Company registration number: 122596

Quadgas Holdings TopCo Limited

Annual Report and Financial Statements

For the year ended 31 March 2021

Quadgas Holdings TopCo Limited

Strategic Report

For the year ended 31 March 2021

The Directors present their Strategic Report on the Quadgas Holdings TopCo Limited Consolidated Financial Statements for the year ended 31 March 2021.

Principal activities

Quadgas Holdings TopCo Limited (the company) is a holding company which invests in gas distribution businesses.

The Group comprises Quadgas Holdings TopCo Limited, Quadgas Investments BidCo Limited, Quadgas HoldCo Limited, Quadgas PledgeCo Limited, Quadgas MidCo Limited, Quadgas Finance Plc, Cadent Services Limited, Cadent Finance Plc, Cadent Gas Limited, 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. Cadent Gas Limited is the main trading company and operates four of the eight regional gas distribution networks in Great Britain. Using the Group's network, approximately 40 gas shippers and suppliers transport gas to 11 million homes and businesses. Cadent Gas also manages the national gas emergency service free phone line, taking calls and giving safety advice on behalf of the UK gas industry.

Strategy

The Group’s strategy is to set new standards on the quality of the services we deliver to all of our customers (our consumers, suppliers and shippers), stakeholders and communities, particularly those that find themselves in vulnerable situations. We have developed a customer first approach that has an ethos of constantly maintaining availability of gas supplies to our customers by developing appropriate techniques and using innovative ways to achieve this goal. We will also push the boundaries on our role in supporting safety of customers in the home, helping alleviate fuel poverty and making our services more accessible to all types of customer.

Future developments

As the UK’s largest gas distribution network, Cadent Gas 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 to net zero. 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.

By nature of its operating business, the Group has not been significantly impacted by the ongoing COVID-19 pandemic and the Directors believe the current level of trading activity as reported in the income statement will continue in the foreseeable future with no anticipated significant movements in the statement of financial position. See page 4 for our detailed assessment.

Business environment

The Group manages the gas distribution networks to keep the gas flowing safely and reliably to help keep our 11 million customers connected, safe and warm. The Group are incentivised through Ofgem's regulatory framework called RIIO (Revenue = Incentives + Innovation + Output) to operate efficiently and deliver services that our customers and stakeholders value. These are expressed as commitments across four key outcome areas (trusted to act for our communities, tackling climate change and improving the environment, providing a quality experience to all of our customers, stakeholders and communities and delivering a resilient network to keep the energy flowing safely and reliably).

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

We have thoroughly reviewed Ofgem's Final Determination on our plan, published in December 2020 and have engaged with them very 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. 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 very 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)[1] improved customer services; and leading the way to a low carbon economy, to meet the UK's net zero targets.

[1] This represents only the 25% network costs of a total gas bill.

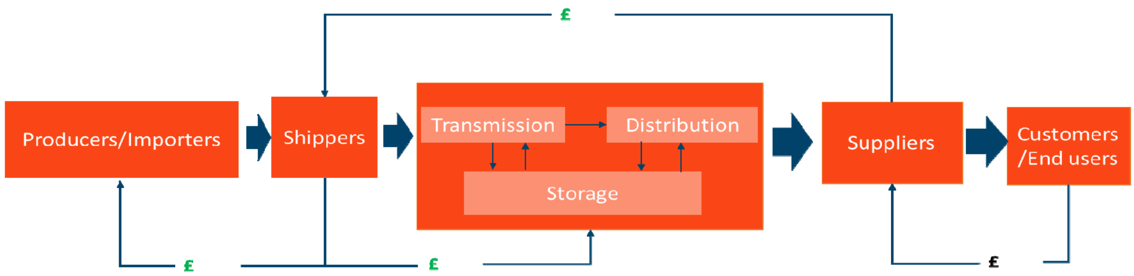
Revenue

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

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

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet our output commitments as well as the efficiency and innovation targets included in the RIIO-2 price control.

We collect our revenue by levying charges on gas shippers, who will then recover these costs from energy suppliers, who in turn recover these costs through end user energy bills. Quite often, the shipper and supplier organisations are one and the same. The chart below summarises the fund flows.



Revenue (continued)

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.

Cash flow

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

Investment

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

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

Our plan for 2021-2026

Delivering a quality experience for all our customers and stakeholders	• Reduction in time interrupted for customers in multi-occupancy buildings • Offering a suite of targeted interventions • Raising awareness of the Priority Services Register through direct conversations, partnerships and colleague training • Raising awareness of the dangers of carbon monoxide across our networks
Trusted to act for our communities	• Commit to more than 1.0% of post-tax profit invested back into our communities through our charitable foundation - c. £6m p.a • More than 10% saving per annum in customer bills in real terms (excluding inflation) • Simple, clear and comprehensive reporting against all of our customer commitments • 60% of colleagues giving back to our communities through volunteering
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 • World-class emergency response service with average arrival time of 35 mins • More than £500m cost efficiency savings for customers embedded in our Plan
Tackling climate change and improving the environment	• Target a 13-16% reduction in leakage from our network • Significant step towards carbon neutrality in our operation by 2026 • Innovation to decarbonise the North West with hydrogen • Enabling capacity for greener resources

COVID-19 Statement 2020-21

Getting through it together

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 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.

We made our depots, sites and offices COVID secure in line with Government guidelines and worked closely with Business, Energy and Industrial Strategy (BEIS) and the Health and Safety Executive (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. 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 network 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 twelve 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 11 million customers.

COVID-19 Statement - Supporting our customers and colleagues in a challenging time (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 Cadent 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, Cadent has 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 and 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 fluctuations in gas demand seen due to COVID-19, where industrial usage declined whilst 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 Cadent was 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 1 shipper who entered administration. In addition, a further shipper (not participating in the liquidity scheme) failed in January 2021 with the credit exposure of £2.0m 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.

Strategic Report (continued)

For the year ended 31 March 2021

COVID-19 Statement 2020-21 (continued)

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 with have raised £996m of new finance through the corporate bond markets for the Group as a whole. 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, the Group had undrawn credit facilities and cash totalling £1,523m (2020: £993m) made up of available Revolving Credit Facilities of £650m (2020: £630m), investments in short-term money funds of £828m (2020: 332m) and cash of £45m (2020: £31m). This cash was used to repay £300m of Cadent Gas Limited'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 Cadent's 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 (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 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.

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.

COVID-19 Statement 2020-21 (continued)

Going concern (continued)
The COVID-19 pandemic has driven significant changes in the macro-economic environment and has severely impacted many sectors of the economy. As a regulated business the implications for Cadent 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-safe manner within the base case business plan, using our experience from operating under COVID 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 COVID-19 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 of our 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 reasonable possible downside scenario existed wherein Quadgas MidCo Limited 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 the going concern basis.

Consolidated Results

Income Statement

Revenue

Revenue was £2,074m (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 periods. 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

Operating profit was £843m (2020: £637m) 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. Details of the impact of COVID-19 and our response can be found on page 4.

Exceptional items and remeasurements

Exceptional costs of £10m (2020: £280m) 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. Cadent Gas announced on 19 April 2021 proposals to restructure the current organisational design. The programme is subject to employee consultation with the period of consultation running to 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.

During the year, management completed the annual impairment test required for the goodwill and indefinite life intangibles that it holds on its balance sheet. The impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. The impairment review was completed following receipt of the Ofgem Final Determination, the acceptance of Cadent's appeal to the Competition and Markets Authority ("CMA") and our internal business planning processes. These are all considered in light of their potential impact on goodwill valuation. The impacts of COVID-19 have also been incorporated into the assumptions applied in the impairment test.

This calculation indicated that the recoverable amount was higher than the carrying amount and therefore no impairment charge (2020: charge of £227m) was recognised.

Remeasurement gains of £3m (2020: loss of £14m) have been recognised within finance costs in relation to the remeasurement of derivatives. This is due to changes in the mark-to-market values of index-linked swaps, which have been affected by inflation and interest rate assumptions.

Net finance costs
Net finance costs before remeasurements of £238m (2020: £309m) were driven by interest on external debt funding. There were net £3m (2020: £14m costs) remeasurement gains arising from the changes in fair value of derivative financial instruments during the year.

Taxation
Our effective rate of corporation tax for the year, before exceptional items and remeasurements, is 18.8% (2020: 20.9%). After exceptional items and remeasurements the effective rate increases to 18.9% (2020: 104.1%). There was an exceptional deferred tax charge of £213m in the prior year following the change to the UK corporation tax rate.

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 £635m 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.

Statement of Financial Position

The consolidated statement of financial position sets out all the Group's assets and liabilities at the period end. It is dominated by the value of our physical assets and the corresponding borrowings that fund our capital investment programmes.

Capital Investment
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. Increased investment from the previous year was driven by the ramping up of our major capital works programmes including the HS2 diversions activity.

Cash flow and net debt
Borrowings (both current and non-current) at 31 March 2021 were £10,585m (2020: £9,905m) mainly comprising fixed rate and index-linked debt.

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

Cash flow and net debt (continued)

In readiness for RIIO-2 we have worked to improve the resilience of our debt portfolio; ensuring that our financing strategy was 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 625m bond, to invest in the evolution of the gas distribution network. On 14 April 2021 Cadent Gas Limited repaid £300m of its existing syndicated term loan using available cash and committed bank facilities, reducing our refinancing risk exposure in 2024. 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. We also issued 4 series of private placement notes on a deferred draw basis, with maturities at 10, 12 and 15 years, and a total notional value of c.£460m. The first settlement of the notes occurred in 21 January 2021, with notional value of £100m and the remaining c.£360m was settled on 10 March 2021.

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

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 £1,294m, £44m 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 on the purchase of PPE and intangible activities has increased by £191m.

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 £828m (2020: £332m). 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 £700m. As at 31 March 2021 £50m of the total £700m had been drawn down. Included within cash of £45m 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.

Liquidity (continued)

We also maintain Bond programmes through Cadent Finance Plc and Quadgas Finance Plc, subsidiaries of the Group, 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.

Intangible assets

Goodwill of £1,713m (2020: £1,713m) has remained unchanged from the prior year. During the year, management completed the annual impairment test required for the goodwill and indefinite life intangibles that it holds on its balance sheet. The impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. The impairment review was completed following receipt of the Ofgem Final Determination, the acceptance of Cadent's appeal to the Competition and Markets Authority ("CMA") and our internal business planning processes. These are all considered in light of their potential impact on goodwill valuation. The impacts of COVID-19 have also been incorporated into the assumptions applied in the impairment test.

This calculation indicated that the recoverable amount was higher than the carrying amount with a limited amount of headroom, and therefore no impairment charge (2020: charge of £227m) was recognised. Key assumptions made by management in the calculation are described in detail in note 12, with sensitivity analysis performed in note 29.

The Group also holds a balance of £2,143m (2020: £2,143m) relating to the gas distribution licence and £103m relation to software (2020: £90m).

Pensions

The Group operates 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 has resulted in a decrease in the discount rate, and an increase in the inflation assumptions used in valuing Cadent's 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 (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 Cadent Gas Pension Scheme, resulting in a decrease of £31m to the liability which was more than offset by the changes above.

Impact of new accounting standards
There have been no new standards or revisions to existing standards which have had a significant or material impact on the 2020/21 accounts.

Performance summary
We believe that transparent disclosure of performance against our targets is essential. The KPIs reported are reviewed regularly by the Cadent Gas Limited Executive Committee and the Safety, Health, Environment and Security (SHES) Committee, who are accountable for environmental policy and performance. Some of our measures have been imposed by our regulator and are marked accordingly.

Risk and Compliance Process Overview
The Board is committed to protecting and developing our reputation and business interests. It has overall responsibility for risk management within the business and has refreshed the risk appetite, in January 2021, for the company and reviews the risk profile at least annually.

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

Executive Committee members regularly review their risks to assess their current status, progress of mitigation plans and to identify emerging or developing risks. The Executive Committee reviews the Group'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 and 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. An independent reporting line directly to the Audit and Risk Committee to ensure that the Internal Audit Team can provide an expert, independent and objective opinion on the current state of controls to the Audit and 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 'failure to comply with legal and regulatory compliance risk'.

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.

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 climate change risks are managed in line with Cadent's 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) such as 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.

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.

Financial risk management
The management of the Group and the execution of the Group's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Group's material financial risks, including liquidity, credit, interest rate and market risks including foreign currency risks together with pandemics, as a result of the continuing COVID-19 issues. These risks are monitored through a Group Treasury management function ("Treasury") which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Quadgas Holdings TopCo Limited and its subsidiaries.

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. The 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.

Financial Risk Management (continued)

Liquidity risk

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

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 £828m, following receipt of debt proceeds issued at the end of the year. 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 at 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.

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

Credit risk

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

Significant changes in the economy or in the utilities sector could result in losses not necessarily provided for at the statement of financial position date. There are only 40 principal Shippers (customers) that we trade with. The creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal customers (e.g. default of a gas shipper) could have a significant impact on the business in terms of disruption to revenue recovery, the exposure to such credit losses would be mitigated in most cases by the protection given by the Uniform Network Code (the industry governance contract). The Code requires customers to provide security for their transportation services, requires them to pay monthly and links to a supplier of last resort process which ensures a defaulting shipper’s customers are reallocated to another shipper who picks up forward liabilities. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the business’s management therefore closely monitors credit risk and adherence to this process.

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk, inflation risk and exchange risk in relation to debt issued in foreign currency. The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new hedging instruments entered into. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Director of Treasury, Corporate Finance & Planning for Cadent Gas Limited, under delegated authority from the Board.

Financial Risk Management (continued)

Market risk (continued)

The Group has no significant transactional foreign exchange, equity or commodity exposure. The Group has exposure to interest rate risk and inflation risk and this is explained in the sections below. The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

The Group has limited direct exposure to the impacts of Brexit, however we recognise the potential macroeconomic impacts which are addressed through our financial risk management. We have not faced significant supply chain disruptions and continue to engage with our suppliers to closely monitor their delivery performance. We initially took a prudent approach and increased our stock levels to preserve the delivery of operational activities, however we are now in a managed return to previous levels. Other risks will continue to be reviewed as more information becomes available, but analysis carried out to date did not reveal a wider material risk in relation to Brexit for our business. Although the risk remains subject to monitoring, the overall potential risk to the business is considered to be low and has therefore not been included as a principal risk.

The ongoing risks of COVID-19 are being monitored through our crisis management framework 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.

Principal risks and uncertainties

Climate change and biodiversity

Climate change is a substantial existential risk and opportunity for many organisations which plays out in 3 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.

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.

Climate change and biodiversity (continued)

Risk management:

• We have a unique role to play in the de-carbonisation of the UK's heat and transport systems. Our 'Future Role 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 and use of gas powered HGV vehicles.

Changes in the external policy landscape

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.

Risk management:

• 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.

Legal and regulatory compliance

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.

Risk management:

• We have structured our business around the delivery of our regulatory outputs. Dedicated operational teams are in place to focus on the delivery of our standards of service, delivery of our mains replacement programme and upgrading our network assets.

• Detailed outputs were set at the beginning of the RIIO price control and these are carefully monitored through a governance framework which includes weekly issues calls and monthly customer performance reviews to ensure that emerging risks and issues are escalated and managed in a timely manner.

• There is a strong compliance culture. This is reflected in our values of 'courage' and 'commitment'. To sustain this culture, all employees are trained in our ethical guide, 'Always Doing the Right Thing' and suppliers are expected to sign up to our supplier code of conduct. This is also supported by a strong 'tone from the top' and internal communication programme.

Legal and regulatory compliance (continued)

Risk management: (continued)

• 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 and Risk Committee and Board.

• We have a horizon scanning forum to identify, and ensure we prepare, for 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.

Cyber breach or critical system failure

Due to the nature of our business, we rely on technological systems to support our operational delivery. We recognise that our 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.

Risk management:

• Critical processes and systems are understood and security controls 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 Group's business resilience.

• We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with Business, Energy and Industrial Strategy (BEIS) and the 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 critical national infrastructure must comply with.

Effectively managing assets and maintaining network reliability

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 or financial penalties.

Effectively managing assets and maintaining network reliability (continued)

Risk management (continued):

• We have an asset management framework in place that is independently accredited to ISO55001 standard.

• We have engineering and asset management teams in place to manage the framework and ensure good quality asset decisions and investments are made.

• The framework is supported by decision support tools to aid complex decision making and ensure resilience is maintained.

• Engineering policies and procedures are in place to ensure that assets are appropriately operated and maintained.

• A replacement programme is in place and agreed with our regulators to ensure that ageing assets are replaced.

• In the event of asset failure, insurance is in place to compensate for damage arising.

• We have well-practiced crisis management response procedures in place.

Health, safety, environment and security

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 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.

Risk management:

• 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 are supported by robust incident investigation and review processes.

• We have long-term, risk based investment and replacement programmes to ensure that we maintain a safe and efficient network.

• Our dedicated Security and Property teams monitor developing security threats, provide visible deterrents at our keys sites and ensure that appropriate personal security advice is provided to colleagues.

• We have well practiced crisis management response procedures in place.

• To support continual improvement across the industry there are structures in place for cross-industry sharing of good practice and learning.

Protecting consumers' interests

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.

Protecting consumers' interests (continued)

Risk Management:
• 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 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.

Resilience (Including Pandemic risk)
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, Cadent has to be prepared for pandemic outbreaks.

This risk has crystallised in the current COVID-19 outbreak which is specifically addressed in our COVID-19 statement on page 4.

Risk management:
• 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 rapidly implementable '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 work force 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.

Resilience (Including Pandemic risk) (continued)

Risk management: (continued)

• 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.

• 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

The people who work for us are essential and provide critical skills 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.

Risk management:

• 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 performance of 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 Contract Management Partners to monitor the availability of skilled teams to undertake our mains replacement work and have targeted recruitment programmes where required.

• Our dedicated Supply Chain Team work closely with our partners and 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 strategic 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.

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

M W Braithwaite

Director
14 July 2021

Quadgas Holdings TopCo Limited

Directors' Report

For the year ended 31 March 2021

The Directors present their Report and the audited financial statements of the Group for the year ended 31 March 2021.

Principal activities and business review
A full description of the Group's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 1 to 20, which are incorporated by reference into this report.

Directors
The Directors of the company during the year and up to the date of signing of the financial statements were:

M W Braithwaite
A Al-Ansari
N J Axam
E Fidler
H C Higgins
D A Karnik
J Korpancova
M Mathieson
H Su
D J Xie
S Fennell
P D Noble
J Bao (Resigned 26 May 2021)
E Howell (Resigned 6 April 2020)
H N M De Run (Appointed 6 April 2020)
M Wang (Appointed 26 May 2021)

Future developments
Details of future developments have been included within the Strategic Report on page 1.

Dividends
Our dividend policy is to balance the distribution of available surplus funds to shareholders but after having the forward committed cash requirements of the business to support our investment programmes and importantly managing the appropriate level of gearing. During the year we paid dividends totalling £110m (2020: £272m).

Political donations and political expenditure
The Group did not make any political donations or political expenditure during the current year (2020: £Nil).

Research and development
Expenditure on research and development for the Group was £10m during the current year (2020: £7m).

Directors' indemnity
Quadgas TopCo Holdings Limited has arranged, in accordance with the Companies (Jersey) Law 1991 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, Quadgas TopCo Holdings Limited places Directors' and Officers' liability insurance for each Director.

Directors' Report (continued)

For the year ended 31 March 2021

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 20. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in this Strategic Report on pages 1 to 20. In addition, note 29 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas. As a consequence, the Directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook and challenging RIIO-2 framework.

The statement of financial position shows net assets of £4,051m at 31 March 2021 (2020: £4,090m). The profit for the financial year is £493m (2020: £13m loss). The operating company for the Group, Cadent Gas Limited, continues to trade and operate as a going concern and as at 31 March 2021 was in a net asset position of £2,367m (2020: £2,153m) with reported profit for the financial year of £630m (2020: £482m). See Cadent Gas Limited Annual report and accounts for further details.

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 6.

Capital structure

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt.

100% of the share capital in Quadgas HoldCo Limited is owned by the Group. Funds were raised by issuing 199,254,061,925 shares with par value £0.01 at a discount of £370,580,925 in order to purchase the remaining 14% share owned by National Grid. See note 24 'Share Capital' for further detail.

Control and Risk Management

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- The risk assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit and 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 and Risk Committee and the Board review the draft consolidated financial statements. The Audit and 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 Quadgas Holdings TopCo Limited, entered in £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.

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.

Auditor

A resolution to re-appoint Deloitte LLP as auditor of the company will be proposed at the Annual General Meeting for shareholder approval.

Employees

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

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

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

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

Environmental Policy

We are committed to delivering high standards of environmental performance, protecting and enhancing the environment, and seeking new, innovative and sustainable ways to lighten our environmental footprint and create long-term value for our customers, our people and stakeholders.

Our environmental ambition is underpinned by three primary commitments:
- 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.

Directors' Report (continued)

For the year ended 31 March 2021

Environmental Policy (continued)

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

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.

The table below quantifies the Groups business carbon footprint in tonnes of CO_2 equivalent :

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

Scope 1 and 2 (Direct emissions)	**Current reporting year 2020-2021**	**Comparison reporting year 2019-2020**
Gas usage from buildings /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 greyfleet /tCO_2e Scope 1	19,684.00	19,841.00
Purchased electricity for own use /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	800.72	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	278.00
Emissions from production and delivery of purchased PE pipe /tCO_2e	17,777.00	20,039.00
Contractor vehicles /tCO_2e Mains Replacement contractor fuel use	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 Scope 1 (including shrinkage and leakage, 2, 3 emissions	1,684,181.58	1,780,936.56
Intensity metric: Total emissions /tCO_2e per £m turnover	812.05	16.30
Intensity metric: Total emissions /tCO_2e per km of network length	811.65	842.05
Intensity metric: Total emissions /tCO_2e per GWh throughput	6.37	6.54

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 greenhouse gas (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.

Quadgas Holdings TopCo Limited

Directors' Report (continued)

For the year ended 31 March 2021

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 year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable IFRSs as adopted by the IASB have been followed for the Group 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 (Jersey) Law 1991 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' Report was approved by the Board and signed on its behalf by:

M W Braithwaite
Director
14 July 2021

Registered office:
3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD
Registered in Jersey
Company registration number: 122596

Independent auditor's report to the members of Quadgas Holdings TopCo Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Quadgas Holdings TopCo Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the European Union;
- the group's financial statements have been properly prepared in accordance with the requirements of the Companies (Jersey) Law, 1991.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 34 to the consolidated financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as issued by the European Union.

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 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 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.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and in-house legal counsel about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies (Jersey) Law, 1991, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including significant component audit teams and relevant internal specialists such as tax, valuations, pensions, IT and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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;

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

- 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-houselegal 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, reviewing internal audit reports and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies (Jersey) Law, 1991

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 (Jersey) Law, 1991 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
- 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 Article 113A of the Companies (Jersey) Law, 1991. 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

Quadgas Holdings TopCo Limited

Consolidated income statement

For the year ended 31 March 2021

	Notes	**2021 £m**	**2021 £m**	2020 £m	2020 £m
Revenue	4		**2,074**		2,115
Operating costs	5		**(1,221)**		(1,198)
Operating profit					
Before exceptional items	5	**853**		917	
Exceptional items	6	**(10)**		(280)	
Total operating profit	5		**843**		637
Finance income	9		**22**		18
Finance costs					
Before exceptional items and remeasurements	9	**(260)**		(327)	
Exceptional items and remeasurements	6/9	**3**		(14)	
Total interest payable and similar charges			**(257)**		(341)
Profit before tax					
Before exceptional items and remeasurements		**615**		608	
Exceptional items and remeasurements	6	**(7)**		(294)	
Total profit before tax			**608**		314
Tax					
Before exceptional items and remeasurements	10	**(116)**		(127)	
Exceptional items and remeasurements	10	**1**		(200)	
Total tax			**(115)**		(327)
Profit/(loss) after tax					
Before exceptional items and remeasurements		**499**		481	
Exceptional items and remeasurements		**(6)**		(494)	
Profit/(loss) for the year			**493**		(13)

The results reported above relate to continuing activities.

The notes on pages 36 to 102 are an integral part of the financial statements

Quadgas Holdings TopCo Limited

Consolidated statement of comprehensive income

For the year ended 31 March 2021

	Notes	**2021 £m**	2020 £m
Profit/(loss) for the year		**493**	(13)
Other comprehensive income:			
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		**(9)**	(17)
Net losses in respect of cost of hedging reserve		**(5)**	(4)
Amortisation of cost of hedging reserve		**6**	5
Tax on net losses in respect of cash flow hedges	10	**1**	3
Total items that may be reclassified subsequently to profit or loss		**(7)**	(13)
Other comprehensive (loss)/income for the year, net of tax		**(422)**	117
Total comprehensive income for the year		**71**	104

The notes on pages 36 to 102 are an integral part of the financial statements.

The results reported above relate to continuing activities.

Quadgas Holdings TopCo Limited

Consolidated statement of financial position

As at 31 March 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	12	**3,959**	3,946
Property, plant and equipment	13	**12,036**	11,444
Pension and other post-retirement benefit assets	27	**426**	917
Trade and other receivables	16	**2**	21
Derivative financial assets	17	**-**	44
Total non-current assets		**16,423**	16,372
Current assets			
Inventories	15	**12**	10
Trade and other receivables	16	**217**	240
Current asset investments	18	**828**	332
Cash and cash equivalents		**45**	31
Total current assets		**1,102**	613
Total assets		**17,525**	16,985
Current liabilities			
Trade and other payables	19	**(579)**	(596)
Borrowings	21	**(358)**	(139)
Lease liabilities	22	**(6)**	(9)
Provisions	23	**(12)**	(16)
Total current liabilities		**(955)**	(760)
Net current assets/(liabilities)		**147**	(147)
Total assets less current liabilities		**16,570**	16,225
Non-current liabilities			
Derivative financial liabilities	17	**(120)**	(73)
Borrowings	21	**(10,227)**	(9,766)
Lease liabilities	22	**(16)**	(18)
Deferred tax liabilities	10	**(2,072)**	(2,179)
Provisions	23	**(76)**	(87)
Accruals and deferred income	20	**(8)**	(12)
Total non-current liabilities		**(12,519)**	(12,135)
Total liabilities		**(13,474)**	(12,895)
Net assets		**4,051**	4,090
Equity			
Share capital	24	**4,739**	4,739
Cash flow hedge deficit		**(14)**	(6)
Cost of hedging reserve		**1**	-
Retained earnings		**(675)**	(643)
Total equity		**4,051**	4,090

The notes on pages 36 to 102 are an integral part of the financial statements.

The consolidated financial statements on pages 31 to 102 were authorised and approved for issue by the Board of Directors on 14 July 2021 and were signed on its behalf by:

M W Braithwaite
Director
Quadgas Holdings TopCo Limited
Company registration number: 122596

Quadgas Holdings TopCo Limited

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	Retained earnings £m	Total £m
At 1 April 2020	**4,739**	**(6)**	**-**	**(643)**	**4,090**
Profit for the year	**-**	**-**	**-**	**493**	**493**
Other comprehensive loss excluding amortisation of cost of hedging reserve	**-**	**(8)**	**(5)**	**(415)**	**(428)**
Amortisation of cost of hedging reserve	**-**	**-**	**6**	**-**	**6**
Total comprehensive income/(loss) for the year	**-**	**(8)**	**1**	**78**	**71**
Equity dividends (note 11)	**-**	**-**	**-**	**(110)**	**(110)**
At 31 March 2021	**4,739**	**(14)**	**1**	**(675)**	**4,051**

	Share capital £m	Cash flow hedge deficit £m	Cost of hedging reserve £m	Retained earnings £m	Total £m
At 1 April 2019	3,117	8	(1)	(488)	2,636
Loss for the year	-	-	-	(13)	(13)
Other comprehensive income/(loss) excluding amortisation of cost of hedging reserve	-	(14)	(4)	130	112
Amortisation of cost of hedging reserve	-	-	5	-	5
Total comprehensive income/(loss) for the year	-	(14)	1	117	104
Issue of share capital (note 24)	1,622	-	-	-	1,622
Equity dividends (note 11)	-	-	-	(272)	(272)
At 31 March 2020	4,739	(6)	-	(643)	4,090

The cash flow hedge reserve in relation to the cross-currency interest rate swap contracts will be recycled to the income statement over the life of the hedged items.

The notes on pages 36 to 102 are an integral part of the financial statements.

Quadgas Holdings TopCo Limited

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		**843**	637
Adjustments for:			
Exceptional items	6	**10**	280
Depreciation, amortisation and impairment	12/13	**422**	390
Increase in inventories	15	**(2)**	-
Decrease in trade and other receivables		**54**	-
Increase in trade and other payables		**20**	43
Capital contribution income		**(125)**	(106)
Changes in provisions		**(14)**	9
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		**1,294**	1,250
Tax paid	10	**(123)**	(176)
Net cash inflow from operating activities		**1,171**	1,074
Cash flows from investing activities			
Acquisition of interest in subsidiary		**-**	(1,622)
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		**(496)**	7
Net cash flow used in investing activities		**(1,541)**	(2,468)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	1622
Proceeds received from loans		**997**	1,665
Repayment of loans		**(240)**	(1,367)
Repayment of lease liabilities		**(8)**	(7)
Interest paid		**(252)**	(232)
Dividends paid to shareholders		**(110)**	(272)
Net cash flow from/(used in) financing activities		**387**	1,409
Net increase in cash and cash equivalents		**17**	15
Net cash and cash equivalents at the start of the period		**23**	8
Net cash and cash equivalents at the end of the period		**40**	23
Comprising:			
Cash[1]		**45**	31
Overdraft		**(5)**	(8)
		40	23

[1] Cash of £45m 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

Quadgas Holdings TopCo Limited is a private company limited by shares and is incorporated and domiciled in Jersey. The address of its registered office is Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey JE1 1AD.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out as below. These policies have been consistently applied to the current period presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the Group have been prepared on the going concern basis 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 of 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 6), 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 by 2050 will impact how our network can be used in the future. 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 2050 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2021

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Consolidated financial statements

The consolidated financial statements of Quadgas Holdings TopCo Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC interpretations issues and effective and ratified by the European Union as at 31 March 2020 and the Companies (Jersey) Law 1991.

(ii) Company only financial statements

The company has elected to take the exemption under Article 105 (11) of the Companies (Jersey) Law 1991 from preparing separate accounts for the company only as consolidated accounts for the company are prepared. The members of the company have not passed a resolution requiring separate accounts and, in the Directors' opinion, the company meets the definition of a holding company.

(b) Basis of consolidation

The consolidated financial statements include the results of Quadgas Holdings TopCo Limited and its subsidiaries 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.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

Cadent Gas Limited 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 Quadgas HoldCo Limited Group.

(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).

1 Summary of significant accounting policies (continued)

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 noted below.

Interest rate benchmark reform (phase 1 & 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 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

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.

The Group currently has 6 instruments with direct exposure to LIBOR. The below table summarises their position.

Instrument	Nominal Amount (£m)	Exposure (£m)	Maturity	Details
RCF (Cadent Gas)	500	-	Jul-24	The Group currently does not have exposure under this RCF line, but it will need to be amended for future use.
EIB Loan + Swap Agreement	400	400	Mar-27	The Group's 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.
Term loan	300	300	Jul-24	Cadent Gas Limited, an indirect subsidiary of Quadgas TopCo Limited, was fully drawn on this term loan at 31 March 2021, 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.
RCF (Quadgas MidCo)	200	50	Jul-24	The Group was £50m drawn under this short-term RCF at 31 March 2021. This facility will be amended for future use.
DSR Liquidity Facility	120	-	Jul-24	The Group currently does not have exposure under this facility, but it will need to be amended for future use.
USPP	77	77	Mar-37	This is a long term capital markets PP that will be amended to include SONIA provisions.

1 Summary of significant accounting policies (continued)

(c) New IFRS accounting standards and interpretations (continued)

Interest rate benchmark reform (phase 1 & phase 2) (continued)

The Group's exposure to LIBOR linked products is relatively small when compared with its overall debt book. From the approximately £10bn of liabilities, Group exposure to LIBOR linked products in its debt book is approximately £827m (c.8%), with all of its 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; goodwill, which represents the excess of what was paid to acquire businesses over the fair value of their net assets at the acquisition date; and the gas distribution Licence, which allows the operation of the four gas distribution networks.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets, other than goodwill and those assets with indefinite useful lives (the gas distribution Licence), are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Goodwill is recognised as an asset and is not amortised as it has been deemed that it has an indefinite life, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

1 Summary of significant accounting policies (continued)

(d) Intangible assets (continued)

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 (other than goodwill) 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.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and earn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation. An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis with the asset being tested annually for impairment. The UK’s target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, hydrogen, or a mixture of the two and therefore an indefinite useful life remains appropriate.

Other non-current 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

1 Summary of significant accounting policies (continued)

(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 by 2050. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

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

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

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

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually 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	30-50
Motor vehicles and other equipment	Up to 10

(f) Fixed asset investments

Investments in subsidiaries and associated companies are carried at cost, less any provisions for impairment.

1 Summary of significant accounting policies (continued)

(g) Impairment of fixed assets

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

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

(h) Financial instruments

Initial recognition
Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Classification and measurement
Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:
- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); and
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:
- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit and loss (FVTPL).

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.

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Classification and measurement (continued)

Accretion on inflation linked borrowings is accounted for on an accrual basis to the income statement, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise, unless hedge accounting applies.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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)

(h) 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 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.

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

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

(i) Trade receivables and accrued income

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.

1 Summary of significant accounting policies (continued)

(j) Trade and other payables

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

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(o) Revenue.

(k) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(l) Tax

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

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

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 or loss.

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 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.

1 Summary of significant accounting policies (continued)

(l) Tax (continued)

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

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

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

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

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

Other provisions consist of provisions (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.

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

(o) Revenue
Revenue 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.

1 Summary of significant accounting policies (continued)

(o) Revenue (continued)

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).

For fees paid by customers the performance obligation is satisfied when either the new connection 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 judgement was applied for connections to determine whether the connection service was distinct from the provision of future network services. The Group 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 by 2050 will impact how our network can be used in the future, and how we generate revenue.

1 Summary of significant accounting policies (continued)

(p) Exceptional items and remeasurements

Management utilises an exceptional items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairment of non-current assets, 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 not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

(q) Pensions

The Group operates both a defined benefit (DB) and a defined contribution (DC) pension scheme.

For the DC pension scheme, the Group 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 Group'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 Group 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.

1 Summary of significant accounting policies (continued)

(r) Leases

The Group 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.

IFRS 16 has been applied for all leases (except as noted below), the Group:
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.

<u>Measurement</u>

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.

1 Summary of significant accounting policies (continued)

(r) Leases (continued)

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.

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.

1 Summary of significant accounting policies (continued)

(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.**

- 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.**

- The allocation of goodwill to cash generating units that are expected to benefit from the business combination in which goodwill arose. We have judged that the Cadent business group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Management assess the performance of Cadent business group as a single business and key decisions are currently made regarding resources at that level - **note 12.**

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:

• The impairment of intangible assets with indefinite lives requires management to calculate the value-in use for these assets. The key assumptions for the value-in-use calculation are those regarding the underlying cash flows, discount rate, regulatory weighted average cost of capital, inflation and terminal value cash flow. The value-in-use is calculated by forecasting cash flows to 2045 and applying a terminal value at that date. The UK's target to achieve net zero by 2050 will impact how our network is used in the future and management have considered the impact of this in our underlying cash flow– **note 12;**

• Determination of useful lives and carrying values of property, plant and equipment. 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 – **note 13;**

• Determination of useful lives and carrying values of intangible assets. In assessing the useful economic life of the Gas Distribution Licences granted by Ofgem, an indefinite useful economic life has been assumed due to the daily renewing basis. The UK's target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, hydrogen, or a mixture of the two and therefore an indefinite useful life remains appropriate– **note 12;**

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

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

4 Revenue

	2021	2020
	£m	£m
Revenue from distribution of gas	**1,924**	1,971
Other income	**150**	144
	2,074	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.

Analysis of revenue by major customer

	2021	2020
	£m	£m
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).

Quadgas Holdings TopCo Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2021

5 Operating profit

	2021	2020
	£m	£m
Operating profit is stated after charging:		
Depreciation and amortisation	**422**	390
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
Goodwill impairment charges (see note 12)	**-**	227
Asset management fee	**6**	4
Stamp duty land tax	**-**	8

Services provided by the company's auditor	**2021**	2020
	£'000	£'000
Audit services		
Fees payable to the Group's auditors for the audit of the financial statements	**35**	30
Fees payable for the audit of the subsidiary company financial statements	**895**	781
Other services		
Fees payable to the company's auditors for audit-related assurance services	**126**	123
Other non-audit services	**141**	181

Fees payable to the company's auditor 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:		
Goodwill impairment (i)	-	227
Separation activities (ii)	7	19
Restructuring costs (iii)	3	34
	10	280
Remeasurements included within finance costs:		
Net (gains)/losses on derivative financial instruments (iv)	(3)	14
Total included within profit before tax	7	294
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 (v)	-	213
Tax on other exceptional items and remeasurements		
Tax on separation activities	(1)	(4)
Tax on restructuring costs	(1)	(6)
Tax on remeasurements	1	(3)
	(1)	200
Total exceptional and remeasurements after tax	6	494
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	8	483
Total remeasurements after tax	(2)	11
	6	494

(i) A goodwill impairment was recognised in the prior year. This was considered exceptional in nature as it is financially material and not within the Group's control. See note 12 for details.

(ii) As a result of the acquisition of Cadent Gas Limited by the company 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.

(iii) 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.

(iv) Net gains 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.

(v) 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).

	2021	2020
Field force	**2,152**	1,690
Office and other administrative staff	**3,106**	2,248
	5,258	3,938

	2021	2020
	£m	£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 compensation

Key management comprises the Board of Directors of the company and its principle subsidiary, Cadent Gas Limited, including Executive and Non-executive Directors who have managerial responsibilities of the business.

	2021	2020
	£'000	£'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	2020
	£'000	£'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: £339,798) were due to one past Director.

Highest paid Director

The highest paid Director's emoluments for the Group were as follows:

	2021	2020
	£'000	£'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

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2021

9 Finance income and costs

	2021 £m	2020 £m
Finance income		
Pension interest income	**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	**20**	34
Other borrowings	**172**	181
Interest payable on intercompany financing	**59**	59
Derivatives	**9**	5
Unwinding of discount on Further Acquisition Agreement (i)	**-**	19
Unwinding of discount on Remaining Acquisition Agreement (i)	**-**	28
Unwinding of discounts on provisions and lease liabilities	**-**	1
Finance costs	**260**	327
Remeasurements		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Cash flow hedges	**(4)**	(1)
Derivatives not designated as hedges or ineligible for hedge accounting	**1**	15
Remeasurements included within finance costs	**(3)**	14
Finance costs	**257**	341
Net finance costs	**235**	323

i) Interest on the Remaining and Further Acquisition Agreements to purchase the remaining shares in Quadgas HoldCo Limited totalled £47m in 2020. The acquisition completed in 2020 and no further interest will be incurred.

ii) Includes a net foreign exchange gain on financing activities of £78m (2020: £36m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2021

10 Taxation

Tax charged/(credited) to the income statement

	2021	2020
	£m	£m
Tax before exceptional items and remeasurements	116	127
Exceptional tax relating to UK tax rate change (see note 6)	-	213
Tax on other exceptional items and remeasurements	(1)	(13)
Total tax expense	115	327

Taxation as a percentage of profit before tax

	2021	2020
	%	%
Before exceptional items and remeasurements	18.8	20.9
After exceptional items and remeasurements	18.9	104.1

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

	2021	2020
	£m	£m
Current tax		
UK corporation tax at 19% (2020: 19%)	124	118
UK corporation tax adjustment in respect of prior years	(1)	1
Total current tax	123	119
Deferred tax		
UK deferred tax current year	(7)	(5)
UK deferred tax arising as a result of the reversal of the expected reduction in the UK tax rate	-	213
UK deferred tax adjustment in respect of prior years	(1)	-
Total deferred tax	(8)	208
Total tax charge	115	327

Total tax (credited)/charged to other comprehensive income and equity

	2021	2020
	£m	£m
Deferred tax		
Accelerated tax depreciation	-	-
Cash flow hedges	(1)	(3)
Remeasurements of net retirement benefit obligations (i)	(98)	46
Total tax (credited)/charged to other comprehensive income and equity	(99)	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 period after exceptional items and remeasurements is lower (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2021

10 Taxation (continued)

	Before exceptional items and remeasure-ments 2021 £m	**After exceptional items and remeasure-ments 2021 £m**	Before exceptional items and remeasure-ments 2020 £m	After exceptional items and remeasure-ments 2020 £m
Profit before tax				
Before exceptional items and remeasurements	**615**	**615**	608	608
Exceptional items and remeasurements	**-**	**(7)**	-	(294)
Profit before tax	**615**	**608**	608	314
Profit before tax multiplied by UK corporation tax rate of 19% (2020: 19%)	**117**	**116**	116	60
Effect of:				
Expenses not deductible for tax purposes	**2**	**2**	12	55
Non-taxable income	**(1)**	**(1)**	(2)	(2)
Other	**(1)**	**(1)**	-	-
Deferred tax impact of change in UK tax rate	**-**	**-**	-	213
Prior year adjustments	**(1)**	**(1)**	1	1
Total tax	**116**	**115**	127	327

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 £213m.

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 £635m higher.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2021

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 and prior reporting periods:

	Accelerated Tax Depreciation £m	**Gas Distribution Licence £m**	**Pensions £m**	**Financial Instruments £m**	**Other net Temporary Differences £m**	**Total £m**
At 1 April 2020	**1,622**	**407**	**172**	**(11)**	**(11)**	**2,179**
Charged/(credited) to income statement	**(13)**	**-**	**4**	**2**	**(1)**	**(8)**
Charged/(credited) to other comprehensive income and equity	**-**	**-**	**(98)**	**(1)**	**-**	**(99)**
At 31 March 2021	**1,609**	**407**	**78**	**(10)**	**(12)**	**2,072**
Deferred tax assets at 31 March 2021	**-**	**-**	**-**	**(10)**	**(12)**	**(22)**
Deferred tax liabilities at 31 March 2021	**1,609**	**407**	**78**	**-**	**-**	**2,094**
At 31 March 2021	**1,609**	**407**	**78**	**(10)**	**(12)**	**2,072**

	Accelerated Tax Depreciation £m	Gas Distribution Licence £m	Pensions £m	Financial Instruments £m	Other net Temporary Differences £m	Total £m
At 1 April 2019	1,462	364	117	(5)	(10)	1,928
Charged/(credited) to income statement	160	43	9	(3)	(1)	208
Charged to other comprehensive income and equity	-	-	46	(3)	-	43
At 31 March 2020	1,622	407	172	(11)	(11)	2,179
Deferred tax assets at 31 March 2020	-	-	-	(11)	(11)	(22)
Deferred tax liabilities at 31 March 2020	1,622	407	172	-	-	2,201
At 31 March 2020	1,622	407	172	(11)	(11)	2,179

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 £2,072m (2020: £2,179m).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2021

11 Dividends

	2021 **£m**	2020 £m
Interim dividend of £0.000268 pence per ordinary share amounting to £136,901,635 was declared and paid on the 30 September 2019	**-**	137.0
Second interim dividend of £0.000264 per ordinary share amounting to £134,800,000 was declared on 19 March 2020 and paid on the 26 March 2020	**-**	135.0
Interim dividend of £0.000214 pence per ordinary share amounting to £109,500,000 was declared on 24 March 2021 and paid on 26 March 2021	**109.5**	-
	109.5	272.0

No further dividends are proposed for the current financial period.

12 Intangible assets

	Goodwill £m	**Licence £m**	**Software £m**	**Total £m**
Cost:				
At 1 April 2020	3,312	2,143	166	5,621
Additions	-	-	34	34
Disposals	-	-	(1)	(1)
At 31 March 2021	**3,312**	**2,143**	**199**	**5,654**
Accumulated amortisation and impairment				
At 1 April 2020	(1,599)	-	(76)	(1,675)
Amortisation charge for the year	-	-	(20)	(20)
Impairment	-	-	-	-
At 31 March 2021	**(1,599)**	**-**	**(96)**	**(1,695)**
Net book value:				
At 31 March 2021	**1,713**	**2,143**	**103**	**3,959**
At 31 March 2020	1,713	2,143	90	3,946

	Goodwill £m	Licence £m	Software £m	Total £m
Cost:				
At 1 April 2019	3,312	2,143	120	5,575
Additions	-	-	46	46
At 31 March 2020	3,312	2,143	166	5,621
Accumulated amortisation:				
At 1 April 2019	(1,372)	-	(57)	(1,429)
Amortisation charge for the year	-	-	(19)	(19)
Impairment	(227)	-	-	(227)
At 31 March 2020	(1,599)	-	(76)	(1,675)
Net book value:				
At 31 March 2020	1,713	2,143	90	3,946
At 31 March 2019	1,940	2,143	63	4,146

12 Intangible assets (continued)

On 31 March 2017, Quadgas MidCo Limited, a subsidiary of Quadgas Holdings TopCo Limited, acquired 100% of the share capital of Cadent Gas Limited including its subsidiary, Cadent Finance Plc, and 100% of the share capital of Cadent Services Limited for £7,744m, funded through intercompany loans from its parent company and external borrowings. At the time, the Group applied IFRS 3 'Business Combinations' and the acquisition was accounted for using the acquisition method with the difference between the fair value of the consideration and the fair value of the net assets acquired recognised as goodwill. As part of this purchase price allocation exercise, goodwill of £3,312m was recognised together with an intangible for the gas distribution Licence of £2,143m.

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and earn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation. An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis. The UK's target to achieve net zero by 2050 will impact how our network is used in the future. In considering the useful economic life of the Licence we have concluded that a Licence will still be required to operate the network regardless of whether it is used for natural gas, hydrogen, other green gases or a mixture and therefore an indefinite useful life remains appropriate.

Goodwill encompasses the management related portion of incentive income, an element of financial outperformance, the benefit of a clean capital structure on acquisition and the established workforce.

Goodwill is recognised as an asset and is not amortised but is tested for impairment annually or more frequently if events or circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash generating units that are expected to benefit from the business combination in which goodwill arose. The cash generating unit has been determined as the level of Cadent Gas Limited. Cadent was assessed to be a single reporting segment, since management assess the performance of Cadent as a single business and key decisions are made regarding resources at the Cadent level. This was considered to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Impairment Testing of goodwill and intangibles with an indefinite life

During the year, management completed the annual impairment test required for the goodwill and indefinite life intangibles that it holds on its balance sheet. The impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. The impairment review was completed following receipt of the Ofgem Final Determination, the acceptance of Cadent's appeal to the Competition and Markets Authority ("CMA") and our internal business planning processes. These are all considered in light of their potential impact on goodwill valuation. The impacts of COVID-19 have also been incorporated into the assumptions applied in the impairment test.

This calculation indicated that the recoverable amount was higher than the carrying amount with a limited amount of headroom, and therefore no impairment charge (2020: charge of £227m) was recognised.

The recoverable amount of the cash generating unit was determined from value-in-use calculations. The key assumptions for the value-in-use calculation are those regarding the underlying cash flows, discount rate, inflation and terminal value cash flow.

12 Intangible assets (continued)

The Group has conducted a sensitivity analysis on the impairment test and concluded that the following changes, considered in isolation, would reduce the existing headroom to nil:

•A 0.02% decrease in the CPI assumption
•A 0.08% decrease in the cost of equity assumption within the regulatory WACC
•A 0.03% increase in the pre-tax discount rate assumption
•A reduction of 0.01 in the terminal value RAV multiple assumption

Underlying cash flows

In the short-term, the differences between actual cash flows and prior projections/budgets are small due to the stable and predictable nature of the business. With 92% of our revenue formula driven, there is a high level of predictability. This predictability of the cash flows was seen in the full year performance to 31 March 2021 where, despite COVID-19, our results were broadly in line with our budget.

The total expenditure (totex) forecasts included in our impairment model are a base case and assume the investment in the network will continue to 2045 and beyond. However, the base case does not include cash flows associated with the potential to re-purpose the network for hydrogen or other fuels. In the base case we continue to assume regulatory asset depreciation of 45 years and investment is fully capitalised into the RAV. This is consistent with the assumptions used for the Ofgem Final Determinations for RIIO-2.

We have determined the regulated weighted average cost of capital (WACC) and totex allowances using Ofgem's Final Determination and our estimated assessment of the likely outcome of the CMA appeal. The regulatory cost of equity is forecast to increase to 5.6% in future price controls consistent with assumptions adopted in the prior year.

Longer term, we have continued to assume that our Repex programmes reduce in scale post-2032 following completion of the HSE mandated 30:30 replacement programme but the maintenance of the network and the service levels to customers is maintained. As noted above, we have not incorporated into the base case any investment in our network to make it hydrogen or biomethane-ready at this stage.

Discount rate

Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 5.3% (2020: 5.0%). Management estimates the discount rate using post-tax rates that reflect current market assessments of the time value of money and then converts to a pre-tax rate using an iterative calculative approach in the value-in-use methodology.

Inflation

The short-term spot RPI assumption at March 2021 of 1.5% (2020: 2.5%) is based on short term estimates that have been realised. The current view on CPI inflation is that in the year to March 2022 it will be higher than 1.4% assumed in the valuation, however, we do not consider this to be material to long-term value.

The long-term CPI assumption of 2.0% (2020: 2.0%) is consistent with the Bank of England target rate and external long run forecasts which show a range of potential outcomes between 1.6% - 2.9% by 2025. Given the range of potential outcomes, we have adopted the Bank of England target of 2.0% as our long run CPI assumption from 2023 to 2045.

12 Intangible assets (continued)

Terminal value cash flow

A terminal value cash flow is applied in 2045; the end of the forecast period. The terminal value is calculated based on a RAV forecast multiple at 2045. Management has derived a RAV multiple of 1.2x (2020: 1.2x) by reviewing external sources of information on similar transactions. There has been no change in the market to warrant a revision to this assumption.

IAS 36 states that projections based on budgets and forecasts should cover a maximum of five years whereas management have used projections out to 2045. However, management of Quadgas Holdings TopCo Limited believe, whilst there is uncertainty when moving from one price control period into the next, there is otherwise a degree of predictability to the cash flows of the assets and therefore management consider that it is appropriate to project out to 2045 before a terminal value is applied.

Climate Change continues to result in uncertainty over the future use of our assets for transporting natural gas to heat homes and power industry, and management have considered this uncertainty when performing the impairment test. We believe that the best way to keep customers warm whilst enjoying the flexibility of natural gas with minimum disruption, is to use the existing network to deliver greener gases like biomethane and hydrogen. They work just as well as natural gas but without the CO_2 emissions, in fact hydrogen produces zero emissions. The government's Green Industrial Revolution has Hydrogen as number 2 on the top 10 priorities and we have recently received £72m of funding to commence work on HyNet (HyNet will enable rapid decarbonisation of industry through the production of hydrogen and the capture and storage of CO_2). Given the information currently available, 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 bio-methane, therefore we consider it appropriate to project out to 2045 in calculating the value-in-use.

Further sensitivity and key assumptions are included in note 29.

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
At 1 April 2020	110	12,093	100	138	36	12,477
Additions	11	842	110	28	4	995
Reclassifications	32	114	(150)	4	-	-
Disposals	-	(1)	-	(1)	-	(2)
At 31 March 2021	**153**	**13,048**	**60**	**169**	**40**	**13,470**
Accumulated depreciation and impairment						
At 1 April 2020	(22)	(934)	-	(70)	(7)	(1,033)
Charge for the period	(8)	(356)	-	(29)	(9)	(402)
Disposals	-	-	-	1	-	1
At 31 March 2021	**(30)**	**(1,290)**	**-**	**(98)**	**(16)**	**(1,434)**
Net book value:						
At 31 March 2021	**123**	**11,758**	**60**	**71**	**24**	**12,036**
At 31 March 2020	88	11,159	100	68	29	11,444

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.

Included within plant and machinery cost is £1,785m (2020: £1,785m) and plant and machinery depreciation is £193m (2020: £145m) relating to fair value adjustments arising from the acquisition of Cadent Gas Limited.

The cost of property, plant and equipment at 31 March 2021 includes £1,462,000 (2020: £1,462,000) relating to interest capitalised, with £Nil (2020: £Nil) capitalised during the year.

The net book value of right-of-use assets comprises:

	2021 £m	2020 £m
Land and buildings	**15**	17
Plant and machinery	**1**	1
Motor vehicles and other equipment	**8**	11
	24	29

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2021

13 Property, plant and equipment (continued)

The net book value of land and buildings comprises:

	2021	2020
	£m	£m
Freehold	**107**	71
Long leasehold (over 50 years)	**-**	-
Short leasehold (under 50 years)	**16**	17
	123	88

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and other equipment	Right-of -use assets	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2019	89	11,348	80	124	-	11,641
Initial application of IFRS 16	-	-	-	-	26	26
Additions	6	693	93	18	5	815
Reclassifications	16	53	(73)	(1)	5	-
Disposals	(1)	(1)	-	(3)	-	(5)
At 31 March 2020	110	12,093	100	138	36	12,477
Accumulated depreciation and impairment						
At 1 April 2019	(14)	(602)	-	(48)	-	(664)
Charge for the period	(8)	(332)	-	(24)	(7)	(371)
Disposals	-	-	-	2	-	2
At 31 March 2020	(22)	(934)	-	(70)	(7)	(1,033)
Net book value:						
At 31 March 2020	88	11,159	100	68	29	11,444
At 31 March 2019	75	10,746	80	76	-	10,977

14 Investments in associates

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

	Total £m
Cost	
At 1 April 2020 & 31 March 2021	-
Provision	
At 1 April 2020 & 31 March 2021	-
Net book value:	
At 1 April 2020 & 31 March 2021	**-**

At the point of acquiring Cadent Gas Limited on 31 March 2017, the Group's investment in Xoserve Limited of £456 had been 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).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2021

16 Trade and other receivables

	2021	2020
	£m	£m
Amounts falling due within one year:		
Trade debtors	**17**	10
Other debtors	**34**	20
Prepayments	**11**	37
Accrued income	**155**	173
	217	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	2020
	£m	£m
At 1 April	**3**	3
Amounts utilised/written off in the year	**-**	-
Amounts credited 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 customer credit profiles. These segments are distinguished as follows:

• Other income: diversions receivables, damages receivables, emergencies receivables, and other receivables.
• Shipper income: capacity accrued income, commodity accrued income.

16 Trade and other receivables (continued)

Other Income

Other income included within trade debtors relates to any income stream which involves rechargeable construction work done on the network where the costs can be charged to another party. Examples include diversions income would be diversions of gas pipes, charges for damages to gas pipes, rechargeable emergency repairs.

The loss allowance of the receivable balance is calculated using the expected loss model, and is calculated using a matrix based on the number of days past due plus any specific adjustments. Specific adjustments have been made based on forward looking information specific to any counterparty or counterparty segment which would lead the Group to adjust the normal matrix based calculation.

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. Typically shippers will settle within 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 the credit exposure of £2.0m outstanding expected to be 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.

16 Trade and other receivables (continued)

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	2021 Liabilities £m	2021 Total £m
Amounts falling due within one year	**-**	**-**	**-**
Amounts falling due after more than one year	**-**	**(120)**	**(120)**
	-	**(120)**	**(120)**

	2020 Assets £m	2020 Liabilities £m	2020 Total £m
Amounts falling due within one year	-	-	-
Amounts falling due after more than one year	44	(73)	(29)
	44	(73)	(29)

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

	2021 £m	2020 £m
Cross-currency interest rate swaps	**1,922**	1,337
Inflation linked swaps	**400**	400
Foreign exchange forward currency	**3**	4
	2,325	1,741

*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	**828**	332
	828	332

19 Trade and other payables

	2021 £m	2020 £m
Trade creditors	**276**	283
Other tax and social security	**46**	59
Other creditors	**58**	56
Accruals and deferred income	**199**	198
	579	596

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 comprises fees received from customers for capital projects.

21 Borrowings

	2021 £m	2020 £m
Amounts falling due within one year		
Bank loans	**53**	75
Bank overdrafts	**5**	8
Bonds	**300**	56
	358	139
Amounts falling due after more than one year		
Bank loans	**1,225**	1,449
Bonds	**8,100**	7,415
Shareholder loan	**902**	902
	10,227	9,766

	2021 £m	2020 £m
Total borrowings are repayable as follows:		
Less than 1 year	**358**	139
In 1-2 years	**-**	242
In 2-3 years	**89**	-
In 3-4 years	**1,400**	91
In 4-5 years	**-**	1,651
More than 5 years	**8,738**	7,782
	10,585	9,905

21 Borrowings (continued)

On 19 March 2021, Cadent Finance Plc, a subsidiary of Quadgas Holdings TopCo 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.

On 06 November 2020 Quadgas Finance Plc, a subsidiary of Quadgas Holdings TopCo Limited, issued 4 series of private placement notes on a deferred draw basis, with maturities at 10, 12 and 15 years, and a total notional value of c.£460m, these notes are guaranteed by and proceeds were lent to Quadgas MidCo Limited.

On 21 January 2021, £100m was repaid under its Revolving Credit Facility using the proceeds of the first settlement of the notes, with notional value of £100m and the remaining c.£360m was settled on 10 March 2021. On 15 March and 18 March 2021, Quadgas MidCo Ltd repaid the existing syndicated term loan of £220m and the remaining £70m under its Revolving Credit Facility.

On 19 March 2021, Quadgas MidCo Ltd, a subsidiary of Quadgas Holdings TopCo Limited, disbursed £50m under its Revolving Credit Facility. 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 £10,895m (2020: £9,824m). Where market values were available, the fair value of borrowings (Level 1) was £5,294m (2020: £4,641m). Where market values were not available, the fair value of borrowings (Level 2) was £5,601m (£5,183m), calculated by discounting cash flows at prevailing interest rates. The notional amount of borrowings outstanding as at 31 March 2021 was £9,961m (2020: £9,213m), £10,282m (2020: £9,530m) including accretion.

Quadgas Holdings TopCo Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2021

21 Borrowings (continued)

Summary of Borrowings

Currency	Type	Original currency value m	Notional* £m	Rate	Maturity Date	Book value £m	Fair Value £m
Fixed Rate							
GBP	Listed		250	Fixed	22-Sep-21	246	252
EUR	Listed	750	643	Fixed	23-Sep-24	631	655
GBP	Listed		850	Fixed	22-Sep-28	852	888
GBP	Listed		700	Fixed	22-Sep-38	697	723
GBP	Listed		800	Fixed	24-Sep-46	799	824
GBP	Listed		300	Fixed	21-Mar-40	295	325
JPY	Listed	10,000	68	Fixed	19-Jul-33	65	63
GBP	Listed		100	Fixed	19-Mar-31	100	108
USD	Listed	200	151	Fixed	19-Mar-31	145	156
GBP	Listed		200	Fixed	20-Mar-34	200	217
GBP	Listed		225	Fixed	21-Mar-39	225	244
GBP	Listed		300	Fixed	10-Oct-35	298	298
EUR	Listed	500	439	Fixed	11-Mar-32	419	420
EUR	Listed	625	535	Fixed	19-Mar-30	533	530
GBP	Listed		125	Fixed	31-Mar-37	125	137
USD	Listed	50	38	Fixed	31-Oct-24	36	39
GBP	Listed		902	Fixed	29-Mar-43	902	902
GBP	Listed		149	Fixed	29-Oct-27	150	157
GBP	Listed		103	Fixed	31-Oct-29	104	109
GBP	Listed		40	Fixed	29-Oct-32	40	42
GBP	Listed		70	Fixed	30-Aug-30	70	75
GBP	Listed		225	Fixed	30-Aug-33	227	243
GBP	Listed		100	Fixed	10-Mar-31	100	103
GBP	Listed		206	Fixed	10-Mar-33	206	211
GBP	Listed		100	Fixed	21-Jan-36	100	101
USD	Listed	44	32	Fixed	10-Mar-31	32	31
EUR	Listed	22	19	Fixed	10-Mar-33	19	21
GBP	Listed		350	Fixed	17-Sep-29	355	378
			8,020			**7,971**	**8,252**
Index Linked							
GBP	Listed		148	RPI-linked	02-May-39	232	233
GBP	Listed		151	RPI-linked	10-Aug-48	265	263
GBP	Listed		151	RPI-linked	14-Aug-48	261	260
GBP	Unlisted		83	RPI-linked	02-Oct-23	90	91
GBP	Unlisted		80	RPI-linked	18-Jun-24	86	88
GBP	Unlisted		80	RPI-linked	25-Jun-24	86	88
GBP	Unlisted		81	RPI-linked	29-Apr-24	90	90
GBP	Unlisted		81	RPI-linked	30-Apr-24	87	89
GBP	Unlisted		81	RPI-linked	07-May-24	88	89
GBP	Listed		81	RPI-linked	31-Mar-42	83	81
GBP	Listed		81	RPI-linked	31-Mar-37	83	85
GBP	Listed		289	RPI-linked	31-Mar-42	287	303
GBP	Listed		43	RPI-linked	31-Mar-37	43	47
			1,430			**1,781**	**1,807**
Floating Rate							
GBP	Unlisted		400	LIBOR+	23-Mar-27	400	400
GBP	Unlisted		300	LIBOR+	11-Jul-24	301	303
GBP	Listed		77	LIBOR+	31-Mar-37	77	78
GBP	Unlisted		50	LIBOR+	20-Sep-21	50	50
			827			**828**	**831**
Overdraft			**5**			**5**	**5**
TOTAL			**10,282**			**10,585**	**10,895**

* Index-linked debt notional is the accreted value

22 Lease liabilities

a) Amounts recognised in the balance sheet

	2021	2020
	£m	£m
Current	**6**	9
Non-current	**16**	18
	22	27

	2021	**2020**
Lease liabilities are repayable as follows:	**£m**	**£m**
Year 1	**6**	9
Year 2	**4**	5
Year 3	**3**	3
Year 4	**2**	2
Year 5	**1**	1
Onwards	**6**	7
	22	27

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 1.40% for the current financial year (2020:1.60%).

At 31 March 2021 the Group had committed to leases which had not commenced. The total estimated future cash outflows for leases that had not yet commenced was £45m primarily relating to land and buildings.

In line with 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	**2020**
	£m	**£m**
Depreciation of right-of-use assets (see note 13)	**9**	**7**
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 ended 31 March 2021 was £8m (2020: £7m).

23 Provisions for liabilities

	Decommissioning £m	Environmental £m	Other £m	Total £m
At 1 April 2020	2	39	62	103
Charged to the income statement	-	3	1	4
Utilised	-	(3)	(8)	(11)
Released to the income statement	(2)	-	(6)	(8)
Unwinding of discount	-	-	-	-
At 31 March 2021	**-**	**39**	**49**	**88**

	Decommissioning £m	Environmental £m	Other £m	Total £m
Current	-	2	10	12
Non-current	-	37	39	76
At 31 March 2021	**-**	**39**	**49**	**88**

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 Group (discounted using a real rate of 1% (2020: 1.0%)). Cash flows are expected to be incurred between 2021 and 2081.

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 was £48m (2020: £51m), being the undiscounted best estimate liability having regard to these uncertainties.

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		
510,907,851,095 ordinary shares of £0.01 each	**4,739**	5,109
Discount on ordinary shares issued	**-**	(370)
	4,739	4,739

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	**17**	15
Increase/(decrease) in financial investments	**496**	(7)
Increase in borrowings & related derivatives	**(757)**	(298)
Repayment of lease liabilities	**8**	7
Settlement of FAA and RAA	**-**	1,622
Net interest paid on components of net debt	**251**	231
Change in net debt arising from cash flows	**15**	1,570
Changes in fair value of financial assets and liabilities and exchange movements	**(9)**	(24)
Other non-cash changes	**(3)**	(28)
Net interest charge on the components of net debt	**(259)**	(327)
Movement in net debt (net of related derivative financial instruments)	**(256)**	1,191
Net debt (net of related derivative financial instruments) at the start of the period	**(9,598)**	(10,789)
Net debt (net of related derivative financial instruments) at the end of the period	**(9,854)**	(9,598)

Composition of net debt:

	2021 £m	2020 £m
Cash, cash equivalents and financial investments	**873**	363
Borrowings and bank overdrafts	**(10,585)**	(9,905)
Derivatives	**(120)**	(29)
Lease liabilities	**(22)**	(27)
Total net debt	**(9,854)**	(9,598)

Quadgas Holdings TopCo Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2021

25 Net debt (continued)

Analysis of changes in net debt:

	Cash and cash equiva-lents £m	Bank overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease liabilities £m	Total £m
Cost								
At 1 April 2020	31	(8)	23	332	(9,897)	(29)	(27)	(9,598)
Cash flow	14	3	17	496	(509)	3	8	15
Fair value gains and losses and exchange movements	-	-	-	-	76	(85)	-	(9)
Interest charges	-	-	-	-	(250)	(9)	-	(259)
Other non-cash changes	-	-	-	-	-	-	(3)	(3)
At 31 March 2021	**45**	**(5)**	**40**	**828**	**(10,580)**	**(120)**	**(22)**	**(9,854)**

Balances at 31 March 2021 comprise:

Non-current assets	-	-	-	-	-	-	-	-
Current assets	45	-	45	828	-	-	-	873
Current liabilities	-	(5)	(5)	-	(353)	-	(6)	(364)
Non-current liabilities	-	-	-	-	(10,227)	(120)	(16)	(10,363)
At 31 March 2021	**45**	**(5)**	**40**	**828**	**(10,580)**	**(120)**	**(22)**	**(9,854)**

	Cash and cash equiva-lents £m	Bank overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease liabilities £m	Total £m
Cost								
At 1 April 2019	17	(9)	8	339	(11,100)	(30)	(29)	(10,812)
Cash flow	14	1	15	(7)	1,561	(6)	7	1,570
Fair value gains and losses and exchange movements	-	-	-	-	(36)	12	-	(24)
Interest charges	-	-	-	-	(322)	(5)	-	(327)
Other non-cash changes	-	-	-	-	-	-	(5)	(5)
At 31 March 2020	31	(8)	23	332	(9,897)	(29)	(27)	(9,598)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2021

25 Net debt (continued)

Balances at 31 March 2020 comprised:

	Cash and cash equiva-lents £m	Bank Overdrafts £m	Net cash and cash equiva-lents £m	Financial invest-ments £m	Borrow-ings £m	Deriva-tives £m	Lease liabilities £m	Total £m
Non-current assets	-	-	-	-	-	44	-	44
Current assets	31		31	332	-	-	-	363
Current liabilities	-	(8)	(8)	-	(131)	-	(9)	(148)
Non-current liabilities	-	-	-	-	(9,766)	(73)	(18)	(9,857)
At 31 March 2020	31	(8)	23	332	(9,897)	(29)	(27)	(9,598)

26 Capital and other commitments

	2021	2020
	£m	£m
Contracts for future capital expenditure not provided in the financial statements	**255**	556
Letters of credit	**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 Group 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 Group's DC arrangement, was established on 1 February 2019 under Master Trust. Under the standard contribution structure, the Group 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 to the Group in June 2019, the Group 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.

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 Group'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.

27 Pensions (continued)

The Group 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 March 2019**	31 March 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 Group. The assets and liabilities of Section C have now been transferred into the Cadent Gas Pension Scheme (CGPS).

Cadent Gas Pension Scheme
The Group 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.

27 Pensions (continued)

Cadent Gas Pension Scheme (continued)

The Group has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to the operating 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 operating company is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, if the Group fails to make the required contributions in relation to the Scheme, if the operating 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 operating company grants any charges over its assets other than where agreed with the trustees. In addition, the operating company will make a further payment of £100m (increased in line with RPI) into CGPS if the operating company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The Scheme ceased to allow new hires to join from 1 April 2002, with new hires since that date having the option of joining the DC arrangement.

Guaranteed minimum pension ('GMP') equalisation

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.

27 Pensions (continued)

Risks (continued)

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 has resulted in a decrease in the discount rate, and an increase in the inflation assumptions used in valuing Cadent's 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 (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 the 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

Represented by:	**2021 Total £m**	2020 Total £m
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 costs	**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

27 Pensions (continued)

Changes in the fair value of plan assets

	2021	2020
	Total	Total
	£m	£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	**2021**	**2021**	**2020**	**2020**	**2020**
	Quoted	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£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

27 Pensions (continued)

Actuarial assumptions
The Group 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.

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2021	2020
	years	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 of its main operating company, Cadent Gas Limited. 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 has 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.

The carrying amount of financial assets and loss allowance are as follows:

For the year ended 31 March 2021

	Notes	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Cash and cash equivalents		**45**	**-**	**45**
Derivative financial assets	17	**-**	**-**	**-**
Trade debtors	16	**20**	**(3)**	**16**
Accrued income	16	**156**	**(1)**	**155**
Current asset investments	18	**828**	**-**	**828**

28 Financial risk management (continued)

(a) Credit risk (continued)

For the year ended 31 March 2020

	Notes	Gross carrying amount	Loss allowance	Net carrying amount
		£m	£m	£m
Cash and cash equivalents		31	-	31
Derivative financial assets	17	44	-	44
Receivables	16	13	(3)	10
Accrued income	16	173	-	173
Current asset investments	18	332	-	332

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 Total	2020 Total
	£m	£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.

28 Financial risk management (continued)

(a) Credit risk (continued)

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 Quadgas Holdings TopCo's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Quadgas Holdings TopCo 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	Gross amounts offset	Net amount presented in statement of financial position	Financial instruments	Cash collateral received/ pledged	Net amount
At 31 March 2021	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets						
Derivatives financial instruments	-	-	-	-	-	-
Liabilities						
Derivatives financial instruments	(120)	-	(120)	-	-	(120)
Total at 31 March 2021	(120)	-	(120)	-	-	(120)

28 Financial risk management (continued)

(a) Credit risk (continued)

At 31 March 2020	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivatives financial instruments	44	-	44	-	-	44
Liabilities						
Derivatives financial instruments	(73)	-	(73)	-	-	(73)
Total at 31 March 2020	(29)	-	(29)	-	-	(29)

(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 27 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining current rating levels. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

The Group has 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.

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:

At 31 March 2021	**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**
Non-derivative financial instruments					
Borrowings	**(300)**	**-**	**(90)**	**(10,986)**	**(11,376)**
Lease Liabilities	**(6)**	**(4)**	**(3)**	**(9)**	**(22)**
Interest on payments on borrowings (i)	**(243)**	**(242)**	**(243)**	**(3,291)**	**(4,019)**
Other non-interest bearing liabilities	**(579)**	**-**	**-**	**-**	**(579)**
Derivative financial instruments					
Derivative contracts - receipts	**28**	**29**	**32**	**2,028**	**2,117**
Derivative contracts - payments	**(39)**	**(39)**	**(39)**	**(2,253)**	**(2,370)**
Total at 31 March 2021	**(1,139)**	**(256)**	**(343)**	**(14,511)**	**(16,249)**

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.

At 31 March 2020	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
Non-derivative financial instruments					
Borrowings	(70)	(250)	-	(10,033)	(10,353)
Lease Liabilities	(9)	(5)	(3)	(10)	(27)
Interest on payments on borrowings (i)	(240)	(238)	(235)	(3,390)	(4,103)
Other non-interest bearing liabilities	(596)	-	-	-	(596)
Derivative financial instruments					
Derivative contracts - receipts	26	26	26	1,525	1,603
Derivative contracts - payments	(28)	(28)	(28)	(1,624)	(1,708)
Total at 31 March 2020	(917)	(495)	(240)	(13,532)	(15,184)

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.

28 Financial risk management (continued)

(c) Interest rate risk

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

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

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 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.

During 2021, net debt was managed using derivative instruments to hedge interest rate risk as follows:

As at 31 March 2021	**Fixed rate £m**	**Floating rate £m**	**RPI £m**	**Other (i) £m**	**Total £m**
Borrowings	**(7,971)**	**(833)**	**(1,781)**	**-**	**(10,585)**
Financial investments (i)	**-**	**873**	**-**	**-**	**873**
Lease Liabilities	**-**	**-**	**-**	**(22)**	**(22)**
Pre-derivative position	**(7,971)**	**40**	**(1,781)**	**(22)**	**(9,734)**
Derivative effect	**(53)**	**400**	**(467)**	**-**	**(120)**
Net debt position (ii)	**(8,024)**	**440**	**(2,248)**	**(22)**	**(9,854)**

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:

As at 31 March 2020	Fixed rate £m	Floating rate £m	RPI £m	Other (i) £m	Total £m
Borrowings	(7,044)	(1,077)	(1,784)	-	(9,905)
Financial investments (i)	-	363	-	-	363
Lease Liabilities (i)	-	-	-	(27)	(27)
Pre-derivative position	(7,044)	(714)	(1,784)	(27)	(9,569)
Derivative effect	30	400	(459)	-	(29)
Net debt position (ii)	(7,014)	(314)	(2,243)	(27)	(9,598)

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.

28 Financial risk management (continued)

(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:

As at 31 March 2021	**Sterling £m**	**Euro £m**	**Japanese Yen £m**	**Dollar £m**	**Total £m**
Financial investments	**873**	**-**	**-**	**-**	**873**
Borrowings	**(8,705)**	**(1,602)**	**(65)**	**(213)**	**(10,585)**
Lease Liabilities	**(22)**	**-**	**-**	**-**	**(22)**
Pre-derivative position	**(7,854)**	**(1,602)**	**(65)**	**(213)**	**(9,734)**
Derivative effect	**(2,000)**	**1,602**	**65**	**213**	**(120)**
Net debt position	**(9,854)**	**-**	**-**	**-**	**(9,854)**

During 2020, derivative financial instruments were used to manage foreign currency risk as follows:

As at 31 March 2020	Sterling £m	Euro £m	Japanese Yen £m	Dollar £m	Total £m
Financial investments	363	-	-	-	363
Borrowings	(8,536)	(1,092)	(76)	(201)	(9,905)
Lease Liabilities	(27)	-	-	-	(27)
Pre-derivative position	(8,200)	(1,092)	(76)	(201)	(9,569)
Derivative effect	(1,398)	1,092	76	201	(29)
Net debt position	(9,598)	-	-	-	(9,598)

28 Financial risk management (continued)

(d) Currency risk (continued)

Effect of hedge accounting on the financial position and performance

a) The impact of hedging instruments designated in a hedge relationship as at 31 March 2021 are 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	**1,922**	**-**	**(53)**	**(83)**	Derivative financial liabilities

The impact of hedging instruments 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	1,337	44	(14)	25	Derivative financial assets Derivative financial liabilities

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28 Financial risk management (continued)

b) The impact of hedged items designated in a hedge relationship as at 31 March 2021 were as follows:

	Carrying amount of the hedged item (GBP m)					
	Assets	**Liabilities**	**Fair value changes**	**Line item in consolidated statement of financial position where hedging instrument is reported**	**Cash flow hedge deficit**	**Cost of hedging reserve**
Cash flow hedges						
Non GBP denominated debt	**-**	**(1,880)**	**78**	Borrowings	**(14)**	**1**

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)					
	Assets	Liabilities	Fair value changes	Line item in consolidated statement of financial position where hedging instrument is reported	Cash flow hedge deficit	Cost of hedging reserve
Cash flow hedges						
Non GBP denominated debt	-	(1,369)	(36)	Borrowings	(6)	-

c) The impact of the hedging relationships on the consolidated income statement and other comprehensive income.

The above hedging relationships affected the consolidated income statements for year ended March 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	**(8)**	**5**	Exceptional items and remeasurements	**(78)**	Finance costs before exceptional items and remeasurements

The above hedging relationships affected the consolidated income statements for year ended March 2020 are as follows:

	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in consolidated income statement	Line item in consolidated income statement where the hedge ineffectiveness is reported	Amount reclassified from cash flow hedge reserve to consolidated income statement	Line item in the consolidated income statement
Cash flow hedges					
Interest rate risk & FX risk	(13)	1	Exceptional items and remeasurements	36	Finance costs before exceptional items and remeasurements

28 Financial risk management (continued)

(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 main regulated operating company, Cadent Gas Limited, is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as 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 Cadent Gas Limited level 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.

As at 31 March 2021	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	**873**		**-**	**873**
Derivative financial instruments	**-**	**-**	**-**	**-**
Liabilities				
Derivative financial instruments	**-**	**(120)**	**-**	**(120)**
Total	**873**	**(120)**	**-**	**753**

As at 31 March 2020	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Fair value through profit and loss ('FVTPL') instruments	363	-	-	363
Derivative financial instruments	-	44	-	44
Liabilities				
Derivative financial instruments	-	(73)	-	(73)
Total	363	(29)	-	334

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

29 Sensitivity analysis

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

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

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

The sensitivities included in the table below all have an 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 £16m and a 10% decrease in unbilled revenue would have the equal but opposite effect, except for goodwill impairment as previous impairments cannot be reversed.

	2021		2020	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
One year average increase in useful economic lives (pre-tax)				
Depreciation charge on property, plant and equipment	**18**	**18**	16	16
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%	**4**	**4**	5	5
Environmental provision change in undiscounted cash flow of 10%	**4**	**4**	4	4
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
Goodwill impairment				
CPI decrease of 0.5%	**1,273**	**1,273**	1,207	1,207
Pre-tax discount rate increase of 0.5%	**912**	**912**	1,087	1,087
Terminal value change of 0.05 multiple	**222**	**222**	272	272
Cost of Equity within Regulatory WACC – 0.5%	**313**	**313**	386	386
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	361
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	228

29 Sensitivity analysis (continued)

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
No hedge accounting for our derivative financial instruments (post tax)	**6**	**6**	14	14
Financial risk (post-tax)				
UK RPI rate change of 0.5%	**9**	**9**	9	9
UK interest rate change of 0.5%	**3**	**3**	4	4

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 Cadent Gas Limited's UK old gas-manufacturing sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

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

(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.

31 Related Party Transactions

A related party is a company or individual who also has an interest in us. The related parties identified include fellow subsidiaries, joint ventures, associated undertakings, investments and key management personnel.

	2021	2020
	£m	£m
Income:		
Goods and services supplied to associates	**-**	-
Goods and services supplied to other related parties	**-**	15
	-	15
Expenditure:		
Services rendered from associates	**10**	10
Services rendered from other related parties	**-**	42
Corporate services received	**6**	4
Interest paid on borrowings from Consortium	**60**	55
	76	111
Dividends paid to Consortium	**110**	272
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable from associates	**2**	-
Amounts payable to associates	**-**	1
Borrowings payable to Consortium	**902**	902
Amounts payable to Consortium member	**7**	3
Amounts receivable from Consortium member	**2**	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 year 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 Quadgas Holdings TopCo Limited, entered in £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

There is no ultimate parent or controlling company as it is owed by a number of consortium members. The largest and smallest group which includes the company and for which consolidated financial statements are prepared is Quadgas Holdings TopCo Limited. Quadgas Holdings TopCo Limited is registered in Jersey.

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 Quadgas Holdings TopCo Limited Group.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Quadgas Investments BidCo Limited	100	Holding company	England and Wales
Quadgas HoldCo Limited	100*	Holding company	England and Wales
Quadgas PledgeCo Limited	100*	Holding company	England and Wales
Quadgas MidCo Limited	100*	Holding company	England and Wales
Cadent Gas Limited	100*	Gas Distribution	England and Wales
Cadent Finance Plc	100*	Provision of long-term finance	England and Wales
Cadent Services Limited	100*	Provision of services (including property management)	England and Wales
Quadgas 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

34 Subsidiary undertakings (continued)

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 holding

The registered address for all subsidiaries is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.