Cadent
Your Gas Network

Cadent Gas Limited

Report for the six months ended 30 September 2020

Highlights:

- Continued increase in operating profit of £465 million (September 2019: £460 million)
- Continued focus on investment with capital investment of £488 million (September 2019: £420 million)
- Strong balance sheet with a net asset position of £2,133 million (March 2020: £2,153 million)

This interim management report has been prepared for the Group, which comprises Cadent Gas Limited, Cadent Finance Plc, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited.

Operations

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

We are the largest gas distribution company in the UK; we own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise over 131,000 kilometres (81,400 miles) of gas distribution pipeline and we transport gas from the gas national transmission system to over 11 million homes and businesses from the Lake District to London and from the Welsh Borders to the East Coast, on behalf of 52 gas shippers. Over 80% of UK homes rely on gas for heating as well as large manufacturers, businesses and commerce being reliant on gas to fuel their operations. At peak times the gas network supplies over four times more energy than the electricity network.

In the first half of the year, the Group delivered revenue of £1,039 million; a decrease of £2 million on the comparative period. This was driven by a decrease in our formula revenue, a reduction in demand for gas from industrial and commercial users as well as lower connections income due to restrictions put in place as a result of COVID-19. This was offset by increased revenue from major capital projects, principally HS2.

Operating costs before exceptional items have increased due to higher depreciation as a result of having a higher asset base, higher payroll costs due to a higher number of full time equivalent staff (FTEs) as part of a move away from contracted labour, and higher exit capacity charges due to the implementation of a new charging methodology. This increase is offset by cost savings due to our ongoing business transformation activities.

Due to the essential nature of many of our activities we have continued to work throughout the COVID-19 pandemic, however elements of our mains replacement programme and certain other customer facing activities were necessarily curtailed. We are actively engaging with Ofgem regarding the treatment of any affected regulatory output measures linked to COVID-19. This includes how these will be dealt with in the remaining half year of this regulatory period RIIO-1 and the implications to our RIIO-2 Business Plan submission for output commitments made from April 2021, together with the treatment of costs directly or indirectly incurred as a result.

For the full year the Group remains on track to deliver stable returns with an ongoing focus on delivering a safe and reliable service to our customers.

Cadent Gas Limited

Interim management report (continued)

Long-term strategy and business objectives

Our strategic objectives as set out in our RIIO-2 Business Plan submission to Ofgem will transform experiences and set stretching ambitions for the outputs we will deliver for our customers, whilst keeping a clear focus on managing affordability through reducing bills in real terms over the period. In the plan we shared our vision to set standards all of our customers[1] love and others aspire to with a focus on four customer outcome areas:

- Providing a resilient network to keep the energy flowing;
- Delivering a quality experience for all of our customers and stakeholders;
- Tackling climate change and improving the environment; and
- Trusted to act for our communities.

We are continuing through our transformation journey to develop 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 are continuing to prepare for the RIIO-2 price control period by aligning operational activities to our four networks to bring decision making closer to our customers and updating our contracting strategy. On 4 September 2020 we submitted our response to the draft determination published by Ofgem in July 2020. We will work closely with Ofgem to achieve a final determination that allows us to begin to deliver our commitments for 2021 – 2026.

COVID-19 Statement

In early 2020, the spread of COVID-19 caused huge change to daily life in the UK and across the world. By the nature of our operating business, we have not been significantly impacted 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 or cash flows. In March 2020, at the start of the pandemic, we took immediate steps to implement our business continuity plans ahead of the lockdown announcement by the Government on the 23 March. We quickly adapted and prepared; carrying out specific risk assessments for our essential services, prioritising emergency response and urgent safety issues to keep the gas flowing and the National Gas Emergency Service fully operational. Our critical operations continued with the appropriate policies and Personal Protective Equipment (PPE) and office safeguarding in place. We are proud to have ensured that all employees can continue working and be paid without utilising the Government furlough scheme.

The safety of all of our colleagues, customers and stakeholders remains at the heart of the decisions we make and whilst we follow guidance, our own enhanced safety measures will remain in place for some time yet. We have supported colleagues through health and wellbeing services, timely updates and access to vaccinations ahead of the winter months.

During the first three months of the financial year, our customer facing iron mains replacement and new connections work were suspended in line with Government guidance. We continued the critical maintenance and repair work needed, whilst making sure we followed Government guidance and taking extra safety precautions when we enter customers' homes, businesses, schools and hospitals.

In April, a full remobilisation plan was developed to enable us to move forward with our work effectively once restrictions eased. In May, we carried out a trial mains replacement project in Doncaster to measure customers' acceptability of our work. This trial was very successful and further trials were carried out in each network during May and early June. As restrictions eased on the 15 June, we have continued to work closely with the HSE and BEIS to ensure that the safety related considerations of restarting our mains replacement work, which involved customer contact has been able to resume at the earliest opportunity.

Despite the pandemic, we are planning now for the future, continuously monitoring our business continuity plans and working practices to make sure our people stay safe and we keep the energy flowing for our 11 million customers. Our experience of working within the requirements of the initial lockdown give us confidence that our plans are resilient in the event that further local or national restrictions are imposed.

[1]Customers are defined as gas consumers, suppliers and shippers.

COVID-19 Statement (continued)

Financial impact of COVID-19
The COVID-19 pandemic has had a minimal impact on our income statement, statement of financial position and statement of cash flows for the six months to September 2020.

In the first half of the year we have seen approximately £6 million of additional COVID-19 costs for items such as PPE and employee absence for self-isolation and shielding reasons. We have also refocused our capital programmes, in particular the iron mains replacement programme, which has caused a reduction in the volume of work delivered however we have seen higher unit costs to deliver this work programme will be seen for some time to come. We are actively engaging with Ofgem regarding the treatment of any affected regulatory output measures linked to COVID-19 and how these will be dealt with in the remaining six months of this regulatory period (RIIO-1) and the implications to our RIIO-2 Business Plan submission for output commitments made from April 2021, together with the treatment of costs directly or indirectly incurred as a result.

Shipper income
Our transportation income, which represents over 93% 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. We have actively engaged with Ofgem to help protect shippers and suppliers by supporting the 'COVID-19 Liquidity Relief Scheme'. This involves the relaxation of network charge payment terms for those suppliers and shippers who are facing cash flow challenges as a result of COVID-19 whilst ensuring that Cadent is not exposed to any credit losses that might emerge should a shipper subsequently fail. Under the scheme 7 shippers have deferred invoices totalling £9.2 million and all deferrals are scheduled to be repaid prior to March 2021. To date, one shipper participating in the liquidity scheme has entered administration with a value of £1.4 million outstanding under the scheme. The structure of the scheme means that Cadent is not exposed to any credit loss in respect of this value, as bad debt is recoverable under the RIIO-2 licence conditions.

Liquidity
We have assessed whether there is any impact of COVID-19 on our liquidity risk. Between March and September 2020 Cadent took advantage of the VAT deferral scheme deferring a total of £69 million to be paid to HMRC by 31 March 2021. We have not benefited from any other Government support schemes in relation to COVID-19.

At 30 September 2020, Cadent had undrawn credit facilities and cash totalling £885 million (31 March 2020: £884 million) made up of available Revolving Credit Facilities of £500 million, investments in short-term money funds of £370 million and cash of £15 million. We also retain the capacity to raise additional debt if required from the debt capital markets, the recent interest in the debt transaction completed in March 2020 demonstrates significant demand remains for Cadent debt. With no term debt due to mature until September 2021 and the high degree of predictability of our regulated revenue and operating and capital expenditure, Cadent has assessed the liquidity risk as low but we continue to monitor this very closely.

Notwithstanding the high degree of certainty over our cash flows we have assessed a series of sensitivities to cash flow (including to revenues, operating expenditure, capital investment, inflation and interest rates) and believe that the level of cash and undrawn facilities provides adequate protection against reasonably possible downside changes in our assumptions should COVID-19 persist.

Pensions
The net pension surplus has decreased by £389 million from £917 million as at 31 March 2020 to £528 million as at 30 September 2020, which is mainly due to a decrease in the discount rate of 0.70% p.a. and an increase in the RPI inflation assumption of 0.30% p.a. These movements were driven by changes in underlying market conditions. The increase in the pension liability was partly offset by a gain on assets due to invested asset returns being higher than expected.

COVID-19 statement (continued)

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.

Management have performed analysis of the potential impact of the COVID-19 pandemic on revenue, profit and cash flows. 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 cash flows, the overall impact was limited. The analysis included modelling both the base case and a reasonable worst case scenario cash flow forecast that factored in the key impacts of COVID-19 including additional one-off increases in other costs such as cleaning, safety equipment, IT and employee absence, the refocusing of our capital programmes, reduced revenues as a result of lower gas consumption and additional working capital requirements from the shipper relief scheme or from any potential supplier failure. The forecasts were considered against the ability to access existing undrawn facilities alongside its ability to access long-term debt markets (a recent transaction in Cadent Finance Plc in March 2020 was significantly oversubscribed) and short-term cash positioning. Where required, available mitigating actions to maintain liquidity (including for example reducing discretionary costs and deferring expenditure) were considered as part of the assessment. It was concluded that sufficient headroom existed in the forecast and against the requirements of our key banking covenants of net debt to RAV and Interest Cover Ratio. Management therefore concluded that no reasonably possible downside scenario existed wherein Cadent would be unable to continue as a going concern. After due consideration and having concluded there were no material uncertainties, it was recommended to the Board in November 2020 that the condensed consolidated interim financial statements be prepared on the going concern basis.

Funding arrangements

After another period of significant investment in new assets, the company's balance sheet remains robust, and we have maintained our solid investment grade credit ratings from Moody's, Standard & Poor's and Fitch ratings.

Results for the six months ended 30 September 2020

A summary of the key financial results is set out in the table below.

	Six months ended 30 September 2020 £'m	Six months ended 30 September 2019 £'m	Movement £'m
Revenue	**1,039**	1,041	(2)
Operating profit – Before exceptional items	**474**	502	(28)
Exceptional items	**(9)**	(42)	33
Operating profit	**465**	460	5
Profit before tax – Before exceptional items & remeasurements	**413**	430	(17)
Profit before tax	**386**	354	32
Capital investment	**488**	420	68

Revenue

Total Group revenue for the period was £1,039 million (2019: £1,041 million) comprising £946 million (2019: £962 million) of regulated allowed revenue and £93 million (2019: £79 million) from non-regulated activities. The £16 million decrease in regulated allowed revenue is based on the agreed Ofgem pricing model coupled with slight decrease in commodity revenue due to a reduction in demand for gas from industrial and commercial users. The £14 million increase in non-regulated revenues is mainly as a result of higher capital contribution income from completed diversions related to the HS2 project, offset by lower connections income due to restrictions put in place as a result of COVID-19.

Operating profit before exceptional items

Operating profit before exceptional items for the period was £474 million (2019: £502 million), with revenue of £1,039 million (2019: £1,041 million) offset by £565 million (2019: £539 million) of operating costs excluding exceptional items. Operating costs before exceptional items have increased due to higher depreciation as a result of having a higher asset base, higher payroll costs due to higher number of full time equivalent staff (FTEs) as part of move away from contracted labour, and higher exit capacity charges due to the implementation of a new charging methodology. This increase is offset by cost savings due to our ongoing business transformation activities including the separation from National Grid Plc.

Exceptional items and remeasurements

Included within total operating profit of £465 million (2019: £460 million) are exceptional items of £9 million (2019: £42 million). As a result of the acquisition of the company by Quadgas MidCo Limited from National Grid Plc, a number of separation activities have arisen which have given rise to £8 million of exceptional costs being recognised; principally IT systems and costs in relation to the pensions transfer. Costs of £1 million have also been recognised in relation to an ongoing reorganisation exercise, which mainly relates to consulting costs and pension strain costs associated with our previously announced voluntary redundancy programme.

Remeasurements of £18 million 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.

Cadent Gas Limited

Interim management report (continued)

Capital investment

Capital investment was £488 million (2019: £420 million) comprising £19 million of intangible assets and £469 million of tangible assets. Tangible assets additions are mainly comprised of £384 million of plant and machinery and £70 million of assets in the course of construction.

Financial position

Net assets decreased by 1% to £2,133 million (March 2020: £2,153 million). The main movements in the balance sheet items were a reduction in the pension surplus, offset by additions to property, plant and equipment and intangible fixed assets totalling £308 million arising from capital investment offset by depreciation and amortisation.

The company operates pension arrangements for employees, some of whom were members of Section C of the defined benefits scheme, the National Grid UK Pension Scheme (NGUKPS). Following the sale of National Grid's remaining stake in the company in June 2019, the company has put in place its own DB pension arrangement, the Cadent Gas Pension Scheme (CGPS), into which the assets and liabilities of the Section C were transferred on 30 September 2020. Membership of the defined contribution scheme, MyPension is offered to all new employees.

On an IAS 19 basis the defined benefits pension scheme is in a net asset position of £528 million at 30 September 2020 (March 2020: £917 million). This decrease is mainly due to a decrease in the discount rate of 0.70% p.a. and an increase in the RPI inflation assumption of 0.30% p.a. These movements were driven by changes in underlying market conditions. The increase in the pension liability was offset by a gain on assets due to invested asset returns being higher than expected.

As per note 10, the Group has net debt of £6,701 million (March 2020: £6,734 million).

The Group continues to have at its disposal sufficient undrawn, committed borrowing facilities at competitive rates for the medium term. At 30 September 2020, Cadent had undrawn credit facilities and cash totalling £885 million made up of available Revolving Credit Facilities of £500 million, investments in short-term money funds of £370 million and cash of £15 million. Current borrowings have increased due to £250 million of term debt due to mature in September 2021, which is expected to be refinanced in early 2021.

Cash flow

Net cash inflow from operating activities for the six months ended 30 September 2020 was £597 million (September 2019: £445 million[2]) with the increase due to higher profit, higher capital contributions received, changes in working capital, and lower pension cash outflows due to pension deficit repair payments being made in the comparative period.

Events after the balance sheet date

In October 2020, one of our shippers has entered administration and as such the amounts receivable of £1.4 million in relation to this shipper at 30 September 2020 will not be recovered from them. As this amount was covered by the COVID-19 Liquidity Relief Scheme (see COVID-19 statement for more detail on this scheme), we do not expect to incur credit losses in respect of these amounts. A further receivable balance for £1 million of invoices not covered by the scheme was held at 30 September 2020, against which Cadent hold collateral in the form of cash which will protect against any credit losses on this balance.

Related party transactions

There have been no material changes in the related party transactions described in the last Annual Report and Accounts.

[2]This amount has been restated in the condensed consolidated statement of cash flows following a decision made by management that cash received in the form of capital contributions from customers, previously classified as investing activities, are more appropriately classified as cash flows from operating activities. This increased net cash generated from operations by £50 million from £395 million to £445 million and increased net cash flow used in investing activities by £50 million from £17 million to £67 million.

Cadent Gas Limited

Interim management report (continued)

Performance Highlights

To enable us to achieve the standard of service we aspire to, we monitor our performance in implementing our strategy with reference to clear targets set for key performance indicators (KPIs). These KPIs are applied on a Group wide basis. Performance in the six months ended 30 September 2020 (where available as some are annual figures) and the targets are set out in the table below, together with the prior year performance data for the year to 31 March 2020 and the six-month period to 30 September 2019.

Strategic priorities	KPIs	Definition	Performance
Delivering a safe and reliable network	**Safety**	**Lost time injuries frequency rate** Any injury to employee or contractor resulting in time off work (injuries per million hours worked).	**2020/21 half year: 0.66** **2019/20: 0.7** **2019/20 half year: 1.10** **(Target: Less than 0.7)** [1]
	Kilometres of network replaced	**Kilometres of network replaced** Number of kilometres of main pipe replaced.	**2020/21 half year: 684km** **2019/20: 1,809km** **2019/20 half year: 879km** **(Full year target 2020/21: Higher than 2,529km)** [2]
Performing for our customers and communities	**Customer satisfaction**	**Customer satisfaction** Our score in customer satisfaction surveys. Ofgem set a baseline target.	**2020/21 half year: 8.91** **2019/20: 8.67** **2019/20 half year: 8.72** **(Target: Higher than 8.30)** [3]
	Complaints	**Complaints handling** Percentage of complaints handled within 1 day.	**2020/21 half year: 82%** **2019/20: 76%** **2019/20 half year: 71%**

1 Both target and actual is an annual 12-month rolling number
2 Our programme has been developed to deliver our output of length replaced across all of our networks economically and sustainably over the eight-year RIIO period rather than on an individual year basis.
3 Figures represent our baselines targets set by Ofgem for rewards or penalty under RIIO.

Further details of our priorities are disclosed in the Annual Report and Accounts 2019/20.

Delivering our 2020/21 Priorities

In the first half of the year we have continued to deliver improvements to our overall customer experience by moving to a network aligned operating model and empowering our operational teams to go above and beyond, with both our customer satisfaction and complaints handling metrics seeing improvement from the same period last year.

To ensure our network is safe and reliable, we have replaced a further 684km of iron mains in the first half of the year despite the significant disruption caused by COVID-19. Whilst we are likely to fall short of the annual target of 2,529km, this has been communicated to Ofgem and HSE who understand that we have had to take appropriate mitigations to ensure that we are working in a COVID-secure way for the safety of our customers. The final impact will be reviewed once the full extent of COVID-19 has been understood but no adverse consequences are expected. We were able to deliver this by refocusing and adapting our capital programmes and implementing our remobilisation plan which has enabled us to restart work at the earliest opportunity. We have continued to engage with Ofgem, HSE and BEIS to navigate the safety related considerations of the pandemic, and have continued to maintain our high record of safety standards with a further decrease in our lost time injury frequency rate.

Cadent Gas Limited

Interim management report (continued)

Delivering our 2020/21 Priorities (continued)

One of our key priorities at this time is keeping our employees and customers safe. In March 2020 we took the decision to move our office-based staff out of their usual location and asked them to work from home. We still do not see an early return to our offices unless there are operational or health and wellbeing concerns. Our operational staff continue to work with the appropriate policies and personal protective equipment in place. We have also introduced additional measures to keep our customers safe, including maintaining clear and concise information through a number of communication channels as we carry out essential work. In support of Gas Safety Week 2020, we launched a radio campaign to promote the National Gas Emergency Service phone line, ensuring customers know what to do and who to contact if they smell gas.

Our gas network plays a critical role in delivering affordable, safe and reliable heating to over 80% of domestic homes and fuelling major industry, businesses, schools and hospitals in England. We will be at the forefront of shaping and delivering the road to net zero emissions through facilitating clean gas and demonstrating a hydrogen pathway for our current and future customers. We are continuing to prepare for the RIIO-2 price control period by aligning operational activities to our four networks to bring decision making closer to our customers and updating our contracting strategy. We continue to develop our plans for the future, establishing an organisation that delivers for customers. As part of our ongoing transformation, we have brought a number of our contract workforce in-house to drive efficiencies and deliver a first in class customer experience.

We are committed to equality, diversity and inclusion. Cadent has submitted two RIIO-2 commitments relating to diversity and inclusion (D&I) as part of our Trust Charter. We have taken great strides to strengthen our position towards our vision that we are a diverse and inclusive organisation representative of the communities we serve, where everyone has an equal chance to succeed and be themselves. We started the year by defining our D&I strategy in line with what our challenges were, where our opportunities lay, and what mattered most to our colleagues. Working closely with colleagues in HR, communications and across the organisation, we have been able to begin embedding our vision and drive engagement. We have established four employee community groups to represent different strands of diversity and empower colleagues to actively shape a more inclusive environment.

Managing the environment is about more than just reducing risk and minimising our impact; it's about implementing best practice environmental solutions to drive efficiency, save money and preserve natural resources. We're committed to driving down the emissions from our operations, prioritising activities to reduce leakage with a further commitment to reach a net zero non-leakage business carbon footprint by the end of the next price control. We're working with the Carbon Trust to pursue accreditation of our goals and programmes from the Science Based Targets Initiative. Responding to the urgent need to decarbonise the energy system, we're applying whole energy system thinking to support decarbonisation and the energy system transition, as well as wider stakeholder-driven environmental and economic considerations, including clean air and economic growth. Our annual Safety & Sustainability Report was published in September, which sets out our focus now and for the foreseeable future to ensure the very highest standards of safety for colleagues and customers, while working towards net zero.

Cadent Gas Limited

Interim management report (continued)

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report and Accounts for the year ended 31 March 2020. A detailed explanation of the risks and how the Group seeks to mitigate the risks, can be found on pages 64 to 69 of the Annual Report and Accounts for the year ended 31 March 2020. Below is a summary of our key risks as at 30 September 2020:

- Failure to protect consumers' interests
- Health, safety and environment and security
- Climate change and changes in operating landscape
- Failure to effectively manage assets and maintain network reliability
- Failure to secure critical resources and engagement
- Cyber breach or critical system failure
- Failure to comply with legal and regulatory requirements or failure to deliver regulatory outputs
- Pandemic risk

Going concern

As stated in note 1 to the financial statements, having made enquiries and reviewed management's assessment of going concern including the uncertainties posed by COVID-19 on our cash flows and the subsequent impact on headroom against available facilities, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditor

Following the completion of the 2019/20 audit process, Deloitte LLP have been re-appointed as auditor of the Quadgas HoldingsTopCo Limited Group and its subsidiaries including Cadent Gas Limited.

Cautionary statement

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

By order of the Board,

S G Hurrell
Director
18 November 2020
Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE

Cadent Gas Limited

Responsibility statement

The half year financial information is the responsibility of, and has been approved by, the Directors. The Directors confirm that the financial information has been prepared in accordance with IAS 34 as issued by the International Accounting Standards Board and as adopted by the European Union.

The Directors of Cadent Gas Limited are as listed in the Cadent Gas Limited Annual Report and Accounts for the year ended 31 March 2020.

By order of the Board,

S G Hurrell
Director

18 November 2020

INDEPENDENT REVIEW REPORT TO CADENT GAS LIMITED

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP Deloitte LLP
Statutory Auditor
London, United Kingdom
18 November 2020

Cadent Gas Limited

Condensed consolidated income statement

Six months ended 30 September 2020

	Notes	**Six months ended 30 September 2020 (unaudited)**		Six months ended 30 September 2019 (unaudited)	
		£m	**£m**	£m	£m
Revenue			**1,039**		1,041
Operating costs			**(565)**		(539)
Operating profit					
Before exceptional items		**474**		502	
Exceptional items	4	**(9)**		(42)	
Total operating profit			**465**		460
Finance income	5		**11**		10
Finance costs					
Before exceptional items and remeasurements	5	**(72)**		(82)	
Exceptional items and remeasurements	4	**(18)**		(34)	
Total interest payable and similar charges	5		**(90)**		(116)
Profit before tax					
Before exceptional items and remeasurements		**413**		430	
Exceptional items and remeasurements	4	**(27)**		(76)	
Total profit before tax			**386**		354
Tax					
Before exceptional items and remeasurements	6	**(79)**		(82)	
Exceptional items and remeasurements	6	**5**		14	
Total tax	6		**(74)**		(68)
Profit after tax					
Before exceptional items and remeasurements		**334**		348	
Exceptional items and remeasurements	4	**(22)**		(62)	
Profit for the period			**312**		286

The results above relate to continuing operations.

Cadent Gas Limited

Condensed consolidated statement of comprehensive income

Six months ended 30 September 2020

	Notes	**Six months ended 30 September 2020 (unaudited) £m**	Six months ended 30 September 2019 (unaudited) £m
Profit for the period		**312**	286
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	11	**(400)**	126
Tax on items that will never be reclassified to profit or loss		**76**	(21)
Total items that will never be reclassified to profit or loss		**(324)**	105
Items that may be reclassified subsequently to profit or loss			
Net (losses)/gains in respect of cash flow hedges		**(13)**	2
Net losses in respect of cost of hedging reserve		**-**	(3)
Amortisation of cost of hedging reserve		**3**	2
Tax on net losses in respect of cash flow hedges		**2**	-
Total items that may be reclassified subsequently to profit or loss		**(8)**	1
Other comprehensive (loss)/income for the period, net of tax		**(332)**	106
Total comprehensive (loss)/income for the period		**(20)**	392

The results reported above relate to continuing operations.

Cadent Gas Limited

Condensed consolidated statement of financial position

As at 30 September 2020

	Notes	**As at 30 September 2020 (unaudited) £m**	As at 31 March 2020 (audited) £m
Non-current assets			
Intangible assets		**100**	90
Property, plant and equipment	8	**10,073**	9,775
Investments in associates		**-**	-
Pension and other post-retirement benefit assets	11	**528**	917
Trade and other receivables		**23**	21
Derivative financial assets	9	**41**	40
Total non-current assets		**10,765**	10,843
Current assets			
Inventories		**10**	10
Trade and other receivables		**223**	240
Current asset investments	9	**370**	327
Cash and cash equivalents	9	**15**	17
Total current assets		**618**	594
Total assets		**11,383**	11,437
Current liabilities			
Trade and other payables		**(630)**	(594)
Borrowings	10	**(283)**	(52)
Lease liabilities		**(9)**	(11)
Provisions		**(12)**	(15)
Total current liabilities		**(934)**	(672)
Net current liabilities		**(316)**	(78)
Total assets less current liabilities		**10,449**	10,765
Non-current liabilities			
Derivative financial liabilities	9	**(84)**	(73)
Borrowings	10	**(6,734)**	(6,962)
Lease liabilities		**(17)**	(20)
Deferred tax liabilities		**(1,389)**	(1,466)
Provisions		**(75)**	(79)
Accruals and deferred income		**(17)**	(12)
Total non-current liabilities		**(8,316)**	(8,612)
Total liabilities		**(9,250)**	(9,284)
Net assets		**2,133**	2,153
Equity			
Share capital		**-**	-
Cash flow hedge reserve		**(24)**	(13)
Cost of hedging reserve		**9**	6
Retained earnings		**7,441**	7,453
Other deficit		**(5,293)**	(5,293)
Total equity		**2,133**	2,153

The condensed consolidated financial statements on pages 12 to 25 were approved for issue by the Board of Directors on 18 November 2020 and were signed on its behalf by:

S G Hurrell
Director
Cadent Gas Limited
Company registration number: 10080864

Cadent Gas Limited

Condensed consolidated statement of changes in equity
Six months ended 30 September 2020

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2020	**-**	**-**	**(13)**	**6**	**(5,293)**	**7,453**	**2,153**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**312**	**312**
Other comprehensive income for the period excluding amortisation of cost of hedging reseve	**-**	**-**	**(11)**	**-**	**-**	**(324)**	**(335)**
Amortisation of cost of hedging reserve	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Total comprehensive loss for the period	**-**	**-**	**(11)**	**3**	**-**	**(12)**	**(20)**
Equity dividends (note 7)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 30 September 2020 (unaudited)	**-**	**-**	**(24)**	**9**	**(5,293)**	**7,441**	**2,133**

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2019	-	-	-	6	(5,293)	7,116	1,829
Profit for the period	-	-	-	-	-	286	286
Other comprehensive income for the period excluding amortisation of cost of hedging reserve	-	-	2	(3)	-	105	104
Amortisation of cost of hedging reserve			-	2	-	-	2
Total comprehensive income/(loss) for the period	-	-	2	(1)	-	391	392
Equity dividends (note 7)	-	-	-	-	-	(175)	(175)
At 30 September 2019 (unaudited)	-	-	2	5	(5,293)	7,332	2,046

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.

Cadent Gas Limited

Condensed consolidated statement of cash flows

Six months ended 30 September 2020

	Six months ended 30 September 2020	Six months ended 30 September 2019 (unaudited, restated[1])
	£m	£m
Cash flows from operating activities		
Total operating profit	**465**	460
Adjustments for:		
Exceptional items	**9**	42
Depreciation, amortisation and impairment	**180**	167
Increase in inventories	**-**	(1)
Decrease in trade and other receivables	**6**	5
Increase /(decrease) in trade and other payables	**40**	(23)
Capital contribution income	**(79)**	(55)
Changes in provisions	**(5)**	(3)
Changes in pensions and other post-retirement obligations	**(4)**	(45)
Capital contributions received	**67**	50
Cash flows relating to exceptional items	**(9)**	(15)
Cash generated from operations	**670**	582
Tax paid	**(73)**	(137)
Net cash inflow from operating activities	**597**	445
Cash flows from investing activities		
Purchases of intangible assets	**(27)**	(22)
Purchases of property, plant and equipment	**(438)**	(365)
Interest received	**1**	2
Net (increase)/decrease in financial investments	**(43)**	318
Net cash flow used in investing activities	**(507)**	(67)
Cash flows from financing activities		
Proceeds received from loans	**-**	300
Repayment of loans	**-**	(393)
Repayment of lease liabilities	**(6)**	(5)
Interest paid	**(91)**	(91)
Dividends paid to shareholders	**-**	(175)
Net cash flow used in financing activities	**(97)**	(364)
Net (decrease)/increase in cash and cash equivalents	**(7)**	14
Net cash and cash equivalent/(overdraft) at the start of the period	**9**	(4)
Net cash and cash equivalents at the end of the period	**2**	10
Comprising:		
- Cash	**15**	12
- Overdraft	**(13)**	(2)
	2	10

[1]A presentational adjustment has been made to reclassify cash flows from capital contributions from investing activities to operating activities. See page 6 for further information.

Cadent Gas Limited

Notes to the condensed consolidated financial statements
Six months ended 30 September 2020

1 Basis of preparation and new accounting standards, interpretation and amendments

The Annual Report and Accounts for the year ended 31 March 2020 have been prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The half year condensed consolidated financial information covers the six month period ended 30 September 2020 and has been prepared in accordance with IAS 34 'Interim Financial Reporting' asiss ued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2020, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and as adopted by the EU, and have been filed with the Registrar of Companies. The auditor's report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

As at the date of approving the half year financial information, the impact of COVID-19 on the Group's operations are continually being monitored and subject to rapid change. The Directors have assessed the impact by modelling both a base case and 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 cash flows, the impact was limited. The reasonable worst case scenario includes:

- one-off increases in other costs such as cleaning, safety equipment, IT and 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; and
- additional working capital requirements from the shipper relief scheme or from any potential supplier failure.

Having considered the reasonable worst case scenario, the Group continues to have headroom against the Group committed facilities.

In addition, the ability to raise new financing was considered in light of the recent transaction in Cadent Finance Plc in March 2020 where the order book was well in excess of the amount required 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 this half year financial information. The Director's 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 half year financial information.

In preparing this half year financial information, there has been no impact due to COVID-19 on the areas of judgement made by management in applying the Cadent Gas Limited's accounting policies and the key sources of estimation uncertainty. They are therefore the same as those that applied to the consolidated financial statements for the year ended 31 March 2020.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2021 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2020.

2 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 Board of Directors.

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

3 Seasonality

The volumes of gas distributed across network assets are dependent on levels of customer demand which are generally higher in winter months. As a result of this, the amounts reported for the interim period may not be indicative of the amounts that will be reported for the full year due to seasonal fluctuations in customer demand for gas and the impact of weather on demand.

4 Exceptional items and remeasurements

Exceptional items and remeasurements are items of income and expenditure that, in the judgment of management, should be disclosed separately on the basis that they are important to an understanding of our financial performance and may significantly distort the comparability of financial performance between periods. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Exceptional items included within operating costs:		
Separation activities (i)	**8**	12
Restructuring costs (ii)	**1**	30
	9	42
Remeasurements included within finance costs:		
Net losses on derivative financial instruments (iii)	**18**	34
	18	34
Total included within profit before tax	**27**	76
Included within taxation:		
Tax on separation activities	**(2)**	(2)
Tax on restructuring activities	**-**	(6)
Tax on remeasurements	**(3)**	(6)
	(5)	(14)
Total exceptional and remeasurements after tax	**22**	62
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	**7**	34
Total remeasurement items after tax	**15**	28
	22	62

(i) As a result of the acquisition of the company by Quadgas MidCo Limited from National Grid Plc, a number of separation activities have arisen which are exceptional by nature as this is not in the ordinary course of the business, and the associated costs have been material in total across the periods in which they have been undertaken.
(ii) The Group is undergoing a reorganisation exercise. These activities are infrequent and exceptional in nature, and are financially material over the course of the exercise. Costs of £1m include consulting to support the reorganisation exercise and pension strain associated with a voluntary redundancy programme which is substantially complete.
(iii) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2020

5 Finance income and costs

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Finance income		
Interest income from pensions	**11**	9
Interest income from financial instruments	**-**	1
Finance income	**11**	10
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**7**	16
Other borrowings	**63**	62
Derivatives	**2**	4
Unwinding of discounts on provisions and lease liabilities	**-**	-
Finance costs	**72**	82
Remeasurements		
Net losses on derivative financial instruments included in remeasurements (i):		
Ineffectiveness on derivatives designated as:		
Cash flow hedges	**-**	-
Derivatives not designated as hedges or ineligible for hedge accounting	**18**	34
Remeasurements included within finance costs	**18**	34
Finance costs	**90**	116
Net finance costs	**79**	106

(i) Includes a net foreign exchange loss on financing activities of £20m (September 2019: £34m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

6 Taxation

The tax charge for the period from continuing operations, excluding tax on exceptional items and remeasurements, is £79m for the period (six months to 30 September 2019: £82m). The effective tax rate of 19.1% for the period (six months to 30 September 2019: 19.1%) is based on the best estimate of the annual income tax rate expected for the full year, excluding tax on exceptional items and remeasurements. Deferred tax balances forecast to reverse after 31 March 2021 have been provided for at 19%.

7 Dividends

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Interim dividend of £1,035.3 per ordinary share amounting to £175,000,000 was declared and paid on the 27 September 2019	**-**	175

No dividends are proposed for the current financial period.

Cadent Gas Limited

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2020

8 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in course of construction £m	Motor vehicles and other equipment £m	Right-of-use assets £m	Total £m
Cost						
At 1 April 2020	76	10,427	100	152	43	10,798
Additions	4	384	70	10	1	469
Reclassifications	-	64	(66)	2	-	-
Disposals	-	-	-	-	-	-
As at 30 September 2020	**80**	**10,875**	**104**	**164**	**44**	**11,267**
Accumulated depreciation and impairment						
At 1 April 2020	(21)	(908)	-	(84)	(10)	(1,023)
Charge for the period	(3)	(150)	-	(13)	(5)	(171)
Disposals	-	-	-	-	-	-
As at 30 September 2020	**(24)**	**(1,058)**	**-**	**(97)**	**(15)**	**(1,194)**
Net book value:						
As at 30 September 2020	**56**	**9,817**	**104**	**67**	**29**	**10,073**
At 31 March 2020	55	9,519	100	68	33	9,775

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and other equipment £m	Right-of-use assets £m	Total £m
Cost						
At 31 March 2019	55	9,682	80	138	-	9,955
Initial application of IFRS 16	-	-	-	-	33	33
At 1 April 2019	55	9,682	80	138	33	9,988
Additions	3	346	36	8	1	394
Reclassifications	6	35	(48)	2	5	-
Disposals	-	-	-	(1)	-	(1)
At 30 September 2019	64	10,063	68	147	39	10,381
Accumulated depreciation and impairment						
At 1 April 2019	(14)	(625)	-	(62)	-	(701)
Charge for the period	(4)	(138)	-	(13)	(4)	(159)
Disposals	-	-	-	1	-	1
At 30 September 2019	(18)	(763)	-	(74)	(4)	(859)
Net book value:						
At 30 September 2019	46	9,300	68	73	35	9,522
At 31 March 2019	41	9,057	80	76	-	9,254

Cadent Gas Limited

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2020

9 Fair value measurement

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.

	30 September 2020				31 March 2020			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Fair value through profit and loss ('FVTPL') instruments[1]	**385**	**-**	**-**	**385**	344	-	-	344
Derivative financial instruments	**-**	**41**	**-**	**41**	-	40	-	40
Liabilities								-
Derivative financial instruments	**-**	**(84)**	**-**	**(84)**	-	(73)	-	(73)
Total	**385**	**(43)**	**-**	**342**	344	(33)	-	311

[1]This balance consists of cash of £15 million (31 March 2020: £17 million) and current asset investments of £370 million (31 March 2020: £327 million).

Financial assets and liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to fair value, with the exception of borrowings, which are held at amortised cost.

The estimated fair value of total borrowings using market values at 30 September 2020 is £7,485m (31 March 2020: £6,994m).

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

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

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2020

10 Net debt

	Six months ended 30 September 2020 £m	Year ended 31 March 2020 £m
(Decrease)/increase in cash and cash equivalents	**(7)**	13
Increase/(decrease) in financial investments	**43**	(5)
Increase in borrowings & related derivatives	**-**	(227)
Repayment of lease liabilities	**6**	10
Net interest paid on the components of net debt	**91**	125
Change in net debt arising from cash flows	**133**	(84)
Changes in fair value of financial assets and liabilities and exchange movements	**(27)**	(27)
Other non-cash changes (IFRS 16 leases)	**(1)**	(35)
Net interest charge on the components of net debt	**(72)**	(160)
Movement in net debt (net of related derivative financial instruments)	**33**	(306)
Net debt (net of related derivative financial instruments) at the start of the period	**(6,734)**	(6,428)
Net debt (net of related derivative financial instruments) at the end of the period	**(6,701)**	(6,734)

Composition of net debt:

Cash, cash equivalents and financial investments	**385**	344
Borrowings and bank overdrafts	**(7,017)**	(7,014)
Derivatives	**(43)**	(33)
Lease liabilities	**(26)**	(31)
Total net debt	**(6,701)**	(6,734)

Notes to the condensed consolidated financial statements (continued)
Six months ended 30 September 2020

11 Retirement benefit schemes

	30 September 2020 £m	31 March 2020 £m
Present value of funded obligation	**(6,283)**	(5,572)
Fair value of plan assets	**6,815**	6,492
	532	920
Present value of unfunded obligations	**(4)**	(3)
Other post-employment liabilities	**-**	-
Net asset	**528**	917
Represented by:		
Liabilities	**(6,287)**	(5,575)
Assets	**6,815**	6,492
	528	917
Key actuarial assumptions		
Discount rate - Past service	**1.55%**	2.25%
Discount rate - Future service	**1.65%**	2.20%
Rate of increase in salaries	**2.10%**	1.80%
Rate of increase in RPI - Past service	**2.85%**	2.55%
Rate of increase in RPI - Future service	**2.75%**	2.40%

The net pensions position, as recorded under IAS19, at 30 September 2020 was a surplus of £528m compared to £917m at 31 March 2020. This decrease is mainly due to a decrease in the discount rate of 0.70% p.a. and an increase in the RPI inflation assumption of 0.30% p.a. These movements were driven by changes in underlying market conditions. The increase in the pension liability was offset by a gain on assets due to invested asset returns being higher than expected.

The Chancellor’s announcement on 4 September 2019 on the future of the RPI makes it likely that RPI will be aligned with CPIH from 2030 if not earlier. The market response to the announcement created uncertainty about the extent to which this potential change is priced into breakeven inflation rates implied by the gilt markets. 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. In prior years, the RPI inflation assumption adopted was based on market implied RPI inflation less an inflation risk premium adjustment of 0.2% per annum. Due to the uncertainty in the market, this inflation risk premium adjustment was increased to 0.3% per annum in FY20 to allow for some but not all the expectation that RPI inflation will be lower in the future.

Following the sale of National Grid Plc's remaining stake in the company in June 2019, the company has put in place its own DB pension arrangement, the Cadent Gas Pension Scheme (CGPS), into which the assets and liabilities of the Section C were transferred on 30 September 2020. All costs associated with the creation of this new scheme have been treated as an exceptional item.

12 Commitments and Contingencies

(a) Capital and other commitments

At 30 September 2020 there were commitments for future capital expenditure contracted but not provided for £289 million (31 March 2020: £556 million). We also have other commitments relating to contingencies in the form of letters of credit. These commitments and contingencies are described in further detail on page 160 of the Annual Report and Accounts 2019/20.

(b) Environmental claims

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

(c) 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.

(d) 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 either bonds or guarantees.

13 Related Party Transactions

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

There have been no material changes in the related party transactions described in the last Annual Report and Accounts.

14 Subsequent events

In October 2020, one of our shippers has been terminated by Ofgem as a supplier and as such the amounts receivable of £1.4m in relation to this shipper at 30 September 2020 will not be recovered from them. As this amount was covered by the COVID-19 Liquidity Relief Scheme (see COVID-19 statement on page 3 for more detail on this scheme), it has effectively been underwritten by Ofgem and a mechanism for recovery through future revenues will be confirmed in 2021. A further receivable balance for £1 million of invoices not covered by the scheme was held at 30 September 2020, against which Cadent hold collateral in the form of cash which will protect against any credit losses on this balance.