Supplementary Prospectus dated 28 August 2020

Cadent

Your Gas Network

CADENT FINANCE PLC
(formerly National Grid Gas Finance plc
incorporated with limited liability in England and Wales under registered number 5895068)
(Legal Entity Identifier: 5493005M8TJ0J6IMUF67*)*
£6,000,000,000
Euro Medium Term Note Programme
unconditionally and irrevocably guaranteed by
CADENT GAS LIMITED
(formerly National Grid Gas Distribution Limited
incorporated with limited liability in England and Wales under registered number 10080864)
(Legal Entity Identifier: 549300KCZ04E6ZUCZ288)

This supplement (the "**Supplement**") to the prospectus dated 16 December 2019 (the "**Prospectus**") (which comprises a base prospectus) constitutes a supplementary prospectus for the purposes of Article 23 of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") and is prepared in connection with the £6,000,000,000 Euro Medium Term Note Programme for the issuance of guaranteed bonds (the "**Programme**") established by Cadent Finance plc (the "**Issuer**") and unconditionally and irrevocably guaranteed by Cadent Gas Limited ("**Cadent**").This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus subsequently issued by the Issuer.

This Supplement also operates as a supplement to the listing particulars dated 16 December 2019 ("**Listing Particulars**") for the purposes of LR 4.4.1 of the Listing Rules of the Financial Conduct Authority ("**FCA**") and section 81 of the Financial Services and Markets Act 2000 in relation to the PSM Instruments as defined in the Listing Particulars. For the purpose of any PSM instruments issued under the Programme, this document does not constitute a supplemental prospectus within the meaning of Article 23 of the Prospectus Regulation. This Supplement is supplemental to, and should be read in conjunction with, the Listing Particulars and any other supplements to the Listing Particulars subsequently issued by the Issuer.

The purpose of this Supplement is:

(I) to incorporate by reference the audited consolidated financial statements of the Issuer and Guarantor for the financial year ended 31 March 2020, together with an audit report thereon. The Issuer and Guarantor, being the persons responsible for the audited consolidated financial information included in the financial results, approve such financial information;

(II) to add an additional risk factor to disclose risks associated with the financial implications of COVID-19 on the gas industry and Cadent;

(III) to supplement disclosure on page 102 to 104 under the sub-section entitled "*Political and other Developments*" in the section entitled "*Description of the Guarantor*"; and

(IV) to supplement the disclosure on pages 99 to 101 under the sub-section entitled "*Progress in relation to RIIO-GD2*" in the section entitled "*Description of the Guarantor*",

each as described further below. Unless otherwise defined in this Supplement, terms defined in the Prospectus have the same meaning when used in this Supplement.

The Issuer and Cadent accept responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuer and Cadent the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

(I) Financial Results

The Issuer and Guarantor have prepared their audited consolidated financial statements for the year ended 31 March 2020, together with an audit report thereon. A copy of such financial results has been filed with the FCA and, by virtue of this Supplement, those financial results are incorporated in, and form part of, the Prospectus. These financial results have been properly prepared on the basis stated and the basis of accounting is consistent with the accounting policies of the Issuer and the Guarantor. Copies of all documents incorporated by reference in the Prospectus can be obtained from the Cadent Gas headquarters at Ashbrook Court, Central Boulevard, Coventry, United Kingdom CV7 8PE and from the specified offices of the Paying Agents for the time being, as described in the Prospectus.

(II) Financial Implications of COVID-19 – additional risk factor

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel corona virus disease, COVID-19, a global pandemic. At the date of this Supplement Cadent is not aware of the full extent of the outbreak, or the impact, if any, on each of its operations but has taken, and continues to take, preparations and precautions to address the potential impact of the disease on its workforce and customers and will continuously monitor the situation to ensure those preparations and precautions are regularly updated as necessary having regard to national scientific and health advice.

Cadent will be communicating with customers and proactively liaising with regulators but delays to non-critical activities have the potential to increase risk of customer dissatisfaction, reputational damage and regulatory penalties and/or regulatory enforcement. A prolonged pandemic could result in national and international supply chain shortages for key materials, with their consequential impact on operational service and construction work.

The policies of the UK Government, including in relation to support for businesses, are being updated on a daily basis and it is not clear what the full financial and market impact on Cadent associated with COVID-19 will be, but risks include reduction in cash flow and increase in bad debt due to consumer and businesses economic uncertainty, retail market uncertainty and supply chain uncertainty.

COVID-19, or any other severe communicable disease, could therefore cause a significant interruption to the supply of services and could limit Cadent's ability to respond to a major interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that Cadent operates its business, result in additional operating costs (including liability to customers), or loss of revenue, each of which could have a material adverse impact on the business, financial condition or operational performance of Cadent and could have a prejudicial impact on Cadent's reputation.

On 2 June 2020 Ofgem published an open letter addressed to the gas distribution networks, including Cadent amongst others. The open letter is available at https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_0.pdf and amongst other things details a scheme whereby the Gas Distribution Networks, including Cadent, will offer an extended credit period to eligible shippers through a modification to the Uniform Network Code (the multi-party regulatory contract between gas transporters and gas shippers setting the normal commercial terms applicable to payment of invoices) (the "**Scheme**"). Under the Scheme, eligible shippers will be able to defer up to 75% of their monthly invoice amount in July, August and September 2020 (capped at £1m per shipper, per Cadent network) and repayments will be due in instalments before March 2021. It has been further agreed that Cadent's total capped amount of liquidity extends to a maximum of £50m. Ofgem propose to treat any interest accrued, net of the cost of capital, by distribution network companies as revenue under the price control. In July 2020 (being the first month of the Scheme) the uptake by shippers represented approximately 22% of the maximum monthly amount which meant that approximately £3.7m was deferred by shippers. In August 2020, the uptake by shippers represented approximately 12% of the maximum monthly amount which meant that approximately £2.8m was deferred by shippers. As at the date of this Supplement Cadent expects a similar level of uptake in September 2020.

(Please see for further information the supplementary disclosure "Description of the Guarantor – Gas Shipper extended credit COVID-19")

A fall in demand, delayed payment, including as a result of the Scheme, payment holidays, or non-payment of bills and charges or disruption to the receipt of bills by customers may have a material impact on net cash flow from operating activities and materially adversely impact Cadent's operations, business and ability to comply its liquidity and/or cover ratios.

Whilst the precise impact of the ongoing COVID-19 crisis is impossible to predict with a high degree of certainty, Cadent continue to assess the impact on its operations and finances and continues to monitor the rapidly changing situation. Although Cadent is seeking to mitigate the expected negative impact of this risk and to reduce the likelihood of its occurrence by engaging openly and constructively with Ofgem, legislators, officials and other policy makers (where applicable and practical) there remains a risk that adverse future intervention by Ofgem and/or the UK Government or changes in governmental policy may not allow the Cadent to generate sufficient revenues to enable it to meet its respective payment obligations under the Instruments or comply with the terms and conditions of the Instruments.

(III) Gas Shipper extended credit in COVID-19 – supplementary disclosure

On 2 June 2020 Ofgem published an open letter addressed to the gas distribution networks, including Cadent amongst others. The open letter (which is available at https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_0.pdf):

- sets out what support is available for energy shippers and suppliers, including Cadent's direct customers which are gas shippers, who are facing cash flow challenges as a result of COVID-19, with the aim of: (i) ensuring energy consumers are offered the support and service they need, (ii) minimising disruption for consumers and other market participants that could arise should companies exit the energy market in a disorderly way over the next few months; (iii) mitigating the risk to consumers of a material decline in competition arising from the potential exit of otherwise efficient suppliers; and (iv) whilst doing so in a way that is financially viable for gas distribution network companies such as Cadent; and

- details a scheme whereby the Gas Distribution Networks, including Cadent, will offer an extended credit period to eligible shippers through a modification to the Uniform Network Code (the multi-party regulatory contract between gas transporters and gas shippers setting the normal commercial terms applicable to payment of invoices) (the "**Scheme**").

The Scheme is designed so as not to threaten a distribution network's ability to comply with its financial covenants and credit metrics and can be withdrawn by a given network company if at any time any entity in that distribution network company's group would breach any of its financial covenants if it continued to support the Scheme. Ofgem would expect suppliers and shippers to only access the Scheme as a last resort.

Under the Scheme, eligible shippers will be able to defer up to 75% of their monthly invoice amount in July, August and September 2020 (capped at £1m per shipper, per Cadent network) and repayments will be due in instalments before March 2021. It has been further agreed that Cadent's total capped amount of liquidity extends to a maximum of £50m. Ofgem propose to treat any interest accrued, net of the cost of capital, by distribution network companies as revenue under the price control. In July 2020 (being the first month of the Scheme) the uptake by shippers represented approximately 22% of the maximum monthly amount which meant that approximately £3.7m was deferred by shippers. In August 2020, the uptake by shippers represented approximately 12% of the maximum monthly amount which meant that approximately £2.8m was deferred by shippers. As at the date of this Supplement Cadent expects a similar level of uptake in September 2020, the final month of the Scheme*.*

(IV) Progress in relation to RIIO-GD2 – supplementary disclosure

On 9 July 2020 Ofgem published its draft determinations which commenced an 8 week consultation process as between Cadent and Ofgem which is designated to end on 4 September 2020. The draft determinations are available at htps://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_cadent_annex_0.pdf. In the draft determination Ofgem provides an initial a view on Cadent's business plan (as submitted on 9 December 2019). Ofgem, in providing such an initial view has indicated that the determinations provided in the draft determination are not final and that Ofgem expects variation between the draft determinations and the final determinations to be published by Ofgem at a later date (provisionally December 2020).

Publication of the draft determinations by Ofgem, being made amidst the COVID-19 global pandemic coupled with the UK gas industry and UK Government's focus on green recovery has provided Ofgem opportunity to set out how it is they intend to support Net Zero (the UK's net zero emissions target by 2050) and green recovery through the gas distribution network price controls. The draft determination demonstrates a focus by Ofgem on efficiency (including financing and cost) to 'create headroom' to enable Net Zero to be affordable for consumers. The headlines that Ofgem set out include:

- £25bn investment for a greener fairer energy system;

- 15,500 km of Iron pipes replaced with safer plastic;

- £.3bn saved as return on equity set at 3.95% CPH;

- £30m funding to support customers in vulnerable situations>£10bn potential further funding for future green energy projects to help hit net zero emissions; and

- £20 fall in network charges on bills from 2021.

The draft determinations are clear that Ofgem considers all gas distribution networks to be financeable on the basis of the notional capital structure, taking account of the allowed cost recovery and allowed returns set out in the draft determinations. Ofgem also sets out in the draft determinations that it considers that credit quality is, on balance, consistent with 2 notches above the minimum investment grade' or Baa1. The position set out in the draft determinations on costs, revenue, returns and outputs remains provisional and Cadent will be responding on all areas to ensure a fair outcome.

Changes from the RIIO-GD1 price control that are known at this stage in the RIIO-GD2 process and which are set out in the draft determinations, are as follows:

- Ofgem have a current working assumption for the allowed return on equity of 3.95% (CPIH, real), including a deduction of a 25 basis points to represent the working assumption for expected outperformance (the "**Expected Outperformance Assumption**"). Ofgem are consulting on the introduction of an ex-post adjustment to correct for their over estimating the Expected Outperformance Assumption which is intended by Ofgem to ensure investors earn a fair baseline equity return. This adjustment will only apply to underperformance against the Expected Outperformance Assumption;
- based on Ofgem's latest forecast, the cost of debt working assumption is 1.74 % (CPIH, real). The proposed allowance is to be based on the iBoxx utilities 10yr+ index yields over a trailing average period starting at 10 years and extending to 14 years by the end of RIIO-GD2. Added to these yields will be a 0.17 % allowance for transaction and liquidity costs which is included within the 1.74 % working assumption;
- the notional gearing working assumption is 60%;
- Ofgem's overall working assumption for the cost of capital is currently 2.63% (CPIH, real);
- the working assumption for the retention of the relative under/over performance of actual totex relative to allowances, will be approximately 50%. There will be an additional revenue adjustment mechanism if overall operational returns (RoRE) exceeds a working assumption of cost of equity +/- 3 %;
- RAV and allowed revenue will be indexed by CPIH rather than RPI; and
- Ofgem have confirmed RIIO-GD2 will be a 5-year price control.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Prospectus and/or Listing Particulars by this Supplement and (b) any other statement in or incorporated by reference in the Prospectus and/or Listing Particulars, the statements in (a) above will prevail. Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus and/or Listing Particulars has arisen or been noted, as the case may be, since the publication of the Prospectus and/or Listing Particulars.

An investor should be aware of its rights arising pursuant to Article 23 of the Prospectus Regulation.

This Supplement has been approved by the FCA, which is the United Kingdom competent authority for the purposes the Prospectus Regulation and relevant implementing measures in the United Kingdom, as a base prospectus supplement issued in compliance with the Prospectus Regulation and relevant implementing measures in the United Kingdom.

This Supplement has been approved by the FCA, which is the United Kingdom competent authority for the purposes of LR 4.1.3 of the Listing Rules for listing particulars for the professional securities market and certain other securities, as supplementary listing particulars issued in compliance with the Listing Rules.

If documents which are incorporated by reference to this Supplement themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Supplement for the purposes of the Prospectus Regulation except where such information or other documents are specifically incorporated by reference or where this Supplement is specifically defined as including such information.