different pathways to deliver net zero, an area we are leading in to develop a hydrogen-energy future. We do not believe that the Final Determination strikes the right balance between desired bill reductions and funding the delivery of core services for customers and the environment, to encourage investment in a net zero world.

Chief Executive's review continued

Working together for a greener future

In November, I was very pleased to be invited by the Prime Minister to join a small group of industry leaders at a meeting for the launch of his Ten Point Plan for the UK's green recovery. The Government is committed to hitting its zero emissions target and, as the largest gas distribution company in the UK, we have a crucial role in shaping and delivering plans to decarbonise the economy.

We continue to lead the way to a cleaner, greener future by planning and collaborating with industry and key stakeholders to meet our net zero targets. This can be demonstrated through our environmental commitments with our supply chain partners, the launch of our green fleet and our role to ensure our networks are ready to transport greener gases. We can already see great progress as we inject biomethane into our network and trialling hydrogen blending at scale. By working closely with key industries and leaders in the UK economy we have been able to drive this progress and have already seen positive outcomes. Examples include the HyNet project which will bring low carbon hydrogen from Ellesmere Port into Liverpool and Greater Manchester and our trial to build the UK's first homes with household appliances fuelled entirely by hydrogen in Low Thornley, Gateshead.

Being a force for good

We want our customers and stakeholders to see us as a force for good and our sustainability agenda is part of our strategy to achieve this. Our ambition is to fuel a thriving world, in everything we do; in our teams and communities, for industry, the environment and the planet. Along with our environmental commitments, we are investing in our communities to support those living in fuel poverty and provide a range of additional products and services to help customers in vulnerable situations. We are committed to making things easier, fairer and greener whilst continuing to deliver an essential public service.

Looking ahead, I want us to meet our customer 's needs first time, every time. With the right level of investment and development of our systems and processes, combined with the support and engagement of our people, I believe this is entirely possible.

Steve Fraser
Chief Executive Officer

14 July 2021

COVID-19 statement

As COVID-19 remains a significant part of our daily lives, we are proud that all our colleagues continue to deliver a critical service, ensuring our customers have a safe and reliable gas supply.

Since the start of the pandemic, we have taken steps to make sure the safety, health, wellbeing and financial security of our employees was a priority. This has allowed us to continue to provide an outstanding service to customers in this difficult period. We committed to a number of key measures to ensure colleagues were safe; this included basic pay for all colleagues no matter what their circumstances until the 31 March 2021.

Getting through it together

We made our depots, sites and offices COVID-19 secure in line with Government guidelines and worked closely with BEIS and the HSE to follow the necessary risk assessments to allow us to carry out our critical work. For those colleagues who found themselves working from home we made sure equipment, DSE guidance and services were available to allow them to do so safely and comfortably.

Since March 2020, we have been clear that all colleagues would be supported in whatever circumstances they find themselves, whether they are looking after children, living with family who are shielding or any other situation. The key to this support was centred around understanding individual circumstances, flexibility and working together to help prioritise and manage a positive work/life balance. All clinically extremely vulnerable colleagues were offered individual risk assessments including a consultation with occupational health.

Additional support was provided to all colleagues including access to our Employee Assistance programme and virtual mental, physical health and wellbeing classes were made available. Home schooling laptops were provided to those who needed support, and our internal Coronavirus Hub provided convenient online access to the latest news, advice and reassurances to help navigate our way through the challenges we faced.

Whatever the tier we're still here

Since April 2020, we continued to recruit great talent into the business and we were proud to welcome 1,235 new colleagues, including 92 apprentices, adapting our joining process to reflect our new way of working and reducing our work that had been carried out by third parties. This demonstrated our commitment to keep every home, business and community facility on our networks safe and warm, 24/7, whilst investing in the communities we serve.

Colleagues from across the business have taken advantage of our enhanced volunteering package to support local communities which saw them help with the delivery of much needed food and medicine. Through our enhanced matched giving support, colleagues have used new ways to raise vital funds for charities in their own communities. Across our networks, we have demonstrated the proactive steps to go beyond business as usual and we have seen a huge response to support those in need.

Clear and concise information for our customers and colleagues continued through a range of communication channels which has been essential throughout the last 12 months, continuing our radio and social campaigns to provide reassurance as we carry out essential emergency and mains replacement work.

As restrictions ease and our work continues, we regularly meet with Ofgem, HSE and BEIS to make sure we maintain an effective response across the industry. The safety of all our colleagues, customers and stakeholders remains at the heart of the decisions we make and whilst we follow Government guidance, our own enhanced safety measures will remain in place for some time yet.

We are planning for the future and continuously monitoring our business continuity plans and working practices to make sure our people stay safe to keep the energy flowing for our 11m homes and businesses.

COVID-19 statement continued

Financial impact

Whilst the COVID-19 pandemic has had a significant impact on society and we have had to respond to the operational challenges associated with this, there has been a relatively small impact on our income statement, statement of financial position and statement of cash flows for the 2020/21 financial year.

As a result of self-isolation and shielding guidelines we experienced increased levels of staff absence, but this did not impact our ability to maintain high standards of customer response and service. We have incurred direct COVID-19 costs of £5m for items such as PPE and equipment, to enable our employees to continue working both in the field and from home and as a result of adapting our in-house training courses to ensure social distancing can be maintained, whilst delivering safety critical training to our workforce. We estimate that £3.5m of indirect costs were incurred as a result of large sections of our workforce being unable to complete normal work activities as planned during the early stages of the lockdown.

Safety restrictions meant we were unable to enter our customers' homes to complete work in some cases, leading to a reduction in our connections income, although this was more than offset by an increase in capacity income (the amount of system capacity sold for the year which is determined by our regulatory framework).

We continued to pay all our employees normally and did not utilise the Government furlough scheme. Between March and June 2020 we took advantage of the VAT deferral scheme deferring a total of £69m, enabling us to increase our liquidity to a level which allowed us to support other market participants who were facing liquidity issues due to COVID-19. This was subsequently repaid early to HMRC in December 2020. Aside from this, we have not participated in any other Government support schemes.

In some cases, we require access to our customers' homes in order to deliver our mains replacement programme. We quickly adapted and changed the way we completed this to take account of all guidelines associated with COVID-19. This caused a reduction in the volume of work delivered, together with higher unit costs.

The Audit & Risk Committee have continued to monitor the implications of remote working on the application of financial controls and reporting throughout the year. The committee is satisfied that effective controls remained in place.

Shipper income and credit risk

Our transportation income, which represents over 92% of our total revenues, is invoiced to shippers based on their agreed capacity with only around 3% of these revenues linked to volume of gas used. This linkage has provided us with significant insulation from the changes in gas demand patterns seen due to COVID-19, where industrial usage declined while domestic usage increased.

Early in the pandemic we actively engaged with Ofgem to help protect shippers and suppliers by supporting the 'COVID-19 Shipper Liquidity Relief Scheme' during 2020/21. This involved the relaxation of network charge payment terms for those suppliers and shippers who were facing cash flow challenges and met the terms of the scheme as a result of COVID-19, whilst ensuring that we were not exposed to any credit losses that might emerge should a shipper subsequently fail. We capped our exposure to the timing of these deferrals to £50m, all cash has now been received with the exception of £1.4m due from one shipper who entered administration. In addition, a further shipper (not participating in the liquidity scheme) failed in January 2021 with the credit exposure of £2m outstanding currently being recovered through our security arrangements from their parent company. Our existing security arrangements have reduced our exposure to £1.4m in total, which we will be able to recover in the RIIO-2 price control period through the newly implemented bad debt recovery mechanism.

Liquidity risk

Despite disruption in the financial markets caused by COVID-19, we have retained the capacity to raise additional debt, with our financing strategy focused on securing the required debt in advance of our needs in order to reduce any financing risk. During the course of the year we have raised £536m of new finance through the corporate bond markets at Cadent Gas, with an additional £460m raised by Quadgas Finance Plc, a subsidiary of Cadent Gas's direct parent company Quadgas MidCo Limited. The interest in the recent debt issuance in Cadent Finance completed in the financial year demonstrates significant demand exists for Cadent Group debt and in particular for our Transition Framework bonds. Our credit ratings remain unchanged, and the company seeks to maintain ratings at a solid investment grade level on a consistent basis.

At 31 March 2021, Cadent had undrawn credit facilities and cash totalling £1,332m (2020: £844m) made up of available, but undrawn Revolving Credit Facilities of £500m (2020: £500m) and cash, cash equivalents and financial investments of £832m (2020: £344m). This cash was used to repay £300m of Cadent's syndicated loan in April 2021 and will also be used to repay £250m of debt maturing in September 2021. With no further term debt due to mature until September 2024 and the high degree of predictability of our regulated revenue and operating and capital expenditure, our liquidity risk remains low, but we continue to monitor this.

Supply chain

Our strong working relationships with our supply chain and proactive approach to addressing any potential issues due to COVID-19 or Brexit have ensured that our systems and networks have the necessary materials and parts to allow us to continue to operate. The efforts we took meant we were able to successfully procure appropriate PPE to ensure the safety of our employees and their interactions with customers to enable our work to continue whilst complying with the relevant guidance.

As a mitigation against risks arising from COVID-19 and Brexit we increased our inventory levels of priority materials. We continue to regularly assess the likelihood and impact of these risks, and as they reduce we will gradually return to previous levels.

Pensions

Changes in the underlying market conditions during 2020/21 has resulted in a decrease in the discount rate, and an increase in the inflation assumptions used in valuing our pension liabilities. These changes, amongst other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2021 increasing to £6,020m, resulting in a decrease to the overall surplus of 54%.

In calculating our pension liability, we considered the impact of COVID-19 on the assumptions we make about mortality. The excess death experience seen in 2020, likely due to COVID-19, has been factored into the actuarial measurement of the Cadent Gas Pension Scheme, resulting in a decrease of £31m to the liability which was more than offset by changes above.

Going concern

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

The COVID-19 pandemic has driven significant changes in the macroeconomic environment and has severely impacted many sectors of the economy. As a regulated business the implications for us are less severe than for other sectors as most of the revenue is set in accordance with the regulatory charging methodology which, being a capacity-based regime, provides relative stability and predictability of cashflows.

Management have included operating costs associated with continuing our operations in a COVID-19 safe manner within the base case business plan, using our experience from operating under restrictions in 2021. The most significant impacts included are higher unit costs to deliver our investment programmes and employee absence. Management have also performed analysis on the potential additional impacts of the pandemic on revenue, profit and cash flows by modelling a reasonable worst case scenario cash flow forecast that factored in additional one-off increases in costs; such as employee absence, the refocusing of our capital programmes, increased transformation costs, reduced revenues as a result of lower gas consumption and additional working capital requirements from the shipper relief scheme, or from any potential supplier failure and key elements from the close out of our regulatory price control period, such as output performance and closing RAV valuation. The forecasts were considered against the ability to access existing undrawn facilities alongside the ability to access long-term debt markets (a recent transaction in Cadent Finance Plc in March 2021 was well received) and short-term cash positioning. It was concluded that sufficient headroom existed in the forecast and against the requirements of our banking covenants and no reasonably possible downside scenario existed wherein Cadent would be unable to continue as a going concern. After due consideration, it was recommended to the Board in July 2021 that the financial statements be prepared on a going concern basis.

Financial review and risk management

"Our continuing business transformation is driving operating costs down which has allowed us to present our business plan for RIIO-2 with sustainable and efficient levels of cost to the benefit of our customers."

Steve Hurrell
Chief Financial Officer

Financial review and risk management

Net debt

£6.8bn

(2020: £6.7bn)

RAV (Regulated Asset Value)

£10.2bn

(2020: £10.0bn)

In a year which has presented challenges to our ways of working and business environment, we are proud to have proved our resilience and continued to deliver strong operational performance and ongoing investment in our network.

Our business transformation activities have continued at pace to ensure that we can deliver the levels of efficiency, reliability and customer service that our customers deserve and our Board expect, and which are necessary as we move into the new regulatory period, RIIO-2.

We successfully completed the remainder of our RIIO-1 Repex and Asset Health investment programmes investing £1,025m in the future of our network. In readiness for the RIIO-2 framework, we have also completed the insourcing of many of our resources and have successfully mobilised new supplier contracts to deliver our future Repex programme.

The steps we continue to take to embed a culture of effective and focused management of costs across our organisation continue to show results with our 2020/21 underlying annual regulatory controllable costs[1] decreasing by £74m since 2016/17.

We have now completed the final stage of the separation of our critical national infrastructure systems from National Grid. This has enabled us to progress with our ambitious programme to modernise our core business systems including the replacement of our SAP suite, and the work management and scheduling systems used by our field-force employees. In the year we have achieved another significant milestone by creating the Cadent Gas Limited Pension Scheme, and successfully completing the transfer of 25,269 members and £6,815m of assets from the historic National Grid Pension scheme.

Following the publication of Ofgem's Final Determinations for the RIIO-2 price control we have referred key aspects for review by the CMA. A final decision from the CMA is expected in the Autumn.

We have continued to act in the best interests of our communities and the customers that we serve by supporting the Cadent Foundation, which has to date benefitted from £17m of funding. Under RIIO-2 we have maintained our commitment to invest 1.25% of our after-tax profits, ensuring that communities share in our performance.

1 Underlying regulatory controllable costs exclude one-off redundancy costs (£5m), transformation costs (£1m), RIIO-2 (£6m) related costs and direct costs associated with COVID-19 (£5m). For the definition of regulatory controllable costs, see the glossary on page 199.

Financial review and risk management continued

Investing to ensure the safety and reliability of our networks

Our balance sheet is dominated by the value of our physical assets and the corresponding borrowings, as set out in the net debt table, that fund our capital investment programmes. Capital investment was £1,025m (2020: £856m) and is primarily associated with the ongoing gas mains replacement programme which saw 1,743km of mostly cast-iron pipes replaced by polyethylene pipe during the year.

Cash flow and net debt

Net debt reconciliation

Borrowings (both current and non-current) at 31 March 2021 were £7,475m (2020: £7,014m) mainly comprising of fixed rate and index-linked debt.

Statutory Net Debt (see note 25 of the Financial Statements)	£m
Borrowings	7,475
Cash and financial investments	(832)
Derivatives	115
Lease liabilities	24
Statutory Net Debt	**6,782**

Uses and sources of cash

The vast majority of our revenues are set in accordance with the regulatory charging methodology (part of the industry network code) which, being a capacity-based regime, provides relative stability and predictability of cash flows. Our ability to convert revenue to profit and cash is important and by managing our operations efficiently and safely we are able to generate sustainable operating cash flows. Cash generated from operations in 2020/21 was £1,298m, £41m higher than in 2019/20, primarily due to cost reductions achieved through our transformation programme and lower contributions required to be paid into our pension scheme.

Investing efficiently in the development of our network is essential to maintaining strong performance for our customers and long-term sustainable returns for our shareholders. Consequently, our cash flow used in investing activities has increased by £685m, of which £191m is due to a higher spend on the purchase of PPE and intangible assets. The remaining increase is due to investment in money market funds used to manage our liquidity.

Debt issuance

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

Our financing strategy is focused on securing the required debt in advance of our needs in order to reduce any financing risk. In March, we issued our second transition bond under our Transition Bond Framework – a nine-year EUR 625 million bond – to invest in the evolution of the gas distribution network. These innovative transition bonds are designed to help issuers shift to greener business activities and decarbonise their operations, and is part of our commitment to help deliver a low carbon economy and reduce greenhouse gas emissions. We will use the proceeds of the bond for our mains replacement programme, which in the short term reduces methane leakage and in the long term supports the future use of our infrastructure to carry hydrogen and other low carbon gases.

We have also managed the maturity profile of our debt by refinancing some of our debt ahead of when it falls due, repaying £300m of an existing syndicated term loan with a maturity date of July 2024 on 14 April 2021.

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

Net finance costs

Net finance costs of £123m (2020: £159m) were driven by external debt funding. The effective interest rate, including index-linked debt, for the year was 1.6%. The effective cash cost of interest was 1.9%.

Credit ratings

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

Liquidity

We maintain liquidity headroom to ensure that the Group can meet all financial obligations and to fund operations, even during periods of market disruption and times of uncertainty. We manage liquidity by requiring at least 12 months' liquidity available at all times, with at least two months' liquidity available within 24 hours.

As at 31 March 2021, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash held in Money Market Funds was £815m. All funds held with the Money Market Funds can be drawn with no notice. We also have access to Revolving Credit Facilities from our relationship banking group. This allows for drawings of up to £500m with a further £200m facility available to be lent down from the immediate holding company, Quadgas MidCo Limited. As at 31 March 2021 £50m of the total £700m had been drawn down. Included within cash of £17m at 31 March 2021 is an amount of £9m received in grants. The use of this cash is restricted by the specific terms and conditions of each grant and is therefore not available for general use.

We also maintain a Bond programme through Cadent Finance Plc which allows efficient access to debt capital markets, in a range of different currencies. The combination of short-term liquid funds and access to longer term borrowings allows us to keep a healthy level of liquidity which has become increasingly important in the wake of COVID-19. Further details of the impacts of COVID-19 and our response can be found on pages 15-17.

Regulatory gearing

The level of gearing relative to our RAV is a key measure within the regulatory framework and also forms part of our banking covenants. Adjusted net debt (see reconciliation to statutory net debt below) expressed as a percentage of RAV indicates the level of debt employed to fund our regulated business. As a result of investment during the year and the regulatory formula, our RAV grew by £0.2bn to £10.2bn in the year, against which we have an adjusted net debt (consistent with the regulatory measure) of £6,418m, being 63% of RAV.

Adjusted net debt	£m
Statutory net debt	**6,782**
Derivatives	**(43)**
Unamortised debt fees	**14**
Unamortised fair value adjustments	**(271)**
Accrued interest	**(44)**
Lease liabilities	**(20)**
Adjusted net debt	**6,418**

Operating financial performance

Revenue was £2,075m (2020: £2,115m) driven by our transportation charges (to recover our Regulatory Allowed Revenue) which are levied on gas shippers, who will then recover these costs from energy suppliers, who in turn recover these costs through consumers' energy bills. Each year our revenues are largely fixed in line with the profile set out by our price control settlement which determines the pricing of our services to the gas shippers.

Any differences between our allowed revenues and the amounts collected through our pricing are adjusted in future years. Revenues for the year ended 31 March 2021 include a reduction to our allowed revenue, driven by reductions in exit capacity income and inflation reducing our base revenue. This was partially offset by higher diversions income driven by the completion of several HS2 projects within the year.

Operating profit was £901m (2020: £924m) with operational expenditure largely comprising charges associated with our usage of the National Grid Gas Transmission network, business rates and employment costs of our direct workforce and contract partners.

COVID-19 had a small impact on operating profit in 2020/21 due to directly incurred costs of £5m relating to items such as additional PPE and staff absence, and estimated indirect costs of £3.5m incurred as a result of large sections of our workforce being unable to complete normal work activities as planned during the early stages of the lockdown.

EBITDA Reconciliation	Reference	2021 £m	2020 £m
Operating profit	Page 132	**901**	924
Depreciation & amortisation	Note 5	**376**	343
Exceptional items	Note 6	**10**	53
EBITDA		**1,287**	1,320

Taxation

Our effective rate of corporation tax for the year, before exceptional items and remeasurements, is 19.0% (2020: 19.1%). After exceptional items and remeasurements the effective rate remains 19.0% (2020: 37.0%).

In common with other utilities, we have a significant deferred tax provision that mainly relates to the benefits received in the past from tax allowances on capital expenditure before the depreciation on those assets has been charged to our profits. This provision is released to the income statement as the depreciation catches up with the tax allowances received. The provision is calculated at the rate of tax applicable when the provision is expected to reverse.

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19%. If the amended tax rate had been used, the deferred tax liability would have been £413m higher.

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

Read more on page 72

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2021 was £363m direct taxes (2021: £408m) and £249m indirect taxes (2020: £219m).

Financial review and risk management continued

Dividend

Given the wider societal impact of COVID-19, we believed it was prudent not to pay a dividend to our shareholders in the year to March 2021. Our dividend policy balances the distribution of available funds to shareholders, after having considered the forward committed cash requirements of the business to support our investment programmes and managing an appropriate level of gearing, as well as considering wider macroeconomic factors. The company had more than £5bn of distributable reserves at 31 March 2021 including the profit in the period, enabling us to make a distribution if required. The decision not to pay a dividend in the 2021 financial year does not impact our dividend policy for future years.

Pensions

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

Changes in the underlying market conditions during 2020/21 have resulted in a decrease in the discount rate, and an increase in the inflation assumptions used in valuing our pension liabilities. These changes, amongst other factors, have contributed to the pension liability recognised on an IAS 19 basis at 31 March 2021 increasing to £6,020m, resulting in a decrease to the overall surplus of 54% to £426m. In calculating our pension liability, we considered the impact of COVID-19 on the assumptions we make about mortality. The excess death experience seen in 2020, likely due to COVID-19, has been factored into the actuarial measurement of the Cadent Gas Pension Scheme, resulting in a decrease of £31m to the liability, which was more than offset by the changes above.

Exceptional costs

Exceptional costs of £10m (2020: £53m) have been incurred in the year, of which £7m (2020: £19m) are due to our continuing activities to separate our systems and processes from National Grid Plc, principally relating to IT systems and the transfer of our pension scheme. A further £3m (2020: £34m) are due to an ongoing reorganisation programme, which mainly relates to consulting costs and pension strain costs associated with the voluntary redundancy programme we announced in 2019/20, which is now largely complete. We announced on 19 April 2021 proposals to restructure the current organisational design. The programme is subject to employee consultation with the period of consultation concluding on 4 July 2021. Whilst the cost of this programme cannot be determined with certainty until the finalisation of individuals into roles managements, best estimate is £11m.

Accounting policies

Our Group financial statements are prepared in accordance with International Financial Reporting Standards and the company financial statements are prepared in accordance with FRS 102.

Brexit

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

Steve Hurrell
Chief Financial Officer

14 July 2021

How we manage risk

Risk management overview

The Board is committed to protecting and developing our reputation and business interests. It has overall responsibility for risk management within the business and reviews the risk profile at least annually. In January 2021 the Board refreshed the risk appetite.

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

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

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

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

We have adopted the internationally recognised 'Three Lines of Defence Model' in order to assure the Executive, Audit & Risk Committee and Board that risks have been identified and are being suitably managed. In addition to the risk management process there are several further second line assurance processes operated by specialist teams embedded within the business. These teams provide assurance over the effectiveness of the financial and non-financial internal controls operating across the business.

Our in-house Internal Audit Team are supported by specialist co-source providers to form the Third Line of Defence. They have an independent reporting line directly to the Audit & Risk Committee to ensure that they can provide an expert, independent and objective opinion on the current state of controls to the Audit & Risk Committee.

The Board discharges its responsibility for monitoring the effectiveness of the risk management process and internal controls through the Audit & Risk Committee's annual review and regular assurance reports. This includes compliance with our licence conditions which is recognised as part of our 'legal and regulatory compliance risk'.

Our principal risks and uncertainties are laid out in alphabetical order on pages 25 to 28.

Climate Change risk management

We support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). The processes we use to identify, assess and manage risks are embedded in the business and have been used to address the Climate Change risk as outlined on page 25.

Financial risk management

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

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

Liquidity risk

Liquidity risk is where the Group does not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced, and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets and committed funding facilities.

As at 31 March 2021, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash balance held in Money Market Funds totalled £815m, following receipt of debt proceeds issued at the end of March. All funds held with the Money Market Funds are immediately available. We also have access to Revolving Credit Facilities (RCFs) from our relationship banking group. This allows for drawings of up to £500m at Cadent Gas Limited with a further RCF facility of £200m being available from the immediate holding company Quadgas Midco Limited. As at 31 March 2021 the £500m Cadent Gas Limited facility was undrawn and £150m was available from the Quadgas MidCo Limited facility that could be lent to Cadent Gas Limited.

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

The Board is responsible for monitoring the policies, setting limits on the maturity of liquidity and deposit funding balances and taking any action as appropriate.

How we manage risk continued

Credit risk

The Group takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade finance and treasury activities. The Group has dedicated standards, policies and procedures to control and monitor credit risk. The counterparties under treasury activities consist of financial institutions. In accordance with International Financial Reporting Standard (IFRS) 9, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required. The exposure to counterparty credit risk will continue to be monitored. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

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

There are only 40 principal Shippers (direct customers) that we trade with. The creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal direct customers (e.g. default of a gas shipper) could have a significant impact on the business in terms of disruption to revenue recovery, the exposure to such credit losses would be mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a supplier of last resort process which ensures a defaulting shipper's customers are reallocated to another shipper who picks up forward liabilities. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the business's management therefore closely monitors credit risk and adherence to this process.

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk, inflation risk and exchange risk in relation to debt issued in foreign currency. The Board is required to review and approve policies for managing these risks on an annual basis.

The Board approves all new hedging instruments entered into. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Director of Treasury, Corporate Finance and Planning' 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.

Risks in relation to COVID-19 continue to be monitored through our crisis management framework and liquidity impact group under executive supervision. A detailed risk assessment is in place and continues to be updated as the situation evolves to ensure that we consider and manage health and operational safety risks in line with Government advice.

Interest rate risk

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

Our principal risks and uncertainties

Changes in the external policy landscape

Potential impact

As a regulated business, our future opportunities are directly affected by factors driving the landscape of the energy industry. These include emergent technologies, political events, changes in consumer habits and social trends, media coverage, public opinion and government views, which are reflected in the decisions of policy makers and regulators to define the way in which we can run our business.

Mitigation

- We monitor external developments to understand potential disruptive forces, including emerging technologies, changes in societal norms and the political consensus which may affect our business plan to ensure that we proactively plan for and respond to them.
- We will maintain credibility for delivery through the careful management of our current regulatory obligations and workload.
- We undertake regional and national stakeholder engagement to understand policy, customer drivers and the regulatory landscape.
- There are extensive programmes in place through the Energy Networks Association, Energy Innovation Centre and with BEIS, Ofgem and third parties to share innovations with other gas distribution networks and across utilities and third parties to ensure we are implementing best practice and coordinating our approach to solving decarbonisation.

Climate change and biodiversity

Potential impact

Climate change is a substantial existential risk and opportunity for many organisations which plays out in three ways:

Firstly, given the nature of our infrastructure and the essential services that we provide, we have a unique opportunity to help drive forward the UK's hydrogen economy to decarbonise our heat and transport systems. This will be essential for the UK to deliver its stretching climate change targets and meet the changing expectations of consumers and society.

Secondly, we are also aware of our own potential to contribute to climate change and are actively seeking ways to reduce this.

Thirdly, our own operations may be impacted by the effects of climate change – for example the effects of more severe winters and flood events may put strain on our operating model.

The loss of biodiversity is increasing. This is accelerating the impacts of climate change, including the frequency and severity of natural disasters and heightening the challenge to reach net zero.

Mitigation

- Cadent has a unique role to play in the de-carbonisation of the UK's heat and transport systems. Our 'Future of Gas' programme looks at future scenarios and how we can support the delivery of the UK's hydrogen economy.
- Our Environmental Action Plan outlines our commitments on climate change and has been developed through extensive stakeholder feedback.
- This year we have pioneered innovation projects to demonstrate the viability of hydrogen networks through large scale demonstration projects such as HyDeploy and HyNet.
- By working with partners to connect more sustainable sources of gas, such as biomethane, we are already providing consumers with access to more sustainable energy.
- We are also taking steps to reduce our own carbon footprint through our mains replacement, electric vehicles, development of hydrogen technologies and use of alternative fuelled HGV vehicles.

Cyber breach or critical system failure

Potential impact

Due to the nature of our business, we rely on technological systems to support our operational delivery. We recognise that our infrastructure systems, may be a potential target for cyber threats. We must protect our business assets, personal data and infrastructure and be prepared for a malicious attack. To ensure that we efficiently maintain a safe and reliable network for our customers, we implement an effective IS asset management framework. It must, through appropriate policies and procedures, good quality asset data, suitable investment and competent personnel, preserve the integrity of both individual assets and the operation of our network as a whole.

Mitigation

- Critical processes and systems are understood, and security controls are designed on a risk-based approach.
- We deliver our own dedicated security services that integrates specialist security partners with our Digital Risk and Security team, to provide a comprehensive framework of protective cyber security controls across our network.
- We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security strategy and programme continues to be modified and updated to reflect the changing threat landscape, to meet regulatory requirements and support our business outcomes. This programme reduces the risk that a cyber threat could adversely affect the company's business resilience.
- We continually invest in cyber controls that are commensurate with the changing nature of the security landscape. This includes collaborative working with our regulator Ofgem, Business, Energy and Industrial Strategy (BEIS) and the National Cyber Security Centre on key cyber risks and development of an enhanced CNI security strategy.
- BCM plans are in place for critical processes and routinely tested.
- Our Digital Risk and Security team have been engaging with the appropriate agencies to ensure we have appropriate controls in place to manage our obligations under the Network Information Security Regulations which all providers of essential services must comply with.

How we manage risk continued

Effectively managing assets and maintain network reliability

Potential impact

Our asset management framework must, through appropriate policies and procedures, good quality asset data, suitable investment and competent personnel, deliver an effective process for preserving the integrity of both individual assets and the operation of our networks as a whole to deliver the right service to our customers and stakeholders.

Failure to effectively manage risk on individual assets or on our networks could lead to asset failures which may result in customer service failures, a safety or environmental incident or failure to meet our regulatory standards of service. This could also damage our reputation and may lead to additional costs, enforcement action and financial penalties.

Mitigation

- We have an asset management framework in place that is independently accredited to ISO55001 standard.
- We have engineering and asset management teams in place to manage the framework and ensure good quality asset decisions and investments are made.
- The framework is supported by decision support tools to aid complex decision making and ensure resilience is maintained.
- Engineering policies and procedures are in place to ensure that assets are appropriately operated and maintained.
- A replacement programme is in place and agreed with our regulators to ensure that ageing assets are replaced.
- In the event of third party asset damage or asset failure, insurance is in place to compensate for damage arising.
- We have well-practiced response procedures in place.

Health, safety, environment and security

Potential impact

Safety will always be a top priority and whilst major incidents are rare, human factors, asset and system malfunctions carry an inherent risk of harm to those who work for us and the communities we serve.

We are also mindful of the impact that our operations could have on the environment in which we work, and we take care to ensure that we manage our environmental risks to minimise these potential impacts.

In order to ensure we continue to keep the energy flowing it is imperative that we secure our people and assets so that we can maintain the essential service that our customers rely on.

A major incident could cause disruption for our customers and loss of credibility with our regulators. It could also result in damage to our reputation and regulatory enforcement including significant financial penalties or claims.

Mitigation

- We have robust safety and ISO14001 accredited environmental management systems in place which are underpinned by a Health & Safety Executive accepted safety case.
- There is visible leadership and commitment to health, safety, environmental and security matters, including regular leadership safety visits, which has created a strong safety culture throughout the organisation.
- We operate process safety controls which include robust incident investigation and review processes.
- We have long-term, risk-based investment and replacement programmes to ensure that we maintain a safe, secure and efficient network.
- Our dedicated Security and Property teams monitor developing security threats, provide visible deterrents at our keys sites and ensure that appropriate personal security measures are in place.
- We have well-practiced response procedures in place.
- To support continual improvement across the industry there are structures in place for cross-industry sharing of good practice and learning.

Legal and regulatory compliance

Potential impact

We set high standards of ethics and compliance that we expect those working for us to follow. As a regulated business, compliance with legislative and regulatory requirements is fundamental to our ability to operate.

Failure to comply with legal and regulatory requirements could result in disruption to the operational business, penalties and damage our reputation.

Mitigation

- We have structured our business around the delivery of our regulatory outputs. Dedicated operational teams are in place to focus on the delivery of our standards of service, delivery of our mains replacement programme and upgrading our network assets.
- Detailed outputs were set at the beginning of the RIIO price control and these are carefully monitored through a governance framework which includes weekly issues calls and monthly customer performance reviews to ensure that emerging risks and issues are escalated and managed in a timely manner.
- There is a strong compliance culture. This is reflected in our value of 'taking responsibility'. To sustain this culture, all employees are trained in our ethical guide, 'Always Doing the Right Thing' and suppliers are expected to sign up to our Supplier Code of Conduct. This is also supported by a strong 'tone from the top' and internal communication programme.
- We operate an assurance process which includes the review of our compliance with legal and regulatory obligations and is reported through the organisation to our Audit & Risk Committee and Board.
- We have a horizon scanning process to identify, and ensure we prepare, for legal and regulatory changes and developments.
- The licence obligation matrix ensures clear ownership of each licence condition. It has been updated to reflect the transition from RIIO-1 to RIIO-2 and will continue to be updated to ensure clear accountability throughout RIIO-2. This is monitored through the Regulatory Reporting Assurance Group.

Protecting customers' interests

Potential impact

We must keep both current, and future customers, safe and warm whilst delivering good value for money. Although a small proportion of the overall bill, we are mindful of the effect that network costs have on our customers' energy bills and are committed to deliver our services ever more efficiently.

Mitigation

- We have engaged customers extensively and continue to work closely with our Customer Engagement Group.
- We are pioneering developments in a cross-industry safeguarding customers group looking at services that are provided to customers in vulnerable situations.
- We continue to invest in our networks to maintain and improve service levels.
- We have a culture of continuous improvement to drive down cost and better serve our customers.
- We have clear customer targets which are closely monitored, with improvement plans in place where necessary. This is monitored and governed by our Customer Performance Operations Committee.
- There is a commitment, at all levels of the organisation, to improve customer performance. This is reinforced through regular employee communications, which share good practice across the organisation.
- Special measures are in place for customers identified by the Priority Services Register and mechanisms in place to help customers register as priority customers.
- The company supports volunteering and match giving on charitable fundraising.

How we manage risk continued

Resilience (including Pandemic risk)

Potential impact

As a provider of critical national infrastructure and essential services, our customers rely on our ability to provide a 24/7 service. Ensuring adequate resilience of critical processes, from both internal and external threats, including that of a pandemic outbreak, is essential to ensure that we are able to maintain our operations and continue to keep the energy flowing safely.

The impact of such risks include:

Operational impacts – non-availability of people and critical supplies which may be interrupted and impact our ability to carry out essential works.

Macroeconomic impacts – significant uncertainty impacting inflation, the cost of debt and the stability of suppliers.

Due to the essential nature of our core services and care for our customers and colleagues as well as those we come into contact with, we have to be prepared for pandemic outbreaks.

This risk has crystalised in the current COVID-19 outbreak which is specifically addressed in our COVID-19 statement on page 15.

Mitigation

- Critical processes have been identified. Contingency plans are in place to ensure we maintain service levels through events, including pandemic risks, which may lead to the non-availability of our people and partners or interruption of supplies.
- Up to date, relevant and periodically tested business continuity plans, with a focus on the continuance of essential services.
- A dedicated Health team that both supports and advises directly and has the ability to call upon external support where required.
- A crisis management framework with rapid execution of 'Gold, Silver and Bronze' governance. Supported by a wide range of two directional communication channels to support colleagues both as individuals and co-workers.
- Immediate scenario modelling, particularly in relation to workforce planning and liquidity, to gauge key actions.
- Deep and wide experience within the leadership team of incident and crisis response.
- A comprehensive and well-understood risk assessment and risk management process that takes account of uncertainty in available information and can adapt and respond well to situational changes.
- Strong links to stakeholders including those within Government, Ofgem and the HSE.
- Structured and collaborative arrangements with Trade Unions.
- An external threat scanning process to alert us to any developing widespread health issues.
- Internal sickness absence and occupational health processes.
- Financial structuring that can adapt to short-term 'shocks' in the wider economic environment and regulatory support to sustain the business during prolonged impact.
- The ability of the non-operational teams to rapidly reprioritise workload and respond to rapid changes in operational requirements for example homeworking.

Securing critical resources and engagement

Potential impact

The people who work for us are essential to the success of our business. Both our direct workforce and those engaged through our partners and supply chain must be resilient and capable of adapting to the needs of the industry. The ageing profile of our workforce and competition for limited skilled resources means this is a key risk that we must manage.

In operating an emergency service, we rely on stocks and supplies being available when they are most needed, if they were not this would significantly impact the service that we are able to provide to our customers.

Mitigation

- To build our internal resource pool and develop our future pipeline of talent, we have developed a series of talent and training programmes, including those for graduates and apprentices.
- To attract and retain the right people, our reward packages are competitively benchmarked and incentivise performance aligned to the company's objectives.
- Strategic workforce planning helps us understand our future resourcing needs, including those operationally critical roles to evaluate the best mitigation strategies.
- Succession plans are in place for operationally critical roles.
- As a shortage of skilled individuals is an industry wide issue, we also support development of the STEM subjects through associated bodies such as the ENA.
- We work closely with our Construction Management Organisations and other partners to monitor the availability of skilled teams to undertake our mains replacement work and have targeted supplier development programmes where required.
- Our dedicated Supply Chain Team work closely with our suppliers to identify critical supplies and closely monitor and manage stock levels throughout the year to ensure critical supplies are maintained.
- We monitor and work closely with our supply chain partners to ensure delivery of key projects and programmes with suitable escalation routes and governance in place for risks and issues to be identified and resolved.

Our year in review
Transforming our operations

"We have continued with our operational transformation to an increasingly customer focused organisation. Our operational teams have worked tirelessly throughout the pandemic to deliver the critical services needed to support our communities and colleagues during a challenging period of uncertainty and significant change."

Howard Forster
Chief Operating Officer

Our year in review
Our operational performance

Whatever the weather, come rain or shine

Through the snow, we restored the glow to Hoylandswaine

On a cold morning in December, the residents in the village of Hoylandswaine, Barnsley, alerted us to a problem of poor gas pressures. After further investigations we discovered water in our gas pipe and that resulted in no gas getting to the village. We quickly deployed 40 colleagues from across the East Midlands and South Yorkshire to support over 400 homes. Over the next 46 hours our engineers and on site teams worked tirelessly to pump out over 5,000 litres of water with two tankers pumping water from the pipe simultaneously.

This was a mammoth task given the ever-changing weather conditions including four inches of snow – getting everyone's heating back on was our top priority. The local councils came out in force to help us get to the village in the snowy weather, supporting us with snow ploughs and gritters to clear the roads so we could access all properties.

We prioritised residents on the Priority Services Register, providing additional assistance and welfare checks as needed. Our communications team set up an incident webpage and social media channels to ensure we kept residents updated with safety advice and videos. We worked closely with the local councils, media and community groups to provide regular progress updates. Our teams worked tirelessly through the festive period to get supply back on as soon as it was safe to do so. We're grateful of the support we received from Barnsley Council, Penistone Town Council, Northern Powergrid and the British Red Cross in helping us reach out to the local community during the challenging weather conditions and under strict COVID guidance.

"Our operational team went above and beyond to respond very quickly in challenging conditions and we're very grateful for the support of the local community during the festive period."

Darren Elsom
Director of Eastern Network

Our year in review
Our operational performance continued

Our customers have told us what is important to them and what they expect from us; going above and beyond to be more flexible and focused on minimising disruption. We recognise our services need to be as inclusive and accessible as possible, understanding the diversity and geographical differences in our communities.

Delivering on our commitments

Our four networks have 28 Customer Operations areas with clear accountability for meeting their own customer, regulatory, safety and financial targets and have the capability to deliver Emergency, Repair and Domestic Connection activity. The 28 Customer Operations Area Managers are undertaking a tailored training programme with customer service at its heart. They are supported by local contracts; in areas such as backfill and reinstatement support to drive increased customer satisfaction levels, improved performance and local strategies to reflect the communities we serve.

Our newly appointed Construction Management Organisations in each network are now in place to lead and support over 38 Local Delivery Partners delivering our mains replacements programme. These arrangements reflect pilot arrangements that have already been driving improvements in our delivery and the overall customer experience over the last 18 months.

Each network also controls their own Investment Planning Office and has completed a delivery plan that meets the commitments we have made in our RIIO-2 Business Plan. A significant amount of planning and preparatory work has been the focus for us this year, as we have embedded the new structures across all operations and our customer facing teams to lead with autonomy and insight to improve our customer experience commitments.

As well as developing these new arrangements and despite the impacts of COVID-19, we've continued to drive the programme to deliver against our RIIO-1 Ofgem and HSE targets with delivery rates, outside of lockdown restriction periods, the highest of the prior eight years.

Further structural change has seen newly created leadership positions and teams:

Heads of Customer Experience lead with a responsibility for understanding current customer experience journeys and work collaboratively with operational leaders to drive change and enhance levels of satisfaction.

Our Commercial Director, leads the teams to manage and improve supply chain relationships and drive better performance throughout our local partnerships.

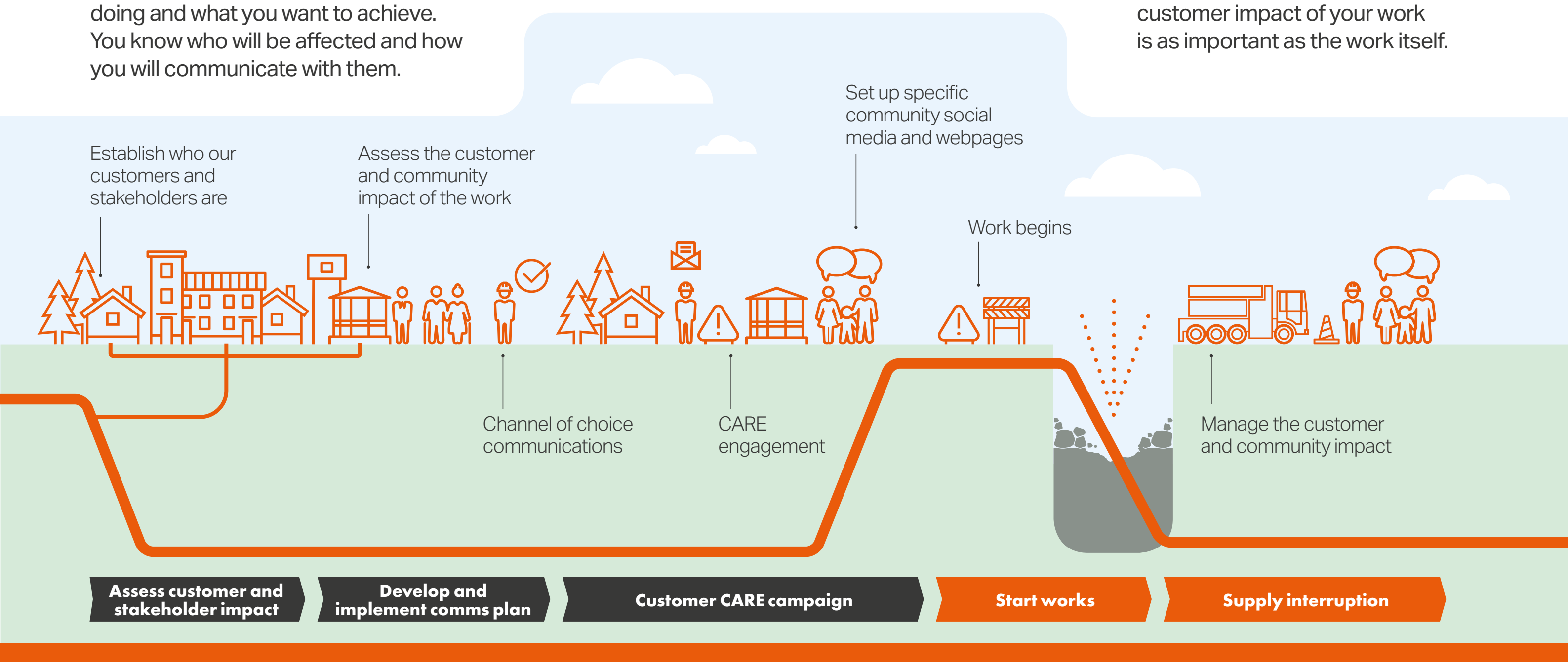
As we have made these changes to our operating model we have welcomed new colleagues who are now directly employed by us and who bring their talent, knowledge and experience into the business.

Before work begins

You have worked out what work you are doing and what you want to achieve. You know who will be affected and how you will communicate with them.

During our work

Managing and minimising the customer impact of your work is as important as the work itself.



Providing a reliable gas supply

Last year we delivered an overall network reliability of 99.998% ensuring our customers had gas when they needed it. We operate over 131,000 km of pipeline and this can present us with a range of challenges. On the rare occasions when things do go wrong, our customers expect us to respond quickly and get them back on gas promptly. This has resulted in a reduction of 15% in the number of unplanned interruptions experienced compared to the previous year. Our performance for our customers living in multi-occupancy buildings has been particularly strong with a further 47% reduction in the number of interruptions. These improvements are as a result of innovative techniques to keep customers on gas, supported by regular performance monitoring and the attention of our field engineers and managers.

Responding to gas emergencies

We operate the National Gas Emergency Service contact centre, taking calls and giving safety advice on behalf of the UK gas industry. In 2020/21, we answered 1.3m gas emergency calls of which 91% were answered within 30 seconds. During the year, we attended 328,698 reported gas escapes. Of these, approximately 68,809, were directly related to our network. The rest of the calls were for other matters such as suspected carbon monoxide, faulty boilers or meter problems for which we provide assistance to ensure public safety.

Responding to gas emergencies	Total	%
Calls to emergency number (for the whole of the UK gas sector)	1.3m	
Answered within 30 seconds	1.2m	91
Reported gas escapes	328,698	
Escapes related to Cadent's network	68,809	19
Escapes related to other matters (CO, boilers etc. – not all Cadent network related)	295,928	81

We aim to respond to gas escapes and potential risks from carbon monoxide poisoning as soon as possible. In 2020/21 our average response was 32 minutes (34 minutes 2019/20) for those cases where the reporter was unable to remove the hazard based on our safety advice.

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

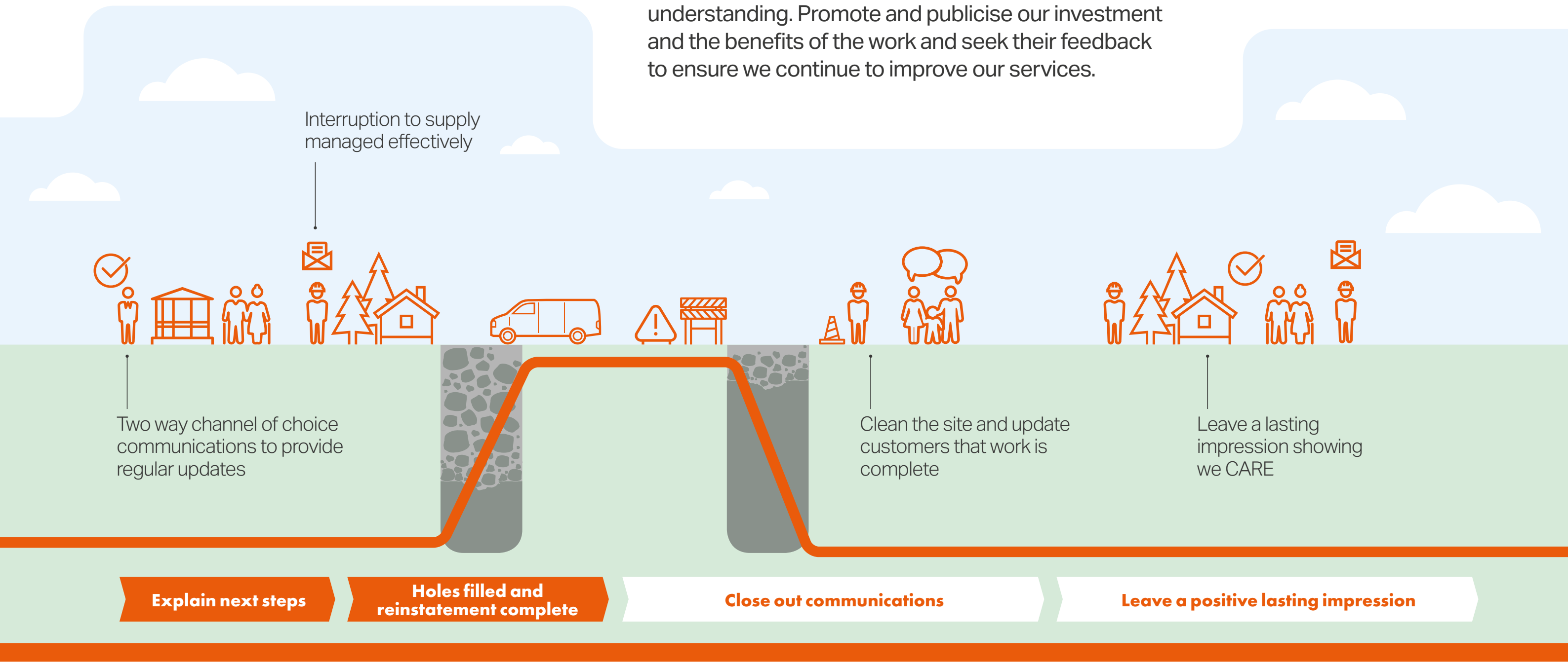
Standards of service	East of England %	North London %	North West %	West Midlands %
2020/21 Controlled*	99.3	99.0	99.4	99.7
2020/21 Uncontrolled**	98.7	98.9	99.0	99.4

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

** Uncontrolled refers to all other escapes.

After our work

We will thank customers for their patience and understanding. Promote and publicise our investment and the benefits of the work and seek their feedback to ensure we continue to improve our services.



Our year in review
Our operational performance continued

Never leaving a customer vulnerable without gas

In order to maintain and upgrade our network and respond to gas emergencies, occasionally we have to isolate a customer's gas supply, leaving them without gas for a period of time; this is when the true impact of having no gas supply is really understood. On average customers can expect to have their gas supply interrupted once every 40 years, so it isn't something many have ever experienced.

Anyone can find themselves in a vulnerable situation when this happens and therefore, we offer an extensive suite of additional welfare options, ranging from portable heaters and showers to meal vouchers and even temporary alternative accommodation. Our innovative approach of recognising the transient nature of customer vulnerability and supporting customers when they are off gas was recognised by Ofgem in their final determination of our business plan. We were the only Gas Distribution Network to be noted for providing a customer value proposition that goes above and beyond expectations.

Complaints handling

All networks have improved through enhanced data insights, jeopardy management, network and local ownership. Volumes are down 20% on previous performance year.

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

Complaints	2020/21 YTD (D1*%)**	2019/20 YTD (D1%)*
East of England	2.49	3.06 (77.86%)
North London	2.42	3.15 (77.84%)
North West	1.98	2.35 (83.77%)
West Midlands	1.74	2.25 (83.27%)

* Same day closure.

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

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

Customer satisfaction

Performance by Network*	Emergency Response & Repair		Planned Works		Connections	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
East of England	9.56	9.49	8.68	8.47	8.25	8.46
North London	9.41	9.08	8.42	7.97	8.28	8.73
North West	9.55	9.49	8.45	8.41	9.01	8.34
West Midlands	9.52	9.47	8.13	8.11	8.50	8.05

* Scored out of 10.

Putting customer preference at the forefront of the energy transition debate

In November 2020, we undertook a comprehensive customer research study to assess customers' understanding of and attitudes towards the UK's net zero targets and the implications for how they heat and power their homes. We believe that the energy transition will be shaped predominantly by customer preference and the decisions that they make.

Our study built upon the insights that previous work in this area had generated and has provided a much richer understanding of preferences and how these differ between different segments and demographics. The study revealed a strong preference for future home energy systems to operate in much the same way as their current systems, with minimal disruption (from time off gas or changes to their homes). It also revealed that those living in fuel poverty prioritise the ability to control the cost of heating their homes higher than the absolute cost itself and those living in vulnerable situations often have a much higher emotional attachment to their current solutions and a lower willingness to change. It is these customers who, if the energy transition is not fully thought through, are likely to be left behind and as we undertake more research in this area, we will be focusing on how policies need to be shaped in order to mitigate this risk.

During this RIIO-1 period we have met or exceeded all regulatory customer targets. There has been a large increase in Emergency Response and Repair. This is due to significant improvements in processes with all networks noting an overall improvement. Reinforcing the success, we've seen from strategy implementation detailed through this section.

Improving service in multi-occupancy buildings

Our work in multi-occupancy buildings was significantly impacted by COVID-19. Risk assessments meant that activities taking place inside communal areas and flats could not be carried out. Despite these constraints, we completed 8,805 surveys of our assets, and replaced or refurbished 1,044 riser pipelines. We continue to develop our customer engagement strategy and have developed Memorandums of Understanding with several boroughs and building owners to improve how we work together in the future, making life easier for all involved.

Reducing disruption

Following excellent customer and stakeholder feedback we have significantly increased the use of our CISBOT robotic technology, delivering over 28.2km (17km in 19/20) of refurbishment and expanding its use to our other networks. CISBOT contributes to a reduction in leakage on large diameter pipes and work is carried out without interrupting supply to our customers and with no need to close busy roads.

In North London, by building on our relationship with Transport for London, we have agreed to join The London Infrastructure Alliance; driven by our customers' request for us to reduce distribution caused by our works. The Alliance is being created to facilitate the planning and delivery of coordinated street works and brings together The Greater London Authority, Transport for London, London boroughs and utility companies. The Alliance will develop and deliver coordinated outcomes including reduced disruption, improving co-ordination, integration, efficiency and transparency.

Refurbishments delivered through CISBOT robotic technology

28.2km

up from 17km in 19/20

Our year in review
Our operational performance continued

Working safely

We have maintained our focus on ensuring our colleagues and contractors are safe whilst at work, and that members of the public are safe in the vicinity of our works. We have also worked hard to address the risk of damaging underground assets, both in terms of our impact on other utilities, but also the impact of third party encroachment or damage of our assets. We have continued to improve our safety record, delivering a Lost Time Injury Frequency Rate of 0.66. In addition, we have seen improvements in our main safety metrics compared to 2019/20.

We have updated and simplified our Safety Management System to allow our colleagues to ensure that gas is delivered safely and reliably. We work actively to manage both personal safety and major hazard safety (often referred to as process safety). This has included training our senior leaders in process safety and introducing a higher proportion of leading measures into our monitoring of process safety performance. We share learning from incidents at the monthly Safety and Engineering Committee and have a dedicated Board Safety Committee to ensure we set the right tone from the top.

We have seven Safety Improvement Groups which have been set up to drive improvements in areas of risk for us; Culture, Process Safety, Cable Avoidance, Road Safety, Fatigue, interface between people and plant, and protecting the general public from our works. These groups are chaired by Operational Directors and report regularly on their plans to drive continuous improvements in our ways of working.

Springers into action: The pawsome sniffer dogs assisting North West gas engineers

Our pipes can run for long distances underneath footpaths and verges, gardens and driveways. It is hugely disruptive if engineers need to dig it all up to find the source of problems such as leaks or water in our pipes. We heard about former police dog instructor Steve Foster and his specially trained English Springer Spaniels, and brought them to the North West for the first time this month. Over two days, they worked in Skelmersdale, Huyton, Blackburn, Stockport, Oldham and Middleton, looking for previously elusive points through which water was getting into gas pipes. The clever canines amazed even the most experienced engineers by tracking down small hairline fractures in the underground gas pipes; the dogs are going to be a great asset for us. We're determined to find innovative ways to tackle this and prevent our customers from losing supply. Introducing the gas detection dogs into the network has seen fantastic results.

Mains replaced since 2012/13 over

12,000km

Lost time injury frequency rate

0.66

compared to last year 0.7

Renewing our networks for the future

Our RIIO-1 investment plan was completed last year which resulted in upgrading and replacing assets throughout our networks, from high pressure above ground installations taking gas from the National Transmission System all the way through our pipeline system to the Emergency Control Valves in our customer's properties. This investment ensures we improve safety and reliability, whilst reducing operational costs.

The largest element of our investment programme is the replacement of iron mains with tough modern polyethylene. Since 2012/13, we have replaced over 12,000km and had plans in place for accelerated delivery in 2020/21 to ensure we delivered our full programme by the end of the price control period. COVID-19 constrained our work and whilst we replaced the same length in 2020/21 as we had the previous year, some of our work will be completed in the future.

Several of our asset investment programmes were less impacted and we delivered the necessary work to meet our target risk reductions. Our asset investment considerations are preparing for low carbon fuels such as biogas and hydrogen to meet our net zero future.

Angels in orange spread their wings at Utility Week Awards

During the virtual awards night in February 2021, we were awarded the Customer Experience award, recognising the lengths to which our engineers went to restore gas supplies quickly and safely to the small town of Wirksworth, in Derbyshire, 2019.

A water main burst in Wirksworth in October 2019, damaging a gas main which resulted in over 10,000 litres of water flooding the local gas network. 900 homes and businesses – including 215 priority service customers – lost their gas supply, which we immediately responded to by mobilising over 200 colleagues for several days to restore supplies as safely and quickly as possible.

Utilities unite as we roll out robots to deliver vital work faster in historic Whitechapel

The streets of Whitechapel have seen many famous and infamous events take place over the centuries and in December 2020, we collaborated with other utilities to ensure the historic area stays connected to safe and reliable gas and water supplies in future years. By working together, we reduced time spent working in the area by up to 28 days. Working in partnership with Thames Water to deliver the essential work, we worked in partnership with the London Borough of Tower Hamlets and Transport for London (TfL).

Our work involved using CISBOT to give an ageing 170m section of gas mains a new lease of life. The innovative robotic technology enables work to be done much faster than using traditional methods with fewer and smaller excavations. It has the additional benefit of being able to work in live gas mains, meaning gas supplies will not need to be turned off during the work. In addition to the trailblazing robots, we also used high-tech real time information boards during the initial phase of the project.

This approach allowed TfL and the London Borough of Tower Hamlets to plan essential work during this time. Cadent Area Manager Kane McLoughlin said: "It's great how everyone has come together to agree a plan which will deliver great future utility services for the local community with minimal inconvenience to local residents and commuters."

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

Our year in review
Our customers

Providing real-time answers to customers' questions

Say hello to Connie!

Through benchmarking with leading organisations in customer service and insights we gathered from our online community, we created a new virtual assistant called Connie, who provides real-time answers to customers' questions relating to gas connections. The chatbot will be available all year round to answer queries on our website.

By reviewing our previous enquiries, we were able to understand the most common questions and prepare appropriate responses in advance. Taking the learnings from our assessment via the Digital Accessibility Centre in May 2020, we ensured accessibility best practice standards were adhered to, making all our information accessible to users with disabilities. The introduction of Connie is one of the many steps we are taking to meet the changing needs of our customers with live chat; a mobile app in collaboration with Google and call back appointments all coming soon.

"Connie is intended to give customers a helping hand, when they feel they need it. Helping them to answer a query, apply for a connection, or find the right documents setting out the technical details they are looking for. We know that the connections process can sometimes seem complex and we are working on simplifying things from start to finish, but in the meantime, Connie is online and ready to help."

Tom Notman
Connection Services Director

Our year in review
Our customers

Customer strategy

Our aim: Creating an environment where we can deliver outstanding customer experiences time after time.

Customer-centric operating model
- Localised complaints handling
- Regional operating model
- Connections transformation

Enhanced engagement and real-time insights
- Real time SMS customer feedback
- Ongoing structured engagement events
- Technology driven sentiment analysis

Big data and analytics
- Greater access to customer data
- Relational Database Management System
- Customer insights forum

Multi-channel inclusive communications
- Social media strategy development
- Website accessibility
- SMS usage increase

Aligned to targets and incentives
- Future contracting strategy
- Staff pay deal
- New terms and conditions

Technology-driven automation and efficiencies
- Artificial intelligence and machine learning
- CRM system linked to mobile friendly applications
- Chatbots and webchat

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

Our customers are those directly impacted by the work we do in the communities we serve. Our customers do not pay us directly, a proportion of their energy bill goes towards supporting the services we provide.

Enhanced engagement and real-time insights

Listening to our customer and stakeholders and acting on what they tell us sits right at the heart of what we do. We have invested heavily in establishing many ways to engage with customers and stakeholders, including our Customer Forum of over 150 customers from across the regions in which we operate, who have now been working with us for over 18 months. This year, we established our Critical Friends Panel, which is a committee of experts brought together to challenge us on behalf of our customers and communities and to use their experience of best practice they have seen elsewhere to support our ambitions.

Our enhanced engagement programme is fully embedded across the organisation and feeds three separate but related requirements:

- Providing insights into improving our current service levels
- Informing our thought leadership relating to the future energy transition
- Allowing us to continually look forward as we prepare for RIIO-3

We have taken positive steps forward in providing data insights through Microsoft Power BI and invested in a series of comprehensive data dashboards which cover all key performance insights, allowing our teams to understand their historic performance and supporting them to target specific areas for improvement. This puts real time, accurate and relevant data into the hands of our colleagues who are accountable for delivering customer service.

All key insights are available, from key regulatory customer metrics through to our own internal channels and all associated operational metrics which we know influence the overall customer journey. This enhanced approach has allowed us to support segmentation and personal development. Our ability to understand how different demographics of our customer base feel about our services is critical in the evolution of our strategy.

Our year in review
Our customers continued

Creating fairer, accessible and inclusive communications for all

We recognise that customers expect choice and we have invested in new ways to do this. We have increased the use of opt-in SMS and WhatsApp services, to provide updates about the work we are doing; informing about progress and arrival times. We have updated our website to enable two-way dialogue by introducing two chatbots and improved our channels for those with communication and accessibility needs; including videos and literature available in up to eight languages.

We have focused on refining our communications process for when we don't meet expectations. This is an important element of our approach and allows us to maintain timely contact, with an ability to recognise indications of dissatisfaction and ensure we act promptly to put in place action to resolve any concerns.

Utilising geotargeting on Facebook has proved a positive step forward in how we reach a wider demographic of customers; allowing us to provide quick and effective updates about our works, provide latest operational updates and give greater context into what we are doing.

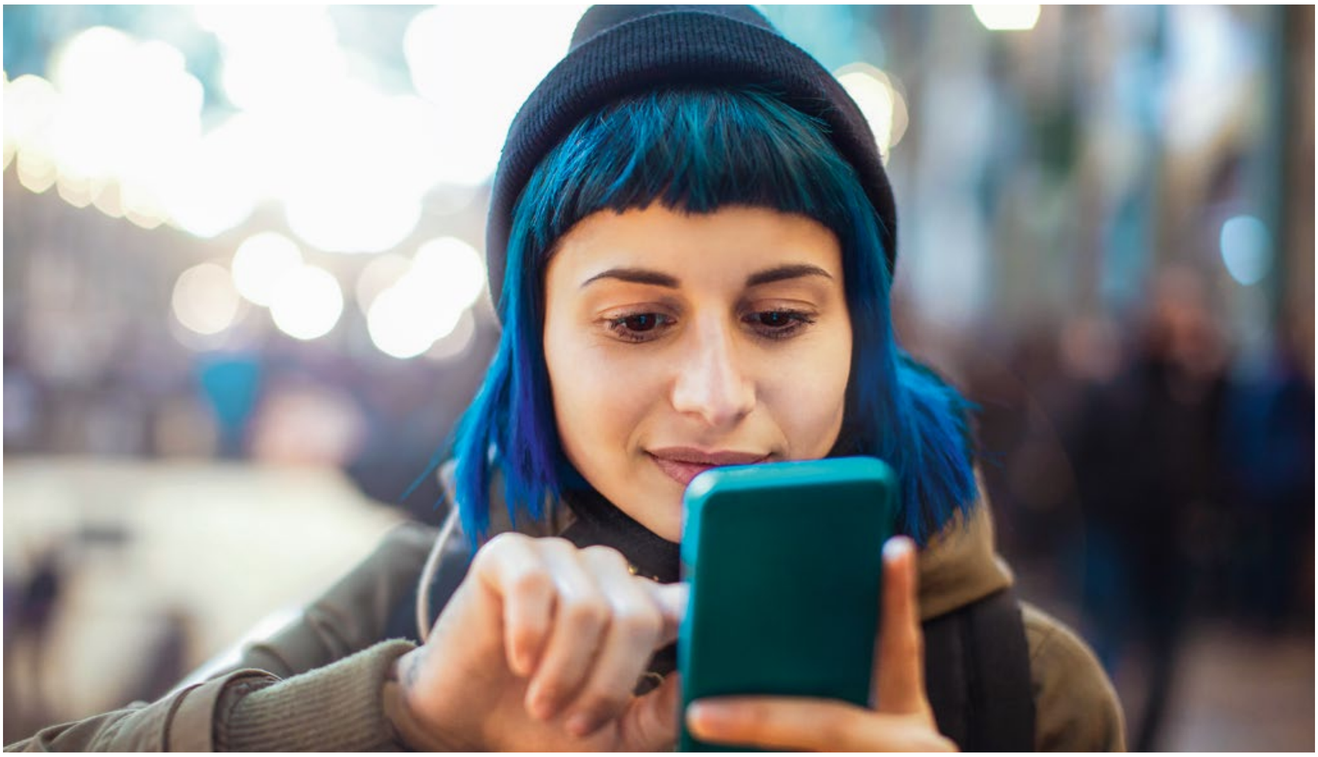
We have made several improvements to accessibility and user experience for our overall website, and for infrastructure projects impacting larger communities we have commissioned bespoke webpages which customers can access using QR codes. This allows for video content and additional materials to explain information about the work we are doing in their area. We have made great steps forward in improving our on-site communication by delivering a range of improved signs from Heras fencing to smart digital boards which can be translated into multiple languages on site.

Aligned targets and incentives

We have discussed many topics with our customers, including how we should reward and incentivise our employees. Through a series of focused workshops, our customers have told us that they thought our incentive schemes should be weighted to customer service. The total reward package of every single employee is now influenced by our overall customer service scores, encouraging our colleagues and service providers to deliver outstanding service first time. This empowers individuals to make decisions at a local community level to make sure it is relevant to individual customers based on the assessments they have made. We have put this in place across our emergency and repair process, where we have seen our four networks improve significantly this year, with scores averaging over 9.52/10.

Technology driven efficiencies and automation

An effective customer relationship management system not only drives efficiency but can help our people to provide a seamless customer experience. Access to the right technology is critical for our people to be able to provide consistently great services. This includes tools to help rapid response and quotations for our connection services. It allows customers with additional needs to engage with us. These advanced solutions, including enabling those who are hard of hearing or deaf to call us, provides free locking cooker valve installations to give reassurance to family, friends and carers and easy assist Emergency Control Valves (ECV) for those with mobility issues.



Supporting customers in vulnerable situations

A core element of our force for good strategy is our customer vulnerability approach structured to maximise our reach, expertise and legitimacy of our actions, creating a fairer world for our customers. This allows us to apply a focused lens on engaging with those customers who need extra support from us. We recognise that we are not experts in all areas of vulnerability and our extensive partnerships not only bring this in, but also help us to target our initiatives where they will add the most value, particularly as some of the most vulnerable people in our networks are the hardest for us to reach.

We have over 80 strategic partnerships in place with Fire and Rescue Services, NHS Trusts, and numerous charities who support customers with various additional requirements.

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

You can read more information about our social purpose on pages 71-76

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

Strategic partnerships

over 80

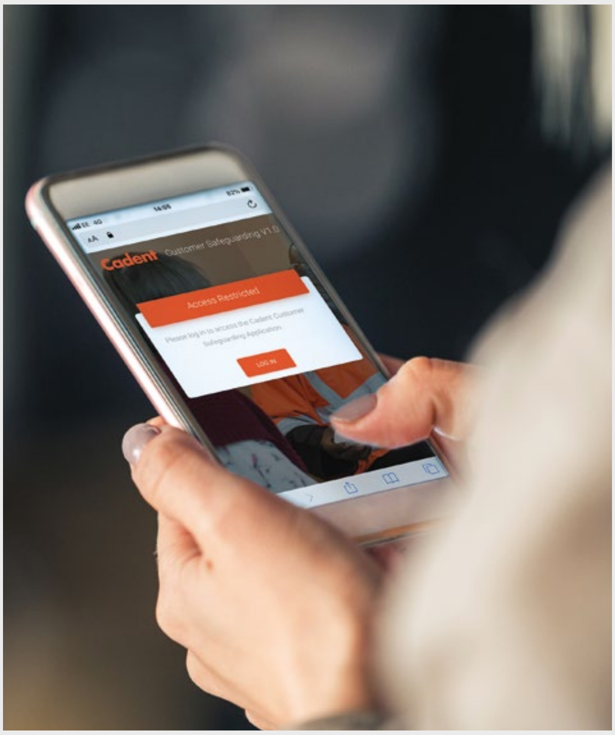
with Fire and Rescue Services, NHS Trusts and numerous charities who support customers with various additional requirements.

New 'one stop shop' app puts customer welfare first

Our new innovative 'welfare decision tool' app allows emergency engineers to tailor welfare products and services for customers who might find themselves in a vulnerable situation. During day-to-day operations, our engineers often encounter customers who could benefit from additional welfare support – especially those on the Priority Services Register (PSR). We recognised the need to make it easy for engineers to get the right support quickly, easily, and on a frequent basis.

We worked closely with the teams at systems, engineering and technology consultancy, Frazer–Nash, and the EIC to identify and develop a solution to this problem. As a result, a new mobile app was created, which puts all the data held within the PSR at an engineer's fingertips. This enables faster and more consistent decision making on which products and services can best support a customer in each situation. The decision tool considers key external data, such as weather forecasts, individual customer needs and how long the customer is likely to be without gas.

Customer Safeguarding Manager, Jo Giles added, "This has been a huge effort by colleagues in so many teams across Cadent, Frazer-Nash and EIC to bring this to life. I'd like to pass on a special thanks to our West Midlands based operations colleagues for their support trialling the technology. Our work in this area is a key part of our future and I'm really excited to see where it takes us."



Our year in review
Our colleagues

Landing your dream job

You're hired:
The inspiring story of an autistic teenager who landed a dream apprenticeship

Niall Potter, 18, is the first graduate to land an apprenticeship in an engineering role from a scheme that supports Liverpool residents with special educational needs and disabilities. We are one of 20 employers to back Liverpool City Council's 'Intern to Work' supported internship programme, which helps 16 to 24-year old's gain experience to secure a job. After completing his year-long internship, Niall, from Speke, accepted an offer to start an apprenticeship which will see him train to be a first-call operative (FCO). Niall, whose autism mainly manifests with communication and social anxiety issues, is over the moon. He hopes his achievement can be a catalyst to helping others find their dream job, as well as to encourage more local employers to have confidence to offer similar opportunities. Accredited last year as a Disability Confident Employer, we want our workforce to be representative of the communities we serve.

"I would love it if this steered more companies to employ more people like me. The scale of autism is so wide. An apprenticeship like this is perfect for me but won't be right for everyone. But there will be a right fit, and the right jobs, if we're just given the chance."

Niall Potter
Engineering apprentice

Our year in review
Our colleagues continued

Developing our people

The last 12 months has seen a transformation in the shape of the organisation, by changing our operating model to increase our direct workforce to 5,258 up from 3,938. Our operating model has also seen significant changes, taking decision making and accountability much closer to our customers to ensure we continue to deliver for our diverse range of communities and stakeholders.

We have developed a suite of Microsoft Power BI dashboards to give us a holistic view of our people data to enable us to drive change and efficiencies across the business. The dashboards have successfully helped our leaders to make informed decisions and focus on key areas such as gender pay, diversity and inclusion.

IGEM Young Persons Paper Competition

In December 2020, Sikander Mahmood – North West, Future of Gas, Project Manager won the IGEM Young Persons Paper Competition (YPPC) for the Institution of Gas Engineers and Managers (IGEM). Sikander, who started his career with Cadent in 2015 as a student on our Industrial Placement Programme, submitted his paper titled 'On the path to a low carbon gas network'. The YPPC is a competition organised and run annually by IGEM's Young Persons Network for young gas professionals and students aged between 18 and 35 years. It has been going since 2002 and was given a revamp for 2020 to encourage greater participation and to focus on presentation rather than written skills. "My entry into the competition was based on Cadent's network innovation project – HyDeploy. I am currently working as the project manager for HyDeploy within the Future of Gas team and it was an honour to be able to represent the project and win this award."

Our Education and Skills strategy has grown as we have implemented components to support our talent pipeline for the future. Our strategy focuses on three elements: STEM enrichment (science, technology, engineering and maths), careers inspiration and experiences. We have continued to build relationships with schools despite being unable to deliver face to face activities.

We have built relationships with key strategic partners including Careers and Enterprise Companies, Colleges, Charities and third sector organisations across the network. These include Leadership Through Sports and Business, The Black Country Consortium, Leicester & Leicestershire Enterprise Partnership (LLEP) where we have two ambassadors, Elevate EBP, Blackpool Responsible Business Network, Bury College and Hopwood Hall. We have supported several presentations to schools including to students with neurodiversity or other special educational needs. This has included a virtual tour of our Hollinwood training centre where students were set project tasks and existing resources which were adapted for alternative provision.

Our efforts in education and skills have been recognised through the Youth Employer Award, and we were awarded for recognition of our strategy supporting young people into employment.

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

We have supported the implementation of the Energy and Utility Workforce renewal and skills strategy 2020-2025 and many of our activities support this. As part of The Energy & Utilities Skills Partnership (EUSP) we are actively driving parts of the plan and have committed to our inclusion in the working group for both 'Reflecting the population that the sector workforce serves' and 'Delivering the competencies and skills we need'. Contribution in these groups will support our Diversity and Inclusion and Training Strategies. We support a number of external events, such as Industry and Parliamentary Trust groups and All Party Parliamentary Groups; providing our view on skills, the economy and apprenticeships.

We are actively involved in the development of Hydrogen skills and support the creation of the skills matrix, competency frameworks and technical standards for Hy4Heat. It is critical we remain at the heart of this development to ensure that skills for hydrogen are prepared for with accuracy and employer involvement; this includes providing our own colleagues with the right skills and supporting new people joining the industry.

Total employees

5,258

up from 3,938 in 2019/20

Health and wellbeing

We continue to build a culture of personal ownership; for individuals to take care of their health and wellbeing with business support, increasingly focused on early, proactive engagement and targeting risks. We have focus areas that correspond to our main health and wellbeing risks along with promotion of healthy lifestyle choices and support services. We provide mental health support services such as the Employee Assistance Programme and psychological support services. Our annual health surveillance program for colleagues exposed to vibration at work through the operational tools they use, was delivered via telephone consultation in line with HSE COVID-19 secure requirements. This demonstrated that we have increased our compliance by achieving 98% of those affected.

Our commitments

- Reducing stigma around mental ill-health through a series of targeted communications based on shared lived experiences to normalise common mental health conditions such as anxiety, depression and stress.
- Increasing knowledge and literacy on mental health across our business in the following areas:
  - Developing a Mental Health First Aiders Network so those who are training can share and support each other with additional training needs.
  - Reviewing feedback to understand how our managers have greater confidence and have informed conversations since attending these courses.
  - Developing tools to support positive mental health such as stress risk assessments and wellness action plans.
- Reassessing and refocusing our plans in March we participated in the MIND workplace wellbeing index to help assess the work undertaken and provide an impartial assessment of areas for improvement. We have been awarded a Silver level recognising the work we have done.
- We are bringing our Occupational Health Services in house so that we can tailor our support to ensure a greater quality of care.

Disability Confident Employer

We have achieved Disability Confident Level 2 status and continue to work on integrating inclusive practices and environments for people with disabilities.

In addition to signing the Social Mobility Foundation Pledge, we have signed the Youth Friendly Employer pledge, the BAME Apprentice Alliance Pledge and the Race at Work Charter.

We have also had discussions with several organisations representing service families, care leavers, females, victims of domestic violence and organisations representing ethnic specific minority groups including black males. As we move into the new regulatory period, we will be developing employment and training opportunities which are appropriate for everyone to actively engage with.

Social Mobility Pledge

Earlier this year, we signed up to the Social Mobility Pledge. Low social mobility is both a cause and consequence of growing inequalities, impacting social cohesion and growth. A lack of opportunities can have far-reaching consequences on present and future generations. The Social Mobility Pledge represents a powerful shift towards being a truly purpose-led organisation committed to social mobility. Organisations taking steps to boost social mobility is more important than ever as we face the challenges of a growing opportunity gap. The three key elements of the Pledge are: outreach, access and recruitment.

We have several schemes that are currently working towards improving the social mobility of the areas that we operate in.

1. STEM enrichment

As part of our STEM enrichment strategy, we visit schools and introduce two senior female engineers to act as ambassadors. The activities are linked to the curriculum but focus on demonstrating how science and engineering are exciting when applied in practice.

2. Careers inspiration

This strand of the programme offers students careers guidance through online and telephone mentoring with our ambassadors, covering the various routes into engineering, including apprenticeships.

3. Work experience

We're developing two structured experience programmes to see young people gain practical, hands-on experience in business support and operational roles. In addition, we are working towards providing opportunities to support employees who want to arrange ad hoc work experience.

Read more about how we are creating thriving teams in a diverse and inclusive environment see our social purpose section on pages 71-76

Our year in review
Our colleagues continued

Attracting new talent

We have made key strides in our recruitment strategy and practices. We have implemented the 'Applied' platform; a tool that ensures our adverts, copy and job descriptions remove gender bias language. We have added a new diversity and inclusion statement to our equal opportunities form to highlight to applicants that we are an inclusive employer. Our attraction methodologies and partnerships have been expanded to attract a more diverse talent mix – including community groups that support young people, schools that support SEND and businesses that mentor individuals from black, ethnic minority and disadvantaged backgrounds. We have utilised our partnerships with WES and Energy and Utility Skills; to support our strategy to drive inclusivity. We have hosted and taken part in virtual targeted diversity and careers events where we have showcased diverse employees within our business to illustrate careers as well as widened our targeted schools and universities with greater diversity groups.

Engineering Apprentice of the Year

One of our emergency response engineers was recognised through the Engineering Talent Awards 2020. Rachel Green won 'Engineering Apprentice of the Year' through her work as a role model in engineering. Rachel was put forward by a couple of managers with a glowing reference around her commitment to her role through her devotion to her studies, her customer focus and the positive impact she has had on her team and peers. By celebrating successes like Rachel's, we are raising aspirations and rewarding exemplary performance, showcasing how women can thrive in a male-dominated industry. "I never expected to even be nominated for such an award, let alone win! I am so happy and proud to win this and to be recognised for the things I have tried so hard to do during my apprenticeship and in my career with Cadent. These awards recognise diversity and show that engineering is no longer a male dominated world. We're paving the way for more women to enter the engineering sector and be recognised as some of its highest achievers, and I am definitely proud to be one of them!"

Apprenticeships

Our apprenticeship schemes have continued to run as normal with no break in learning and our apprentices have continued to learn at work, and undertake activities to broaden their skills. Those near the completion of their programme undertook adapted virtual and socially distanced assessments with our assessment organisation. We have recruited the largest number of technical apprentices ever, with 85 joining us in November 2020. Taking part in virtual inductions and training has now started under strict guidance.

We diversified our apprenticeships in other areas and our first formal development scheme for current employees undertaking the Team Leader Apprenticeship at Level 2 completed their programme and a second, larger cohort have started. Other areas, with single, or a small number of apprentices, include Accountancy and Tax, Engineering Design and Draughtsperson and Digital Engineering Technicians. We are concluding our plans to launch a Customer Service Practitioner apprenticeship for internal employees.

Our apprentice levy pay bill has increased due to the increase in direct employees and our levy drawback has also increased. The total returns this year were 70%.

Our graduate scheme

This year our largest cohort were welcomed into the business. 17 graduates joined our scheme in business support functions and engineering. Our graduates, along with our Engineering Trainees and Commercial Project Management Trainees started in September 2020 and received face to face inductions.

We are well placed in the JobCrowd top companies to work for; placing 11th (up from 29th last year) out of 100 for graduates and 9th out of 50 for apprentices (up from 21st last year).

Our continued focus to bring in new talent across our varied programmes and entry points remains a critical part of our skills strategy and a commitment as part of RIIO-2. It is recognised across the business that these programmes help us to provide a range of talented people to our operational and support functions, with each individual bringing diverse skills and knowledge.

ENERGY & UTILITIES jobs
BAME Apprenticeship Alliance CHANGE MAKER
Youth Friendly Employer
SOCIAL MOBILITY FOUNDATION
The Social Mobility Pledge

Training

We have successfully reviewed and amended training delivery methods to enable operational competence requirements to be met. Many of our training courses have been adapted to enable the virtual delivery of content, increasing the use of digital technology whilst successfully meeting learning outcomes. This success means our approach will remain as a prominent delivery method long after the relaxation of COVID restrictions.

Training requirements that do not meet the criteria for virtual delivery have been delivered face to face, with social distancing and other adaptations implemented to support their delivery.

We set up new training delivery methods to allow both trainers and delegates to carry out safe training practices. This resulted in the volume of delegates attending our courses being halved, which in turn resulted in more colleagues using our training facilities than in previous years.

We've invested in our training infrastructure by enhancing our offering at our existing sites. We have developed a smaller, bespoke training centre in Peterborough to support specialist Electrical and Instrumentation training, reducing the reliance on third party specialist providers.

We have seen many of our new employees join the organisation who now fall within our remit for providing training. The TUPE transfer of almost 650 staff in 2020, combined with in excess of 1,000 new recruits into our Operations business to redress the pre-existing contractor ratio has increased ongoing training demand significantly. We will ensure that we retain greater clarity and ownership of training for these individuals moving forwards.

We continue to review our training programmes and look to our future requirements to ensure we support our colleagues with the most effective training in order for us to continue to thrive. This will include focusing on green skills and helping our colleagues to understand our net zero ambitions; including critical problem solving skills to think in a green way, as well obtaining the technical skills.

Celebrating success

Celebrating success and sharing that recognition is highly valued. We celebrate individual stories and share great work and behaviours re-enforcing what success looks like.

Our Recognition scheme Cadent Congratulates is now well established and is designed to make it easy to say 'thank you' to colleagues. Our people use a Social Wall to post their gratitude for their colleagues, which is a great away of sharing fantastic achievements across the business.

In addition to the Social Wall, colleagues can nominate each other for a monthly Value Award. Recognition is linked to our values and we select up to five nominations per value per month. Nominations are considered by a Recognition panel with representatives from across the business to ensure a consistent approach when it comes to selecting the best nominations. Successful nominations receive a financial reward and a pin badge. Each quarter, we award CEO Spotlight Awards. These recipients are selected as the best from the nominations in the last quarter and demonstrate outstanding work or behaviours. Winners receive financial reward and a CEO Spotlight trophy.

This year, we have taken the opportunity to further improve Cadent Congratulates and our new provider has made it is even easier to say thank you. This year we have introduced a new category allowing nominations for fantastic customer service.

Read more about how we are creating thriving teams in a diverse and inclusive environment see our social purpose section on page 72

Celebrating International Women in Engineering Day

This year's annual celebration showcases the "the best, brightest, bravest women in engineering, who recognise a problem, then dare to be part of the solution."

Our West Midlands Network Director Kate Grant (pictured right) has been named in the Women's Engineering Society's Top 50 Women in Engineering. Kate is a champion of renewable technologies and finding solutions to the climate change crisis. Her journey has taken her all the way from South Africa to the West Midlands, where she now manages a 15,000+ mile underground gas distribution network from North Staffordshire to Herefordshire, and the M1 to the Welsh border.

"I am thrilled and honoured to be among such company," said Kate. "There can be no better feeling than being acknowledged by your peers for doing something you really care about and love doing.

Achieving anything in life is not done independently; it is so important to surround yourself with a network of support – family, friends, work colleagues. You also need to learn flexibility and resilience – our profession is continually evolving, and you need to keep broadening your knowledge, so that you're ready for what's coming next."

The head of our Eastern Network Investment Planning Office, Monisha Gower (pictured left), is among a further 50 women named in a highly commended list. Monisha joined Cadent four years ago and established an engineering delivery unit to deliver improvements to our asset health. Now, and another step up the ladder, she leads the new Investment Planning Office (IPO) for the Eastern Network, covering asset management, network design, and delivering £1.2bn of asset investment over the coming years.

As a member of our diversity and inclusion steering group, Monisha challenges our supply chain partners to promote gender and ethnic minority representation in their workforce, with the launch of our new contracts. "I'm passionate about securing the Eastern IPO's resource 'pipeline' through new talent initiatives such as Apprenticeships, Industrial Placements, Engineering Training Programme and Graduate schemes. "I am a Member of the Association for Project Management (APM) and Institution of Engineering and Technology (IET) with ambition to secure charterships. I also have the honour of mentoring a number of very talented young professionals through their career journeys."

Tackling climate change and improving the environment

"As a responsible company, we are fully committed to our role in tackling climate change for the communities we serve."

Dr Tony Ballance
Chief Strategy and Regulatory Officer

Climate change statement

Our commitment to tackling Climate Change was clearly signalled by our robust and very ambitious business plan submission to Ofgem. Our plan sets out our role for the next five years with an Environmental Action Plan (EAP).

Our EAP demonstrates our leadership on tackling climate change by innovation and driving momentum to create pathways to decarbonisation. This EAP is at the heart of our business. Our programmes of work and engagement in the transformation to a net zero world are demonstrated by our actions to date.

As the UK's largest gas distribution network, Cadent is leading the way for the industry on the future potential of hydrogen. We are actively engaging with Government and regulators to build awareness of the opportunities offered by green gases in the journey towards net zero. We are increasingly confident that hydrogen will form part of the future energy mix in our pathway. Our iron and steel mains replacement programmes, are supporting this strategy by not only future-proofing our networks for hydrogen but also reducing our leakage and our impact on the environment. As we look ahead to the 26th UN Climate Change Conference of the Parties (COP26) in November, we will be interacting with Government and other stakeholders to promote hydrogen as part of the solution for a low carbon future. This year we have pioneered innovation projects to demonstrate the viability of hydrogen networks through projects such as HyDeploy, which has demonstrated blending hydrogen into the gas network, and HyNet North West where we have secured funding to design the pipeline to bring hydrogen to industrial users in the region.

We are also aware of our own potential to contribute to climate change and are actively seeking ways to minimise this by taking steps to reduce our own carbon footprint through our mains replacement programme and use of Electric Vehicles for our First Call Operative fleet and gas powered HGV vehicles. We recognise our responsibility to support the UK to meet its greenhouse gas target and have committed to short, medium and long term targets to reduce our greenhouse gas emissions. High standards of environmental performance are core to our ambition to become a net zero organisation protecting and enhancing the environment through continuous improvement and key innovations will reduce our footprint and create long-term benefits for society.

Our environmental ambition is underpinned by three primary commitments and you can read more about these on pages 56-70:

Reduce the impact of climate change by implementing mitigation and adaptation measures.

Ensure environmental sustainability is considered in our decision making and inspire our people to consider it in everything they do.

Improve our environmental management system to protect the environment and reduce the risk of environmental incidents.

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

It is vital for us to create social value by benefitting the most vulnerable in our societies and contributing to our local communities to reduce the impact of our operations and working together to reach our net zero ambitions. The importance of climate change can be seen by our two issuances under our Transition Bond Framework highlighting strong investor appetite to support the energy transition in the UK.

The financial resilience to climate change has also been considered by assessing the financial impact of different net zero scenarios. We have concluded that our network can be adapted to use alternative technologies and hence have useful lives that extend beyond future net zero ambitions in line with our policy. Published pathways to net zero made by the Climate Change Committee and others show that hydrogen has a key role in enabling net zero to be met. The infrastructure assets that we own will form an important part of this transition by being re-purposed to transport hydrogen. The regulatory funding model used by Ofgem underpins our investment in the network and provides a strong basis for the future recoverability of our assets and to estimate the long term cash flows for inclusion in our asset valuations.

We support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) starting with this years annual report and accounts. The processes we use to identify, assess and manage risks are embedded in the business and have been used to address the climate change risk.

Climate-related financial disclosures

Compliance with the recommendations of the Task Force on Climate Related Financial Disclosures will not be mandatory for Cadent in this year's annual report and accounts. We recognise and embrace the importance of the recommendations and, within this report, we begin our journey towards full disclosure.

Governance

The Board maintains oversight of the company's Future of Gas and environmental improvement programmes which encompass a strategy to decarbonise energy and develop pathways that will help the UK to achieve net zero. You can read more about how the Board exercises such oversight, including consideration of opportunity and risk, in the Corporate Governance report pages 86-125.

The Board is supported by the work of the Sustainability Committee, which was established as a standalone Committee in November 2020. The Sustainability Committee report can be found on pages 103-104.

Our climate related risks and opportunities are identified and managed by our Executive Committee with specific focus areas delegated to the Safety and Engineering Committee, Net Zero Transition Committee and the RIIO-2 Environment Steering Group. These groups meet monthly, led by Executive Members, to monitor progress of action plans and provide assurance of commitments made to prepare the business for transition to net zero. Our RIIO-2 Environmental Steering Group undertook a readiness review for delivery of our Environmental Action Plan from the start of RIIO-2 and graded our readiness as green. The Board and the Sustainability Committee have oversight of the work of these management committees. Our organisational risk management practices are detailed on pages 18-28.

The short and long term incentive plans contain targets associated without environmental and climate change ambitions.

Strategy

Our current risk and opportunity assessment takes account of the longevity risks to the business in relation to the UK's Net Zero Commitment, and wider environmental agenda. These climate related risks and opportunities, together with a summary of our mitigations, are detailed on page 25.

Our initiatives to manage these risks and capitalise on the opportunities can be seen in our commentary on Tackling Climate Change and Improving the Environment on page 51. This details our strategic initiatives to address risks and benefit from opportunities for our business. We have been instrumental in the development of our Future of Gas innovations with HyDeploy, HyNet and Transport Pathways. We are leading this work with our partners in order to re-purpose the gas network to provide access for consumers to green fuel heating into the future.

We recommend our Environmental Action Plan ('EAP') is referred to for full details of our actions and initiatives in this area.

Our three action plan areas are summarised here with further supporting actions:

Decarbonising our business operations

Over 97% of our business carbon footprint relates to leakage from our iron and steel pipe networks. Our RIIO-2 plan is funded to further reduce this leakage through continued replacement of these iron and steel pipes with polyethylene (PE) pipes. This is supplemented with the continued application of monoethylene glycol (MEG) where iron and steel networks remain. We are committed to driving down the emissions from our operations, prioritising activities to reduce leakage with a further commitment to reach a net zero non-leakage business carbon footprint ('BCF') by the end of the RIIO-2 period. This target net zero ambition excludes most shrinkage related emissions but we have included our own use gas within this key climate change commitment. This commitment reflects the urgency with which we view the need to address emissions directly under our control, and align closely with the Government's net zero pathway.

Reducing our environmental impact

As a responsible business, it is incumbent on us to become more resource-productive, to manage our consumption of finite natural resources and reduce the amount of waste material that we dispose of. We have embedded a highly effective environmental management system and supporting control measures to avoid or mitigate environmental impacts, and have used the system to show how we can drive even greater performance through the RIIO-2 period.

We have already made significant progress in managing our waste. Our contract partners are routinely exceeding Ofgem's target of sending less than 10% of waste spoil and excavation to landfill. In parallel, we have driven significant reductions in our waste management performance.

We have applied a parallel focus on managing waste from our direct operations. In 2015/16, over 25% of our waste was sent to landfill. This was reduced to 20% by 2018 and is currently below 14%. Through mapping the fate of our waste through the waste management chain, we have demonstrated that there are key opportunities for us to improve further. In particular, we will address behavioural, organisational and technical factors that are resulting in some recyclable materials and natural resources being either landfilled or incinerated as fuel rather than being recovered. This results in loss of the financial and intrinsic value for reuse of valuable non-renewable natural resources.

We have partnered with the Supply Chain Sustainability School, achieving Gold member status, and have used their resource videos to help educate our colleagues/supply chain on sustainability topics including waste management. At present 83% of our supply chain attributable to the scheme are registered representing an approximate annual spend of £750m. This provides an opportunity for us to increase knowledge and help our colleagues to support sustainable practices. The school connects us with products and services across the world with the aim to reduce environmental impact, improved continuity of supply, protecting against reputational damage and enabling the potential for new partnerships.

Facilitating the low carbon/emission system transition

Our EAP sets out how we are responding to the urgent need to decarbonise the energy system. It describes how we are applying whole energy system thinking to support decarbonisation and the energy system transition, as well as wider stakeholder driven environmental and economic considerations, including clean air and economic growth.

We show a pathway where energy efficiency and low carbon gases and hydrogen combine to deliver the climate change targets. This also sets out how we are determined to drive this transformation to secure a net zero future.

We had previously undertaken scenario analysis in the development of our strategies, particularly in the area of decarbonising the network and how the costs of the varying options influenced strategic direction.

However, many components of these scenarios became redundant following passing of legislation in 2019 requiring the Government to reduce UK's net emissions of greenhouse gases by 100% relative to 1990 levels, effectively making the UK a net zero emitter. The Government's Ten Point Plan effectively removed the option of fossil fuel gas as a form of energy use in the future.

These changes have influenced our strategy, but we recognise the need to undertake scenario planning in the coming months for our networks due to each having different characteristics and a 'one size fits all' approach not being appropriate.

It is clear from the Ten Point Plan that hydrogen is going to play a major role in the future of energy provision for customers. Therefore, we will continue to be a leading force in our development work with hydrogen, enabling networks to support this as much as possible through future proofing our networks via our repex programme. This work not only makes networks hydrogen ready it also improves leakage reduction in our current state.

The financial resilience to climate change has also been considered by assessing the financial impact of the different scenarios. Management have concluded that our network can be adapted to use alternative technologies in line with our policy. Management have also considered the impact of net zero on our underlying cash flows used in valuation of assets and concluded that our valuation methodology remains appropriate and consistent with the regulatory model used by Ofgem.

Risk management

Our climate change risks are managed in line with our overall risk management framework. This includes a thorough, consistent and documented approach to identifying, assessing, treating, monitoring and reporting risks. All our risks are recorded in our enterprise risk management system, and are scored on a unified scoring scale, providing consistency, comparability and visibility of risks and how they are being managed. Risks, including climate risks, are each assigned an owner who is responsible for managing it, within our overall governance structure.

The risk that we 'fail to respond to climate change and biodiversity' is one of our 'Principal Risks', and it is overseen by our Executive Committee and Safety and Engineering Committee. These Committees review the risk and its management and consider performance against targets and changes in the business environment that impact or present us with new climate related risks. These are then reported to and reviewed by the Board/relevant Board Committee as appropriate.

Ultimately our climate related risks and opportunities can be categorised as having one of two main causes:

- Physical impacts that need to be adapted to, such as increased severity of extreme weather events (acute) including storms, droughts and floods or longer term shifts in weather patterns (chronic). We also consider the steps necessary to minimise our impact on the climate and biodiversity;
- Transitional impacts: associated with the transition to a low carbon economy, for instance from changes to policy and legal actions, technology, market and reputational concerns.

We are applying whole energy system thinking to support decarbonisation and the transition to a low carbon energy system, as well as wider stakeholder driven environmental and economic considerations, including clean air and economic growth.

Climate-related financial disclosures continued

Our climate related opportunities arise from the transition to a low carbon economy, and in finding new ways of meeting our customers' needs in that context.

These climate related risks and opportunities, together with a summary of our mitigations, are detailed on page 51.

Metrics and targets

Our metrics and targets have been developed through engagement with not only company strategy and risk but also to satisfy our regulators and customers.

Our Scope 1 and 2 metrics are well developed. We have made good progress in reducing our business carbon footprint, as defined, and reported throughout our RIIO-1 regulatory reporting. We have outperformed Ofgem's targets set for 2020/21 and will continue to drive further reductions in areas within our direct control.

Overall, the target was to reduce our aggregate Scope 1 and 2 emissions by 20% during RIIO-1 from a 2012/13 level of 48,691 tonnes CO_2e (excluding Shrinkage).

For Scope 1 emissions, we targeted a 5% reduction over the RIIO-1 period and have achieved a 9.71% reduction.

For Scope 2 emissions, we targeted a 27% reduction over the RIIO-1 period and have achieved a 43% reduction.

We have outperformed our emissions targets throughout the RIIO-1 period. For emissions defined in BCF as Scope 1 and 2, we have outperformed having achieved an overall reduction of -27% compared to our 1990 baseline (at the end of 2020/21).

For each area of our business carbon footprint, we have identified an ambitious set of actions, which we have then extended and challenged further to make them as stretching as possible.

We are improving depth and accuracy of our Scope 3 metrics with our suppliers, again in conjunction with the Sustainability School resources.

We have an established Global Supplier Code of Conduct which requires all suppliers to meet the standards we set in environmental and social performance. As part of this, we require specific disclosure of data relating to emissions impact.

During RIIO-1, (eight financial years from April 2013 to March 2021), we recorded and reported on indirect, Scope 3, emissions embedded in pipe and fittings used in mains replacement (see below) and contractor vehicle usage.

Through the RIIO-2 period we will extend our accounting and reporting of Scope 3 emissions to include other principal indirect emissions and engagement more widely in our supply chain.

We will account for the indirect emissions associated with the management of waste, initially using DEFRA conversion factors to establish baseline values. We will work with our waste management contractors to establish emissions from transport and other related activities arising from the management of our waste. This would include any potential emissions gain through the use of our waste as feedstocks in waste to energy facilities.

We will work with our in-house Estates Team and third party providers to develop the data to account for the indirect emissions due to our use of cloud based computing solutions in parallel with the reduction in our own energy use. This would help prevent masking of direct emissions reductions by exporting the emissions to a third party.

We will also implement a common standard for sustainability options appraisal and carbon accounting in construction and other capital projects. This has been piloted within the Integrated Security Solutions project and has led to new best practice. This includes using hydrogen fuel cell lighting on our construction sites and major redesign of key aspects of the civil engineering design.

Accounting for carbon will be used as a decision support tool in design and project delivery, optimising material usage and transport which are frequently the most carbon intensive elements of a project.

Contractor vehicle emissions will be measured and subject to the same goals as for our own direct operations.

We have clearly developed targets to manage climate-related risks and opportunities and performance against target. We have committed to a carbon target that aligns to a Science-Based Target methodology on a well below two degrees trajectory and will be submitted for verification and publication to the SBTi once the SBTi's Oil and Gas Industry consultation document is approved. In addition, we have linked aspects of performance against targets to employee remuneration incentives, to further embed our culture of sustainability.

We have also developed our waste targets and are baselining our biodiversity targets.

Over the coming 12 months and beyond we will review our current climate related risks and opportunities with a view to greater application of TCFD recommendations providing clearer and more relevant targets to reapply to our risks and opportunities.

Our continuing TCFD journey will focus on:

- Further refining and quantifying our significant climate related risks and opportunities;
- Enhancing governance and management of climate related issues;
- Developing our scenario analysis to further assist with our assessment of the impact of climate related risks and opportunities on our business.

Reduction for Scope 1 emissions

9.71%

reduction against a 5% target

Reduction for Scope 2 emissions

43%

reduction against a 27% target

Transforming the environment, our future and our social purpose

Keeping people warm, while protecting the planet

Being a 'Force for Good'

We are developing a Force for Good strategy, to demonstrate our commitment on the expectations that we will make life easier, fairer and greener whilst creating a lasting and positive social impact for our colleagues, customers, communities, supply chain and the environment. We have engaged with a wide range of stakeholders and customers to ensure we remain at the forefront of society's changing needs. In the last 12 months we have been enhancing our brand position and aligning society's expectations for us to change. We have developed the right balance to focus on our business priorities of today whilst setting ourselves up for our longer term purpose; to protect the planet by transitioning to low carbon energy sources.

Being a force for good through our corporate, social and sustainability responsibilities is not new for us and you can read more information about what we are doing in this section. We already do a great deal of work to transform our environmental impact, our future and our social purpose and we are being seen as leaders by many in our strategy to support customers in vulnerable situations. We thrive on taking action to move strategies forward, and by doing so take great strides to deliver new initiatives at scale by leveraging our expertise across our networks. Our new purpose is underpinned by our four new values and will be linked to performance objectives so we can demonstrate transparency, and colleagues can take personal accountability for their actions to deliver social impact.

Our Force for Good strategy will drive our impacts beyond our day to day activities and our newly established Sustainability Committee will provide our focus to deliver on our ambitions. The Committee will make sure our actions are aligned to the UN Sustainable Development Goals, setting best practice whilst enhancing our reputation in the communities where we live and work. Later this year we will be publishing our strategy which will set out our agenda and commitments for the future.

Transforming the environment

Positive environmental action

Managing the environment is more than just minimising our impact and the impact it has on us; it's about taking positive action to be resilient when faced with environmental changes while providing a greener, more responsible and sustainable future. High standards of environmental performance are core to our ambition to become a net zero organisation. Protecting and enhancing the environment through continuous improvement and key innovations will lighten our footprint and create long-term benefits for our customers, people and stakeholders.

Our environmental ambition is underpinned by three primary commitments described in our climate change statement on page 51.

We strive to innovate in our day-to-day operations, continuously improving and finding new ways to deliver the highest standards of environmental performance, embedding it as part of our everyday activities and decision making, right across our networks and geographical footprint.

We are committed to reducing our carbon footprint in line with the latest science methodology. A key goal to achieve our ambition will be to ensure our targets are verified by the SBTi as we progress through 2021.

We will shortly be submitting a Science-Based Target, relating to our carbon emissions, for verification with the Science-Based Target Initiative[1] (SBTi). The target is consistent with our RIIO-2 Environmental Commitments. The target is defined as a reduction of -43% relative to our 2019/20 Scope 1 and 2 emissions over 15-years, and is based on a "well below 2ºc" absolute contraction[2] approach. The target is primarily derived from the volume of iron mains replacement we have been funded for in our current regulatory price control, between 2021 and 2026, as estimated losses[3] from our iron mains represents 97% of our current emissions. We view this target as an interim step that reflects our current regulatory settlement. However, our longer term ambition is to significantly accelerate investment in our assets, subject to Ofgem regulatory approval, and to facilitate the introduction of green gas into our network, which will enable us to move towards a more aggressive 1.5ºC profile[4] thereby bringing forward the date Cadent will achieve net zero to nearer 2040. We are working towards meeting our environmental and net zero ambitions as outlined above, and when we describe our commitment to net zero throughout our Annual report and accounts it is in this context.

We are committed to continually improve and will sign up to the United Nations 'Race to Zero', a commitment to achieve net zero ambitions and minimise temperature rise to 1.5ºC. We continue to align our activities to deliver against the UN Sustainable Goals and have recently become a corporate member of Support the Goals achieving a five-star rating.

Our annual Safety & Sustainability report sets out our delivery of more sustainable outcomes, best practice governance and transparency. This sets out our metrics, measures and how we track performance against our ambition. These include working with customers in vulnerable situations, decarbonising energy and the future role of gas and the transition to a low carbon emissions energy system, alongside environmental sustainability and responsible business practices.

We understand that being transparent about our performance to all stakeholders is essential to maintaining the trust of customers and colleagues alike. An important part of building this foundation is by improving our range of engagement activities underpinned by a clear Safety, Health, Environment and Security (SHES) framework.

Our first hydrogen-powered construction site

Off-grid energy generators are required to power welfare facilities at our construction sites where a connection to the electricity power grid is not possible. Traditionally this would be a diesel-powered generator. We are targeting the first hydrogen-powered construction site through a pilot project due to begin this summer. We approached GEOPura supplier of off-grid renewable solutions, to see if they could work with us to help reduce the emissions we generate from our major construction projects recognising that we need to look across our work activities to deliver a net zero ambition. Meriden Water, dubbed the greenest re-development in London was chosen to pilot our ambition to deliver net zero construction projects and this involves powering our construction site with zero emissions hydrogen. A hydrogen fuel cell will be placed in a storage container on site, powered by a tanker full of hydrogen which will remain on site until low in supply, at which point the tanker will be replaced with a full one enabling the site to be supplied with clean, hydrogen-fuelled power.
If the project were to go ahead and be traditionally powered then 28,066 tonnes of CO_2 equivalent would be emitted into the atmosphere, we hope to save this amount of CO_2, the equivalent uptake of 2200 trees, by trialling our first hydrogen fuelled construction project paving the way for this to become the new way of working in the future.

1 Science-Based Targets Initiative, SBTi, defines and promotes best practice in setting science-based targets for carbon reduction that are consistent with the Paris Agreement. The SBTi independently assesses and approves companies' targets in line with its strict criteria.

2 Well below 2ºC is a term drawn directly from the Paris Agreement requiring "the increase in the global average temperature to well below 2°C above pre-industrial levels" Absolute contraction is a carbon reduction profile, consistent with achieving the Paris Agreement and aligned with the requirements of the SBTi.

3 Licenced Gas Distribution Networks use an Ofgem approved leakage model to derive annual network losses. Scientifically ratified leakage rates and rules are applied consistently to each network's asset base to estimate fugitive emissions, own use and theft.

4 1.5ºC profile is a more aggressive carbon reduction target, recognised by the SBTi, based on limiting the increase in the global average temperature to 1.5°C above pre-industrial levels.

Transitioning to a more sustainable future

Transition Bond issuance

In February 2020, we conducted a series of debt investor meetings throughout Europe to introduce investors to the Transition Bond Framework and communicate our broader ESG ambitions. Members of the senior leadership team met with investors in London, Amsterdam, Paris, Frankfurt and Munich. The feedback on the Framework and Strategy was positive, with investors supportive of our approach to a transition labelled issuance.

Following the successful roadshow in March 2020, Cadent (rated Baa1 by Moodys and BBB+ by S&P and Fitch) issued the UK's first Transition Bond. The bond was eight and a half times oversubscribed, highlighting strong investor appetite to support the energy transition in the UK.

The proceeds of the 2020 issuance were used during the 2021 financial period. We issued our second transition bond in March 2021 with proceeds and reporting to be completed in March 2022.

Impact of the allocated projects

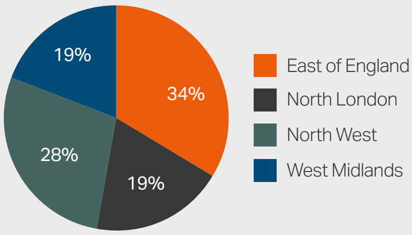
The impact of this spend allocated can be calculated using Cadent's Ofgem approved leakage model for 2019/20, which is prorated to the allocated proceeds amount (£439.2m). The impact of this spend is summarised in the tables opposite.

The leakage model underpinning the impact calculations in this report is the Shrinkage Leakage Model (SLM). It is used by each Distribution Network to calculate emissions from the transportation network. The SLM was built by Advantica and the methodology within it is agreed by Ofgem.

Ofgem do not provide procedures or guidance as to how to complete the SLM, however the Distribution Networks meet periodically to ensure a standardised set of modelling rules. On an annual basis the Distribution Networks have a licence obligation to review the methodology and application of the SLM and to investigate ways to improve the accuracy of the calculation. Changes to the methodology within the SLM requires Ofgem approval and expert review.

Read more about our Transition Bond Framework here https://cadentgas.com/about-us/our-company/investor-relations/overview/transition-bond-framework

Reduction in leakage as a result of the 2019/20 Repex project (in GWh/yr)



	East of England	North London	North West	West Midlands	Total Cadent
Reduction in Leakage (GWh/yr)	12.5	7.1	10.4	7.1	37.1
Annual GHG emissions avoided (in tCO_2e)	15,304.1	8,723.3	12,793.4	8,727.5	45,548.3

Transforming the environment continued

Environmental Management System

To ensure that we fully manage our environmental obligations and responsibilities to keep people warm, while protecting the planet, we work with internal and external stakeholders to identify applicable compliance requirements along with any significant areas of environmental impact. Our operations are covered by an Environmental Management System, which in 2020 was re-certified to the latest ISO14001:2015 standard. The Environmental Management System sets out our environmental procedures to identify, manage and control potential environmental impacts of our operations and activities. During 2020/21, we completed a series of internal environmental audits to ensure compliance across the business, and to provide assurance for the environmental management at our depots. The Environmental Management System defines our key objectives and ensures compliance with our obligations and supports our employees to drive continual environmental improvements. We were not subject to any environmental fines or prosecutions in 2020/21.

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

In 2020, we submitted our second Global Real Estate Sustainability Benchmark (GRESB) Assessment. GRESB is the environmental, social and governance (ESG) benchmark for infrastructure. We have successfully improved our 2019 score of 66% by nine percentage points to 75% in 2020 and maintained our four-star GRESB rating. We will widen our ESG reporting in 2021/22 to include Sustainalytics and MSCI benchmarks.

Reducing our greenhouse gas emissions

We recognise the responsibility to support the UK to meet its greenhouse gas target and have committed to medium and long-term targets to reduce our greenhouse gas emissions. Our target was to reach 45% by 2020 and we have successfully reached 69%. Moving forward we have set a GHG target with the help of the Carbon Trust. The target has been developed using the Science-Based Target methodology. This target is a -43% reduction by 2036 relative to the 2019/20 baseline. We are working towards collecting a broader range of data from our suppliers to better understand our Scope 3 emissions and will move this work forward over the RIIO-2 period. This will include measuring key material, transport and energy use across our supply chain and, for example, reducing embedded carbon in PE pipe and fittings and focus on reducing PE pipe waste. Throughout 2021/22 we'll be ensuring data is collected to provide a baseline for improvement.

More than 97% of our greenhouse gas emissions are from gas lost from our network, known as shrinkage. Through our repair, maintenance and mains replacement programme we have replaced damaged or low-quality pipes with new plastic alternatives which results in lower leakage from the network. Leakage from our network in 2020 was 0.4% of total throughput and our mains replacement programme will continue to deliver this year and in future years.

Streamlined Energy Carbon Reporting

The table on page 62 quantifies our business carbon footprint in tonnes of CO_2 equivalent and shows performance of our emission reduction activities against our RIIO targets.

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

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

We ensure that we procure efficient vehicles for our fleet and have placed a cap on company car emissions, and offer 'green' incentives to company car users. These incentives are aimed at encouraging efficient, low emissions choices which are taken up by 43% of drivers. Our new company car scheme will offer electric vehicles only and a cash alternative voucher will encourage the purchase of low/zero emissions vehicles.

For 2020/21, we decreased our overall BCF emissions by 22% compared to the previous year. The data reflects the climate in which we worked throughout the year due to the pandemic. All office colleagues worked at home where possible and our operational programme mainly consisted of essential works.

Scope 1 emissions: In 2020/21 Scope 1 emissions (excluding shrinkage) decreased by 2.1% compared to 2019/20. The emissions for business mileage (company cars) were 36% lower compared to 2019/20, reflecting the change in working practices throughout the year due to travel restrictions, a continued focus on reducing business mileage and increasing uptake amongst colleagues of low/no emission company cars. Direct (Cadent owned) commercial vehicle emissions are 3.4% higher than for the previous year, reflecting an increase in direct labour activity across our networks. Of the gas consumed at operational and non-operational sites, in 2020/21 we saw an overall 6% decrease in emissions (tCO_2e).

Greenhouse gas emissions reduction

69%

Our target was 45% by 2020

Suppliers

83%

are members or partners at the Supply Chain Sustainability School

Scope 2 emissions: Emissions related to electricity consumption across operational and non-operational sites have decreased in 2020/21 by 12%. This reflects a reduction in electricity use across our occupied sites and a reduction in the published DEFRA conversion factor. We procure 100% renewable electricity through our energy provider, certified by a Renewable Energy Certificate.

Scope 3 emissions: Overall emissions decreased by 38% compared to 2019/20. This was due to a decrease in tCO_2e emissions associated with polyethylene (PE) pipe procurement through the reporting year compared to 2019/20. Emissions associated with travel (including air, rail, and casual mileage via car hire) decreased by 98% compared to 2019/20. The pandemic was the main contributing factor for this and saw use of air, rail and hire cars cease throughout the 2020/21 year.

We have made good progress in reducing our business carbon footprint, as defined and reported throughout our RIIO-1 regulatory reporting. We have outperformed Ofgem's targets set for 2020/21 and will continue to drive further reductions in areas within our direct control. We are committed to leading on sustainable gas usage and have identified wider use of the renewable compressed natural gas as transport or heating fuel as a route to delivering a low carbon future.

We are also at the forefront of developing and understanding the role that hydrogen will play as a low or zero-emission fuel for the future.

Renewable energy

We are always looking for opportunities to reduce our environmental footprint, particularly in relation to our energy consumption and greenhouse gas emissions. Through our energy procurement contracts, we secured access to certified renewable sources of electricity. Through 2020/21 we procured 100% renewable energy, reducing our Scope 2 carbon footprint. This energy covers approximately 95% of our locations. A small amount of our depot locations are leased and therefore use the energy procured by the landlords.

We have contracted for the provision of 100% certifiable renewable energy to meet the electricity needs of our offices and depots by 2024, reducing this element of our business carbon footprint emissions to zero and we are targeting reducing all utility energy consumption by over and above the 43% reduction we have already achieved throughout the RIIO-1 period.

Managing our resources

We engage our people and work with external partners to minimise the avoidable waste we produce. Through 2020/21, optimisation of waste management at specific locations helped improve our recycling rates and cost efficiency. Our Gas Distribution Strategic Partners are incentivised to recover, reuse or recycle 90% of the spoil they generate from excavations and streetworks, and use less than 30% first use aggregate for backfilling. Overall, our partners are outperforming these targets, currently diverting 97% of spoil from landfill and only importing 17% of first use aggregate. In 2016 we introduced our goal of zero avoidable waste to landfill by 2021/22, acknowledging that a small proportion of waste will not be able to be diverted or recycled. In 2021/21, 3.71% of our non-operational waste went to landfill, which is a 3.2% reduction from 2019/20. We will continue to develop our recycling waste streams and facilities, educate our colleagues to change behaviours and embrace innovation to deliver further improvements.

Reducing our waste

We have removed all single use plastics such as cutlery from our offices and depots through a combination of incentives and removal of unsustainable choices such as plastic packaging for materials. Over the past year we have been working with our supply chain to target the removal of single use plastics and have an ambition to eliminate all avoidable plastic across the supply chain by 2025. We ask potential suppliers to demonstrate how they will support this objective during the tendering process including the reduction of packaging or substitution for more sustainable alternatives.

We have partnered with the Supply Chain Sustainability School and have used their resource videos to help educate our colleagues on sustainability topics including waste management. This provides an opportunity for us to increase knowledge and support sustainable practices. We'll also continue to work with our waste management provider to optimise recycling waste streams and ensure our sites display best practice to further improve waste segregation and reduction. Moving forward we will target and incentivise colleagues to reduce overall total tonnage of general waste to support a reduce, reuse and recycle culture.

Environmental training

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

Limiting our environmental footprint and improving biodiversity

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

Our new biodiversity strategy will ensure that we always deliver a net neutral impact on the environment as a result of our operations, but wherever possible the ambition is to deliver a net gain. Although we don't have a large landholding, we'll work to improve the land we do occupy, and we will undertake the Wildlife Trust's biodiversity benchmarking process to ensure that our action plans are robust and conform to externally assessed standards. We'll start to improve our sites by completing habitat surveys to identify suitable sites and our Warrington depot will be used as a pilot project to demonstrate part of a baseline in site biodiversity.

Environmental performance

GHG emissions and energy use data for period 1 April 2020 to 31 March 2021

Scope 1 and 2 (Direct emissions)	Current reporting year 2020/21	Comparison reporting year 2019/20
Gas usage from our sites /tCO_2e Scope 1	1,117.00	1,044.00
Natural gas shrinkage (Leakage +Theft of Gas+ Own use of gas)/tCO_2e Scope 1	1,633,445.50	1,714,767.20
Fuel usage from Commercial vehicles, company cars and grey fleet/tCO_2e Scope 1	19,684.00	19,841.00
Purchased electricity for own use (Location based) /tCO_2e Scope 2	6,446.08	7,318.80
Total Scope 1 and 2 /tCO_2e	1,660,692.58	1,742,971.00
Scope 1 and 2 Energy consumption /kWh as above	1,207,110,314.00	1,155,121,526.00
Intensity metric: Total Scope 1 and 2 tCO_2e per £m turnover	800.33	824.09
Intensity metric: Total Scope 1 and 2 tCO_2e per km of our gas network	15.16	15.95

Scope 3 (Indirect emissions)		
Business travel /tCO_2e Rail, Air, Ferry, Car Hire	6.00	278
Emissions from production and delivery of purchased PE pipe /tCO_2e	17,777.00	20,039
Contractor vehicles /tCO_2e	5,706.00	17,648.56
Total Scope 3 emissions /tCO_2e as above	23,489.00	37,965.56
Total annual net emissions /tCO_2e	1,684,181.58	1,780,936.56
Intensity metric: Total emissions /tCO_2e per km of network length	15.38	16.30
Intensity metric: Total emissions /tCO_2e per £m turnover	811.65	842.05
Intensity metric: Total emissions /tCO_2e per GWh throughput	6.37	6.54

Background – Methodology

Data for Scope 1 and 2 (excluding Shrinkage) provided here is in line with annual Business Carbon Footprint reporting using DEFRA conversion factors. Conversion factors are updated annually. Shrinkage is calculated using GWP28 (for methane). Additional lines for scope 3 reporting, such as contractor vehicles have been added here for full disclosure and in line with annual returns to Ofgem. Where market-based factors are stated these are provided annually by our electricity suppliers. Total annual net emissions figure uses location-based methodology. Intensity metrics have been discussed via the Energy Networks Association (ENA).

Our GHG emissions have been reported using the latest GHG Protocol Corporate Accounting and Reporting Standard consistent with the Task Force on Climate Related Financial Disclosures. We have calculated shrinkage (methane) using the GWP28 methodology and other emissions have been calculated using the relevant DEFRA conversion factor. In previous years we have aligned our financial reporting of emissions with our regulatory reporting to Ofgem, which requires us to use the older GWP25 methodology. This change in approach will result in a small difference between regulatory and financial reporting for 2020/21 only. For consistency we have also updated 2019/20 figures using GWP28 to facilitate comparison.

Environmental progress indicators

0.649
Employee LTIFR

0.664
Contractor LTIFR

96%
% of non-operational waste recycled

69%
Percentage reduction in GHG emissions since 1990

97%
% spoil recycled

0
Number of Serious Environmental Incidents

Our future

The importance of green gases in the delivery of net zero

Our focus is on enabling an effective transition of our gas network to green gases and over the past year, the UK has embraced the net zero challenge as the impacts of both climate change and a global pandemic have offered a rare opportunity to both think about and tackle things differently.

We have organised ourselves to be the most effective in thinking about the near, medium and long-term solutions where the existing infrastructure, that our customers have already paid for, can be repurposed to carry low carbon gases. We have invested significantly in our Future of Gas programme over the past year, which has created a positive momentum both across our research activities, but also in providing a clear pathway for hydrogen as a viable energy source for the future. This covers both blending hydrogen into the gas network at a concentration of up to 20% and then later, a full transition to 100% hydrogen in the gas network. Our work, combined with the collective work across the sector, culminated in November 2020 with the Government including hydrogen as a key component of the Ten Point Plan for a green industrial revolution and the commitment to the production of a Hydrogen Strategy for the UK in 2021.

There is now more certainty of the role that hydrogen will play in the future of the UK. The UK's gas pipe network is an asset of enormous value and one which we can operate and should continue to serve the country for many years to come. Fortunately, this network can be adapted to deliver low carbon green gases, such as hydrogen and biomethane. Over the past year hydrogen has been discussed as a central component of achieving net zero, because of its ability to support the decarbonisation of areas previously thought difficult to reach.

Due to the flexibility of hydrogen as an energy vector, it is expected to play a significant role in the decarbonisation of industry, flexible power generation, aspects of transport and heat. Hydrogen is recognised as a key component in creating a balanced and resilient energy system, allowing the peak demands of winter energy needs in the UK to be met at lowest cost to the customer. Hydrogen is a place to store energy, and utilising the gas network for this plays to the strengths of the sector, allowing electricity and gas to work in tandem. The amount of hydrogen required in the future is still an area of much debate, but most net zero pathways centre around a figure close to 300 TWh of hydrogen per year. This is as large as the current annual UK electricity demand. Kick starting the hydrogen production has already begun, with a focus around the industrial clusters in the UK (e.g. Aberdeen, Teesside, Humberside, Merseyside). Supported by the Government's industrial decarbonisation mission, these locations will be where hydrogen happens first, and we are pleased to share more about the progress made with the HyNet North West project here. The role of hydrogen in domestic heat is also becoming more certain as the strengths of utilising the gas system are becoming clearer from both a safety aspect, but also the technical feasibility of both blending hydrogen into the gas grid and the successful development of hydrogen ready appliances. Hydrogen provides a low disruption pathway to heating homes for consumers, without the potential hassle associated with some of the electrified options on offer.

Future of gas programme

As set out in our last annual report, our Future of gas programme has been focused on all aspects of innovation required around a future hydrogen economy. In order to share our progress, we have split the programme into three core areas.

Advocacy:
Building stakeholder and consumer knowledge for a green gas future through sharing information.

Safe and technically feasible:
Gathering the necessary technical evidence to demonstrate that hydrogen is safe and technically feasible across the value chain.

Transition planning:
Designing the future hydrogen network and how we transition safely and cost effectively to it.

Sharing our knowledge about hydrogen

The general level of understanding about the gas sector and gas networks and their role in delivering energy to the UK is quite low. It has not been high on the political agenda and has been so reliable in providing the backbone for both power generation and delivery of heat for homes, that it has almost been forgotten about as the essential component that it is. There has been significant focus on the renewable electricity revolution over the past ten years, enabling the growth in the generation of electricity from wind and solar. Gas now needs to do the same, in creating momentum behind the low carbon future version of itself. The first hurdle is education. Our advocacy programme has had the foremost aim of getting the decarbonisation of the gas grid on the national and regional political and public agenda, by providing information and education about the cost-effective role that it can play and what the gas industry needs from Government to enable this to happen.

Our future continued

Our external affairs team together with senior members of the business have spoken at over 300 events over the past year, made possible through the increased use of online webinars, conferences and forums bought about by the pandemic. This has included speaking at webinars, political engagement, cross sector working, and collaborative workshops, including groups such as the Energy Networks Association and their Gas Goes Green campaign, as well as the Confederation of Business Industry and the Hydrogen Taskforce. The teams have used these platforms to share the research and trial outputs, in support of the case for including Hydrogen in the UK's energy plans. Our close engagement with key members of the Government and their advisors, has already helped influence the Government's Ten Point Plan, where the language has moved away from banning boilers, to moving to hydrogen ready boilers and referencing large scale blending trials and industrial clusters, such as our own flagship project, HyNet.

Meet HYDEE

In October 2020, we launched our dedicated future of gas pages on our website. Our aim has been to use this platform, to raise awareness and understanding around both the natural gas currently in our networks, but also the need to move to greener gases, such as biomethane and hydrogen and the work we are doing to achieve this. In order to make visits to our site informative, but allow for an element of interaction, we launched the first Hydrogen chatbot in collaboration with Google Cloud, which following an internal naming competition, we have called HYDEE (our Hydrogen Digital Education Expert). The chatbot enables people to ask all manner of questions around the future use of gas. There have been over 4000 conversations with HYDEE. We monitor the questions being asked, to ensure that HYDEE is always learning and able to respond to questions as new policies and decisions emerge.

We know how important it is to bring our stakeholders and employees along with us and have successfully launched both internal and external web content this year on the Future of Gas programme, such that our own employees can act as educators and ambassadors; this also includes launching the first ever hydrogen chatbot.

Say Hy to the home of the future

The UK's first public homes with household appliances fuelled entirely by hydrogen are set to be built in Low Thornley, Gateshead, providing the public with a glimpse into the potential home of the future where no carbon emissions are released.

The two semi-detached homes, funded with the help of the UK Government's Hy4Heat Innovation programme, Cadent and NGN, will open in April 2021, showing how hydrogen has the potential to be used as a clean replacement to natural gas in the home.

Today, 86% of homes in the UK use natural gas for heating. The new hydrogen homes will use 100% hydrogen for domestic heating and cooking in appliances including boilers, hobs, cookers and fires.

Unlike natural gas, which when used for heating and cooking accounts for 15% of greenhouse emissions in the UK, hydrogen produces no carbon at the point of use, with the only by-product being water.

The project secured a £250,000 grant from the Government's Hy4Heat Innovation programme and is being run by Cadent and NGN, who have both input £250,000 of funding each.

The houses are planned to be open to members of the public, who will be able to view appliances and see how they compare to existing ones. Local schools, colleges and universities will also be welcomed to learn about the new technology, as well as potential careers in the emerging green economy and in science, technology, engineering and maths (STEM) subjects.

Hydrogen Home

Northern Gas Networks | Cadent Your Gas Network | Department for Business, Energy & Industrial Strategy

over 80%

of homes in the UK use gas for heating

20%

HyDeploy became first UK project to inject blend of up to 20% of hydrogen into gas supply

Safety and technical feasibility of hydrogen

For several years we have been working on the evidence required to demonstrate that both blends and 100% hydrogen are safe in a converted gas distribution network and in the home. The Government requires this information in order to make a policy decision on the inclusion of hydrogen for home heating. The safety aspects have been split across the gas distribution companies and has been made possible with effective and coordinated NIA and NIC funding. In addition, our programme to renew and replace older metal pipes with polyethylene (plastic) means that our network is capable of being repurposed for the transportation of green gases including hydrogen.

We have been focusing particularly on the development of blending hydrogen, as well as co-funding other key programmes such as the H21 programme, which is testing the compatibility of hydrogen with network assets. Blending hydrogen into the gas grid is important in the plan to achieve net zero and the Government Ten Point Plan has set a target to enable blending by 2023. This has been driven by our successful work on the HyDeploy project.

HyDeploy has completed its work demonstrating the blending of hydrogen into the private network at Keele University and this year we published a report detailing the necessary policy changes that would be required to make blending a reality. Blending into the gas grid not only enables an immediate reduction in the carbon emissions of gas users but provides hydrogen producers with certainty of demand. This is key to kick starting scaled hydrogen production in the UK.

We continue to see value in exploring the transport options for hydrogen and the role that the gas network may play in delivering such fuels in the future. Net zero has changed the transport landscape for heavy duty vehicles, marine and rail, with greater roles for biomethane in the short term, transitioning to hydrogen by the end of the 2030s. We initiated and have led the Transport Pathways project, which provides the 'first' detailed narrative describing the transition from biomethane to a hydrogen transport future. In parallel, we have continued to lead our ground-breaking work on hydrogen purification, ensuring we can supply fuel cell purity hydrogen from the gas network. 2020 has been a landmark year in the decarbonisation of our own fleet as we first committed to deliver a zero-emission fleet for our 1,100 gas escape emergency engineers, as well as using green gases to reduce the emissions from our logistics fleet, where we now utilise biomethane to deliver avoided green house gas (GHG) emissions in excess of 500 tonnes/year.

Transport pathways

Over the past year, we have led a study, in conjunction with the other gas networks, to understand the transition from the economy today, to a decarbonised economy, focusing on how the transition is achieved and the competing and complementary nature of different low emission fuels and technologies over time. Whilst the project has considered the whole economy, it focuses predominantly on transport, especially HGVs, as an early adopter of green gases and as a key enabler to net zero emissions.

The project has highlighted that biomethane has an important role to play in the pathway to net zero but will need to ramp up quickly to maximise its potential. Biomethane and hydrogen-powered trucks represent a substantial opportunity for green gases to accelerate transport decarbonisation by 2030. A large-scale deployment of these trucks would lead to a 38% reduction in emissions from trucks by 2030, compared to just 6% if decarbonisation efforts in this segment focus solely on zero-emission options. Beyond 2030, hydrogen trucks are expected to begin deployment at scale, but they will not initially compete for the same use cases as gas trucks, as early hydrogen vehicles are likely to be better suited to medium range applications. The project also explores the associated infrastructure needs, suggesting that around 170 re-fuelling sites for gas trucks will need to be deployed over the next decade to meet the growing demand for these vehicles.

The project has therefore enabled development of a green gas decarbonisation narrative, supported by a wide range of stakeholders which clarifies the path ahead and demonstrates how the use of biomethane and hydrogen are scaled up over time, and how they compete and complement one another.

Our future continued

Our flagship industrial cluster project, HyNet, has delivered on the pre-engineering design work and is now able to progress to the front-end engineering design and consenting phase. Our role in the consortium is the construction of the UK's first regulated hydrogen pipeline, that will distribute 100% hydrogen to multiple users and to blending points for the cities of Manchester and Liverpool. The consortium has gained much political interest over the year as we have bid and won the competition for funding from the Industrial Decarbonisation Challenge led by UKRI. Regional interest is high, due to the potential to both provide significant carbon emissions reduction, but to support the boost to much needed jobs and skills in the region. We are pleased that Ofgem have recognised the importance of HyNet and included the project in our RIIO-2 capital programme as a price control deliverable. HyNet is the only industrial cluster that covers the whole value chain for hydrogen and carbon capture and storage.

HyDeploy

In 2019, HyDeploy became the first project in the UK to inject a blend of up to 20% by volume of hydrogen into the existing gas supply.

Over the 17-month trial period at Keele University, the project focused on the safe management of the blending process. The project followed a strict management regime, which included checks on how the blend smelt, how it burned and how safe it was. There were also regular gas quality checks, to ensure the incremental increases in blending over the trial period could be safely managed, allowing up to 20% concentration of hydrogen to be blended into the gas network and on to the end user.

The project has proved successful, with the hydrogen blends having been safely and efficiently distributed to a broad range of users within the Keele gas network. This includes 100 domestic properties and up to 30 university campus buildings, such as office blocks, lecture theatres and laboratories.

During the trial, COVID-19 led to restricted site access and reduced demand on the network, with students returning home. The project was therefore extended until March 2021, to provide the opportunity to undertake further blending over what would be a vital winter period, with high probability of increased gas demand.

The HyDeploy project has been very successful in realising what it was set out to deliver. Consumers noted no difference between the hydrogen blend and that of their former gas supply and are proud to be advocates for this innovative project. The outputs of this project will be crucial in closing the evidence gaps needed to facilitate the future roll out of hydrogen blends.

HyNet

HyNet North West is a full chain hydrogen / CCUS project located in the NW, which is aimed at delivering full industrial decarbonisation across the cluster and providing the backbone for wider cross-sectoral decarbonisation. HyNet North West plans to be producing around 3.8GW of low carbon hydrogen by 2030, nearly 80% of the UK's target set out in the Government's Ten Point Plan. In development since 2016 by Cadent and partners Progressive Energy, HyNet North West has been through origination, feasibility and Front-End Engineering and Design (FEED) pre-phases.

In 2020 we have seen the emergence of the HyNet consortia, which consists of Progressive Energy (project integrators), ENI (CO_2 transport and storage), Essar (hydrogen production), Cadent (hydrogen network), Inovyn (hydrogen storage), CF Fertilisers (capture plant) and Hanson Cement (capture plant). Our role in the consortium is the delivery of a FEED and consenting package for the hydrogen network. This past year has been dominated by completing a Pre-FEED on the hydrogen pipeline, assembling a Basis of Design (BoD) and Scope of Work (SoW) for the FEED and consenting. There have also been several smaller work packages looking at detail in potential pipeline routes and some high-level Hazard Operations Assessments, to ensure that there is a level of integration across the hydrogen production, distribution and storage work packages. On the 1st March 2021 the FEED and Consenting phase commenced, which will ultimately lead to a final investment decision for the baseline projects in 2023 and operation in 2025.

Developing a decarbonisation pathway for Greater Manchester

We collaborated with Electricity North West on a sector-first piece of whole-systems planning to show how Greater Manchester (GM) could reach its ambitious target of being net zero by 2038, 12 years ahead of the UK's legally binding target. The scale of change required for GM's urban fabric, its residents' lifestyle and the way businesses operate is unprecedented. It will require concerted effort from all stakeholders. GM's existing building stock will have to be upgraded and heating technology replaced with zero carbon options (such as hydrogen and hybrid heating systems), at a rate of 400 properties a day – a scale which has never before been demonstrated anywhere in the world.

Commuters will be encouraged to walk or cycle, whilst all transport will be decarbonised. Industrial processes will have to be re-engineered to run on renewable electricity and low carbon hydrogen instead of conventional fuels. The work produced a pathway of cross-sector actions that need to take place over the remaining timeframe for GM to reach its goal. It also provided near to mid-term certainties over the future of energy in order to stimulate investment in low carbon technologies, inform stakeholders' net zero plans and signpost political lobbying and the necessary supportive regulatory framework.

The Greater Manchester Combined Authority has been positive about the work, which is now informing Local Area Energy Plans being developed for its ten local authorities. It has also led to continued collaboration between Cadent, Electricity North West and the Combined Authority to progress actions on the pathway. Further collaboration took place to develop decarbonisation pathways for Lancashire and Cumbria in the North West and we are also working with Scottish Power Energy Networks to develop a plan for the Liverpool City Region, Cheshire West and Chester and Warrington local authority areas.

Our future continued

Zero emissions vehicles that will get our engineers to emergencies pollution free

We're taking the road to a greener future by starting the journey to convert our fleet to zero emissions vehicles enabling our gas engineers to respond to emergencies across our London network pollution free. Engineers are now using five electric vans and five hydrogen response cars to patrol our North London network which includes parts of Berkshire, Buckinghamshire, Surrey and Essex. The new cars are hydrogen fuelled Hyundai's with a range of almost 400 miles. The only product of their emissions is water. The fleet decarbonisation initiative has seen demonstration vehicles operating in the North West and Eastern networks. The new vehicles have been bought as part of our commitment to introduce zero emission First Call Operative (FCO) vehicles and to have over 1000 zero emission vehicles across all our networks by 2026. This ambition provides a unique opportunity to encourage the development and supply of a new product, hydrogen vans into the UK market.

The new hydrogen fuel cell cars and e-vans are a first for us and represent a major step forward in working to achieve our RIIO-2 environmental goals. The London network was chosen as the first recipient of the new vehicles because of the availability of charging points and fuelling stations.

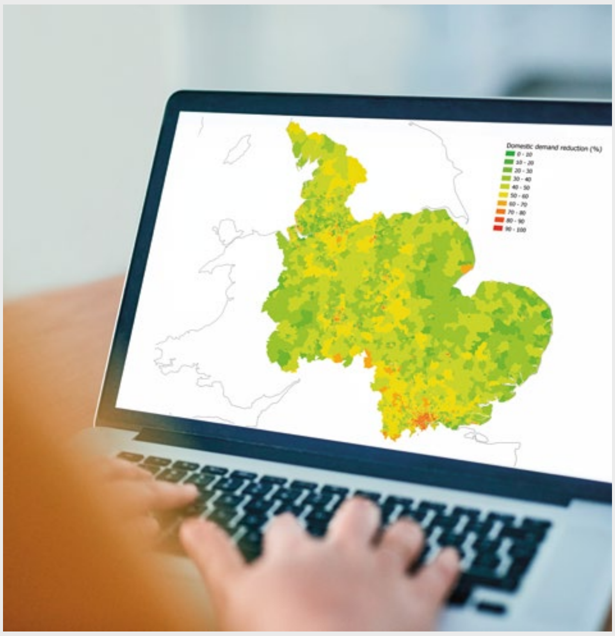
Our growing green fleet includes a pair of Iveco repair CNG vans in the North West and West Midlands network, with another CNG van expected to join the North West Network soon. For movement of large items, we have invested in a fleet of nine biomethane trucks. These vehicles will significantly reduce greenhouse gas emissions and help improve air quality. The trucks are cheaper to run, generating savings of around 38 per cent compared to diesel.

"It's a really exciting time to introduce these vehicles to our fleet as the required infrastructure is growing and developing rapidly. These vehicles will allow us to gain valuable feedback which will be used to determine our pathway to reducing the emissions of our fleet."

James Harrison
Director of North London Network

MyHeat

Our regional modelling tool, MyHeat, has been developed to serve two purposes. Firstly, to assist us in modelling future net zero pathways for the impact on our network, so that we can ensure we invest in the right infrastructure going forward, and secondly to assist in visualising to Local Authorities how the impact of net zero pathways might impact on their planning needs. With the independence provided by Element Energy, we have created a model that enables us to compare how some of these aspects influence the applicability of specific technologies in the home. The MyHeat model allocates homes based on their Energy Performance Certificate data to a specific archetype. This archetype is then assigned a merit order of applicable low carbon heating solutions, based on both the lowest whole life cost and specific applicability of that heating system to the home archetype. This enables us to explore street by street the likely low carbon heating solutions of the future, based on best fit for the home. Our model enables a view both on choices that might be made on the lowest whole life cost of a technology, but also on the lowest upfront cost. The outputs of the model include information on the specific heating technology changes required, along with information on future hydrogen and electricity demand.



Transition planning

A key part of planning the future is planning how a shift to green gases might happen in the most cost-effective way for consumers. We will need to establish a plan for this transition – much like the transition from Town Gas to natural gas in the 1960-70s – that works both technically, politically and most importantly for the people that we serve. Regional engagement on net zero activity has also been important. Many Local Authorities and Local Enterprise Partnerships have set ambitious net zero targets for their regions and are in the process of creating the plans that they need to deliver. Over the year, we conducted research into the specific needs of these groups when it comes to the support that we can provide in long term net zero planning. This research was used to develop tailored propositions that we can offer and includes a green gas education programme and a modelling tool that can be used to show how different net zero pathways would impact on the buildings in local areas. We have called this tool 'MyHeat' and we aim to launch it as a service to Local Authorities in 2021.

In addition, we have added additional senior resource to the team, to manage the complex stakeholder relationships regionally, to support the education of the future of the gas network and provide joined-up and collaborative solutions. One of these innovative solutions is the creation of clear net zero pathways. In Greater Manchester we teamed up with Electricity North West, to demonstrate how Manchester could reach its own 2038 net zero target through a pathway of specific actions covering the whole energy system. A joined-up view of both electricity and gas infrastructure providers is the first of a kind. The published pathway enabled the Greater Manchester Combined Authority to see specifically what actions the region needed to take, to meet their own net zero targets. Similar 'whole system' projects are now being established with SPEN and Liverpool City Region and other combined authorities across our region. These will be further refined into local area energy plans over time.

We continue to lead the gas networks in supporting growth of the UK biomethane sector, by turning food, farm and other wastes, otherwise destined for landfill, into a gas to fuel homes and HGVs. We now have 36 biomethane producing plants on our networks, with volumes entering our network equivalent to the heating demands of as many as 228,180 homes. We are encouraged that we have seen an increase in enquiries from our customers for connection of plants, with several plants confirmed for connection during 2021/22. This is driven from the certainty of a continued subsidy mechanism through the Green Gas Support Scheme. Specifically, we are seeing a move of existing Anaerobic Digestion sites, from a sole CHP to a combined, with a new gas to grid connection.

Biomethane producing plants

36

Generating enough biomethane for

228,180 homes

Our future continued

Total biomethane connections to the Cadent network

RIIO Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
No. projects connected (actual)	1	10	22	28	29	32	35	36
TWh Actual	0.07	0.64	1.44	1.78	2.03	2.38	2.52	2.63

Total connections to the Cadent network by type

Connection Type	East Anglia	East Midlands	North West	West Midlands	North London	Total
Biomethane	11	11	3	10	1	36
CNG Fuelling Stations	1	2	4	1	2	10
Power Generation Plants	12	43	39	8	6	108

Biomethane producers are currently required to add propane when injecting into our network, in order to bring the Calorific Value of the gas in line with our current billing method of Flow Weighted Average Calorific Value. This practice is both a cost and reduces the green credentials of the gas. Over 2020/21, Cadent's NIC project, Future Billing Methodology, has explored ways to alter the way we bill, which would avoid the need to add propane and inform how we look at hydrogen blending in the future. The project concluded in March 2021 and the resultant recommendations are now being shared with industry, to then be taken forward for further exploration.

COP26 and beyond

2021 is likely to be a pivotal year for the gas sector, the Government will publish its Hydrogen Strategy, which will set out the UK's ambition to build a hydrogen economy.

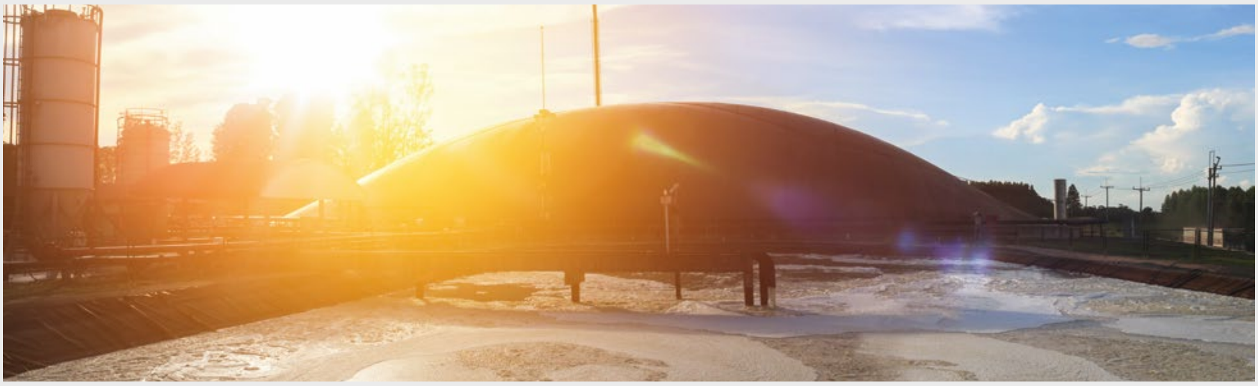
Similarly, there are expected to be key announcements relating to hydrogen and carbon capture and storage, that underpin the decarbonisation of industrial clusters, ahead of COP26. The conference is expected to be an opportunity for the UK to showcase how innovation in hydrogen sets the UK in the lead on the world stage.

We must continue to focus on developing the safety case for hydrogen in the gas grid and homes, that enables the next phases of demonstration projects and pilots to happen. We will also progress our support for the regulatory framework that enables hydrogen blending to happen. This is important as it unlocks a significant demand centre for hydrogen producers. Lastly, we will progress our plans to demonstrate how a town conversion to hydrogen could happen, whilst building on our economic assessments and consumer research, to ensure that heat decarbonisation is fair and just.

Future Billing Methodology

As we move to a network that conveys low carbon gases, such as hydrogen and biomethane, we need to develop a way of recognising the wider energy range of the gas we supply. The Future Billing Methodology project led by Cadent, is exploring ways to attribute energy values that are reflective of the gas being supplied at a local level. This will remove the cost of enriching biomethane to standardise energy content and enable hydrogen to be blended into the network, while ensuring consumers are billed in a fair and equitable way.

The project has involved the installation of sensors within the network to validate modelling software used across the industry today. The software has the ability to model zones of influence and mixing of gases from different sources to allocate energy content at a local level for consumer billing. The ultimate objective of the project is to 'prove the concept' and provide a recommendation of a future billing methodology that unlocks the full potential of the gas network to deliver low carbon energy.



Our social purpose

We are now at a pivotal point to reflect on the critical role we play in our communities; from transforming our operations and culture to maintaining safety and service levels, investing in our people, processes and systems.

Our role goes beyond delivering these core services and this can often have the greatest impact on the lives and communities we serve every day. Our social impact ranges across multiple levels, including how we engage ethically with our supply chain, our fundraising, charity partnerships, our EmployAbility programme and employee volunteering opportunities.

Over the past 12 months we have invested in our colleagues who are responsible for delivering our environmental, social and carbon monoxide awareness ambitions and we have appointed Board and Executive sponsors for each area. We have tried to help wherever we can in our communities, and this was exemplified by the extensive volunteering activities that so many of our colleagues signed up for during the year. The pandemic has highlighted the way in which we consider customer vulnerability and has shown that anyone can find themselves in vulnerable circumstances. We have worked incredibly hard to increase the inclusivity of our services, making them accessible for everyone, irrespective of their personal situations.

It is vital for us to create social value by benefitting the most vulnerable in our societies and contributing to our local communities to reduce the impact of our operations and work together to reach our net zero ambitions.

Customer vulnerability strategy

Our customer vulnerability strategy recognises that everyone is unique and that their individual circumstances today could be different tomorrow. It reflects the need to understand and prepare for these changes before they happen so that we can adapt and respond to provide the services all our customers love. Our strategy has been developed with customer insight and feedback from stakeholder engagement, including experts in consumer vulnerability.

Developing a universal Priority Services Register

We have been at the forefront of developing a single Priority Services Register (PSR) for all energy customers, with defined needs codes that allow all energy companies to better understand customers' requirements and respond accordingly. As the industry project sponsor, we brought together electricity networks and water companies to create this much needed change to drive smart actions and better experiences for customers.

Our insights informed us that customers who are unaware of the PSR are far less likely to understand the essential benefits and range of additional safeguarding services that are available to them. We have seen our PSR registrations increase on average by 30% year on year, allowing over 17,000 customers to access the support and safeguarding services they need to keep them safe, warm and independent in their homes.

Training colleagues to deliver social value

We have created a range of tools to help all our customers understand the safeguarding services we provide and the range of additional external support services available. We have created a Safeguarding Knowledge Portal (SKP) to support our 6,000 employees, whether they are on a customer's doorstep or talking over the telephone, so they can access information and guidance to support our customers. This has created a consistent approach and equal access to the services we offer by fully informing our employees. The SKP includes information about the PSR and how to register a customer, our range of safeguarding services and products, and our bespoke safeguarding training including Utilities Against Scams.

Tackling fuel poverty

One and a half million households living in our networks are currently experiencing fuel poverty. We are committed to playing our part with wider industry and Government to tackle affordability and reduce fuel poverty.

In partnership with our trusted delivery partner Affordable Warmth Solutions we have invested in excess of £5.5m to extend our network and connect 2,323 customers living in fuel poverty to the gas network. We have further supported customers receiving a connection by facilitating grants for the installation of gas central heating systems and other in-home measures.

Despite the challenges to the installation of in-home work presented by the pandemic, the Connected For Warmth scheme still offered invaluable support to a large number of low income private sector homes. The pandemic presented many challenges to both customers living in fuel poverty and the delivery of schemes designed to support them. We adapted our strategy to ensure that customers still received the support needed; we used our social media channels, digital vans and lettering to continue our engagement activities.

Connected For Warmth facilitated 609 first-time gas connections and funded the installation of 360 gas central heating systems. Customers were also offered support to reduce their energy bills and supported through the Connect For Help initiative to stay warm in their home.

"Our stakeholders and customers have asked us to make life easier, fairer and greener for everyone we serve."

Steve Fraser
Chief Executive Officer

Our social purpose continued

Our approach to human rights, modern slavery and ethics

Modern slavery is a serious global issue and we recognise the important role we can play in tackling it. Our modern slavery statement sets out steps that we have taken to prevent slavery and human trafficking taking place in Cadent and our expectations from our supply chain. The statement outlines our commitment to support our staff to ensure factors such as having the appropriate working conditions, being treated with respect and paid fairly, have had the appropriate due diligence. Our policy framework, training and awareness programmes incorporate the commitment we make towards the respect for human rights in Cadent. We have taken positive steps forward by improving our policies, processes and training to mitigate the possibility of exploitation within our supply chain.

We are a member of the Utilities Modern Slavery working group which collaborates with the Slave Free Alliance. As part of this working group, we are reviewing our procurement processes to keep them in line with best practice in the Utilities Sector; hence preventing enforced labour, human trafficking and slavery in a co-ordinated manner within our industry.

Our modern slavery statement is updated annually and published on our website in line with the Modern Slavery Act requirements. To find out more about our ongoing commitments to tackling slavery and human trafficking you can read our modern slavery statement on our website.

Promoting a 'Speaking Up' culture

We continually promote a culture of 'speaking up' which is supported by the numerous channels available to all employees and the wider population to raise concerns. We have confidential helplines available internally and externally that operate 24/7. We take all allegations of potential ethical misconduct very seriously and have a dedicated Ethics and Business Conduct team trained to independently investigate all reported concerns sensitively and thoroughly and taking the relevant remedial action.

Living Wage

Whilst we are not a member of the Living Wage Foundation we do commit to paying the real living wage to all of our direct employees. The real Living Wage is based on the cost of living and is voluntarily paid by over 7,000 UK employers.

A responsible taxpayer

Due to the size of our business, we pay and collect significant amounts of tax on behalf of HMRC. We recognise the importance of this to society and we are committed to being a responsible and compliant taxpayer. Our aggregate contribution in respect of UK taxes borne and collected during the year was £612m and consequently our relationship with HMRC is very important to us. We publish annually our Tax Strategy Statement which sets out our approach and management of tax matters. We seek to foster a constructive relationship, sharing information on the business and tax issues in an open and timely manner with the aim of minimising uncertainty and avoiding disputes with HMRC, entering into real time dialogue where possible. We recognise that we have an important role to play in shaping future UK tax policy so we take an active role in responding to HMRC consultations and other proposals on UK tax policy which are relevant to our industry.

Creating thriving teams in a diverse and inclusive environment

The key to our success is to create a culture where people feel valued, included, and have equal opportunities. We have taken great strides to strengthen our position towards our vision where we are truly representative of the communities we serve, where everyone has an equal chance to succeed, be themselves, and have equal access to work and rewards. Our diversity ambitions focus on female leadership, female directors, Black Asian and Minority Ethnic and Disability, all areas which we have seen great progress. We have been working on our disclosure rates in all areas to make sure we truly represent the communities we serve.

Due to the wide demographic and geographical spread of our networks, we want to make sure we have customer representation in our workforce. This is key to delivering a great service; building trust with local knowledge and expertise. This demonstrates that we are making decisions and delivering solutions in a considered way for everyone we serve.

Our commitments

- Diverse talent: we conduct fair, equal and unbiased recruitment and talent management.
- Inclusive culture: we foster an inclusive environment, celebrate diversity and actively engage with our stakeholders, customers and communities.
- Inclusive leadership: we develop inclusive leaders that champion diversity.

We have launched five employee communities within the last 12 months and they play an important role in promoting and championing inclusiveness and integrating a diverse workforce. They have been spending time building their committees, defining their strategies, action plans and providing input across the employee lifecycle. The communities have worked collaboratively to support each other on a variety of different initiatives; hosting lunch and learns, networking events, role model series, celebrated National Inclusion Week, Black History Month, Pride Month, LGBTQ+ History Month, Race Equality Week, International Women's Day, International Men's Day and more. It's important that we celebrate and raise awareness through campaign activity to inspire and attract diverse talent, to educate our colleagues, to help create a culture of inclusion and belonging for all our employees.

Gender pay

Our gender pay reporting shows the difference between the average (mean or median) earnings of men and women. This is expressed as a percentage of men's earnings. In contrast to equal pay, the gender pay gap is more of a reflection of workforce profile than about unequal rewards for men and women doing the same job. Our gap shows us that there is room for improvement. We're aware that we are unlikely to reduce the gender pay gap in the short to medium term but will have a significant impact in the future. This is a long-term commitment; we are on a journey with commitment at all levels, from our Board to our colleagues supporting initiatives to close the gap, and the collaboration across all our functions to embed change.

Our employee communities

Women in Cadent
Creating a network of colleagues from across our business, who are all committed to creating equality and supporting women's professional and personal development.

Embrace
Raising awareness of the different faiths, discuss issues that affect colleagues from an ethnic minority background, and to help develop a workforce that reflects the communities we serve.

Cadent Military Community
Actively supporting service leavers entering the business, our current reservists and those that have previously served. We are proud signatories to the Armed Forces Covenant, and it is important that we demonstrate that we are an Armed Forces friendly employer.

Pride at Work
Allowing current and future generations of LGBTQ+ colleagues to feel comfortable, safe and included at work. Our employee-led community, Pride at Work, is a welcoming and safe space where our Lesbian, Gay, Bisexual, Transgender, Queer (LGBTQ+) and allied members can thrive.

Thrive!
Raising awareness of and supporting disabilities in the workplace. Our community is made up of both disabled and non-disabled employees who share a common vision of focusing on ability and making our workplace accessible and supportive to all. We raise awareness on the spectrum of disabilities, what this means to our people and how we can support the business to become a leading employer for those with disabilities.

Our commitment to racial equality

We have joined over 570 employers and become the first UK gas distribution network to sign up to the Race at Work Charter, an initiative designed to improve outcomes for Black, Asian and minority ethnic employees in the UK. Launched in partnership with the UK Government in 2018, the Charter builds on the work of the 2017 McGregor-Smith Review, which found that people from Black, Asian and minority ethnic backgrounds were still underemployed, underpromoted and under-represented at senior levels.

By signing the Charter, we join a community of signatories across a wide range of sectors in the UK, who are committed to embedding the five calls to action in everyday business. Ranjit Blythe, Executive Sponsor for Diversity & Inclusion said: "We are holding ourselves accountable for ensuring equal opportunities for people of all ethnicities. We're proud of the work that's already underway to make Cadent an increasingly inclusive environment for all, and we're committed to going further with each passing day."

BUSINESS IN THE COMMUNITY
The Prince's Responsible Business Network
Race at Work Charter signatory

Our social purpose continued

Customer vulnerability strategy

Our aim

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

Strategy

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

Customer commitments

Identifying customer needs and joining up support services	Going beyond to never leave a customer vulnerable without gas	Protecting our customers from the dangers of carbon monoxide	Tackling affordability and fuel poverty

Major community outreach launched in Central Lancashire with support of the region's utility networks

Age Concern Central Lancashire, along with partners – Electricity North West and United Utilities – forged a new and exciting collaborative venture, alongside the Preston North End Community and Education Trust, to reach and support greater numbers of people in vulnerable situations. The project takes the form of a 7.5-tonne, 56-square-metre vehicle, to bring information and advice to communities. The Mercedes Atego van, secured through Preston City Council, had a £50,000 refit to convert it into a Mobile Advice Centre (MAC). Its complete overhaul includes two consultation booths, open space for group activities and talks, air-conditioning and facilities to make refreshments. In addition, it is specially designed to be dementia friendly and is accessible for people of any age and ability to get the information and advice they need.

All three of the utility networks will be offering MAC attendees free advice on safety and energy efficiency measures, as well as tips on how to stay safe and warm in their homes. The vehicle will be used at supermarket car parks, community events both large and small and throughout Lancashire's towns and villages with a full schedule of locations to be released in due course and once COVID-19 restrictions allow. Residents across the county will be able to ask Age Concern Central Lancashire about support regarding independent living, memory loss and dementia care, benefits advice and legal services.

Gas safety campaigns

We recognise our responsibility to educate local communities about gas safety, providing key information and simple tips to access gas supplies safely and reliably.

This year we increased our engagement to tackle this critical issue, conducting extensive research into gas safety awareness with 8,000 customers across the UK, with the support of the Energy Networks Association and our fellow gas distribution networks.

Since then, we have used this insight to improve our approach to gas safety education, using trends from the research to identify 'hotspots' that require further education on this topic, and identify methods we can use to effectively reach out to these communities.

Our 'Be Winter Ready' campaign saw us distribute 5,000 information packs and resources to local communities via established, trusted partners such as Fire and Rescue Services and Carers Trust. We were also delighted to launch our new animated awareness campaign, to educate our communities in a simple, accessible format.

We supported national campaigns Gas Safety Week and CO Awareness Week, using a new collaborative approach to provide joint information and advice with partners Gas Safe Register and Derbyshire Fire and Rescue Service. This included new webpages, two radio campaigns tailored to the hotspot areas identified by our research, personal case studies from emergency engineers, and Q&A videos launched across social media and surveys to engage our employees in the conversation.

15,000

Information packs distributed during our 'Be Winter Ready campaign'

The bear on a non-stop mission

In April 2020 we led the creation of the collaborative Safety Seymour website. The innovative, fun and engaging website allows all GDNs to reach more schools, children and parents outside the classroom and helps create a consistent carbon monoxide (CO) message. We also hosted a Pipeline Industries Guild webinar educating children and their families on CO safety using a specially adapted Safety Seymour session.

We have partnered with Project SHOUT, who are also members of the All-Party Parliamentary Carbon Monoxide Group (APPCOG), to promote the Safety Seymour website and the importance of buying an audible CO alarm. With 90% of UK shoppers using Amazon, we were able to create a Safety Seymour advertising banner for amazon.co.uk on pages selling CO alarms with a direct link to our website, which saw a total of 748 visits and over 200 CO alarms purchased via this route. We adapted the Safety Seymour programme to ensure children could still access our important messaging outside the classroom and stay safe at home.

Helping to spread the word

Following the success of Safety Seymour, we created The CO Crew with a specialist education provider to target older children and increase the breadth of our carbon monoxide awareness and gas safety messaging. The CO Crew is delivered virtually for schools and is completely free and teacher-led. Learning is supported by the interactive website, which is accessible, informative and fun with various activities ranging from dances and craft through to spotting the signs and symptoms of carbon monoxide: www.thecocrew.co.uk/

Fire and Rescue Services

Partnerships have played an integral role in helping us to extend the reach of our services by gaining access to additional expertise and building trust in our communities. We work with all 24 Fire and Rescue Services (FRS) and these key strategic partnerships allow us to access the most vulnerable people living within our networks. By utilising their experts, we have been able to extend our reach beyond what we could achieve alone. Through their 'safe and well' home visits, the FRS target areas and households where they believe is a higher risk of fire, and promote our safeguarding services.

Working with Derbyshire Fire and Rescue Service, we have sponsored two community vehicles that make home visits to people living in vulnerable situations, often living in areas that have a high Income Deprivation ranking. These vehicles display gas safety advice, promote the signs of carbon monoxide and the importance of installing a carbon monoxide alarm.

Tackling social isolation in rural communities

We have partnered with Warwickshire Rural Community Council (WRCC) to deliver a network of Warm Hubs across the Warwickshire and Solihull area. Warm Hubs create a safe, warm and friendly space for communities to come together to combat the issues of social isolation and loneliness.

Our first Warm Hub was successfully launched in December 2020, with warm festive breakfasts being delivered to 126 village residents near Stratford upon Avon, many of whom were isolated and elderly. With the continued challenges presented by the pandemic, we've also developed a mobile Warm Hub.

Our social purpose continued

This is a repurposed, upgraded vehicle which drives to deprived, often isolated communities, bringing a Warm Hub event to those in the community who may not be able to travel by car or access public transport. Our ambition is to expand our network of hubs in Warwickshire and engage other regional partners across our footprint.

Working in collaboration with Electricity North West, we distributed over 60,000 educational gas safety leaflets about the dangers of carbon monoxide and the different services available to gas and electricity customers living in vulnerable situations. This was supplemented by over 200 pharmacies in the North West including leaflets inside prescription bags.

Fundraising

Supporting our colleagues to donate to good causes is a key element of our corporate social responsibility. During the pandemic, with the restrictions and lifestyle challenges imposed, the amount raised through fundraising in the first half of the year was significantly lower than in previous years. We provide all colleagues with up to £400 Matched Giving each year and in order to give employee fundraising a much-needed boost, we took the decision to quadruple the funds matched by the business to £4 for every £1 raised between October and December 2020. In addition to this, the most innovative fundraising ideas could be matched by up to £10 per £1 raised. The result was a fantastic success with over 82 Matched Giving claims being made during the quarter leading up to Christmas, with colleagues raising over £38,000 and the company donating over £70,000 through our Matched Giving scheme.

Alzheimer's Society

The Alzheimer's Society is our corporate charity partner and we encourage our colleagues to raise money for Alzheimer's Society as well as other causes. Our corporate charity was chosen with input from colleagues and this year we raised £89,084.89. Our daily interactions allow us to understand the tailored solutions needed for those living with dementia.

Volunteering

From April – September 2020 we offered all colleagues a two days a month volunteering allowance to enable them to support our communities. This led to an increase of 39.5% in volunteering hours. Our colleagues supported in activities such as:

- Age UK and Volunteering Matters telephone befriending calls
- Alzheimer's Society Companion Calls
- Social Mobility Foundation mentoring
- Careers Enterprise Ambassador support
- COVID vaccination centre support
- Shopping collection and delivery for people that were shielding/isolating
- Supporting local foodbanks

Cadent Foundation

Committed to a better future: Cadent Foundation

The Cadent Foundation was established as a Donor Advised fund in July 2019, funded from a share of Cadent's profits.

The Foundation operates across some of the most disadvantaged areas in the country. In fact, eight out of the top ten most deprived local authority districts in England* are within our networks. This means that millions of people are facing daily struggles due to low income, unemployment, physical and mental health issues, inadequate housing, and barriers to accessing support services.

We are uniquely placed to see the real life impact income deprivation, fuel poverty, low energy efficiency and poor living environments have on the people in our communities. The Cadent Foundation was set up to help play a part in addressing these inequalities.

Its aim is to make a positive and lasting impact by working with charities that address the root causes and consequences of these complex social issues, in order to make a real difference to the communities in which we operate.

Over the last 12 months, the Cadent Foundation has awarded 100 new grants to charities and organisations which can support these communities, amounting to just over £4.8 million.

The Foundation has secured impactful national partnerships with Trussell Trust and Groundwork UK that will drive long term change and begun the first stages of exciting new research studies which will help the UK take a step forward in achieving green energy for all.

The Cadent Foundation has launched its very first impact report, detailing the huge benefits it has brought to local communities in its first year of operation. The report is full of inspirational examples of the positive difference made by these grants.

Matched Giving donations this year

£88,712

in 2020/21 from £45,596 in 2019/20

Over

£170,000

to Alzheimer's and other worthy causes through Matched Giving

* 2019 English Indices of Deprivation – Gov.uk

Social performance

Diversity and inclusion figures and ambitions

1,321
of our workforce is female
(2019/20: 1,017)

132
of our leadership population are female
(2019/20: 119)

10
of our Directors are female*
(2019/20: 9)

3
of our Executive Team are female**
(2019/20: 2)

490
of our workforce identify as Black, Asian or Minority Ethnic
(2019/20: 288)

108
of those that identify as Black, Asian or Minority Ethnic are female
(2019/20: 71)

18
of our workforce identify as having a disability
(2019/20: 18)

20
of our workforce identify as LGBT
(2019/20: 17)

The average number of persons (including Executive Directors) employed by the Group was 5,258 (2020: 3,938)

Read more about our commitment to equality diversity and inclusion see page 47

* These are non-statutory Directors that sit beneath the Executive and are the next level of Senior Directors. They are not statutory Directors of the Board.
** This number represents 33% of our Executive Team.

Success from our last New Talent recruitment campaign

46.15%
of PC&S Apprentices female for 2020

16.07%
of Apprentice offers female
Current ambition Year 1 = 15%

50%
female assessor representation at Industrial Placement Assessment Centre

52%
female assessor representation at Graduate Assessment Centre

Responding to our customers

9.52
Emergency response and repair – customer satisfaction score

70%
same-day closure rates for complaints

4,600
households in fuel poverty supported

80+
strategic partnerships to support customers with various additional requirements.

We work with our partners in the utilities sector and beyond to share ideas and improve together.

You can read more on our Sharing Best Practice hub cadentgas.com

Section 172 statement

Section 172 statement

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

Key stakeholders

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

Stakeholder	Why they matter to us	What matters to them	How the Board interacts
Shareholders	Provision of equity finance Provision of strategic guidance and expertise to complement management's, via Non-Executive Directors	Predictable, sustainable financial returns Responsible and compliant business management and conduct Governance, safety and transparency	The majority of Board members are shareholder-appointed nominees AGM and annual report
Employees	Our people execute our strategy for delivering our services for our customers Source of innovation and ideas for business improvement	Recognition, reward and development opportunities Safe, supportive and inclusive environment Employee engagement with management and effective internal communications	Reports upon employee related matters and regular internal communications updates from the Chief Executive Officer and Chief People Officer are provided to Board meetings to ensure the employee related issues and perspectives are factored into relevant decisions. The impact of COVID-19 upon the ability of the company to deliver business as usual and upon working arrangements and ongoing transformation activities have been a key focus this year Inviting members of management to attend and present employee related topics at Board meetings
Customers	Generate the Company's revenue and profit Delivering for our customers defines our purpose	Continued safe and economical supply of gas The company's availability and responsiveness	Regular review of customer satisfaction scores alongside reports and presentations from our Chief Operating Officer and Network Directors to assist to strive for enhanced KPI performance Independent Customer Engagement Group Established a Critical Friends Panel Receiving reports from targeted customer workshops
Communities and the Environment	The company's activities impact local communities and the environment. By working to make these social impacts more positive and environmental impacts less harmful, the company can operate in accordance with its values and environmental and social responsibilities and in collaboration where appropriate	Engagement with the community; understanding of environmental objectives and support where possible Sponsorship and charitable donations to further social and environmental causes The company demonstrating its environmental and social responsibilities	Reports from management on: • engagement with community leaders with reference to net zero strategy objectives; • engagement with local authorities on response to, and working during, COVID-19; • local community and environmental initiatives, including feedback received from customers generally; • the Independent Customer Engagement Group, • the Critical Friends Panel and the public. Reports on activities of the Cadent Foundation Advisory Board (see Cadent Foundation Impact Assessment Report, available at www.cadentgas.com).

Section 172 statement continued

Stakeholder	Why they matter to Cadent	What matters to them	How the Board interacts
Suppliers and the wider workforce	Provide the business with support services, operational services and products required to operate the business	Trusted partnerships and prompt payments Predictable, profitable continuing orders	Business updates on supplier relationships and contracting strategies from the Chief Executive Officer, Chief Operating Officer and Network Directors who are engaged in regular dialogue with the management teams Board Director assigned to oversee and feedback to Board on contracting strategy and process
Ofgem	Regulates the company's conduct under its licence and approves its business plans under the regulatory framework and price control regime	Constructive engagement in relation to price control Execution of the business plan Compliance with licence conditions and responsible behaviour	Receives regular reports from the company's regulatory team including separate monthly strategy sessions on progress and engagement on the RIIO-2 price control process Direct engagement with Ofgem leadership
Health & Safety Executive	Regulates and enforces the company's obligations in relation to workplace health, safety and welfare	Safe operation and maintenance of the network for consumers, employees and third parties Compliance with health and safety legislation and regulations and good working practices Regular and constructive operational engagement	Receives regular reports from the Chief Executive Officer, Chief Operation Officer and Director of Safety and Sustainability on performance and improvement initiatives. In depth review by Board Safety Committee.
UK Government	The future role of gas in UK Government's energy policies and strategy directly impacts the company's longer term prospects and strategy	Security of affordable energy supplies to UK consumers and businesses Industry input to help shape policy and strategy	Receives regular updates from the Chief Executive Officer and the company's Strategic and Regulation team on engagement, with reference to the future role of gas in the journey to net zero Direct engagement with BEIS and UK Treasury
Debt providers	Provision of access to affordable debt funding to support the company's liquidity needs from time to time	Predictable, sustainable financial returns	The Group's financing arrangements are overseen by the Board, supported by detailed review and feedback from the Finance Steering Committee. Both receive presentations from the Head of Treasury describing engagement with the holders of debt instruments and associated strategy
Citizens	The support and tolerance of the general public is important when the company responds to incidents and/or its operations cause necessary disruption (including the COVID-19 crisis)	Gas safety and being protected from harm to individuals and their property Minimal disruption to their daily lives and business activities	Debrief on major incidents including public reactions and the steps taken by management to engage with the households, businesses and wider communities affected by any such incidents Regular updates from the Chief Executive Officer, Chief Operating Officer and Network Directors on safe working systems; support and associated messaging in relation to COVID-19

Key decisions

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

- Appealed to the Competition and Markets Authority against Ofgem's Final Determination in the RIIO-2 price control.
- Endorsed the People Plan.
- Approved company's pay negotiation mandate with trade unions.
- Approved the interim and year-end financial statements and the company's annual report having regard to the impact of COVID-19 as assessed at that time and the RIIO-2 Draft Determination.
- Approved the annual review and update to the EMTN Programme and listing of the Prospectus.
- Approved the first tranche of inflation linked CPI swaps under the company's Inflation Hedging Strategy.
- Approved the Budget for Financial Year 2021/2022 and the EBITDA and FFO metrics to be used for STIP 2021/2022 purposes.
- Endorsed no Dividend payment by the company in the year.
- Endorsed the award of Construction Management Contracts.
- Endorsed shipper payment deferral scheme.
- Reviewed and approved our Principal Risks and approved the proposed risk appetite.
- Approval of Modern Slavery Statement.
- Approved a number of changes to governance arrangements arising from the Board Effectiveness Evaluation (see pages 97 and 98).
- Approved appointment of Paul Smith as Sufficiently Independent Director and Chair of the Remuneration Committee and re-appointment of Dr Catherine Bell.

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

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

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

During the year, accordingly, a principal area of focus for the Board has been the RIIO-2 price control through which Ofgem regulates the price network operators, such as Cadent, can charge to run the network(s) they operate, from 1 April 2021 – 31 March 2026. This culminated in the decision, in February 2021, to appeal to the Competition and Markets Authority against aspects of Ofgem's RIIO-2 Final Determination.

The Board's decision was informed through a series of working sessions with management and the company's RIIO-2 team. Given the ongoing appeal process, the commentary that can be included in relation to this is necessarily limited. However, in arriving at the decision to appeal, the Board carefully considered the company's analysis – reflected in its public statement – that, despite constructive engagement with Ofgem throughout the process, the company does not believe that the Final Determination strikes the right balance between bill reductions for customers and future investment to achieve net zero. The outcome and impact of the appeal decision will be reported in next year's annual report.

The Board continued to focus on the company's net zero strategy and, in particular, its Future of Gas Programme. You can read more about the Board's deliberations under 'Having regard to the impact of the company's operations on the community and the environment' below and on the strategy at pages 8 and 9.

The Board also reviewed and approved the Principal Risks, including the evolving areas of climate change and the impact of COVID-19. In doing so, the Board received reports from the Head of Audit and Risk and the management team to satisfy themselves that there was appropriate clarity, transparency and structure in relation to the risks given their potentially far reaching impact on the future success of the company in the long term. The Board also considered how the management team had worked together to advance corporate culture to ensure risks are actively addressed and managed.

Having regard to the interests of the company's employees

As is normal for large private companies, we delegate authority for day-to-day management of the company and its subsidiaries to the Executive Committee and its members. The Chief People Officer provides regular reports and updates to the Executive Committee and Board on HR related matters. During the year the Board was presented with the People Plan for consideration. As part of this era of transformation for Cadent, the approach to RIIO-2 presented an ideal time to reflect, revise and review. The Board considered management recommendations for a clear direction to deliver an improved organizational design, employee culture and ways of working to facilitate a happy, healthy engaged workforce as 'One Cadent'. Five key areas had been identified – strategy, purpose and values; organisational design and effectiveness; culture and engagement; human resource information systems and talent and performance. All had a number of underlying components, which together would achieve the 'One Cadent' outcome. The Board considered the potential impact of the People Plan, the employee engagement undertaken to inform it; including the significant improvements it will introduce to talent management and development and enhancing the experience of working with us, and endorsed the proposed approach.

Throughout the pandemic, recognising the challenges this has placed on individuals, the Board has maintained an overview of the company's support for employees; receiving regular reports on initiatives to support their mental, physical and financial wellbeing. You can read about this on page 47.

Section 172 statement continued

As part of business transformation and the new contracting strategy for the RIIO-2 period, a substantial additional workforce joined Cadent through both TUPE provisions and open recruitment. The Board received updates on the physical and cultural integration of that workforce through regular reports from the Chief Operating Officer and the Network Directors.

Employee safety remains an important part of the company's overall approach to safety and both the Board and the Safety Committee maintained focus on progress against the Safety Improvement Plan including progress against deliverables.

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

In July 2020 the Company awarded four construction management organisation contracts to deliver its mains replacement programme in each of its networks for an initial five years from April 2021. The use of this approach is new and innovative for Cadent and was designed to allow these partners to utilise their organisations' capability and skills to focus on driving customer and safety performance and programme efficiency across the company's major investment programme on a specific network basis. The award, which was endorsed by the Board, was made by a Sub-Committee of the Executive Committee, under the delegations of authority in place, with Mark Mathieson having oversight for the non-executive board members. Mark attended Sub-Committee meetings to understand the outcomes of engagement with those organisations participating in the procurement process and to gain assurance, on behalf of the Board, that the organisations appointed had the right skills, competency, resource and approach to working constructively with Cadent, as partners, to deliver its regulatory outputs and the outcomes we aspire to achieve for our customers.

An important consideration for the Board has been the drive for improvement in customer satisfaction scores. Whilst there has been significant improvement in scores across all networks, targets set have not been achieved. The Board has monitored the steps the business has taken to address this, including receiving presentations from Network Directors and operational managers on initiatives in place. The Board has also received demonstrations of the newly created Power BI dashboard, which provides real time, task specific, operational data, driving better performance which will aid the continuing improvement of customer satisfaction scores.

As a result of the pandemic, the ability of some shippers (who pay Cadent and other gas distribution and transmission networks to transport gas to homes and businesses) came under threat. Ofgem requested the networks to offer an extended credit period for payment, with a view to preventing failure of the shippers and the associated industry repercussions this would have. Cadent's approach was the subject of careful discussion and scrutiny by the Board to determine any adverse impact this may have on Cadent's liquidity and ratios, which the Board recognised was appropriate to balance against preventing shipper failure. The Board endorsed Cadent's approach, in common with the other networks, to a scheme which resulted in a capped, potential temporary loss of income so as to avoid shipper failure, whilst acting in the best interests of the company.

This year has been a pivotal year for the future role of gas. In addition to the publication in 2020 of the Prime Minister's Ten Point Plan for a Green Industrial Revolution and the Energy White Paper, further policy developments are expected with the release of the Heat and Building and the Hydrogen Strategy, as well as the UK co-hosting COP26 in November. The company's aim has been for Cadent to be seen as a trusted voice in the heart of policy debates on energy and transport, interacting with Government, Whitehall, and key national and regional stakeholders, particularly focused on the emerging debate around hydrogen. The Board has received regular updates on engagement undertaken and has considered the support that can be provided by individual Board members to support the wider debate, which is important to the company's long term strategy to play a leading role in the path to net zero.

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

The impact of the company's operations on the climate and ensuring that it is sustainable in the long term are fundamental to the Board's decision making. To ensure it has the information and understanding it needs to make informed decisions the Board receives a report at each meeting from the Chief Executive Officer and/or the Strategy and Regulation team updating on progress with its Future of Gas programme including the three main areas it is leading on - blending, industrial power and decarbonising heavy transport – and the several hydrogen projects with which it is involved in partnerships in the energy sector. The Board has also committed to two full strategy days in each yearly cycle to focus on the company's green energy strategy, the first having considered the global perspective; regional modelling; and customer preference insights to help shape company thinking. The next planned session will focus on economic and regulatory aspects of the programme. In addition, the Board is appraised of the company's focused approach to stakeholder engagement, including at Governmental and regional level, which informs strategic thinking and enables shareholder representatives to support through direct interactions when appropriate.

The Board continued to receive routine reports on progress with the company's mains replacement programme throughout the year and encouraged the company to seize opportunities arising from COVID-19 restrictions, such as low road traffic flow, to get work done that would have proved difficult in normal access/traffic circumstances, thereby minimising disruption to the wider community.

Following the launch of the Cadent Foundation in the previous year, the Board has considered the development and operation of the Foundation in its first year operating as a donor advised fund, independently distributing the funds invested by Cadent. This has included the strategy it has adopted in pursuance of its objectives to make a positive and lasting difference to the communities that we serve and the wider society within Cadent's network and the governance in place.

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

A key priority for the Board during the year was maintaining public confidence in the company's approach to safety and adherence to Government guidance during the pandemic. It was necessary and appropriate to demonstrate that the company was operating to the highest standards and in compliance with Government guidance. The Board received and spent time considering frequent reports on the operational response to the pandemic by the company, including risk-assessed adaptations to processes and policies and implementation of these. It also considered the manner in which the company engaged with customers, the communities in which it operates and the local authorities with responsibility for running them and the actions taken and wider communications issued to provide reassurance and allay any concerns associated with the on-going work during the pandemic. Please see pages 15-17 for further details of our response to working during the pandemic.

The Board also, through the Audit & Risk Committee, received and considered updates on Business Conduct and Ethics, to satisfy themselves that, despite the substantial shift to remote working, the company was still able to properly and effectively promote the desired culture of 'Always Doing the Right Thing' and 'Speaking Up', in line with the company's guides to business ethics and required behaviours.

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

Cadent and the Group is ultimately owned by a consortium of infrastructure investment funds. The relationship between the shareholders and their respective rights are governed by private agreement. The Board does not afford any one shareholder or group of shareholders any special rights or privileges and seeks to always act fairly between them and treat them equally, including ensuring that there are procedures in place to address any conflicts of interests that could arise and with regard to access to information. In relation to the latter, following the Board Effectiveness Evaluation, the Board approved an enhanced approach to information sharing and reporting in relation to Board Committees in response to feedback received. In addition, steps were taken to maintain information flow and structured engagement during remote working and meetings necessitated by the COVID-19 pandemic.

Non financial information statement

The content of the Strategic Report and our Section 172 Statement demonstrates our commitment to ensuring our activities benefit our customers, employees and the communities in which we operate, while limiting the impact we have on the environment. Our integrated approach to reporting means that we have been able to meet some of the ESG reporting requirements throughout our Strategic Report and we will look to develop our ESG reporting in FY21/22. The statement below sets out where information can be found in relation to environment, employees, social and governance activities within this years annual report and accounts and on our website.

Focus area	Policies/guidelines/ initiatives	Facilitating	Further reading
Environmental	Environmental Policy Statement Cadent Environmental Strategy Environmental Action Plan Environmental Management System Accreditation ISO14001 Sustainability School TCFD Science Based Targets	Delivering our business activities in a responsible way by aligning the needs of our customers, whilst reducing our impact on the environment. Finding sustainable ways to lighten our environmental footprint and reducing waste across our supply chain and through our strategic partners. Educating our colleagues on sustainability and working practices to support our targets.	Pages 50-70
Employees	Cadent Values Cadent 'Speaking Up' Policy Cadent Congratulates Gender Pay Gap Cadent Employee Code of Conduct Safeguarding Policy Diversity and Inclusion Policy Travel and Expense Policy Procurement Policy	Creating a place where our people can thrive, focused on recruiting the right talent, supporting colleagues to share our values and develop in their careers. Leading an inclusive and diverse culture where everyone's contribution is valued. Driving improvements in all areas of health and wellbeing supported by equal opportunities and an environment free from bullying or harassment. Our policies provide principles, frameworks and expected standards for procurement activity and decisions across the business.	Pages 4, 25-28, 47, 49, 72, 77, 78-83, 95
Social and Community	Always Doing the Right Thing Social Mobility Foundation Youth Friendly Employer Customer/Stakeholder Engagement Cadent Volunteering BAME Apprentice Alliance Race at Work Charter Employers Domestic Abuse Covenant Safety Seymour The CO Crew Dementia Friends EmployAbility Alzheimer's Society Cadent Foundation	Recognising that our communities have different geographical and demographic needs. Understanding that our reputation impacts wider social responsibility and we can make a real and sustainable difference to how we build reputation and trust with everyone who comes into contact with us. Our social impact ranges across multiple levels, including how we engage ethically with our supply chain, our fundraising, charity partnerships, our new talent programmes and employee led opportunities through charities and volunteering.	Pages 45-49, 71-77

Focus area	Policies/guidelines/ initiatives	Facilitating	Further reading
Governance	Anti-Bribery and Anti-Corruption Data Privacy Policy Supplier Code of Conduct Always Doing the Right Thing Modern Slavery Statement Conflict of interest Ethical Code of Conduct Information Security Corporate Gifts and Hospitality Register	Our Anti-Bribery and Anti Corruption policy sets out our zero-tolerance approach to bribery and corruption. It embodies our commitment to acting professionally, fairly and with integrity in all our relationships and sets expectations for suppliers and partners to ensure our values are aligned. This includes the requirement to have strong controls to prevent, detect and respond to potential bribery and corruption. It is supported by our ethical code of conduct, Always Doing the Right Thing. These documents together describe our commitment to high standards of ethical conduct in the way we do business and in the choices we make every day as a business and as individuals. The code includes key areas like modern slavery, gifts and hospitality, conflicts of interest and data privacy. All employees undertake ethical training to support them in meeting our high standards as well as receiving periodic communications to remain engaged with our company ethics.	Pages 25-28, 72, 77-83 See our Modern Slavery Statement at cadentgas.com
Non-Financial Performance Indicators		Understanding the key metrics in measuring our non-financial performance	Pages 62 and 77
Management of principal risks and uncertainties		Understanding our risks to protect our assets, people, and customers interests, with a focus on health, safety, the environmental and security. The nature of our infrastructure means we implement and maintain an effective asset management framework and provides us with a unique opportunity to influence climate change ambitions. Our reliance on information systems means we need to implement the appropriate policies and procedures to mitigate cyber risks and failure. Our overall resilience can be tested through the COVID-19 pandemic with high standards of ethics and compliance.	Pages 19-28
Business model		Responsible for ensuring the safe and reliable flow of energy, warming homes, powering businesses and working closely with our communities, providing extra care for those who might need it in a gas emergency. Our purpose is to keep people warm whilst protecting the planet and this is underpinned by four strategic objectives: tackling climate change; being trusted to act for our communities; delivering a quality customer experience; and maintaining a safe and resilient network. We have invested significantly in our people, processes and systems to provide colleagues with the skills, tools and information they require to deliver the best outcomes for our customers and communities.	Page 04-09

Governance

"The Board's focus this year has been spread across four broad areas – the RIIO-2 price control; the response to the COVID-19 pandemic; maintaining operational performance and our net zero ambitions."

Sir Adrian Montague CBE
Chairman

Chairman's statement on Corporate Governance

"The RIIO-2 price control has continued to be an area of key focus for the Board."

Sir Adrian Montague CBE
Chairman

In accordance with our requirement to provide a statement of corporate governance arrangements, I confirm that Cadent has adopted the Wates Corporate Governance Principles for Large Private Companies ('Wates Principles'). The pages that follow describe how we have applied those principles through the year. Details of the Directors' performance of their duty under Section 172 of the Companies Act 2006, which complements the Wates Principles approach, are set out on pages 95-99.

The Board's focus this year has been spread across four broad areas – the RIIO-2 price control; the Future of Gas Programme; the response to the COVID-19 pandemic; and maintaining operational performance, which is crucial to, and underpins each, of those. We have ensured sufficient time has been afforded for scrutiny and debate. This has been achieved by scheduling regular working sessions to consider developments in the RIIO-2 price control process and by committing to separate strategy days to review the Future of Gas Programme and what it means in the longer term for Cadent, our customers and stakeholders (the first such day being held in November 2020). Consideration of COVID-19 and Cadent's response has been a constant area of review, initially through regular specifically scheduled telephone briefing sessions at the outset of the pandemic and then, as the year progressed, through reports from Steve Fraser (CEO) and Howard Forster (COO) at regular Board meetings. Inevitably, and mindful of Government guidance, all of our meetings have been held remotely, via Microsoft Teams.

We also undertook an externally facilitated Board Effectiveness Evaluation, which resulted in some changes to committee structures and some enhancements to existing processes. You can read more about this at pages 96 and 97 but the formation of separate Safety and Sustainability Committees resulted in Howard Higgins stepping down as chair of the joint Safety & Sustainability Committee and I would like to recognise at the outset the sterling job he did leading that Committee for the past four years.

It has certainly been a year where our committees have played an important role in the detailed review of matters relating to both strategic and operational performance. You can read more about their work at pages 100-13.

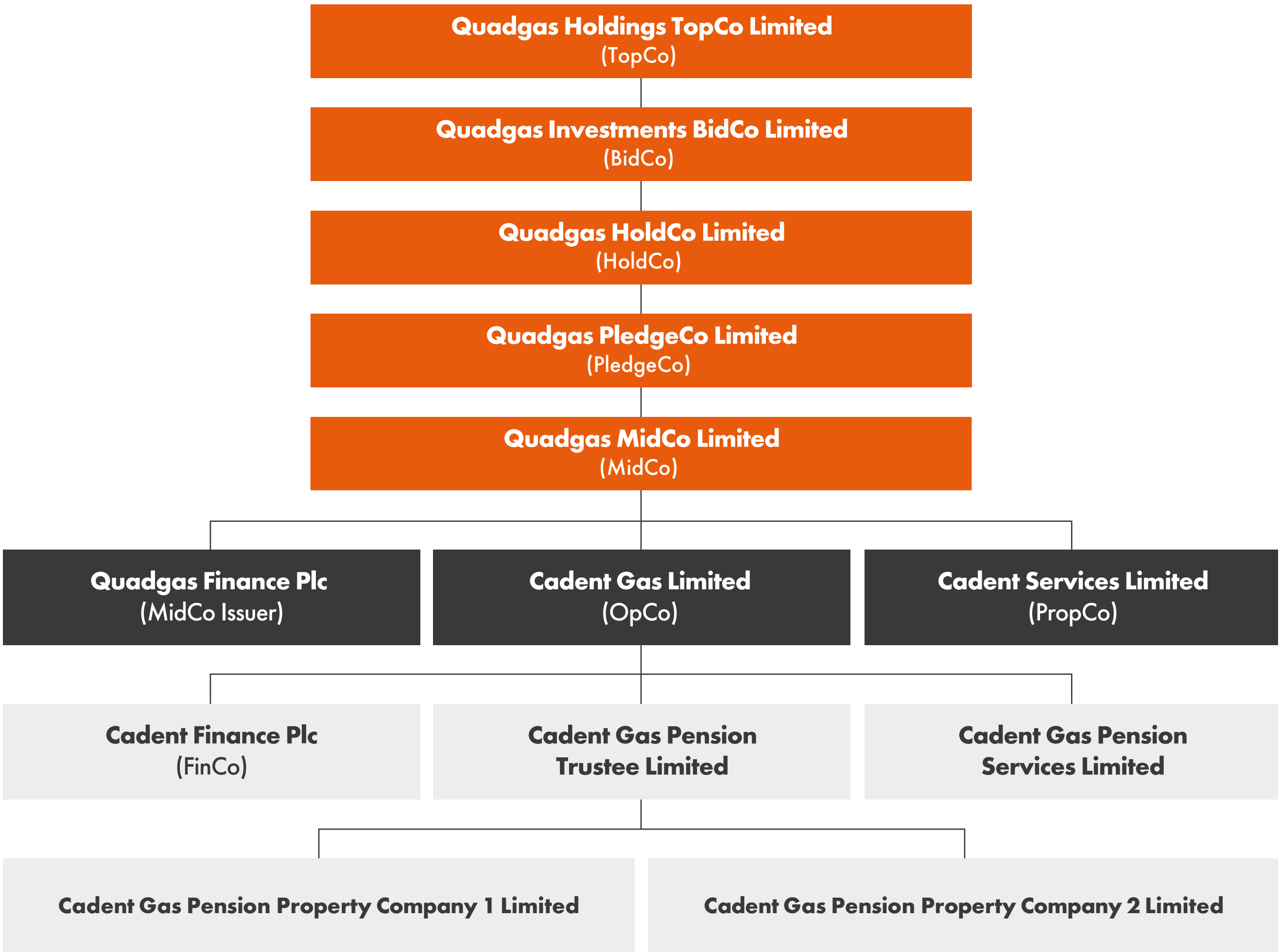
Finally, I would like to thank Kevin Whiteman who left Cadent in December 2020 to take up a position with a FTSE leading company. Kevin made a valuable contribution to the Board, including his assured management of the Remuneration Committee. I am pleased to welcome Paul Smith, who was appointed in February 2021, and brings with him considerable executive and sector experience. Paul will take over leadership of the Remuneration Committee from May 2021 (with our thanks to Dr Catherine Bell, who stepped in as Chair in the interim).

Sir Adrian Montague CBE
Chairman

14 July 2021

Group structure

The ultimate parent company of the Group is Quadgas Holdings TopCo Limited ('TopCo'). The chart below sets out the ownership structure of the companies within our Group as at 31 March 2021.



Our owners

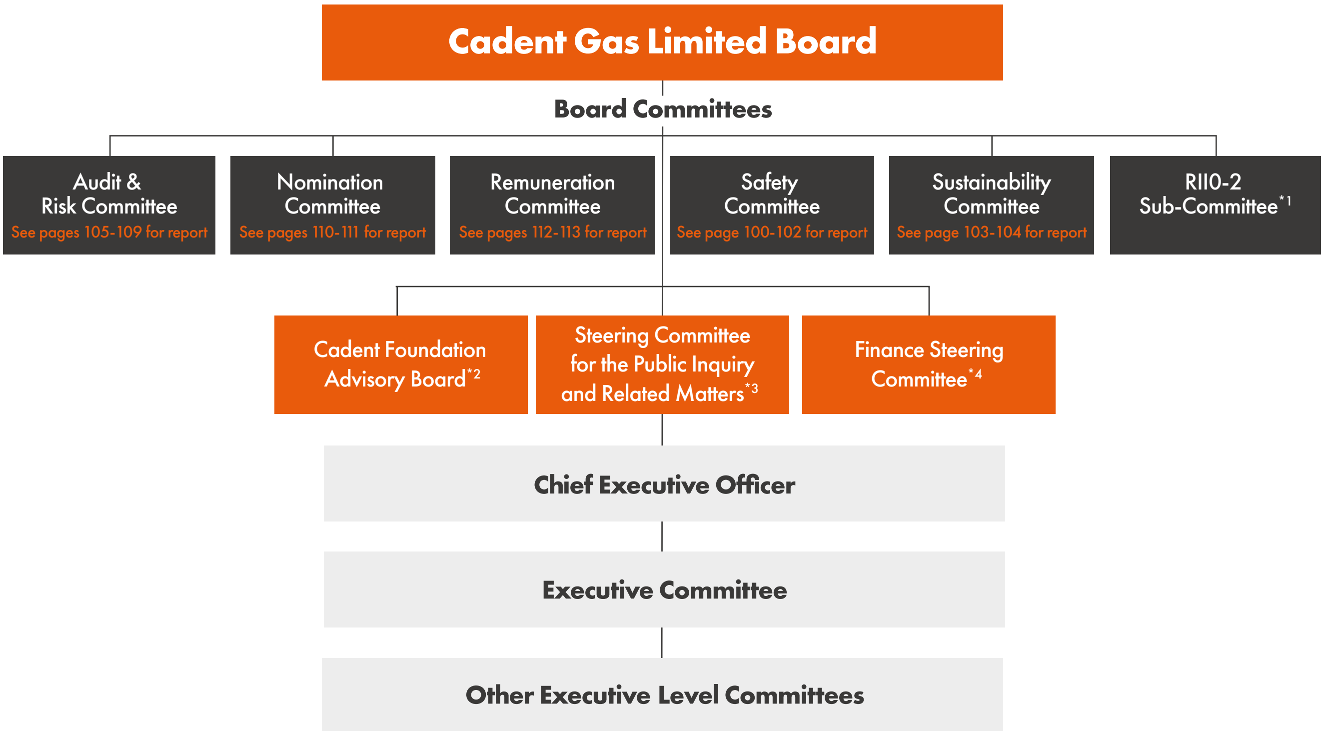
The Quadgas Group is owned by a consortium of investors (the 'Shareholders') who hold shares in Quadgas Holdings TopCo Limited.

Shareholders' Agreement

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

Governance framework

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



*1 A sub-committee of the Board was established in February 2021 to provide guidance to the company on any significant strategic decisions it is required to make in relation to, and arising during the course of, the appeal to the Competition and Markets Authority regarding the RIIO-2 Final Determination.

*2 Providing oversight to the Cadent Foundation.

*3 Overseeing Cadent's involvement, as a core participant, in the Grenfell Public Inquiry.

*4 At the Cadent Gas Ltd Board meeting in November 2020, it was resolved to reconstitute the Finance Committee as a Finance Steering Committee, so as to avoid distancing the Board from involvement in overall financing strategy and approval of individual transactions. The function of the Finance Steering Committee continues the review work previously undertaken by the Finance Committee, by providing a specialised forum for the discussion of financing matters ahead of Board meetings and to ensure that these discussion and conclusions are brought to the Board.

Board of Directors

Board of Directors

The following pages show details of the Directors of Cadent Gas Limited and their membership on Board Committees, for the 2020/21 financial year. Our Board consists of two Executive Directors, three Sufficiently Independent Directors* (including the Chairman) and 11 Shareholder Nominated Directors. Collectively, the Sufficiently Independent Directors and Shareholder Nominated Directors are the Non-Executive Directors on the Board. All the Non-Executive Directors (including the Chairman) have been appointed by Quadgas Holdings TopCo Limited ('TopCo'), the ultimate parent company of Cadent Gas Limited.

Details of Alternate Directors appointed from time to time, in accordance with the company's articles of association and the agreement between the shareholders of TopCo, to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend, are available in the Directors' report on pages 124-125.

* See page 96.

Executive Directors

Steve Fraser
Chief Executive Officer

Appointed

September 2019

Skills and experience

Accountable for serving c.11m customers across four gas distribution networks by operating the system and maintaining it safely as well as running the National Gas Emergency Number on behalf of all distribution networks.

Over 20 years' experience of managing and transforming infrastructure businesses latterly as Chief Operating Officer and a main Board Director of the FTSE100 water company United Utilities.

A degree in Management Studies and a Masters in Engineering Management from UMIST, he holds a diploma in Advanced Management from Harvard University.

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

He became a Director of Bethell Group where he worked to establish them as a leading player in the energy services sector prior to joining United Utilities in 2005 to run the global outsourcing division Energy and Contracting Services working across the UK, Europe and The Middle East.

Steve Hurrell
Chief Financial Officer

Appointed

April 2017 – February 2019; Chief Financial Officer

February 2019 – August 2019; Interim Chief Executive Officer

September 2019 onwards, Chief Financial Officer

Skills and experience

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

Sufficiently Independent Directors

Sir Adrian Montague CBE
Chairman

Appointed
July 2017

Committee membership
Nomination (Chair); Safety & Sustainability (until separated in November 2020)

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

Sir Adrian was awarded a CBE in 2001.

Sir Adrian is a qualified solicitor.

Other key external appointments
Sir Adrian is currently Chairman of Manchester Airports Holdings Limited, Porterbrook Leasing Company Limited, TheCityUK Leadership Advisory Panel and is a Trustee of the Commonwealth War Graves Foundation.

Dr Catherine Bell CB

Appointed
September 2016

Committee membership
Audit & Risk; Nomination; Remuneration (Chair January - March 2021); Safety; Sustainability; Safety & Sustainability (until separated in November 2020)

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

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

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

Other key external appointments
Catherine currently sits on the Board of Horder Healthcare and is a Member of the Competition Appeals Tribunal.

Paul Smith

Appointed
February 2021

Skills and experience
Paul is an experienced Executive with a portfolio of Non-Executive Director appointments across the Utility, Energy and Infrastructure sectors.

Prior to these he was Managing Director of SSE's Generation and Gas Storage business – with responsibility for one of the largest portfolios of power generation assets in the UK and Ireland. Earlier in his career he worked in the Chemical Industry for ICI plc and Dupont in a range of senior production, engineering and project roles.

A Chartered Chemical Engineer, he is a Fellow of the Institution of Chemical Engineers and also a Fellow of the Energy Institute.

Other key external appointments
In addition to Cadent Gas his portfolio includes: the Non-Executive Chair of Capstone Infrastructure Corporation, an independent power producer in Canada; the Non-Executive Chair of Diversified Energy-from-Waste Management Ltd, a company overseeing the interests of a group of joint venture Energy from Waste businesses; a Non-Executive of Scottish Water, a publicly owned water utility; and a Non-Executive of Orbital Marine Ltd, a renewable energy company with the most powerful tidal generator in the world.

Board of Directors continued




Shareholder Nominated Directors

Mark Braithwaite

Appointed

March 2017

Alternate: Richard Greenleaf (appointed November 2018)

Committee membership

Audit & Risk (Chair); Nomination; Remuneration

Skills and experience

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

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

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

Other key external appointments

Mark holds other Non-Executive Directorship roles for companies within MIRA's investment portfolio.

Mark Mathieson

Appointed

November 2018

Alternate: Richard Greenleaf (appointed November 2018)

Committee membership

Safety (Chair)

Skills and experience

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

Most recently, he was a sufficiently independent Non- Executive Director of Smart DCC Ltd. He was also CEO at Green Highland Renewables, the UK's largest developer and owner of run-of-river hydroelectric schemes.

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

Other key external appointments

Mark currently sits on the Board of Nortegas Energía Grupo.

Howard Higgins

Appointed

March 2017

Alternate: Richard Greenleaf (appointed November 2018)

Committee membership

Safety; Sustainability; Safety & Sustainability (Joint Committee Chair until November 2020)

Skills and experience

In his role as Senior Advisor at Macquarie Infrastructure and Real Assets ('MIRA'), Howard provides specialist support across the regions on the acquisition, transition and management of energy and utility businesses.

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

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

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

Other key external appointments

Howard holds other Non-Executive Directorship roles for companies and funds within MIRA's investment portfolio.

Jaroslava Korpancova

Appointed

March 2017

Committee membership

Audit & Risk; Nomination; Remuneration

Skills and experience

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

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

Other key external appointments

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




Eduard Fidler

Appointed

November 2018 as Alternate Director

June 2019 as a Director

Committee membership

Sustainability

Skills and experience

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

Other key external appointments

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

Perry Noble

Appointed

April 2017 as Alternate Director

March 2020 as a Director

Alternate: Hamish de Run (appointed April 2020)

Committee membership

Audit & Risk; Nomination; Safety; Sustainability (Chair); Safety & Sustainability (until separated in November 2020)

Skills and experience

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

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

Perry is a qualified solicitor.

Other key external appointments

Perry holds various Non-Executive Directorships for other companies in Hermes' investment portfolio.

Nick Axam

Appointed

May 2018 as an Alternate Director

May 2019 as a Director

Committee membership

Audit & Risk; Nomination

Skills and experience

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

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

Other key external appointments

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

Simon Fennell

Appointed

May 2019 as an Alternate Director

June 2019 as a Director

Committee membership

Nomination; Sustainability

Skills and experience

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

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

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

Other key external appointments

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

Board of Directors continued

Deven Karnik

Appointed

March 2017

Alternate: Abdulla Al-Ansari (appointed May 2018)

Skills and experience

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

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

Other key external appointments

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

David Xie

Appointed

May 2017 as an Alternate Director

August 2018 as a Director

Alternate: Hua (Helen) Su (appointed August 2018)

Skills and experience

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

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

Other key external appointments

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

Hua (Helen) Su

Appointed

August 2018 as an Alternate Director

May 2021 as a Director

Alternate: Minzhen (Orlando) Wang (appointed May 2021)

Skills and experience

Helen Su is currently a Vice President at CIC Capital Corporation ('CIC Capital'), focusing on the infrastructure sector. Prior to joining CIC, Helen worked in the Investment Banking Department at Credit Suisse in Hong Kong.

Jianmin Bao

Appointed

June 2019

Resigned

May 2021

Alternate: Hua (Helen) Su (appointed August 2018)

Skills and experience

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

Other key external appointments

Jianmin is a member of the Executive Committee of CIC.

Corporate Governance report

Purpose and leadership

Pursuant to the Companies (Miscellaneous Reporting) Regulations 2018, the company applied the Wates Corporate Governance Principles for Large Private Companies during the year. Our Board has therefore continued throughout the year, to build upon best practice corporate governance appropriate to a company of our size, recognising that robust corporate governance practices underpin effective management of the business which are in the best interests of all our stakeholders. The Board is focused on its principal role to promote the success of the company. In doing so, the Board considers a range of factors and stakeholder interests.

Purpose

With input and oversight from the Board through the development of its RIIO-2 Business Plan, Cadent established a clear vision of 'setting standards that all of our customers love, and others aspire to'. The Board remains satisfied that this is readily understandable to our customers, our stakeholders and our workforce. Every aspect of Cadent's operations underpins the vision. This includes, in particular, its transformational plan to improve the experience of our customers on service and efficiency, putting accountability closer to the customer through a move to a more network aligned operating model. The Board receives regular reports and presentations from the management team in relation to this to enable it to provide stewardship over the manner in which the workforce is directed to fulfil the vision.

To provide future benefit to its customers, play a leading role in the path to net zero and, in doing so, promote the long term sustainability of the company, the company's Future of Gas Programme encompasses a strategy to decarbonise energy and develop pathways that will help the UK to achieve net zero. The Board maintains oversight through regular reports and presentations from the Chief Executive Officer and the Strategy and Regulation team. Additionally, the Board, by its individual members and collectively, has invested time to develop and deepen its relevant knowledge through one to one and whole Board briefings from the team; and commitment to scheduled strategy days (the first being held in November 2020). Through doing so the Board is able to provide considered input to steer and guide the company in pursuance of the programme. As Cadent regards the present and looks ahead to the future, the Board will support the company's review and update of its purpose to 'Keeping people warm, while protecting the planet' as it is launched internally with employees in the coming months.

Values and Culture

As part of the company's on-going transformation, the Board has been presented with and considered new values, shaped with input from employees, which complement Cadent's transformation and culture and align strategic direction with business commitments. They are:

- We work together
- We take responsibility
- We drive performance
- We shape the future

The Board welcomed and supported their introduction, recognising the role they will play in assisting the company to deliver its commitments and the importance of promoting a culture of personal accountability and transparency.

The Board was also mindful of the challenges COVID-19, and the associated restrictions (particularly the introduction of remote working), might place on maintaining and enhancing the company's culture. The Board retained careful overview of the steps taken by management to preserve and improve this – initially through the specifically scheduled COVID-19 update calls and then through reports from the management team at Board meetings.

Strategy

One of the Board's key leadership roles is to help develop the company's strategy and business model to generate long-term sustainable value. Having overseen the development of the RIIO-2 Business Plan submitted to Ofgem in the previous financial year, the Board has engaged with the business at every step of the price control process; to test thinking and act as a 'critical friend', ultimately leading to the decision to appeal to the Competition and Markets Authority against aspects of the decision.

The strategic objectives for RIIO-2: delivering a quality experience for all customers and stakeholders; trusted to act for our communities; providing a resilient network to keep the energy flowing; and tackling climate change and improving the environment; reflect the need to carefully balance the company's short-term needs with our long-term aspirations. Also, the strategy, along with the company's values, support appropriate behaviours and practices within the workforce. This is facilitated by the presence and experience of the combination of our Nominated Non-Executive Directors and Sufficiently Independent Directors.

See pages 78 to 83 under the section 172 statement for further details of purpose and leadership.

Board composition

Each of our Directors have been carefully selected to the Board bringing a wealth of experience, knowledge and expertise to the company. They have a balance and depth of skills and diverse backgrounds which are critical for the effective leadership of the company for all stakeholders and to mitigate against 'group thinking'.

Chair

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

Our Chairman works closely with the General Counsel and Company Secretary to ensure all Directors have appropriate information for each board meeting and sufficient time is allocated for meaningful and constructive discussions.

The roles of Chairman and Chief Executive Officer are separate, with clear divisions in responsibilities.

Balance and diversity

The composition of the Board is partly determined by the Shareholders' Agreement. Of particular note is the experience the Board has in the areas of the regulated utility sector, infrastructure, safety, sustainability, government and regulation. To read more about our Directors' skills and experience, please read their biographies on pages 90 to 94. For further reading about diversity and inclusion within our company please refer to page 72.

Corporate Governance report continued

We acknowledge that the Board may benefit from more gender diversity, however the Board does not operate a formal Board Diversity policy or set targets for gender representation on the Board, since Board appointments are a matter reserved to the shareholders of TopCo, under the Shareholders' Agreement. Our shareholders are, of course, encouraged within their own organisations to consider Board diversity when nominating Directors to the Board.

Size and structure

Our Board Composition

The names and biographies of all the Board of Directors on the company are published on pages 90-94. As at 31 March 2021, the Company Board comprised of the following:

Non-Executive Chairman and Sufficiently Independent Director*: Sir Adrian Montague CBE. Appointed in accordance with the agreement between the shareholders of the company's ultimate parent company, Quadgas Holdings TopCo Limited ('TopCo').

Sufficiently Independent Directors*: (2) Dr Catherine Bell and Paul Smith. It is a requirement of our Gas Transporter Licence to appoint two "sufficiently independent directors", to provide independent challenge and input to the Board. (Our Chairman is also a sufficiently independent director).

Executive Directors: (2) Chief Executive Officer – Steve Fraser and Chief Financial Officer – Steve Hurrell

Shareholder Nominated Non-Executive Directors: (11) nominated by TopCo, representing members of the consortium of investors in TopCo.

General Counsel and Company Secretary: Diane Bennett

Alternate Directors: (4) appointed in accordance with the agreement between the shareholders of TopCo Limited to participate in Board meetings when their principal Shareholder Nominated Director is unable to attend.

Board Activities

The Board planned and held seven formal meetings during the year and the following ad-hoc meetings:

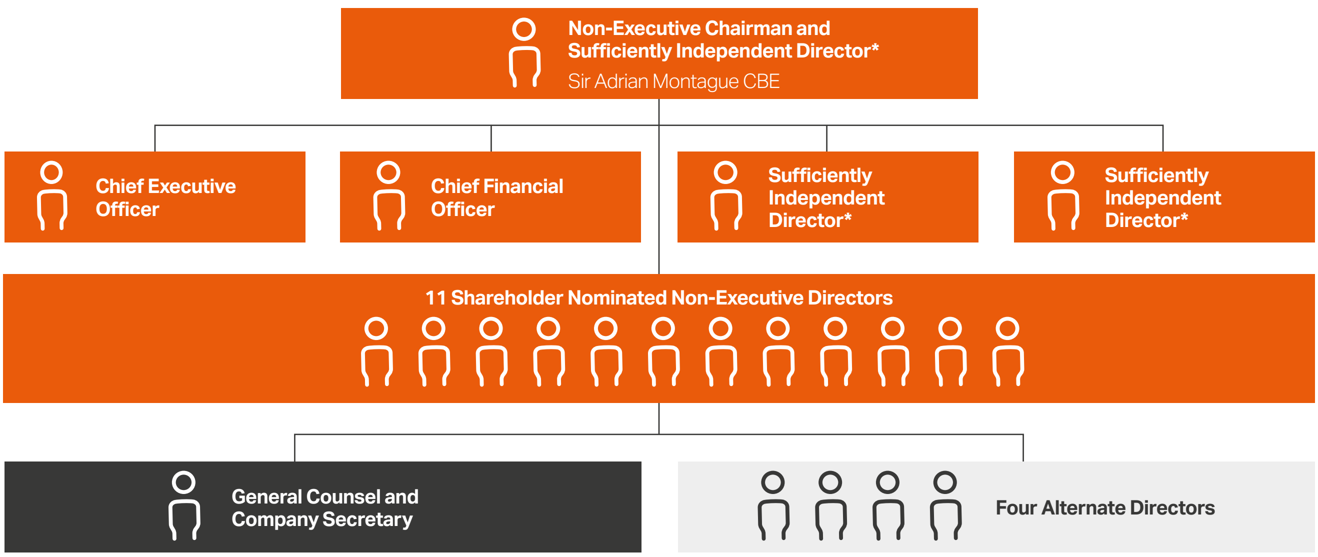
- Strategy day in November 2020, focusing on Cadent's Future of Gas Programme.
- 13 RIIO-2 meetings, relevant to the regulatory price control process.
- An additional formal Board Meeting in February 2021, primarily to address the decision to appeal to the CMA against Ofgem's decision.
- Regular COVID-19 telephone briefing sessions at the outset of the pandemic.

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

Effectiveness

In May 2020, Independent Audit Limited, an independent third party, supported our internal self-assessment of the Board using their online tool Thinking Board® and provided their analysis by way of a summary report. The report was presented to the Board in July 2020. Following a period for consideration and one to one discussions held between the Chairman and individual Board members, the Chairman presented a paper setting out recommendations at the September 2020 Board Meeting.

Our Board composition



* As defined in the Ofgem Gas Transporter Licence, under Standard Special Condition A42.

All respondents were generally content with the manner in which the Board was functioning. In particular the relationship and interactions between the Executive Directors and Non-Executive Directors was acknowledged as strong and the approach taken to Board engagement with the RIIO-2 process was considered an exemplar of its type. Some matters were raised for discussion and were debated at the meeting.

The recommended actions centred around the Committees – in particular the Safety & Sustainability Committee and the Finance Committee.

With regard to the Safety & Sustainability Committee, its remit had expanded significantly over the last couple of years, putting time pressure on the matters for discussion at meetings and calling into question whether it would be appropriate to establish separate committees for each area going forwards. With regard to the Finance Committee, given that the initial financial restructuring was now complete, the question to be addressed was whether it would be appropriate to return authority for decisions to the Board, potentially with a Steering Group to provide detailed review and challenge on appropriate matters.

After careful consideration and discussion, the Board decided (in November 2020) to divide the workload of the existing Safety & Sustainability Committee by creating two dedicated committees, it having become increasingly clear that the two areas within its remit would benefit from separate stewardship. The Safety Committee allows for a stronger focus on management's response to safety challenges and improvements. With sustainability becoming an increasingly vital area impacting the future of the business, the new Sustainability Committee will assist the Board in shaping the company's future strategy and maintain oversight of this. Mark Mathieson and Perry Noble respectively have assumed the role of Chair of those committees, with each benefitting from the expertise of Howard Higgins continuing as a member. With regard to the Finance Committee, so as to avoid distancing the Board from involvement in overall financing strategy and approval of individual transactions, it was agreed to reconstitute this as a Finance Steering Committee, providing a specialist forum for discussion of financing matters to assist the Board in its decision making. Jaroslava Korpancova is the Chair of that Steering Committee.

Additionally, the Board reviewed Committee Membership, aided by a skills matrix completed by each Director, so as to take into account relevant skills and experience. The appointment of new committee members was approved. All terms of reference were reviewed and amendments approved.

Development and training

During the year, our Directors continued to develop their knowledge of the Business and kept abreast of their duties as Directors. The opportunity for site visits was necessarily curtailed by COVID-19 restrictions. Development was achieved through a combination of the following:

- A technical teach in on Hydrogen at the September 2020 Board meeting;
- The Future of Gas strategy day in November 2020;
- A deep dive session in relation to projects to address data capture and management; and
- Briefings on Directors' duties and latest corporate governance requirements through relevant Board papers.

In addition, an induction programme was arranged for new sufficiently independent director, Paul Smith.

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

Director responsibilities

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

Accountability

Board responsibilities

The roles of Chairman and Chief Executive Officer are separate, with clear divisions in responsibilities:

- The Chairman is responsible for the effective running and management of the Board; working collaboratively with the shareholders and management team.
- The Chief Executive Officer is responsible for the day-to-day management of the business.

The key roles and responsibilities of the remaining Directors are as follows:

- The Chief Financial Officer is responsible for the financial objectives and performance of the company.
- The Sufficiently Independent Directors are responsible for providing independent judgement on issues and constructive challenge on Board decision-making processes, particularly in the following key elements:
  - **Strategy**: to challenge constructively and to contribute to the development of strategy including in relation to the increasing importance of the UK's move toward carbon net zero and the future of gas in that context;
  - **Performance**: to scrutinise the performance of management in meeting agreed goals and objectives and to monitor the reporting of performance;
  - **Risk**: to scrutinise and challenge accuracy of financial information, and access whether the financial controls and systems of risk management seem robust and defensible, based upon the presentations and information made available to them by management and the company's internal and external auditors;
  - **Safety and Ethics**: to support and promote a positive 'tone from the top' on health & safety and ethical leadership; and
  - **People**: to be responsible for determining appropriate levels of remuneration of Executive Directors and to have a role in appointing, and where necessary removing, senior management and in succession planning.

Corporate Governance report continued

- The Non-Executive Shareholder Directors are appointed in accordance with the Shareholders' Agreement and are responsible for providing constructive challenge to the Board's decision-making process including in respect of those areas which the sufficiently independent directors focus on. An additional key part of the Non-Executive Directors' role is to support executive management in developing and remaining focused on the longer term strategy for the business, including the future of gas, as well as to keep under review the principal and emerging risks to the successful execution of the strategy.
- The Board is supported by the General Counsel and Company Secretary who provides advice on corporate governance matters as well as legal advice. The Board continually reviews our internal corporate governance practices and external developments in corporate governance and seeks the advice of the General Counsel and Company Secretary implementing sound and effective corporate governance practices.

Conflicts of interest

Given the composition of the Board, with Non-Executive Shareholder Nominated Directors, we are aware that potential conflicts of interest may arise. Our Directors are conscious of their statutory duties in relation to conflicts of interest and their duty to make the Board aware of any situations which may create a conflict of interest. The General Counsel and Company Secretary maintains a register of Directors' interests and the Board reviews and considers any potential conflicts of interest as they arise.

Commitment

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

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

Group policies framework

Last year, an executive-level Policy Committee, was established, to oversee the operation of the policy framework and to ensure policy review at the appropriate frequency and forum (including the Board for several Group policies). The company operates several Group policies that reflect appropriate governance for a company of its size and standing, these include ethical business conduct, anti-corruption and bribery; whistleblowing; data protection; social media; records management; health & safety; environmental; gifts and hospitality and HR policies and processes. The Board has also approved the Group's Tax Strategy Statement for the year, which has been published on the company's website: https://cadentgas.com/about-us/our-company/corporate-governance

Delegations of Authority

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

Committees

The Board has established several Committees to carry out specific duties. This allows the Board to operate more efficiently, concentrating on providing leadership and decision making for the business. We are dedicated to making sure that both the Board and its Committees are clear on their roles and are supported to ensure the Board can provide an appropriate level of focus and consideration to relevant matters. Each of our Committees has Board-approved terms of reference setting out their respective remits, and these terms of reference are kept under regular review including to reflect emerging best practice. The Board and Committee governance framework can be found on page 89. You can read about each Committee in the Committee reports that follow this section.

Integrity of information

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

Our Chairman is supported by the Company Secretariat to arrange the annual schedule of Board and Committee meetings and the business to be considered. Before each meeting, typically a week ahead, the Board and Committees receive a detailed agenda and papers. The papers are drafted and sponsored by senior Executives within the company and, where required, senior Executives will be invited to the meeting to present and discuss the matters contained in their paper. We follow a pre-set template for Board papers to allow consistency of reporting, enable a focus on the key matters and for the Board to be clear about what is being asked of them. During our meetings, the Directors may request additional actions to be taken and those actions are agreed by the Board and a follow-up procedure, managed by the Company Secretariat team, ensures their completion. Outside of the formal Board and Committee meeting cycle, the Directors are kept informed of matters of interest and concern to them, either through written papers, or discussions with the Chief Executive Officer or senior Executives. Also, additional briefings and update calls are scheduled, as and when necessary, as was the case this year given the importance of ensuring the Board was appropriately briefed in relation to the RIIO-2 price control process and the response to the COVID-19 pandemic.

The Board also engages with and obtains information directly from certain stakeholders to complement and provide independent assurances, to balance the information in the reports of management – see our Section 172 Statement on pages 78-83 for more information.

Opportunity and risk

The Board continues to focus on the long-term opportunities of success for the business, by identifying the key role it plays in helping to shape the future of its industry.

Opportunity

The Board has considered how the company, in fulfilling its purpose, creates and preserves value over the long-term. Our business model is set out on pages 4 and 5 and the Board keeps this under periodic review.

The Board closely monitors the company's participation in activities on the future of gas in the UK's energy mix, with the overriding challenge of meeting UK Government's ambitions on net zero. Stewardship is provided by the Board to utilise opportunities to move the company in a way which will help secure long-term value. You can read more about the way in which we are supporting the energy transition, over which the Board has stewardship, and the key collaborative projects with which we are involved at pages 58-70. At the same time the Board remains fully cognisant of the need to balance these ambitions with the fundamental business requirement to ensure our infrastructure is operated and maintained safely, that our response services are still effective and efficient as possible for the benefit of our customers, all within the agreed price control framework.

Our Delegations of Authority (described on page 98 above) set authority limits on significant capital and operational expenditure.

Risk

The Board has responsibility for the company's overall approach to strategic decision-making, setting the company's appetite for risk and effective risk management (financial and non-financial), including reputational risk. The Board assigns its responsibility for ensuring that risk management and internal control systems are effective across the business, to the Audit & Risk Committee. The Committee annually reviews the company's risk appetite and profile, risk management processes, internal controls and receives regular internal audit and related compliance reports. (These include compliance with our licence conditions which is recognised as a principal risk and reviewed as part of the routine compliance process. The Audit & Risk Committee also receives regular reports on specific and emerging risks and how these are managed, through the operation of the risk management system. To read more about our risk management model and our principal risks and uncertainties, please read the Financial review and risk management section of the Strategic report on pages 23-28.

Responsibilities

The Board, supported by the Audit & Risk Committee, maintains oversight over the company's internal control framework and is supportive of management's ongoing plans to enhance this and strive for continuous improvement of the framework. As stated above, regular reports are provided to enable the Audit & Risk Committee and Board to gain an understanding of the principal and emerging risks and to make robust decisions and plans monitored to conclusion.

For more information see pages 105-109 on the Audit & Risk Committee report.

Remuneration

A separate Directors' Remuneration report is set out on pages 114 -118 and provides details of the Remuneration policy, level and components of remuneration and procedure for fixing the individual remuneration packages of Executive Directors and members of the Executive Committee. The Board has established a Remuneration Committee to support its decisions with regard to remuneration, and you can read about the work of the Committee in the Remuneration Committee report on pages 112-113.

Succession

The Board has an established Nomination Committee to consider and make recommendations to the Board for the long- and short-term strategy plans for succession of our Executive Directors, members of our Executive Committee, other senior Executives reporting to the Chief Executive Officer, our Chairman and Sufficiently Independent Directors. For more information see pages 110-111 on the Nomination Committee report.

Stakeholder relationships and engagement

The Board is committed to stakeholder engagement and the Directors take their responsibilities and duty to them under Section 172 of the Companies Act 2006 seriously. You can read more about the Board's approach to stakeholder engagement in our Section 172 Statement in the Strategic report on pages 78-83.

Safety Committee report

"The newly separate Safety Committee welcomes the opportunity to oversee management's goal of seeking continuous improvement in safety performance."

Mark Mathieson
Chair of the Safety Committee

Members

Mark Mathieson (Chair)	Howard Higgins
Catherine Bell	Perry Noble

Key highlights of the year

Safety Assurance:

- Continued meticulous focus on safety performance, including detailed review of incidents and associated actions and learnings.
- Reviewed process safety key indicators reporting.
- Oversight of operational response to COVID-19; adopting an approach compliant with Government guidelines whilst fulfilling our obligations to our customers.
- Reviewed benchmark analysis of safety performance.
- Reviewed asset health and integrity of asset data.
- Reviewed and provided input on safety targets for 2021/22.

Safety and Sustainability internal audit:

- Reviewed progress on safety internal audit plan and approved plan for 2021/22.

Wellbeing of our employees:

- Supported health and wellbeing of the workforce, including a focus on fatigue risk management and COVID-19 working.

Framework and business plan:

- Retained an overview of preparation of the second Safety & Sustainability report for publication.
- Reviewed safety targets for 2021/22.
- Reviewed and enhanced the safety strategy.

I am delighted to present the first report of the standalone Safety Committee. The Committee was established following the Board's decision, as a result of its effectiveness evaluation exercise, to separate the workload of the Safety & Sustainability Committee into two separate committees. In this report, I will cover the key safety related aspects of the work of the joint committee as well as outlining the initial focus of the new Committee and our plans going forwards. More generally, the key elements of the overarching safety strategy, into which the Committee has provided insight and input, are set out in the Strategic and Operational reports at pages 8 and 9 and pages 30-37.

As we state in our second Safety & Sustainability report, safety is the foundation of our business. We are committed to ensuring the safety of our people, our customers and the general public. The work of the Committee supports that commitment. This was particularly the case in relation to the response to the COVID-19 pandemic. In addition to the business updates provided directly to the Board, the Committee maintained a detailed overview of Cadent's response to the challenging and evolving government restrictions and guidance. This included visibility and oversight of the proactive actions taken by the business to ensure the safety of our workforce and customers including creating a safe working environment whether at our premises, out on our networks or in customers' homes ; revised, risk-assessed procedures compliant with Government guidance and requirements; and supporting and promoting the health and mental wellbeing of our employees.

The attention given to COVID-19 did not detract from the Committee's focus on other key areas. Whilst safety performance has improved in comparison to previous years, the Committee has continued to emphasise the need to maintain progress against the Safety Improvement Plan. This comprises eight action areas covering a wide range of safety related matters and issues such as cable strikes, fatigue risk and culture and behaviour. Each area has tangible deliverables, target dates and is led by one of our senior management directors. An update on progress is provided at each Committee meeting for review, discussion and input.

The Committee reviewed management's assessment of the causes of incidents occurring in the course of work on our network; whether there are any underlying trends; the approach to investigation of those incidents and the learnings that can be derived and shared to prevent further occurrences. It has done so through reports to, and discussions at, Committee meetings.

In addition, the Committee has continued its focus on process safety performance, which is reported by reference to key performance indicators. The scope of and information included in the data reported has evolved as a result of collaboration and discussion between the Committee and the business. This is to ensure that the Committee has complete clarity, enabling it to provide input and guidance as appropriate with a view to improving performance.

The creation of a separate committee, which met for the first time in December 2020, provided an opportunity to revisit the scope of the Committee's duties and consider how best it can fulfil its remit and support the Board. The focus solely on safety allows for a dual approach of reviewing and monitoring operational safety performance, with more time available to track closure of actions and implementation of lessons learnt, as well as allowing for greater strategic review and debate. With the latter in mind, over the next year, the Committee will undertake a detailed review of safety performance and strategy, including consideration of our safety case, the gas emergency service and our approach to mental health to enhance the wellbeing of our employees.

Role and composition of the Safety Committee

The role of the Safety Committee is to assist the Board by providing assurance regarding the scope, adequacy and effectiveness of the company's management of safety.

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

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

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

On behalf of the Safety Committee:

Mark Mathieson
Chair of the Safety Committee

14 July 2021

"We are committed to ensuring the safety of our people, our customers and the general public."

Mark Mathieson
Chair of the Safety Committee

Safety Committee report continued

Meetings

During the year five meetings were held.*

July 2020

Main purpose

- Received an update on progress with the draft second Safety & Sustainability Report.
- Reviewed the status of actions arising from the 2019/20 internal safety audit plan and approved an updated 2020/21 internal safety audit plan.
- Reviewed the Safety & Sustainability Performance report.
- Reviewed revised reporting on Process Safety key performance indicators.
- Received and discussed an incident report and incident update.

Key additional attendees

Chairman of the Board; three non-executive investor appointed directors; Chief Executive Officer; Chief Operating Officer; Chief Strategy and Safety Officer; General Counsel and Company Secretary; Director of Safety & Sustainability; and Head of Audit & Risk

September 2020

Main purpose

- Reviewed the Safety & Sustainability Performance report.
- Received a report on a material safety event.
- Reviewed and discussed the approach to fatigue risk management.
- Reviewed progress on the Safety Improvement Strategy.
- Reviewed and discussed our asset data strategy.
- Reviewed the quantitative risk assessment overview.

Key additional attendees

Chairman of the Board; three non-executive investor appointed directors; Chief Executive Officer; Chief Operating Officer; Chief Strategy and Safety Officer; General Counsel and Company Secretary; Director of Safety & Sustainability; and Director of Network Strategy

December 2020

Main purpose

- Inaugural meeting of the Safety Committee.
- Reviewed the Safety Performance report.
- Reviewed and noted the Winter Plan Summary 2020-2021.
- Discussed matters to be included in the Forward Business Schedule.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Operating Officer; General Counsel and Company Secretary; and Director of Safety & Sustainability

January 2021

Main purpose

- Reviewed the Safety Performance report.
- Received an update in relation to COVID-19 working and impact on operations.
- Reviewed the approach to Process Safety performance reporting.
- Reviewed an overview of the asset health of our metallic mains population.
- Reviewed a benchmark analysis of Cadent's safety culture.
- Received an update on progress on internal safety audits.
- Reviewed an incident and the investigation approach.
- Reviewed and discussed Cadent's policy on workforce vaccination against COVID-19.
- Reviewed lessons learnt on the Crisis and Incident Management Framework from the response to COVID-19.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Operating Officer; Director of Safety & Sustainability; General Counsel and Company Secretary; Director of Network Strategy; and Head of Audit & Risk

March 2021

Main purpose

- Reviewed the Safety Targets for 2021/22.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Operating Officer; Chief Strategy and Regulation Officer, General Counsel and Company Secretary; Director of Safety & Sustainability; and Head of Audit & Risk

* July and September 2020 as the Safety & Sustainability Committee and December 2020 and January and March 2021 as the newly established Safety Committee.

Sustainability Committee report

Members

Perry Noble (Chair)	Eduard Fidler
Catherine Bell	Howard Higgins
Simon Fennell	

Key highlights of the year

Ensuring that the company is recognised as a 'Force For Good'

Developed a 'Force for Good' framework that sets out our focus areas, facilitating review of and progress against our corporate social responsibility and sustainability agenda.

Financial Reporting:

Ensured we are measuring our ESG performance in a manner that facilitates appropriate benchmarking whilst fully complying with regulatory requirements and promoting best practice ESG reporting standards.

Sustainability internal audit:

- Reviewed internal audit plan for areas of importance to sustainability agenda and approved plan for 2021/22.

Framework and business plan:

- Set challenging emissions and waste reduction performance targets for 2021/22 and onwards to 2023/24.
- Oversight of the preparation of the second Safety & Sustainability report for publication.

"The inauguration of a standalone Sustainability Committee underlines the importance the Board places on Cadent making a positive contribution in all areas of its sustainability agenda. The Committee will focus on delivering Cadent's business activities in a socially responsible way, whilst minimising any negative impact on the environment."

Perry Noble
Chair of the Sustainability Committee

I am pleased to present the first report of the new standalone Sustainability Committee. The Committee was established following the Board's assessment, following its effectiveness evaluation exercise, to separate the workload of the Safety & Sustainability Committee into two workstreams overseen by separate committees. It met for the first time in December 2020. In this report, I will address the sustainability related matters previously covered by the former joint committee, the initial focus of the new Committee and our proposed approach going forwards. You can find further information about Cadent's environmental strategy, on which the Committee provided input, at pages 57-61 of the Strategic report.

Cadent is committed to making a positive impact through its sustainability strategy. The second Safety & Sustainability report sets out the actions Cadent is taking to achieve that objective. Progress is reviewed through regular reports to the Committee providing updates in relation to environmental strategy (including key performance indicators; trend data analysis; and preparation to deliver the RIIO-2 Environmental Action Plan); social performance, (providing an update on our customer vulnerability strategy); making a positive contribution, covering initiatives to support our communities; and an update on aspects of our future of gas programme (our strategy in relation to this being principally overseen by the Board). The establishment of the new Committee has provided a welcome opportunity to undertake a more detailed review of these areas. This will be done by reference to a new framework – 'the Force for Good Framework' – that has been developed by the business with input from the Committee.

The Force for Good Framework identifies six separate 'pillars' or areas of focus, the high level headings for which are customer; community; colleagues; carbon footprint; environment and supply chain. Each is underpinned by projects and initiatives that support

Sustainability Committee report continued

implementation of Cadent's sustainability and corporate social responsibility agenda. Certain of the topics are covered elsewhere in the governance structure (for example, hydrogen strategy, which sits under carbon footprint, is overseen by the Board). All remaining items will form part of the Committee's forward business schedule and will be subject to thorough review and oversight by the Committee as we progress through the RIIO-2 period and beyond.

The first area we considered under the Force for Good Framework was Cadent's business carbon footprint, the review of which resulted in the Committee approving the setting of a business carbon footprint science-based target for Scope 1 and 2 emissions. Cadent is the first UK gas distribution business to commit to a science-based target, though the Company has ambitious plans to outperform those targets. Cadent's approach demonstrates its intent to play a leading role in the UK's journey to net zero, and the part the Committee can play by supporting and encouraging this. Other areas for Committee review during the course of the year include biodiversity and waste baseline and reduction targets (both falling under 'environment'); governance and ethics (under 'supply chain') and corporate responsibility strategy and delivery (under 'community').

The Committee will assist the Board through its detailed review and reports on progress on the areas identified and looks forward to working with the business to make a positive and demonstrable impact against its stated commitments.

Role and composition of the Sustainability Committee

The role of the Sustainability Committee is to assist the Board by providing assurance regarding the scope, adequacy and effectiveness of the Company's approach to delivery against its sustainability and corporate responsibility strategy.

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

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

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

On behalf of the Sustainability Committee:

Perry Noble
Chair of the Sustainability Committee

14 July 2021

Meetings

During the year four meetings were held.*

July 2020

Main purpose

- Received an update on progress with the draft second Safety & Sustainability report.
- Reviewed the status of actions arising from the 2019/20 internal sustainability audit plan and approved an updated 2020/21 internal sustainability audit plan.
- Reviewed the Safety and Sustainability Performance report.

Key additional attendees

Chairman of the Board; three non-executive investor appointed directors; Chief Executive Officer; Chief Operating Officer; Chief Strategy and Safety Officer; General Counsel and Company Secretary; Director of Safety & Sustainability; and Head of Audit & Risk.

September 2020

Main purpose

- Reviewed the Safety & Sustainability Performance report.
- Received a report on a Sustainability Engagement Campaign.

Key additional attendees

Chairman of the Board; three non-executive investor appointed directors; Chief Executive Officer; Chief Operating Officer; Chief Strategy and Safety Officer; General Counsel and Company Secretary; Director of Safety & Sustainability; Director of Network Strategy.

December 2020

Main purpose

- Inaugural meeting of the Sustainability Committee.
- Reviewed the Sustainability Performance report.
- Approved benchmarking standards for use during 2021/22.
- Received an overview of gender pay gap reporting.
- Discussed matters to be included in the Forward Business Schedule.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Operating Officer; Chief Strategy and Regulation Officer; General Counsel and Company Secretary; Director of Safety & Sustainability; and HR Director, Centre of Expertise.

March 2021

Main purpose

- Reviewed the Sustainability targets for 2021/22 and onwards to 2023/24.
- Approved the Business Carbon Footprint science-based target for Scope 1 and 2 emissions.
- Approved the 'Force for Good Framework' to underpin Cadent's corporate social responsibility and sustainability agenda and associated reporting.
- Reviewed the Sustainability Performance report.
- Received an update on readiness to deliver the Environmental Action Plan RIIO-2 Commitments.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Operating Officer; Chief Strategy and Regulation Officer; General Counsel and Company Secretary; and Director of Safety & Sustainability.

* July and September 2020 as the Safety & Sustainability Committee and December 2020 and March 2021 as the newly established Sustainability Committee.

Audit & Risk Committee report

> **"The Committee was proactive in considering the risks from, and management's responses to, the COVID-19 pandemic."**

Mark Braithwaite
Chair of the Audit & Risk Committee

Members

Mark Braithwaite (Chair)	Jaroslava Korpancova
Nick Axam	Perry Noble
Catherine Bell	

Key highlights of the year

Financial Reporting:

- Reviewed and recommended to the Board the approval of the 2019/20 annual report and financial statements.
- Reviewed and recommended to the Board the approval of the interim financial statements, including consideration of the impact of COVID-19.

Internal control, risk and assurance

- Reviewed processes, the management of key risks, internal controls, assurance of those controls and the degree to which they were impacted by the COVID-19 pandemic. Reviewed the potential impact of Brexit.
- Reviewed the preparedness for implementation of the RIIO-2 Business Plan with a focus on the interests of customers and the risks related to climate change.
- Oversaw enhancements to our risk and assurance processes and supported the Board's review of the company's risk appetite.

Internal audit:

- Reviewed outcomes of 2020/21 internal audits and approved the proposed Internal Audit plan for 2021/22.

External audit:

- Recommended the reappointment of the external auditors for 2020/21.
- Reviewed the external auditors report on the 2019/20 financial statements.
- Reviewed the external auditor's report on the 2020 interim financial statements.
- Reviewed the external audit plan on the 2020/21 financial statements.

Audit & Risk Committee report continued

The Audit & Risk Committee has continued to review the effectiveness of the overall risk and assurance framework and the processes in place to support it; regularly reviewing the risk profile, bringing together top down and bottom up risk management and supporting the Board's review of the company's risk appetite framework.

This year, in conjunction with the Board, the Committee was proactive in considering the risks from, and management's responses to, the COVID-19 pandemic. There has also been a particular focus on reviewing the company's preparations for the end of RIIO-1, as well a readiness for the RIIO-2 period and how this helps to promote the success of the company for the long term, for the benefit of its customers and wider stakeholders.

The Committee continued to support CEO, Steve Fraser and management in setting a positive 'tone from the top' and was pleased to see that maintaining and enhancing a strong ethical framework, including a culture of open reporting and speaking up, was at the core of changes being made within the company. The Committee also provided robust challenge and oversight of management decision-making, including reviewing that adequate account was taken of COVID-19, customers' interests and climate change risks.

Individual accountability is core to Cadent's approach, and this is a focus of Cadent's management structure as part of the first line of defence, ensuring effective risk management and internal controls within a delegated authority framework. The Committee sought and received confirmation from management as to the operation of the second line of defence and noted improvements to it during the year. As part of this, specialist embedded teams operate a number of assurance processes, providing assurance over the effectiveness of the financial (including liquidity, credit, interest rate risks and market risks) and non-financial internal controls operating across the business.

The Committee also maintained an overview of the controls operated by the Executive and senior management teams throughout the transition to a network-aligned model; noting that these were robustly enforced notwithstanding the challenges presented by the COVID-19 pandemic. The Committee's work provided assurance that the existing controls are strong and where internal audit assurance activities, audits or investigations had found controls which required improvement, the business had acted promptly. On-going issues that had been highlighted were carefully considered, along with the actions in place to remedy them. Projects to improve data capture and data governance were a major area of focus for the Committee, noting that these controls underpinned a large number of other controls.

Looking to the future, the Committee's priorities are continuing to develop and improve our internal controls and assurance processes, and to ensure the learning from the ongoing COVID-19 pandemic is embedded, with regard to continuing to review organisation resilience over the near and long term.

Role and composition of the Audit & Risk Committee

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

The Committee is appointed by the Board, with a minimum requirement of three Non-Executive Directors, two of whom shall be investor nominated Non-Executive Directors; and one member must be a Sufficiently Independent Director, bringing independent challenge. Dr Catherine Bell CB performs this latter role. Key to the successful operation of the Committee is the requirement that one member is a financial expert with recent and relevant experience and Mark Braithwaite, as Chair, brings this experience to the Committee.

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

Meetings

The Committee is required to meet and make recommendations to the Board, before the Board is asked to approve interim financial statements and the annual report and accounts. During the year five meetings were held, including a deep dive session into a risk related topic (see page 107 below) in December 2020.

Meetings

During the year five meetings were held.*

July 2020

Main purpose

- **Risk management**: Reviewed the Executive risk profile including Gas Distribution Strategic Partnership sustainability; future role of gas and management of data.
- **Assurance update**: Reviewed the internal audit assurance report detailing issues up to end-May 2020.
- **Business conduct**: Reviewed ethics and business conduct reporting and case management, including with regard to the RIIO-1 close-out.
- **Internal audit**: Reviewed the internal audit activity update including management's response to audit recommendations and approved the revisions of the audit plan for the financial year 2020/21.
- **Guaranteed Standards of Performance (GSOP)**: Reviewed an update on the company's GSOP and improved outcomes for customers.
- **External audit**: Reviewed Deloitte's preliminary audit report, as the external auditor, on the company and other Group companies for year ended 31 March 2020.
- **Significant accounting matters (SAM)**: Reviewed an update on SAM, including the potential impact of COVID-19. Satisfied itself of the auditor's independence and recommended the reappointment of Deloitte as auditors for 2020/21 to the Board and the company's shareholders at its annual general meeting.

Key additional attendees

Chairman of the Board, Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; General Counsel and Company Secretary; Head of Audit & Risk; Director of Finance; External Auditor

August 2020

Main purpose

- **External audit**: Reviewed Deloitte's final audit report, on their audit of the company and other Group companies for year ended 31 March 2020.
- **Financial statements**: Reviewed and recommended to the Board for approval the 2019/20 annual report and financial statements, including the adoption of the going concern assumption. The impact of COVID-19 and the RIIO-2 draft determination were considered.

Key additional attendees

Chairman of the Board, Chief Executive Officer; Chief Financial Officer; General Counsel and Company Secretary; Director of Finance; External Auditor

November 2020

Main purpose

- **Risk management**: Reviewed the effectiveness of the company's risk management process and improvements made during the year. Reviewed and approved the proposed changes to a new Risk Appetite framework, including with regard to climate change. Reviewed the Executive risk profile, including in relation to the future role of gas.
- **Assurance update**: Reviewed the internal audit assurance report detailing issues up to end-September 2020.
- **Business conduct**: Reviewed ethics and business conduct reporting and case management.
- **Internal Audit update and Audit Charter**: Reviewed the internal audit activity update and audit plan update including management reports on focus issues; approved the audit charter.
- **External audit**: Considered the report on the 2020 interim financial statements and the interim review report for the six months ended 30 September 2020.
- **Financial statements**: Reviewed and recommended the six months ended 30 September 2020 interim financial statements to the Board for approval. The impact of COVID-19 was considered.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; General Counsel and Company Secretary; Head of Audit & Risk; Director of Finance; External Auditor

December 2020

Deep Dive session

A deep dive review in relation to the risks associated with data capture and data management, as requested by the Committee at the July 2020 meeting, had been scheduled as a separate meeting to ensure sufficient time was allowed to consider this important subject.

March 2021

- **External audit**: Reviewed the external auditor's audit plan and considered the significant accounting matters including consideration of impact of COVID-19 and climate change related disclosures.

  Non-audit services policy: Approved the non-audit services policy for the year.
- **Internal audit:** Reviewed progress against the 2020/21 internal audit plan; network aligned audit outcome; management response to audit recommendations and approved the proposed 2021/22 internal audit plan.

Key additional attendees

Chairman of the Board; Chief Executive Officer; Chief Financial Officer; General Counsel and Company Secretary; Head of Audit & Risk; Director of Finance; External Auditor

Audit & Risk Committee report continued

Financial reporting and summary of significant issues reviewed

The Committee's review of the financial statements included reviews of the accounting policies, significant financial reporting issues and key judgements and estimates underpinning the financial statements, as disclosed within notes 1 and 2 of the financial statements on pages 126 onwards. The significant financial reporting issues considered in relation to the accounts are detailed in the table below.

Areas of focus	Conclusions
Going concern basis for the financial statements	The Committee reviewed the evidence and assumptions underpinning the use of the going concern basis in preparing the accounts and in making the statements in the Strategic report on going concern particularly in light of the impact of COVID-19 generally and upon the workforce, operations and customers and the impact of the close out of our regulatory price control period. The assessment involved consideration of the extent of any operational disruption, demand for the company's services, the extent of any contractual obligations due or anticipated within one year, any potential liquidity and working capital shortfalls and access to existing sources of capital. On the basis of the limited operational disruption, long-term regulatory framework and associated cash flows and the liquidity arrangements in place through the company's financing facilities, the Committee was satisfied that it was appropriate to recommend to the Board that the company continues to adopt the going concern assumption in its financial statements.
Pensions	The Committee considered whether the recognition of the surplus was appropriate following consideration of legal and actuarial advice and the guidance in accounting standards. The Committee questioned the key assumptions adopted in the calculation of the surplus and concluded the assumptions were appropriate. The Committee assessed the impact of the additional requirement to equalise the retirement ages for men and women for members who had transferred out of the scheme, which will be treated as a past service cost for accounting purposes. The Committee concluded that a remeasurement of the scheme was not required having regard to the materiality of the cost.
Exceptional items	The Committee considered the application of the Group's accounting policy during the year and reviewed the items included within exceptional items to challenge whether they were appropriate to be included. The Committee confirmed that management's classification of exceptional items associated with separation and restructuring activities was appropriate and in line with the company's policy.
COVID-19	As described above, the Committee reviewed the extent of the impact of the COVID-19 pandemic upon the financial statements including operating profit, valuation of assets and liabilities, and assumptions used in management judgements and estimates, including the disclosures made, and concluded that they were appropriate.
Climate change	The Committee considered the increased focus upon climate-related risks and disclosures including the TCFD recommendations. It was noted that this continued to be an important area of focus for the business, and the business was taking measures such as replacing cast iron pipes, making the network hydrogen-ready and reducing leakage, all of which contributed to an improved future environment and increased safety. The business was also working to develop a pathway to the transition to green gases that makes sense economically. The Committee concluded that appropriate disclosures were required for climate-related risks to reflect the work carried out in these areas and these have been included in this annual report and accounts.
Fixed assets	The Committee concluded that management had appropriately considered the useful lives and carrying values of property, plant and equipment and intangible assets, including reviewing any contractual arrangements and operational requirements relating to particular assets. This review included consideration of any impact that climate change may have on the future use of our network. They also considered management's review of classification between capex and opex, given that this has been raised as a significant audit risk by the external auditors.
Provisions	The Committee reviewed the level of provisions including the provision for claims and the environmental provision held by the company for the estimated restoration and remediation costs relating to old gas manufacturing sites. There are a number of judgements impacting both calculations in relation to the underlying cash flows and discount rate applied. Regarding the provision for claims the Committee confirmed that through use of independent actuaries, the company employed techniques and assumptions that were appropriate to project the liabilities. The Committee also reviewed the calculation of the environmental provision including judgements concerning the impact of climate change regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs and the impact of alternative technologies on the underlying cash flows. The Committee confirmed the discount rate applied in each case was appropriate.
IT controls	The Committee reviewed the implementation of Cadent's IT controls following separation of our systems from National Grid and challenged management to continue the focus on IT controls given the significant system changes which have taken place in the year. Where IT control issues had been identified by internal audit assurance activities, audits or investigations, the Committee ensured actions were taken and monitored remediation activities.

Internal controls and risk management systems

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

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

Details of the principal risks and uncertainties that could affect business operations can be found in the Risk management and principal risks section of the Strategic report on pages 23 to 28.

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

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

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

The business recognises the importance of supporting individuals who want to report ethical concerns, whether these are connected to financial matters or any other matter. Our 'Speak-up' (whistleblowing) policy is supported by both internal and external whistleblowing helplines and measures are undertaken to independently investigate any ethical concerns.

Internal Audit

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

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

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

External Auditor

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

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

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

Following completion of the 2020/21 audit process, the Committee was satisfied with the performance of Deloitte LLP as External Auditor and recommended to the Board the reappointment of Deloitte LLP for the coming year and propose to shareholders at the company's Annual General Meeting for approval.

Non-audit services

On the recommendation of the Audit & Risk Committee and approval by the Board, we have adopted a Group non-audit services policy. The policy is reviewed annually by the Audit & Risk Committee and was approved for the year in March 2021. This policy is in line with the recommendations set out in the Financial Reporting Council's ('FRC's') Guidance on Audit Committees (2016) and requirements of the FRC's Revised Ethical Standard (2019), regarding auditor independence. For services which are non-recurring in nature, prior approval must be sought from this Committee.

On behalf of the Audit & Risk Committee:

Mark Braithwaite
Chair of the Audit & Risk Committee

14 July 2021

Nomination Committee report

"The Nomination Committee has continued its focus on succession planning; supporting the Executive to promote a strong culture of talent management to enhance business performance."

Sir Adrian Montague CBE
Chair of the Nomination Committee

Members

Sir Adrian Montague (Chair)	Simon Fennell
Nick Axam	Jaroslava Korpancova
Catherine Bell	Perry Noble
Mark Braithwaite	

Key highlights of the year

- Considered succession planning at senior management level.
- Reviewed proposals for a new succession planning framework.
- Appointed a new sufficiently independent director.
- Extended the appointment of an existing sufficiently independent director

Having overseen the appointment of a new Chief Executive Officer and Chief Operating Officer in the previous financial year, the Nomination Committee turned its attention to succession planning at senior management level, particularly those roles reporting into the Executive team and their direct reports. As well as considering the current approach to succession planning, the Nomination Committee reviewed proposals for a new succession planning framework, which will strengthen and promote a strong culture of talent management at Cadent. This focus reflects the strategic goals of the Board; one of which is the execution of a structured succession plan, that is crucial to ensuring that strong leadership is in place, with the right skills, knowledge and experience, to direct and steer the business throughout the RIIO-2 period to successfully deliver the Company's commitments.

The Nomination Committee also undertook a search for a new sufficiently independent director. A key skills criteria for the search, which was supported by external specialist consultants, was the recruitment of a Board member with the necessary experience to succeed Kevin Whiteman, as Chair of the Remuneration Committee. Having done so, the Committee was pleased to recommend the appointment of Paul Smith to the Board with effect from February 2021.

In addition, recognising the valuable contribution Dr Catherine Bell continues to make to Cadent in her role as sufficiently independent director, the Nomination Committee (with Catherine recusing herself from all deliberations relating to this matter), being wholly satisfied that she remains sufficiently independent, recommended the extension of Catherine's existing appointment for an additional period, to March 2024, which recommendation the Board unanimously endorsed.

Looking ahead, the Nomination Committee will retain its focus upon succession planning and will work with the Chief Executive Officer and Chief People Officer as they embed a new succession planning framework and approach to talent management. This will ensure appropriate and continuing development of our Executive and senior management, increasing job satisfaction and further enhancing their ability to drive the business forward.

Role and composition of the Nomination Committee

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

The Committee has three categories of business, upon which it makes recommendations to the Board. Firstly, in respect of potential candidates to fill Executive and Sufficiently Independent Director roles as and when they arise, or to fill strategic appointment requirements; secondly in relation to the terms of the proposed service contracts of Executive Directors or Sufficiently Independent Directors, including their initial remuneration package or fee (in line with existing approved remuneration policies and in conjunction with the Remuneration Committee); and thirdly on any matters relating to the continuation in office of any Executive Director or Sufficiently Independent Director (including the suspension or termination of service). In conducting its business, the Committee will take soundings from the Chief Executive Officer and seek guidance from the Chief People Officer, General Counsel & Company Secretary and outside advisers and consultants, as appropriate.

The Committee is made up of a minimum of three Non-Executive Directors, one of whom is required to be a Sufficiently Independent Director, two of whom shall be Investor nominated Non-Executive Directors, and none of whom are Executive Directors. The Committee appointed two additional members following the Board effectiveness evaluation to expand the breadth of input to Committee business.

Meetings

During the year five meetings were held.

The company's commitment to inclusion and diversity can be found in the Strategic report on page 72, under the heading Our Social Purpose.

On behalf of the Nomination Committee.

Sir Adrian Montague CBE
Chair of the Nomination Committee

14 July 2021

Directors' Remuneration Committee report

"The Committee has ensured remuneration outcomes are fair in the context of sustained performance during an unprecedented year."

Dr Catherine Bell
Interim Chair of the Remuneration Committee

Members

Kevin Whiteman (Former Chair, resigned 1 January 2021)

Catherine Bell (Interim Chair from January - March 2021)

Mark Braithwaite

Jaroslava Korpancova

Key highlights of the year

Salary review:

- Reviewed Executive Directors' salaries in the context of salary review across the wider business.

Incentive plans:

- Setting incentive targets for STIP and LTIP awards made during the year.
- Review of long term incentive plan structure and metrics to reflect regulatory cycle transition.
- Ongoing review of the impact of COVID-19 on the targets and measures for the Short and Long Term Incentive Plans.

Introduction

I am pleased to present the Directors' Remuneration report for 2020/21.

This year there has been a continued focus on ensuring that the approach to remuneration supports and incentivises the right culture and behaviours across the leadership team. There is a strong focus in the remuneration regime in promoting safety and excellence in customer service and ensuring remuneration is more closely linked to sustainability, in particular reducing carbon and taking a leading role in the energy transition to hydrogen.

Business context and performance

In what has been an extraordinary year, our business has responded to the COVID-19 pandemic by continuing to deliver for customers, maintaining Emergency Standards of Service and maintaining a secure, reliable, safe system, despite the significant challenges faced.

In addition to continuing to provide a quality service for our customers, Cadent has acted in the interests of our other stakeholders, as follows:

- **Employees:** All employees have been supported from a financial, wellbeing and safety perspective throughout. No Cadent employee has been furloughed throughout the COVID-19 pandemic.
- **Communities:** The company has made a significant donation to the Trussell Trust during this time and has encouraged employees to volunteer, offering up to two days paid volunteering per employee per month, in order to support the communities they serve.
- **Government:** Cadent has not accessed any form of Government support such as the Coronavirus Job Retention Scheme or the Coronavirus Corporate Financing Facility.

The Committee has taken the company's response to COVID-19 and the performance during the year into account when determining appropriate targets and remuneration outcomes.

Incentive outcomes for the year 2020/21

At the outset of the performance year the Remuneration Committee recognised that the COVID-19 pandemic would have a significant impact upon the targets and measures set for both the short term and long term incentive plans for the year. The impact has been reviewed at each of the Remuneration Committee meetings throughout the year, and certain adjustments to targets were made in cases where the original targets were no longer appropriate in the context of the ongoing pandemic, as set out below. All decisions have taken into account the quality of Cadent's response to the COVID-19 situation in continuing to deliver for customers and maintaining a secure, reliable, safe system during this period.

STIP

Performance under the STIP is assessed against a scorecard of measures, including customer, economic, sustainability and business metrics.

The Committee exercised discretion in its revision of the STIP targets at the November 2020 Committee meeting, at which an adjustment to three of the measures was agreed, to reflect the impact of COVID-19, as follows:

(i) Reduction in the Iron Mains replacement programme target by 19km (from 129km to 110km) due to access restrictions to public and private property related to COVID-19.

(ii) Reduction in the EBITDA target by £23m (from £1,173m to £1,150m) due to increased costs associated with PPE, sickness absence and working from home, as well as lower gas usage resulting in lower revenues from gas transportation.

(iii) Environmental shrinkage and emissions - adjusted to reflect the impact of the reduced levels of mains replacement on the reduction in shrinkage.

Despite the challenging circumstances, the Company performed well against financial, safety and strategic targets. The scorecard outcomes, together with the Remuneration Committee's assessment of the individual performance element, resulted in a payout equal to 79.6% and 75.6% of the maximum STIP opportunity for Steve Fraser and Steve Hurrell respectively (equivalent to £573,000 and £186,400 respectively).

The Committee noted that the STIP scorecard result is used for all employees who participate in the bonus plan and therefore the adjustments have been applied to a broad group of employees. The Committee is satisfied that the resulting outcome is appropriate and fair, being between target and maximum given the exceptional performance during a very challenging year.

Further details of the STIP are provided on pages 116 and 123.

LTIP

The 2018-21 LTIP award granted in 2018/19 is due to vest in 2021/22 based on performance during the three years to 31 March 2021.

Performance under the LTIP was assessed by the Committee against a scorecard of measures. The Committee exercised discretion in relation to four of the LTIP measure outcomes in light of the impact of COVID-19, as follows:

(i) Risk monetisation matrix – outcome adjusted to reflect a reduction in monetised risk contribution from mains and service replacement where activity was reduced as a result of COVID-19 restrictions.

(ii) Safety Mains Replacement Programme – outcome adjusted to reflect that the approved programme for the decommissioning of Tier 1 iron mains would have been met in full but for the impact of the pandemic, as acknowledged by the Health and Safety Executive.

(iii) Environmental shrinkage and emissions – adjusted to reflect the impact of the reduced levels of mains replacement on the reduction in shrinkage.

(iv) Social obligations – outcome adjusted to reflect the shortfall in connections that was ascribed to COVID-19 restrictions, including requests from customers to postpone works. Cadent were on track to meet the target level in the absence of COVID-19.

This resulted in a payout equal to 41.4% of the maximum LTIP opportunity for Steve Hurrell (equivalent to £195,000). As Steve Fraser joined Cadent in 2019, he did not participate in the 2018-21 LTIP. Further details of the LTIP are provided on pages 116 and 123.

Annual salary review and policy application for 2021/22

The Committee carried out a review of salaries for the Executive Directors during the year, taking into account the proposed salary increases across the workforce, and external factors such as market data on salary increases and inflation data.

It was agreed that the salaries of Steve Fraser and Steve Hurrell should be increased by 2% with effect from 1 June 2021. The resulting salary will therefore be £612,000 for Steve Fraser and £315,180 for Steve Hurrell.

Activities of the Committee 2020/21

The Committee held four scheduled meetings during the year. Activities of the Committee during the year included approving outcomes of the 2019/20 STIP awards, salary reviews for the Executive Directors, setting targets for the 2020/21 STIP and LTIP, and consideration of the LTIP for 2020/21 in light of transition to RIIO-GDII in 2021.

Disclosure enhancements

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

Changes to Non-Executive Directors

Kevin Whiteman stepped down from the Board and from his position as Chair of the Remuneration Committee on 1 January 2021. During the period while his successor was being appointed, I took on the role of Interim Chair for the January and March 2021 meetings.

In February 2021, Paul Smith was appointed to the Board, and was appointed to the position of Chair of the Remuneration Committee with effect from May 2021.

I would like to thank Kevin for his service to Cadent and the Committee, and welcome Paul to Cadent and the Remuneration Chair role.

Conclusion

For the 2020/21 financial year, the Committee believes that it has operated remuneration as intended under the policy and that it has appropriately and reasonably exercised its judgement as outlined above.

Catherine Bell
Interim Chair of the Remuneration Committee

14 July 2021

Directors' Remuneration policy

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

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

Our peer groups

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

Reward principles

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

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

Remuneration principles

A. Alignment with Cadent's strategy

B. Pay for performance

C. Competitiveness

D. Consistency

E. Simplicity

Cadent's executive remuneration

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

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

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

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

Strategic priorities

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

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

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

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

Directors' Remuneration policy continued

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

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

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

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

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

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

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

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

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

There is no provision for termination payments.

Differences in Remuneration policy for all employees

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

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

Consideration of Remuneration policy elsewhere in the Company

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

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

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

Policy on recruitment remuneration

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

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

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

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

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

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

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

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

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

Directors' Remuneration policy continued

Service contracts and policy on payment for loss of office

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

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

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

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

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

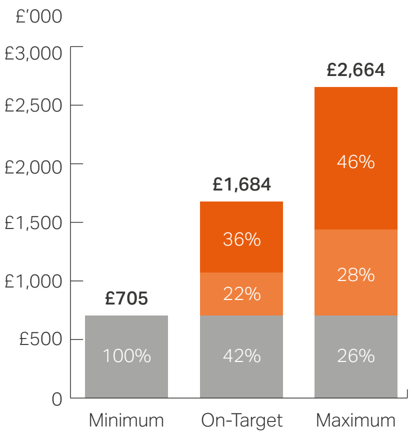
External appointments

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

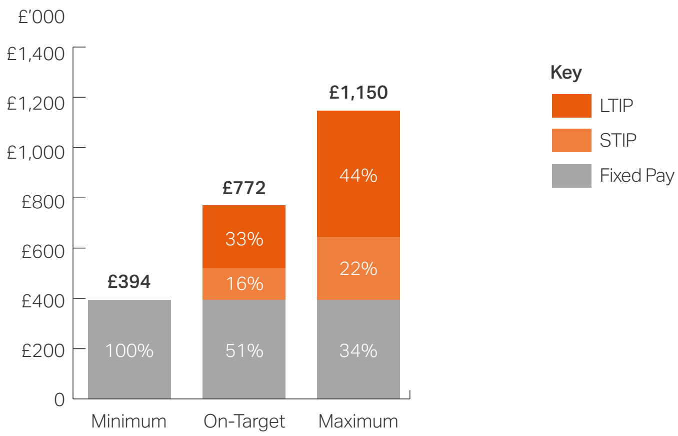
Total remuneration opportunity

The total remuneration for Steve Fraser and Steve Hurrell that could result from the current Remuneration policy for the year 2021/22 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below:

Steve Fraser



Steve Hurrell



1. 'Fixed pay' consists of salary, pension and benefits as provided under the Remuneration policy.
2. Salary for 2021/22.
3. Benefits are as shown in the Single Total Figure of Remuneration table for 2020/21 on page 119.
4. Pension of 12% of salary for Steve Fraser and 20% of salary for Steve Hurrell.
4. STIP calculations are based on 120% of salary for Steve Fraser and 80% of salary for Steve Hurrell.
5. LTIP calculations are based on 200% of salary for Steve Fraser and 160% of salary for Steve Hurrell.
6. LTIP and STIP payout is 50% of maximum for on-target performance

Annual Report on Remuneration

Role of the Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align Remuneration policy to company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulators' interests.

Single total figure of remuneration – Executive Directors

The following table shows a single total figure of remuneration earned in respect of qualifying service for 2020/21, together with comparative figures for 2019/20.

	Salary £000		Benefits-in-kind £000		STIP £000		LTIP £000		Pension £000		Other £000		Total £000	
	2020/21	2019/20	**2020/21**	2019/20	**2020/21**	2019/20	**2020/21**	2019/20	**2020/21**	2019/20	**2020/21**	2019/20	**2020/21**	2019/20
Steve Fraser	**600**	350	**20**	30	**573**	374	**–**	–	**72**	42	**163**	–	**1,428**	796
Steve Hurrell	**308**	300	**16**	19	**186**	152	**195**	65	**62**	60	**–**	250	**767**	846

Notes:

Steve Fraser was appointed as Chief Executive Officer on 1 September 2019.

Salary: Steve Fraser's salary was set at £600,000 on appointment and was not reviewed during the year. Steve Hurrell's salary was increased from £300,000 to £309,000 with effect from 1 June 2020.

Benefits-in-kind: Benefits-in-kind include private medical insurance, life assurance, and a cash alternative to a car.

STIP: STIP outcome based on performance assessment of 79.6% and 75.6% of maximum for Steve Fraser and Steve Hurrell respectively. The maximum STIP opportunity was 120% of salary for Steve Fraser and 80% of salary for Steve Hurrell. Further details are set out on page 120.

LTIP: LTIP outcome based on performance assessment of 41.4% of maximum for Steve Hurrell, calculated with reference to his average eligible earnings over the performance period. The LTIP earned relates to the performance for the three years from 2018/19 to 2020/21 inclusive.

Pension: Steve Hurrell received a cash allowance, based on 20% of salary, in lieu of participation in a pension arrangement payment. Steve Fraser received a cash allowance, based on 12% of salary, in lieu of participation in a pension arrangement payment.

Other: The amount paid to Steve Fraser was under buyout arrangements provided in connection with long term incentive awards granted by his previous employer that were forfeited on joining Cadent. Steve Hurrell served as Interim Chief Executive Officer from 15 February 2019 to 31 August 2019. During this period, no changes were made to his base salary or other elements of remuneration. However, to remunerate Steve for the additional duties and responsibilities undertaken in this period as Interim Chief Executive Officer, a responsibility allowance of £250,000 was paid to him. Further details are set out on page 119.

Performance against targets for STIP 2020/21

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

At the outset of the performance year the Remuneration Committee recognised that the COVID-19 pandemic would have a significant impact upon the targets and measures set for both the short term and long term incentive plans for the year. The impact has been reviewed at each of the Remuneration Committee meetings throughout the year, and certain adjustments to targets were made in cases where the original targets were no longer appropriate in the context of the ongoing pandemic. All decisions took into account the quality of Cadent's response to the COVID-19 situation in continuing to deliver for customers and maintain a secure, reliable, safe system during this period.

The Committee exercised discretion in its revision of the STIP targets at the November 2020 Committee meeting, at which an adjustment to three of the measures was agreed, to reflect the impact of COVID-19, as follows:

(i) Reduction in the Iron Mains replacement programme target by 19km (from 129km to 110km) due to access restrictions to public and private property relating to COVID-19;

(ii) reduction in the EBITDA target by £23m (from £1,173m to £1,150m) due to increased costs associated with PPE, sickness absence and working from home, as well as lower gas usage resulting in lower revenues from gas transportation; and

(iii) reduction in the Funds from Operations to Net Debt target (from 9.42% to 9.31%) consistent with the changes to the EBITDA target.

The Committee noted that the STIP scorecard result is used for all employees who participate in the bonus plan and therefore the adjustments have been applied to a broad group of employees. The Committee is satisfied that the resulting outcome is appropriate and fair, being between target and maximum given the exceptional performance during a very challenging year. Where there has been a shortfall against targets due to COVID-19, there are plans in place to deliver the shortfall as soon as possible, with resources and funding to complete this accounted for already from RIIO-1.

Annual Report on Remuneration continued

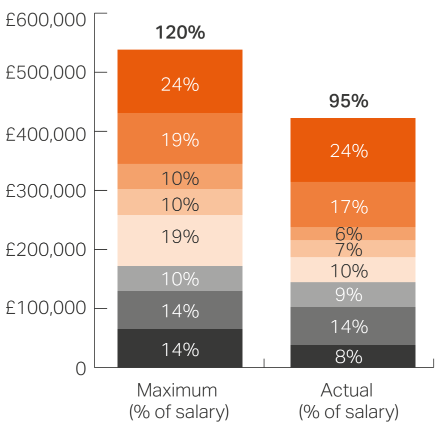
The resulting outcomes of STIP awards for 2020/21 are shown in the table below:

	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)	Actual	Outcome (% of max) Steve Fraser	Outcome (% of max) Steve Hurrell
EBITDA	12%	£1,125m	£1,150m	£1,175m	£1,154m	**58.4%**	**58.4%**
Cash flow: Funds from Operations (FFO) to Net Debt	12%	9.06%	9.31%	9.57%	9.60%	**100.0%**	**100.0%**
Safety: T2/3 replacement	8%	90km	110km	122km	120.87km	**97.9%**	**97.9%**
Customer service	16%		See commentary below			**50.0%**	**50.0%**
Lost Time Incident Performance	8%	0.90	0.70	0.60	0.67	**70.0%**	**70.0%**
Sustainability	8%		Objective metrics			**59.1%**	**59.1%**
Monetised Risk Output	4%	–	Within +/- 5% of target for three networks	Within +/- 5% of target for four networks	Within +/- 5% of target for four networks	**100.0%**	**100.0%**
Data Maturity	4%	3.10/5	3.15/5	3.20/5	3.20/5	**100.0%**	**100.0%**
Cadent Transformation	8%		Assessment by Remuneration Committee			**80.0%**	**80.0%**
Individual Performance	20%		Assessment by Remuneration Committee			**100.0%**	**80.0%**
Total	100%					**79.6%**	**75.6%**

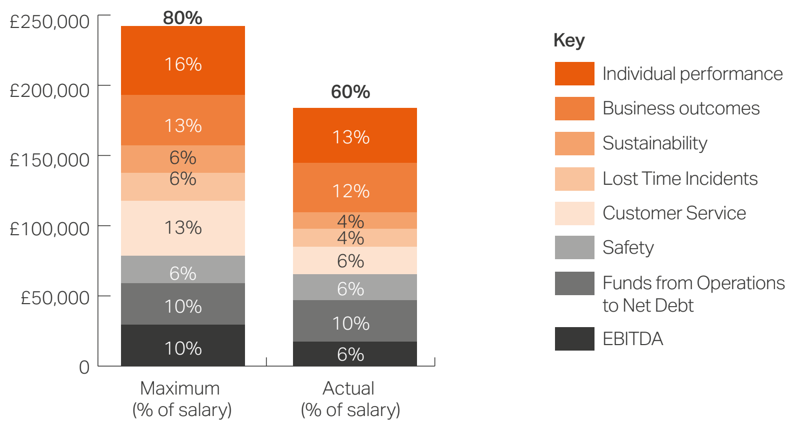
Notes:
EBITDA (Group): Group EBITDA excludes the impact associated with the implementation of IFRS 15 and IFRS 16. Group EBITDA is before exceptionals and remeasurements.
Funds from Operations to Net Debt: This is a measure of cash flow generation used in determining Cadent's credit ratings.
Safety: Delivery of Tier 2 and 3 mains replacement programme (secondary Ofgem output).
Customer Service: Targets and stretch targets were put in place for each of Cadent's four networks for both Customer Satisfaction and Complaints handling. None of the challenging targets were met for Customer Satisfaction despite significant improvements since the previous year but stretch targets were hit by all networks for complaints handling.
Lost Time Incidents: Lost Time Injury Frequency Rate calculated by reference to number of incidents divided by aggregate hours worked (on a rolling 12-month basis).
Sustainability: Targets based on the % reduction in business carbon footprint and a reduction in the % of waste to landfill, with performance being above target for both measures.
Monetised Risk Output: Targets are set relative to the Ofgem targets in each network.
Data Maturity: Weighted average score out of five.
Cadent Transformation: Transformation activity to ensure Cadent was fit for RIIO-2.

2020/21 STIP as proportion of base salary

Steve Fraser



Steve Hurrell



	Max STIP	Outcome	STIP £000
Steve Fraser	120% of salary	79.6% of max	**573**
Steve Hurrell	80% of salary	75.6% of max	**186**

Performance against targets for 2018-2021 LTIP

LTIP awards are earned by reference to rolling three-year financial periods and paid in the July following the end of the third year. The performance period for the 2018-21 LTIP award ended on 31 March 2021 and this award will vest in July 2021. In relation to the bonus measures and in the same way as for the STIP, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and between target and stretch performance.

The performance targets for the LTIP 2018-21 awards are shown in the table below:

	Weighting	Threshold (0% of max)	Target (50% of max)	Stretch (100% of max)	Actual	Outcome (% of max)	Adjusted outcome (% of max)
Average Totex Outperformance	30%	1.3%	3.3%	5.2%	-5.9%	–	–
Risk Monetization Matrix	20%		Within +/- 5% of target	Within +/- 4% of target	Within +/- 4% of target	100.0%	75.0%
Safety	20%	T1: 5,077.8km T2&T3: 302km	T1: 5,077.8km T2&T3: 335km	T1: 5,077.8km T2&T3: 398km	T1: 4,618km T2&T3: 342km	–	55.6%
Environmental	15%	1,176 GWh	1,120 GWh	1,064 GWh	1,129 GWh	41.9%	51.8%
Social Obligation	15%	34,784	36,615	38,446	34,631	–	50.0%
Total	**100%**					**26.3%**	**41.4**

Notes:

Average Totex Outperformance: The average totex outperformance is measured against allowances during the LTIP period.

Risk Monetisation Matrix: This is a measure of the risk removed from Cadent's networks through the management of our assets, expressed as being within a % tolerance of a monetary figure.

Safety: This is a measure of the delivery of the mains replacement programme, with targets expressed in cumulative km across three tiers (subject to not underperforming against individual tiers).

Environmental: Shrinkage measures expressed as a GWh target at the end of the three year period.

Social Obligation: fuel poor connections, measured by number of connections.

The Committee exercised discretion in relation to four of the LTIP measure outcomes in light of the impact of COVID-19, as follows:

(i) Risk monetisation matrix – outcome adjusted downwards to reflect the forecasted outturn prior to COVID-19 due to a reduction in monetised risk contribution from mains and service replacement as a result of COVID-19 restrictions.

(ii) Safety – Mains Replacement Programme – outcome adjusted upwards to reflect the view from the Health and Safety Executive, who were satisfied that were it not for the impact of the pandemic, Cadent would have most likely, made up the decommissioning shortfall and met its approved programme target of decommissioning.

(iii) Environmental shrinkage and emissions – outcome increased to adjust for the impact of the reduced levels of mains replacement on the reduction in shrinkage.

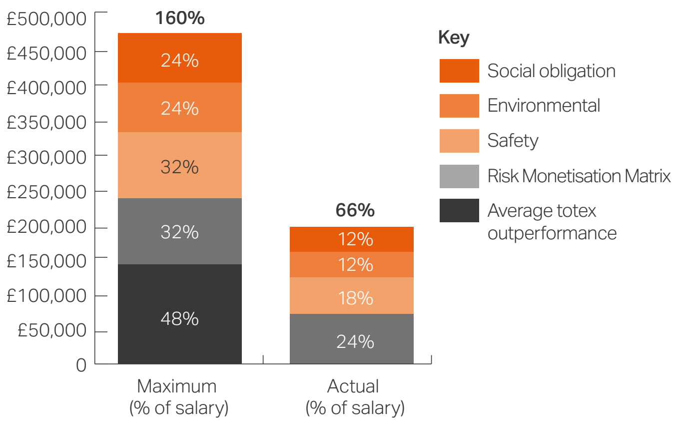
(iv) Social obligations – outcome adjusted upwards to reflect that shortfall in connections was ascribed to COVID-19 restrictions, including requests from customers to postpone works. Cadent were on track to meet the target level in the absence of COVID-19.

Where there has been a shortfall against targets due to COVID-19, there are plans in place to deliver the shortfall as soon as possible, with resources and funding to complete this accounted for already from RIIO-1.

The overall outcome for the 2018-21 LTIP was 41.04% of maximum. Steve Hurrell's maximum opportunity was 160% of salary, and therefore the outcome corresponds to 66.2% of salary (for this purpose, salary is based on the average eligible earnings earned over the performance period).

2018-21 LTIP as proportion of base salary

Steve Hurrell



	Max LTIP	Outcome	LTIP £000
Steve Hurrell	160% of salary	41.4% of max	195

Annual Report on Remuneration continued

Buyout arrangements for Steve Fraser

On 1 September 2019, Steve Fraser joined the board as an Executive Director and was appointed Chief Executive Officer. As previously reported, the Committee agreed to buy out awards as compensation for awards forfeited from his previous employer on joining Cadent. The first award completed its performance period on 31 March 2020 and a payment of £163,338 was made in August 2020, calculated as follows:

- The vesting level of 87.3% was the same as the vesting applied to United Utilities Directors, as determined by the United Utilities Remuneration Committee.
- The award was prorated for the proportion of the performance period during which Steve Fraser worked at United Utilities (29 months out of 36 months).
- An allowance for dividends accrued up to 31 March 2019 was included.
- The share price used to determine the payout was based on the United Utilities' closing share price of £8.822 on the vesting date (24 July 2020).

Steve Fraser's final buyout award in respect of the 2018-21 LTIP forfeited as a result of leaving his previous employer is based on performance to 31 March 2021. Any payment made will be reported in the 2021/22 Remuneration Report.

Single total figure of remuneration – Non-Executive Directors

The following table shows the single total figure of remuneration earned for Sufficiently Independent Directors in respect of qualifying service for 2020/21 and for 2019/20.

	Fees £000	
	2020/21	2019/20
Sir Adrian Montague CBE	**325**	325
Dr Catherine Bell CB	**63**	60
Kevin Whiteman	**45**	60
Paul Smith	**10**	–

Notes:

Dr Catherine Bell CB received an additional fee of £2,500 in respect of her role as interim Chair of the Remuneration Committee from 1 January 2021 to 31 March 2021.

Kevin Whiteman stepped down from the Board on 1 January 2021.

Paul Smith was appointed to the Board on 8 February 2021.

Payments for loss of office

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

Payments to past Directors

Chris Train stepped down from the role of Chief Executive Officer and the Board on 15 February 2019. As part of his leaving arrangements, he remained entitled to receive the 2018/19 LTIP award at the normal vesting date, prorated to the date of stepping down from the Board and subject to the performance outturn for the period to the end of 2020/21. Based on the outcome of 41.4% of maximum, Chris will receive a payment of £147,000.

Advisors to the Remuneration Committee

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

PwC's fees for advice to the Committee in 2020/21 were £71,750.

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

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

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

Statement of implementation for 2021/22

Remuneration policy will be implemented during 2021/22 as described below.

Salary

The Committee carried out a review of salaries for the Executive Directors during the year, taking into account the proposed salary increases across the workforce, and external factors such as market data on salary increases and inflation data.

It was agreed that the salaries of Steve Fraser and Steve Hurrell should be increased by 2% with effect from 1 June 2021, in line with the increase for the wider workforce. The table below sets out the resulting rates of salary

	From 1 June 2021	From 1 June 2020	From 1 September 2019
Steve Fraser	**£612,000**	£600,000	£600,000
Steve Hurrell	**£315,180**	£309,000	£300,000

STIP measures for 2021/22

The STIP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2021/22 annual report on remuneration. The structure of the scheme will remain largely the same as that of 2020/21.

	Weighting
EBITDA	16%
Funds from Operations (FFO) to Net Debt	12%
Tier 1 Repex	12%
Lost Time Injury Frequency Rate (LTIFR) performance	8%
Waste Reduction	8%
Customer Service	12%
Complaints Handling	4%
Specified Business Outcomes	8%
Individual Performance	20%

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

The targets have been set in the context of the business plan and external factors such as the ongoing COVID-19 pandemic. The Remuneration Committee retains discretion over the 2021/22 measures and targets.

LTIP to be awarded in 2021/22

The LTIP targets are considered commercially sensitive and consequently will be disclosed after the end of their performance period in the 2023/24 annual report on remuneration. Measures to be used for the 2021/22 award are shown in the table below:

	Weighting
RIIO-2 Customer Strategy	15%
Opex and Capex Performance	20%
Sustainability	20%
RIIO-2 Commitment (Resilient Network)	15%
Energy System Transition	30%

For the 2021/22 award, the target and maximum will be 100% and 200% of salary respectively for Steve Fraser, and 80% and 160% of salary respectively for Steve Hurrell.

Fees for NEDs (SIDs)

Sufficiently Independent Directors' fees for the forthcoming year are detailed in the table below.

	Fee
Chairman	£325,000
Sufficiently Independent Director	£60,000
Additional fee for Chair of Remuneration Committee	£10,000

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Catherine Bell
Interim Chair of the Remuneration Committee

14 July 2021

Directors' report

Principal activities and business review

A full description of the Group's and company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic report on pages 4-85, which are incorporated by reference into this report.

Directors

The Directors of the company during the period and up to the date of signing of the financial statements were:

Current Directors	
Sir A Montague CBE (Chairman)*	
A M Al-Ansari**	
N J Axam	
Dr C E D Bell CB*	
M W Braithwaite	
H N M De Run**	(Appointed 6 April 2020)
S Fennell	
E B Fidler	
S R Fraser	
R Greenleaf**	
H C Higgins	
S G Hurrell	
D A Karnik	
J Korpancova	
M W Mathieson	
P D Noble	
P R Smith*	(Appointed 8 February 2021)
H Su	
M Wang**	(Appointed 26 May 2021)
D J Xie	

Former Directors who resigned during the period	
J Bao	(Resigned 26 May 2021)
K I Whiteman*	(Resigned 1 January 2021)

* Sufficiently Independent Director
** Alternate Director

Corporate governance

A full report on corporate governance can be found on pages 95 to 99. Incorporated by reference into this report.

Future developments

Details of future developments have been included within the Strategic report on pages 63 to 70.

Dividends

During the year, the company did not pay any dividends (2020: ordinary dividends totalling £275m).

Charitable and political donations

Charitable donations made by the company during the year totalled £167,000 (2019/20: £205,000). Further information about our chosen charity the Alzheimer's society can be found on page 76.

In addition, the company paid £8.2m during the year to The Cadent Foundation for it to distribute to selected beneficiaries in support of good causes including charities.

The company made no political donations during the year (2019/20: £Nil).

Research and development

Expenditure on research and development was £10m during the period (2019/20: £7.3m).

Employees

Information on the Group's employment policies (including on the selection, employment, training, career development and promotion of disabled employees) and employee involvement can be found in the Our year in review, Our colleagues section of the report on page 44-49. Details of how the Directors have engaged with employees can be found in the section 172 statement on page 78 to 85.

Stakeholder Engagement

Details of how the Directors have engaged with suppliers, customers and other stakeholders can be found in the Strategic report under Our Year in Review on pages 29 to 43, and in the section 172 statement on pages 78 to 83.

Environmental policy

Information on the Group's environmental initiatives can be found in the Tackling climate change and improving the environment section on pages 50-55, and in the Transforming the environment, our future and social purpose section on pages 56 to 70, where you will find our environmental responsibility reports, policies and other information, which is incorporated into this Directors' report by reference.

Directors' indemnity

Cadent Gas Limited gives Directors' indemnities to Cadent Gas Officers. Quadgas HoldCo Limited gives indemnities to Officers of other Group companies. Separately there is a Directors' and Officers' liability insurance policy for the benefit of the Group's Directors.

Going concern

Having made enquiries and reviewed management's assessment of going concern including the uncertainties posed by COVID-19 and the close out of our regulatory price control period on our cash flows, and the subsequent impact on headroom against available facilities, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. Further detail is provided in the going concern section of the COVID-19 analysis included on page 17.

Control and risk management

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- The risk assurance function and management conduct various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and, where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit & Risk Committee is also kept appraised of such developments.

- The financial statements are subject to review by the financial reporting function for unusual items, unexplained trends and completeness. Any unexplained items are investigated.
- The financial reporting function compares the financial statements to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the financial reporting function.
- The Audit & Risk Committee and the Board review the draft consolidated financial statements. The Audit & Risk Committee receives reports from management on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Post balance sheet events

On 12 April 2021 Cadent Finance Plc, a subsidiary of Cadent Gas Limited, entered into £500m of CPI-linked swaps, with £100m maturing in 2028 and £400m maturing in 2031. On 3 June 2021 Cadent Finance Plc entered into a further £200m of CPI-linked swaps, which mature in 2028. On 14 April 2021, Cadent Gas Limited repaid £300m of its existing syndicated term loan using available cash and committed bank facilities.

To ensure we have the right organisation to deliver our commitments under RIIO-2, Cadent announced on 19 April 2021 proposals to restructure the current organisational design. The programme is subject to employee consultation with the period of consultation concluding on 4th July 2021. Whilst the cost of this programme cannot be determined with certainty until the finalisation of individuals into roles, managements best estimate is £11m.

Treasury management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the company's material financial risks, including liquidity, credit, interest rate risks and foreign currency risks. These risks are monitored through a Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for the Group. Details on our financial risk management are set out in note 28 on pages 18 to 22.

Major shareholdings

As at 31 March 2021, 100% of the company's share capital was held by Quadgas MidCo Limited.

Auditor

A resolution to reappoint Deloitte LLP as auditor of the company will be proposed at the Annual General Meeting for shareholder approval.

Disclosure of information to auditor

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS Standards) as issued by the International Accounting Standards Board (IASB), 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 issued by the IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Steve Fraser
Chief Executive Officer

14 July 2021

Financial Statements

"Investing efficiently in the development of our networks is essential to maintaining strong performance for our customers and long term sustainable returns for our shareholders."

Steve Hurrell
Chief Financial Officer

Financial statements

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Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Cadent Gas Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 34 to the consolidated financial statements; and
- the related notes 1 to 23 to the parent company financial statements,

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

- Evaluation of financing facilities including nature of facilities, repayment terms and covenants
- Assessment of linkage to business model and medium-term risks
- Evaluation of assumptions used in the forecasts
- Assessment of the amount of headroom in the forecasts (cash and covenants)
- Evaluation of the sensitivity analysis
- Assessment of sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit committee and in-house legal counsel concerning actual and potential litigation and claims and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud

Independent auditors report to the members of Cadent Gas Limited continued

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following area:

Non-GDSP capital expenditure

The Group invests heavily in fixed assets and more specifically in the infrastructure and gas network annually, ranging from major replacement projects to minor repairs and maintenance works.

During the year the Group has invested £995 million in capital expenditure. There is a risk that expenditure which is operating in nature is capitalised into fixed assets due to incorrect identification and mapping of activities. This may lead to the overstatement of fixed assets and operating profit.

We identified that there is increased risk in relation to costs associated with non-GDSP (Gas Distribution Strategic Partners). As the classification of such capital expenditure and operating expenditure directly affects the Group's financial performance, we identified a fraud risk relating to the overstatement of non-GDSP capital expenditure, and therefore we determined that there was a potential for fraud through manipulation of this balance.

We have performed the following procedures in response to the risk identified:

- obtained an understanding of controls as well as performing operational effectiveness testing of relevant controls related to the recognition of capital expenditure;
- challenged management's judgement and their policies relating to the classification of capital expenditure, operating expenditure and infrastructure maintenance expenditure where a high level of management judgement is involved;
- performed an analytical review of the expenditure capitalised and expensed during the year;
- tested a sample of capital projects by inspecting supporting documentation from subcontractors regarding the works completed and assessed whether such works were capitalised or expensed appropriately;
- assessed the impact of COVID-19 on the ongoing capital projects to ascertain that costs not directly associated with the capital projects were not capitalised;
- for internal payroll costs capitalised, on sample basis, inspected the timesheets and chargeable rates for employees and ascertained that the employees worked on capital projects; and
- completed a reconciliation between the fixed assets register and the general ledger in response to IT findings and other control findings.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

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

14 July 2021

Consolidated income statement

For the year ended 31 March 2021

	Notes	2021 £m	2021 £m	2020 £m	2020 £m
Revenue	4		**2,075**		2,115
Operating costs			**(1,164)**		(1,138)
Operating profit					
Before exceptional items	5	**911**		977	
Exceptional items	6	**(10)**		(53)	
Total operating profit	5		**901**		924
Finance income	9		**22**		18
Finance costs					
Before exceptional items and remeasurements	9	**(144)**		(162)	
Exceptional items and remeasurements	6/9	**(1)**		(15)	
Total interest payable and similar charges			**(145)**		(177)
Profit before tax					
Before exceptional items and remeasurements		**789**		833	
Exceptional items and remeasurements	6	**(11)**		(68)	
Total profit before tax			**778**		765
Tax					
Before exceptional items and remeasurements	10	**(150)**		(159)	
Exceptional items and remeasurements	10	**2**		(124)	
Total tax			**(148)**		(283)
Profit after tax					
Before exceptional items and remeasurements		**639**		674	
Exceptional items and remeasurements		**(9)**		(192)	
Profit for the year			**630**		482

The results reported above relate to continuing activities.

The notes on pages 137 to 179 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2021

	Notes	2021 £m	2020 £m
Profit for the year		**630**	482
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	27	**(513)**	176
Tax on remeasurements of post-employment benefit obligations	10	**98**	(33)
Tax arising as a result of the reversal of the expected reduction in the UK tax rate	10	**–**	(13)
Total items that will never be reclassified to profit or loss		**(415)**	130
Items that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges		**(6)**	(16)
Net losses in respect of cost of hedging reserve		**–**	(3)
Amortisation of cost of hedging reserve		**4**	3
Tax on net losses in respect of cash flow hedges	10	**1**	3
Total items that may be reclassified subsequently to profit or loss		**(1)**	(13)
Other comprehensive (loss)/income for the year, net of tax		**(416)**	117
Total comprehensive income for the year		**214**	599

The results reported above relate to continuing activities.

The notes on pages 137 to 179 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 March 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	12	103	90
Property, plant and equipment	13	10,413	9,775
Investments in associates	14	–	–
Pension and other post-retirement benefit assets	27	426	917
Trade and other receivables	16	2	21
Derivative financial assets	17	–	40
Total non-current assets		10,944	10,843
Current assets			
Inventories	15	12	10
Trade and other receivables	16	216	240
Current asset investments	18	815	327
Cash and cash equivalents		17	17
Total current assets		1,060	594
Total assets		12,004	11,437
Current liabilities			
Trade and other payables	19	(570)	(594)
Borrowings	21	(297)	(52)
Lease liabilities	22	(8)	(11)
Provisions	23	(12)	(15)
Total current liabilities		(887)	(672)
Net current assets/(liabilities)		173	(78)
Total assets less current liabilities		11,117	10,765
Non-current liabilities			
Derivative financial liabilities	17	(115)	(73)
Borrowings	21	(7,178)	(6,962)
Lease liabilities	22	(16)	(20)
Deferred tax liabilities	10	(1,368)	(1,466)
Provisions	23	(65)	(79)
Accruals and deferred income	20	(8)	(12)
Total non-current liabilities		(8,750)	(8,612)
Total liabilities		(9,637)	(9,284)
Net assets		2,367	2,153
Equity			
Share capital	24	–	–
Cash flow hedge deficit		(18)	(13)
Cost of hedging reserve		10	6
Retained earnings		7,668	7,453
Other deficit		(5,293)	(5,293)
Total equity		2,367	2,153

The notes on pages 137 to 179 are an integral part of these financial statements.

The consolidated financial statements on pages 132 to 179 were authorised and approved for issue by the Board of Directors on 14 July 2021 and were signed on its behalf by:

S G Hurrell
Director
Cadent Gas Limited

14 July 2021

Company registration number: 10080864

Consolidated statement of changes in equity

For the year ended 31 March 2021

	Share Capital £m	Cash flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2020	–	(13)	6	(5,293)	7,453	2,153
Profit for the year	–	–	–	–	630	630
Other comprehensive loss excluding amortisation of cost of hedging reserve	–	(5)	–	–	(415)	(420)
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive income for the year	–	(5)	4	–	215	214
Equity dividends (note 11)	–	–	–	–	–	–
At 31 March 2021	**–**	**(18)**	**10**	**(5,293)**	**7,668**	**2,367**

	Share Capital £m	Cash flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2019	–	–	6	(5,293)	7,116	1,829
Profit for the year	–	–	–	–	482	482
Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve	–	(13)	(3)	–	130	114
Amortisation of cost of hedging reserve	–	–	3	–	–	3
Total comprehensive income for the year	–	(13)	–	–	612	599
Equity dividends (note 11)	–	–	–	–	(275)	(275)
At 31 March 2020	–	(13)	6	(5,293)	7,453	2,153

The cash flow hedge deficit in relation to cross-currency interest rate swap contracts will be recycled to the income statement over the life of the hedged items.

Other deficit comprises the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas Plc. This merger reserve will reduce distributable profits. As the amounts included in other deficits are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

The notes on pages 137 to 179 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Total operating profit		901	924
Adjustments for:			
Exceptional items	6	10	53
Depreciation and amortisation	12/13	376	343
Increase in inventories	15	(2)	–
Decrease in trade and other receivables		54	1
Increase in trade and other payables		15	36
Capital contribution income		(125)	(107)
Changes in provisions		(17)	10
Gain on disposal of property, plant and equipment		(1)	(2)
Changes in pensions and other post-retirement obligations		(6)	(55)
Capital contributions received		102	80
Cash flows relating to exceptional items		(9)	(26)
Cash generated from operations		1,298	1,257
Tax paid		(145)	(212)
Net cash inflow from operating activities		1,153	1,045
Cash flows from investing activities			
Purchases of intangible assets		(46)	(36)
Purchases of property, plant and equipment		(1,000)	(819)
Disposals of property, plant and equipment		–	1
Interest received	9	1	1
Net (increase)/decrease in financial investments		(488)	5
Net cash flow used in investing activities		(1,533)	(848)
Cash flows from financing activities			
Proceeds received from loans		537	1,024
Repayment of loans		–	(797)
Repayment of lease liabilities	22	(11)	(10)
Interest paid		(143)	(126)
Dividends paid to shareholders		–	(275)
Net cash inflow/(used in) financing activities		383	(184)
Net increase in cash and cash equivalents		3	13
Net cash and cash equivalents/(overdraft) at the start of the period		9	(4)
Net cash and cash equivalents at the end of the period		12	9
Comprising:			
– Cash[1]		17	17
– Overdraft		(5)	(8)

1 Cash of £17m includes £9m which has specific restrictions over its use. See Note 1(s) for details.

Notes to the consolidated financial statements

For the year ended 31 March 2021

1 Summary of significant accounting policies

Cadent Gas Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom and is registered in England and Wales. The address of its registered office is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE, UK.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

(a) Basis of preparation

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

As at the date of approving these financial statements, the impact of COVID-19 on the Group's operations is continually being monitored and subject to change. The base case business plan includes operating costs associated with continuing our operations in a COVID-safe manner, using our experience from operating under COVID restrictions in 2021. The Directors have also modelled a reasonable worst-case scenario. As the vast majority of revenue is set in accordance with the regulatory charging methodology which, being a capacity-based regime, provides relative stability and predictability of cashflows, the impact was limited. The reasonable worst-case scenario also included any impact on the close out of our regulatory price control period. The reasonable worst-case scenario includes:

- one-off increases in costs such as employee absence
- the refocusing of our capital programmes, in particular the iron mains replacement programme, causing a reduction in the volume of work delivered but with higher unit costs to deliver this work programme
- reduced revenues as a result of lower gas consumption
- additional working capital requirements from the shipper relief scheme or from any potential supplier failure
- changes to outperformance and the closing RAV.

Having considered the reasonable worst-case scenario (more detail can be found on page 17), the Group continues to have headroom against the Group committed facilities disclosed in note 21.

In addition, the ability to raise new financing was considered in light of the recent transaction in Cadent Finance Plc in March 2021 where the transaction was well received and it was concluded that the Group has the ability to continue to have access to the debt capital markets if needed.

Based on the above, the Directors have concluded that the Group is well placed to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these consolidated financial statements. The Directors therefore consider, having concluded that there are no material uncertainties, that it was appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Certain elements of the financial statements are dependent on the future use of our network. The UK's target of reducing all greenhouse gas emissions to net zero in the future will impact how our network can be used. In preparing these financial statements we have assumed that we can use our existing network to deliver greener gases like biomethane and hydrogen which means our network can be used until our transition to net zero and beyond. See Note 2 for our critical accounting judgements and key sources of estimation uncertainty.

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

Consolidated financial statements

The consolidated financial statements of Cadent Gas Limited have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

(b) Basis of consolidation

The consolidated financial statements include the results of Cadent Gas Limited and its subsidiaries, Cadent Gas Pension Trustees Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited, Cadent Gas Pension Services Limited, Cadent Finance Plc and associate undertakings. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

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

Cadent has an agreement with the Charities Trust to contribute 1.25% of profit after tax into a Donor Advised Fund ("DAF"). We have concluded that the DAF is not controlled by the Group as the Charities Trust have the power to overrule decisions that do not align with the objectives of the Foundation and the requirements of IFRS 10 have not been met in respect of (1) rights to variable returns and (2) its ability to affect the amount of investor returns. Therefore this has not been consolidated as part of the Cadent Gas Limited Group.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

- Amendments to IFRS 7, IFRS 9 and IAS 9 – Interest rate benchmark reform (phase 1);
- Amendments to IFRS 16 – COVID-19 related rent concessions
- Amendments to IFRS 3 – Business Combinations
- Amendment to IAS 1 and IAS 8 – definition of material

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

- Amendments to IFRS 17 and IFRS 4, Insurance contracts, deferral of IFRS 9
- Amendments to IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform – (phase 2)
- Amendments to IFRS 16 – COVID-19 related rent concessions
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities*
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16*
- IFRS 17 Insurance contracts*
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8

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

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

Interest rate benchmark reform (phase 1 and phase 2)

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The IASB has embarked on a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform. For Phase 1, the IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. As there are no financial instruments held by the company that directly reference IBOR the impact is limited, however there are additional disclosures requirements under IFRS 7 which the Group has applied in these financial statements.

Our current portfolio of derivatives consist of those in a designated hedge relationship (cross-currency interest rate swaps) and those not designated in a hedge relationship (our RPI swaps). The cross-currency interest rate swaps and underlying hedged items designated in hedge relationships all pay/receive fixed rates of interest, so there is no impact in this context.

Financial instruments held currently by the Group that directly reference IBOR are term debt, liquidity facilities and RPI swaps. The volume of supplier contracts that reference IBOR are minimal.

The valuation of our derivatives will be impacted on IBOR transition, owing to changes in the market convention of arriving at a discounted fair value.

Cadent Gas currently has 4 instruments with direct exposure to LIBOR. The below tables summarise their position.

Instrument	Nominal Amount (£m)	Exposure (£m)	Maturity	Details
RCF	500	–	Jul-24	Cadent Gas currently does not have exposure under this RCF line, but it will need to be amended for future use.
Term loan	300	300	Jul-24	As at 31 March 2021 we were fully drawn on this term loan, which was part of a broader bank facility. The exposure was 100% index-linked to LIBOR, however this was subsequently repaid on 14 April 2021.
EIB loan and swap agreement	400	400	Mar-27	Cadent Gas' exposure is linked to LIBOR in the loan and the derivative is a swap from LIBOR to RPI. Both will be amended to include SONIA provision.
DSR liquidity facility	120	–	Jul-24	Cadent currently does not have exposure under this facility, but it will need to be amended for future use.

1 Summary of significant accounting policies continued

(c) New IFRS accounting standards and interpretations continued

Interest rate benchmark reform (phase 1 and phase 2) continued

Cadent's exposure to LIBOR linked products is relatively small when compared with its overall debt book. From over £7bn of liabilities, Cadent's exposure to LIBOR linked products in its debt book is approximately £700m (c.10%), with all exposure coming from GBP LIBOR.

It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

The Group has performed an assessment of its contracts and financial instruments to determine those that reference IBOR, and associated findings have been presented to the Finance Committee. We continue to strive to promote awareness of the issue, and introduce a robust internal structure of governance and control to manage the transition. Policies and procedures will be revised where relevant to monitor any possible financial impact e.g. comparison of derivative fair values owing to differing discounting methodologies.

Additionally, we continue to closely monitor external developments in the relevant markets as rate of progress is expected to converge over the next 12 months. Of our existing contracts that directly reference IBOR, we expect transition developments to be slower in those contracts influenced by the Loan Market Association (LMA).

The amendments are mandatory and are applicable as follows:

- Phase 1 is applicable for periods beginning on or after 1 January 2020.
- Phase 2 is applicable for periods beginning on or after 1 January 2021.

Earlier application is permitted.

(d) Intangible assets

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

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

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

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

Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

Amortisation Periods
Computer software – 5 years
Computer licenses – 3 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(e) Property, plant and equipment and depreciation

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

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1 Summary of significant accounting policies continued

(e) Property, plant and equipment and depreciation continued

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

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

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

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

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually and consideration is given to the impact of climate change particularly the impact that a move to low and zero carbon gases will have. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(f) Impairment of fixed assets

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

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

(g) Financial instruments

Initial recognition

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Classification and measurement

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); and
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit and loss (FVTPL).

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Classification and measurement continued

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. Impairments are calculated using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

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

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

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

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

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

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

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

Derecognition

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

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

Impairment of financial assets

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

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

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

The Group measures the loss allowances at an amount equal to the 12 month expected credit loss. The way this is calculated is based on the applied impairment methodology, as described below:

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Impairment of financial assets continued

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

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

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

(h) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which has not yet been invoiced.

Trade receivables and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

(i) Trade and other payables

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

Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the statement either:

- Once the project is complete; or
- Over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further details on assessment of performance obligations see note 1(n) Revenue.

(j) Inventories

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

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

(k) Tax

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

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

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

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

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

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

1 Summary of significant accounting policies continued

(k) Tax continued

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

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

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

(l) Provisions for liabilities

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

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

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

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

(m) Dividends

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

(n) Revenue

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

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year (capacity revenue), and the amount of gas transported for the year (commodity revenue), evaluated at contractual prices on a monthly basis. The customers for the distribution of gas are Shippers. The single performance obligation for these revenue streams was deemed to be the provision of a safe gas transportation network between the National Gas Transmission network to end consumers (customers of the shippers) and being able to transport gas around the network. The performance obligation is satisfied over time as the gas shippers immediately control and consume the benefits that Cadent Gas provides over time by having a network available to shippers (capacity) and transporting the gas around the network (commodity). Although capacity and commodity revenue are invoiced separately, the services are not distinct (the nature of the promise is to transfer a combined service) and only one performance obligation exists.

Income from shippers is governed by the credit rules within the Uniform Network Code (the Industry Code by which we are bound). These set out the level of credit relative to our RAV for each counterparty's credit rating. The Group minimises customer credit risk by ensuring all customers can adequately demonstrate the ability to pay debts as they fall due. These include company credit ratings, letters of credit from a financial institution, parent company guarantees, independent assessment, payment history allowance and advanced cash deposits. Typical payment terms are 14 days, however due to our participation in the COVID-19 Shipper Liquidity Scheme in the year, agreed payment terms in some cases were increased up to 6 months.

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

Other income comprises all activities outside the regulated business principally relating to cash fees paid by customers, typically property owners / developers, for connections fees and typically developers or large infrastructure projects for altering, diverting or relocating part of our existing network. There are also non material revenue streams for call handling services (emergency telephone service for all gas distribution networks) and metering services (the provision of meter installation and repair services).

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1 Summary of significant accounting policies continued

(n) Revenue continued

For fees paid by customers the performance obligation is satisfied when either the new connections to our network or alteration/diversion of our network is completed and control passes to the customer on this completion of the physical installation ready for the first flow of gas. Significant judgment was applied for connections to determine whether the connection service was distinct from the provision of future network services. Cadent judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available. For call handling services, the performance obligation is satisfied over time with the provision of an emergency call handling service to customers. For metering services, the performance obligation is satisfied on completion of the installation or the repair and control passes when the meter is operational. Customers for metering services are typically the gas supplier and distinct from the ongoing supply of gas. Typical payment terms are 30 days for our other revenue.

The UK's target of reducing all greenhouse gas emissions to net zero in the future will impact how our network can be used, and how we generate revenue.

(o) Exceptional items and remeasurements

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

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

Remeasurements comprise gains or losses recorded in the income statement arising from the changes in fair value of derivative financial instruments to the extent that hedge accounting is not achieved or it is not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

(p) Pensions

The company operates both a defined benefit (DB) and a defined contribution (DC) pension scheme.

For the DC pension scheme, the company pays contributions into a Master Trust on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

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

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

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

(q) Leases

The company leases offices, operational buildings, land, equipment and vehicles. Rental contracts typically range from 6 months to 10 years, however land leases can be significantly longer.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

1 Summary of significant accounting policies continued

(q) Leases continued

IFRS 16 has been applied for all leases (except as noted below), the company:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16.

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (with a lease term of 12 months or less) and leases of low-value assets (deemed less than £3,500) the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Measurement

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

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

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

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

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

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

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

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

Variable lease payments

Some leases contain variable payment terms. These include:

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1 Summary of significant accounting policies continued

(q) Leases continued

Right-of-use assets

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

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

Finance leases under IAS 17

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

(r) Other reserves

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. On 1 October 2016 Cadent Gas Limited acquired the trade and assets of the Gas Distribution business from National Grid Gas plc. This acquisition was accounted for as a business combination under common control as the entities were under the common control of National Grid plc. As such, Cadent Gas Limited selected to apply predecessor accounting and this resulted in the excess of the consideration paid over the carrying value of the net assets, being recorded as a separate component of equity and a merger reserve of £5,165m was recognised. Subsequent to this, Cadent Gas Limited recognised its share of the pension sectionalisation and the recognition of pension deficit of £128m net of deferred tax was recognised against the merger reserve. This merger reserve will reduce distributable profits. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

(s) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

The Group classifies cash flows as either operating, investing or financing as per the requirements of IAS 7-Statement of cash flows. In determining the classification the Group considers what is most appropriate to the business.

The Group receives monies in the form of grants. The use of this cash is restricted by the specific terms and conditions of each grant and therefore is not available for general use.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

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

- The determination and judgement that connections and supply services are not distinct services and therefore there is only one performance obligation for revenue from the distribution of gas. We judged that customers for the connection service can benefit from that connection service in conjunction with future gas supply services that are readily available, and hence the performance obligation is distinct and revenue is recognised once the new connection is completed;
- The recognition of a surplus in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. We have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up – **note 27**; and
- The categorisation of certain items as exceptional items under the exceptional item framework that follows a three-step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is within the Group's control and how frequently such an event typically occurs – **note 6**.

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

2 Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty

Key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

- Determination of useful lives and carrying values of property, plant and equipment and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. Changes made to the UELs could have a material impact on the depreciation recognised in the next financial year. The UK's target to achieve net zero by 2050 may impact the UELs of our plant and machinery with a current deemed life of up to 50 years if our network can no longer be used beyond this point. Given the information currently available about how the UK will achieve net-zero using alternative technologies (particularly greener gases such as hydrogen and biomethane) it is still reasonable to assume that the entire network will continue to be used beyond 2050 in its current form or adapted to accommodate hydrogen or biomethane. Management have therefore assumed that our network assets can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy. However, if future developments in technology or the climate change agenda indicate that the UELs of our network assets are limited to 2050, the depreciation charge recognised in future periods would increase by a material amount – **notes 12 & 13**;
- The estimation of liabilities for pensions and other post-retirement benefits include a number of key assumptions which include life expectancy of members, expected salary and pension increases, and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied – **note 27**;
- In calculating the environmental provision a number of uncertainties affect the calculation including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and climate change regulations, and changes in the discount rate applied – **note 23**; and
- The estimation of the provision for claims (whether insured or not) is based on projections of liabilities that are subject to potentially large amounts of estimation, since the ultimate liability of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes and social/economic conditions such as inflation. In our judgement, through the use of independent actuaries we have employed techniques and assumptions that are appropriate to project the liabilities – **note 23**.

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

3 Segmental analysis

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

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

4 Revenue

	2021 £m	2020 £m
Revenue from distribution of gas	1,924	1,971
Other income	151	144
	2,075	2,115

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

	2021 £m	2020 £m
Analysis of revenue by major customer		
Customer A	463	481
	463	481

One customer contributed 10% or more to the Group's revenue during the year to 31 March 2021 (2020: one).

5 Operating Profit

	2021 £m	2020 £m
Operating profit is stated after charging:		
Depreciation and amortisation	376	343
Payroll costs (see note 7)	213	200
Inventory consumed	9	10
Purchases of gas	12	12
Rates	212	208
Research and development expenditure	10	7

	2021 £m	2020 £m
Services provided by the company's auditor		
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	633	552
Fees payable for the audit of the subsidiary company financial statements	53	46
Other services		
Fees payable to the company's auditors for audit-related assurance services	82	80
Other non-audit services	116	155

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditors such as interim reviews. Other non audit services in 2021 relate to services provided in connection with the raising of debt or required by the regulator.

6 Exceptional items and remeasurements

	2021 £m	2020 £m
Exceptional items included within operating costs:		
Separation activities[i]	7	19
Restructuring costs[ii]	3	34
	10	53
Remeasurements included within finance costs:		
Net losses on derivative financial instruments[iii]	1	15
Total included within profit before tax	11	68
Included within taxation:		
Exceptional charge arising		
Deferred tax charge arising as a result of the reversal of the expected reduction in the UK tax rate[iv]	–	137
Tax on other exceptional items and remeasurements		
Tax on separation activities	(1)	(4)
Tax on restructuring costs	(1)	(6)
Tax on remeasurements	–	(3)
	(2)	124
Total exceptional and remeasurements after tax	9	192
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	8	180
Total remeasurements items after tax	1	12
	9	192

(i) As a result of the acquisition of the company by Quadgas MidCo Limited from National Grid Plc, a number of separation activities have arisen, which are exceptional by nature as this is not in the ordinary course of the business, and the associated costs have been material in total across the periods in which they are undertaken.

(ii) The Group is undergoing a reorganisation exercise. These activities are infrequent and exceptional in nature, and are financially material over the course of the exercise.

(iii) 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.

(iv) The resolution moved by the Chancellor of the Exchequer that the Corporation tax rate for financial year 2020 and 2021 shall be 19% was given statutory effect under the provisions of the Provisional Collection of Taxes Act 1968 on 11 March 2020 and therefore on the basis that this rate will apply for the foreseeable future deferred tax was restated from 17% of temporary differences to 19% of temporary differences. As this was an infrequent adjustment that was out of the Group's control and financially material it was recognised as an exceptional cost in the prior year.

7 Employment numbers and costs

The average number of persons (including Executive Directors) employed by the Group was 5,258 (2020: 3,938) and can be analysed as follows:

	2021	2020
Field force	2,152	1,690
Office and other administrative staff	3,106	2,248
Total	5,258	3,938

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

7 Employment numbers and costs continued

	2021 £m	2020 £m
Wages and salaries	235	182
Social security costs	27	22
Other pension costs	42	54
	304	258
Less: payroll costs capitalised	(91)	(58)
	213	200

Key management comprises the Board of Directors of the company including Executive and Non-executive Directors who have managerial responsibility for the businesses of Cadent Gas Limited.

	2021 £000	2020 £000
Salaries and other short-term employee benefits	2,504	1,985
Post-employment benefits	134	102
	2,638	2,087

8 Directors' emoluments

The Directors' emoluments were as follows:

	2021 £000	2020 £000
Aggregate emoluments (including salary, fees, bonuses and benefits in kind)	2,504	1,985
Pension schemes	134	102
	2,638	2,087

There were no amounts paid to third parties for Directors' services. Amounts of £69,000 (2020: £339,788) were due to one past Director.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2021 £000	2020 £000
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes	1,356	786
Defined benefit pension scheme		
– accrued pension at end of period	72	60

9 Finance income and costs

	2021 £m	2020 £m
Finance income		
Interest income from pensions	21	17
Interest income from financial instruments	1	1
Finance income	22	18
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	11	23
Other borrowings	123	133
Derivatives	9	5
Unwinding of discounts on provisions and lease liabilities	1	1
Finance costs	144	162
Remeasurements		
Net losses on derivative financial instruments included in remeasurements[i]:		
Derivatives not designated as hedges or ineligible for hedge accounting	1	15
Remeasurements included within finance costs	1	15
Finance costs	145	177
Net finance costs	123	159

(i) Includes a net foreign exchange gain on financing activities of £75m (2020: £35m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

10 Taxation

Tax charged to the income statement

	2021 £m	2020 £m
Tax before exceptional items and remeasurements	150	159
Exceptional tax relating to UK tax rate change (see note 6)	–	137
Tax on other exceptional items and remeasurements	(2)	(13)
Total tax expense	148	283

Taxation as a percentage of profit before tax

	2021 %	2020 %
Before exceptional items and remeasurements	19.0	19.1
After exceptional items and remeasurements	19.0	37.0

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

	2021 £m	2020 £m
Current tax		
UK corporation tax at 19% (2020: 19%)	148	142
Total current tax	148	142
Deferred tax		
UK deferred tax current year	–	3
UK deferred tax arising as a result of the reversal of the expected reduction in the UK tax rate	–	137
UK deferred tax adjustment in respect of prior years	–	1
Total deferred tax	–	141
Total tax charge	148	283

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

10 Taxation continued

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

	2021 £m	2020 £m
Deferred tax		
Cash flow hedges	–	(3)
Accelerated tax depreciation	–	–
Remeasurements of post- employment benefit obligations(i)	(98)	46
Total tax (credited)/charged to other comprehensive income and equity	(98)	43

(i) £13m of the tax charge in 2020 (2021: £Nil) related to the reversal of the expected reduction in the UK tax rate.

The tax charge for the year after exceptional items and remeasurements is the same (2020: higher) as the standard rate of corporation tax in the UK of 19% (2020: 19%):

	Before Exceptional Items and Remeasurements 2021 £m	After Exceptional Items and Remeasurements 2021 £m	Before Exceptional Items and Remeasurements 2020 £m	After Exceptional Items and Remeasurements 2020 £m
Profit before tax				
Before exceptional items and remeasurements	789	789	833	833
Exceptional items and remeasurements	–	(11)	–	(68)
Profit before tax	789	778	833	765
Profit before tax multiplied by UK corporation tax rate of 19% (2020:19%)	150	148	158	145
Effect of:				
Expenses not deductible for tax purposes	2	2	2	2
Non-taxable income	(1)	(1)	(2)	(2)
Deferred tax impact of change in UK tax rate	–	–	–	137
Prior year adjustments	(1)	(1)	1	1
Total tax	150	148	159	283

Factors that may affect future tax charges

The resolution moved by the Chancellor of the Exchequer that the Corporation tax rate for financial year 2020 and 2021 shall be 19% was given statutory effect under the provisions of the Provisional Collection of Taxes Act 1968 on 11 March 2020 and therefore the Group restated deferred tax in 2020, recognising a charge of £137m.

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19%. If the amended tax rate had been used, the deferred tax liability would have been £413m higher.

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 £m
At 1 April 2020	1,311	172	(8)	(9)	1,466
Charged/(credited) to income statement	(5)	5	–	–	–
Charged/(credited) to other comprehensive income and equity	–	(98)	–	–	(98)
At 31 March 2021	**1,306**	**79**	**(8)**	**(9)**	**1,368**
Deferred tax assets	**–**	**–**	**(8)**	**(9)**	**(17)**
Deferred tax liabilities	**1,306**	**79**	**–**	**–**	**1,385**
At 31 March 2021	**1,306**	**79**	**(8)**	**(9)**	**1,368**

	Accelerated Tax Depreciation £m	Pensions £m	Financial Instruments £m	Other Net Temporary Differences £m	Total £m
At 1 April 2019	1,175	117	(2)	(8)	1,282
Charged/(credited) to income statement	136	9	(3)	(1)	141
Charged to other comprehensive income and equity	–	46	(3)	–	43
At 31 March 2020	1,311	172	(8)	(9)	1,466
Deferred tax assets	–	–	(8)	(9)	(17)
Deferred tax liabilities	1,311	172	–	–	1,483
At 31 March 2020	1,311	172	(8)	(9)	1,466

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 £1,368m (2020: £1,466m).

11 Dividends

	2021 £m	2020 £m
Interim dividend of £1,035.32 per ordinary share amounting to £175,000,000 was declared and paid on 27 September 2019	**–**	175
Second interim dividend of £591.61 per ordinary share amounting to £100,000,000 was declared on 19 March 2020 and paid on 23 March 2020	**–**	100
	–	275

No dividends are proposed for the current financial period.

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Notes to the consolidated financial statements continued

For the year ended 31 March 2021

12 Intangible assets

	2021 £m
Cost:	
At 1 April 2020	**183**
Additions	**34**
Disposals	**(1)**
At 31 March 2021	**216**
Accumulated amortisation:	
At 1 April 2020	**(93)**
Amortisation charge for the period	**(20)**
Disposals	**–**
At 31 March 2021	**(113)**
Net book value:	
At 31 March 2021	**103**
At 31 March 2020	90

	2020 £m
Cost:	
At 1 April 2019	137
Additions	46
At 31 March 2020	183
Accumulated amortisation:	
At 1 April 2019	(74)
Amortisation charge for the period	(19)
At 31 March 2020	(93)
Net book value:	
At 31 March 2020	90
At 31 March 2019	63

13 Property, plant and equipment

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Right-of-use Assets £m	Total £m
Cost						
At 1 April 2020	76	10,427	100	152	43	10,798
Additions	11	842	110	28	4	995
Reclassifications	32	114	(150)	4	–	–
Disposals	–	(1)	–	(1)	–	(2)
At 31 March 2021	**119**	**11,382**	**60**	**183**	**47**	**11,791**
Accumulated depreciation and impairment						
At 1 April 2020	(21)	(908)	–	(84)	(10)	(1,023)
Charge for the period	(7)	(308)	–	(29)	(12)	(356)
Disposals	–	–	–	1	–	1
At 31 March 2021	**(28)**	**(1,216)**	**–**	**(112)**	**(22)**	**(1,378)**
Net book value:						
At 31 March 2021	**91**	**10,166**	**60**	**71**	**25**	**10,413**
At 31 March 2020	55	9,519	100	68	33	9,775

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(e) for the estimated useful lives of each asset category, and note 29 for sensitivity analysis over the residual lives of assets.

The cost of property, plant and equipment at 31 March 2021 included £1,462,000 (2020: £1,462,000) relating to interest capitalised, with £Nil capitalised during the year (2020: £Nil).

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

	2021 £m	2020 £m
Land and buildings	**16**	21
Plant and Machinery	**1**	2
Motor vehicles and other equipment	**8**	10
	25	33

The net book value of land and buildings comprises:

	2021 £m	2020 £m
Freehold	**77**	41
Long leasehold (over 50 years)	**–**	–
Short leasehold (under 50 years)	**14**	14
	91	55

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

13 Property, plant and equipment continued

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Right-of -use Assets £m	Total £m
Cost						
At 1 April 2019	55	9,682	80	138	–	9,955
Initial application of IFRS 16	–	–	–	–	33	33
Additions	6	693	93	18	5	815
Reclassifications	16	53	(73)	(1)	5	–
Disposals	(1)	(1)	–	(3)	–	(5)
At 31 March 2020	76	10,427	100	152	43	10,798
Accumulated depreciation and impairment						
At 1 April 2019	(14)	(625)	–	(62)	–	(701)
Charge for the period	(7)	(283)	–	(24)	(10)	(324)
Disposals	–	–	–	2	–	2
At 31 March 2020	(21)	(908)	–	(84)	(10)	(1,023)
Net book value:						
At 31 March 2020	55	9,519	100	68	33	9,775
At 31 March 2019	41	9,057	80	76	–	9,254

14 Investments in associates

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

Details of the associate undertaking are set out below:

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

Outstanding balances with associates are shown in note 31.

15 Inventories

	2021 £m	2020 £m
Raw materials and consumables	12	10
	12	10

Inventories are stated after provisions for impairment of £938,000 (2020: £909,000).

16 Trade and other receivables

	2021 £m	2020 £m
Amounts falling due within one year:		
Trade debtors	17	10
Amounts owed by other Group companies	–	1
Other debtors	33	19
Prepayments	11	37
Accrued income	155	173
	216	240
Amounts falling due after more than one year:		
Prepayments	2	6
Other debtors	–	15
	2	21

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

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

	2021 £m	2020 £m
At 1 April	3	3
Amounts utilised/written off in the year	–	–
Amounts charged to the income statement	1	–
At 31 March	4	3

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

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

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

The Group has assessed whether there is any impact of COVID-19 on the recoverability of trade and other receivables. The impact was deemed to be limited given the nature of the business in that our principal commercial exposure relates to shipper income which is governed by Section V of the Gas Transportation Uniform Network Code. There are a number of actions the Group takes to mitigate credit risks and any changes to the Uniform Network Code will need to be agreed across the gas industry with involvement from Ofgem. These include holding security in the form of cash, obtaining letters of credit and ensuring major diversionary work is invoiced in advance of the work commencing.

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

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

Other income

Other income included within trade debtors relates to any income stream which involves rechargeable construction work done on the network where the costs can be charged to another party. Examples include diversions income for diversions of gas pipes, charges for damages to gas pipes and rechargeable emergency repairs.

The loss allowance of the receivable balance is calculated using the expected loss model and is calculated using a matrix based on the number days past due plus any specific adjustments. Specific adjustments have been made based on forward looking information specific to any counterparty or counterparty segment which would lead the Group to adjust the normal matrix based calculation.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

16 Trade and other receivables continued

Other income continued

2021	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	4	2	9	1	4	20
Expected credit loss	–	–	(1)	–	(2)	(3)
Balance after loss allowance	4	2	8	1	2	17

2020	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	4	–	1	1	7	13
Expected credit loss	–	–	(1)	–	(2)	(3)
Balance after loss allowance	4	–	–	1	5	10

Shipper Income

Shipper income relates to all income received from gas shippers and is included within accrued income. These amounts relate to two different elements: capacity and commodity income. Typical payment terms are 14 days, however due to our participation in the COVID-19 Shipper Liquidity Scheme in the year, agreed payment terms in some cases were increased up to 6 months.

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

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

Due to the credit risk control practices outlined above the Group expects to be able to reduce the credit exposure to minimal amounts before any shipper customer balances become level 3. Our exposure in the COVID-19 Shipper Liquidity Scheme was capped to £50m and all cash has now been received with the exception of £1.4m due from 1 shipper who entered administration. In addition, a further shipper (not participating in the liquidity scheme) failed in January 2021. With a credit exposure of £2m outstanding currently being recovered through our existing security arrangements. Our existing security arrangements have reduced our exposure in total to £1.4m, which we will be able to recover in the RIIO-2 price control period through an agreed bad debt recovery mechanism.

2021	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	152	–	4	–	–	156
Expected credit loss	–	–	(1)	–	–	(1)
Balance after loss allowance	152	–	3	–	–	155

2020	Not due £m	Current £m	1-6 months £m	6-12 months £m	Over 1 year £m	Total £m
Total balance	173	–	–	–	–	173
Expected credit loss	–	–	–	–	–	–
Balance after loss allowance	173	–	–	–	–	173

17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2021		
	Assets £m	Liabilities £m	Total £m
Amounts falling due after more than one year	–	(115)	(115)
	–	(115)	(115)

	2020		
	Assets £m	Liabilities £m	Total £m
Amounts falling due after more than one year	40	(73)	(33)
	40	(73)	(33)

17 Derivative financial instruments continued

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

	2021 £m	2020 £m
Cross-currency interest rate swaps	1,831	1,299
Inflation linked swaps	400	400
Foreign exchange forward currency	3	4
	2,234	1,703

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

18 Current asset investments

	2021 £m	2020 £m
Investments in short-term money funds	815	327
	815	327

19 Trade and other payables

	2021 £m	2020 £m
Trade creditors	269	280
Amounts owed to immediate parent company	1	–
Other tax and social security	46	59
Other creditors	56	56
Accruals and deferred income	198	199
	570	594

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

20 Accruals and deferred income

	2021 £m	2020 £m
Accruals and deferred income (due after more than one year)	8	12
	8	12

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

21 Borrowings

	2021 £m	2020 £m
Amounts falling due within one year		
Bank loans	3	3
Bank overdrafts	5	8
Bonds	289	41
	297	52
Amounts falling due after more than one year		
Bank loans	1,224	1,230
Bonds	5,954	5,732
	7,178	6,962

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

21 Borrowings continued

	2021 £m	2020 £m
Total borrowings are repayable as follows:		
Less than one year	297	52
In one – two years	–	249
In two – three years	89	–
In three – four years	1,371	91
In four – five years	–	1,400
More than five years	5,718	5,222
	7,475	7,014

Currency	Type	Notional (including accretion)* £m	Rate	Maturity Date	Book value (£m)	Fair Value £m
GBP	Listed	250	Fixed	22/09/2021	251	252
EUR**	Listed	643	Fixed	23/09/2024	637	655
GBP	Listed	850	Fixed	22/09/2028	854	888
GBP	Listed	700	Fixed	22/09/2038	705	723
GBP	Listed	800	Fixed	24/09/2046	800	824
GBP	Listed	300	Fixed	21/03/2040	295	325
JPY***	Listed	68	Fixed	19/07/2033	65	63
GBP	Listed	100	Fixed	19/03/2031	100	108
USD****	Listed	151	Fixed	19/03/2031	145	156
GBP	Listed	200	Fixed	20/03/2034	200	217
GBP	Listed	225	Fixed	21/03/2039	225	244
GBP	Listed	300	Fixed	10/10/2035	298	298
EUR*****	Listed	439	Fixed	11/03/2032	419	420
EUR******	Listed	535	Fixed	19/03/2030	533	530
		5,561			5,527	5,703
Index-linked						
GBP	Listed	148	RPI-linked	02/05/2039	221	233
GBP	Listed	151	RPI-linked	10/08/2048	249	263
GBP	Listed	151	RPI-linked	14/08/2048	245	260
GBP	Unlisted	83	RPI-linked	02/10/2023	91	91
GBP	Unlisted	80	RPI-linked	18/06/2024	86	88
GBP	Unlisted	80	RPI-linked	25/06/2024	86	88
GBP	Unlisted	81	RPI-linked	29/04/2024	89	90
GBP	Unlisted	81	RPI-linked	30/04/2024	87	89
GBP	Unlisted	81	RPI-linked	07/05/2024	88	89
		936			1,242	1,291
Floating Rate						
GBP	Unlisted	400	LIBOR +	23/03/2027	400	400
GBP	Unlisted	300	LIBOR +	11/07/2024	301	303
		700			701	703
Overdraft		5			5	5
Total		7,202			7,475	7,702

* Index-linked debt notional is the accreted value.
** Euro amount is 750m.
*** Yen amount is 10bn.
**** Dollar amount is $200m.
***** Euro amount is 500m.
***** Euro amount is 625m.

21 Borrowings continued

On 19 March 2021, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued a 9 year fixed rate transition bond with a notional value of €625m and a coupon of 0.625% under its £6bn Euro Medium Term Note Programme, this bond is guaranteed by and proceeds were on lent to Cadent Gas Limited. This was swapped to c.£536m and a rate of 1.81% immediately on issue. On 14 April 2021, Cadent Gas Limited repaid £300m of its existing syndicated term loan using available cash and committed bank facilities. A further £250m notes with maturity date on 22 September 2021 will also be repaid in the 2022 financial year using available cash and committed bank facilities. The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

The fair value of borrowings at 31 March 2021 was £7,702m (2020: £6,994m). Where market values were available, the fair value of borrowings (Level 1) was £4,916m (2020: £4,279). Where market values were not available, the fair value of borrowings (Level 2) was £2,786m (2020: £2,715m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2021 was £7,202m (2020: £6,672m) (including accretion).

22 Lease liabilities

	2021 £m	2020 £m
Current	8	11
Non-current	16	20
	24	31

	2020 £m	2020 £m
Lease liabilities are repayable as follows:		
Year 1	8	11
Year 2	4	7
Year 3	3	3
Year 4	2	2
Year 5	1	1
More than 5 years	6	7
	24	31

The Group does not face a significant liquidity risk with regard to its lease liabilities. See note 28 (financial risk management) for further analysis.

All lease liabilities are denominated in sterling.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 1.50% for the current financial year (2020: 1.51%).

At 31 March 2021 the Group had committed to leases which had not commenced. The total future cash outflows for leases that had not yet commenced was £45m, primarily relating to land and buildings.

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

b) Amounts recognised in the statement of profit or loss

	2021 £m	2020 £m
Depreciation of right-of-use assets (see note 13)	12	10
Expense relating to short-term leases (included within operating expenses)	2	2
Expense relating to leases of low-value assets that are not short-term leases (included within operating expenses)	–	–
Expense relating to variable lease payments not included in lease liabilities (included within operating expenses)	16	10

The total cash outflow for leases for the year to 31 March 2021 was £11m (2020: £10m).

Notes to the consolidated financial statements continued

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23 Provisions for liabilities

	Decommissioning £m	Environmental £m	Other £m	Total £m
At 1 April 2020	2	30	62	94
Charged to the income statement	–	1	1	2
Utilised	–	(3)	(8)	(11)
Released to the income statement	(2)	–	(6)	(8)
Unwinding of discount	–	–	–	–
At 31 March 2021	**–**	**28**	**49**	**77**

	Decommissioning £m	Environmental £m	Other £m	Total £m
Current	–	2	10	12
Non-current	–	26	39	65
At 31 March 2021	**–**	**28**	**49**	**77**

Decommissioning provision

The decommissioning provision represented expenditure required for the demolition of specific gas storage facilities. All of these specific gas storage facilities have been demolished and no further costs are expected.

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% (2020: 1.0%)). Cash flows are expected to be incurred between 2021 and 2076.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and climate change regulations, and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact on the calculation of the provision. See note 29 for analysis of the sensitivities associated with our estimate.

The undiscounted amount of the provision at 31 March 2021 is £34m (2020: £38m) being the undiscounted best estimate liability having regard to these uncertainties. See note 29 for analysis of the sensitivities associated with our estimate.

Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions relating to the operation of our gas networks. Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The majority of claims are expected to be settled within 10 years.

24 Share capital

	2021 £m	2020 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	–	–

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

25 Net debt

Net debt is a measure which shows the overall debt situation. Net debt is calculated by netting the value of a company's liabilities and debts with its cash and other similar short-term financial assets.

	2021 £m	2020 £m
Increase in cash and cash equivalents	3	13
Increase/(decrease) in financial investments	488	(5)
Increase in borrowings and related derivatives	(537)	(227)
Repayment of lease liabilities	11	10
Net interest paid on the components of net debt	142	125
Change in net debt arising from cash flows	107	(84)
Changes in fair value of financial assets and liabilities and exchange movements	(9)	(27)
Other non-cash changes	(4)	(35)
Net interest charge on the components of net debt	(142)	(160)
Movement in net debt (net of related derivative financial instruments)	(48)	(306)
Net debt (net of related derivative financial instruments) at the start of the year	(6,734)	(6,428)
Net debt (net of related derivative financial instruments) at the end of the year	(6,782)	(6,734)

Composition of net debt:

	2021 £m	2020 £m
Cash, cash equivalents and financial investments	832	344
Borrowings and bank overdrafts	(7,475)	(7,014)
Derivatives	(115)	(33)
Lease liabilities	(24)	(31)
Total net debt	(6,782)	(6,734)

Analysis of changes in net debt:

	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Lease Liabilities £m	Total £m
Cost								
At 1 April 2020	17	(8)	9	327	(7,006)	(33)	(31)	(6,734)
Cash flow	–	3	3	488	(398)	3	11	107
Fair value gains and losses and exchange movements	–	–	–	–	67	(76)	–	(9)
Interest charges	–	–	–	–	(133)	(9)	–	(142)
Other non-cash changes	–	–	–	–	–	–	(4)	(4)
At 31 March 2021	**17**	**(5)**	**12**	**815**	**(7,470)**	**(115)**	**(24)**	**(6,782)**

Balances at 31 March 2021 comprise:

Non-current assets	–	–	–	–	–	–	–	–
Current assets	17	–	17	815	–	–	–	832
Current liabilities	–	(5)	(5)	–	(292)	–	(8)	(305)
Non-current liabilities	–	–	–	–	(7,178)	(115)	(16)	(7,309)
At 31 March 2021	**17**	**(5)**	**12**	**815**	**(7,470)**	**(115)**	**(24)**	**(6,782)**

Notes to the consolidated financial statements continued

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25 Net debt continued

	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Lease Liabilities £m	Total £m
Cost								
At 1 April 2019	5	(9)	(4)	332	(6,720)	(30)	(36)	(6,458)
Cash flow	12	1	13	(5)	(96)	(6)	10	(84)
Fair value gains and losses and exchange movements	–	–	–	–	(35)	8	–	(27)
Interest charges	–	–	–	–	(155)	(5)	–	(160)
Other non-cash changes	–	–	–	–	–	–	(5)	(5)
At 31 March 2020	17	(8)	9	327	(7,006)	(33)	(31)	(6,734)

Balances at 31 March 2020 comprise:

	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Lease Liabilities £m	Total £m
Non-current assets	–	–	–	–	–	40	–	40
Current assets	17	–	17	327	–	–	–	344
Current liabilities	–	(8)	(8)	–	(44)	–	(11)	(63)
Non-current liabilities	–	–	–	–	(6,962)	(73)	(20)	(7,055)
At 31 March 2020	17	(8)	9	327	(7,006)	(33)	(31)	(6,734)

26 Capital and other commitments

	2021 £m	2020 £m
Contracts for future capital expenditure not provided in the financial statements	255	556
Letters of credit facility	300	300
	555	856

Not included in the above is £45m for the expected future cash outflows relating to leases which the Group is committed to, but had not yet commenced as at 31 March 2021.

27 Pensions

The Group operates two pension schemes for its employees.

Defined contribution (DC) scheme

For the DC pension arrangement, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

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

Prior to that, employees contributed to the National Grid YouPlan. At 31 August 2018 a bulk transfer of £85.5m was effected from YouPlan to MyPension and all DC benefits are now managed under MyPension.

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

	2021 £m	2020 £m
Current period contributions	23	16

Defined benefit (DB) scheme

Following the sale of National Grid's remaining stake in Cadent Gas Limited in June 2019, the company has put in place its own DB pension arrangement, the Cadent Gas Pension Scheme (CGPS – 'the Scheme'). A bulk transfer of the assets and liabilities took place on 30 September 2020 as set out in a Transfer Agreement, with the rules of Section C of the legacy National Grid UK Pension Scheme replicated in the CGPS. All assets and liabilities of Section C were transferred to CGPS, however under the transfer agreement Section C retained an expense reserve of £11m to cover post transfer costs. As at 31 March 2021 £0.7m is retained in Section C to cover expected winding up costs, this amount has been included in the total asset position reported.

27 Pensions continued

Defined benefit ('DB') scheme continued

All costs associated with the creation of CGPS have been treated as an exceptional item. The company has an accrual for the NGUKPS Trustees' expenses associated with the transfer to CGPS which, under the transfer agreement will be paid to CGPS. This payment is expected in 2021 and is currently expected to be c£3m.

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

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

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

The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net asset recognised in the statement of financial position. For sensitivity analysis, see note 29.

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

The Scheme is funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a board consisting of company appointed and member nominated directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with the company, the qualified actuary certifies the ongoing rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable.

The last full actuarial valuation for the Scheme was carried out at 31 March 2019. As part of this valuation, based on long-term financial assumptions, a contribution rate to meet future benefit accrual was agreed of 52.1% of pensionable earnings less any member contributions. In addition, the company makes payments to the Scheme to cover administration costs and the Pension Protection Fund levy.

The results of the 2019 valuation are shown below:

Last full actuarial valuation	31-Mar-2019	31-Mar-2017
Actuary	Willis Towers Watson	Willis Towers Watson
Market value of scheme assets at latest valuation	£6,674	£7,004
Actuarial value of benefits due to members	£6,755	£7,233
Market value as percentage of benefits	99%	97%
Funding deficit	£81m	£229m

The 2017 and 2019 valuations cover only Section C, which is supported by the company. The assets and liabilities of Section C have now been transferred into the Cadent Gas Pension Scheme (CGPS).

Cadent Gas Pension Scheme

The company and the Trustees have agreed a schedule of contributions with payments of £22m per year during FY22 and FY23. Payments will be made quarterly from April 2021 with the final payment due by September 2022.

The company has established a security arrangement with a charge in favour of the trustees. This amount may change over time or following changes to the company's credit rating or gearing levels. At 31 March 2021 the value of this was required to be £144m. This was provided via £144m in letters of credit. The assets held as security will be paid to CGPS 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 the Scheme, 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. In addition, the company will make a further payment of £100m (increased in line with RPI) into CGPS if the company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

27 Pensions continued

Guaranteed minimum pension ('GMP') equalisation

Following the High Court ruling on 20 November 2020, the CGPS is required to adjust benefits to remove the inequalities between the GMP benefits awarded to males and females historically. The impact of the additional ruling is estimated to be £0.7m and has been recognised as a past service cost in 2021.

Risks

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

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

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

The Chancellor's announcement on 25 November 2020 on the future of RPI confirmed that RPI will be aligned with CPIH from 2030. Historically, CPIH inflation has been around 1% lower than RPI inflation but the reduction in long-term market estimates of RPI inflation as a result of the announcement was much smaller than expected. The RPI inflation assumption adopted is based on market implied RPI inflation less an inflation risk premium adjustment of 0.3% per annum to allow for some but not all the expectation that RPI inflation will be lower in the future.

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

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

Changes in the underlying market conditions during 2020/21 have resulted in a decrease in the discount rate assumption, and an increase in the inflation assumption used in valuing Cadent's pension liabilities. These changes, amongst other factors, have contributed to the pension liabilit recognised on an IAS 19 basis at 31 March 2021 increasing to £6,020m (2020: £5,575m), resulting in a decrease to the overall surplus of 54%.

In calculating our pension liability, we considered the impact of COVID-19 on the assumptions we make about mortality. The excess death experience seen in 2020, likely due to COVID-19, has been factored the actuarial measurement of the CGPS, resulting in a decrease of £31m to the liability, which was more than offset by the changes above.

The recognition of the net defined benefit asset in relation to CGPS reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. We have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up. The Trustees must seek the agreement of the company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

Amounts recognised in the statement of financial position

The following tables represent the amounts in the financial statements.

	2021 Total £m	2020 Total £m
Present value of funded obligations	(6,016)	(5,572)
Fair value of plan assets	6,446	6,492
	430	920
Present value of unfunded obligations	(4)	(3)
Net defined benefit asset	426	917

	2021 Total £m	2020 Total £m
Represented by:		
Liabilities	(6,020)	(5,575)
Assets	6,446	6,492
	426	917

27 Pensions continued

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

	2021 Total £m	2020 Total £m
Included within operating costs		
Administration costs	5	4
Defined contribution scheme costs	23	16
Defined benefit scheme costs:		
Current service cost	12	16
Past service cost	2	18
	42	54
Included within finance costs		
Net interest credit	(21)	(17)
Total included in income statement	21	37
Remeasurements of net retirement benefit obligations	668	(190)
Return on plan assets greater or less than discount rate	(155)	14
Total included in the statement of other comprehensive income	513	(176)

Reconciliation of the net defined benefit asset

	2021 Total £m	2020 Total £m
Opening net defined benefit asset	917	690
Costs recognised in the income statement	2	(21)
Employer contributions	20	72
Other movements	(513)	176
Closing net defined benefit asset	426	917

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

	2021 Total £m	2020 Total £m
Opening net defined benefit liability	5,575	5,984
Current service cost	12	16
Interest cost	121	139
Past service cost	2	18
Actuarial losses – experiences	(105)	(40)
Actuarial (gains)/losses – demographic assumptions	(10)	189
Actuarial losses/(gains) – financial assumptions	783	(339)
Benefits paid	(358)	(392)
Closing net defined benefit liability	6,020	5,575

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

27 Pensions continued

Changes in the fair value of plan assets

	2021 Total £m	2020 Total £m
Opening fair value of plan assets	6,492	6,674
Interest income	142	156
Return on assets greater/(less) than assumed	155	(14)
Administration costs	(5)	(4)
Employer contributions paid	20	72
Benefits paid	(358)	(392)
Closing fair value of plan assets	6,446	6,492
Actual return on plan assets	297	142
Expected contributions to plans in the following year	32	22

Asset allocations

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

	2021 Quoted £m	2021 Unquoted £m	2021 Total £m	2020 Quoted £m	2020 Unquoted £m	2020 Total £m
Equities	202	209	411	507	226	733
Corporate bonds	2,210	–	2,210	2,088	–	2,088
Property	–	274	274	–	273	273
Government securities	3,089	–	3,089	2,742	–	2,742
Diversified alternatives (i)	–	443	443	–	504	504
Other	–	19	19	–	152	152
Total	5,501	945	6,446	5,337	1,155	6,492

(i) Includes return seeking non-conventional asset classes of £84m (2020:£296m), secure income assets of £359m (2020:£208m) and other of £Nil (2020: £Nil).

The investment strategy for CGPS is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments.
The asset allocation at 31 March 2021 is as follows:

	2021 %	2020 %
Equities	6	11
Other	94	89
	100	100

Actuarial assumptions

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

	2021 %	2020 %
Discount rate – Past service (i)	1.95	2.25
Discount rate – Future service (i)	2.00	2.20
Rate of increase in salaries (ii)	2.50	1.80
Rate of increase in RPI – Past service (iii)	3.25	2.55
Rate of increase in RPI – Future service (iii)	3.10	2.40

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

(ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service prior to 1 April 2013. The assumption for the rate of increase in salaries for service after this date is 3.15% (2020: 2.15%).

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

27 Pensions continued

Actuarial assumptions continued

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2021 years	2020 years
Today		
Males	21.3	21.3
Females	24.6	24.5
In 20 years		
Males	22.6	22.6
Females	26.0	25.9

Maturity profile of DB obligations

The weighted average duration of the DB obligation for future service obligations of the scheme is 26 years and 16 years for past service obligations.

28 Financial risk management

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

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

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Currency risk; and
- Capital risk.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on their contractual obligations resulting in a financial loss to the Group. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The Group assessed whether there is any impact of COVID-19 on credit risk. The impact was deemed to be limited given the nature of the business in that our principal commercial exposure relates to shipper income which is governed by the credit rules within the Uniform Network Code. There are a number of actions the Group takes to mitigate any credit risk and changes to credit rules have been agreed across the gas industry with involvement from Ofgem.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

28 Financial risk management continued

(a) Credit risk continued

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

For year ended 31 March 2021

	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount
Cash and cash equivalents		17	–	17
Derivative financial assets	17	–	–	–
Trade receivables	16	20	(3)	17
Accrued income	16	156	(1)	155
Current asset investments	18	815	–	815

For year ended 31 March 2020

	Notes	Gross Carrying Amount £m	Loss Allowance £m	Net Carrying Amount
Cash and cash equivalents		17	–	17
Derivative financial assets	17	40	–	40
Trade receivables	16	13	(3)	10
Accrued income	16	173	–	173
Current asset investments	18	327	–	327

Counterparty credit risk

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

As at 31 March 2021, we had exposure to various financial institutions. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Derivative financial assets are only entered into with banks with a strong Investment Grade Credit rating, which should reduce the likelihood of significant losses. Management does not expect any significant losses from non performance by these counterparties.

Customer credit risk

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

	2021 £m	2020 £m
Accrued income	155	173
Collateral held	(13)	(33)
Exposure net of collateral	**142**	140

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

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present Cadent Gas's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

28 Financial risk management continued

(a) Credit risk continued

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Cadent Gas has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

	Gross Carrying Amounts £m	Gross Amounts Offset £m	Net Amount Presented in Statement of Financial Position £m	Financial Instruments £m	Cash Collateral Received/ Pledged £m	Net Amount £m
As at 31 March 2021						
Assets						
Derivative financial instruments	–	–	–	–	–	–
Liabilities						
Derivative financial instruments	(115)	–	(115)	–	–	(115)
Total at 31 March 2021	(115)	–	(115)	–	–	(115)

	Gross Carrying Amounts £m	Gross Amounts Offset £m	Net Amount Presented in Statement of Financial Position £m	Financial Instruments £m	Cash Collateral Received/ Pledged £m	Net Amount £m
As at 31 March 2020						
Assets						
Derivative financial instruments	40	–	40	–	–	40
Liabilities						
Derivative financial instruments	(73)	–	(73)	–	–	(73)
Total at 31 March 2020	(33)	–	(33)	–	–	(33)

(b) Liquidity risk

We determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in capital and other commitments in note 26 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining an investment grade credit rating. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

The Group assessed whether there is any impact of COVID-19 on its liquidity risk. Currently there has not been a significantly adverse impact on cash flows but the Group Treasury function continue to monitor this in line with forecasts for future requirements.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

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
At 31 March 2021					
Non-derivative financial liabilities					
Borrowings	(250)	–	(90)	(7,458)	(7,798)
Lease liabilities	(8)	(4)	(3)	(9)	(24)
Interest on payments on borrowings (i)	(132)	(128)	(129)	(1,750)	(2,139)
Other non-interest bearing liabilities	(570)	–	–	–	(570)
Derivative financial liabilities					
Derivative contracts – receipts	25	27	29	1,929	2,010
Derivative contracts – payments	(37)	(37)	(37)	(2,149)	(2,260)
Total at 31 March 2021	(972)	(142)	(230)	(9,437)	(10,781)

(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.

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
At 31 March 2020					
Non-derivative financial liabilities					
Borrowings	–	(250)	–	(6,842)	(7,092)
Lease liabilities	(11)	(7)	(3)	(10)	(31)
Interest on payments on borrowings (i)	(134)	(133)	(130)	(1,862)	(2,259)
Other non-interest bearing liabilities	(594)	–	–	–	(594)
Derivative financial liabilities					
Derivative contracts – receipts	25	25	25	1,482	1,557
Derivative contracts – payments	(27)	(27)	(27)	(1,584)	(1,665)
Total at 31 March 2020	(741)	(392)	(135)	(8,816)	(10,084)

(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 and forward rate agreements.

We hold some borrowings on issue and derivatives that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

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

28 Financial risk management continued

(c) Interest rate risk continued

During 2021, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed rate £m	Floating rate £m	RPI £m	Other[i] £m	Total £m
As at 31 March 2021					
Financial investments[i]	–	832	–	–	832
Borrowings	(5,527)	(706)	(1,242)	–	(7,475)
Lease liabilities	–	–	–	(24)	(24)
Pre-derivative position	(5,527)	126	(1,242)	(24)	(6,667)
Derivative effect	(48)	400	(467)	–	(115)
Net debt position[ii]	(5,575)	526	(1,709)	(24)	(6,782)

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.
ii) The impact of 2020/21 short-dated interest rate derivatives is included.

During 2020, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed rate £m	Floating rate £m	RPI £m	Other[i] £m	Total £m
As at 31 March 2020					
Financial investments[i]	–	344	–	–	344
Borrowings	(5,062)	(708)	(1,244)	–	(7,014)
Lease Liabilities	–	–	–	(31)	(31)
Pre-derivative position	(5,062)	(364)	(1,244)	(31)	(6,701)
Derivative effect	26	400	(459)	–	(33)
Net debt position[ii]	(5,036)	36	(1,703)	(31)	(6,734)

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.
ii) The impact of 2019/20 short-dated interest rate derivatives is included.

(d) Currency risk

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

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

During 2021, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
As at 31 March 2021					
Financial investments	832	–	–	–	832
Borrowings	(5,676)	(1,589)	(65)	(145)	(7,475)
Lease liabilities	(24)	–	–	–	(24)
Pre-derivative position	(4,868)	(1,589)	(65)	(145)	(6,667)
Derivative effect	(1,914)	1,589	65	145	(115)
Net debt position	(6,782)	–	–	–	(6,782)

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Notes to the consolidated financial statements continued

For the year ended 31 March 2021

28 Financial risk management continued

(d) Currency risk continued

During 2020, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling £m	Euro £m	JPY £m	USD £m	Total £m
As at 31 March 2020					
Financial investments	344	–	–	–	344
Borrowings	(5,677)	(1,100)	(76)	(161)	(7,014)
Lease liabilities	(31)	–	–	–	(31)
Pre-derivative position	(5,364)	(1,100)	(76)	(161)	(6,701)
Derivative effect	(1,370)	1,100	76	161	(33)
Net debt position	(6,734)	–	–	–	(6,734)

Effect of hedge accounting on the financial position and performance

a) The impact of hedging instruments designated in a hedge relationship as at 31 March 2021 are as follows:

	Notional Amount (GBP m)	Carrying Amount of the Hedging Instrument		Fair Value	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported
		Assets	Liabilities		
Cash flow hedges					
Cross-currency interest rate swaps	**1,831**	**–**	**(48)**	**(74)**	**Derivative financial liabilities**

The impact of hedged items designated in a hedge relationship as at 31 March 2020 were as follows:

	Notional Amount (GBP m)	Carrying Amount of the Hedging Instrument		Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported
		Assets	Liabilities		
Cash flow hedges					
Cross-currency interest rate swaps	1,299	40	(14)	21	Derivative financial assets Derivative financial liabilities

b) The impact of hedged items designated in a hedge relationship as at 31 March 2021 are as follows:

	Carrying Amount of the Hedged Item (GBP m)		Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported	Cash flow Hedge Deficit	Cost of Hedging Reserve
	Assets	Liabilities				
Cash flow hedges						
Non GBP denominated debt	**–**	**(1,799)**	**75**	**Borrowings**	**(18)**	**10**

The impact of hedged items designated in a hedge relationship as at 31 March 2020 were as follows:

	Carrying Amount of the Hedged Item (GBP m)		Fair Value Changes	Line Item in Consolidated Statement of Financial Position where Hedging Instrument is Reported	Cash flow Hedge Deficit	Cost of Hedging Reserve
	Asset	Liabilities				
Cash flow hedges						
Non GBP denominated debt	–	(1,337)	(35)	Borrowings	(13)	6

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

The above hedging relationships affected the consolidated income statements for year ended March 2021 are as follows:

	Change in Value of Hedging Instrument Recognised in OCI	Hedge Ineffectiveness Recognised in Consolidated Income Statement	Line Item in Consolidated Income Statement where the Hedge Ineffectiveness is Reported	Amount Reclassified from Cash Flow Hedge Reserve to Consolidated Income Statement	Line Item in the Consolidated Income Statement
Cash flow hedges					
Interest rate risk & FX risk	**(5)**	**–**	**Exceptional items and remeasurements**	**(75)**	**Finance costs before exceptional items and remeasurements**

28 Financial risk management continued

Effect of hedge accounting on the financial position and performance continued

(d) Currency risk continued

The above hedging relationships affected the consolidated income statements for year ended March 2020 were as follows:

	Change in Value of Hedging Instrument Recognised in OCI	Hedge Ineffectiveness Recognised in Consolidated Income Statement	Line Item in Consolidated Income Statement where the Hedge Ineffectiveness is Reported	Amount Reclassified from Cash Flow Hedge Reserve to Consolidated Income Statement	Line Item in the Consolidated Income Statement
Cash flow hedges					
Interest rate risk & FX risk	(13)	–	Exceptional items and remeasurements	35	Finance costs before exceptional items and remeasurements

(e) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 25). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by RAV gearing calculated as adjusted net debt (statutory net debt adjusted for unamortised debt fees, unamortised fair value adjustments, accrued interest and derivatives) expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. The net debt to RAV ratio at 31 March 2021 is 63% (2020: 64%).

(f) Fair value analysis

The financial instruments included in the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2021				
Assets				
Fair value through profit and loss ('FVTPL') instruments	832	–	–	832
Derivative financial instruments	–	–	–	–
Liabilities				
Derivative financial instruments	–	(115)	–	(115)
Total	832	(115)	–	717

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2020				
Assets				
Fair value through profit and loss ('FVTPL') instruments	344	–	–	344
Derivative financial instruments	–	40	–	40
Liabilities				
Derivative financial instruments	–	(73)	–	(73)
Total	344	(33)	–	311

Level 1: 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

29 Sensitivity analysis

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

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

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

The sensitivities included in the table below all have an approximately equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 10% increase in unbilled revenue at 31 March 2021 would result in an increase in the income statement of £16 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2021		2020	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
As at 31 March				
One year average increase in useful economic lives (pre-tax)				
Depreciation charge on property, plant and equipment	18	18	15	15
Amortisation charge on intangible assets	3	3	3	3
Additional depreciation charge if the useful lives of network assets end in 2050 due to UK net-zero target	45	45	40	40
Environmental provision change in discount rate of 0.5%	3	3	3	3
Environmental provision change in undiscounted cash flow of 10%	3	3	3	3
Employer liability claims change in discount rate of 0.5%	1	1	1	1
Employer liability claims change in undiscounted cash flow of 10%	3	3	4	4
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments(i)	12	12	3	3
Pensions and other post-retirement benefits(ii) (pre-tax)				
Discount rate decrease of 0.5%(iii)	(2)	(487)	(2)	(417)
Discount rate increase of 0.5%(iii)	2	433	2	373
RPI rate change of 0.5%(iv)	2	382	2	359
Long-term rate of increase in salaries change of 0.5%	1	44	–	34
Change of one year to life expectancy at age 65	–	272	1	227
Change in value of unquoted properties by 5%	–	14	–	14
Change in value of unquoted equities by 5%	–	10	–	37
No hedge accounting for our derivative financial instruments (post tax)	5	5	15	15

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.

	2021		2020	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
As at 31 March				
Financial risk (post-tax)				
UK RPI rate change of 0.5%	7	7	7	7
UK interest rate change of 0.5%	2	2	2	2

29 Sensitivity analysis continued

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI. The changes in market variables impacts the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2021;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and FVTPL investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

30 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 23) has been set up to deal with the costs of statutory decontamination of the Cadent Gas Limited's old gas-manufacturing sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

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

(c) Guarantees and letters of credit

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of bonds, guarantees or letters of credit.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

31 Related party transactions

A related party is a company or individual who also has an interest in us. The related parties identified include the immediate parent, ultimate parent, fellow subsidiaries, associated undertakings, investments and key management personnel.

	2021 £m	2020 £m
Income:		
Goods and services supplied to other related parties	–	15
	–	15
Expenditure:		
Services rendered from associates	10	10
Services rendered from other related parties	–	42
	10	52
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable from associates	2	–
Amounts payable to associates	–	1

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

Amounts of £Nil have been provided at 31 March 2021 and recognised as an expense (2020: £Nil) during the period in respect of bad or doubtful debts for related party transactions.

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

32 Subsequent events

On 12 April 2021 Cadent Finance Plc, a subsidiary of Cadent Gas Limited, entered into £500m of CPI-linked swaps, with £100m maturing in 2028 and £400m maturing in 2031. On 3 June 2021 Cadent Finance Plc entered into a further £200m of CPI-linked swaps, which mature in 2028. On 14 April 2021, Cadent Gas Limited repaid £300m of its existing syndicated term loan using available cash and committed bank facilities.

To ensure we have the right organisation to deliver our commitments under RIIO-2, Cadent announced on 19 April 2021 proposals to restructure the current organisational design. The programme is subject to employee consultation with the period of consultation concluding on 4th July 2021. Whilst the cost of this programme cannot be determined with certainty until the finalisation of individuals into roles, managements best estimate is £11m.

33 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings Topco Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings Topco Limited and Quadgas MidCo Limited respectively. Quadgas Holdings Topco Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, United Kingdom, CV7 8PE.

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

34 Subsidiary undertakings

The list below contains all subsidiaries included within the Cadent Gas Group.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Finance Plc	100	Provision of long-term finance	England and Wales
Cadent Gas Pension Trustee Limited	100	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100	Management of pension services	England and Wales

* Indirect ownership.

The registered address of Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

Company statement of financial position

As at 31 March 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	7	103	90
Property, plant and equipment	8	10,392	9,747
Investments	9	–	–
Pension and other post-retirement benefit obligations	6	426	917
Debtors	11	2	21
Derivative financial assets	12	–	40
Total non-current assets		10,923	10,815
Current assets			
Inventories	10	12	10
Debtors	11	217	241
Financial and other investments	13	815	327
Cash at bank and in hand		17	17
Total current assets		1,061	595
Total assets		11,984	11,410
Current liabilities			
Creditors	14	(835)	(573)
Borrowings	16	(9)	(12)
Provisions for liabilities	17	(12)	(15)
Total current liabilities		(856)	(600)
Net current assets/(liabilities)		205	(5)
Total assets less current liabilities		11,128	10,810
Non-current liabilities			
Derivative financial liabilities	12	(115)	(73)
Borrowings	16	(1,228)	(1,234)
Provisions for liabilities	17	(1,289)	(1,422)
Creditors	15	(6,705)	(6,417)
Total non-current liabilities		(9,337)	(9,146)
Total liabilities		(10,193)	(9,746)
Net assets		1,791	1,664
Equity			
Share capital	18	–	–
Cash flow hedge deficit		(18)	(13)
Cost of hedging reserve		10	6
Retained earnings		6,751	6,623
Other deficit		(4,952)	(4,952)
Total equity		1,791	1,664

The company has elected to take exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The profit for the period of £543m (2020: £421m) is disclosed in the statement of changes in equity.

The notes on pages 182 to 197 are an integral part of the financial statements.

The financial statements on pages 180 to 197 were approved by the Board of Directors on 14 July 2021 and signed on its behalf by:

S G Hurrell
Director
Cadent Gas Limited

Company registration number: 10080864

Company statement of changes in equity

For the year ended 31 March 2021

	Share Capital £m	Cash Flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2020	–	(13)	6	(4,952)	6,623	1,664
Profit for the year	–	–	–	–	543	543
Other comprehensive (loss)/income excluding amortisation of cost of hedging reserve	–	(5)	–	–	(415)	(420)
Amortisation of cost of hedging reserve	–	–	4	–	–	4
Total comprehensive (loss)/income for the year	–	(5)	4	–	128	127
Equity dividend	–	–	–	–	–	–
At 31 March 2021	**–**	**(18)**	**10**	**(4,952)**	**6,751**	**1,791**

	Share Capital £m	Cash Flow Hedge Deficit £m	Cost of Hedging Reserve £m	Other Deficit £m	Retained Earnings £m	Total £m
At 1 April 2019	–	–	6	(4,952)	6,347	1,401
Profit for the year	–	–	–	–	421	421
Other comprehensive income excluding amortisation of cost of hedging reserve	–	(13)	(3)	–	130	114
Amortisation of cost of hedging reserve	–	–	3	–	–	3
Total comprehensive (loss)/income for the year	–	(13)	–	–	551	538
Equity dividend	–	–	–	–	(275)	(275)
At 31 March 2020	–	(13)	6	(4,952)	6,623	1,664

The cash flow hedge reserve in relation to cross-currency interest rate swap contracts will be recycled to the income statement over the life of the hedged items.

Other deficit comprises the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. This merger reserve will reduce distributable reserves each year by the amount amortised. In the year ended 31 March 2021 distributable reserves were reduced by an accumulated realisation of £513m (31 March 2020: £398m). As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Notes to the company financial statements

As at 31 March 2021

1 Summary of significant accounting policies

We are required to include the stand-alone balance sheet of our parent company, Cadent Gas Limited, under the Companies Act 2006, and the statement of changes in equity under Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'). The following disclosures provide additional information to the stakeholders.

Cadent Gas Limited is a private company, incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to the current year and previous year presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the company have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value. Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

(i) Parent company financial statements

The parent company financial statements have been prepared in accordance with applicable UK accounting and financial reporting standards (FRS) and the Companies Act 2006. The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the year is disclosed in the statement of changes in equity.

As permitted by FRS 102, the company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, fair value disclosures, sensitivity analysis, standards not yet effective, related party transactions and statement of cash flows.

(b) New accounting standards and interpretations

As noted above, the 2021 Annual Report and Financial Statements have been prepared under FRS 102. There are no new accounting standards, or amendments to existing standards, which have a significant impact on the company accounts.

(c) Intangible assets

Intangible fixed assets which consist of software licences are carried at amortised historical cost less any provisions for impairment. Software licences are reviewed each year and where they are redundant an impairment charge is made to the income statement.

Intangible assets under development are not amortised. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

Amortisation periods
Computer software – 5 years
Computer licenses – 3 years

(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. We also continue to invest in research and innovation to support the energy transition to net zero. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

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

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

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

Contributions received towards the cost of tangible fixed assets from customers for connections to the gas distribution network are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the asset to which they relate.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(e) Investments

Investments in subsidiary undertakings and associated companies are held at cost, less any provisions for impairment. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that investments are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed separately.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

(f) Impairment of fixed assets

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

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

(g) Financial instruments

Initial recognition

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the company financial statements continued

As at 31 March 2021

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Classification and measurement

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); and
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments using the expected credit loss approach by calculating the probability of default and the estimated recoverable amount given default.

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

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

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

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

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

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

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

Derecognition

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

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

1 Summary of significant accounting policies continued

(g) Financial instruments continued

Impairment of financial assets

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

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

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

The company measures the loss allowances on financial instruments at an amount equal to the 12 month expected credit loss (representing a stage 1 financial model). The way this is calculated is based on the applied impairment methodology, as described below:

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

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

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

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

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

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

(h) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Accrued income is amounts due from customers for goods sold or services performed in the ordinary course of business which has not yet been invoiced.

Trade receivables and accrued income are initially recognised at the transaction price and are subsequently measured at amortised cost less a loss allowance.

(i) Trade and other payables

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

Deferred income mainly comprises contributions received from customers relating to capital and replacement projects. These are credited to the statement either:

- Once the project is complete; or
- Over the estimated useful economic lives of the assets to which they relate.

The treatment is dependent on the type of the project. For further detail see note 1(n) Revenue.

(j) Inventories

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

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

Notes to the company financial statements continued

As at 31 March 2021

1 Summary of significant accounting policies continued

(k) Tax

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(l) Provisions for liabilities

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

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

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

(m) Dividends

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

(n) Revenue

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

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

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

(o) Pensions

The company operates both a defined benefit (DB) and a defined contribution (DC) pension scheme.

For the DC pension scheme, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the DB pension scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

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

1 Summary of significant accounting policies continued

(o) Pensions continued

The company takes advice from independent actuaries relating to the appropriateness of key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net surplus recognised in the statement of financial position.

(p) Leases

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

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

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

Under IFRS there is no concept of a finance lease, and the majority of leases are recognised in the statement of financial position by capitalising a right-of-use asset and recognising an associated lease liability. Depreciation of right-of-use assets and interest on lease liabilities is recognised in the statement of profit or loss.

(q) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

The Group receives monies in the form of grants. The use of this cash is restricted by the specific terms and conditions of each grant and therefore is not available for general use.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

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

- The recognition of revenue in relation to connections and whether the service was distinct from the provision of future network services. We judged that the economic benefit for the connection service can be reliably measured once the new connection is completed and hence revenue is recognised at that point;
- The recognition of a surplus in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under FRS 102. We have concluded that the company has an unconditional right to a refund from the plan, in the event of a winding-up – **note 6**; and
- The categorisation of certain items as exceptional items under the exceptional item framework that follows a three-step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is within the company's control and how frequently such an event typically occurs – **note 6** of the consolidated accounts.

Key sources of estimation uncertainty

Key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

- Determination of useful lives and carrying values of property, plant and equipment and intangible assets. In assessing the estimated useful economic lives, consideration is given by management to any contractual arrangements and operational requirements relating to particular assets. In addition, the UK's target to achieve net zero may have an impact on the useful economic lives of our plant and machinery with a current deemed life of up to 50 years if our network could no longer be used beyond this point. Given the information currently available about how the UK will achieve net-zero using alternative technologies (particularly greener gases such as hydrogen and biomethane) it is still reasonable to assume that the entire network will continue to be used in 2045 and beyond, in its current form, adapted to accommodate hydrogen or biomethane. Management have therefore concluded that our network can be adapted to use alternative technologies and hence have useful lives that extend beyond our net zero ambitions in line with our policy – **notes 7 & 8**. Sensitivities have been considered in **note 29** of the consolidated account;

Notes to the company financial statements continued

As at 31 March 2021

2 Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

- The estimation of liabilities for pensions and other post-retirement benefits include a number of key assumptions which include life expectancy of members, expected salary and pension increases, and inflation. The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied – **note 6**;
- In calculating the environmental provision a number of uncertainties affect the calculation including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and climate change regulations, and changes in the discount rate applied – **note 17**; and
- The estimation of the provision for claims (whether insured or not) is based on projections of liabilities that are subject to potentially large amounts of estimation, since the ultimate liability of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes and social/economic conditions such as inflation. In our judgement, through the use of independent actuaries we have employed techniques and assumptions that are appropriate to project the liabilities – **note 17**.

3 Auditor's remuneration

Auditor's remuneration in respect of the company is set out below:

	2021 £000	2020 £000
Audit services		
Audit fee of company	633	552
Other services		
Fees payable to the company's auditors for audit-related assurance services	63	62
Other non-audit services	92	90

Fees payable to the company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are carried out by the auditor such as interim reviews. Other non-audit services in 2021 relate to services provided in connection with the raising of debt or required by the regulator.

4 Number of employees, including Directors

The average number of persons (including Executive Directors) employed by the company was 5,258 (2020: 3,938). Further details are provided in note 8 to the consolidated financial statements.

5 Key management compensation

Key management comprises the Board of Directors of the company, including Executive and Non-executive Directors who have managerial responsibility for Cadent Gas Limited. Details of key management personnel compensation are provided in note 7 to the consolidated financial statements.

6 Pensions

Substantially all the company's employees are members of either the defined benefit Cadent Gas Pension Scheme or the MyPension defined contribution scheme.

The disclosures required by FRS 102 are the same as those required by IAS 19 (revised) and are provided in note 27 to the consolidated financial statements.

7 Intangible assets

	Software £m
Cost:	
At 1 April 2020	183
Additions	34
Disposals	(1)
At 31 March 2021	**216**
Accumulated amortisation:	
At 1 April 2020	(93)
Amortisation charge for the year	(20)
Disposals	–
At 31 March 2021	**(113)**
Net book value:	
At 31 March 2021	**103**
At 31 March 2020	90

	Software £m
Cost:	
At 1 April 2019	137
Additions	46
At 31 March 2020	183
Accumulated amortisation:	
At 1 April 2019	(74)
Amortisation charge for the year	(19)
At 31 March 2020	(93)
Net book value:	
At 31 March 2020	90
At 31 March 2019	63

Notes to the company financial statements continued

As at 31 March 2021

8 Property, plant and equipment

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2020	76	10,427	100	157	10,760
Additions	11	842	110	28	991
Reclassifications	32	114	(150)	4	–
Disposals	–	(1)	–	(1)	(2)
At 31 March 2021	**119**	**11,382**	**60**	**188**	**11,749**
Accumulated depreciation and impairment					
At 1 April 2020	(21)	(908)	–	(84)	(1,013)
Charge for the year	(7)	(308)	–	(30)	(345)
Disposals	–	–	–	1	1
At 31 March 2021	**(28)**	**(1,216)**	**–**	**(113)**	**(1,357)**
Net book value:					
At 31 March 2021	**91**	**10,166**	**60**	**75**	**10,392**
At 31 March 2020	55	9,519	100	73	9,747

Depreciation has been calculated on a straight-line basis over the estimated useful life of the asset. In assessing the estimated useful economic lives, management give consideration to any contractual arrangements and operational requirements relating to particular assets. See note 1(d) for the estimated useful lives of each asset category, and note 29 of the consolidated financial statements on page 176 for sensitivity analysis over the residual lives of assets.

The net book value of motor vehicles and other equipment at 31 March 2021 includes £4,117,000 (2020: £5,007,000) relating to assets purchased under finance leases.

The cost of property, plant and equipment at 31 March 2021 included £1,462,000 (2020: £1,462,000) relating to interest capitalised, with £Nil (2020: £Nil) capitalised during the year.

The net book value of land and buildings comprises:

	2021 £m	2020 £m
Freehold	**77**	41
Long leasehold (over 50 years)	**–**	–
Short leasehold (under 50 years)	**14**	14
	91	55

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2019	55	9,682	80	138	9,955
Additions	6	693	93	18	810
Reclassifications	16	53	(73)	4	–
Disposals	(1)	(1)	–	(3)	(5)
At 31 March 2020	76	10,427	100	157	10,760
Accumulated depreciation and impairment					
At 1 April 2019	(14)	(625)	–	(62)	(701)
Charge for the year	(7)	(283)	–	(24)	(314)
Disposals	–	–	–	2	2
At 31 March 2020	(21)	(908)	–	(84)	(1,013)
Net book value:					
At 31 March 2020	55	9,519	100	73	9,747
At 31 March 2019	41	9,057	80	76	9,254

9 Investments

	Shares in subsidiary undertakings £m	Investments in associates £m	Total £m
Cost			
At 1 April 2020 & 31 March 2021	–	–	–
Provision			
At 1 April 2020 & 31 March 2021	–	–	–
Net book value:			
At 1 April 2020 & 31 March 2021	–	–	–

The company's subsidiary undertakings as at 31 March 2021 were as follows:

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Cadent Finance Plc	100	Provision of long-term finance	England and Wales
Cadent Gas Pension Trustee Limited	100	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100	Management of pension services	England and Wales

* Indirect ownership.

The registered address of Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

10 Inventories

	2021 £m	2020 £m
Raw materials and consumables	**12**	10
	12	10

Inventories are stated after provisions for impairment of £938,000 (2020: £909,000).

11 Debtors

	2021 £m	2020 £m
Amounts falling due within one year:		
Trade debtors	**17**	10
Amounts owed by other Group companies	**–**	1
Other debtors	**33**	19
Prepayments	**12**	38
Accrued income	**155**	173
	217	241
Amounts falling due after more than one year:		
Prepayments	**2**	6
Other debtors	**–**	15
	2	21

Trade debtors and accrued income are initially stated at the transaction price and are subsequently measured after a loss allowance has been made £4,400,000 (2020: £2,690,000). Amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable upon demand.

Notes to the company financial statements continued

As at 31 March 2021

12 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2021		
	Assets £m	Liabilities £m	Total £m
Amounts falling due after more than one year	–	(115)	(115)
	–	(115)	(115)

	2020		
	Assets £m	Liabilities £m	Total £m
Amounts falling due after more than one year	40	(73)	(33)
	40	(73)	(33)

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

	2021 £m	2020 £m
Cross-currency interest rate swaps	1,831	1,299
Inflation linked swaps	400	400
Foreign exchange forward currency	3	4
	2,234	1,703

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

13 Financial and other investments

	2021 £m	2020 £m
Investments in short-term money funds	815	327
	815	327

14 Creditors: amounts falling due within one year

	2021 £m	2020 £m
Trade creditors	269	279
Amounts owed to subsidiary undertakings	291	41
Other tax and social security	46	59
Other creditors	56	56
Accruals and deferred income	173	138
	835	573

15 Creditors: amounts falling due after more than one year

	2021 £m	2020 £m
Amounts owed to subsidiary undertakings	5,954	5,732
Accruals and deferred income	751	685
	6,705	6,417

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 August 2048.

Deferred income mainly comprises contributions received in respect of capital projects.

16 Borrowings

	2021 £m	2020 £m
Amounts falling due within one year		
Bank loans	3	3
Bank overdrafts	5	8
Finance leases	1	1
	9	12
Amounts falling due after more than one year		
Bank loans	1,225	1,230
Finance leases	3	4
	1,228	1,234

	2021 £m	2020 £m
Total borrowings are repayable as follows:		
Less than one year	9	12
In one – two years	1	1
In two – three years	91	–
In three – four years	735	92
In four – five years	–	740
More than five years	401	401
	1,237	1,246

The notional amount outstanding of the debt portfolio at 31 March 2021 was £1,069m (2020: £1,073m), £1,195m (2020:£1,205m) including accretion.

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

Currency	Type	Notional (including accretion)* £m	Rate	Maturity Date	Book value (£m)	Fair Value £m
Index-linked						
GBP	Unlisted	83	RPI-linked	02/10/2023	91	91
GBP	Unlisted	80	RPI-linked	18/06/2024	86	88
GBP	Unlisted	80	RPI-linked	25/06/2024	86	88
GBP	Unlisted	81	RPI-linked	29/04/2024	89	90
GBP	Unlisted	81	RPI-linked	30/04/2024	87	89
GBP	Unlisted	81	RPI-linked	07/05/2024	88	89
		486			527	535
Floating Rate						
GBP	Unlisted	400	LIBOR +	23/03/2027	400	400
GBP	Unlisted	300	LIBOR +	11/07/2024	301	303
		700			701	703
Overdraft		5			5	5
Finance Lease obligation less than one year		1			1	1
Finance lease obligation more than one year		3			3	3
Total		**1,195**			**1,237**	**1,247**

* Index-linked debt notional is the accreted value.

Financial statements

Notes to the company financial statements continued

As at 31 March 2021

16 Borrowings continued

On 19 March 2021, Cadent Finance Plc, a subsidiary of Cadent Gas Limited, issued a 9-year fixed-rate transition bond with a notional value of €625m and a coupon of 0.625% under its £6bn Euro Medium Term Note Programme, this bond is guaranteed by and proceeds were on lent to Cadent Gas Limited. This was swapped to c.£536m and a rate of 1.81% immediately on issue. On 14 April 2021, Cadent Gas Limited repaid £300m of its existing syndicated term loan using available cash and committed bank facilities. A further £250m notes with maturity date on 22 September 2021 will also be repaid in the 2022 financial year using available cash and committed bank facilities. The company continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term.

The fair value of borrowings at 31 March 2021 was £1,247m (2020: £1,193m). Where market values were available, fair value of borrowings (Level 1) was £Nil (2020: £Nil).

Where market values were not available, the fair value of borrowings (Level 2) was £1,247m (2020: £1,193m), calculated by discounting cash flows at prevailing interest rates.

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

Obligation under finance leases

	Minimum lease payments	
	2021 £m	2020 £m
Amounts payable under finance leases:		
Within one year	**1**	1
In the second to fifth years inclusive	**3**	3
After five years	**1**	2
Less: future finance charges	**(1)**	(1)
Present value of lease obligations	**4**	5

	Present value of Minimum lease payments	
	2021 £m	2020 £m
Amounts payable under finance leases:		
Within one year	**1**	1
In the second to fifth years inclusive	**2**	3
After five years	**1**	1
Present value of lease obligations	**4**	5
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	**1**	1
Amounts due for settlement after 12 months	**3**	4
	4	5

It is the company's policy to lease certain items of its motor vehicles and other equipment under finance leases. The average lease length is eight years at inception. For the year ended 31 March 2021, the average effective borrowing was 3.48% (2020: 3.48%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

17 Provisions for liabilities

	Decommissioning £m	Environmental £m	Deferred tax £m	Other £m	Total £m
At 1 April 2020	2	30	1,343	62	1,437
Charged/(credited) to the income statement	–	1	(21)	1	(19)
Utilised	–	(3)	–	(8)	(11)
Released to the income statement	(2)	–	–	(6)	(8)
Unwinding of discount	–	–	–	–	–
Credited to other comprehensive income and equity	–	–	(98)	–	(98)
At 31 March 2021	**–**	**28**	**1,224**	**49**	**1,301**

	Decommissioning £m	Environmental £m	Deferred tax £m	Other £m	Total £m
Current	–	2	–	10	12
Non-current	–	26	1,224	39	1,289
	–	**28**	**1,224**	**49**	**1,301**

Decommissioning provision

The decommissioning provision represented expenditure required for the demolition of specific gas storage facilities. All of these specific gas storage facilities have been demolished and no further costs are expected.

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% (2020: 1.0%)). Cash flows are expected to be incurred between 2021 and 2076.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and climate change regulations, and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact on the calculation of the provision. See note 29 of the consolidated financial statements for analysis of the sensitivities associated with our estimate.

The undiscounted amount of the provision at 31 March 2021 is £34m (2020: £38m) being the undiscounted best estimate liability having regard to these uncertainties.

Deferred tax

Deferred taxation comprises:

	2021 £m	2020 £m
Accelerated capital allowances	**1,161**	1,186
Other timing differences	**63**	157
Deferred tax liability	**1,224**	1,343

Other provisions

The other provisions consist of claims (whether covered by insurance or not) including employer liability claims, dilapidations and other provisions relating to the operation of our gas networks. Where amounts are material, third party valuations are performed. Any insurance proceeds are recognised as an asset when virtually certain of recovery. The majority of claims are expected to be settled within 10 years.

18 Share capital

	2021 £m	2020 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	**–**	–

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

Notes to the company financial statements continued

As at 31 March 2021

19 Capital and other commitments

	2021 £m	2020 £m
Contracts for future capital expenditure not provided in the financial statements	255	556
Letters of credit	300	300
	555	856

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

	2021 £m	2020 £m
Less than one year	7	10
In two-five years	7	10
More than five years	5	8
	19	28

20 Related Parties

The following material transactions are with a subsidiary of the company which is not wholly owned by Quadgas Holdings TopCo Limited and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 102.

	2021 £m	2020 £m
Income:		
Goods and services supplied to other related parties	–	15
	–	15
Expenditure:		
Services rendered from associates	10	10
Services rendered from other related parties	–	42
	10	52
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable from associates	2	–
Amounts payable to associates	–	1

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

No amounts have been provided at 31 March 2021 (2020: Nil) and no expense has been recognised during the year in respect of bad or doubtful debts from the above related party transaction.

Details of key management compensation are provided in note 7 to the consolidated financial statements.

21 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 23 of the consolidated financial statements) represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

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

(c) Guarantees and letters of credit

Fellow subsidiaries have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of bonds, guarantees or letters of credit.

22 Subsequent events

On 14 April 2021, Cadent Gas Limited repaid £300m of its existing syndicated term loan using available cash and committed bank facilities.

To ensure we have the right organisation to deliver our commitments under RIIO-2, Cadent announced on 19 April 2021 proposals to restructure the current organisational design. The programme is subject to employee consultation with the period of consultation concluding on 4th July 2021. Whilst the cost of this programme cannot be determined with certainty until the finalisation of individuals into roles, managements best estimate is £11m.

23 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas MidCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, United Kingdom, CV7 8PE.

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

Glossary

Term	Definition
Annual report	the company's annual report and accounts for the year ended 31 March 2020
articles	the articles of association of the company
AWS	Affordable Warmth Solutions
BAME communities	Black, Asian and minority ethnic communities
BEIS	Department for Business, Energy and Industrial Strategy
bioSNG	bio-substitute natural gas
Board	Board of Directors of Cadent Gas Limited
Cadent or company	Cadent Gas Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Chair	Chairman of a Board Committee
Chairman	Chairman of the Board
CISBOT	A cast iron pipe-repair robot that seals the joints in natural gas pipelines from the inside
Complaints	The algorithm is driven from % day 1 closures, % day 31 closures, repeated complaints and ombudsman complaints received. Read more on Page 161 – https://www.ofgem.gov.uk/system/files/docs/2018/04/riio-gd1_gas_distribution_rigs_version_5.0.pdf
COP26	26th UN Climate Change Conference of the Parties
CNG	Compressed Natural Gas
Consumer	A person who purchases goods and services for personal use
CO Crew	A schools' programme for Key Stage 2 children to educate them on the dangers of carbon monoxide poisoning
CSAT	Customer satisfaction
Customer	In the Strategic report and Governance sections when we refer to customer, we are referring to our consumers, suppliers and shipper. Within the Financial statements when we refer to customer, we are referring only to our direct customers
DB	Defined Benefit
DC	Defined Contribution
DEFRA	The Department for Environment, Food and Rural Affairs
Directors	the Directors of Cadent Gas Limited
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation, and Exceptional items
EIB	European Investment Bank
EIC	Energy Innovation Centre
ESG	Environmental, Social, and Governance (ESG) – three central factors in measuring the sustainability and societal impact of an investment in a company or business
FRC	Financial Reporting Council
Gigawatt	A gigawatt is a unit of energy equal to a billion watts. There are 1,000 gigawatts in a terawatt
GRESB	GRESB (Global Real Estate Sustainability Benchmark) assesses and benchmarks Environmental, Social and Governance (ESG) performance
Group	The Group comprises Cadent Gas Limited, Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited
GSCoC	Global Supplier Code of Conduct
GSOP	Guaranteed Standards of Performance
HMRC	Her Majesty's Revenue and Customs
HSE	Health and Safety Executive
HyDeploy	A project to inject a blend of natural gas and hydrogen into the network at Keele University
HyNet	A conceptual study to introduce hydrogen into the gas network in an industrial part of Manchester and Liverpool
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
LGBTQ+	Lesbian, gay, bisexual, transgender and queer or questioning
LTIP	Long-Term Incentive Plan

Term	Definition
Microsoft Power BI	Unify data from sources to create interactive, immersive dashboards and reports that provide actionable insights
National Gas Emergency Service	0800 111 999 a free emergency number that anyone can call if they smell gas or suspect carbon monoxide
NED	Non-Executive Director
NGN	Northern Gas Network
NGUKPS	National Grid UK Pension Scheme
NIA	Network Innovation Allowance
NIC	Network Innovation Competition
Ofgem	Office of Gas and Electricity Markets
P&L	Profit & Loss
PC&S	Pressure Control & Storage
PE pipes	Polyethylene pipes
PSR	The Priority Services Register is a service provided by energy suppliers and network operators to support customers in vulnerable situations. It provides extra support in emergencies or free services
Regulatory controllable costs	Those operating activity costs that are deemed as part of the price control allowances as being within the control of the licence holder
RAV	Regulated Asset Value
Repex	Replacement Expenditure
RIIO	Ofgem's regulatory framework (Revenue = Incentives + Innovation + Outputs)
RIIO Stakeholder Incentive Submission	A report made as part of Ofgem's Stakeholder Engagement Incentive Scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses
RIIO-1	The RIIO-1 price control sets out the outputs that the Gas Distribution Networks ('GDNs') need to deliver for their consumers, and the associated revenues they are allowed to collect, for the eight year period from 1 April 2013 until 31 March 2021
RIIO-2	RIIO-2 will be the next price control for Cadent and the other three network companies, who own and operate the gas distribution networks in Great Britain. This will be the second price control period using the RIIO framework and will start in April 2021
RPI	Retail Price Index
Safety Seymour	A schools' programme for Key Stage 1 children to educate them on the dangers of carbon monoxide poisoning
Scope 1	All Direct Emissions from owned or controlled sources
Scope 2	Indirect Emissions from the generation of purchased electricity, steam, heating and cooling
Scope 3	All Other Indirect Emissions that occur in a Cadent's value chain
SEND	Special Educational Needs and Disability
SGN	The gas distribution company that covers Scotland and a section of southern England including parts of Devon, Milton Keynes and South London
SHES	Safety, Health, Environment and Security
SID	Sufficiently Independent Director
SND	Shareholder Nominated Director
Stakeholder Engagement Incentive Scheme	Ofgem's scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses
STEM	Science, Technology, Engineering and Mathematics
STIP	Short-Term Incentive Plan
Supply Chain Sustainability School	The School is a collaboration between clients, contractors and first tier suppliers who want to build the skills of their supply chains
TUPE	Transfer of Undertakings (Protection of Employment) regulations
TWh	Terawatt hours, a measure of energy use
UK GAAP	United Kingdom Generally Accepted Accounting Practice
USPP	US Private Placement
Wates Principles	The six Wates Corporate Governance Principles for large private companies
WWU	Wales & West Utilities
2006 Act	The Companies Act 2006

Cadent
Your Gas Network

Cadent
Ashbrook Court
Prologis Park
Central Boulevard
Coventry
CV7 8PE

www.cadentgas.com