



Cadent

Your Gas Network

Credit investor update

Quadgas Finance plc

5-6 September 2018

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Steve Hurrell

Chief Financial Officer

Steve Hurrell was appointed as the CFO of Cadent Gas Limited in April 2017. Prior to Cadent, he served as the CFO of Airwave Solutions Limited, where he was instrumental in redirecting the focus of the business and its cost base to deliver efficiency, thereafter successfully refinancing the Group's +£2billion of debt. In addition to Airwave Solutions Limited, Steve has worked at Tube Lines Limited and Jarvis Plc.



Rob O'Malley

Head of Treasury

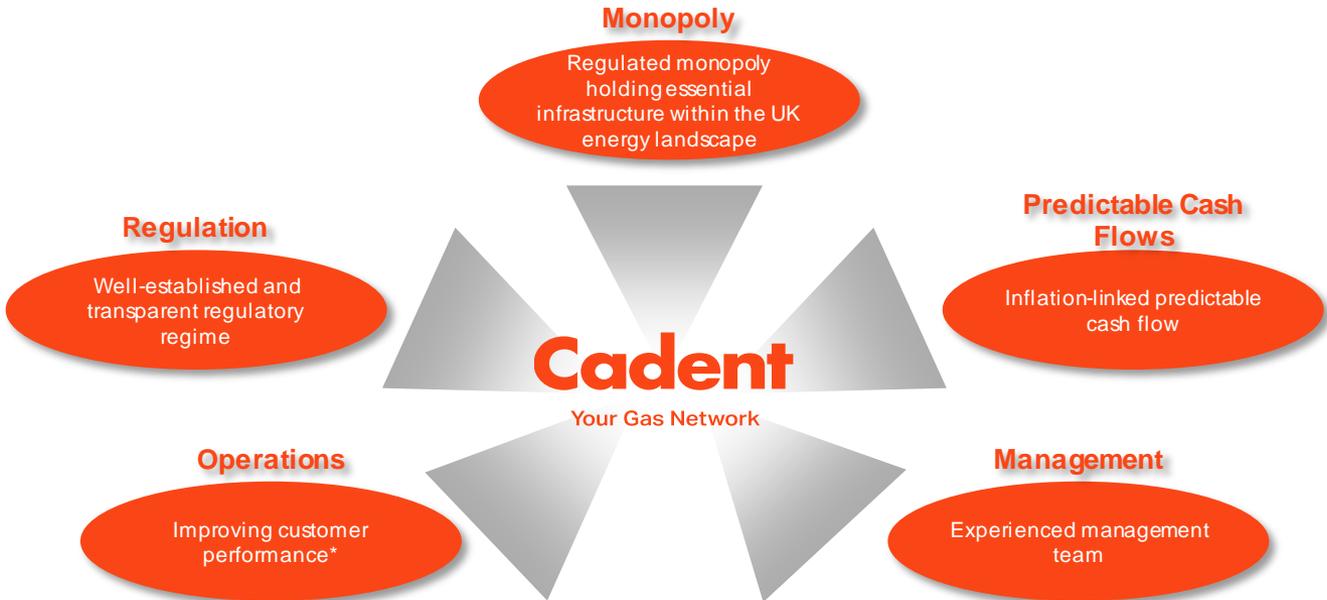
Rob joined Cadent in April 2017 following the change of ownership, as Head of Treasury, which includes responsibility for Insurance & Claims. Prior to this Rob was Head of Corporate Finance at Electricity North West where he was responsible for Treasury, Insurance, Pension Risk, Investor Relations and Regulatory Finance. Through his ten-years at ENW he led a number of financing transactions and played a leading role in developing the RIIO-ED1 business plan. In his earlier career Rob was a corporate relationship manager for NatWest.

Executive Summary

Transaction Overview

- Cadent Gas Limited (“Cadent”) formerly National Grid Gas Distribution Ltd, is the **largest distributor of gas in the UK**
- Cadent’s immediate parent company Quadgas Midco Limited (Midco or The Company”) proposes to issue senior secured notes via Quadgas Finance plc (the “Issuer”)
- Quadgas Midco Limited is rated **BBB+(sta)** by Standard & Poor’s. The debt issued by Quadgas Finance plc is rated **BBB** by Standard & Poor’s, one notch lower than Cadent Gas Limited at **BBB+(sta)**

Key Investment Highlights



*Source: Ofgem’s RIIO-GD1 annual report 2016-17 supplementary data file

Cadent Gas Headline Numbers

Largest Gas Distribution Network in UK	Revenue £1,852m	EBITDA £1,049m	Operating Profit £724m	Capital Investment £612m
Operational Performance	Network Reliability 99.996%	Emergency calls answered within 30 seconds 92%	Emergencies responded within the hour 97.8%	Mains replaced 1,625km
Financial Ratios	RAV £9.4bn	Cadent Net Debt / RAV 62%	Quadgas Net Debt / RAV 82%	Quadgas AICR 3.4x
Financing, Liquidity & Dividends	Group Committed Facilities £880m + £350m EIB signed	Quadgas Midco Refinancing raised in three private transactions* £775m	Cadent Dividends paid £418m	Quadgas Midco Dividends paid £369m

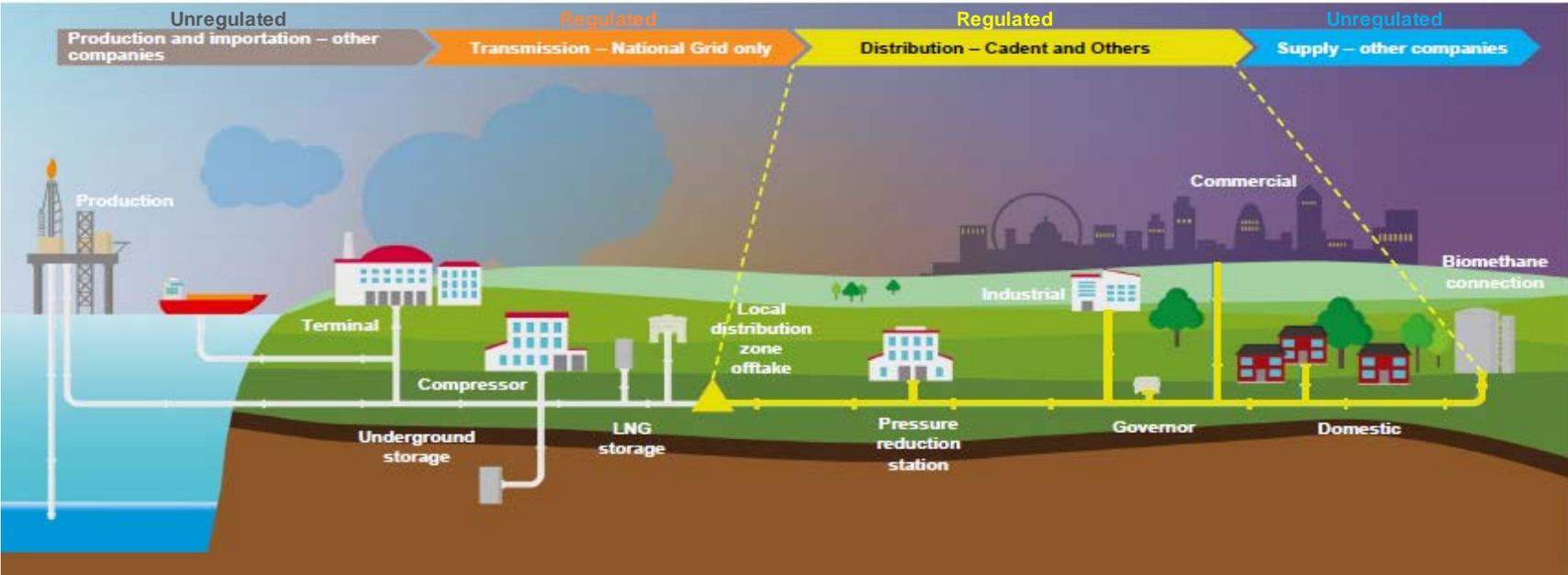
Source: Cadent Gas Limited Annual Report and Accounts 31 March 2018, Quadgas Midco Limited Report and Accounts 31 March 2018, <https://cadentgas.com/aboutus/investorrelations> Company calculations as reported in Compliance Certificates. * In the period 1 April 2017 to 30 August 2018.

1. Cadent and the UK Gas Distribution Sector



Gas in Great Britain

Gas is a **critical component of the UK's energy infrastructure**, accounting for **66% of non-transport final energy consumption***



- Following production and importation, all gas in the UK passes through National Grid's national transmission system, before entering one of the eight Gas Distribution Networks ("GDNs"). Each GDN is regulated by Ofgem
- Cadent owns and operates four of these GDNs
- Shippers pay GDN operators to transport the gas to homes and businesses
- Although GDNs are involved in the transportation of the gas, at no point in time do they own the gas they are transporting

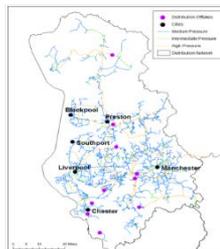
Connecting Key Regions of the UK

Cadent is the largest distributor of gas in the UK

- We supply 11 million households and businesses through 131,000 kilometres of pipe

Size and scale

- With a total regulatory asset value (“RAV”) in excess of £9.4bn as of March 2018, Cadent accounts for almost half of the industry’s asset base

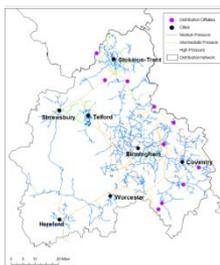
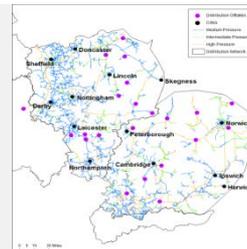


North West England

~2.7m customers
 Second largest Cadent GDN
 Accounts for 24% of RAV

East of England

~4.0m customers
 Largest of the four Cadent GDNs
 Accounts for 35% of RAV

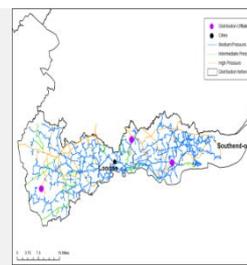


West Midlands

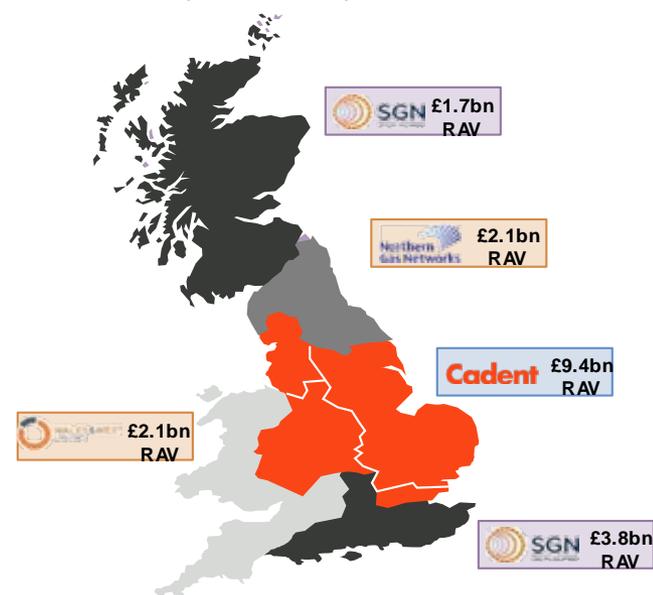
~2.0m customers
 Accounts for 18% of RAV

North London

~2.0m customers
 Accounts for 23% of RAV



Total RAV (as of March 2018): £18.4bn



Source: Ofgem

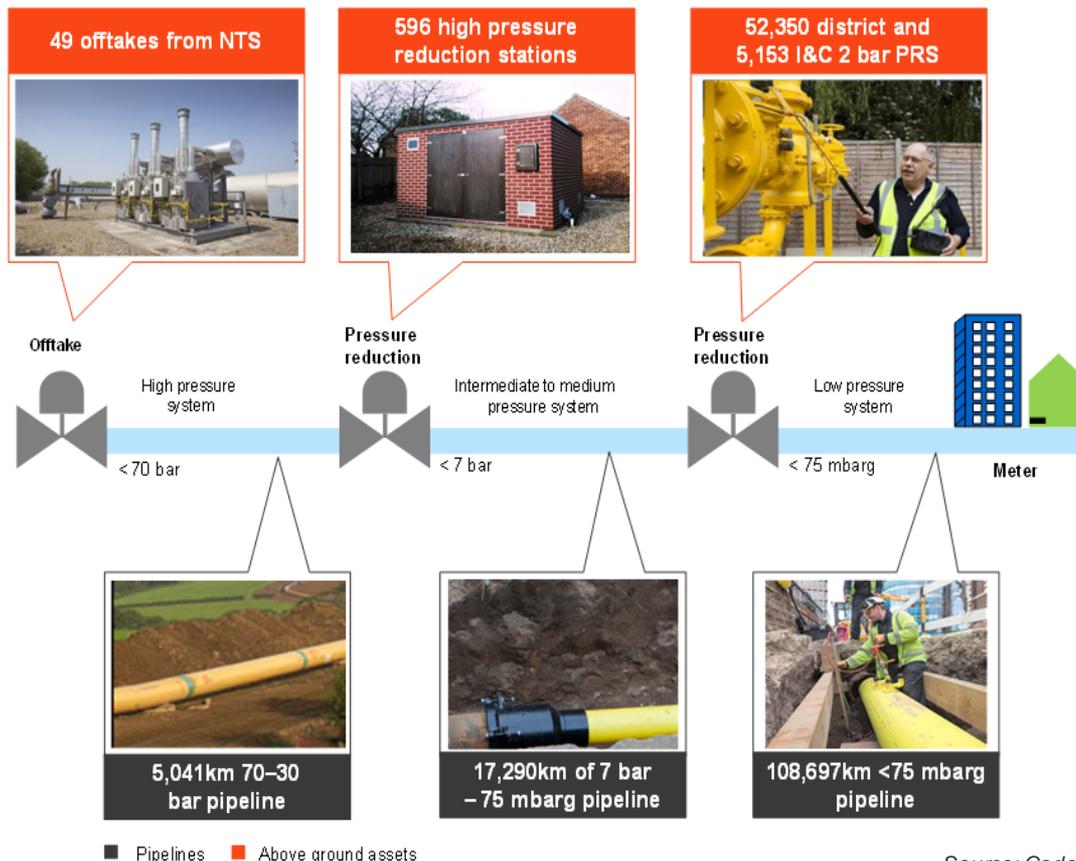
Business Overview

- The business is presently organised around three distinct end-to-end processes:
 - Operate and Maintain (O&M)** – Oversees safe transportation of gas through the distribution network, includes asset maintenance
 - Emergency Response and Repair (ER&R)** – Responds to internal and external gas escapes and potential emission of carbon monoxide from appliances
 - Replace and Extend (R&E)** – encompasses network renewals, extensions and other significant capital projects including the replacement of iron mains.

Assumed⁽¹⁾ customer base:

	% of Supply Points	% of Aggregate Capacity
Domestic	99%	67%
Commercial/Industrial	1%	33%

Overview of Network Infrastructure

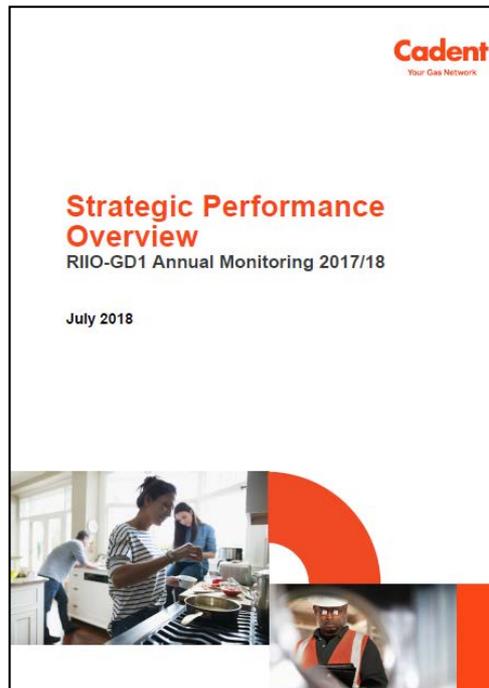


Source: Cadent

Notes: ⁽¹⁾ As Cadent's customers are Shippers and not the end consumer of the gas, the Company can only make assumptions of client usage based on load band. Cadent tends to assume supply points in the load band up to 73,200kwh per annum are residential, with higher supply points being assumed commercial / industrial

2. Business update

Our performance report for 2017/18 shows that we now only have one network below the Ofgem minimum for planned work and two for new connections, an improvement on 2016/17.



Performance Snapshot 2017/18

Output	Metric	East of England	London	North West	West Midlands
Number of customers directly connected to network	No. / Comparator	4,011,239	2,273,731	2,687,832	1,961,381
Total GDN network length all pressure tiers	km / Comparator	51,780	20,931	34,190	24,210

Network reliability		East of England	London	North West	West Midlands
Overall network reliability	% of full delivery 24/7/365 / Comparator	99.998%	99.980%	99.998%	99.998%
Maintaining Operational performance	8 year	✓	✓	✓	✓
Unplanned customer interruptions – exc. major incidents	No. of customers affected / Comparator	11,763	10,421	11,286	6,089
	% per number of total customers / Comparator	0.3%	0.5%	0.4%	0.3%
Average duration in minutes	Comparator	1055	11190	648	1378
	8 year	✓	✓	✓	✓
Interruptions - unplanned (vol)	8 year	✓	✓	✓	✓
Interruptions - unplanned (duration)	8 year	✓	✓	✓	✓
Interruptions - planned (vol)	8 year	✓	✓	✓	✓
Interruptions - planned (duration)	8 year	✓	✓	✓	✓
Number of major incidents	Number / Customers affected / Comparator	1 : 548	0 : 0	0 : 0	0 : 0

Customer satisfaction		East of England	London	North West	West Midlands
Customer satisfaction – Emergency response & repair	score out of 10 / Ofgem target (8.01)	9.44	9.05	9.38	9.29
Customer satisfaction – Planned works	score out of 10 / Ofgem target (8.04)	8.46	8.25	8.11	7.78
Customer satisfaction – Connections	score out of 10 / Ofgem target (8.09)	8.44	7.57	8.89	7.85
Complaints metric	scoring of complaints resolution / Ofgem target (below 11.57)	5.71	7.52	7.79	7.82
Stakeholder Engagement		8.0	8.0	8.0	8.0

Metric	East of England	London	North West	West Midlands
✓ Ofgem target	99.74%	99.65%	99.83%	99.80%
✓ Ofgem target	93.66%	92.15%	96.32%	92.44%
8 year	✓	✓	✓	✓

Metric	East of England	London	North West	West Midlands
o. Ofgem target	1,921	527	1,929	1,053
han target	29%	-8%	2%	2%
Annual	✓	✓	✓	✓

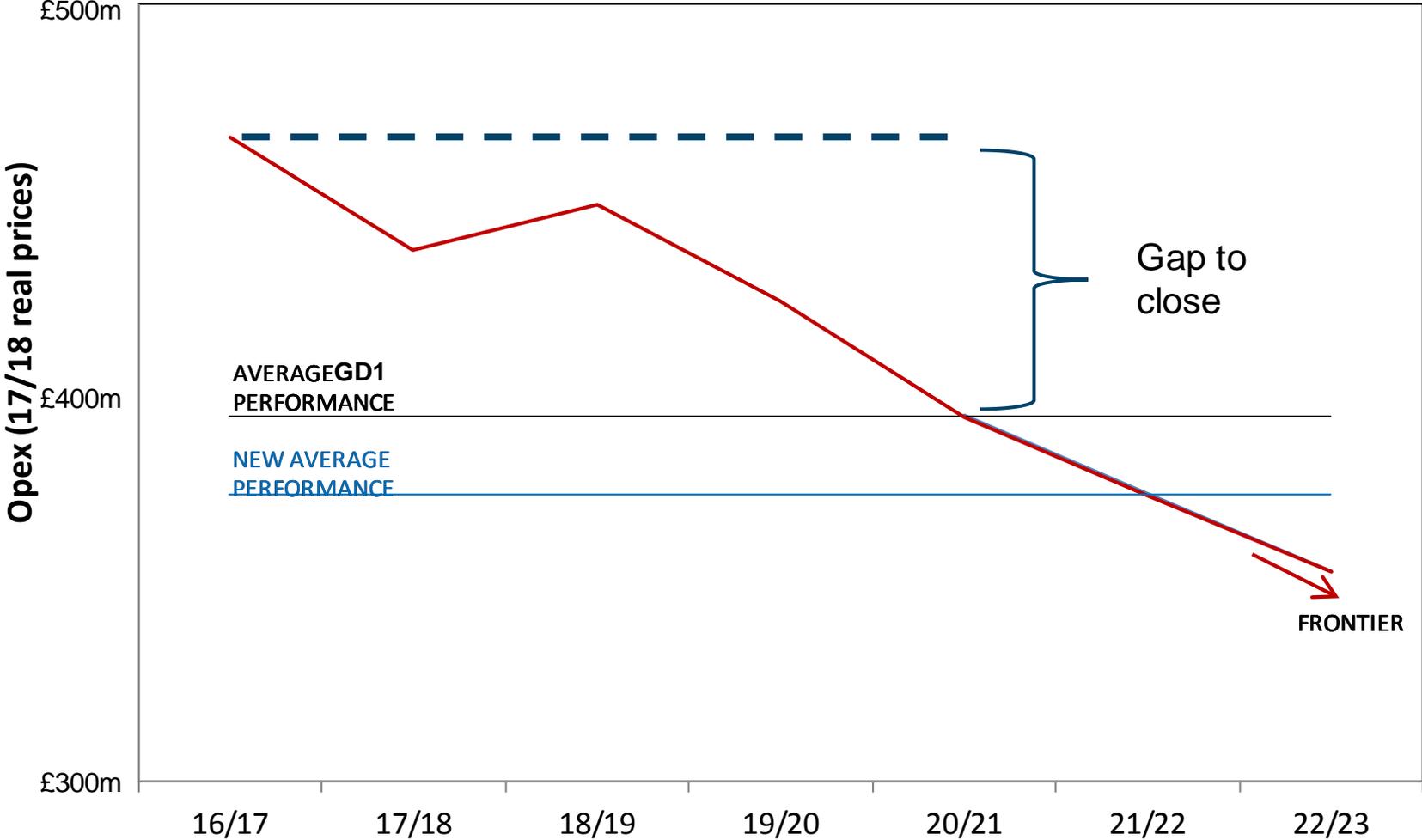
viewed	Ofgem target is 97%	97.1%	97.4%	98.0%	97.3%
viewed	Ofgem target is 97%	97.7%	97.8%	98.9%	98.2%
han target	Ofgem target	91.7%	97.5%	94.2%	92.0%
han target	Ofgem target	92.03%	92.03%	92.03%	92.03%
han target	Ofgem target	86.5%	84.3%	89.7%	73.6%
	Compliance	✓	✓	✓	✓
	Ofgem target	✓	✓	✓	✓

(/GWh)	Comparator	-4	-14	-10	-2
Intelligence %	Ofgem target	8%	7%	8%	6%
Volume (m3)	Comparator	0 : 1230	1 : 100	0 : 0	0 : 1400
Annual		✓	✓	✓	✓

Financials		East of England	London	North West	West Midlands
Totex operating costs	£m / Ofgem target	319	267	214	164
% lower Totex than allowance	% / Comparator	9%	14%	17%	18%
Other pass through costs	£m / Comparator	123	92	110	76

<https://cadentgas.com/about-us/regulation/our-performance>

Plan to close Opex gap to peer group



Operational Transformation Underway

Cadent is undergoing a programme to change the way we work to improve performance

Unclear accountability for outcomes

Cadent's existing matrix operating model has multiple hand-offs with people accountable for a only part of a process. Accountability for overall customer and asset outcomes is fragmented across several functions.

Network accountability for outcomes

Regulatory networks to be accountable for customer, performance and financial outcomes.

Decision making is remote from our customers

We have progressively centralised capability to exploit economies of scale. In many cases essential local knowledge and understanding of consequential impacts is missing from the decision making process.

More decision making at lower levels

Decisions to be made within a centrally defined framework of policies and control.

Lack of flexibility in our workforce

The segregation of work types between different workforces (within Operations and between Operations and the Gas Distribution Strategic Partnerships "GDSPs") constrains flexibility and results in inefficiency.

Holistic view at Network level with a joined up strategy

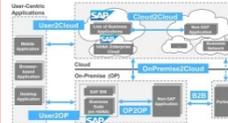
A network strategy that considers all the work required within a network and determines the best resourcing choices and flexibility.

Critical Network Infrastructure



- Deliver the separation of the Critical National Infrastructure services from NG including the Telemetry networks

Managed applications



- Transition of all applications and associated infrastructure from National Grid to Cadent

SecureWorks

aws

HCL



vodafone

verizon



Delivery partners

Networks



- Deliver the Network and Gateway Infrastructure for Cadent and separate from National Grid

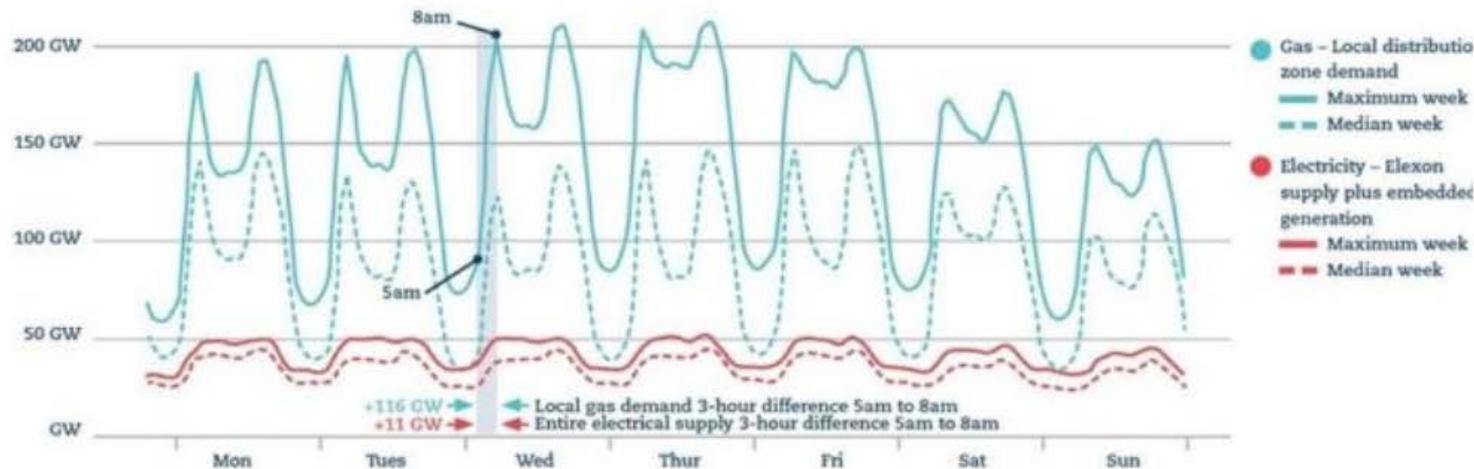
Cyber Security Operations Centre



- Security monitoring and auditing capability
- Threat and vulnerability management
- User and Entity Behavior Analytics
- Active defense & Forensics

The Heat Is On

Local gas network peak demand illustrates the resilience and capacity of the gas network and the prohibitive costs of replacing with electricity



For the first time a group of academics studied the intra-day variations in demand for gas and electricity.

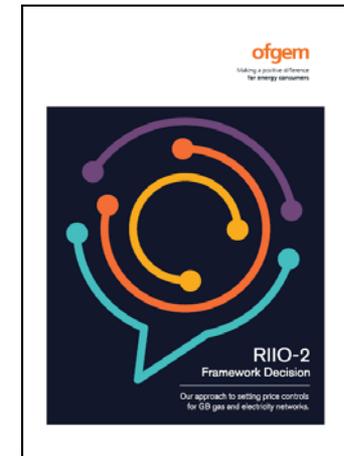
Research published by the UK Energy Research Centre sheds new light on the scale and variability of local gas demand, highlighting the particular challenge of providing energy for heating and hot water throughout the winter.

The data also highlights the formidable challenge of delivering the necessary amount of gas to get Britain up and running on winter mornings. Between the hours of 5am and 8am there is an immense increase in gas consumption – the steepest rise was recorded on Wednesday the 28th February with an increase of +116 GW. This is by no means atypical; a quarter of all days during the 2017/18, heating season measured an increase in demand of +100GW between 5am and 8am. For comparison, the peak supply of the entire electrical system over 2017/2018 heating season was 53GW, and the highest 5am to 8am increase was +16GW. In context the Hinkley Point C nuclear power plant is designed to deliver approximately 3.2GWh

UKERC: <http://www.ukerc.ac.uk/new/s/gas-consumption-during-beast-from-the-east.html>:

Hinkley Point C: <https://www.power-technology.com/projects/hinkley-point-c-nuclear-power-station/>

Whilst the Ofwat PR19 process is well advanced the Ofgem GD2 price review starts a year later in 2021 and Ofgem will not make final decisions on aspects such as the Cost of Capital until November 2020

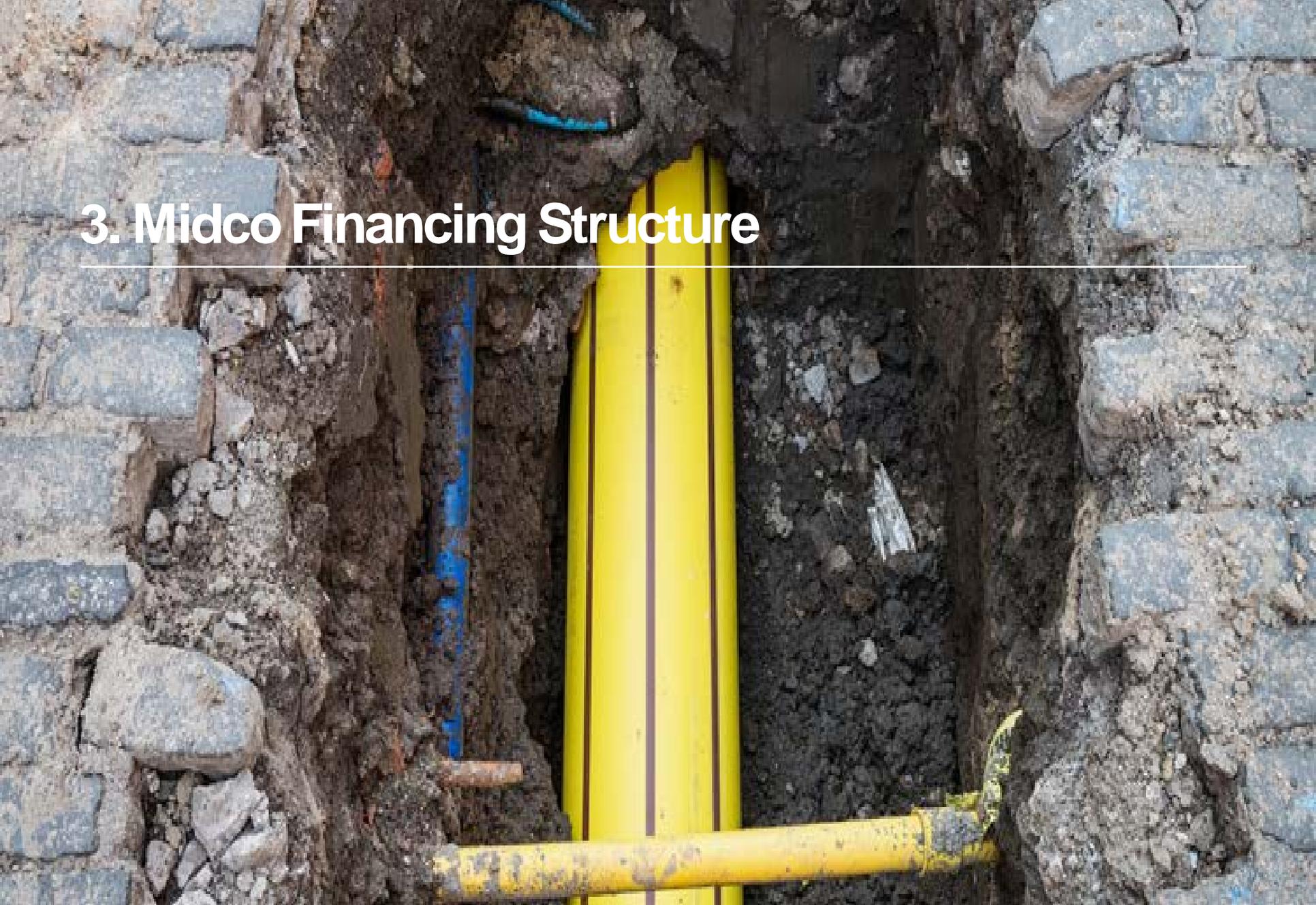


In the July 2018 Decision document Ofgem did rule out moving to Nominal based price reviews and Company specific debt allowances

Indicative high-level milestones ET, GT, GD and ESO	
March 2018	RIIO-2 framework consultation
April 2018	RIIO-2 enhanced engagement guidance
July 2018	RIIO-2 framework decision
December 2018	Sector specific methodology consultation
May 2019	Sector specific methodology decision
Q4 2019 ⁴¹	Companies Business Plan formal submission to Ofgem (along with RIIO-2 CCG and user group reports on Business Plan to Ofgem)
Q1/2 2020	Open hearings
Q2 2020	Draft determination
November 2020	Final determination
December 2020	Statutory Licence consultation
February 2021	Licence decision
1 April 2021	Start of RIIO-2 price control for ET,GT,GD and ESO

Source : Table 1 Ofgem: Framework Decision July 2018 www.ofgem.gov.uk

3. Midco Financing Structure



Credit Strengths

Business Highlights



- Stable highly regulated environment
- Predictable inflation linked cash flows
- Investment Grade capital structure
- Revenue insulated from volume and commodity risk
- Payments come from gas shippers, not the end customer – no consumer bad debt risk

Quadgas Midco Creditor Protection Structure

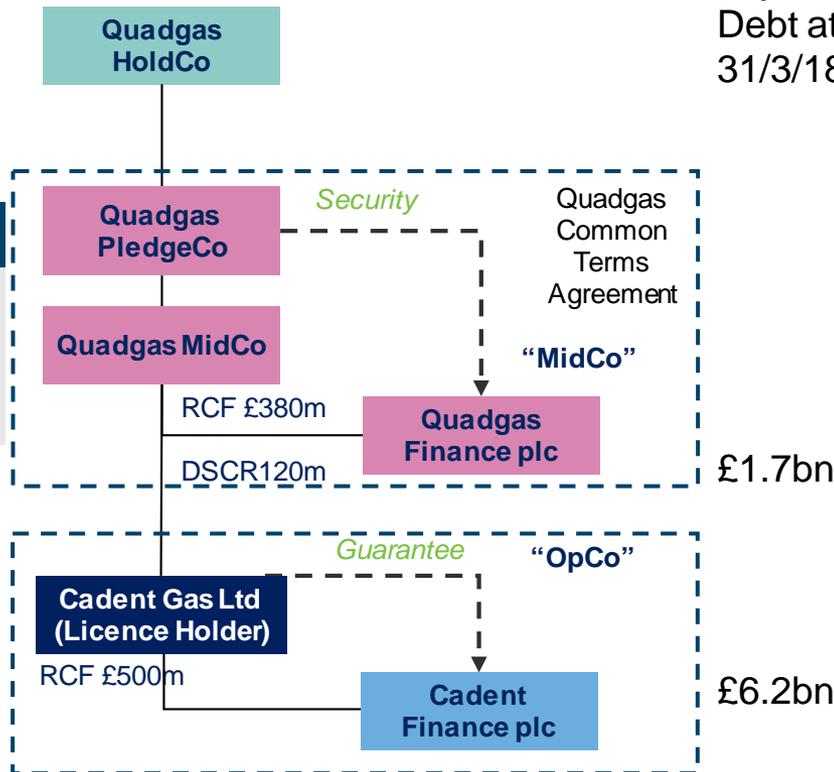
- Secured creditors of Midco and the Issuer have the benefit of a security package ✓
- Extensive suite of operational covenants ✓
- Leverage and interest cover ratio tests applying to consolidated debt ✓
- Committed liquidity support or cash coverage sized to cover 18 months' debt service at Midco ✓
- Debt maturity concentration restrictions ✓
- Requirement to maintain a minimum of 70% of debt in fixed rate or index-linked form ✓

Debt Structure at 31 March 2018

Ratio tests

Quadgas MidCo	Trigger	Default	31 Mar 18
RAR	85.5%	92%	82%
Adj. ICR	1.1x	1.0x	3.4
Cadent OpCo RAR	65%	70%	62%

Cadent Gas	Bond Programme Default	31 Mar 18
RAR	70%	62%



Adjusted Debt at 31/3/18

What is MidCo?

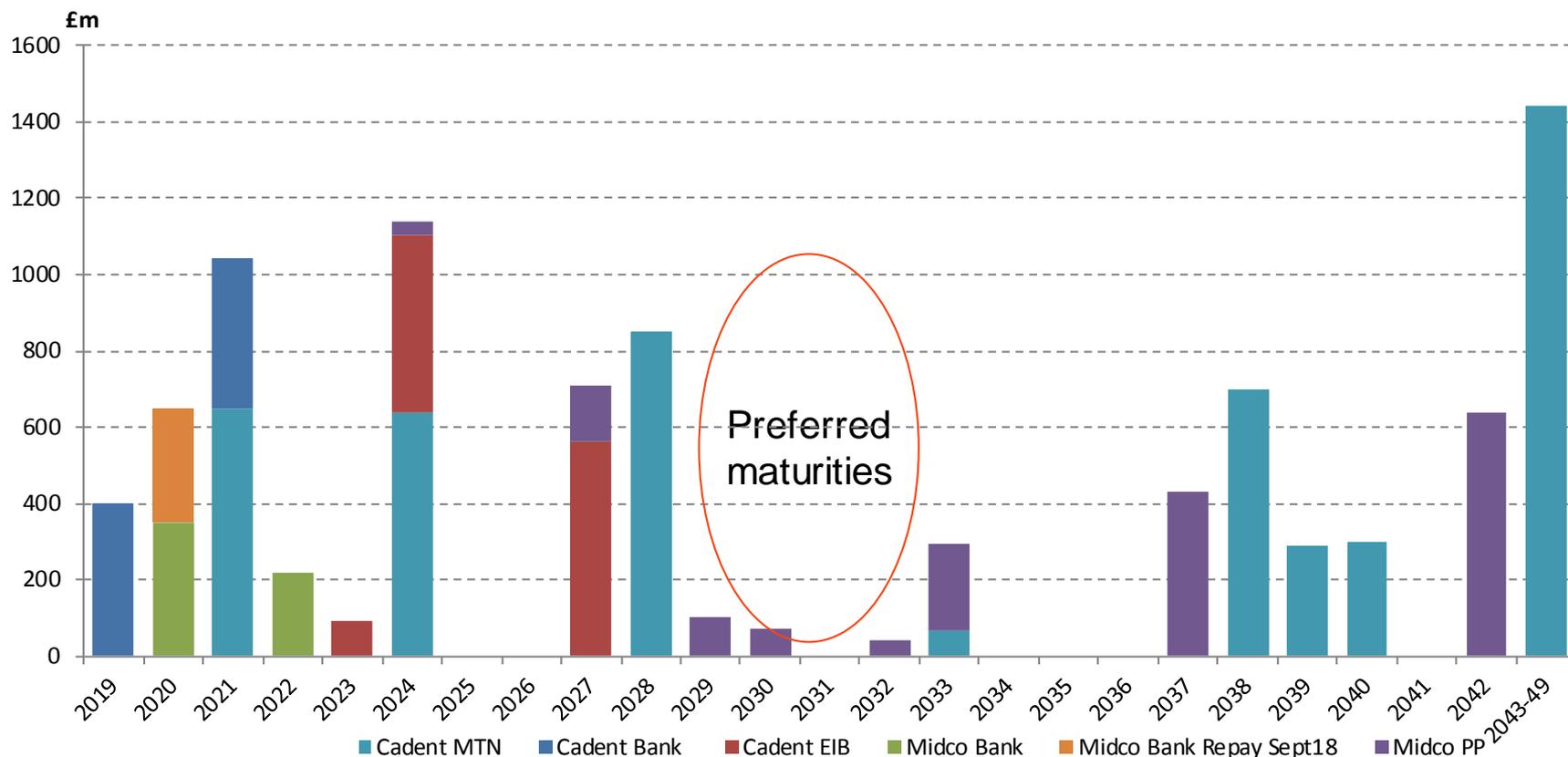
- Cadent funds in the capital markets both through the operating company (for leverage up to 65% of RAV) and, for leverage between 65 and 85.5% Net Debt to RAV, through an intermediate holding company, MidCo structure which borrows elements from UK Water Whole Business Securitisations ("WBS") to protect investors
- As well as operational and financial covenants, MidCo bonds benefit from a covenant restricting leverage at OpCo level to 65% Net Debt to RAV, first charge security over shares in OpCo, restrictions on distributions should trigger levels be breached and liquidity support to cover 18 months of Midco debt service costs
- Unlike a holder in a Class B Water WBS Bond Midco bond holders benefit from direct enforcement rights in the event of Default

Why MidCo?

- The "MidCo" structure was utilised because:
 - Cadent is geared in-line with Ofgem assumptions for RIIO-GD1 and tax clawback mechanism for debt costs assumed regulatory gearing of 65%
 - Pension scheme agreement – incremental Letter of Credit requirements for Cadent Gas Limited if gearing increases above 68%, 70% and 75%

Gross Debt £7.9bn
Cash (£0.2)bn
Net Debt £7.7bn

Quadgas Group Debt Maturity Profile at 31 August 2018 Cadent Young Growth Network



Index-linked debt shown at projected repayment including accretion
 Quadgas Midco Limited intends to repay £295m of £646m bank loan maturing in 2021 on 29 September 2018 from cash held as proceeds from private placement issues since 31 March 2018

Don't Mix Gas and Water

The UK Gas Networks and the UK Water Sector are governed by very similar regulatory frameworks however important differences in the risk profile and regulatory approach are emerging

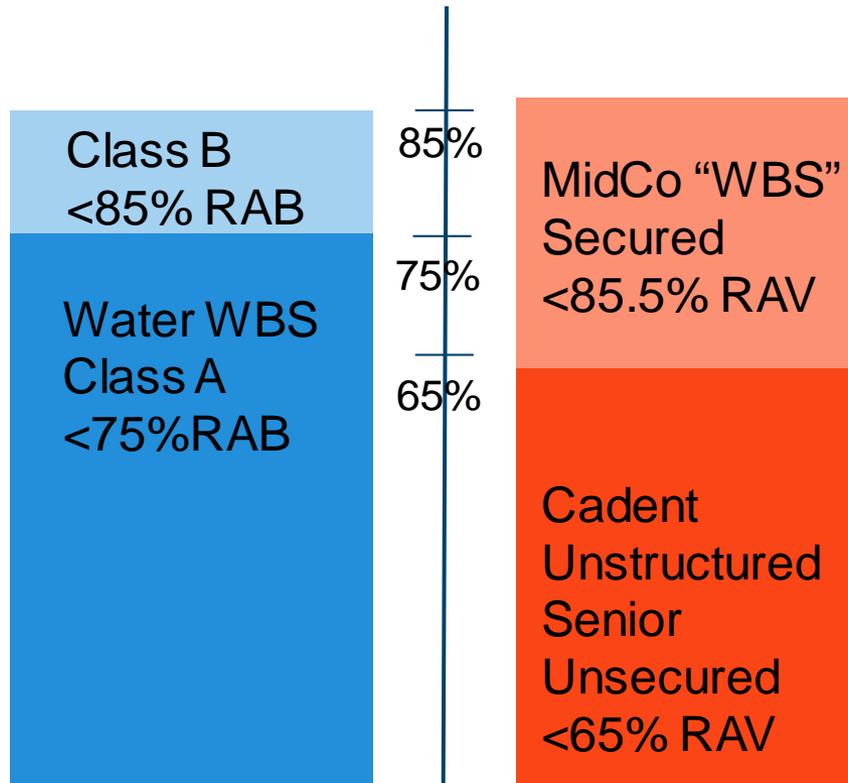
	UK Water (WASC)	UK Gas (GDN)
Independent Regulator	<ul style="list-style-type: none"> ✓ Ofwat as economic regulator, alongside the Drinking Water Inspectorate and the Environment Agency . Moody's expressed concerns regarding stability of regime given PR19 review* 	<ul style="list-style-type: none"> ✓ Ofgem as the regulatory body executive office on behalf of the Gas and Electricity Markets Authority (GEMA)
Clearly Defined Regulatory Framework	<ul style="list-style-type: none"> ✓ Regional monopolies, protected by UK legislation under 1989 Water Act ✓ Licenses (typically) require investment grade ratings 	<ul style="list-style-type: none"> ✓ Regional monopolies under Gas Act of 1986 (the "Gas Act"). The supply, transport and shipping of gas is regulated under the Gas Act. ✓ Licenses require investment grade rating
Regulation of end consumer bill	<ul style="list-style-type: none"> - Ofwat sets the level of consumer bill and annual changes across the 5-years 	<ul style="list-style-type: none"> ✓ Ofgem regulates only around 25% of total bill with remainder mainly energy cost
Bad Debt and Volume Risk	<ul style="list-style-type: none"> - WASCs carry bad debt risk within 5 year - No volume risk in the medium term 	<ul style="list-style-type: none"> ✓ No bad debt ,commodity price risk or medium term volume risk
Introduction of Competition	<ul style="list-style-type: none"> - Separate price reviews for wholesale and retail businesses - Increasing push for introduction of competition 	<ul style="list-style-type: none"> ✓ Networks and retail Supply businesses fully separated
Price Review Appeal Rights	<ul style="list-style-type: none"> - WASCs must accept the price review package "in the round" or seek CMA redetermination meaning all aspects can be changed 	<ul style="list-style-type: none"> ✓ GDN's can appeal individual aspects of the Price Review rather than facing a full redetermination by CMA

Quadgas MidCo positioned against Water WBS

UK Water WBS

Quadgas Midco

Net Debt / RAV



Cadent Gearing Level	Cadent Impact	Midco impact
<65%	Normal operating level	
65% to 68%	No impact	Lock-up No dividends can be paid to equity
68.1% to 70%	Additional LOCs to Pension Scheme	
>70%	Default	Upward Default

Midco Gearing Level	Cadent Impact	Midco impact
<85.5%	Normal operating level	
85.6% to 92%	No impact	Lock-up DSLIF can be drawn
>92%	No impact	Default Standstill

Credit Rating

S&P Global Ratings

BBB+ (Stable) Cadent
BBB+ Quadgas Midco Limited
BBB Debt issued by Quadgas Finance plc

11 May 2018

- In its publication for the company, published on the 11 May 2018, S&P revised its outlook on Cadent Gas and its parent Quadgas Midco to stable from negative and affirmed its BBB+ rating of both. S&P made the following comments in respect of the stable outlook :
- *“The outlook reflects our expectation that the credit metrics of the consolidated Cadent and Quadgas Group will remain commensurate with our BBB+ rating until the end of the current regulatory period as Cadent implements a step change transformation program”.*

Source: Standard & Poor's Research Update 11 May 2018

Quadgas Midco Key Credit Protections

Security Package	Includes charge by Midco over all issued share capital of Cadent, the Issuer and Cadent Services Limited and a charge by Pledgco over all of the issued share capital of Midco
Liquidity Support	Debt Service Reserve (“DSCR”) covers at least 18 months of scheduled senior debt interest
Hedging	Requirement to hedge all foreign currency exposure to GBP and to hedge floating rate debt so that 70-110% of debt is fixed or hedged on a rolling 8-year forward looking period (>110% is treated as an over-hedged situation and has to be reduced)
Maturity Concentration	Prohibits +30% of debt maturing within 24-month period, and +64% in each eight year RIIO period / 40% in 5-year period
Trigger Events	<p>CTA sets certain trigger events to alert creditors to deteriorating financial health, including (but not limited to):</p> <ul style="list-style-type: none"> ▪ Material modification or replacement of Cadent’s license to distribute gas ▪ Undertaking of non-appointed business ▪ financial ratio trigger events: <ul style="list-style-type: none"> ○ Quadgas net debt to RAV ratio is or is estimated to be more than 85.5%; ○ Quadgas adjusted ICR is or is estimated to be less than 1.1x; ○ Cadent net debt to RAV ratio is or is estimated to be more than 65%; ○ Debt Service Reserve + availability under liquidity facilities does not cover 18 months of Quadgas senior debt interest
Events of Default	<p>Events of Default under the CTA include (but are not limited to):</p> <ul style="list-style-type: none"> ▪ Financial Ratios: <ul style="list-style-type: none"> ○ Quadgas net debt to RAV ratio is greater than 92%. ○ Quadgas adjusted ICR is less than 1.0x ▪ Cross-Default – a Cadent event of default is an event of default for Quadgas, however a Quadgas event of default is not an event of default for Cadent due to the “ring-fenced” nature of the GDN regulatory regime ▪ Security Package ceases to be in full effect ▪ Change of Control , Nationalisation, Termination of Gas Opco Licence,

4. Indicative Terms for Quadgas Finance plc



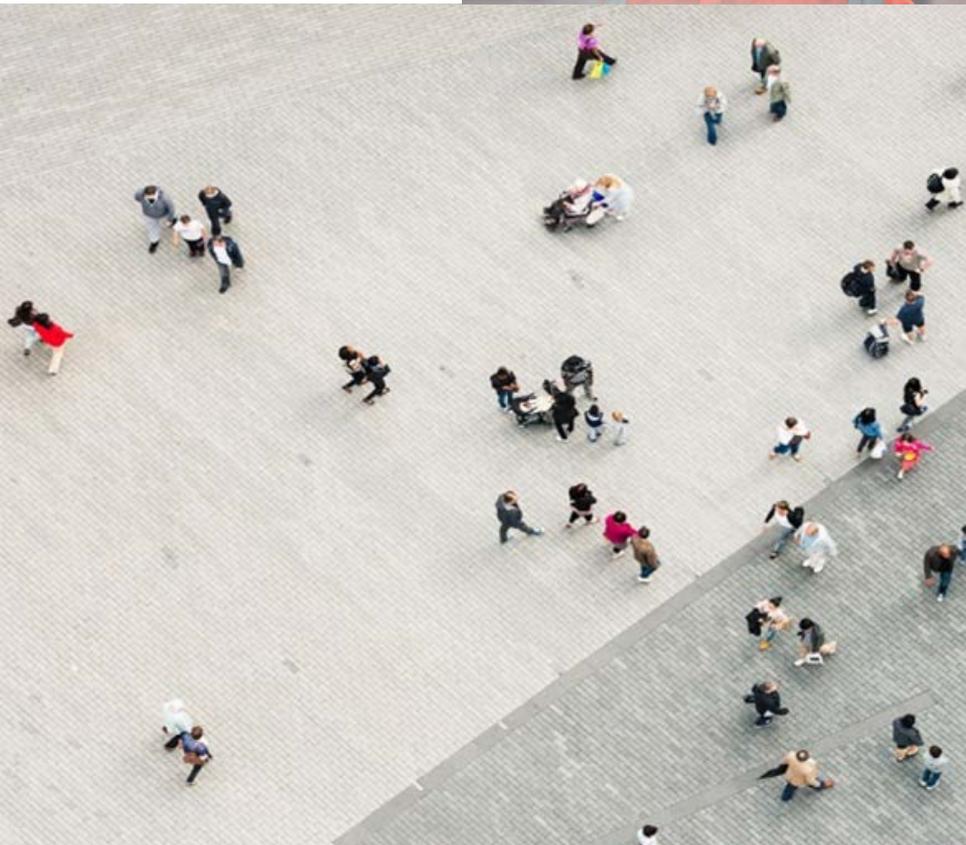
Summary of Proposed Midco Issuance

Issuer	Quadgas Finance plc
Financial Guarantor(s)	Quadgas Midco Limited and Quadgas Pledgeco Limited
Format	Fixed Rate Secured Senior Notes
Expected Issue Rating (S&P)	BBB (Sta)
Currency	GBP
Size	Benchmark [£300m]
Maturity	[8 Year] or 11-15 year bullet maturities from the date of closing
Documentation	£5bn EMTN Programme dated 14 December 2017
Minimum Denominations	£100,000 + £1,000
Listing	London Stock Exchange plc (the "London Stock Exchange")
Use of Proceeds	General corporate purposes
Joint Bookrunners	Barclays, Credit Agricole CIB, ING Bank, JP Morgan



Cadent

Your Gas Network



Questions

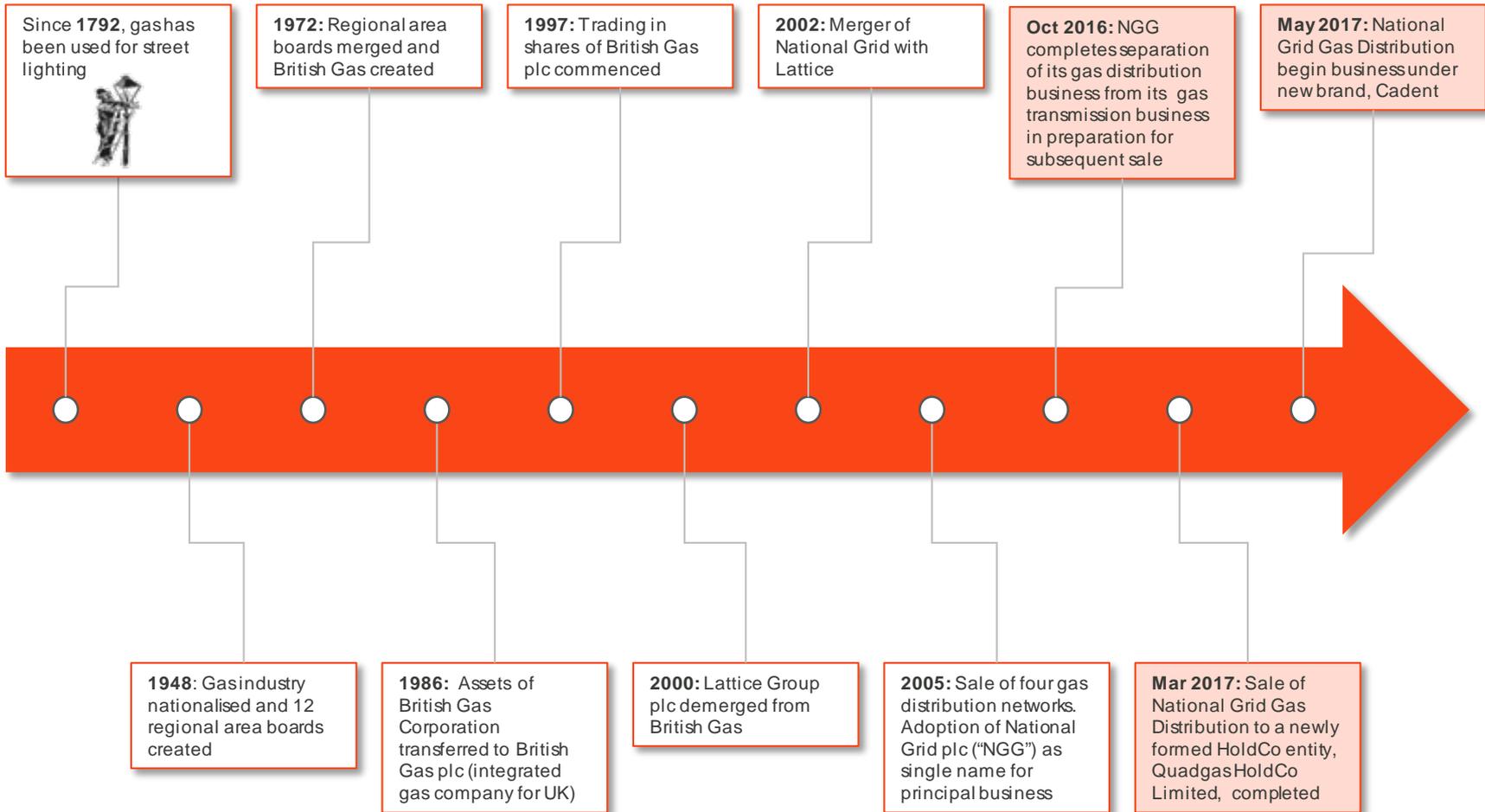
Steve Hurrell
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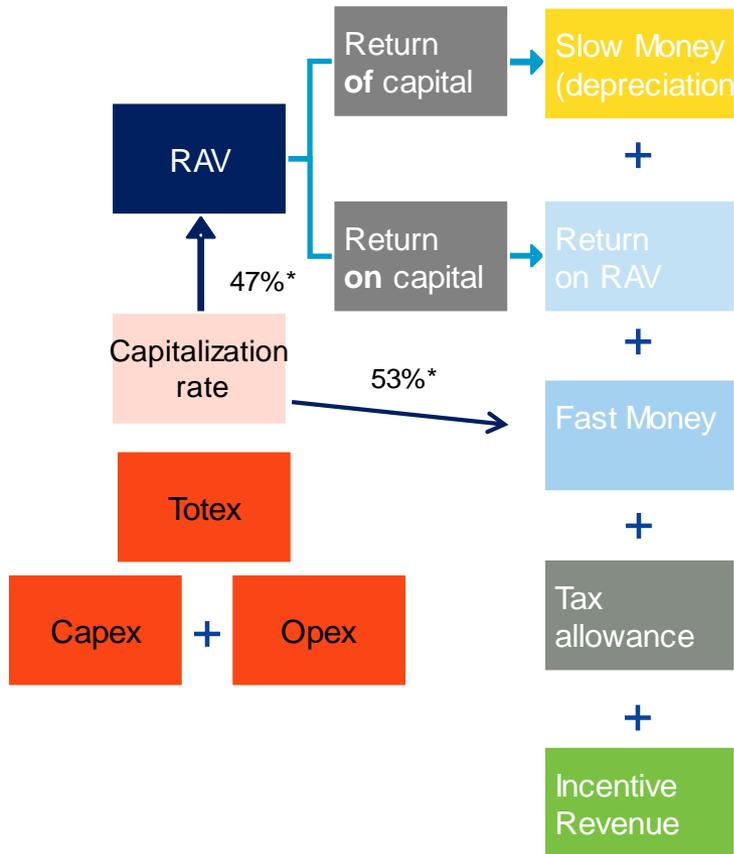
5. Appendix



Company History



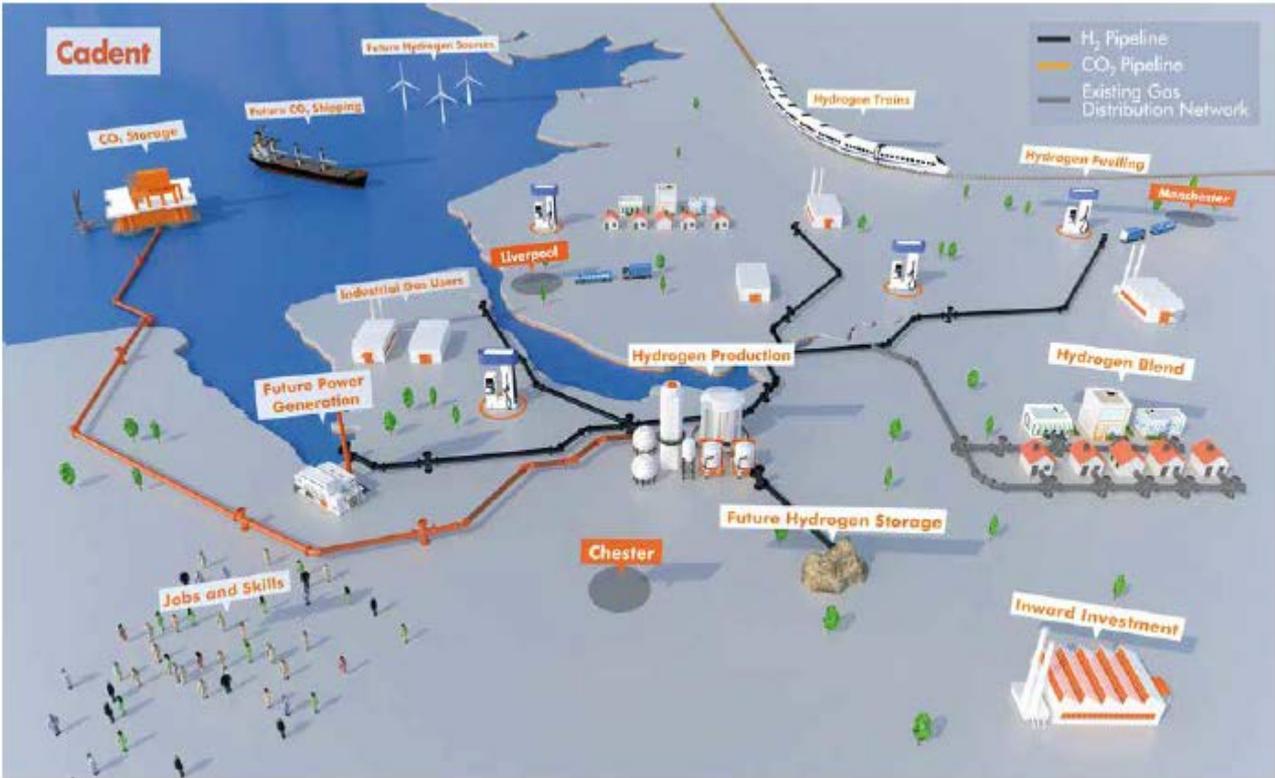
Revenue Building Blocks



- ▣ Regime based upon both ‘incentive’ regulation and ‘rate of return’ regulation, with similarities to other UK regulated network utilities
- ▣ The RAV (Regulatory Asset Value) methodology has been refined through several review processes
- ▣ The principal driver of allowable revenue is RAV
 - Return of RAV
 - Return on RAV
- ▣ The return **of** RAV is known as Slow Money being a regulatory depreciation allowance
- ▣ The return **on** RAV is based on the annual allowed return set by Ofgem calculated using traditional Capital Asset Pricing Model for Equity and a trailing average of iBoxx bond yields for debt and using a Weighted Average at 65% debt 35% equity
- ▣ Automatic annual adjustment in prices to ensure allowed revenues are always recovered in full
- ▣ Ofgem has equalised the incentive to out-perform allowances whether in Capex or Opex in RIIO-GD1 this is developed further with a single sharing factor rate applying to all “Totex”

(Totex = Opex + Capex)

Cadent's HyNet initiative challenges Government to support the Future Role of Gas



Cadent has proposed a innovative project in the North-West of England to supply much of the region's industry with hydrogen extracted from natural gas.

The captured carbon would be pumped and stored off-shore in a former gas field.

With estimated total costs of £920m and £85m annual opex this project needs new approaches to funding with several participants and with wide ranging support the project challenges the UK Government to make decisions now about the long-term role of gas.

For full details see www.hynet.co.uk

<https://cadentgas.com/about-us/the-future-role-of-gas>