Cadent
Your Gas Network

Keeping the energy flowing

Annual Report
and Accounts
2017/18

We are Cadent. Your gas network.

Cadent owns, operates and maintains the largest gas distribution network in the UK, transporting gas safely, providing people with the energy they need to stay safe and warm, and protecting them in an emergency.

With more than 131,000 kilometres of pipeline and a 200-year legacy, we are in a unique position to build on strong foundations whilst encouraging the curiosity to think differently and the courage to embrace change.

Our skilled engineers and specialist teams are committed to the communities we serve, working day and night to ensure gas reaches 11 million homes and businesses, from Cumbria to North London and the Welsh borders to East Anglia.

We exist to keep the energy flowing.

Company registration number: 10080864

Highlights of the year

Financial

£1,852m
Revenue

£1,049m
EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation, and Exceptional items and remeasurements)
See our Chief Financial Officer's report on page 32 for reconciliation.

£612m
Capital investment

£724m
Operating profit

£9.4bn
RAV (Regulated Asset Value)

- Strong financial performance in our first full year as an independent business reflects the hard work and dedication of our workforce.
- We continue to invest heavily in the network infrastructure to deliver for our customers.

Operational

92%
Number of emergency calls answered within 30 seconds

99.996%
Network reliability

97.8%
Emergencies responded to within the hour

1,625km
Mains replaced

20,575
Carbon monoxide alarms provided

23,500
Fuel poor connections during this RIIO price control

- Increased customer satisfaction in a number of areas during a period of significant change and transition.
- Established Cadent as a stand-alone organisation, reshaping our functions under a new award-winning brand and identity.

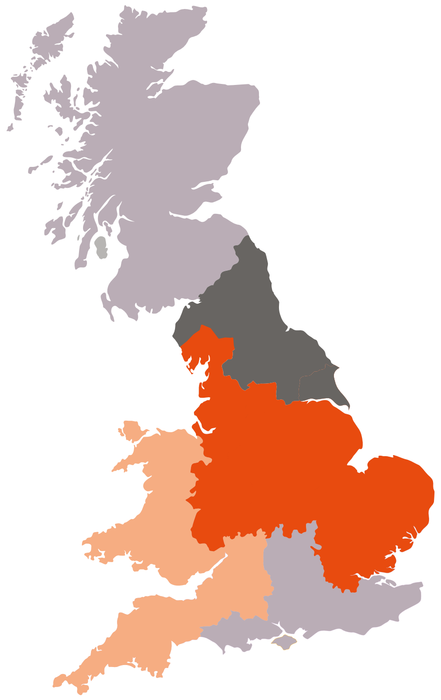
See page 16 for more information on operational performance.

The Annual Report and Accounts for Cadent Gas Group comprises Cadent Gas Limited and its subsidiary Cadent Finance plc, as such there is a consolidated set of financial statements and company only set of financial statements.

At a glance

Where we operate

Our four networks across England deliver gas to major cities including London, Birmingham, Nottingham, Norwich, Liverpool and Manchester.



Who we are

We exist to keep the energy flowing. Operating four of Great Britain's eight regulated gas distribution networks, we are responsible for the safe and efficient transportation of gas from the high-pressure national transmission system, through more than 131,000 kilometres of pipeline to 11 million homes and businesses. The work we do allows people to heat their homes and cook for their families.

Our 4,076 colleagues, supported by an indirect workforce of similar size, conduct asset improvement work, ensure the constant flow of gas and provide emergency response and repair services 365 days a year. We also manage the National Gas Emergency Service phone line on behalf of the gas industry.

With a total Regulated Asset Value of £9.4 billion as of March 2018, we account for almost half of the industry's asset base. The majority of our revenues are regulated under a price control framework monitored by the Office of Gas and Electricity Markets (Ofgem).

Formerly part of National Grid, with a legacy dating over 200 years, the company became an independent entity on 31 March 2017.

4,076
employees at 31 March 2018

273
terawatt hours of gas delivered

50%
of UK gas customers are served by our pipeline system

Our history

1986 Transfer of assets of British Gas Corporation to British Gas plc (integrated gas company for UK), with trading of shares in British Gas plc commencing in December

1997 Demerger of Centrica from British Gas

2002 Merger of National Grid and Lattice, which had been demerged from British Gas in 2000

2005 Sale of four gas distribution networks, and adoption of National Grid as the single name for principal businesses

2016 Creation of National Grid Gas Distribution Ltd as part of National Grid

2017 Sale of a majority stake of National Grid Gas Distribution in March, with operations beginning under the Cadent brand from May

Strategic report

Strategic report

Chairman's statement

We play a key role in helping shape the future of the industry.

Sir Adrian Montague CBE
Chairman

I am pleased to introduce Cadent's first annual report as an independent entity, following its separation from National Grid.

With a legacy dating over 200 years and being the largest distributor of gas in the UK, Cadent provides a vital component of the UK energy infrastructure. Our ambition is to establish ourselves as the frontier gas distribution company and to secure a key role for gas in the country's future energy mix.

We have had an encouraging start to this new chapter, with solid results for our customers and investors during a period of significant change whilst establishing the new business and the Cadent brand identity. We have continued to deliver a safe and reliable supply of gas to 11 million homes, offices and industry and improved our service to our customers whilst maintaining our focus on efficiency.

We have also continued to play a key role in helping shape the future of the industry and meeting future customers' energy needs through our innovation portfolio. We recognise that there is more to do before we can become the company we aspire to be, and the Board is focused on supporting management to achieve this.

Board governance

From a governance perspective, the primary focus has been on assembling the Board and establishing governance frameworks and procedures.

We now have a larger Board than under our previous ownership structure, with diverse representation from our consortium of UK and overseas investors. We have also completed the appointment of further independent Directors. Previously there were two Sufficiently Independent Directors, Dr Catherine Bell CB and Dr Clive Elphick. I became a third Sufficiently Independent Director when I was appointed Chairman of Cadent in July. Clive stepped down from the Board in July 2017, with his role subsequently filled by Kevin Whiteman, who joined in January. On behalf of the Board, I wish to thank Clive for his valuable contribution at a time of significant transition for the business.

Kevin brings a wealth of utilities experience, having been Chairman and Chief Executive of Kelda, the holding company of Yorkshire Water, and Chairman of Wales and West Utilities. His previous roles as Chief Executive Officer for the National Rivers Authority and Regional Director of the Environment Agency also bring invaluable perspectives to our work to meet the needs of our broader group of stakeholders.

We now have the final Board structure in place, composed of three constituencies: Shareholder Nominated Directors, Sufficiently Independent Directors and the Executive Directors. This Board, with a strong balance of independence and wealth of experience, provides a solid platform to support the company in achieving its ambitions to become the frontier gas distribution company. In addition to forming the new Board we have spent a lot of time establishing the governance frameworks. With an Audit and Risk Committee and Business Separation Compliance Committee already active and the creation of a Finance Committee, Remuneration Committee, Nomination Committee and Safety, Health, Environment and Security Committee, we now have the structures in place. With this foundation established, we have been able to place an increased focus on the operational performance of the business.

Board focus and outlook

On 1 May 2018 National Grid Group announced it had entered an agreement with our existing consortium investors for the potential sale of its remaining 25% stake in our ultimate parent company, Quadgas HoldCo Limited. Preparation for this will be a key focus for the Board in the coming year. We will also continue to drive operational performance. This is grounded in ensuring we deliver gas safely and reliably to our customers whilst building on the improvements we have made in customer service this year to deliver consistent and improved service across all of our four network areas. The business has challenging targets to meet on mains replacement and other asset health improvements in a constrained and challenging construction market where managing increasing cost pressures and skilled resource availability will be a key focus.

We will ensure we deliver the outcomes we have committed to our customers, and that we have clear accountabilities and a performance drive across all of our networks, delivering with more pace.

This year has also seen the start of preparations for the next price control review period for the business (RIIO-GD2 starting in 2021). The Board's focus is on ensuring the business engages deeply with its customers and stakeholders to develop the right plans to meet their energy and service needs into the next decade and beyond. The Board is fully committed to the critical role that gas and our networks can play in supporting the decarbonisation of heat and transport. It is particularly encouraging to see that the cutting-edge projects Cadent and its partners are working on to establish alternative, more environmentally-friendly gas (for example by bringing renewable gas or hydrogen

into the network) are helping policymakers shape that future. We are firmly of the view that gas will continue to play a fundamental role in the country's energy mix and heating our homes and businesses and we are committed to ensure Cadent plays its part in providing thought leadership to bring this about.

As I look back on this pivotal year for Cadent, on behalf of the Board I wish to thank our employees and the management team for their hard work and commitment to the success of the business, and look forward to seeing the outcome of the exciting initiatives ahead.

Sir Adrian Montague CBE
Chairman
28 June 2018

Strategic report

Market overview

Cost-effective and reliable, gas is a fundamental part of the UK's energy mix.

23m+
number of gas users in the UK

Gas has been an energy source in Great Britain for more than 200 years and remains the main fuel for heating, cooking and hot water supplying more than twice as much energy annually as electricity.

There are over 23 million gas customers, one third of all energy consumption is gas for heating and the total gas network comprises more than 284,000km of pipes (source: Future of Gas 2015).

UK peak demand is 4,419 gigawatt hours.

Domestic energy consumption

Domestic Appliances	Gas	Electric	Other
Cooking	52%	48%	0%
Lights & appliances	0%	100%	0%
Space heating	77%	8%	15%
Water heating	76%	8%	16%

Source: BEIS Energy Consumption in the UK 2017 Update Data tables (2016 data from Table 3.02)

As successive governments consider longer-term energy policy, the challenge is to address the 'energy trilemma', a term that describes the difficulty in finding reliable energy sources that can meet demand while keeping prices affordable and reducing greenhouse gas emissions.

The Climate Change Act 2008 requires that, by 2050, greenhouse gas emissions will be reduced to 20% of 1990 levels. Whilst great progress has been made towards a low-carbon future in electricity generation, projected carbon reductions for the heat and transport sectors are minimal. With 84% of homes connected to the gas network and the fact that 80% of the buildings that exist today will still exist in 2050, finding cost-effective solutions that minimise the impact on the consumer must be a top priority.

Although traditional sources of gas are declining, there are various options for providing a continuing supply, both from the world market and from innovative and more diverse and distributed sources within Great Britain, such as bio-substitute natural gas (bioSNG) and hydrogen.

Read how we are actively working to decarbonise heat and transport in our 'Shaping the future of gas' section on page 26.

The gas network is resilient and flexible carrying different types of gas from different sources. The network reliability is over 99.9%, and copes with daily fluctuations in demand, as well as seasonal shifts.

Gas is critical to the security of energy supply. As we continue the transition to a low carbon future, the industry must work with policymakers, investors, innovators and customers to help them understand the capability and versatility of the gas network, and the long-term role of gas as a flexible, reliable and secure energy source that is cost-effective for consumers.

Chief Executive's review

> We have had a strong first year as a standalone entity.

Chris Train OBE
Chief Executive

A landmark year that saw the creation of Cadent has brought renewed focus, drive and confidence to the organisation and a firm foundation for the future.

We have always focused on achieving great outcomes for gas customers alongside the safe, reliable and efficient delivery of gas to 11 million homes and businesses. Separation from National Grid and our status as an independent organisation has provided the opportunity to establish our own identity and structure and has given our organisation a renewed sense of vision and purpose.

Strategy

Our strategy is simple – to deliver performance for customers and shareholders, and improve that performance such that we stand up well against industry benchmarks as we move towards the next price control period. It is about engaging with our communities, being a responsible business, safeguarding customers, and having a motivated workforce with the right skills and the right opportunities to develop careers within the organisation and the industry more broadly.

See page 12 for more information on our highlights and priorities

Performance

We have had a strong first year as a standalone entity, delivering solid financial performance while undergoing this major transition in ownership and in the face of a challenging external environment.

Our operating performance was also strong, and we have a trending improvement in the delivery of many of our regulatory outputs. Complaints have reduced by over a third and we are dealing with them more swiftly. This has been mirrored by our overall satisfaction scores where in both London and the East of England our scores for planned work have seen the largest upwards shift of any network in this price control. Our efforts to engage and act on our stakeholder feedback has also been recognised by our regulator Ofgem with another strong performance in our Stakeholder Incentive Submission.

Although our levels of customer satisfaction saw marked improvement, we are still short of where we want to be particularly in mains replacement in the West Midlands and connections in London and West Midlands. However, our strategic delivery partners, tRIIO and Balfour Beatty, are implementing plans to redress this, replicating interventions which have proven successful in other areas.

Challenges

The year was not without challenges.

The plummeting temperatures from the 'Beast from the East' in March led to the highest demand on our network for a decade and record numbers of calls to the National Gas Emergency Service, which we run on behalf of all gas distribution networks. Our network and people coped admirably with the challenges created by these national freezing conditions (read more about this on page 17).

In the early part of 2018 we began a survey recovery programme after we identified that a number of our high-rise buildings were not on our records and therefore were not part of our 10-year rolling survey programme for long life assets. This recovery programme will be fully completed by September 2018. We informed the Health and Safety Executive and Ofgem who have opened investigations into this issue. We are working with them on their ongoing investigations.

Organisation and culture

Separation from National Grid has given us the opportunity to structure our organisation to deliver the best outcomes for our customers, effectively and efficiently.

Creation of the Customer Performance team, headed by Mark Belmega, has placed the customer front and centre in all that we do, and has been a catalyst for our customer experience change initiatives.

One of the standout successes of the year was the creation of the Cadent brand. We used the process of defining the organisation's purpose and distinct identity – distinguishing ourselves from our history, while building on our expertise – to embed a set of values in the organisation, and to align people behind our purpose. We exist to keep the energy flowing, with a focus on keeping people safe and warm. The exercise has embedded a real sense of commitment and pride throughout the organisation. Our new ownership and independence has also brought a renewed focus on performance and efficiency, both in the short-term and over a longer horizon, consistent with a regulated business that manages long-life assets. A key element of this was the appointment in April 2017 of Steve Hurrell as Chief Financial Officer. With a background in a range of infrastructure businesses, Steve brings a broad experience of companies with large capital investment programmes and operational efficiency transformation. His capabilities complement the existing operational skills within the business, and he has proved a valuable addition to the team.

An example of how we are evolving is our transformation programme, which is designed to adapt our operating model and culture to enhance performance. While the transformation is still ongoing, the shift in accountability and clarity of ownership is already contributing to increased levels of customer satisfaction, and there is scope to generate further improvements in this and other operational areas. Historically, we were part of a structure that favoured a strong centre that 'pushed' processes to the operating networks. We are seeking to shift this to a 'pull' model, such that the delivery units call upon services from the centre in order to help them operate more effectively and efficiently. Giving our networks all of the levers will also allow more transparent and fair benchmarking across our business. This is a cultural change for the organisation, and early results are encouraging.

Another key workstream of the transformation programme and enabler of improved processes across the business relates to information systems, where we are yet to fully separate from National Grid. As custodians of critical national infrastructure, we are very conscious of the threat of cyber attacks. Our new structure and approach to information systems will give us more agility as a business to deliver for customers and communities while continuing to protect us from the ever-evolving cyber threats to our operations and activities.

11m
homes and businesses

131,256km
of pipes

£55m
invested in optimising the health of our assets

Chief Executive's review continued

We aim to deliver performance for customers, stakeholders and investors, and have clear strategic priorities to achieve this.

Our leadership

Our leadership team is uniquely qualified to deliver our strategy. With extensive experience of utilities, regulated businesses and corporate transformation, and a proven record of building stakeholder relationships and improved customer outcomes.

Executive Committee

Chris Train OBE
Chief Executive Officer

Steve Hurrell
Chief Financial Officer

Ed Syson
Director of Operations

Jonathan Callighan
Director of Construction and Procurement

Simon Fairman
Director of Safety and Network Strategy

Tina Sands
Chief Information Officer

Mark Cooper
General Counsel and Company Secretary

Mark Belmega
Head of Customer Performance

Richard Court
Head of Regulation & External Affairs

Chris Mead
Head of Human Resources

Strategic priorities	2017/18 highlights	Priorities for 2018/19
Delivering a safe and reliable network Read more in our Operating review on page 16	• Replaced and improved 1,625km of mains pipe. • Improved cable avoidance to only 0.12 incidents per km of mains replaced compared to 0.13 in 2016/17. • Fewer lost time injuries, 0.94 injuries per million hours worked. • Invested £55m in the optimisation of the health of our assets. • Achieved 99.996% network reliability. • 7% reduction in reported gas escapes on our network.	• Reduce 'gas off' times for high-rise buildings. • Increase delivery of replacement pipes to meet eight year targets. • Deliver remaining asset health investments. • Ensure our data capture is efficient and robust.
Performing for our customers and communities Read more in our Operating review on page 16	• Delivered significant improvements in customer satisfaction scores. • Created Customer Performance team to put customer experience at the heart of Cadent's activities. • Reviewed complaints processes, resulting in 34% reduction in complaint volumes and five point score improvement. • Made significant improvements in fuel poor connections in London with a 40% increase from 2016/17. • Developed common needs codes for the Priority Services Register. • 1,920 primary school children receive carbon monoxide safety awareness from 'Safety Seymour'. • Roll out of Locking Cooker Valves initiative to support people suffering with dementia.	• Embed customer focused mindset to improve satisfaction scores. • Work to achieve consistent performance across networks. • Roll-out change initiatives to enhance operational flexibility and optimise delivery of connections services. • Focus on reinstatement times to improve customer satisfaction. • Develop new processes to reflect the change in rules of the Fuel Poor Network Extensions scheme to maximise continued connections. • Continue industry leadership role on safeguarding customers in vulnerable situations.
Driving efficiencies Read more in our Operating review on page 16	• Created standalone Cadent organisation and reshaped functions. • Developed Cadent brand and identity and rebranded from National Grid. • Driven opex efficiencies through clearer ownership and accountability. • Managed increasing cost pressures in replacement work.	• Create IS infrastructure that is optimised for Cadent transitioning away from reliance on National Grid services. • Transform our Connections business, reduce lead times and deliver better service. • Manage the increasing cost pressures on replacement and capital works.
Sustainability Read more in our Sustainability report on page 22	• Connected first renewable gas provider to the London Network. • 1 terawatt hour of renewable gas produced on our network, enough to heat 87,000 homes. • More than 90% of spoil from streetworks activity is recovered, reused or recycled. Less than 20% of waste was sent to landfill.	• Facilitate connection of next stream of renewable gas plants, CNG filing stations and power generation. • Continue focus on reducing shrinkage through managing operating pressures, replacement work and minimising joint leakage. • Drive to zero waste to landfill and reducing use of plastics.
Shaping the future of gas Read more in our Shaping the future of gas on page 26	• Launched several landmark projects to test the viability of using lower carbon gas for heating and transport. • Achieved 6.9 out of 10 on RIIO Stakeholder Incentive Submission.	• Work to shape the RIIO-GD2 framework and future plan to create value for customers and investors. • Establishing Customer Engagement Group and regional stakeholder engagement plan. • Hynet North West – progress to next stage of feasibility. • Hydeploy – progress field trials. • BioSNG – move to commissioning.
Engaging our people Read more in Our people on page 28	• Aligned our people to Cadent values and clear purpose. • Achieved 57% employee engagement score.	• Continue to embed cultural transformation to deliver customer outcomes with pace.
Driving excellent financial performance Read more in the Chief Financial Officer's report on page 32	• EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation, and Exceptional items and remeasurements) = £1,049m • £724m operating profit • Operating Cash flow = £997m • Capital investment = £612m • RAV = £9.4bn • Adjusted Net debt to RAV = 62%	• Complete refinancing of short-term debt. • Continue to drive continuous improvement on efficiency of total expenditure (TotEx).

Chief Executive’s review continued

External market

There is greater than ever political and media focus on the cost of energy and energy provision. Over the last 12 months the networks have increasingly become part of that debate. There has been greater regulatory focus on the legitimacy of regulatory returns. Over halfway through the current price control and consulting on the next price control, we are being challenged by our regulator and other key stakeholders to ensure customers get real value from our part of the bill. In July last year we returned £54m of allowances back to the regulator for revisions to our London Medium Pressure strategy during this price control. We remain committed to delivering the benefits to the capital city in the future, but for now we rightly returned that allocated money to customers.

The future role of gas

Working with other gas networks and industry partners, we have made significant progress in demonstrating the critical role of gas networks in the country’s future energy mix, and exploring opportunities and challenges. The UK has made great strides on the decarbonisation of electricity, but less so in the areas of heat and transport. We are taking a leading role on several demonstration projects and are starting to influence the debate on what the journey to the decarbonisation of gas could look like, evaluating options spanning anaerobic digestion, BioSNG and the use of hydrogen (whether blended or pure).

The projects explore solutions that would minimise disruption to the fabric of people’s homes and businesses, 84% of which are heated by natural gas. A recent report by Policy Exchange found that to decarbonise heating with an electricity-based solution, including changes to home heating systems and associated capacity investment in the electricity network, would cost each household £12,000. Decarbonisation of gas would allow continued use of the existing network and gas boilers. We will continue our drive to connect more green gas to the network and the next 12 months will prove pivotal in our plans to demonstrate the use of hydrogen in the gas network with two key projects in Keele and the North West.

We have also been exploring options to decarbonise transport. Last year we commissioned a project in Leyland, working with CNG Fuels and the John Lewis Partnership to convert the Waitrose transport fleet to compressed natural gas. The pilot has been very successful in demonstrating a big reduction in carbon emissions, and also offers a great opportunity in terms of air quality, compared with diesel. Demand for CNG at that site has tripled in the past 12 months as other big retail and logistics firms such as Asda, DHL and Argos recognise the significant mileage a modern CNG fleet can achieve between refuelling, at a comparable cost to diesel, but with significantly better environmental benefits.

Another project we have supported in Swindon is centred on BioSNG, converting black bag waste to mains quality methane, used for compressed natural gas for haulage. We are currently working on a project with a CNG developer in north Birmingham, close to the M6, to convert one of our properties to a CNG filling site. This location should attract a broad fleet of vehicles.

Read more about our innovation projects on pages 22 to 27.

Responsible working

Responsible working and creating value for all of our stakeholders are inseparable from our core operations and output commitments. As such, information about safety, environment, social obligations, customer service and looking after our people are woven throughout this report in the Operating review (page 16), Sustainability report (page 22) and the section on Our people (page 28). While more detail is available in these sections, I wish to draw particular attention to two elements.

Firstly, we are proud to be leading work on customer safeguarding on behalf of the industry. We chair the utility sector-wide Safeguarding group which has been pivotal in introducing joined-up solutions to protect and support those in vulnerable situations. Our roll-out of locking cooker valves is creating safer homes for those living with Alzheimer’s and dementia, and our educational work to raise awareness of the dangers of carbon monoxide is being adopted by other gas networks.

Secondly, our focus on safety and continuing to emphasise its importance. We were deeply shocked and saddened to learn of the death of one of our contractors at our site in Watlington near Kings Lynn in December. The safety of our people, those working with us and our customers will always be a top priority. While we have worked hard and have achieved some really positive safety performance metrics, we will never be complacent about safety.

Outlook

We have a great opportunity to deliver customer outcomes we can be proud of by swiftly enacting our transformation programme to enable cultural change and enhance the capability of the organisation. We will continue to work to drive improvements in the run up to RIIO-GD2, with the aim of meeting and exceeding the expectations set by Ofgem. Combining the mindset of a new organisation with over 200 years of experience in the gas industry, we will also keep a longer term perspective and play a key role in influencing industry development. I am proud that we are in the vanguard of research to demonstrate the viability of solutions to help meet the challenge of the UK’s future energy landscape.

As I look back on our first year, to have achieved so much in the face of significant internal and external challenge is testament to our dedicated and talented colleagues. There is always scope to improve. It is early days, but we have a clear vision of what we need to achieve and are seeing encouraging results as we continue our work to keep the energy flowing to ensure customers are safe and warm.

Chris Train OBE
Chief Executive
28 June 2018

Strategic report

Keeping the energy flowing
Operating review

We have seen encouraging improvements as we implement change initiatives across Cadent, but recognise the need to drive further progress in key areas.

Overview

Our role is to operate and maintain the gas network that during 2017/18 delivered 273 terawatt hours (TWh) of energy to 11 million homes and businesses. We have to ensure it operates effectively, that we maintain or replace existing assets so that it continues to work efficiently in future and if there are issues on the network, such as leak or damage, that we react quickly to resolve the gas emergency.

This year we performed strongly against most measures and made significant progress in areas requiring improvement. We were disappointed that we continued to fall short of our targets in some of our customer satisfaction measures, however, we are working to address this as we strive to keep customers safe and warm.

Safe and reliable network

Pipework upgrades and improvements

An important part of improving and strengthening our network is planned work, replacing old iron mains with safer longer-lasting plastic pipe. The primary objective of the programme is safety, although it also significantly reduces gas leaks, with benefits to operating costs and the environment. Our focus on keeping people safe and warm means we have prioritised the removal of the highest risk pipes and are ahead of this target. These tend to be short, complex lengths and this strategic decision has had an impact on our performance against our kilometres replaced target which is now behind over an eight-year profile. We have developed plans to accelerate this in order to achieve our RIIO-GD1 target by the end of the price control period in 2021.

We continued our wider programme of asset health improvements to meet our network output measure obligations. We expect a step up in the forward work programme and investment to meet our eight-year commitments building on a new monetised risk framework that has been developed across the industry and with Ofgem.

Full details of our performance against our regulatory obligations are available in our performance documents on our website.

Responding to gas emergencies

We operate the National Gas Emergency Service contact centre, taking calls and giving safety advice on behalf of the industry. In 2017/18 we answered 1.5 million gas emergency calls. In total (including emergency calls and enquiries) our customer centre dealt with 2 million calls of which 92% were answered within 30 seconds.

We aim to respond to uncontrolled gas escapes and potential cases of carbon monoxide poisoning as soon as possible and our average response time for 2017/18 was 35 minutes. During the year we attended 423,570 reported gas escapes. 84,134 of these were directly related to our network which is a decrease of 7% compared with 2016/17. The rest of the calls were for other matters such as suspected carbon monoxide, or issues such as faulty boilers or meter problems.

Standards of Service	East of England	North London	North West	West Midlands
2017/2018 Controlled	97.7%	97.8%	98.9%	98.2%
2017/2018 Uncontrolled	97.1%	97.4%	98.0%	97.3%

A controlled escape is where it is possible to stop the flow of gas, and thus reduce the risk, by turning the emergency control valve on the meter. An uncontrolled escape is where the gas cannot be isolated or the source is unclear. Uncontrolled escapes have a standard of service of one hour, controlled escapes have a standard of service of two hours.

Case study

Rising to the challenge of the 'Beast from the East'

The end of February saw the UK hit by a cold wave named the 'Beast from the East' by the media, which brought plummeting temperatures and heavy snowfall to large swathes of the country. This, combined with Storm Emma, which made landfall in the south west at the beginning of March.

Demand for gas was the highest seen for more than a decade, 4,500 gas escapes were reported, which is around 290% more than on a typical winters day. Emergency engineers worked tirelessly to attend each and every one of those reports within our agreed standards, battling the weather and some of the worst driving conditions ever experienced to get to homes.

They were supported by an army of Operations and Maintenance teams working in snowy streets and fields to repair or assess the gas network and provide up-to-the-minute reports on the status of local networks so that our Network Strategy teams could safeguard supplies, reconfiguring our networks to ensure sufficient gas was available to all our customers.

On Thursday 1 March, as the weather began to hit, we took more than 40,000 calls in our customer contact centre. The following day we took around 36,000, and five or six times the typical volumes on the Saturday and Sunday. To put this in perspective, our busiest day in the whole of the previous year was around 8,500 calls.

One reason for the incredible volume was that several gas supplier contact centres were closed or limited by their staff's inability to get to work. Customers with boiler faults didn't know who else to call, so came through to us on the gas emergency number. At peak times, around 70% of the calls were not genuine gas emergencies, and 50% related to condensing gas boilers. We supported suppliers by doing what we could to get messages to their customers, explaining to people how to de-ice their boilers. While broken appliances aren't classed a gas emergency, cold homes in plummeting temperatures could have put people at risk of harm. Despite the incredible call volumes, this did not affect our overall 90% level of service for answering calls. Indeed, by Friday lunchtime our level of service for answering calls was 99%. To achieve this, we brought in an additional 80 call agents from elsewhere in the organisation, This extra capacity, combined with people working additional shifts meant, that at peak, we had three times the number of agents taking calls compared to a usual busy day.

We are immensely proud of the way our colleagues responded to this extreme situation. Teams worked tremendously hard for long and challenging days, we diverted people from non-core activities, gave extra training and reprioritised our operations in order to protect life and focus on vulnerable customers. We diverted non life-threatening calls to our local networks.

At times like this the spirit of Cadent shines through, and the organisation really came together to give us the extra capacity we needed. We can't thank our people enough for their commitment to doing the right thing, and to living our purpose of keeping the energy flowing and communities safe and warm.

Strategic report

Keeping the energy flowing
Operating review continued

The past year has seen us respond to some particularly challenging situations. Extreme weather in February and March (nicknamed 'the Beast from the East' by the media) led to the highest demand on the gas network for a decade and a huge spike in emergency calls, exacerbated by the closure of some gas suppliers' contact centres as their staff struggled to get to work. (Read about how our colleagues stepped up to the challenge in our case study on page 17).

In June 2017, our teams worked alongside the emergency services responding to the tragic Grenfell Tower fire. Since then, we have been working with local authorities and have been inspecting multi-occupancy buildings across the country. Due to the complexities of working on this type of building, sometimes work carried out as a result of these inspections has unfortunately resulted in people being off gas for longer than we would want. We also supported the emergency services following two explosions in Leicester in December 2017 and February 2018.

These incidents were not related to issues on our network. However, we have an important and ongoing role to play supporting the emergency services to deal with major incidents and providing reassurance to surrounding communities. Following each of these incidents there was a corresponding peak in call volumes to the National Gas Emergency Service in these areas. We called in additional resource to deal with the increased demand and our teams worked very hard to respond swiftly to any and all concerns about gas safety.

Working safely
Keeping the public and our people safe will always be a top priority. We have worked hard over the past year on a programme of continuous improvement and have achieved some really positive results in key areas of safety performance. We have reduced injury frequency rates and a re-focus on safety precautions when digging has resulted in fewer cable strikes. We have also made effective improvements to our streetworks processes to ensure that there has been a reduction in the number of trips and slips by members of the public in and around our works.

While there has been lots of positive progress and improvement, which should rightly be acknowledged and commended, we were truly saddened in December by the tragic death of one of our contractors who was working at our site in Watlington near Kings Lynn. This extremely sad incident was felt deeply across the business and, although it was not directly related to our operations or employees, we responded with some specific actions around safety. This included safety stand-down days across the whole company and our contract partners, accompanied by a safety bulletin and video. We hold bi-annual Safety Leadership Days and incorporate safety discussions into pre-work checks for construction projects. Learning from incidents is shared with operational department heads at the monthly Operational Safety Committee. We will continue to do all we can to make sure we keep our people, the people who work with us and the wider public safe.

Process safety
There were no process safety related incidents resulting in injuries or significant property damage during 2017/18.

Network reliability
Our overall network reliability, taking into account unplanned interruptions, was 99.996%, sustaining our performance relative to the previous year (2016/17: 99.996%). The figures in the table below exclude interruptions to customers in high-rise and medium-rise residential buildings, since if a gas escape or incident occurs in this type of property, further complexity arises accessing multiple flats under differing ownership, and the added complication of involving tenants and managing agents.

Unplanned interruptions performance table:

Network	Unplanned Interruptions (hours)
East of England	7.3
North London	10.8
North West	9.5
West Midlands	8.2
Average	8.95

Our London network has a particularly high proportion of high-rise and medium-rise multiple occupancy buildings, often with added building complexities that add to the planning, such as listed status. The table also excludes major incidents causing large-scale interruptions.

We have been working hard to reduce interruption times for customers in multi-occupancy buildings introducing new repair techniques, replacement methods and processes. In addition, we carried out a customer survey of the welfare facilities we provide which has led to the introduction of some new options for hot water provision for extended outages. We are also developing an Alternative Energy Programme to enable flats which only use gas for cooking to consider the option of moving to an electric option.

Delivering for our customers and communities
Fewer people off gas for shorter periods is a big contributor to customer satisfaction, but not the only one. Ofgem incentivise us to deliver good customer performance not just on the speed of what we do but other factors including the quality of the work and our communications. This has a value of up to £9m each year if we exceed targets, but also results in a penalty if we fail to deliver.

For each of our four networks, we measure customer satisfaction across the three primary customer-facing areas of our business: emergency response and repair, planned works, and connections (Connx). During 2017/18 our performance improved in nine of the 12 metrics, registering gains of 0.5 in two areas, which is a significant improvement. Notwithstanding our progress, we fell short of targets in three areas, particularly in relation to planned works and connections, and we are not where we need to be relative to external benchmarks. The table below outlines our customer satisfaction scores by network for different areas of the business (scores are out of a maximum of ten).

Customer Satisfaction table:

Network	Emergency Work	Planned Work	Connx
East of England	9.44	8.46	8.44
North London	9.05	8.25	7.17
North West	9.38	8.11	8.69
West Midlands	9.29	7.75	7.85

Recognising that customer experience sits at the heart of all that we do, one of the early changes we made when we became a separate business to National Grid was to create the Customer Performance function. We brought together several areas, reshaping the organisation around customers to give a clearer focus on delivery. Using lean principles, we have been working hard to streamline our services around an uncompromising focus on people's needs. A relentless drive to minimise time off gas starts not only to improve customer satisfaction, but also brings benefits to the business, by driving out process waste, reducing time queuing between activities and on paperwork, for example. It is early days, but results have been encouraging.

Complaints
Complaints handling is an example of an area to have seen demonstrable improvements from this shift in mindset. In the middle of last year we set an objective of seeking to resolve 80% of complaints within a day of the complaint being lodged. We started by testing new ways of working in one network and the results have been so positive that we've begun to roll it out across the business. The time taken to handle complaints has dropped markedly. Far less time is spent dealing with the complaint process and getting through backlogs, plus our workforce now puts greater effort into avoiding complaints in the first place. Volumes have reduced by 34% relative to 2016/17. Our regulatory complaints handling improved in all four networks, in some cases by as much as 70% and the recent introduction of a text message feedback service should further enhance our performance. The software allows customer satisfaction to be measured in real time, with any customer registering dissatisfaction receiving a phone call within an hour to address concerns.

We have also moved a lot of complaints handling to our networks, which has helped with efficiency. This has removed undue lengthy processes giving teams in the local networks the ability to resolve complaints more efficiently. Another related initiative is increasing the numbers of customer liaison officers in each of our networks, whose responsibility is to focus on how things feel to the customer, and to get to the right people in the right order when resolving issues. They also play a proactive role in preventing dissatisfaction, by building relationships with landlords and managing agents in high-rise buildings, for example.

Keeping the energy flowing
Operating review continued

Our complaints handling score has reduced from our target of 11 to between three and eight, depending on the network (the aim is to achieve as low a score as possible). We have only recently rolled out the initiative to the last network, so we should see further improvements. As well as the organisational and behavioural changes outlined above, we have also introduced stronger financial incentives in relation to customer performance to our contractor partners.

Streetworks
Our work to strengthen the gas network so that it meets future energy needs inevitably means working in the street and we're ever mindful of the impact this can have on communities, particularly around congestion and managing traffic. In June 2017 we were awarded a Gold Award by the City of London Considerate Contractor Scheme for the work we did to reduce the impact of our mains upgrade work. Careful planning including discussions with local authorities and stakeholders takes place before these projects get underway to ensure any disruption associated with the work is minimised. Work is carefully scheduled to ensure it is delivered at the best possible time and technology is also used to inspect pipes, dig smaller holes and extract waste.

We have done a lot of work across the country to reduce our impact. Despite there being more schemes than ever before, we are paying less in charges for any overstay on the highway. Since 2014 more than 97% of our works have been completed within the Highway Authority agreed timescales, and improvements to our planning and works management have this year seen a £400,000 decrease in charges compared to 2016/17.

Social outputs
The very nature of our work takes us into homes and communities on a regular basis. We live in the communities in which we work, so it should be no surprise that we have a real commitment to making a difference to society.

Heat and food are basic human needs and we play a key role in helping people to access affordable energy. A core pillar of this is providing connections to fuel poor customers. These are people living in some of the most deprived areas of the country (as defined by the UK Government) who don't have a gas supply to their homes and are therefore using more expensive means of energy for heating and cooking. During 2017/18 we provided just short of 5,500 fuel poor gas connections to customers across our networks, in line with our targets for the RIIO-GD1 period. More importantly, these customers can dramatically reduce the proportion of their household income spent on fuel bills. The most significant development has been in London where traditionally fuel poor connections have been difficult. This year we have changed our relationship with Affordable Warmth Solutions (AWS), who deliver the work on our behalf, giving them more accountability for building local relationships and solutions. That shift has seen an increase in connections in the capital city and they are now 18 months ahead of their recovery plan.

In July 2018 the criteria for eligibility for a fuel poor connection will change. However, AWS are already working on plans for how they can continue to deliver connections focusing on community schemes and helping more people to understand if they qualify for a free connection.

Another core element of our work to keep customers safe relates to carbon monoxide, raising awareness and intervening to minimise the risks from this colourless, odourless toxic gas that can escape from poorly maintained flues and appliances. Our dedicated teams issued safety advice to 116,439 customers, warning them of the dangers and signs of carbon monoxide, and advising them of the three key steps to keep themselves and their loved ones safe. In addition to the training we give directly to individuals, we also work closely with Fire and Rescue services, councils, housing associations and universities and other groups who interact with customers. We supplied 20,575 carbon monoxide alarms to customers at elevated risk. We have continued to roll-out our Safety Seymour campaign, teaching Key Stage 1 schoolchildren about the risks of carbon monoxide through interactive drama. We ran 64 sessions in schools, an average of nearly two per week during term time, reaching thousands of schoolchildren and their families. We are pleased that the other gas distribution networks have adopted the Safety Seymour scheme.

Following our work in 2016/17 leading a pan-industry safeguarding working group, the Priority Services Register was redefined, allowing vulnerable customers or their carers to register once to receive the services they need across the gas and electricity sectors.

And working with the Alzheimer's Society and others, we also supply and fit locking appliance valves free of charge to people in vulnerable situations, enabling carers to temporarily isolate an appliance to reduce the risk of it being used unsafely.

Case study
Tunnelling under the Thames
Starting in the grounds of the Royal London Hospital, home of the Chelsea Pensioners, the Chelsea Tunnel project was part of Cadent's £1bn investment plan to replace gas mains across the North London Network.

Strategic large diameter gas mains in central London are deteriorating, and there have been more than 550 gas leaks across the medium pressure network in the last five years. There is a need both to remove the risk associated with the Victorian infrastructure and to reinforce the network for future growth in demand.

A new pipeline needed to be constructed between Fulham and Battersea. Existing bridges were unable to accommodate a new gas main and we are decommissioning existing pipe bridge crossings, where possible, so we constructed a dedicated tunnel to house a significant supply pipeline that will secure future gas supplies for Londoners and support over £15bn of growth in Battersea and Nine Elms.

As part of the £17.5m infrastructure project, our tunnelling machine Amanda excavated $4,500m^3$ of material, the equivalent of 30 double-decker buses. The 1.8m diameter pipe crossing beneath the River Thames sits 15m below the river bed at its shallowest point. It took 79,200 man hours to construct the shafts and tunnel. Tunnelling between Chelsea and Battersea took 24 days, with work done around the clock, seven days per week. At 330m, the tunnel is longer than the height of the Eiffel Tower (324m) and The Shard (310m).

The tunnel was completed on time, within budget and with zero health and safety incidents. We are proud that the Chelsea Tunnel project was shortlisted for the Institution of Civil Engineers 2018 London Awards in the Best Infrastructure Project and Greatest Contribution to London categories.

Driving efficiency
Significant focus has been placed on the transition from National Grid to establish the functional structure for Cadent as an independent entity. This has enabled the support functions to be tailored to meet the needs of a gas distribution only business and for us to consolidate some of our activities for example, we have combined Procurement and Construction and joined Corporate Affairs activities with our regulatory and stakeholder engagement function. In addition, we have successfully rebranded the business in an efficient and effective way for our customers and employees.

We delivered a strong total expenditure performance for the year with continuous improvement efficiencies in operating costs. Becoming an independent business has also brought a renewed focus on the operational efficiencies through accountability and focusing on the customer outcomes.

An example of this in action is that we exceeded our regulatory target for the percentage of calls answered by the National Gas Emergency Service free phone line within 30 seconds, at the same time as delivering a 24% operational cost reduction in the Customer Performance department. We achieved this through a combination of initiatives, including a better alignment of shifts, enhanced training programmes focused on agents' average call handling time and being able to identify genuine emergencies (as opposed to wrongly directed calls or hoax calls), and by using the website and social media to respond to customers.

We will continue to engage with the workforce around productivity and safety, shifting decisions and accountability much closer to parts of the business that interact with customers. Moving decision making to where the consequences of decisions are apparent unleashes creativity within the organisation, something we will support with leadership development, and compliance and control, as responsibility moves down the organisation.

We have started seeing some of the benefits already, but we are only a few months into the transformation programme and it's a journey of several years.

Information Systems (IS) is the last remaining element to be addressed to complete our separation from National Grid. In establishing our own systems and infrastructure we are looking at the best way to design flexibility such that IS becomes a real enabler of productivity and experience for our customers.

We have delivered a step up in investment across our replacement and asset health activities but anticipate a larger step up in the next three years. Whilst our investment unit cost performance remains strong relative to our peers, we are experiencing significant pressures on our costs due to the pull on skilled labour in the construction industry, increasing uncertainties in the market arising from Carillion 's failure and increasing streetworks legislation affecting our day to day works. This will be a significant challenge for us to manage alongside the step up in workload over the coming years.

Overall, we're continuing to focus on efficiency, driving great outcomes for customers. In the five years of RIIO-GD1, the totex savings we have achieved to date will result in £230m being returned to customers over time, through a reduction in our part of their gas bill.

23,500
Fuel poor connections during this RIIO price control

Strategic report

Improving environmental performance
Sustainability report

Minimising our impact on the environment is something we take very seriously, and is a core consideration in how we work.

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 employees and stakeholders.

61%

Greenhouse gas (GHG) emissions reduction achieved. Our target was 45% by 2020.

Our environmental ambition is underpinned by three primary commitments, which are to:

- Look for ways to reduce the impact of climate change by implementing mitigation and adaptation measures.
- Ensure environmental sustainability is considered in our decision making and inspire a sustainable thinking culture.
- Continually improve our environmental management system to protect the environment and reduce the risk of environmental incidents.

Managing the environment is about more than just reducing risk and minimising impact. Best practice environmental solutions drive efficiency, save money and preserve natural resources hand in hand with business activity. We want everyone to contribute to delivering the highest standards of environmental performance, embedding it as part of their everyday activities and decision making, whether in the office or in the field.

To ensure our environmental obligations and responsibilities are managed in the right way, we work with internal and external stakeholders to identify applicable legal and other requirements along with any significant areas of potential risk to, or impact on, the environment. All of our operations are covered by an Environmental Management System (EMS) certified to ISO14001 that sets out environmental procedures to identify, manage and control potential environmental impacts of our operations. The EMS defines our key objectives and ensures compliance with our obligations and supports our people.

As part of our drive for continual improvement, during the last year we carried out an environmental baseline exercise to assess the status and quality of the environmental practices at every occupied Cadent site. The results have provided a comprehensive insight into our risks and improvement opportunities. Based on these findings, we have established action plans and targets that will ensure we can deliver targeted and measureable improvements in both the short and medium term.

Greenhouse gas (GHG) emissions

We recognise the opportunity that businesses like ours have to help address global issues. We have publically committed to medium and long-term targets[1] to reduce our GHG emissions and have already successfully reached our 2020 target ahead of schedule (61% 2017/18 vs 2020 target of 45%). We also remain on track to meet our longer term target of reducing GHG emissions by 80% by 2050.

The majority of our GHG emissions are from gas losses on our networks (>95%). We are addressing this through our repair, maintenance and mains replacement programme, replacing damaged or inefficient pipes with new and more sustainable, leak-free plastic alternatives.

Other main sources of our GHGs are energy consumption in offices and other business premises, along with fleet vehicles, primarily vans and company cars. We work to ensure we procure efficient vehicles for our fleet, have a cap on company car emissions and offer 'green' incentives to company car users, encouraging efficient, low emissions choices which are taken up by 90% of drivers. We have implemented an energy management system across the business that monitors performance and identifies opportunities for reducing energy consumption. Efficiency targets have been set at our largest sites which account for over 80% of our utility energy use.

We are committed to leading on sustainable gas usage and have identified wider use of the particularly renewable compressed natural gas (CNG) 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 can play as a zero emission (at point of use) fuel. Read more about our initiatives on page 26.

1 Target refers to Scope 1 and 2 emissions based on a 1990 emissions baseline of 3.97 MTonnes CO_2e

Our GHG emissions are reported in the table below:

	13/14	14/15	15/16	16/17	17/18
Shrinkage $ktCO_2e$ Scope 1	1,461	1,416	1,365	1,347	1,297
Non-Shrinkage Direct Emissions – Scope 1 tCO_2e	32,241	24,671	25,949	26,324	24,910
Indirect emissions - Scope 2 tCO_2e	21,574	17,681	17,405	12,484	12,002
Total Scope 1 and 2 $ktCO_2e$	1,515	1,458	1,408	1,386	1,334
Intensity values					
Shrinkage GWh	1,417	1,374	1,324	1,307	1,258
Energy throughput GWh (gigawatt hours)	265,481	257,851	253,438	261,112	263,700
Intensity 1 GWh/GWh	0.53%	0.53%	0.52%	0.50%	0.48%
Network length (km)	109,125	109,060	108,328	109,152	108,066
Intensity 2 MWh/km (megawatt-hours per km)	12.99	12.60	12.22	11.97	11.64

NOTE: Our GHG calculation and reporting process follows the Greenhouse Gas Protocol ('operational approach') and the DEFRA Environmental Reporting Guidelines (2013). The boundary for reporting includes emissions from sources under our control, grouped under: Scope 1 (direct) GHG emissions from owned assets; and Scope 2 (indirect) GHG emissions from energy supplied to owned and leased offices and depots such as electricity.

NOTE: Data prior to 17/18 is for the Gas Distribution business whilst part of National Grid.

Strategic report

Improving environmental performance Sustainability report continued

Waste

To minimise waste generation, we encourage our employees and work with external partners to reduce the waste that is produced. Our Gas Distribution Strategic Partners are incentivised to recover, reuse or recycle at least 90% of the spoil they generate from excavations and street works, and use less than 30% first use aggregate for backfilling. Overall, they are currently outperforming against the spoil target and meeting the aggregate goal.

We have set a goal of zero avoidable waste to landfill by 2021 which will deliver significant efficiencies and cost savings for the business. In 2017/18, about 19% of our waste went to landfill, which is expected to reduce to 10% next year. However, fully meeting our targets will require changes to our facilities, behaviours and innovation. Our sustainable waste management strategy was launched in 2018 to challenge the business to deliver a step change in the ways we generate and dispose of waste. This has started with a programme targeting the removal of all single-use plastics in offices and depots by 2019. We are also assessing how we can extend our plastic reduction aims into our supply chain where we have set a target to have zero avoidable plastic in our supply chain by 2025.

Other environmental impacts

Although greenhouse gases and waste are considered our primary environmental issues, we also monitor and address other environmental impacts including energy and water consumption.

Across our activities we consider air quality risk as well as emissions. This is most relevant in the context of our large vehicle fleet which produces air emissions resulting from the combustion of fossil fuels. In addition to the environmental impacts of these emissions, potential future government policy relating to fossil fuel powered vehicles has been identified as a business risk. As such, our Sustainable Transport team is working with internal and external stakeholders to assess the issue and consider sustainable alternatives, such as the use of renewable biogas as an alternative fuel with lower impact on air quality.

Performance summary

We believe that transparent disclosure of performance against our targets is essential. The Key Performance Indicators (KPIs) reported are reviewed regularly by the Group's Executive Committee and the Executive Safety, Health, Environment and Security Committee, who are accountable for environmental policy and performance. Some of our measures have been imposed by Ofgem and are marked accordingly.

Objective	Target	2017/18 Outturn	2016/17 Outturn
Category 1 incidents (monitor only)		0	2
Major non-conformance against ISO14001	0	0	0
* Transport emissions – Commercial fleet and business mileage	4% reduction over RIIO period	-13%	-6%
* Energy consumption in offices & depots	27% reduction over RIIO period	-33% (31.2 GWh)	-31% (32.5 GWh)
* Waste spoil diversion from landfill	90%	97.80%	92.60%
* Virgin aggregate used (no more than)	30%	14.90%	18.46%
Environmental baseline score	100%	63%	N/A

* denotes measure imposed by Ofgem

Contributing to energy market development
Shaping the future of gas

We play a leading role in contributing to the development of the UK energy market, both in the short term as we look to RIIO-GD2, and in the longer term to support government decarbonisation targets.

Preparing for RIIO-GD2
RIIO-GD2 will be the next price control for us and the other three network companies that own and operate the gas distribution networks in Great Britain. This will be the second price control period using the RIIO framework and will start in April 2021. It will not only shape the industry in the short term, but out to 2050 and beyond. Ofgem has initiated its review to develop the new framework and we have been working with stakeholders to reflect on the RIIO framework and to look forward to the next price control period.

The key issue that must be addressed is establishing the correct balance of risk and reward between energy networks and customers. In doing this it is critical that Ofgem balances protection for customers whilst maintaining the strong incentives present in the RIIO framework on companies to continue to take a long-term view when managing the networks, driving innovation and efficiency which is to the benefit of those same customers.

We are supporting the introduction of a performance returns sharing factor which progressively shares more benefits with customers as a way to achieve this balance and this would represent an innovative way of offering the protections Ofgem are seeking whilst maintaining strong incentives on companies and a stable platform for investors.

Our recommendations are built around the following four key messages:

- The RIIO framework has delivered service quality improvements and efficiency for all of our customers providing a strong platform to build on for RIIO-GD2.
- The biggest challenge facing the UK energy networks is the decarbonisation of heat and transport.
- Networks must be able to achieve attractive but fair returns. These returns should be supported through service quality improvements that are in the interests of, and supported by, our customers.
- Collaboration across the industry will be critical in delivering against the increasing demands of our customers and the 2050 targets for decarbonisation.

Read more about RIIO and our price control on our website cadentgas.com/about-us/regulation/riio

Stakeholder engagement and consumer engagement
2017/18 saw another step change in our stakeholder engagement activities. Our aim has been to enhance our engagement by focusing much more specifically on four network regions (a key part of our strategy as Cadent).

We have held stakeholder events across our regions to understand our stakeholder priorities and look forward to what they are looking for us to deliver in the next decade and beyond. We have continued to play a leading role across industries in supporting customers in vulnerable situations, managing

disruption caused by streetworks and also thought leadership and innovation on the future role of gas.

Our independent Stakeholder Advisory Panel has continued to support us in shaping our activities and approach and we are building on this success by enhancing our engagement with consumers, which is crucial as we develop our plans for the next regulatory period. We will be creating an independent Consumer Engagement Group in the summer of 2018 which will inform and challenge our plans, supported by continued engagement across our breadth of national and regional stakeholders.

We are delighted that our progress on stakeholder engagement is being recognised by our continued strong performance in Ofgem's Stakeholder Engagement Incentive Scheme where we have been the top performing gas distribution network over the first four years of RIIO.

The future role of gas
The direction of energy policy and the shape, size and mix of the UK's energy network are subject to much discussion. Evaluating the role that the gas network can play in both the short and long term is a crucial element of assessing how policymakers can address the energy trilemma of security, affordability and sustainability. There are considerable opportunities and challenges in designing the UK's future energy mix. Gas will play a critical role in decarbonisation of heat and transport, but there is no single solution to achieve this.

Adopting this longer term perspective is influencing how we direct our investment and innovation efforts and resource today.

Our Future of Gas activities are designed to address three principal requirements:
- Engaging with stakeholders to encourage awareness and participation in the debate.
- Developing solutions that can lower emissions now.
- Providing evidence to support assessment of longer term policy decisions to decarbonise gas.

We are active contributors to regional and national energy debates and policy development through various forums, and also engage with stakeholders through our Future of Gas thought leadership papers, which discuss how the gas networks can play a critical role in delivering a low cost and reliable path to decarbonisation.

Lowering emissions now
Working closely with partners across the sector and beyond, we are at the forefront of exploring options to decarbonise heat and transport. More detail is available on our website, but here we provide an overview of some key initiatives.

Renewable gas production plants convert waste from food and crops or sewage into a gas that has a negligible carbon footprint and is compatible with existing pipelines and appliances. In the last five years we have connected 29 providers of renewable gas to our networks, producing energy sufficient to heat 87,000 homes.

We have been working with project partners on the world's first commercially operating Bio-substitute natural gas plant (BioSNG), making gas from household waste. BioSNG is a green gas produced from conversion of wastes and biomass. It is an affordable, low carbon gas that can be used to heat homes and power vehicles. Having successfully demonstrated production in a £4.25 million pilot plant in Swindon, construction of a £29.5 million facility is underway and will commence operation during 2018. Gas created from bio-resources (including crops, sewage and black-bag waste) has the potential to generate a third of all domestic gas demand on Cadent's network, and we are working with our partners to evaluate how to roll-out BioSNG infrastructure.

We have also been exploring opportunities to introduce hydrogen into the gas network. Along with Northern Gas Networks and the HyDeploy consortium, we have begun a three-year project at Keele University to demonstrate that a blend of hydrogen and natural gas can be distributed and used safely and efficiently in a gas distribution network without disruptive changes for customers.

In addition to this, Hynet NW (a Liverpool-Manchester Hydrogen Cluster project) is a conceptual, but momentum gaining study, to develop a practical and economic framework to introduce hydrogen into the gas network. It proposes converting natural gas into clean-burning hydrogen gas, using a process called steam methane reforming. The process also removes CO_2 from the gas, which can then be captured using existing carbon and capture storage technology and stored in depleted offshore gas reservoirs. The hydrogen gas would then be supplied to a core set of major industrial gas users in Liverpool and Manchester and fed into the local gas distribution network as a blend with natural gas.

Decarbonising transport fuel
HGVs account for 15% of greenhouse gas emissions from UK transport. A switch from diesel to gas would have a significant impact on the UK Government's commitment to reduce emissions by 80% by 2050, and also contribute to cleaner air in our cities.

In partnership with CNG Fuels, we invested in the first commercial high-pressure CNG refuelling station, which has been operating in Leyland since March 2016.

Although the UK currently has CNG stations drawing natural gas from the medium and intermediate pressure pipelines, this is the first station to realise the further benefits from connecting directly to the high-pressure pipeline. Connecting directly to the high-pressure pipeline means less energy is needed to compress the gas for use as fuel.

The John Lewis Partnership currently uses the station to fuel its fleet of dedicated CNG heavy goods vehicles from their nearby regional distribution centre.

Results from the first 12 months of operation show that greenhouse gas (carbon dioxide) emissions from lorries using the Leyland station were cut by 84%.

Engaging
Our people

It's our people who deliver our strategy and deliver service for our customers.

Our people
We have a dedicated workforce of over 4,000 people. It's our people who deliver our strategy and deliver service for our customers. We are focused on recruiting the right people, supporting them to understand their role and our values, and then enabling them to develop and thrive in a high-performance culture.

Throughout 2017/18, the continued separation from National Grid has progressed well and we have created our identity as Cadent. Instrumental in driving this has been the work we have completed in several areas including policy and procedure change, Defined Contribution (DC) pension set up, establishing the Windsor Street Training Centre in Birmingham, building our Employee Value Proposition (EVP) and defining a set of employee attributes. In all this, we have had to rise to the challenge of balancing business as usual activity with the delivery of change programmes.

Our values
Following the launch of our values in April 2017 we have been embedding these across the business and continue to do so. Brand ambassadors in each part of the business worked with the people in their teams to bring to life what these values mean to them. Our first company survey as a new business saw all questions linked to our values, which have also been incorporated into our key people processes, including the performance management and objective setting process and into our company recognition scheme.

Driving performance by building our skills and expertise
Our people are essential to delivering our future vision. Without the right balance of skills our operational performance and ability to adapt to the future needs of the industry will be adversely affected.
We continue to bring in new talent to support our skills pipeline through apprentices, graduates and our Engineering Training Programme. These programmes help to replenish our workforce as many are retiring. During 2017/18 we delivered around 26,000 training days across our employee population of which 47% was focused on safety and technical competencies. During the year a review of our technical competencies has been undertaken to streamline our annual planning process and improve the quality of our operational training from 2018/19 onwards.

Our values

Commitment

Relentless focus on safety
Doing the right thing
Decarbonise our future

Dedication to deliver on our promises, keeping focused on safety and doing the right thing.

Community

Team solidarity
Human approach
Serving the nation

We're one business, focused on the needs of the communities we serve.

We also created a new specialist 'gas pressure control' training facility at our Windsor Street Operations unit to address our capacity and capability challenges.

Positive changes to training included efficiencies through increasing the proportion of on-site training (rather than bringing colleagues to our training centres) from 15% last year to 17%. We aim to increase that further in future years.

Through the Competency Assurance Programme we have also adjusted how we train, looking at modified approaches to reduce training volumes, but still maintaining the high standard to ensure competency.

We made good progress on our Leadership Framework, agreeing future scope for the core capabilities we need to invest in as an organisation to support our future goals. The curriculum for our core capabilities in change, commerciality, customer and compliance (regulation) alongside our leadership journeys will all continue to evolve further during 2018 and into the future.

Engaging our people
We believe that engaged employees will drive our business success and customer satisfaction. Our surveys are a key part of our listening strategy, which values the opinions of our employees as highly, and in connection with, those of our customers.

We ran our first independent Cadent Employee Opinion Survey (EOS17) in October 2017 taking time to align the survey with Cadent's values and external benchmarking opportunities. The survey results were delivered in late 2017 and all business areas are actively engaged in running their action plans to respond to the opportunities the survey identified.

The top three company-wide actions from the employee survey results are:
- Building understanding of Cadent strategic future and plans.
- Managing and supporting employees through change.
- Creating a work environment which enables productivity.

The EOS17 will be followed by two Pulse Surveys during 2018.

Building for the future
We are contributing to the wider skills challenge in engineering and the energy sector through our collaboration and cooperation with peer energy and utility organisations in the UK. Through our membership of Energy and Utility Skills and its CEO Skills Partnership group we have led the sector's Levy Advisory Group and supported the new 'Talent Source Network' programme aimed at increasing applications into our businesses from black and minority ethnic (BAME) communities and hard-to-reach socially disadvantaged groups.

We are also promoting engineering as a career. Through our membership of Energy and Utility Skills, Skills Partnership and Talent Source Network, we are joining together with other utility organisations, leveraging as one entity the interesting, exciting and valuable career proposition engineering can be.

We continue to recruit around 50 apprentices each year and this year the first cohort commenced under the government's new 'apprenticeship levy' framework where we are an approved provider of apprenticeships.

This year we also recruited 12 graduates onto our Graduate Development Programme and nine onto our Engineering Training Programme along with 126 experienced hire up-skillers to help improve and sustain our talent pipeline. We modified our Engineering Training Programme from three to two years which means we are training more efficiently whilst maintaining quality.

In our first year of operation, we won the Number 1 Apprentice Employer in the Job Crowd top 50 companies across all sectors. In the Energy and Utilities sector we came top in the best Apprentice Employer and 20th place in the top 100 Graduate Employers.

Inclusion and diversity
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.

Reflecting on the communities that we continue to serve; it is our ongoing intention to represent the diversity of our customers across the UK through fair and equitable recruitment processes. Through strategic partnerships with EU Skills & Equal Engineers and driving forward our own initiatives internally this year, we will ensure our ongoing commitment to equality across our gender, ethnicity and social mobility ambition.

By celebrating the success of our people along the journey we have come on as Cadent, we will take our Employee Value Proposition and use it to amplify our colleagues' stories both internally and externally to continue to encourage a diverse pool of talent.

Curiosity

Start-up mentality
Progressive outlook
Sharing ideas

Exploring and embracing new ways of thinking and working to meet the needs of our customers and stakeholders.

Courage

Open to change
Moving forward
Confidence

Challenging ourselves to shape the future and do things better.

Strategic report

Engaging
Our people continued

26,000
the number of training days delivered across our entire employee population

We recognise the challenges the UK faces around gender equality and alongside our external activity we will continue to promote our successful development programmes for women within Cadent. We are proud of the diversity of our workforce and will continue to challenge ourselves as we work towards true equality at all levels.

As a responsible employer we recognise the need to raise the profile of our sector through consistent engagement with our peers. By leveraging the expertise of similar businesses through the Talent Source Network we have entered into an agreement to recycle talent with the intention to retain industry skills whilst continuing to raise the profile of our sector.

Gender pay
In line with the new UK Gender Pay Gap Information Regulations, we published our gender pay statement in February 2018 and our plans to address the gaps we have identified.

We are pleased that both our mean and median pay gap stands at 8% which is below the UK average gender pay gap of 18%, while still recognising that we have further work to do. We are committed to consistently reviewing and addressing any imbalance we have within our business. When looking at our pay gap it is predominantly driven by two key factors. Firstly, we have more men than women in senior roles, and secondly, very few (less than 0.5%) of our field force are female and the total package for these employees includes other payments in addition to basic pay, such as standby and flexibility payments.

Our bonus gap is 41%. Almost half of this difference is explained by our field force package which incorporates elements that are classified as a bonus, therefore raising the proportion in the calculation. As the majority of our field force employees are male, and this is also the largest group of employees that make up the organisation, this has a significant impact on the bonus gap. The remainder of the gap in bonus relates to the fact that we have fewer women than men in senior managerial roles in the organisation.

Actions to impact the gender pay result include:
- Reporting on diversity data and ensuring there is rigour around our processes to check fairness eg, performance consistency checking.
- Ensuring there is clarity and fairness across our whole employee population and that this is reviewed on a continual basis.
- Continuing to support our employees and their career development eg, Spring Forward programme, designed to coach, train and support the ongoing empowerment and confidence for women in the workplace, with proven benefits in the wider industry.

Diversity programmes
We have membership and active participation in Energy and Utility Skills and participation with the Skills Partnership Group. This group focusses on the engagement, attraction and awareness by the sector of key target audiences including: women, BAME, service leavers, parents, unemployed, and 'NEETS' (Not in Education, Employment or Training). We also support development across all business areas by implementing peer to peer networks.

Health and Wellbeing
Our focus this year has been on improving compliance and engagement alongside developing our Health and Wellbeing culture.

We have set up and established a Hand Arm Vibration working group and a Mental Health and Wellbeing steering group, both have Executive sponsorship and business and trade union members.

A competitive tender exercise was undertaken in the autumn for a comprehensive range of Health and Wellbeing services including physical and psychological support. Our new occupational health provider will deliver bespoke programmes which enable us to manage and monitor work impacting health issues, as well as supporting and empowering employees to make positive lifestyle choices via our BeWell platform. During the summer a roadshow campaign focusing on 'wellbeing during change' visited 20 Cadent sites and a community event at the Special Olympics Summer Games in Sheffield. Some 1,800 employees engaged with the team and undertook personal health assessments using a portable Wellbeing kiosk and interacted with virtual reality mindfulness games.

Building community
Strengthening our reputation through the actions we take means our presence in communities is reliable, valued and trusted. Our responsible activities help us create closer connections locally with our customers and we recognise that we play an essential part in today's society, so we care about how our operations affect our stakeholders, employees and customers.

We communicate with our employees across a wide variety of topics and have established effective channels to do this, for example: emails, 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 sponsor the 'EmployAbility - Let's Work Together' scheme which changes young disabled peoples' lives for the better. This is a joint scheme which works by giving interns from our partner Special Educational Needs and Disability (SEND) schools experience working in a number of roles within the company. It is founded on strong relationships with local schools, Dorothy Goodman in Leicestershire and Oakwood, Woodlands and Exhall Grange in Warwickshire. It is an employee-led supported internship scheme for young people aged 17 to 19. Since the scheme began in 2014 an average of 71% of interns gained paid employment either with us or with other local companies, compared to the national average of 6% and we were recently awarded 'Most Supportive Employer' by the National Autistic Society.

New schemes inspired by our programme are now running at Severn Trent in Coventry, Sheffield Teaching Hospitals NHS Foundation, John Lewis and Amey in Sheffield, and Yorkshire Water in Leeds.

We also support the local communities with initiatives such as taking part in the BBC's DIY SOS – Big Build show recently, working alongside emergency services when there are fires in buildings to support the safety of the public. Employees have held fundraisers for Alzheimer's Society with whom we have an agreed two-year partnership. We have committed to creating 1,000 Dementia Friends within the business by June next year and also raising £100,000 companywide for the charity. Employees have jumped out of aeroplanes, climbed Snowdon, held a football charity match and have completed a bike ride of 100km through London at night. We also visit local community schools and colleges to inform children about gas safety and help raise the profile of Cadent to try and attract our young talented future engineers.

Human rights
Respect for human rights is incorporated into our employment practices and our values – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have specific policies relating to human rights, slavery or human trafficking, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through our Global Supplier Code of Conduct, we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the Ethical Trading Initiative Base Code and the UK Modern Slavery Act 2015.

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

1,000
Dementia Friends within the business by June next year

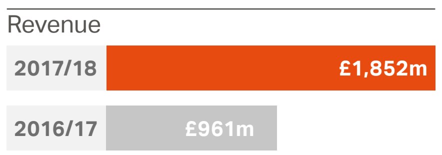
£100k
fundraising target within the two-year Alzheimer's Society partnership

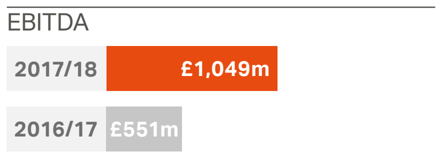
Strategic report

Chief Financial Officer's report

Driving improved business performance is a critical component of delivering value for customers and shareholders.

Steve Hurrell
Chief Financial Officer





2016/17 represents 6 months of trading

Introduction

It has been an exciting and busy first year for us which has seen the company achieve a solid financial performance, delivering better results, when compared to our 2017/18 financial targets. The results, when put in a context of the enormity of the challenges to establish the business on a standalone basis following our separation from National Grid, are particularly pleasing.

Our journey has only just started to embed a culture of effective and focused management of costs across our organisation, but the first year has been positive which provides encouragement that, along with the implementation of greater innovation, we can achieve our longer term financial goals. This strong financial performance in the year reflects the hard work of management and the dedication of our workforce.

As part of the preparations to sell the gas distribution business, National Grid established the legal entity that is now named Cadent Gas Limited on the 23 March 2016. The company started to trade on 1 October 2016 and consequently the results for 2016/17 represent only six months of operations. Comparison therefore between this financial year and the prior year are not particularly meaningful as the significant year on year movements are explained by the additional six months of activity in 2017/18.

Investing to improve safety in our networks

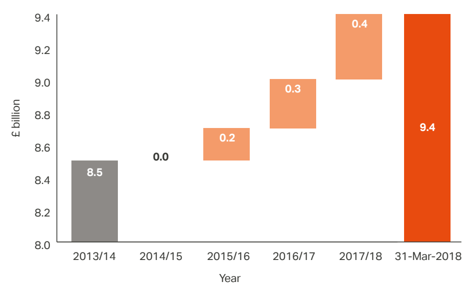
Our balance sheet is dominated by the value of our physical assets and the corresponding borrowings that fund our capital investment programmes. When looked at through the regulatory lens, our investment then converts into our Regulatory Asset Value (RAV). The RAV is a key metric, as is the effective delivery of our capital investment, to support the improvement of safety in our network in this price control.

Capital investment

Capital investment was £612 million (2017: £292 million) and is primarily associated with the ongoing gas mains replacement programme which saw 1,625km of mostly cast iron pipes replaced by polyethylene pipe during the year. The remaining capital investment was to maintain the integrity of our network infrastructure, growing to £205 million (2017: £124 million).

Our RAV grew by £0.4 billion to £9.4 billion in the year against which we have an adjusted net debt of £5,849 million, being 62% of RAV.

Regulatory Asset Value (RAV) Growth



Cash flow and net debt

Borrowings (both current and non-current) at 31 March 2018 were £6,377 million (2017: £6,042 million) mainly comprised of fixed rate and index linked debt.

Debt issuance

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

In the year we commenced our debt programme and successfully put in place a new debt issuance of a £300million 22-year bond through our financing subsidiary Cadent Finance plc, with the proceeds on-lent to Cadent Gas Limited. Additionally, we entered into new RPI linked inflation swaps as a hedge of a £400m 10-year floating loan from the European Investment Bank to align the underlying cash flows with Ofgem's revenue allowance mechanism.

Net finance costs

Net finance costs of £145 million were driven by external debt funding. Prior year finance costs included interest on loans with National Grid plc which were settled on 31 March 2017 as part of the sale completion of the gas distribution business.

The effective interest rate, including index-linked debt, for the year was 2.3%. The effective cash cost of interest (excluding the RPI uplift on index-linked debt) was 1.6%.

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. We manage liquidity by requiring at least 12 months liquidity is available at all times, with at least two months liquidity available within 24 hours.

As at 31 March 2018, liquidity was provided by a combination of immediately available cash and committed bank facilities. The cash balance held in Money Market Funds totalled £160 million, following receipt of the bond proceeds issued in the year. 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 £500 million with a further £380 million facility available to be lent down from the immediate holding company, Quadgas MidCo Limited. These facilities were undrawn at 31 March 2018.

We also maintain a bond programme through Cadent Finance plc which allows efficient access to debt capital markets, in a range of different currencies. The combination of short-term liquid funds and access to longer term borrowings allows us to keep a healthy level of liquidity.

Credit ratings

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

Adjusted Net Debt	£m
Borrowings	6,377
Cash and financial investments	(169)
Derivatives	(9)
Net debt	6,199
Derivatives	(12)
Unamortised debt fees	12
Unamortised fair value adjustments	(309)
Accrued interest	(41)
Adjusted net debt	5,849

Chief Financial Officer's report continued

Operating performance
Revenue was £1,852 million (2017: £961 million) driven by our regulatory allowed revenues which account for c.99% of our turnover. 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 six months ended March 2017 include the seasonal impact of higher winter gas demands which, coupled with fluctuations in the profile of our allowed revenues, account for the reduction in average monthly revenues in the year ended March 2018.

Operating profit was £724 million (2017: £388 million) with operational expenditure largely comprised of charges associated with our usage of the National Grid Gas Transmission network, business rates and employment costs of our direct workforce and contract partners.

EBITDA Reconciliation

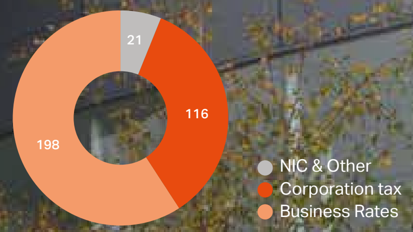
	2018	2017
Operating profit	724	388
Depreciation & amortisation	305	152
Exceptional items & remeasurements	20	11
EBITDA	**1,049**	**551**

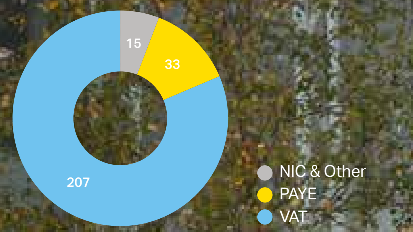
Taxation
Our effective rate of corporation tax for the year is 19.7% (2017: 17.9%), increases in the effective rate from the prior year reflect the ending of certain historical National Grid transfer pricing adjustments relating to intercompany loans.

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. 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.

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2018 was £590m in total.

Taxes borne (£m)





Dividend
Our dividend policy is to balance the distribution of available surplus funds to shareholders, after having considered the forward committed cash requirements of the business to support our investment programmes and the managing of the appropriate level of gearing. The company had £5,742 million of distributable reserves including the profit in the period. During the year we paid dividends totalling £418 million (2017: £95 million).

Pensions
We operate pension arrangements on behalf of our employees, many of whom are members of Section C of the Defined Benefits section of the National Grid UK Pension Scheme (NGUKPS) which is closed to new entrants. Membership of the Defined Contribution scheme is offered to all new employees.

With respect to the Defined Benefit pension arrangements the company made contributions of £60 million during the course of the year including £38 million as part of a deficit reduction plan agreed with the trustees.

On an IAS 19 basis the Defined Benefits pension scheme is in a net asset position of £507 million at 31 March 2018 (2017: £34 million) due to actuarial gains and higher returns on plan assets than the discount rate.

Impact of new accounting standards – IFRS 9, 15 and 16
Three new accounting standards are to be introduced, two of which came into effect on 1 April 2018 (IFRS 9 and IFRS 15), with the third, IFRS 16, coming into effect on 1 April 2019 for Cadent Gas Limited.

IFRS 9 'Financial Instruments' addresses accounting for our financial assets and financial liabilities. As part of this, it introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has reviewed its existing financial assets and liabilities accounting and does not expect the impact of IFRS 9 to have a material impact on its financial position.

IFRS 15 'Revenue from Contracts with Customers' is based on the principle that revenue is recognised when control of a good or service transfers to a customer. We have reviewed a sample of contracts from across the Group and expect to see an accretive impact on revenue recognition for diversion and similar work, contributions during 2018/19. Further details of the impact of IFRS 9 and IFRS 15 can be found in note 1r of the consolidated financial statements.

IFRS 16 'Leases' will primarily effect the accounting for the Group's operating leases and will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. An assessment of the impact is ongoing and we will formally conclude on this later in this financial year.

Steve Hurrell
Chief Financial Officer
28 June 2018

Strategic report

Risk management and principal risks

Risk management overview

The Board is committed to protecting and developing our reputation and business interests. It has overall responsibility for risk management within the business and it has set the risk appetite 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 company's risk profile on a regular basis bringing together top down and bottom up risk management.

In line with our value of curiosity, 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.

In addition to the risk management process there are a number of 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.

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

Financial risk management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the company's material financial risks, including liquidity, credit, interest rate risks and foreign currency risks. These risks are monitored through a Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Cadent Gas Limited and its subsidiary.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that Cadent Gas Limited has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

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.

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 IAS 39, 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 forty principal customers. The creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal customers (eg, 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 monitor 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 Head of Treasury under delegated authority from the Board. The Group has no significant transactional foreign exchange, equity or commodity exposure.

The Group has exposure to interest rate risk and inflation risk and this is explained in the sections below.

The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

The company has limited direct exposure to impacts of Brexit however, we recognise the potential macroeconomic impacts which are addressed through our financial risk management.

Interest rate risk

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

Our principal risks and uncertainties include:

Risk	Risk management:
1. Safety, health, 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 our staff and the communities we serve. 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 significant financial penalties or claims.	• We have robust safety and 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 and environmental 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. • In the event of an incident we have well-practised 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.
2. Failure to protect consumers' interests We must keep both current, and future consumers, 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 consumers' energy bills and are committed to improving the service levels they can expect from us.	• Customer performance is recognised as a priority for our business and a dedicated 'Customer Performance' function has been established to ensure we are performing for our customers. • 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 established clear customer targets which are closely monitored, with improvement plans in place where necessary. This is monitored and governed by our Customer Performance 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. • Strategic projects have been established to specifically tackle areas of historic poor performance, such as connections. • Special measures are in place for customers identified by the Priority Services Register and mechanisms are in place to help customers register as priority customers.
3. Failure to effectively manage assets and maintain network reliability To ensure that we efficiently maintain a safe and reliable network for our customers, we must implement an effective asset management framework. It 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.	• Asset management framework in place and independently accredited to ISO55001 standard. • Risk-based investment programmes developed with appropriate decision support tools. • Funding to deliver required work agreed. • Qualified and trained engineering staff in key engineering integrity roles. • Engineering policies and procedures are in place designed to manage risk. • Robust project controls to manage delivery of remediation and replacement programmes of work. • Insurance against damage claims.

Risk management and principal risks continued

Risk	Risk management:
4. Failure to comply with legal and regulatory requirements or failure to deliver regulatory outputs 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 indicate failures in delivering an adequate service to our customers. It could also result in disruption to the operational business, financial penalties and damage our reputation. Failure to deliver regulatory outputs would damage our credibility with the regulator and customers. It could also impact our ability to earn future returns.	• 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. • We operate a compliance process which includes the review of our compliance with legal and regulatory obligations and is reported through the organisation to our Audit & Risk Committee and Board. • We have established a horizon scanning forum to identify, and ensure we prepare, for regulatory changes and developments.
5. 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 critical national infrastructure (CNI) systems, may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for a malicious attack.	• Critical processes and systems are understood and security controls designed on a risk-based approach. • Cyber controls are currently provided under an arm's length agreement from National Grid's Digital Risk and Security team which is scheduled to finish by the end of March 2020. • We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber threat could adversely affect the company'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 Centre for Protection of National Infrastructure on key cyber risks and development of an enhanced CNI security strategy. • Business Continuity Management (BCM) and resilience steering groups are in place to ensure the effective management of BCM and resilience across our business. • BCM plans are in place for critical processes and routinely tested.
6. Failure to secure critical skills and engagement The people who work for us are essential to the success of our business. Both our direct workforce and those engaged through our partners and supply chain must be resilient and capable of adapting to the needs of the industry. The aging profile of our workforce and competition for limited skilled resources in our supply chain means this is a key risk that we must manage. Our people are essential to delivering our future vision. Without the right balance of skills our operational performance, customer service and ability to adapt to the future needs of the industry will be adversely affected.	• The aging workforce and ability to secure enough skilled workers is a risk for our industry. We are pursuing both internal and industry-wide approaches to mitigate this risk. 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. • To build our internal resource pool and develop our future pipeline of talent, we have developed a series of entry talent programmes, including those for graduates and apprentices and have training programmes and facilities in place to ensure the skills we need are developed. • 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. • To ensure that employees remain engaged we undertake regular monitoring of employee engagement which allows us to identify and address any areas of concern. • As this is an industry-wide issue we also support development of the STEM subjects through associated bodies such as the Energy Networks Association (ENA). • We work closely with our Strategic Partners to monitor the availability of skilled teams to undertake our mains replacement work and have targeted recruitment programmes.

Risk	Risk management:
7. Disruptive forces and regulatory responses The gas industry is evolving and we must respond. Comparative regulation is increasingly driving network operators to deliver greater efficiencies against increasing expectations from customers. In addition, the UK has to deliver stretching climate change targets which will require significant decarbonisation of energy heat and transport. Hence this makes innovation essential to our continued success to deliver for current and future customers. 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 run our business.	• We will maintain credibility for delivery through the careful management of our current regulatory obligations and workload. There is a dedicated process improvement team to facilitate the implementation of change plans where improvement is needed, and a dedicated innovation team to seek ways to improve and outperform our targets. • 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. These may include both negative threats, and potential new opportunities. • We have established a Stakeholder Advisory Panel to test our approach to engagement and strategy. • We undertake regional and national stakeholder engagement to understand policy, customer drivers and the regulatory landscape. • We have established a 'Future Role of Gas' programme looking at future scenarios and considering how network needs to adapt and evolve to a decarbonised world. • There are extensive structures in place through the ENA, 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. • Involved in industry code development and market workgroups to monitor and input to industry change.

Governance

Governance

Governance

Governance Framework

Chairman's statement on corporate governance

> ## Increased focus on the operational performance of the business is an important objective of the Board.
>
> **Sir Adrian Montague CBE**
> **Chairman**

In my statement at the beginning of this annual report, I outlined our initial priorities in corporate governance as a newly independent entity. These were to assemble the new Board and to establish appropriate governance frameworks and procedures for the Board. The following sections of this Governance report outline the activities that the Board and its Committees have undertaken over the past year in this regard. It has been a busy year.

The changing shape of the Board, under our new ownership, has brought a change in the Board culture. This has moved from a divisional and perhaps more narrowly focused perspective to one that has a more external-facing outlook, with greater levels of scrutiny across a broader horizon. This rapid evolution is important in ensuring that the removal of the previous parent organisation infrastructure does not diminish but rather, where possible, enhances oversight. In order to be ready to meet this challenge, our first priority was to ensure that the new Board members were given an induction into the Cadent business as each of them was appointed. The particular aim of this process was to ensure that Board members understand the levers that are available to improve business performance sustainably. Increased focus on the operational performance of the business is an important objective of the Board over the coming year.

In tandem with this, we have developed the new Board's constitution, meeting calendar and processes so that they are appropriate for the new Board environment. In some respects, there is no change in approach; ensuring that the business continues to meet all of its regulatory commitments continues to be one of the Board's key priorities. In other respects, however, a new approach is being nurtured, particularly in developing a strategic process that learns lessons from the past and progresses Cadent's operational effectiveness.

I have already commented on the need to prepare for the next regulatory review, and the oversight of this process is a matter that the Board has already begun to consider, beginning with our organisational structure and business model. We will be devoting more time for preparing for the next regulatory review during the coming year.

Sir Adrian Montague CBE
Chairman
28 June 2018

Board of Directors

Our Board has undergone a transformation to reflect the new ownership structure and management structure of our company following completion of the sale of the business from National Grid to private ownership.

Our Board comprises 17 Directors and five Alternate Directors. Of the 17 Directors there are: three Sufficiently Independent Directors (SIDs), two Executive Directors and twelve Shareholder Nominated Directors, appointed to represent the interests of our ultimate shareholders, being a consortium of investors investing through Quadgas Investments BidCo Limited (the Consortium) and National Grid investing through National Grid Holdings One plc. The SIDs are appointed as independent Directors, in compliance with the gas transporter licence held by our company, providing independent challenge and input to our Board. The Alternate Directors are appointed in accordance with the company's articles of association and the agreement between our shareholders.

Further details of the Directors on our Board as at the date of this annual report and their membership of Board committees can be found below. The Directors' details which are listed are in respect of the Executive Directors, Sufficiently Independent Directors and Shareholder Nominated Directors on our Board but do not include details for the Alternate Directors. Collectively, the SIDs and Shareholder Nominated Directors are the Non-Executive Directors on our Board.

Executive Directors

Chris Train OBE
Chief Executive Officer

Appointed
September 2016

Committee Membership
Business Separation Compliance

Skills and Experience
Chris became Chief Executive of Cadent, formerly National Grid Gas Distribution Limited, in October 2016, having already led the business area for 18 months prior to separation from National Grid. The business is accountable for serving around 11 million customers across four gas distribution networks, operating the system and maintaining it safely. Prior to this, he was Group Director, Safety, Sustainability & Resilience from March 2014 and Director, Market Operation for seven years before that. With over 30 years' experience within the energy and utility sector operating critical national infrastructure, he has held a number of engineering, regulation and commercial positions.

Chris is a Fellow of the Institution of Gas Engineers & Managers and was awarded an OBE in the New Year's Honours List in 2014 for services to the gas and electricity industry as Chair of the Energy Emergency Executive Committee.

Steve Hurrell
Chief Financial Officer

Appointed
March 2017

Committee Membership
Finance

Skills and Experience
Steve was appointed as the CFO of Cadent. Prior to Cadent, he served as the CFO of Airwave Solutions Limited, an infrastructure fund business, where he was instrumental in redirecting the focus of the business and its cost base to delivering efficiently, thereafter successfully refinancing the Group's +£2billion of debt which in 2016 led to a successful sale of the company. In addition to Airwave Solutions Limited, Steve in more recent years has worked at Tube Lines Limited and Jarvis plc.

Sufficiently Independent Directors

Sir Adrian Montague CBE
Chairman, Sufficiently Independent Director

Appointed
July 2017

Committee Membership
Nomination (Chair)

Skills and Experience
Sir Adrian has been a Director of Aviva plc since January 2013, became senior independent Non-Executive Director of Aviva in May 2013 and Aviva Chairman in April 2015.

Sir Adrian's previous roles include Chairman of 3i Group plc, Anglian Water Group Limited, Friends Provident plc, British Energy Group plc, Michael Page International plc and Cross London Rail Links Limited, and was formerly Deputy-Chairman of Network Rail Limited, Partnerships UK plc and UK Green Investment Bank plc. He was also previously Chief Executive of the Treasury Taskforce, a Trustee of Historic Royal Palaces, Global Head of Project Finance at Dresdner Kleinwort Benson and spent 20 years as a lawyer with Linklaters LLP (then Linklaters & Paines).

Sir Adrian was awarded a CBE in 2001.

Other key external appointments
Sir Adrian is currently Chairman of Aviva plc, Chairman of The Manchester Airports Group plc and of The Point of Care Foundation. He is also a Trustee of the Commonwealth War Graves Foundation.

Dr Catherine Bell CB
Sufficiently Independent Director

Appointed
September 2016

Committee Membership
Audit & Risk; Business Separation Compliance (Chair); Nomination; Remuneration; Safety, Health, Environment & Security

Skills and Experience
Catherine's executive career was in the Department for Business, where she led work on a wide range of trade, industry and regulatory issues, including high level reviews of competition policy and utility regulation. She led the Department as Permanent Secretary.

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

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

Other key external appointments
Catherine currently sits on the Boards of Horder Healthcare, National Grid Gas plc and National Grid Electricity Transmission plc. In March 2017, Catherine was appointed a Member of the Competition Appeals Tribunal. Catherine is a Governor of the London School of Economics and a pension trustee of the Charity for Civil Servants.

Kevin Whiteman
Sufficiently Independent Director

Appointed
January 2018

Committee Membership
Nomination (from May 2018); Remuneration (Member from March 2018, Chair from April 2018)

Skills and Experience
A chartered engineer, Kevin was Chief Executive of Kelda Group and Yorkshire Water for a period of eight years. Kevin was Non-Executive Chairman of both companies from 2010 to March 2015.

Kevin was previously Chief Executive Officer of the National Rivers Authority and Regional Director of the Environment Agency, as well as holding a number of senior positions within British Coal. He was also Chairman of Wales and West Gas Networks (UK) Limited, and has been a trustee for WaterAid UK.

Other key external appointments
Kevin has been Chairman of the privately-owned NG Bailey since 2013. He has also been Senior Independent Director of Severfield plc, a large structural steel company, since 2014.

Governance

Board of Directors continued

Shareholder Nominated Directors for the Consortium

Jianmin Bao
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
None

Skills and Experience
Jianmin has extensive expertise in the infrastructure sector.

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

Other key external appointments
Jianmin is a Non-Executive Director of Heathrow Airport Holdings Limited.

Iain Coucher
Shareholder Nominated Director

Appointed
January 2018

Committee Membership
Nomination (from May 2018); Safety, Health, Environment & Security (from May 2018)

Skills and Experience
Iain's executive career spans the infrastructure, technology and defence sectors. He has run organisations with significant scale and complexity, many of which were regulated companies delivering essential, safety-critical public services. Iain is widely acknowledged as having delivered a successful turnaround of Network Rail. He oversaw the completion of the West Coast Route Modernisation, as well as restructuring the entire delivery model, including the internalisation of previously outsourced maintenance, thereby doubling the size of the company.

Other key external appointments
Iain is the Chief Executive of the Atomic Weapons Establishment (AWE).

Deven Karnik
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
None

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

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

Other key external appointments
Deven is a Non-Executive Director of HK Electric Investments Limited and an Alternate Non-Executive Director of Heathrow Airport Holdings Limited.

Shareholder Nominated Directors for the Consortium

Martin Bradley
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
Finance

Skills and Experience
Martin has led the networks infrastructure sector for Macquarie Infrastructure and Real Assets (MIRA) since 2013, as well as overseeing debt issues across the European portfolio. Having initially entered the banking industry in 1989, Martin brings a wealth of prior experience as a Managing Director in investment banking, financing and fund activity with Kleinwort Benson and JP Morgan. During this time, Martin worked on a wide range of transactions involving most of the main infrastructure fund managers.

Other key external appointments
Martin holds other Non-Executive Directorship roles for companies within MIRA's investment portfolio including Elenia power networks and, more recently, TDC as well as previously being on the board of Viesgo power networks in Spain.

Mark Braithwaite
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
Audit & Risk (Chair); Nomination; Remuneration

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

Prior to joining Thames Water, Mark was Finance Director of the customer and energy divisions at EDF Energy plc, and before that held a number of senior finance positions at Seeboard plc.

Mark is also a trustee of Leadership Through Sport & Business, a UK social mobility and employability charity.

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

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

Howard Higgins
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
Business Separation Compliance; Safety, Health, Environment & Security (Chair)

Skills and Experience
In his role as Global Lead – Energy and Utilities for Macquarie Infrastructure and Real Assets (MIRA), Howard provides specialist support across the regions on the acquisition, transition and management of energy and utility businesses. He also provides global coordination of all health, safety and environmental activities across the MIRA portfolio, reporting to the Macquarie Group Board.

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

Prior to joining MIRA, Howard held a number of executive positions at energy and utility companies, including CEO of BG Storage and Operations Director of Transco, then the GB gas transmission and distribution company. Howard is a Chartered Engineer and a member of the Institution of Mechanical Engineers.

Other key external appointments
Howard holds other Non-Executive Directorship roles for companies within MIRA's investment portfolio.

Shareholder Nominated Directors for the Consortium

Jaroslava Korpancova
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
Audit & Risk; Business Separation Compliance; Finance (Chair); Nomination; Remuneration

Skills and Experience
Jaroslava joined Allianz Capital Partners (ACP) in 2008 and was, among other transactions, responsible for the following acquisitions: the 75-year concession to own, manage and operate the on-street parking system of the city of Chicago; stakes in the Norwegian offshore gas system, Gassled; the gas transmission and transport system in the Czech Republic, Net4Gas; Porterbrook, one of the major UK rolling Stock leasing companies; Thames Tideway Tunnel, the £4.2 billion project to construct a new super-sewer under the river Thames; Cadent and Affinity Water, on which boards she sits, along with Net4Gas.

She was awarded a Masters and a Master of Arts degree in Law from Cambridge University, (1996), and is a member of the New York bar and a Solicitor of the Supreme Court of England and Wales.

Other key external appointments
Jaroslava is a Director of Affinity Water Limited and Net4Gas s.r.o.

Michael Gregory
Shareholder Nominated Director

Appointed
May 2017 as an Alternate Director, May 2018 as a Shareholder Nominated Director

Committee Membership
None

Skills and Experience
Michael is a founding Executive Director and Head of Asset Management at Amber Infrastructure, a leading sponsor, developer, fund and asset manager of infrastructure, real estate and sustainable energy projects. Prior to Amber Michael worked at Babcock & Brown developing, investing and managing global infrastructure projects. Prior to this Michael was a senior manager at a listed construction and services contractor delivering Public Private Partnership (PPP) projects. Over the past 20 years he has contributed to the origination and asset management of a wide variety of infrastructure assets in the PPP, water, and rail sectors, in Europe, the US and Australia.

Other key external appointments
Michael is Executive Director and Head of Asset Management at Amber Infrastructure and holds other Directorship roles within Amber Infrastructure's investment portfolio.

Shareholder Nominated Directors for National Grid

Nicola Shaw CBE
Shareholder Nominated Director

Appointed
September 2016

Committee Membership
Nomination; Remuneration

Skills and Experience
As National Grid's UK Executive Director, Nicola is positioned firmly at the heart of meeting the energy challenges of the future. She joined National Grid in July 2016 after holding the CEO role at HS1 for five years. Nicola has an extremely strong leadership track record, having held very senior positions at the Strategic Rail Authority, the Office of the Rail Regulator and at FirstGroup plc.

Nicola was awarded a CBE in 2015.

Other key external appointments
Nicola is the UK Executive Director at National Grid and holds other directorship roles for companies within National Grid's business. She is also a Non-Executive Director of International Consolidated Airlines Group SA, and Director of the Major Projects Association.

Shareholder Nominated Directors for National Grid

Andy Agg
Shareholder Nominated Director

Appointed
June 2016

Committee Membership
Finance; Safety, Health, Environment & Security

Skills and Experience
After spending a number of years with PricewaterhouseCoopers, Andy joined National Grid in 2008 and has had a variety of roles including Group Financial Controller and UK CFO.

Andy has been the Group Tax & Treasury Director at National Grid for just over two years and has oversight of the group's funding as well as its tax, pension and insurance arrangements. He recently became CFO of the new NG Ventures division, and will step up as Interim Group CFO of National Grid on 30 July 2018.

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

Other key external appointments
Andy holds other Directorship roles for companies within National Grid's business.

Chris Bennett
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
Business Separation Compliance

Skills and Experience
Chris was appointed Director, UK Regulation of National Grid in July 2016.

In this role he leads on regulatory strategy and price control activities while advising individual National Grid businesses on their day to day regulatory discussions.

Chris has worked for National Grid for 25 years holding many senior roles in the UK including being a member of the Gas Distribution Executive between Nov 2010 and Sept 2015, as Head of Gas Distribution Commercial and Head of UK RIIO Delivery.

Other key external appointments
Chris holds other Directorship roles for companies within National Grid's business and is a Director of Affordable Warmth Solutions CIC.

Chris Waters
Shareholder Nominated Director

Appointed
March 2017

Committee Membership
Audit & Risk

Skills and Experience
Chris is Group Head of Mergers and Acquisitions at National Grid and has previously held a variety of positions in the organisation within Corporate Finance, Strategy, Regulation and originally as a Financial Controller in the UK Transmission business.

Chris is a Chartered Management Accountant and a member of CIMA.

Other key external appointments
Chris holds other Directorship roles for companies within National Grid's business.

Governance

Corporate governance

Corporate governance

Since the completion of the sale of a majority stake in the business by National Grid and the launch of Cadent, we have developed in line with our strategic aims as described in the Strategic report. Our Board recognises that to support this strategy they have a duty to continue to provide and develop a sound framework of corporate governance within the structure. Our Board has built on the framework of sound corporate governance practices in place at the time of the sale and is committed to the progressive development of the corporate governance framework and practices which will support the business and its employees to deliver its strategic objectives for the benefit of all of our stakeholders over the longer term.

Corporate governance codes

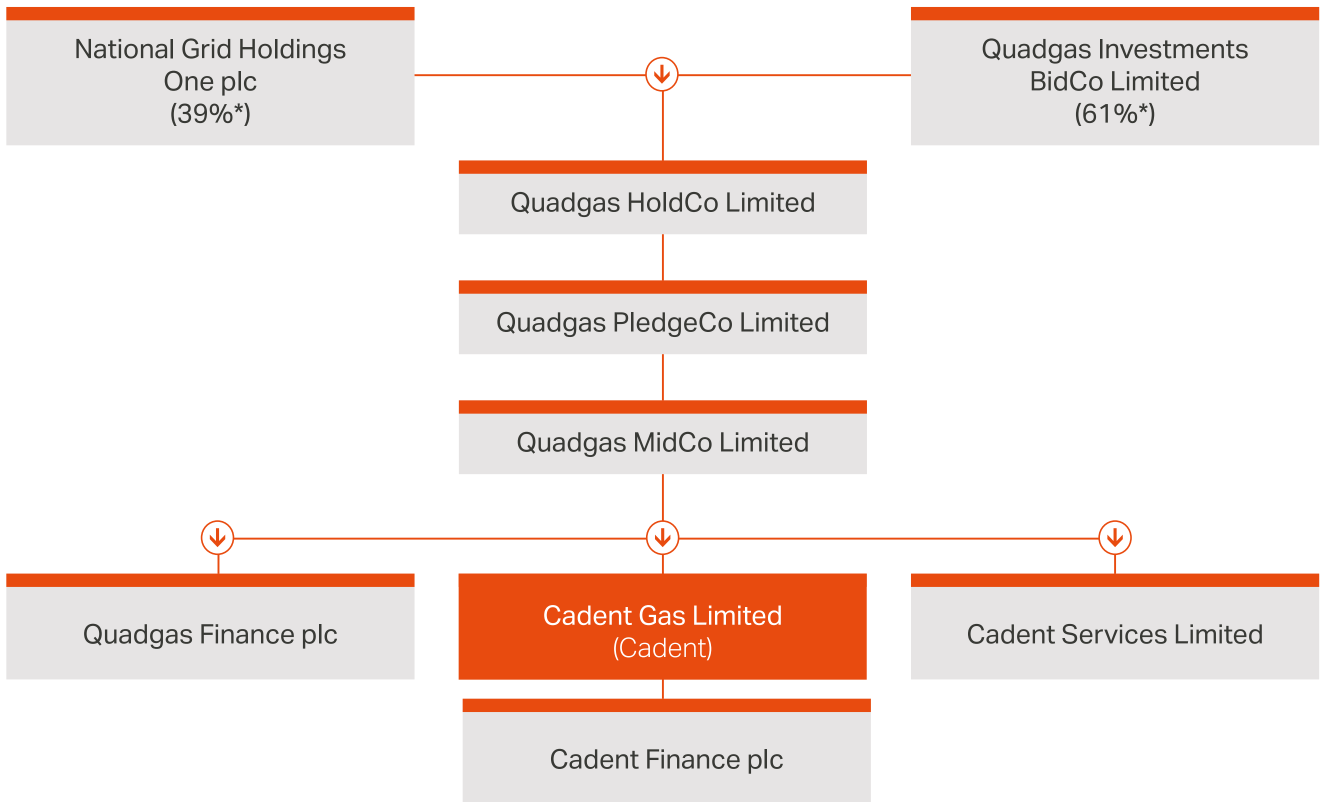
Our Board seeks to follow best practice in corporate governance appropriate to our size and the regulatory framework that applies to it. Our Board recognises the importance of adopting good corporate governance practices to manage the business in the best interests of all stakeholders. Cadent is not a listed company and therefore is not required to report on compliance with the UK Corporate Governance Code 2016 (the Code) issued under the UK Listing Authority's Listing Rules, but Cadent does have the requirement under paragraph 9 of Standard Special Condition A30 of our gas transporter licence to include a corporate governance statement that has the coverage and content of a corporate governance statement that a quoted company is required to prepare under the Code. This statement has been prepared solely to fulfil the requirements of Standard Special Condition A30 paragraph 9(e) and should not be relied upon by any other party or for any other purpose.

We understand the importance of communicating to our stakeholders how we have applied the provisions and principles of the Code and you can find how we do that within this corporate governance section of our annual report and accounts. We will continue to monitor developments in corporate governance practice, in particular the proposed changes to the Code by the Financial Reporting Council and the proposal for a set of broad governance principles for large privately held businesses. As a regulated business, we are engaged with our regulator, Ofgem, on the proposed introduction of RIIO accounts and the associated corporate governance reporting requirements and will aim to ensure that readers of both our annual report and accounts and the proposed RIIO accounts receive a clear and concise view on how our corporate governance practices operate.

Ownership structure

The chart below sets out the ownership structure of our company and the companies within our Group.

Our Chairman, in his statement at the beginning of this annual report, has confirmed the intentions of National Grid with regards to their shareholding in our Group.



All companies are incorporated in England and Wales.
* % of holdings as at 31 March 2018.

Key highlights of the year

Leadership:
- Appointed a Sufficiently Independent Director as Chairman of the Board, increasing independence of the Board.
- Appointed a third Sufficiently Independent Director to the Board.
- Established a comprehensive Board Committee structure, with defined Terms of Reference, to support Cadent's Board.
- Held a Shareholder Strategy Day.

Effectiveness:
- Delivered a Board and Committee annual schedule of meetings and business to be covered.

Accountability:
- Produced a more comprehensive annual report and accounts.
- Strengthened our framework of Delegations of Authority.

Remuneration:
- Reviewed our remuneration principles and policies for our Executive Directors and members of the Executive Committee.

Relations with shareholders and stakeholders:
- Launched our Cadent brand and developed our communications as an independent company.

Leadership

The role of the Board

We would like to share with you the ongoing work of our Board and the Committees which support them, in providing our business with leadership on behalf of our Group's holding company, QuadGas HoldCo Limited. Details of the Directors on our Board can be found on pages 43 to 45.

The Board is focused on its principal role to protect and advance the business and is collectively responsible for the long-term success of Cadent, and its management and performance. In doing so, our Board considers the interests of our wide range of stakeholders, not only those of the shareholders. To do this it is important that our Board, and business, operate within a clear framework of delegated authorities and controls. This framework is designed to deliver the efficient and effective management of our operations.

Our delegations framework starts with our shareholders, with the matters they have determined are for their approval, and those matters which they have delegated to our Board. To enable the efficient and effective running of our Board and our business, our Board have approved a framework of Delegations of Authority, with financial limits, within which our business operates.

Our Board and its Committees

Our Board has set up a number of Committees to carry out specific tasks. This allows our Board to operate more efficiently, concentrating on providing leadership and decision making for our business. We are dedicated to making sure that both the Board and its Committees are clear on their roles and are supported to give the correct level of attention and consideration to relevant matters. Our Board and Committee governance structure can be found on page 51.

Our Governance team is led by the Chairman of our Board, and Chairs of our Board Committees and over the coming pages they will provide you with a report on the work of their Committees, beginning with their personal views of their first year as Chairs.

They will also describe their Committees' roles and responsibilities, which our Board has set out in agreed, clear terms of reference for each Committee. When setting up our Board and Committee structure, the Board recognised the importance of clear and timely communication between them and this has been achieved by dedicating a regular Board agenda item for the Committee Chairs to update the Board on the work of their Committee and present any matters for approval.

How our Board operates

Our Board is led by our independent Chairman, Sir Adrian Montague, who is primarily responsible for the effective running of our Board. Chris Train, our Chief Executive Officer, has the primary responsibility for the running of Cadent's business. To establish their individual responsibilities our Board has approved a statement of division of responsibilities between our Chairman and Chief Executive Officer. This is based on model role descriptions published by the Institute of Chartered Secretaries and Administrators (ICSA).

Our Chairman's statement, on pages 6 to 7 and Chief Executive Officer's review on pages 10 to 15 demonstrates their leadership of Cadent showing how Sir Adrian leads our Board as Chairman and how Chris runs our business.

In addition to the Chief Executive Officer, there is a second Executive officer on our Board, Steve Hurrell, who holds the position of Chief Financial Officer. Further details of the work in Steve's area can be found in the Chief Financial Officer's report on pages 32 to 35.

Our Non-Executive Directors bring a range and breadth of experience to our Board. Our business will continue to benefit from their experience as we progress on our journey as an independent business. A key part of their role is to support our Chairman and Board to remain focused on the long term strategy for the business and the future role of gas. During the year a separate strategy day was held to which Directors and shareholder representatives were invited to discuss strategy development.

To support our Board and its Committees to perform effectively, a comprehensive schedule of meetings has been established. All Board and Committee meetings follow an annual schedule of business to be considered, covering matters in line with their matters reserved and terms of reference. In running our Board meetings, Sir Adrian ensures enough time is given to all agenda items and actively encourages and facilitates contributions from all our Directors.

Our Board focuses on providing direction and input to the business through a regular programme of operational and regulatory matters, both short term and longer term in nature, presented at each Board meeting. These matters are adapted according to the needs of the business, for any matters the Board Committees have raised, and importantly for changes in our external environment. For our Board to receive the support and input they need for discussion at Board meetings, formal papers are prepared and distributed in advance of the meetings. Time is also allocated at all meetings to discuss any other business which all Directors are invited to raise.

In the following table we have presented our Directors' attendance at our Board meetings for the financial year 1 April 2017 to 31 March 2018. We are pleased to share this information, which demonstrates the commitment our Directors have made during this first year to providing leadership and direction to our operations. Attendance at Committee meetings is presented in the individual Committee reports.

Corporate governance continued

Board

Directors' attendance at Board meetings for the financial year 1 April 2017 to 31 March 2018 is summarised below.

Members of the Board during 2017/18	Role	Attended/ Eligible to Attend	Appointed	Resigned
Sufficiently Independent Directors				
Sir Adrian Montague CBE	Chairman	6/6	24 July 2017	
Dr Catherine Bell CB		10/10	8 September 2016	
Dr Clive Elphick		3/4	8 September 2016	24 July 2017
Kevin Whiteman		3/3	1 January 2018	
Executive Directors				
Chris Train OBE	CEO	10/10	8 September 2016	
Steve Hurrell	CFO	10/10	31 March 2017	
Shareholder Nominated Directors for National Grid				
Andy Agg		9/10	2 June 2016	
Chris Bennett		10/10	31 March 2017	
Nicola Shaw CBE		7/10	8 September 2016	
Chris Waters		10/10	31 March 2017	
Shareholder Nominated Directors for the Consortium				
Jianmin Bao[1]		10/10	31 March 2017	
Martin Bradley[2]		9/10	31 March 2017	
Mark Braithwaite		9/10	31 March 2017	
Iain Coucher		1/1	26 January 2018	
Howard Higgins		9/10	31 March 2017	
Peter Hofbauer[3]		8/9	31 March 2017	26 January 2018
Deven Karnik[4]		7/10	31 March 2017	
Jaroslava Korpancova		10/10	31 March 2017	
Alistair Ray[5]		10/10	31 March 2017	16 May 2018

1 Jianmin Bao's attendance included attendance by his appointed alternate, David Xie.
2 Martin Bradley's attendance included attendance by his appointed alternate, Richard Greenleaf.
3 Peter Hofbauer's attendance included attendance by his appointed alternate, Perry Noble.
4 Deven Karnik's attendance included attendance by his appointed alternate, Sheik Ahmad Al Thani.
5 Alistair Ray's attendance included attendance by his appointed alternate, Michael Gregory.

Effectiveness

The composition of the Board

Our Board brings a wealth of experience, knowledge and expertise to our company, having a balance and depth of skills which are critical for our effective leadership of Cadent for all stakeholders. Of particular note is the experience our Board has in the areas of the regulated utility sector, infrastructure, government and regulation. To read more about our Directors' skills and experience, please read their biographies on pages 43 to 45.

Our Board consists of 15 Non-Executive Directors, three of them are determined to be Sufficiently Independent Directors (SIDs) and twelve are Shareholder Nominated Directors. The appointment of SIDs is a requirement of our gas transporter licence, Standard Special Condition A42 (SSC A42), and these Directors and Cadent are required to confirm that they meet the eligibility criteria set out in SSC A42. Our Chairman, Sir Adrian Montague, has been appointed by our largest shareholder. Our Board has appointed two additional SIDs, Dr Catherine Bell CB and Kevin Whiteman, who provide additional independent input to our Board.

Cadent is a recently established company and as such all Directors have been appointed for less than two years as at 31 March 2018. Chris Train, our CEO, has been a part of the gas distribution business for many years (please see his biography on page 43) and brings continuity and experience to our Board.

Given the composition of our Board, with shareholder appointed Non-Executive Directors, we are aware that potential conflicts of interest may arise. Our Directors are conscious of their duty to make the Board aware of any situations which may create a conflict of interest. Our Board reviews, and formally approves, as appropriate, any potential conflicts of interest as they arise.

Appointments to the Board

We have established a Nomination Committee to consider and make recommendations to our Board for the long and short-term strategy plans for succession of our Executive Directors, members of our Executive Committee and senior Executives reporting to the CEO of Cadent, our Chairman and our other SIDs.

The appointment of our Shareholder Nominated Directors is governed by an agreement between our shareholders.

Details of the work of the Nomination Committee during this year can be found in the Nomination Committee report on pages 60 and 61.

Commitment

During their employment with Cadent, the Executive Directors are required to gain the prior agreement of our Board before accepting employment with any other business.

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

Development

Following completion of the sale of a majority stake by National Grid, it was important to develop the Board's understanding of our business. We offered a tour around the Customer Centre and the Distribution Network Control Centre (DNCC), together with a presentation demonstrating some of our emerging technologies and innovation projects.

Many of our Directors are members of professional organisations and bodies and, through this membership, the Board benefits from the Directors' continuing professional development.

Looking to the future, our Board's training and development needs will be considered as part of a Board evaluation process.

Information and support

We recognise the importance of providing our Board with timely, concise and quality information to enable them to provide leadership and decision making for our organisation and our stakeholders. We see this as a two-way information flow between the Board and business and to be effective we have put in place good governance around our Board meetings and the information provided to those Board meetings. It is important for our Board and business that information is shared at the appropriate time to gain effective input from our Board. To do this we run an annual programme of formal meetings, together with ad hoc meetings and briefings where a more timely input from the Board is required. Our Chairman is supported by the Company Secretariat to arrange the annual schedule of Board and Committee meetings, and the business to be considered. Before each meeting, typically a week ahead, our Board and committees receive a detailed agenda and papers. The papers are drafted and sponsored by senior Executives within Cadent and, where required, senior Executives will be invited to the meeting to present and discuss the matters contained in their paper. We follow a pre-set template for Board papers to allow consistency of reporting, focus on the key matters and for our Board to be clear about what is being asked of them. During our meetings, the Directors may request for additional actions to be taken and these actions are agreed by the Board and a follow-up procedure, managed by the Company Secretariat, ensures their completion. Outside of our formal Board and Committee meeting cycle, the Directors are kept informed of matters of interest and concern to them, either through written papers, or discussions with the Executive Directors or senior Executives.

In this first year of independence from National Grid there has been an evolution of our corporate governance practices to enable us to operate as an independent company. During this period the Board has been supported by the Company Secretary who has provided advice on corporate governance matters. Our Board will continually review our internal corporate governance practices and external developments in corporate governance and will seek the advice of the Company Secretary to support it in implementing sound and effective corporate governance practices.

Evaluation

Our Chairman, in his opening statement for the Nomination Committee report, has confirmed his intention to run a formal Board evaluation process during the coming year and we look forward to reporting back to you on the outcomes of that process.
Our Executive Directors undergo formal performance evaluations annually in preparation for the review and approval of the annual remuneration packages by the Remuneration Committee.

Re-election

Our Directors are not subject to the shareholder re-election provisions under the Code.

Accountability

Financial and business reporting

Our Board understands its responsibility to present a fair, balanced and understandable assessment of our position and performance, business model and strategy through the production of an annual report and financial statements and our Board is satisfied that it has met this obligation. This assessment is primarily provided in the Directors' report on pages 76 to 77. The Statement of Directors' responsibilities in respect of the company's financial statements is set out on page 77.

Internal control and risk management

Our Board has responsibility for determining the nature and extent of the risks it is willing to take and is committed to protecting and developing our reputation and business interests. It has set the risk appetite for the company and reviews the risk profile at least annually.

Our Board is also responsible for ensuring that Cadent's risk management and internal control systems are effective across the business.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 of the risk process and regular compliance reports. This includes compliance with our licence conditions which is recognised as a principal risk and reviewed as part of the routine compliance process. To read more about Cadent's risk management model and our principal risks and uncertainties please read the Risk management and principal risks section of the Strategic report on pages 36 to 39.

Audit & Risk Committee and auditor

Our Board has delegated the responsibility for monitoring the relationship with the external auditor to the Audit & Risk Committee, and further information about how the relationship is maintained can be found in the Audit & Risk Committee report on pages 52 to 55.

Remuneration

The level and components of remuneration and procedure

A separate Directors' Remuneration report is set out on pages 62 to 73 and provides details of the remuneration policy, level and components of remuneration and procedure for fixing the individual remuneration packages of Executive Directors and members of the Executive Committee.

Relations with stakeholders and shareholders

Our Board structure, whereby we have Shareholder Nominated Directors, ensures that all of our shareholders are directly represented. This enables active engagement between the Executive Directors, SIDs and our shareholders on all major shareholder and stakeholder matters and issues. Our shareholders share the same agreed purpose of developing the business in line with the agreed business plan. Having this common objective means that our Board and our shareholders are aligned in the commitment to having strong and effective governance of our business to deliver the business plan. We have formalised certain shareholder reserved matters within a Shareholder's Agreement and this provides clarity on key decisions/ actions for our Group on which we are required to have direct engagement with our shareholders.

Our Board is committed to stakeholder engagement and takes its responsibilities and duty to them under section 172 of the Companies Act 2006 very seriously. Further details of our work in this area can be found in our Strategic report on pages 26 to 27.

Governance

Our Governance Team

1.


Our governance team is led by our Chairman of the Board and Chairs of our Board Committees.

2.


3.


4.


5.


6.


1. Sir Adrian Montague CBE
Chairman, Sufficiently Independent Director

Chair – Nomination Committee

Committee members:
Dr Catherine Bell CB
Mark Braithwaite
Iain Coucher (from May 2018)
Peter Hofbauer (resigned January 2018)
Jaroslava Korpancova
Nicola Shaw CBE
Kevin Whiteman (from May 2018)

2. Mark Braithwaite
Shareholder Nominated Director

Chair – Audit & Risk Committee

Committee members:
Dr Catherine Bell CB
Dr Clive Elphick (resigned July 2017)
Peter Hofbauer (resigned January 2018)
Jaroslava Korpancova
Chris Waters

3. Dr Catherine Bell CB
Sufficiently Independent Director

Chair – Business Separation Compliance Committee

Committee members:
Chris Bennett
Richard Court, Head of Regulation and External Affairs
Howard Higgins
Jaroslava Korpancova
Alistair Ray (resigned May 2018)
Chris Train OBE

4. Jaroslava Korpancova
Shareholder Nominated Director

Chair – Finance Committee

Committee members:
Andy Agg
Martin Bradley
Steve Hurrell
Alistair Ray (resigned May 2018)

5. Howard Higgins
Shareholder Nominated Director

Chair – Safety, Health, Environment & Security Committee

Committee members:
Andy Agg
Dr Catherine Bell CB
Iain Coucher (from May 2018)
Peter Hofbauer (resigned January 2018)
Alistair Ray (resigned May 2018)

6. Kevin Whiteman
Sufficiently Independent Director

Chair from April 2018 – Remuneration Committee

Committee members:
Dr Catherine Bell CB
Mark Braithwaite
Peter Hofbauer (resigned January 2018)
Jaroslava Korpancova
Nicola Shaw CBE

Board and Committee structure:

To support the Board we have implemented a number of corporate governance Committees. For the purposes of this annual report, we show below the corporate governance structure that supports our operational business, and which we describe in our corporate governance commentary.

Cadent Gas Limited Board

- Audit & Risk Committee
- Business Separation Compliance Committee
- Finance Committee
- Nomination Committee
- Remuneration Committee
- Safety, Health, Environment & Security Committee

Governance

Audit & Risk Committee report

Annual statement on behalf of the Audit & Risk Committee

Our priority has been to evaluate the systems and processes that we have inherited and review them with fresh eyes.

Mark Braithwaite
Chair of the Audit & Risk Committee

Membership and attendance

Chair	Attended/Eligible to Attend	Joined
Mark Braithwaite*	4/4	June 2017
Members		
Dr Catherine Bell CB (SID)	2/2	November 2017
Dr Clive Elphick (SID)[1]	2/2	June 2017
Peter Hofbauer[2]	2/3	June 2017
Jaroslava Korpancova	4/4	June 2017
Chris Waters	4/4	June 2017

* Qualification: Fellow of the Institute of Chartered Accountants in England and Wales
(1) Dr Clive Elphick stepped down from the Board and the Committee on 24 July 2017.
(2) Peter Hofbauer stepped down from the Board and the Committee on 26 January 2018.

Key highlights of the year

Financial reporting:

- Reviewed and recommended to the Board the approval of the 2017 annual report and financial statements.
- Reviewed and recommended to the Board the approval of the 2017 Regulatory accounts.
- Reviewed and recommended to the Board the approval of the interim financial statements.

Internal control, risk, compliance, fraud and whistleblowing:

- Reviewed processes and the key risks being managed.
- Reviewed a report on compliance with the company's legal and regulatory obligations.
- Reviewed business conduct controls and current cases.

Internal audit:

- Reviewed progress against the internal audit plan.
- Approved the 2018/19 internal audit plan.

External audit:

- Reviewed the audit tender process and recommended the appointment of Deloitte LLP.
- Reviewed the external audit report on the 2016/17 financial statements.
- Reviewed the external audit plan on the 2017/18 financial statements.

The first year of Cadent's journey as an independent company has been an active and energetic year for the Audit & Risk Committee. Our priority has been to evaluate the systems and processes that we have inherited and review them with fresh eyes to determine how they should be taken forward into our new environment. This approach has touched all aspects of our work as a Committee.

During the year, there have been two key tasks in our approach to financial reporting. One is the development of our annual report and accounts from, essentially, a set of divisional financial statements into a more holistic annual report with appropriate standards of financial disclosure for a substantial and independent company. The second has been the external audit tender process which resulted in a recommendation being made that Deloitte LLP be appointed as Cadent's auditor.

With our next RIIO-GD2 price control review not that far off, it has been imperative for the Committee to quickly satisfy itself concerning the integrity of the company's business systems and internal control environment. This cannot be undertaken without a clear understanding of the risk management framework. Consequently, this has also been an area which the Committee has devoted time and attention to during the past year. We believe that we have made good progress in this and our oversight is now moving into a 'business as usual' phase of governance in all of these areas.

In all of our work, the coming year will be a year of consolidation for the Audit & Risk Committee as we seek to further improve the governance and quality of the company's risk management, internal control, financial reporting and assurance functions. I therefore look forward to reporting further progress on these in next year's annual report.

Role and composition of the Audit & Risk Committee

Our Audit & Risk Committee plays an important governance role on behalf of our Board, dedicated to giving assurance to the Board that our internal control and risk management systems are reliable and that we report appropriately on our financial performance.

Our Committee is appointed by the Board, with a minimum requirement of three Directors. Key to the successful operation of our Committee is the requirement that one member is a financial expert with recent and relevant experience and Mark Braithwaite, as Chair, brings this experience to the Committee. Additionally, one member must be a Sufficiently Independent Director (SID), bringing independent challenge, and Dr Catherine Bell performs this role.

Meetings

The Committee is required to meet before the approval of the annual report and accounts. It is intended that the Committee shall meet at least four times a year. During the year four formal meetings were held.

Meeting	Main Purpose	Key Additional Attendees
June 2017	**Financial statements:** Review and recommendation to the Board for approval of the 2016/17 annual report and financial statements. **Business conduct:** Review of business conduct controls and current cases.	CFO, external auditor, Head of Assurance
July 2017	**Financial statements:** Review and recommendation to the Board for approval of the 2016/17 Regulatory Accounts. **External auditor:** Review of the audit tender process and recommendation of the appointment of Deloitte LLP. **Risk management:** Review of processes and key risks being managed.	CFO, external auditor, Head of Assurance, Head of Internal Audit
November 2017	**Financial statements:** Review and recommendation to the Board for approval of the interim financial statements. **Internal audit:** Reviewed progress against the internal audit plan. **Risk management:** Review of processes. **Business conduct:** Consideration of business conduct matters.	Chairman of the Board, CEO, CFO, external auditor, Head of Assurance, Head of Internal Audit
March 2018	**Financial statements:** Review of the external auditor audit plan and significant accounting matters. **Internal audit:** Reviewed progress against the internal audit plan and approved the 2018/19 internal audit plan. **Compliance:** Reviewed a report on compliance with the company's legal and regulatory obligations. **GDPR:** Reviewed the plans in place for the new General Data Protection Regulations.	Chairman of the Board, CEO, CFO, external auditor, Head of Assurance, Head of Internal Audit

Our Committee understands how important it is to have the right people at its meetings, who understand and have expertise in their area, and can advise the Committee. In the table above we have highlighted the key additional attendees invited to each of the meetings held.

Audit & Risk Committee report continued

Financial reporting

The Committee's reviews of the financial statements included reviews of the accounting policies, significant financial reporting issues and key judgements and estimates underpinning the financial statements, as disclosed within note 2 of the financial statements on page 92.

Summary of key issues reviewed

Issue	How the issue was addressed by the Audit & Risk Committee
Going concern basis for the financial statements	The Audit & Risk Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern basis in preparing the accounts and in making the statements in the Strategic report on going concern. On the basis of the stability of the regulatory framework and associated cash flows and the liquidity arrangements in place through the company's financing facilities, the Committee was satisfied that it was appropriate to adopt the going concern assumption.
Retirement benefit obligations	The Audit & Risk Committee reviewed the assumptions underlying the valuation of the obligations and considered whether the assumptions taken as a whole are appropriate. Taking into consideration external benchmarks and the advice of the company's pensions advisors the Committee was satisfied that the assumptions are appropriate.
Provisions	The Audit & Risk Committee considered the nature of the Group's provisions and determined whether appropriate provisions had been made. The Committee noted there was an updated actuarial report for insurance claims and considered the assumptions and judgements underpinning the remaining provision balances, and was satisfied that they were appropriately accounted for.
Exceptional items	The Audit & Risk Committee considered the application of the Group's accounting policy during the year and reviewed the items included within exceptional items to ensure they were appropriate. The Committee confirmed that management's classification of exceptional items associated with separation activities was appropriate and in line with the policy.
Valuation of financial instruments	The Audit & Risk Committee reviewed the assumptions underlying the valuation of the financial instruments and considered whether the assumptions are appropriate. The Committee considered the valuation process and the assumptions underlying these valuations and was satisfied there were no material issues noted during the period.

For the remaining key judgements and estimates, the Committee was satisfied with the assumptions made and the accounting treatments adopted.

Internal controls and risk management systems

Risk management is the responsibility of our Board. This Committee's responsibility is to review the adequacy and effectiveness of the company's internal systems of risk management and controls.

Our Committee performs its role in this area through reviewing management reports on risk management, the risk register and compliance reports. The Committee is supported in these reviews by additional reports prepared by our independent internal audit team.

Details of the principal risks and uncertainties that could affect our business operations can be found in the Strategic report on pages 36 to 39.

The focus on key business risks is monitored through the Committee's interaction with our Executive Committee and Safety, Health, Environment & Security Committee, the latter having a specific focus on the safety risks.

To support our internal controls and risk management systems we have clear expectations of appropriate business conduct and a strong framework to manage and monitor the conduct of the people who work for us. This Committee reviews reports on our business culture, business conduct and ethics.

We have procedures in place to detect bribery and fraud and any material non-compliance and cases of bribery and fraud are brought to this Committee. The Committee is made aware of any weaknesses in our fraud controls that management have detected or where specific cases have been identified and the investigation has detected systemic control weaknesses.

Our business recognises the importance of supporting individuals. If they want to report wrongdoing, whether the wrongdoing is connected to financial matters or any other matters, we have a whistleblowing policy and procedure in place, with independent investigation procedures as required.

Internal auditors

Our business operates an assurance programme with three lines of defence: the first line is through our senior management review of management controls and internal control measures, the second line of defence is provided through our senior management functional assurance, and the third line of defence is performed by the internal audit team.

Our internal audit team operates to an agreed annual audit plan, with updates on progress against that plan being brought to this Committee. Key significant audit findings are raised and progress against actions to address these findings are reviewed by the Committee. This Committee will report any significant matters to our Board and will request additional detail as required. The oversight provided by this Committee supports the internal audit function to maintain the focus of management in closing out actions against audit findings.

The internal audit team may be invited to each Audit & Risk Committee meeting, irrespective of whether they are presenting on internal audit matters, ensuring the internal audit function is aware of the key matters of concern to the Committee.

Following our business's first year of operation, the structure of our internal assurance functions has been aligned and the internal audit function has now become part of the overall assurance function, under the leadership of the General Counsel and Company Secretary.

External auditor

We see our external auditor as providing one of Cadent's external assurance lines of defence, and we recognise the important role they play in the audit of our financial statements. This Committee has the responsibility for overseeing the relationship with our external auditor. Our external auditor is invited to attend our Audit & Risk Committee meetings, irrespective of whether they are presenting matters. The external auditor has the opportunity to meet with the Chair of this Committee, without management present, giving both parties the opportunity to raise any matters. To be assured of the work performed by the external auditor in the audit of our financial statements, it is important that our Committee obtains confirmation of their independence, which it does for each audit undertaken.

There may also be occasions where we request our external auditor to perform non-audit services. To manage our business relationship with our external auditor we receive updates and discuss the types of engagements for which the external auditor has been used and those engagements which are prohibited. For services which are non-recurring in nature, prior approval must be sought from this Committee.

Note 5 to the consolidated financial statements includes disclosure of the auditors' remuneration for the year, including an analysis of audit services, audit-related services and other non-audit services under those headings prescribed by law.

Auditor transition

An invitation to tender was issued and following this process Deloitte LLP was appointed as the Group's auditor on 1 November 2017 following the resignation of PricewaterhouseCoopers LLP (PwC) on 25 September 2017. The Audit & Risk Committee, supported by senior management, conducted a rigorous tender process focusing on quality, resources, independence and value. The tendering firms were invited to put forward a proposal following briefing meetings with key management. Following the review of these proposals by management and the Audit & Risk Committee and after careful consideration, the Audit & Risk Committee concluded that the proposal from Deloitte LLP was the best overall in terms of quality, resources, independence and value and would better meet the Group's requirements for external audit services going forward. The Audit & Risk Committee therefore recommended to the Board that Deloitte LLP be appointed as the Group's external auditor.

The Committee has no set policy on the tendering frequency of their external auditor or of the tenure of their external auditor but will ensure that good corporate governance is maintained and that the Committee is regularly considering the marketplace, benchmarking the current level of service the company receives along with the fees they pay and the value being delivered. There were no contractual obligations that acted to restrict the Committee's choice of external auditor.

A key focus of the Committee was to oversee a smooth auditor transition, and to do this the Committee welcomed Deloitte LLP to their meetings to shadow PwC as part of the transition process. Deloitte were also granted access to management and key documents to assist in their transition activities.

Following completion of the 2017/18 audit process, the Committee is satisfied with the performance of Deloitte LLP and has recommended to the Board the re-appointment of Deloitte LLP for the coming year.

On behalf of the Audit & Risk Committee:

Mark Braithwaite
Chair of the Audit & Risk Committee
28 June 2018

Business Separation Compliance Committee report

Annual statement on behalf of the Business Separation Compliance Committee

> **The Committee (BSCC) is unique among Cadent's Board Committees in that its mandate derives directly from the company's licence and obligations to Ofgem.**
>
> **Dr Catherine Bell CB**
> **Chair of the Business Separation Compliance Committee**

Membership and attendance

Chair	Attended/Eligible to Attend	Joined
Dr Catherine Bell CB (SID)	2/2	June 2017
Members		
Chris Bennett	2/2	June 2017
Alistair Ray[1]	2/2	June 2017
Howard Higgins	2/2	June 2017
Jaroslava Korpancova	2/2	June 2017
Chris Train OBE (CEO)	2/2	June 2017
Richard Court*	2/2	June 2017

(1) Alistair Ray's attendance included attendance by his appointed alternate, Michael Gregory. Alistair stepped down from the Board and Committee on 16 May 2018.
* Head of Regulation & External Affairs.

Key highlights of the year

Business separation:
- The Committee has reviewed and continues to monitor our ongoing IS separation programme, to ensure business separation controls are maintained.

Oversight:
- The Committee has reviewed and noted that the Business Separation Compliance Officer successfully completed their duties.

Annual Compliance report:
- The Committee has reported good business separation compliance to the National Grid plc Audit Committee and Ofgem, as required by our licence. A copy of the report to Ofgem is available on our website cadentgas.com/about-us/corporate-governance

The Business Separation Compliance Committee (BSCC) is unique among Cadent's Board Committees in that its mandate derives directly from the company's licence and obligations to Ofgem. The key licence requirement for the BSCC is to ensure that we manage and operate our networks independently, so that we do not give or receive an unfair commercial advantage from the national gas transmission network.

I am pleased to report that we have made significant, steady and systematic progress over the past year in separating Cadent's information and business processes from National Grid. We look forward to making further progress towards complete separation of systems by the end of March 2020, particularly bearing in mind National Grid's recently announced decision to further sell-down its stake in the Cadent business in 2019.

Role and composition of the Business Separation Compliance Committee

Our licence requires that we observe 'Business Separation' from the gas transmission system. This means that we need to manage and operate our networks independently, to ensure that we do not give or receive an unfair commercial advantage from the national gas transmission network. Our licence also requires that we observe 'business separation' from other relevant industry participants. Although none have been identified we will continue to monitor that this does not change in the future.

Whilst National Grid continues to hold an interest in both the national gas transmission network and our gas distribution networks, our Gas Transporter Licence (licence) requires that we implement 'business separation' controls to prevent an unfair commercial advantage.

To oversee compliance with our business separation compliance conditions our licence requires that we establish a Business Separation Compliance Committee, who are also required to oversee the duties performed by the Business Separation Compliance Officer.

The Business Separation Compliance Committee (BSCC) differs from the other Cadent Board Committees in three important respects. First, it reports both to the Cadent Board and to the Audit Committee of National Grid plc. Both our Board and the Audit Committee of National Grid plc would be informed of any business separation compliance issues. Second, it has a remit which is limited to a single focus namely the separation of our distribution networks from the National Grid gas transmission business and other 'relevant' industry participants, although none have been identified. The good progress made in separating the support functions and IS systems has continued to reduce the risk of a breach of business separation and the Committee continues to monitor a high degree of compliance with these important licence requirements. Third, it is in the light of assurance provided by the BSCC, that Cadent provides an annual report to Ofgem on compliance with this condition of the Ofgem licence.

Membership of the Committee is by appointment of the Board. The Committee is chaired by Dr Catherine Bell, (SID), providing the Committee with independent leadership. The Business Separation Compliance Officer is in attendance and presents reports on their duties, activities and compliance with the licence obligations.

Meetings

The Committee is required to meet formally at least once a year. During the year two formal meetings were held.

Meeting	Main Purpose	Key Additional Attendees
June 2017	Review of the annual report on business separation and the annual report submitted to Ofgem	Assurance Manager (Business Separation Compliance Officer and Compliance Officer)
November 2017	Review of interim report on business separation	Chairman Assurance Manager (Business Separation Compliance Officer and Compliance Officer)

Additional informal briefings take place between the Chairman of the Committee and the Business Separation Compliance Officer/Compliance Officer to consider any matters being brought to the attention of the Committee.

It is important to note that the risk of business separation has reduced significantly since Cadent separated from National Grid. This risk will continue to reduce as we finalise the separation of our information systems and architecture and exit the remaining Transitional Service Agreements.

On behalf of the Business Separation Compliance Committee:

Dr Catherine Bell CB
Chair of the Business Separation Compliance Committee
28 June 2018

Finance Committee report

Annual statement on behalf of the Finance Committee

We will continue to evaluate the company's long-term financing in order to manage long-term debt in a timely and cost-effective manner.

Jaroslava Korpancova
Chair of the Finance Committee

Membership and attendance

Chair	Attended/Eligible to Attend	Joined
Jaroslava Korpancova	3/3	July 2017
Members		
Andy Agg	3/3	July 2017
Martin Bradley	3/3	July 2017
Steve Hurrell (CFO)	3/3	July 2017
Alistair Ray[1]	1/3	July 2017

(1) Alistair Ray stepped down from the Board and Committee on 16 May 2018.

Key highlights of the year

The Committee focused on identifying and reviewing key areas of financial risk following establishment of the new Group together with considering aspects of the initial financing transactions, as delegated by the Board.

Considering insurance solutions for historical employee personal injury claims:
- Approved further scoping work based on updated actuarial risk assessment.

Review of interest rate and inflation risk:
- Informed focus on target debt maturities for inclusion in updating Treasury Policy.

Reviewed various tax matters and draft Tax Strategy:
- Approved items as required and Tax Strategy for subsequent submission to Board.

Reviewed content and internal assurance processes for prospectus disclosure:
- Approved Information Memorandum and Bond Prospectus on behalf of the Board.

Review of draft Actuarial Triennial Pension Valuation and related matters:
- Noted for recommendation of final negotiated position to Board.

The Finance Committee has a number of responsibilities each of which became prominent in the Committee's thinking at different points over the past year. The first priority was for the Committee to oversee the work of management in developing proposals for refinancing the business as part of the formation of the new entity. In this task, the Committee reviewed the long-term debt profile of the business, the costs of finance and the levels of risk to the company inherent in the new facilities. Once the facilities were in place, the Committee's attention turned to its second area of responsibility – ongoing treasury management – to ensure that the maturity of financial instruments and subsequent options for refinancing are presented to the Committee for review on a timely basis. Similarly, the Committee oversees the approach taken by management to tax liability management and tax strategy more generally.

As we move into the next financial year, the workload of the Finance Committee is expected to ease a little now that Cadent's short-term financing requirements are more settled. Nevertheless, we will continue to evaluate the company's long-term financing in order to manage long-term debt in a timely and cost-effective manner. In this task, we will look to develop an open and efficient relationship with the executive team building on the start that we made over the past year.

Role and composition of the Finance Committee

The role of our Finance Committee is to monitor, report and make recommendations to the Board on all aspects of financial risk management including insurance, interest rate risk, funding and other treasury matters together with approving the appointment of banks and other counterparties. The Committee also reviews and advises our Board on the Group's tax strategy including the impact of new tax law or policy on the Group and also reviews the defined benefit pension scheme investment risk management.

Our Committee is required to report to the Board on its proceedings and make recommendations it deems appropriate on any area within its remit where action or improvement is needed.

The Members of the Committee are appointed by our Board in consultation with the Chair of the Committee, taking into account the relevant skills, experience and commitments of each proposed member. The Committee is made up of at least three members, one of whom shall be the Chief Financial Officer of the company.

Meetings

The Committee is required to meet at least twice a year. During the year three formal meetings were held.

Meeting	Main Purpose	Key Additional Attendees
July 2017	Review of historical insurance liabilities and options to mitigate risk, approval of bank mandates and review of Group credit ratings.	Head of Treasury Head of Insurance & Claims
November 2017	Review interest rate and inflation risk and draft hedging policy. Review of pension, tax and insurance matters. Review of Medium Term Note Prospectus' disclosure assurance.	Head of Treasury Head of Tax
February 2018	Financing and hedging update. Treasury Policy review. Pension Scheme Investment Strategy. Review of Tax Strategy document.	Chairman of the Board, CEO, Head of Treasury, Head of Tax

On behalf of the Finance Committee:

Jaroslava Korpancova
Chair of the Finance Committee
28 June 2018

Nomination Committee report

Annual statement on behalf of the Nomination Committee

> **The formation of a new Board with appropriate skills to oversee Cadent in its new format was our most urgent priority in the year.**
>
> Sir Adrian Montague CBE
> **Chair of the Nomination Committee**

Membership and attendance

Chair	Attended/Eligible to Attend	Joined
Sir Adrian Montague CBE (SID)	3/3	July 2017
Members*		
Dr Catherine Bell CB (SID)	5/5	June 2017
Mark Braithwaite	4/5	June 2017
Jaroslava Korpancova	5/5	June 2017
Nicola Shaw CBE	5/5	June 2017
Peter Hofbauer(1)	3/5	June 2017

(1) Peter Hofbauer chaired the Committee until 24 July 2017 when Sir Adrian Montague was appointed Chair of the Committee. Peter stepped down from the Board and Committee on 26 January 2018.

* Iain Coucher and Kevin Whiteman have been appointed as members of the Committee from May 2018

Key highlights of the year

Chairman appointment:
- Consideration and recommendation of Sir Adrian Montague.

Executive search consultant appointment:
- Engagement of Korn Ferry Hay Group for the appointment of the Chairman and a further SID.

SID appointment:
- Consideration and recommendation of Kevin Whiteman.

Succession planning:
- Conducted an external review of our succession planning processes for Executive roles.

The report of the Nomination Committee provides an opportunity to reflect on a year of a number of changes of personnel on the Board of Directors of Cadent. The formation of a new Board with appropriate skills to oversee Cadent in its new format was our most urgent priority in the year. This process was staged over several months but the objective remained the same; to ensure a good blend of skills and experience as a result of the new Board appointments.

With the prospect of a settled Board in place, the Nomination Committee will now take time to consider three specific areas of focus. It will review the skills and capabilities needed amongst the Board's independent Non-Executive members over the long term to inform the Committee's thinking on future Board-level succession. Below Board-level, we will begin to map out the succession plan for the senior Executive team and finally, we will take steps to understand the company's approach to talent development. In each of these aspects, the Nomination Committee will keep in mind the evolving expectations of stakeholders on diversity matters, particularly in relation to gender and ethnicity. Whilst remuneration trends do not fall within the remit of the Committee, we will keep Cadent's gender pay reporting under review.

With the changes to the Board over the past period, it would have been premature to start reflecting on the effectiveness of the Board. However, as the new Board gets into its stride in the coming year, we will turn our thoughts to an externally-facilitated Board effectiveness review. We will report back to our stakeholders on the outcome of that exercise in next year's annual report.

Role and composition of the Nomination Committee

Our Nomination Committee is responsible for reviewing the long and short-term strategy and plans for succession of all Executive Directors, members of our Executive Committee and senior Executives reporting to the Chief Executive Officer (Executive Roles), the Chair and the Sufficiently Independent Directors (SIDs or SID roles). In doing so the Committee keeps under review the balance of skills, knowledge, experience and diversity on the Board of these roles. At all times, the Committee takes into account the challenges and opportunities facing the Group in the long and short term and the leadership needs of the organisation, with a view to ensuring the continued ability of the organisation to operate effectively and engage productively with all stakeholders.

The Committee has three matters on which it will make recommendations to our Board. Firstly, in respect of potential candidates to fill Executive and SID roles as and when they arise, or to fill strategic appointment requirements; secondly, in relation to the initial proposed terms of employment of any new Executive or SID, including their initial remuneration package (in line with existing approved remuneration policies); and thirdly, on any matters relating to the continuation in office of any Executive or SID, including the suspension or termination of service of such person as an employee of the Group, subject to the provisions of the law, the policies of the Group, and the individual's service contract.

The Committee is made up of a minimum of three Non-Executive Directors of Cadent, one of these is required to be a SID and none of whom are Executive Directors.

Meetings

The Committee is required to meet formally at least twice a year. During the year five formal meetings were held.

Meeting	Main Purpose	Key Additional Attendees
June 2017	Consideration of appointment of a Chairman of the Board. Consideration of the requirements for the appointment of a SID and the appointment of external executive search consultants to advise the Committee.	
July 2017	Recommendation of the appointment of Sir Adrian Montague as Chairman of the Board and Chairman of the Committee.	Chairman CEO
September 2017 (two meetings held)	Review of the proposed candidates for the position of SID and recommendation for the continued appointment of Dr Catherine Bell as SID. Update on the candidates for the position of SID and consideration of an external review of the processes for succession planning of the Executive roles.	CEO Korn Ferry Hay Group* (executive search consultants)
November 2017	Recommendation of the appointment of Kevin Whiteman as a SID of the company.	CEO

* Korn Ferry Hay Group does not have any other connection with Cadent other than providing advice to the Remuneration Committee and executive search consultancy to the Nomination Committee

The Company's commitment to inclusion and diversity can be found in the Strategic report on page 29.

On behalf of the Nomination Committee:

Sir Adrian Montague CBE
Chair of the Nomination Committee
28 June 2018

Governance

Directors' Remuneration report

Annual statement on behalf of the Remuneration Committee

The Committee is keen to ensure that the right approach to remuneration supports and incentivises the right culture and behaviours.

Mark Braithwaite
Member of the Remuneration Committee

Membership and attendance

Chair	Attended/Eligible to Attend	Joined
Peter Hofbauer[1]	5/5	June 2017
Members		
Mark Braithwaite	5/6	June 2017
Dr Catherine Bell CB (SID)	6/6	June 2017
Kevin Whiteman[2] (SID)	1/1	March 2018
Jaroslava Korpancova	6/6	June 2017
Nicola Shaw CBE [3]	6/6	June 2017

(1) Peter Hofbauer chaired the Committee until 29 September 2017. Mark Braithwaite then chaired the meetings from 29 September 2017 until 23 March 2018. Peter's attendance included attendance by his appointed alternate, Perry Noble, but not in the capacity as Chair of the Committee.
(2) Kevin Whiteman was appointed as a member of the Committee in March 2018 and as Chair from 1 April 2018.
(3) Nicola Shaw's attendance included attendance by Chris Waters, on her behalf.

Key highlights of the year

Remuneration principles and policies:
- Review of remuneration principles and policies for our Executive Directors and wider workforce.

Executive Directors:
- Executive Director salary review and market benchmarking.

Incentive plans:
- New short-term and long-term incentive plans put in place.

* The company may reduce performance-related remuneration prior to payment ("malus"), or require repayment of payments already made to an individual, ("clawback"). In the case of clawback, this may be dealt with by way of deduction from any sums due in the future (including salary and future cash bonus). For instance, if a material misstatement of the company's financial results has occurred which has resulted in an overpayment (irrespective of fault) or if engaged in misconduct in the period between the award date and payment date.

Introduction

I am pleased to present the Directors' remuneration report for 2017/18. In our first full year as a new business and as a new Remuneration Committee, we have reviewed our remuneration principles and policies for our Directors and the wider workforce. We have sought to strike a balance between retaining the best parts of the reward philosophy and structure inherited from National Grid and making changes where these are appropriate, whilst ensuring alignment with our business plan. Conscious of our commitment towards creating value for all our stakeholders, and in particular our customers, we are taking an approach which we believe incentivises contributions to both the short-term and long-term success of the business. We are mindful that we are in a competitive market for senior executive talent and therefore need to continually appraise ourselves of appropriate and fair levels of remuneration.

The key elements of our remuneration approach are:
- A significant weighting of total reward towards the Long-Term Incentive Plan (LTIP) and Short-Term Incentive Plan (STIP) vs base salary.
- A balanced scorecard of performance measures applicable to both STIP and LTIP covering customer performance, long-term sustainability, health and safety and financial outcomes.
- Malus and clawback provisions applicable to both LTIP and STIP*.
- Market aligned base pay.
- Market aligned benefits with an element of choice (flexible benefits).

Activities of the Committee 2017/18

The separation of the Cadent business from National Grid created two challenges for the Remuneration Committee.

In the short term, there was the need to quickly ensure that executive incentive arrangements for the senior management team remained viable through the transition period and did not become an unnecessary distraction. During the first half of the year, new short-term and long-term incentive plans were therefore put in place for the new management team which combined a 'line of sight' to previous incentive schemes and a forward look towards the objectives and requirements of the new business.

In the longer term, a broader executive remuneration policy needs to be put in place that is appropriate to the Cadent business in its new form. This was the Committee's key area of focus in the second half of the year. A remuneration consultant has been retained to assist the Committee in this task. We recognise that a wider perspective is needed to identify appropriate benchmarks and metrics by which to calibrate the remuneration of the Executive team. The Committee is keen to ensure that the approach to remuneration supports and incentivises the right culture and behaviours across the management team. This will remain our priority in 2018 under the leadership of its new Chair, Kevin Whiteman, who was appointed as Chair on 1 April 2018.

Performance for the year 2017/18

STIP

Our first STIP set some challenging targets across a balanced scorecard of measures covering customer performance, health and safety and financial outcomes. Cadent has had a successful year in 2017/18 in many areas including our financial performance, significant improvements in customer outcomes, and in transitioning the business from National Grid. We have more to do in order to realise our aspirations and to this end the STIP payouts for our two Executive Directors were agreed as 74% of salary for the CEO (maximum opportunity 100%) and 59% for the CFO (maximum opportunity 80%).

Our 2018/19 STIP has a similar structure to the previous scheme with some added measures relating to specific projects and priorities for this year. In addition, the Committee decided to add an element, representing 20% of the balanced scorecard for the CEO and CFO, linked to individual objectives.

Further details of the STIP are provided on page 66.

LTIP

We launched a new cash-based LTIP during the year for Executive Directors and senior leaders. In a similar way to the STIP, the plan is based on a balanced scorecard of longer-term performance measures based over a three-year period. The scorecard measures include operational excellence incorporating safety, environmental and social obligations. The first plan has been set from April 2017 to March 2020 and we have finalised the next plan which will run from 2018 to 2021. In this plan, we expect to add further emphasis to enhancing the long-term sustainability of our assets. Further details are provided on page 66.

Annual salary review and policy application for 2018/19

The Committee evaluated the previous years' performance of Chris Train and Steve Hurrell. In addition, they examined their respective market positioning relative to similar sized companies from the UK private sector and utilities sector.

In Chris Train's case, the Committee concluded that his performance for the year was strong and that he had met the objectives set for him, in particular ensuring the completion of transition from National Grid, the successful launch of the new company including the Cadent brand and overseeing significant improvements across a number of KPIs. In addition, his current salary and target annual bonus were judged to be below market rates and thus requiring adjustments to realign.

The Committee concluded that Steve Hurrell, who was appointed as CFO on 18 April 2017, had made a strong start in his role as CFO, in particular overseeing the creation of our three-year business plan and delivering a strong set of results in excess of targets set. His salary was judged to be broadly in line with market, however it would be reviewed again more thoroughly later in 2018.

With these factors in mind, Chris Train's salary will be adjusted from £325,000 per annum to £400,000 per annum from 1 June 2018 and his target STIP increased from 50% of salary to 60% (maximum increasing from 100% to 120%). Steve Hurrell will receive an increase of 2.2%, from £250,000 per annum to £255,500 per annum from 1 June 2018, in line with the average salary increase awarded to management employees.

Disclosure enhancements

The Committee understands that Directors' remuneration reports are not required (by statute) in the annual report and accounts for private limited companies. It is keen, however, to provide transparency and also recognises the views of evolving best practice regarding detailed disclosure. To this end, the Committee believes that the provision of a remuneration report is a positive step and that the contents of the report will be of interest to our stakeholders.

Committee membership

Committee members are listed on page 62. Kevin Whiteman was appointed as a member of the Committee in March 2018 and as Chair of the Committee on 1 April 2018, taking over from Peter Hofbauer. I have been a permanent member of the Committee since it was established in June 2017. During this period of change in Chair, the Committee has requested and authorised me to provide this annual statement and sign the Directors' Remuneration report on behalf of the Remuneration Committee.

Conclusion

The Committee has given very careful thought to the remuneration structure for senior executives at Cadent. We believe that the current arrangements, focused on a combination of short and long-term incentives which are linked to good outcomes for our stakeholders, are appropriate and fair. As I have described above, we propose to make some minor adjustments to some of the metrics across the STIP and LTIP in order to ensure alignment with our business plan.

For the 2017/18 financial year, the Committee believes that it has correctly implemented policy and that it has appropriately and reasonably exercised its discretion as discussed above. Overall, the Committee believes that the remuneration earned last year by senior executives continues to reflect their performance, the company's performance, and the value generated for Cadent's stakeholders.

Mark Braithwaite
Member of the Remuneration Committee
28 June 2018

Directors' remuneration policy

The following tables provide details of our remuneration policy, which we intend to continue to apply over the course of the next year.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

The Committee will honour any commitments made to Directors before the policy outlined in this report comes into effect.

Our peer groups

The Committee reviews its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is general industry and energy services sector companies with similar levels of revenue. These peer groups are considered appropriate for a complex regulated business of our size.

Reward principles

The following principles govern our approach to remuneration policy for our Executive Directors:

- Alignment with Cadent's strategy: The Executive Directors' remuneration package should be strongly linked to the achievement of stretch targets that are seen as indicators of the execution of Cadent's strategy. Targets should be set with an emphasis on providing sustainable positive outcomes for our stakeholders, in particular our customers.
- Pay for performance: the majority of the Executive Directors' remuneration (excluding benefits and pensions) should be linked directly to Cadent's performance through variable pay schemes.
- Competitiveness: remuneration levels should be determined by reference internally against Cadent senior management and externally against companies of comparable size, complexity and scope.
- Consistency: the remuneration structure for Executive Directors should generally be consistent with the remuneration structure for Cadent's senior management. This consistency builds a culture of alignment with Cadent's purpose and a common approach to sharing in Cadent's success.
- Compliance: decisions should be made in the context of Cadent's general business principles and the Remuneration Committee should ensure compliance with applicable laws and corporate governance requirements when designing and implementing policies and plans.

In addition, and in concert with reward principles applicable for all employees at Cadent, remuneration should be:

- Business-aligned and commercial, reinforcing the achievement of our strategic goals.
- Market-related at the median level, to recruit and retain employees. Upper quartile for high performance.
- Performance-related and variable, incentivising both collective and individual performance.
- Engaging and motivating for our employees, offering personal choice.
- Cost-effective, affordable, efficient, well-administered and managed.
- Reinforcing the skills, behaviours and values which underpin our future success.
- Balancing standardisation and consistency with necessary variations eg, by employee groups.
- Flexible, reacting to necessary changes within the organisation and externally.
- Fair and non-discriminatory.
- Simple as possible, well-communicated, valued, understood.
- Meeting future needs, rather than driven by history eg, addressing protections and legacy issues.

Policy table – Executive Directors

Salary (to attract, motivate and retain high-calibre individuals while not over-paying)

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level and reviewed annually taking into account: • business and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; and • market data in the relevant comparator group.	No prescribed maximum increase. Any increases are generally aligned to salary increases received by other company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression in the role and alignment to market level.	Not applicable.

Benefits (to provide competitive and cost-effective benefits to attract and retain high-calibre individuals)

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Benefits provided include: • company car or a cash alternative; • private medical insurance; • annual health screening; • life assurance; • personal accident insurance; and • opportunity to purchase additional benefits under flexible benefits schemes available to all employees.	Benefits have no predetermined maximum, as the cost of providing these varies from year to year.	Not applicable.

Pension (to reward sustained contribution and assist attraction and retention)

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for an Executive Director will reflect whether they were internally promoted or externally appointed. If internally promoted: • retention of existing Defined Benefits (DB) benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or • retention of existing Defined Contribution (DC) benefits with discretion to enhance contribution rate to up to 30%; or • cash in lieu. If externally appointed: • DC benefits or equivalent cash in lieu. In line with market practice, pensionable pay for Executive Directors includes salary only.	DB: a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependants' pension is provided. DC: annual contributions of up to 30% of salary. Life assurance provision of four times pensionable salary and a dependants' pension equal to one third of the Director's salary are provided on death in service. Cash in lieu: annual payments of up to 30% of salary. Life assurance and dependants' pension in line with DC (or DB where the Director was previously a member of a DB scheme).	Not applicable.

Governance

Directors' remuneration policy continued

Short-Term Incentive Plan (STIP) (to incentivise and reward the achievement of strategic business targets and the delivery of annual individual objectives).

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in July. Awards are subject to clawback and malus provisions.	The maximum award for the Chief Executive Officer is 100% of salary. The maximum award for the Chief Financial Officer is 80% of salary.	A majority of the STIP is based on performance against corporate measures (both financial and non-financial), with the remainder based on performance against individual objectives. Individual objectives are role-specific. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% of the maximum award, respectively.

Long-Term Incentive Plan (LTIP) (to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests).

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities over a three-year period, reflecting the creation of long-term value within the business. Targets are set with reference to the Business Plan. Awards are paid in July. Awards are subject to clawback and malus provisions.	The maximum award for the Chief Executive Officer is 200% of salary. The maximum award for the Chief Financial Officer is 160% of salary.	The LTIP is based on performance against corporate measures (both financial and non-financial), set over a three-year period. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% of the maximum award, respectively.

Policy table – Non-Executive Directors (NEDs)

Fees for NEDs (to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.)

Operation	Maximum levels	Performance metrics, weighting and time period applicable
NED fees (excluding those of the Chairman) are recommended by the Remuneration Committee and approved by the Board; the Chairman's fees are set by the Committee and approved by the Board. Fee structure: • Chairman fee; and • Sufficiently Independent Director fee. NEDs other than the Chairman and other Sufficiently Independent Directors receive no fees. No Shareholder Nominated Directors are separately remunerated by the company in their capacity as Directors of the company. NEDs do not participate in incentive, pension or benefit plans. However, they are eligible for reimbursement for all company-related expenses. In instances where these costs are treated by HMRC as taxable benefits, the company also meets the associated tax cost to the Non-Executive Directors through a PAYE settlement agreement with HMRC. Non-Executives, including the Chairman, do not have employment contracts. The SIDs' appointments are subject to Letters of Appointment. There is no provision for termination payments.	There are no maximum fee levels.	Not applicable.

Differences in remuneration policy for all employees

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the company as a whole. However, there are some differences in the structure of remuneration policy for the senior Executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for our various employee categories. They also reflect the fact that, in the case of the Executive Directors, a greater emphasis tends to be placed on performance-related pay in the market, in particular long-term performance-related pay.

All employees are entitled to base salary, benefits and pension contributions. Many employees are eligible for a STIP award based on company and individual performance. Eligibility and the maximum opportunity available is based on market practice for the employee's job band. In addition, around 20 senior management employees are eligible for the LTIP scheme.

Directors' remuneration policy continued

Consideration of remuneration policy elsewhere in the company

In setting the remuneration policy the Committee considers the remuneration packages offered to employees across the company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are assessed regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessment our aim is to be at mid-market level for all job bands, including those that are subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration being considered.

Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and company performance.

Benefits consistent with those offered to other Executive Directors under the approved remuneration policy in force at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Ongoing incentive pay (STIP and LTIP) for new Executive Directors will be in accordance with the approved remuneration policy in force at the time of appointment.

For an externally appointed Executive Director, the company may offer additional cash payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to Cadent. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost. In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy in force at the time of appointment.

Service contracts and policy on payment for loss of office

In line with our policy, all Executive Directors have service contracts which are terminable by either party with six months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. Such payments would be phased on a monthly basis, over a period not greater than six months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period.

In the event of a Director being made redundant, a minimum of statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension.

On termination of employment, no STIP or LTIP award would generally be payable. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case a STIP or LTIP award would be payable on the termination date, based on performance during the financial year up to termination. Examples of circumstances in which a Director would be treated as a 'good leaver' include redundancy, retirement, illness, injury, disability and death. Any STIP or LTIP award would be prorated and would be subject to performance achieved against the objectives for the scheme performance period.

Sufficiently Independent Director (including the Chairman) appointments are subject to three months' notice by either party.
No compensation is payable to SIDs if they are required to stand down.

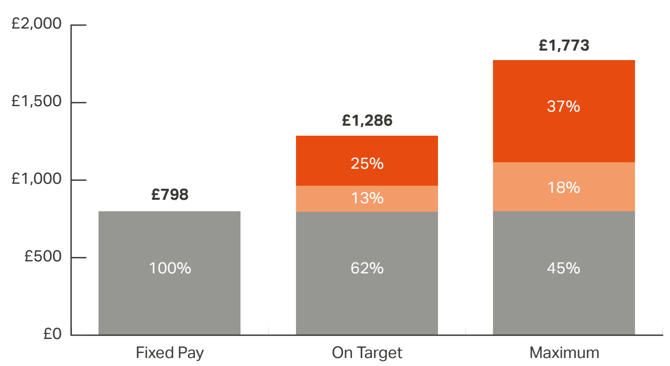
External appointments

The Executive Directors may, with the approval of the Board, accept external appointments as Non-Executive Directors of other companies and retain any fees received for the appointment. Experience as a Board member of another company is considered to be valuable personal development, that in turn is of benefit to the company.

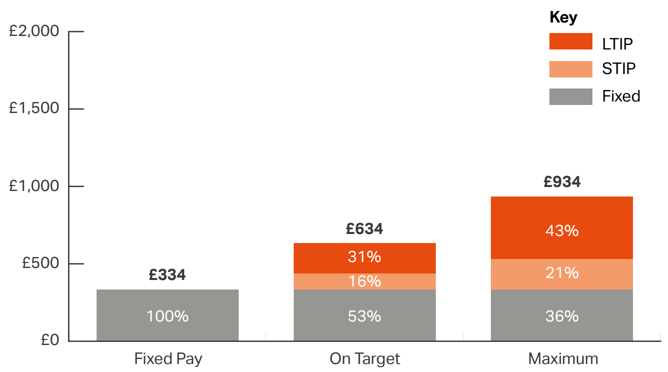
Total remuneration opportunity

The total remuneration for each of the Executive Directors that could result from the current remuneration policy under three different performance levels (below threshold, (when only fixed pay is receivable), on target and maximum) is shown below.

Chris Train OBE
£000



Steve Hurrell
£000



Notes
1. 'Fixed pay' consists of salary, pension and benefits-in-kind as provided under the remuneration policy.
2. Salary is that set for 2017/18.
3. Benefits-in-kind and pension are as shown in the Single Total Figure of Remuneration table for 2017/18 on page 70.
4. STIP calculations are based on 100% of salary for Chris Train and 80% of salary for Steve Hurrell, for the period 1 April 2017 to 31 March 2018.
5. LTIP calculations are based on 200% of salary for Chris Train and 160% of salary for Steve Hurrell. LTIPs operate over three-year rolling periods.
6. LTIP and STIP payout is 50% for on-target performance and the maximum of 100% is for achieving stretch.

Annual report on remuneration

Statement of implementation of remuneration policy in 2017/18

Role of the Remuneration Committee

The Committee was established on 29 June 2017 and is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulator's interests. The Committee was chaired by Peter Hofbauer for the majority of the year. Kevin Whiteman was appointed Committee Chair with effect from 1 April 2018.

The Committee's activities during the year

Meeting	Main Areas of Discussion
June 2017	Confirmation of Chair and membership. Committee Terms of Reference agreed
July 2017	Discussed 2017/18 STIP and 2017-20 LTIP structure and targets
September 2017 (2 meetings)	Final approval of 2017/18 STIP and 2017-20 LTIP targets
January 2018	Early discussion of market data review for Executive Committee remuneration
	Early discussion on content of 2018 Directors' remuneration report
	Approved pay budget for manager pay increases
	Agreed changes to future STIP structure (collective vs individual incentivisation)
March 2018	2018 Directors' remuneration report – reviewed early draft
	Discussion of metrics and targets for 2018/19 STIP and 2018-21 LTIP
	Agreed salary increases for Executive Committee

Single total figure of remuneration – Executive Directors

The following table shows a single total figure in respect of qualifying service for 2017/18, together with comparative figures for 2016/17

	Salary £000		Benefits-in-kind £000		STIP £000		LTIP £000		Pension £000		Other £000		Total £000	
	2017/18	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17
Chris Train OBE	**325**	162	**19**	9	**138**	–	**–**	–	**454**	457	**195**	384	**1,131**	1,012
Steve Hurrell	**238**	–	**36**	–	**–**	–	**–**	–	**48**	–	**–**	–	**322**	–
Total	**563**	162	**55**	9	**138**	–	**–**	–	**502**	457	**195**	384	**1,453**	1,012

Notes:
Salary: Chris Train's salary was increased on 1 October 2016, in line with his appointment as CEO of National Grid Gas Distribution. His salary was not reviewed during 2017/18. His salary figure for 2016/17 covers the period 1 October 2016 to 31 March 2017. Steve Hurrell was appointed as CFO on 18 April 2017. His salary was set on appointment and has not been reviewed during 2017/18.
Benefits-in-kind: Benefits-in-kind include private medical insurance, life assurance and either a fully expensed car or a cash alternative to a car. For Steve Hurrell, this amount includes a reimbursement for costs relating to his travel expenses to Coventry from his work base of London and includes the tax costs on these benefits-in-kind, paid by the company. Chris Train's Benefits-in-kind figure for 2016/17 covers the period 1 October 2016 to 31 March 2017.
STIP: 2017/18 figures relate to annual bonus paid under the terms of the National Grid APP (Annual Performance Plan) as part of transition arrangements and in respect of the 2016/17 performance year. There was no 2017/18 payment to Steve Hurrell as he joined the company in April 2017. First payments from the new Cadent STIP are due to be made in June/July 2018 and will be recorded in the 2018/19 Remuneration report.
LTIP: 2017/18 figures are aligned to the new LTIP plan which is set to measure performance over the period 2017-20, therefore no payments have been made from this plan during the last financial year or previous financial year.
Pension: Steve Hurrell received a cash allowance, based on 20% of salary, in lieu of participation in a pension arrangement payment. Chris Train participated in a defined benefit arrangement. His total accrued pension is spilt across two final salary arrangements; he participates in the unfunded scheme in respect of benefits in excess of the Lifetime Allowance. The increase in his accrued pension net of inflation over the year to 31 March 2018 was £22,697 pa. As at 31 March 2018 Chris Train's total accrued pension was £181,293 pa. Benefits are payable from age 60. For service prior to 1 April 2013, pensionable pay is normally the base salary in the 12 months prior to leaving the company. For service from 1 April 2013 increases to pensionable pay are capped at the lower of 3% and the increase in inflation. The pension value shown for 2016/17 covers the period from 1 October 2016 to 31 March 2017.
Other: Chris Train received a one-off bonus of £195,000 in 2017/18 in respect of his role in the successful transition of the business from National Grid. In March 2016/17 as part of good leaver/transition arrangements, he received performance shares from National Grid with a taxable benefit value of £384,448.

Performance against targets for STIP 2017/18

STIP awards are earned by reference to the financial year and paid in July. In relation to the bonus measures, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and target and stretch performance.

The outcomes of STIP awards earned in 2017/18 for the two Executive Directors at 31 March 2018 are shown in the table below:

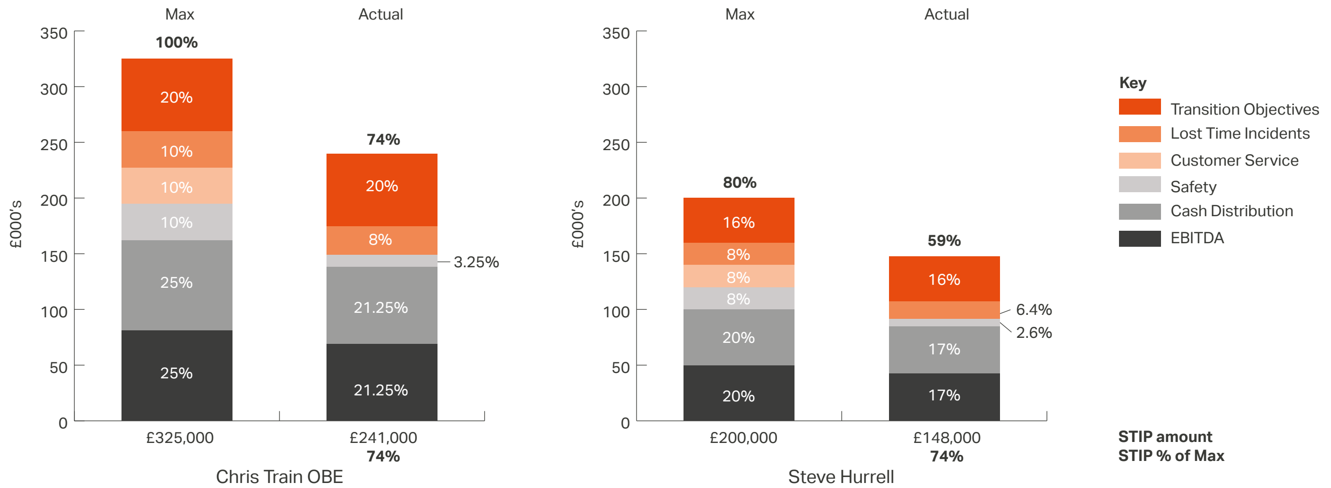
	Proportion of Max Opportunity	Threshold	Target	Stretch	Actual	Proportion of Max Achieved
Quadgas HoldCo EBITDA	25%	£1,026m	£1,036m	£1,056m	£1,050m	21.25%
Quadgas HoldCo cash distribution	25%	£429m	£436.5m	£453m	£448m	21.25%
Safety: T2/3 replacement	10%	74km	84km	104km	80.5km	3.25%
Customer service (ranking)	10%	1/9	2/9	3/9	1/9	0%
Lost Time Incident Performance	10%	0.12	0.1	0.09	0.094	8%
Transition objectives	20%	Subjective assessment by Remco				20%
Total	100%					74%

Notes:
Cash Distribution: Returns to shareholders (including dividend and shareholder loan interest) for 2017/18, targets are subject to any adjustments by the Board (based on leverage, funds from operations/debt, liquidity constraints).
Safety: Delivery of Tier 2 and 3 mains replacement programme (secondary Ofgem output).
Customer Service: Targets Cadent's ranking across the eight gas distribution networks against (1) average customer satisfaction, (2) complaint metric and (3) stakeholder engagement. Every time Cadent's network ranks fourth or better, it scores a point. There are a maximum of nine points to achieve.
Lost Time Incidents: Lost Time Injury Frequency Rate calculated by reference to number of incidents divided by aggregate hours worked (on a rolling 12-month basis).
Transition Objectives: Included IT separation process (from National Grid), Debt refinancing in line with plan, Development of the three-year business plan, Facilitation of financial model build, Regulatory strategy and preparation for RIIO-GD2, hitting of RIIO-GD1 targets.

Individual objectives were not assessed as part of the 2017/18 STIP.

2017/18 STIP as proportion of base salary

Executive Directors 31 March 2018



LTIP 2017-20

LTIP awards are earned by reference to rolling three-year financial periods and paid in July following the end of the third year. In relation to the bonus measures and in the same way as for the STIP, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100%, respectively, and on a straight-line basis in between threshold and target performance and target and stretch performance.

Governance

Annual report on remuneration continued

Statement of implementation of remuneration policy in 2017/18

Targets set for the 2017-20 LTIP awards for the two Executive Directors are shown in the table below and will be assessed at the end of the performance period.

	Proportion of Max Opportunity
Average totex outperformance	30%
Safety: Repex delivery	20%
Environmental: Shrinkage and emissions	10%
Social: Fuel poor connections	10%
Company development:	30%
RIIO-GD2 preparation and planning	
RIIO-GD1 outputs on track	

Notes:
Totex outperformance: Average totex outperformance (versus adjusted allowance) during LTIP period based on Ofgem reporting.
Repex delivery: Delivery of Repex programme, with targets expressed in cumulative km across three tiers (subject to not underperforming against individual tiers).
Shrinkage and emissions: Shrinkage and environmental emissions incentives (share of total industry incentive received) – cumulative for three years.
Fuel poor connections: Linked to social obligations.
Company development: Both RIIO GD2 and GD1 objectives to be also considered in the context of customer service and customer outcomes.

Single total figure of remuneration – Non-Executive Directors

The following table shows a single total figure (for Sufficiently Independent Directors) in respect of qualifying service for 2017/18

	Fees £000	Other Emoluments £000	Total £000
	2017/18	2017/18	2017/18
Sir Adrian Montague CBE	224	–	224
Dr Catherine Bell CB	43	–	43
Kevin Whiteman	15	–	15
Dr Clive Elphick	9	–	9
Total	291	–	291

Notes:
Sir Adrian Montague CBE: Appointed as Chair and a SID on 24 July 2017.
Dr Clive Elphick: Resigned on 24 July 2017.
Kevin Whiteman: Appointed as a SID on 1 January 2018.

Payments for loss of office

No Executive Directors left the company therefore there were no payments for loss of office.

Payments to past Directors

No payments were made to past Directors.

External appointments and retention of fees

Chris Train holds a director position at Energy Networks Association Limited but received no director fees for this position during the year ended 31 March 2018. Steve Hurrell did not serve as a Non-Executive Director for any other company during the year ended 31 March 2018.

Advisors to the Remuneration Committee

The Committee received specialist advice from Korn Ferry Hay Group (KFHG) in relation to executive remuneration benchmarking (fees during the year: £8,750).

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they provided credible and professional advice. KFHG does not have any other connection with Cadent other than providing advice to the Remuneration Committee and executive search consultancy to the Nomination Committee.

The Committee considers the views of the Chairman on the performance and remuneration of the Chief Executive, and of the Chief Executive on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the General Counsel and Company Secretary who acts as Secretary to the Committee, the Head of HR and the Reward and Performance Manager. No other advisors have provided significant services to the Committee in the year.

Remuneration policy will be implemented during 2018/19 as described below.

Salary

Salary increases will normally be in line with the increase awarded to other employees unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new Directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).

	From 1 June 2018	From 1 June 2017	Increase
Chris Train OBE	£400,000	£325,000	23.1%
Steve Hurrell	£255,500	£250,000	2.2%

Notes:
Chris Train OBE: Salary increase represents a market adjustment following a detailed review of remuneration.

STIP measures for 2018/19

The STIP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2018/19 annual report on remuneration. The structure of the scheme will remain largely the same as that of 2017/18 with the addition of an element for individual objectives. Measures to be used are shown in the table below and will apply to both Chris Train and Steve Hurrell:

	Weighting
EBITDA	20%
Cash flow: Funds from Operations (FFO) to Net Debt	20%
Safety: T2/3 replacement	8%
Customer service (ranking)	8%
Lost Time Incident Performance	8%
Specified business outcomes	16%
Individual objectives	20%

For 2018/19, Chris Train's target STIP will be increased from 50% to 60% of salary (Maximum will increase from 100% to 120%). Steve Hurrell's target STIP will remain at the current level of 40% of salary (Maximum 80%).

LTIP measures for 2018–21

The LTIP targets are considered commercially sensitive and consequently will be disclosed after the end of their performance period in the 2020/21 annual report on remuneration. The structure of the scheme will remain similar to that of 2017–20 with the addition of a measure linked to the sustainability of assets replacing Company Development. Measures to be used are shown in the table below and will apply to both Chris Train and Steve Hurrell:

	Weighting
Average totex outperformance	30%
Long-term asset health: Risk removed from network	20%
Safety: Repex delivery	20%
Environmental: shrinkage and emissions	15%
Social: Fuel poor connections	15%

For 2018–21, target and maximum LTIP levels (percentages of salary) will remain at current levels for both Chris Train and Steve Hurrell.

Fees for NEDs (SIDs)

Sufficiently Independent Director's fees for the forthcoming year are detailed in the table below. Given the recent appointment of SIDs, no increases are proposed. SID fees will be reviewed by the Remuneration Committee later in the year and any changes, effective for 2019/20 will be disclosed in the 2018/19 annual report on remuneration.

	From 1 June 2018 £000	From 1 June 2017 £000	Increase
Chairman	325	325	0.0%
Sufficiently Independent Director	60	60	0.0%

Notes:
Chairman: Sir Adrian Montague CBE was appointed on 24 July 2017.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Mark Braithwaite
Member of the Remuneration Committee
28 June 2018

Safety, Health, Environment & Security Committee report

Annual statement on behalf of the Safety, Health, Environment & Security Committee

Our passion for public safety is fundamental to the work of the Safety, Health, Environment & Security Committee.

Howard Higgins
Chair of the Safety, Health, Environment & Security Committee

Membership and attendance

Chair	Attended/Eligible to Attend	Joined
Howard Higgins	3/3	June 2017
Members*		
Dr Catherine Bell CB (SID)	3/3	June 2017
Andy Agg[1]	3/3	June 2017
Peter Hofbauer[2]	2/3	June 2017
Alistair Ray[3]	2/3	June 2017

(1) Andy Agg's attendance included attendance by Chris Waters on his behalf.
(2) Peter Hofbauer stepped down from the Board and the Committee on 26 January 2018. His attendance included attendance by his appointed alternate, Perry Noble.
(3) Alistair Ray stepped down from the Board and the Committee on 16 May 2018.
* Iain Coucher has been appointed a member of the Committee from May 2018.

Key highlights of the year

The Committee focused on ensuring there was a robust framework to enable the Committee to be assured that the Safety, Health, Environment and Security (SHES) risks were under control.

SHES performance report:
- Scrutiny of data presented in performance report, benchmarking with other organisations and review of the scope of the report.

SHES business plan:
- Discussion of draft plan and proposal of additional items to be incorporated.

SHES internal audit:
- Reviewed findings from completed audits and forthcoming audit plan.

Crisis & incident management:
- Approval of Crisis & Incident Management Framework.

Our passion for public safety is fundamental to the work of the Safety, Health, Environment & Security Committee. 'Zero harm' is the ambition that we have set ourselves and our report seeks to show how we have discharged this responsibility during the past year. With this in mind, it is right that I acknowledge two events during the year which have caused us, as a Committee, to reflect further on this important responsibility. The first is the fatality of an employee of one of our contractors which occurred in December 2017. We offer our sincerest condolences to his family and have sought to understand the causes and steps needed to prevent future tragedies of this nature. The second is the Grenfell Tower fire. This had a huge impact on so many of our people, not just those working with the emergency services that night, or those who live locally, but everyone who was greatly saddened by the tragic loss of life. It has naturally brought safety of high-rise buildings into focus. As the gas supplier to Grenfell Tower and the gas emergency service which responded on the night, Cadent applied to be a Core Participant in the Grenfell Tower Inquiry as we believe this puts us in the best position to assist.

Our role as a Committee is to provide assurance to the Cadent Board concerning the quality and integrity of the company's safety, health, environment and security policies, procedures and practices. Of particular interest is the performance of the gas emergency service and the integrity of the gas distribution assets. In the year to 31 March 2018, we paid particular attention to the measures we should use to monitor employee, contractor and public safety. We also started to develop metrics for monitoring environmental performance.

I anticipate that the work of the Committee will intensify in the next financial year as we start to broaden our oversight of operational safety and start to look at our environmental practices, particularly those relating to landfill and greenhouse gas emissions.

As the Committee gets into its stride over the coming months, I am keen to ensure that it adopts a holistic approach to its duties, building on the legacy from Cadent's past ownership whilst taking a fresh perspective on future challenges.

Role and composition of the Safety, Health, Environment & Security Committee

The role of our Safety, Health, Environment & Security Committee is to assist our Board to fulfil its responsibilities in relation to Safety, Health, Environment and Security (SHES) matters of the company, by providing independent assurance regarding the adequacy and effectiveness of the company's SHES management systems and their application.

The Committee is required to report to the Board on its proceedings and make recommendations it deems appropriate on any area within its remit where action or improvement is needed.

The Committee is appointed by the Board and comprises of a Chairman and up to four Non-Executive Directors including one SID.

Meetings

During the year three formal meetings were held.

Meeting	Main Purpose	Key Additional Attendees
June 2017	• Receive presentation on Safety Management System operated by Gas Distribution Strategic Partners • Review and recommendation of SHES Annual Performance Targets	CEO Director of Safety & Network Strategy Engineering, Safety and Assurance Manager
September 2017	• Receive update on SHES Plan • Receive paper on Winter Preparations • Receive report on Integrity of above 7 bar Assets • Receive update on SHES Internal Audit activity	Chairman CEO Director of Safety & Network Strategy Head of SHES Head of Internal Audit
January 2018	• Receive presentation on draft SHES Business Plan • Receive update on Cable Avoidance performance • Receive Crisis & Incident Management Framework • Receive update on SHES Internal Audit activity	Chairman CEO Director of Safety & Network Strategy Head of SHES Head of Internal Audit

On behalf of the Safety, Health, Environment & Security Committee:

Howard Higgins
Chair of the Safety, Health, Environment & Security Committee
28 June 2018

Governance

Directors' report

The Directors present their report and the audited financial statements of the Group and the company for the year to 31 March 2018.

Principal activities and business review

A full description of the Group's and company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic report on pages 36 to 39, which are incorporated by reference into this report.

Directors

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

A J Agg	
C Train	
L N Shaw	
Dr C E Bell*	
J Bao	
C P Bennett	
M Bradley	
M W Braithwaite	
H C Higgins	
S G Hurrell	
D Karnik	
J Korpancova	
C J Waters	
P D Noble**	(Appointed 24 April 2017)
M J Gregory***	(Appointed 22 May 2017)
D J Xie**	(Appointed 22 May 2017)
A McMenamin**	(Appointed 22 May 2017)
Sir A A Montague (Chairman)*	(Appointed 24 July 2017)
K I Whiteman*	(Appointed 1 January 2018)
I M Coucher	(Appointed 26 January 2018)
A M Al-Ansari**	(Appointed 17 May 2018)
N J Axam**	(Appointed 17 May 2018)
Dr C H Elphick*	(Resigned 24 July 2017)
R Greenleaf**	(Appointed 22 May 2017) (Resigned 10 August 2017)
P F Hofbauer	(Resigned 26 January 2018)
A G Ray	(Resigned 16 May 2018)
A B F Al-Thani**	(Appointed 22 May 2017) (Resigned 17 May 2018)

* Sufficiently Independent Director ** Alternate Director
*** Alternate Director then Shareholder Nominated Director

Corporate governance

A full report on corporate governance can be found in the Governance section of this document and the company's corporate governance statement is on page 42. Both are incorporated by reference into this report.

Future developments

Details of future developments have been included within the Strategic report on page 13.

Dividends

During the year, the company has paid interim ordinary dividends of £265 million on 22 November 2017 and a further interim dividend of £153 million on 27 March 2018 (2017: interim dividends totalling £95 million).

Charitable and political donations

Charitable donations made during the year totalled £131,000 (2017: £nil).

We paid £20,000 to sponsor an event at the Conservative Party Conference to promote the future role of gas. At the time of writing this was incorrectly classified as a donation of £11,500 and political expenditure of £8,500 made by the company to the Conservative and Unionist Party. We have approached the Electoral Commission and asked for this to be corrected.

Research and development

Expenditure on research and development was £8 million during the period (2017: £10 million).

Employees

Information on the Group's employment policies and employee involvement can be found in the People section of the report on pages 28 to 31.

Environmental policy

Information on the Group's environmental initiatives can be found in the Sustainability report on pages 22 to 27, where you will find Corporate responsibility reports, policies and other information.

Directors' indemnity

Cadent Gas Limited has arranged, in accordance with the Companies Act 2006 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 Holdco Limited places Directors' and Officers' liability insurance for each Director.

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, 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.

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 & Risk Committee is also kept appraised of such developments.
- The financial statements are subject to review by the financial reporting function for unusual items, unexplained trends and completeness. Any unexplained items are investigated.
- The financial reporting function compares the financial statements to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the financial reporting function.
- The Audit & Risk Committee and the Board review the draft consolidated financial statements. The Audit & Risk Committee receives reports from management and the external auditor 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 1 May 2018, National Grid announced that it had entered into an option to sell its remaining 25% share in Quadgas HoldCo Limited (the holding company for Cadent Gas Limited) to the existing consortium company – Quadgas Investments BidCo Limited, which may complete at any time between 1 March 2019 and 31 October 2019. This is in addition to the 14% option Quadgas Investments BidCo Limited held at 31 March 2017.

Treasury management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit, interest rate risks and foreign currency risks. These risks are monitored through a Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Cadent Gas Limited and its subsidiary. Details on our financial risk management are set out in note 28 on pages 110 to 113.

Major shareholdings

As at 31 March 2018, 100% of the company's share capital was held by Quadgas MidCo Limited.

Auditor

Following a competitive tender process during the year, PricewaterhouseCoopers LLP resigned as auditor of the company and Group on 25 September 2017 and Deloitte LLP was appointed in their place on 1 November 2017. Resolutions to re-appoint Deloitte LLP as auditor of the company will be proposed at the Annual General Meeting for shareholder approval.

Disclosure of information to auditor

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors' report was approved by the Board and signed on its behalf by:

Chris Train OBE
Chief Executive
28 June 2018

Financial statements

Financial statements

The Annual Report and Accounts for Cadent Gas Group comprises Cadent Gas Limited and its subsidiary Cadent Finance plc, as such there is a consolidated set of financial statements and company only set of financial statements.

Independent auditor's report to the members of Cadent Gas Limited

Report on the audit of the financial statements

Opinion
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2018 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 adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Cadent Gas Limited (the 'parent company') and its subsidiaries (the 'Group') which comprise:
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 34 in the consolidated financial statements; and
- the related notes 1 to 23 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 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
We are required by ISAs (UK) to report in respect of the following matters where:
- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
28 June 2018

Consolidated income statement

For the year ended 31 March 2018

	Notes	2018 £m	2018 £m	53-week Period Ending 31 March 2017 £m	53-week Period Ending 31 March 2017 £m
Revenue	4		1,852		961
Operating costs			(1,108)		(562)
Operating profit					
Before exceptional items	5	744		399	
Exceptional items	6	(20)		(11)	
Total operating profit	5		724		388
Finance income	9		2		1
Finance costs					
Before exceptional items and remeasurements	9	(147)		(93)	
Exceptional items and remeasurements	6/9	–		(6)	
Total interest payable and similar charges			(147)		(99)
Profit before tax					
Before exceptional items and remeasurements		599		307	
Exceptional items and remeasurements	6	(20)		(17)	
Total profit before tax			579		290
Tax					
Before exceptional items and remeasurements		(118)		(55)	
Exceptional items and remeasurements	6	4		3	
Total tax	10		(114)		(52)
Profit after tax					
Before exceptional items and remeasurements		481		252	
Exceptional items and remeasurements	6	(16)		(14)	
Profit for the period			465		238

The results reported above relate to continuing activities. Cadent Gas Limited was incorporated on 23 March 2016. On 1 October 2016, the trade and assets of National Grid Gas's regulated gas distribution networks were transferred to the company. The comparatives represent six months of trading.

The notes on pages 87 to 115 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2018

	2018 £m	53-week Period Ending 31 March 2017 £m
Profit for the year	465	238
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	436	197
Tax on remeasurements of post-employment benefit obligations	(75)	(33)
Total items that will never be reclassified to profit or loss	361	164
Items that may be reclassified subsequently to profit or loss		
Net gains/(losses) in respect of cash flow hedges	16	(8)
Tax on net gains/losses in respect of cash flow hedges	(3)	1
Total items that may be reclassified subsequently to profit or loss	13	(7)
Other comprehensive income for the year, net of tax	374	157
Total comprehensive income for the year	839	395

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and in exchange rates. The net gain for the period was £13m.

Consolidated statement of financial position
As at 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets	12	59	88
Property, plant and equipment	13	8,843	8,509
Investments in associates	14	–	–
Pension and other post-retirement benefit assets	27	507	34
Other non-current assets	16	44	52
Derivative financial assets	17	13	–
Total non-current assets		9,466	8,683
Current assets			
Inventories	15	6	7
Trade and other receivables	16	236	225
Derivative financial assets	17	2	2
Current asset investments	18	161	59
Cash and cash equivalents		8	–
Total current assets		413	293
Total assets		9,879	8,976
Current liabilities			
Trade and other payables	19	(452)	(376)
Borrowings	21	(47)	(60)
Current tax liabilities		(55)	(67)
Provisions	22	(17)	(21)
Total current liabilities		(571)	(524)
Non-current liabilities			
Derivative financial liabilities	17	(6)	(11)
Borrowings	21	(6,330)	(5,982)
Deferred tax liabilities	10	(1,121)	(1,057)
Provisions	22	(71)	(82)
Accruals and deferred income	20	(894)	(855)
Total non-current liabilities		(8,422)	(7,987)
Total liabilities		(8,993)	(8,511)
Net assets		886	465
Equity			
Share capital	23	–	–
Share premium account	24	–	5,458
Cash flow hedge reserve		6	(7)
Retained earnings		6,173	307
Other reserves		(5,293)	(5,293)
Total equity		886	465

The notes on pages 87 to 115 are an integral part of these financial statements.

The consolidated financial statements on pages 82 to 115 were authorised and approved for issue by the Board of Directors on 28 June 2018 and were signed on its behalf by:

C Train OBE
Director
Cadent Gas Limited
Company registration number: 10080864

Consolidated statement of changes in equity
For the year ended 31 March 2018

	Share Capital £m	Share Premium Account £m	Cash flow Hedge Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 1 April 2017	–	5,458	(7)	(5,293)	307	465
Profit for the year	–	–	–	–	465	465
Other comprehensive income for the year	–	–	13	–	361	374
Total comprehensive income for the year	–	–	13	–	826	839
Capital reduction	–	(5,458)	–	–	5,458	–
Equity dividends	–	–	–	–	(418)	(418)
At 31 March 2018	–	–	6	(5,293)	6,173	886

	Share Capital £m	Share Premium Account £m	Cash flow Hedge Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m
At 23 March 2016	–	–	–	–	–	–
Profit for the period	–	–	–	–	238	238
Other comprehensive income for the period	–	–	(7)	–	164	157
Total comprehensive income for the period	–	–	(7)	–	402	395
Issue of share capital	–	5,458	–	–	–	5,458
Gas Distribution acquisition	–	–	–	(5,165)	–	(5,165)
Pension sectionalisation	–	–	–	(128)	–	(128)
Dividends paid	–	–	–	–	(95)	(95)
At 31 March 2017	–	5,458	(7)	(5,293)	307	465

The cash flow hedge reserve on interest rate swap contracts will be recycled to the income statement over the life of the hedged items.

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. On 1 October 2016 Cadent Gas Limited acquired the trade and assets of the Gas Distribution business from National Grid Gas plc. This acquisition was accounted for as a business combination under common control as the entities were under the common control of National Grid plc. As such, Cadent Gas Limited selected to apply predecessor accounting and this resulted in the excess of the consideration paid over the carrying value of the net assets, being recorded as a separate component of equity and a merger reserve of £5,165m was recognised. Subsequent to this, Cadent Gas Limited recognised its share of the pension sectionalisation and the recognition of pension deficit of £128m net of deferred tax was recognised against the merger reserve. This merger reserve will reduce distributable profits. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

The notes on pages 87 to 115 are an integral part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 March 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Total operating profit	724	388
Adjustments for:		
Exceptional items	20	11
Depreciation, amortisation and impairment	305	152
Changes in working capital	25	(16)
Capital contribution income	(24)	(11)
Changes in provisions	(2)	(7)
(Gain)/loss on disposal of property, plant and equipment	(1)	1
Changes in pensions and other post-retirement obligations	(32)	6
Cash flows relating to exceptional items	(18)	–
Cash generated from operations	997	524
Tax paid	(128)	–
Net cash inflow from operating activities	869	524
Cash flows from investing activities		
Purchases of intangible assets	(3)	(11)
Purchases of property, plant and equipment	(577)	(151)
Capital contributions	59	44
Disposals of property, plant and equipment	1	–
Interest received	–	–
Net (increase)/decrease financial investments	(102)	(59)
Net cash flow (used in) investing activities	(622)	(177)
Cash flows from financing activities		
Proceeds received from loans	540	1,189
Repayment of loans	(245)	(1,449)
Interest paid	(101)	(15)
Dividends paid to shareholders	(418)	(95)
Net cash flow (used in) financing activities	(224)	(370)
Net increase/(decrease) in cash and cash equivalents	23	(23)
Net cash and cash equivalents/(overdraft) at the start of the period	(20)	–
Cash acquired	–	3
Net cash and cash equivalents/(overdraft) at the end of the period	3	(20)

Notes to the consolidated financial statements
For the year ended 31 March 2018

1 Summary of significant accounting policies
Cadent Gas Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE, UK.

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

(a) Basis of preparation
The financial statements for the Group have been prepared on the going concern basis (see Directors report on page 76) under the historical cost convention modified to include certain items at fair value.

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

(i) Consolidated financial statements
The consolidated financial statements of Cadent Gas Limited have been prepared in accordance with IFRS, IAS, IFRIC interpretations issues and effective and ratified by the European Union as at 31 March 2018 and the Companies Act 2006.

(b) Basis of consolidation
The consolidated financial statements include the results of Cadent Gas Limited and its subsidiary, Cadent Finance plc, and associate undertaking. 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 or the Group has the power to exercise significant influence.

(c) Intangible assets
Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairment of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if an asset is created that can be identified; it is probable that the asset will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for software is up to eight years.

(d) Property, plant and equipment and depreciation
The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. 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.

Notes to the consolidated financial statements continued
For the year ended 31 March 2018

1 Summary of significant accounting policies continued
(d) Property, plant and equipment and depreciation continued
All contributions received prior to 1 July 2009 by the gas distribution business which was acquired on 1 October 2016, towards the cost of tangible fixed assets and contributions received post 1 July 2009 towards altering, diverting or relocating a tangible fixed asset are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 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. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(e) Fixed asset investments
Investments in subsidiary undertakings and associated companies are held at cost, less any provisions for impairment. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

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

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

(g) Financial instruments
Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Group will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised using the effective interest method in the income statement.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value, calculated at the closing rate at the period end, in the statement of financial position. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the income statement as it accrues.

Borrowings, which include interest-bearing loans and overdrafts, 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

1 Summary of significant accounting policies continued
(g) Financial instruments continued
Where the company has derivative financial instruments:

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.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of derivative instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

Where possible, derivatives held as hedging instruments are formally designated as hedge as defined in IAS 39. Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement.

(h) Trade and other receivables
Trade, loan and other receivables are initially recognised at amortised cost and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

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

(j) Inventories
Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

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

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

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2018

1 Summary of significant accounting policies continued

(k) 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.

(l) Provisions for liabilities

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

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

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

(m) Dividends

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

(n) Revenue

Revenue comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services, Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

(o) 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, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Remeasurements comprise gains or losses recorded in the income statement arising from the changes in fair value of derivative financial instruments to the extent that hedge accounting is not achieved or it is not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

(p) Pensions

The company operates various post-employment schemes, including both defined benefit (DB) and defined contribution (DC) pension plans.

For DC pension plans, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For DB pension plans, 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 plan 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.

1 Summary of significant accounting policies continued

(p) Pensions continued

The company's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds with terms similar to the period over which liabilities will be paid.

The company takes advice from independent actuaries relating to the appropriateness of 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 liability recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

(q) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Assets for use in the company's business where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, are included within creditors. The interest element of the rental obligation is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

(r) New IFRS accounting standards and interpretations not yet adopted

The Group enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. We are assessing the likely impact of these standards on the financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' principally impacts the accounting for the classification of financial instruments, impairment of financial assets and hedge accounting. The Group has performed an assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships in place as at the date of adoption (1 April 2018). It is not expected that the adoption of IFRS 9 will materially impact our profits or net assets on transition or prospectively.

IFRS 9 will be adopted on 1 April 2018. The full impact of adopting IFRS 9 will depend on the financial instruments that the Group has during the year ending 31 March 2019 as well as on economic conditions and judgements made as at the year end.

Classification and measurement: financial assets

The number of categories of financial assets has been reduced under IFRS 9 compared to IAS 39. Under IFRS 9 the classification of financial assets is based on the business model within which the asset is held and contractual terms of the asset. There are three principal classification categories for financial assets i) amortised cost ii) fair value through other comprehensive income (FVOCI) and iii) fair value through profit or loss (FVTPL). With FVTPL, any fair value movements will be reported as remeasurements. For Cadent, its available for sale investments of £160 million at 31 March 2018 representing investments in money market funds will be reallocated to FVTPL as the contractual terms are such that they do not qualify for any other category.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred losses under IAS 39. The new impairment model will apply to the Group's financial assets that are debt instruments measured at amortised cost as well as the Group's trade receivables. The Group expects to apply the simplified approach, recognising lifetime losses for its trade receivables. The Group's preliminary calculation of the loss allowance for these assets at 31 March 2018 results in an immaterial impact compared to IAS 39.

Hedge accounting

On initial application of IFRS 9, an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of those of IFRS 9. The Group has elected to apply IFRS 9 requirements as these align with the Group's risk management policies.

An assessment of the Group's designated hedging relationships under IAS 39 has been performed and it has been determined that all would qualify as continuing hedge relationships under IFRS 9. However, in order to apply elective changes to the treatment of costs of hedging, certain relationships will be formally redesignated from the date of adoption, The Group is considering additional opportunities to apply hedge accounting under IFRS 9. The Group does not anticipate the application of IFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

Financial statements

Notes to the consolidated financial statements continued

For the year ended 31 March 2018

1 Summary of significant accounting policies continued

(r) New IFRS accounting standards and interpretations not yet adopted continued

The area of hedging is where we are likely to see the most significant impact as the model for hedge accounting has been substantially revised with a more simple principles based approach designed to align the accounting result with the economics of the hedging strategy. This is likely to result in more hedging strategies eligible for hedge accounting. We are currently reviewing the guidance to assess whether hedge accounting will be possible for our index-linked swaps.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 and the core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. This differs from the principle under IAS 18 that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

The Group has performed an assessment of the effects of applying the new standard and has concluded that while there are minor areas of difference they are not expected to have a material impact on the Group's revenue recognition.

99% of current Group revenue is derived from gas transportation charges and this has been reviewed against IFRS 15. Based on the assessment, management have concluded that revenues are currently being appropriately recognised across the periods when the performance obligation has been fulfilled and do not expect any changes to the revenue recognition.

A key element of the remaining revenue relates to customer contributions received towards altering, diverting or relocating a tangible fixed asset, which are currently included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate. Under IFRS 15, we expect the revenue recognition to alter with the income recognised once the performance obligation (altering, diverting or relocating a tangible fixed asset) has been completed. There is no change to the accounting for customer contributions received for connections which continues to be recognised when the connection has been completed and the performance obligation satisfied.

IFRS 15 will be adopted on 1 April 2018 but there are no restatements necessary in the comparative period as the modified retrospective approach will be applied whereby the historical cumulative transition adjustment is reflected through retained earnings. The transition adjustment through retained earnings of £714m will result in a reduction in capital contribution liabilities of £860m and a corresponding deferred tax impact of £146m. The full impact of adopting IFRS 15 will depend on the diversions completed during the year ending 31 March 2019 which could vary depending on the completion of a number of factors including the volume of customer funded diversions such as HS2 projects.

IFRS 16 'Leases'

IFRS 16 'Leases' (IFRS 16) is effective for the year ending 31 March 2020. The Group enters into a significant number of operating lease transactions. Under IFRS 16, our operating leases will be accounted for on the balance sheet as 'right-of-use' assets. This treatment will increase both our assets and liabilities and subsequently, an increase to finance costs and depreciation and a reduction in rental costs. The Group continues to assess the impact that this standard will have on the profits and net assets of the Group.

Other

Other standards and interpretations or amendments thereto which have been issued and are effective are not expected to have a material impact on the company's consolidated financial statements.

- Annual improvements to IFRSs 2014–2016 Cycle;
- Amendments to IAS 7 'Statement of Cash Flows'; and
- Amendments to IAS 12 'Income Taxes'.

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.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- The recognition of surpluses in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14 – note 27; and
- The categorisation of certain items as exceptional items – note 6.

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- **Presentational formats:** we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- **Customer contributions:** contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- **Financial instruments:** we normally opt to apply hedge accounting in most circumstances where this is permitted.

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:

- Estimation of liabilities for pensions and other post-retirement benefits – note 27.
- Valuation of financial instruments and derivatives – notes 17 and 28.
- Environmental and decommissioning provisions – note 22.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 29.

3 Segmental analysis

The Directors believe that the whole of the company's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

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

4 Revenue

	2018 £m	53-week Period Ending 31 March 2017 £m
Revenue from distribution of gas	1,809	936
Other income	43	25
	1,852	961

Geographical analysis of revenue is not provided as the company's operations are all undertaken in the UK for customers based in the UK.

	2018 £m	53-week Period Ending 31 March 2017 £m
Analysis of revenue by major customer		
Customer A	505	278
Customer B	180	105
	685	383

One customer contributed 10% or more to the Group's revenue during the year to 31 March 2018 (2017: Two).

Notes to the consolidated financial statements continued
For the year ended 31 March 2018

5 Operating profit

	2018 £m	53-week Period Ending 31 March 2017 £m
Operating profit is stated after charging		
Depreciation and amortisation	305	152
Payroll costs	192	99
Inventory consumed	9	6
Purchases of gas	20	10
Rates	198	76
Operating leases	8	4
Research and development expenditure	8	10

	2018 £000	53-week Period Ending 31 March 2017 £000
Services provided by the company's auditor		
Audit services		
Fees payable to the Group's auditor and its associates for the audit of the financial statements	447	881
Fees payable for the audit of the subsidiary company financial statements	43	–
Other services		
Fees payable to the company's auditor for audit-related assurance services	62	62
Other non-audit services	105	125

Fees payable to the company's auditor for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditor such as regulatory accounts. Other non-audit services for 2018 relate to services provided in connection with the raising of debt or interim reviews.

In 2018, fees were payable to Deloitte LLP who were appointed as auditor during the year. The 2017 fees payable to the auditor were paid to PricewaterhouseCoopers LLP.

6 Exceptional items and remeasurements

	2018 £m	53-week Period Ending 31 March 2017 £m
Included within operating costs		
Separation activities (i)	(20)	–
Insurance provision (ii)	–	(11)
Included within finance costs		
Remeasurements		
Net losses on derivative financial instruments (iii)	–	(6)
Total included within profit before tax	(20)	(17)
Included within taxation		
Tax on separation activities	4	2
Tax on remeasurements	–	1
	4	3
Total exceptional and remeasurements after tax	(16)	(14)
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	(16)	(9)
Total remeasurement after tax	–	(5)
	(16)	(14)

(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.
(ii) The insurance provision exceptional item relates to an increase in the provision for claims for certain years. The potential costs to be incurred as a result of the loss of the National Grid plc group insurance captive on sale completion.
(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.

7 Employment costs
The average number of persons (including Executive Directors) employed by the Group was 4,102 (2017: 4,085).

	2018 £m	53-week Period Ending 31 March 2017 £m
Wages and salaries	180	90
Social security costs	22	11
Other pension costs	42	21
Share-based payments	–	1
	244	123
Less: payroll costs capitalised	(52)	(24)
	192	99

Key management comprises the Board of Directors of the company together with those Executive Directors of Cadent Gas Limited who have managerial responsibility for the businesses of Cadent Gas Limited.

	2018 £000	53-week Period Ending 31 March 2017 £000
Salaries and other short-term employee benefits	951	171
Post-employment benefits	502	157
Share-based payments	–	384
	1,453	712

8 Directors' emoluments
The Directors' emoluments were as follows:

	2018 £000	53-week Period Ending 31 March 2017 £000
Aggregate emoluments (including salary, fees, bonuses and benefits-in-kind)	951	171
Aggregate amounts receivable under long-term incentive schemes	–	384
Pension schemes	502	157
	1,453	712

There were no amounts paid to third parties for Directors' services.

Post-employment benefits are accruing for one Director under a defined benefit scheme.

During the period there were no (2017: One) Directors who exercised share options in or received ordinary shares as part of long-term incentive plans of the previous ultimate parent company, National Grid plc.

Highest paid Director
The highest paid Director's emoluments were as follows:

	2018 £000	53-week Period Ending 31 March 2017 £000
Total amount of emoluments and amounts receivable (excluding shares) under long-term incentive schemes	677	171
Defined benefit pension scheme		
– accrued pension at end of period	454	157
– accrued lump sum at end of period	–	–

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For the year ended 31 March 2018

9 Finance income and costs

	2018 £m	53-week Period Ending 31 March 2017 £m
Finance income		
Interest income from bank deposits	–	–
Interest income from pensions	2	–
Interest income from financial instruments	–	1
Finance income	2	1
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	32	6
Other borrowings	98	82
Derivatives	15	4
Unwinding of discounts on provisions	2	1
Interest expense from pensions	–	1
Less: interest capitalised (i)	–	(1)
Finance costs	147	93
Remeasurements		
Net (gains)/losses on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Fair value hedges	–	–
Cash flow hedges	11	6
Derivatives not designated as hedges or ineligible for hedge accounting	(11)	–
Remeasurements included within finance costs	–	6
Finance costs	147	99
Net finance costs	145	98

(i) Interest on funding attributable to assets in the course of construction was capitalised during the period at a rate of 2.2% (2017: 3.4%). Capitalised interest of £128,000 (2017: £1,482,000) qualifies for a current year tax deduction with tax relief claimed of £24,000 (2017: £200,000).

(ii) Includes a net foreign exchange loss on financing activities of £10m (2017: £10m). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

10 Taxation

Tax charged to the income statement

	2018 £m	53-week Period Ending 31 March 2017 £m
Tax before exceptional items and remeasurements	118	55
Tax on other exceptional items and remeasurements	(4)	(3)
Tax on total exceptional items and remeasurements (note 6)	(4)	(3)
Total tax expense	114	52

Taxation as a percentage of profit before tax

	2018 %	2017 %
Before exceptional items and remeasurements	19.7	17.9
After exceptional items and remeasurements	19.7	17.9

10 Taxation continued

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

	2018 £m	53-week Period Ending 31 March 2017 £m
Current tax		
UK corporation tax at 19% (2017: 20%)	129	67
UK corporation tax adjustment in respect of prior years	(1)	–
Total current tax	128	67
Deferred tax		
UK deferred tax	(16)	(15)
UK deferred tax adjustment in respect of prior years	2	–
Total deferred tax	(14)	(15)
Total tax charge	114	52

Tax charged/(credited) to other comprehensive income and equity

	2018 £m	2017 £m
Deferred tax		
Cash flow hedges	3	(1)
Remeasurements of post-employment benefit obligations	75	33
Total tax charged to other comprehensive income	78	32

The tax charge for the period after exceptional items and remeasurements is higher/(prior year lower) than the standard rate of corporation tax in the UK of 19% (2017: 20%):

	Before Exceptional Items and Remeasurements 2018 £m	After Exceptional Items and Remeasurements 2018 £m	Before Exceptional Items and Remeasurements 53-week Period Ending 31 March 2017 £m	After Exceptional Items and Remeasurements 53-week Period Ending 31 March 2017 £m
Profit before tax				
Before exceptional items and remeasurements	599	599	307	307
Exceptional items and remeasurements	–	(20)	–	(17)
Profit before tax	599	579	307	290
Profit before tax multiplied by UK corporation tax rate of 19% (2017: 20%)	114	110	61	58
Effect of:				
Expenses not deductible for tax purposes	3	3	2	2
Non-taxable income	(1)	(1)	(1)	(1)
Transfer pricing	–	–	(7)	(7)
Deferred tax impact of change in UK tax rate	(1)	(1)	–	–
Other	2	2	–	–
Prior year adjustments	1	1	–	–
Total tax	118	114	55	52
	%	%	%	%
Effective tax rate	19.7	19.7	17.9	17.9

Factors that may affect future tax charges

The Finance Act 2016 was enacted on 15 September 2016. The Act reduced the corporate tax rate to 17% from 1 April 2020. Deferred tax balances forecast to reverse in the period to 31 March 2020 have been provided for at 19%. Deferred tax balances forecast to reverse in the period after 31 March 2020 have been provided for at 17%. The tax impact of new accounting standards not yet adopted have been included in note 1r on page 91 where appropriate.

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10 Taxation continued

Taxation included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current reporting period:

	Accelerated Tax Depreciation £m	Pensions £m	Financial Instruments £m	Other Net Temporary Differences £m	Total
At 1 April 2017	1,058	6	(4)	(3)	1,057
Charged/(credited) to income statement	(18)	1	2	1	(14)
Charged to other comprehensive income and equity	–	75	3	–	78
At 31 March 2018	**1,040**	**82**	**1**	**(2)**	**1,121**
Deferred tax assets at 31 March 2018	–	–	–	(2)	(2)
Deferred tax liabilities at 31 March 2018	1,040	82	1	–	1,123
At 31 March 2018	**1,040**	**82**	**1**	**(2)**	**1,121**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £1,121m (2017: £1,057m). At the balance sheet date there were no material current deferred tax assets or liabilities.

11 Dividends

	2018 £m	53-week Period Ending 31 March 2017 £m
Initial interim dividend for the period from incorporation on 23 March 2016 to 31 March 2017 of £20 per ordinary share	–	1
Second interim dividend for the period from incorporation on 23 March 2016 to 31 March 2017 of £1,863 per ordinary share	–	94
Interim dividend of £1,567.77 per ordinary share amounting to £265,000,000 was declared and paid on the 22 November 2017	265	–
Second interim dividend of £905.17 per ordinary share amounting to £153,000,000 was declared on 23 March 2018 and paid on 27 March 2018	153	–
	418	95

No further dividends are proposed for the current financial period.

12 Intangible assets

	Software £m
Cost	
At 1 April 2017	105
Additions	2
Disposals	–
At 31 March 2018	**107**
Accumulated amortisation	
At 1 April 2017	(17)
Amortisation charge for the period	(31)
Disposals	–
At 31 March 2018	**(48)**
Net book value	
At 31 March 2018	**59**
At 31 March 2017	88

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	Total
Cost					
At 1 April 2017	44	8,512	8	80	8,644
Additions	1	561	18	30	610
Reclassifications	5	(2)	(6)	3	–
Disposals	–	(1)	–	(1)	(2)
At 31 March 2018	**50**	**9,070**	**20**	**112**	**9,252**
Accumulated depreciation and impairment					
At 1 April 2017	(4)	(117)	–	(14)	(135)
Charge for the period	(5)	(246)	–	(23)	(274)
Disposals	–	–	–	–	–
At 31 March 2018	**(9)**	**(363)**	**–**	**(37)**	**(409)**
Net book value					
At 31 March 2018	**41**	**8,707**	**20**	**75**	**8,843**
At 31 March 2017	40	8,395	8	66	8,509

The cost of property, plant and equipment at 31 March 2018 included £1,462,000 (2017: £1,482,000) relating to interest capitalised, with £128,000 capitalised during the year.

The net book value of land and buildings comprises:

	2018 £m	2017 £m
Freehold	21	21
Long leasehold (over 50 years)	–	–
Short leasehold (under 50 years)	20	19
	41	40

14 Investments in associates

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

	Total £m
Cost	
At 1 April 2017 & 31 March 2018	–
Provision	
At 1 April 2017 & 31 March 2018	–
Net book value	
At 31 March 2017 & 31 March 2018	–

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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2018

15 Inventories

	2018 £m	2017 £m
Raw materials and consumables	6	7
	6	7

Inventories are stated after provisions for impairment of £318,000 (2017: £593,000).

16 Trade and other receivables

	2018 £m	2017 £m
Amounts falling due within one year		
Trade debtors	27	15
Amounts owed by fellow subsidiary undertakings	4	5
Other debtors	13	10
Prepayments and accrued income	192	195
	236	225
Amounts falling due after more than one year		
Prepayments and accrued income	37	44
Other debtors	7	8
	44	52

	2018 £m	2017 £m
Ageing of past due but not impaired receivables		
31–60 days	–	–
61–90 days	–	–
91–180 days	2	1

Trade debtors are stated after provisions for impairment of £3,645,000 (2017: £1,712,000). Amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable upon demand.

Due to the short-term nature of trade debtors, the fair value approximates its book value.

17 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	2018		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	2	–	2
Amounts falling due after more than one year	13	(6)	7
	15	(6)	9

	2017		
	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	2	–	2
Amounts falling due after more than one year	–	(11)	(11)
	2	(11)	(9)

17 Derivative financial instruments continued

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

	2018 £m	2017 £m
Interest rate swaps	–	–
Cross-currency interest rate swaps	638	638
Foreign exchange forward currency	–	–
Forward rate agreements	–	–
Inflation-linked swaps	400	–
	1,038	638

* The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

18 Current asset investments

	2018 £m	2017 £m
Investments in short-term money funds	160	59
Loans to other entities	1	–
	161	59

19 Trade and other payables

	2018 £m	2017 £m
Trade creditors	213	176
Amounts owed to immediate parent company	12	–
Other tax and social security	52	45
Other creditors	24	9
Accruals and deferred income	151	146
	452	376

Due to the short-term nature of trade creditors, the fair value approximates its book value.

20 Accruals and deferred income

	2018 £m	2017 £m
Accruals and deferred income	894	855
	894	855

Accruals and deferred income mainly comprises contributions to capital projects.

21 Borrowings

	2018 £m	2017 £m
Amounts falling due within one year		
Bank loans	2	2
Bank overdrafts	5	20
Bonds	39	38
Finance leases	1	–
	47	60
Amounts falling due after more than one year		
Bank loans	1,717	1,708
Bonds	4,607	4,274
Finance leases	6	–
	6,330	5,982

Notes to the consolidated financial statements continued

For the year ended 31 March 2018

21 Borrowings continued

	2018 £m	2017 £m
Total borrowings are repayable as follows:		
Less than 1 year	47	60
In 1–2 years	399	–
In 2–3 years	1	399
In 3–4 years	1,038	–
In 4–5 years	1	1,035
More than 5 years	4,891	4,548
	6,377	6,042

The notional amount of borrowings outstanding as at 31 March 2018 was £5,822m (2017: £5,515m), £6,038m (2017: £5,699m) including accretion.

Summary of borrowings – 31 March 2018

Currency	Type	Notional (inc. accretion)** £m	Rate	Maturity Date	Book Value £m	Fair Value £m
Fixed rate						
GBP	Listed	650	Fixed	22/9/2021	650	643
EUR*	Listed	658	Fixed	22/9/2024	655	647
GBP	Listed	850	Fixed	22/9/2028	855	840
GBP	Listed	700	Fixed	22/9/2038	704	665
GBP	Listed	800	Fixed	22/9/2046	799	755
GBP	Listed	300	Fixed	21/3/2040	295	302
		3,958			3,958	3,852
Index linked						
GBP	Unlisted	78	RPI +	2/10/2023	92	88
GBP	Unlisted	75	RPI +	18/6/2024	86	83
GBP	Unlisted	76	RPI +	25/6/2024	87	83
GBP	Unlisted	76	RPI +	29/4/2024	89	86
GBP	Unlisted	76	RPI +	30/4/2024	88	85
GBP	Unlisted	76	RPI +	7/5/2024	88	85
GBP	Listed	138	RPI +	2/5/2039	215	212
GBP	Listed	141	RPI +	10/8/2048	238	240
GBP	Listed	141	RPI +	14/8/2048	235	236
		876			1,218	1,198
Floating rate						
GBP	Unlisted	393	LIBOR +	14/10/2021	391	397
GBP	Unlisted	400	LIBOR +	14/10/2019	399	402
GBP	Unlisted	400	LIBOR +	27/3/2027	400	389
		1,193			1,190	1,188
Overdraft		5			5	5
Finance lease obligation		6			6	6
Total		6,038			6,377	6,249

* Euro amount is €750m
** Index-linked debt notional is the accreted value

Until 21 September 2016 no debt specific to the gas distribution business was in place.

The fixed rate bonds were issued on 22 September 2016 by Cadent Finance plc under its £6,000m Euro Medium Term Note Programme and are guaranteed by Cadent Gas Limited following the transfer of assets on 1 October 2016. In addition, on the 19 March 2018, Cadent Finance plc issued a further £300m fixed rate bonds under its £6,000m Euro Medium Term Note Programme.

The unlisted index-linked debt was novated from National Grid Gas plc to Cadent Gas Limited on 1 October 2016 and the listed index-linked debt to Cadent Finance plc on 24 November 2016, both transfers made at fair value.

21 Borrowings continued

The Floating debt is a combination of Term Debt drawn under the £1,700m Term Loan and Revolving Credit Facility (RCF) agreed in October 2016, and drawn for the first time immediately before the date of sale and debt issued to the European Investment Bank, drawn down on 27 March 2017.

The fair value of borrowings at 31 March 2018 was £6,249m. Where market values were available, the fair value of borrowings (Level 1) was £3,852m. Where market values were not available, the fair value of borrowings (Level 2) was £2,397m, calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2018 was £6,038m (including accretion).

None of the Group's borrowings are secured by charges over assets of the Group.

Obligations under finance leases

	Minimum Lease Payments 2018 £m	Minimum Lease Payments 2017 £m
Amounts payable under finance leases		
Within one year	1	–
In the second to fifth years inclusive	3	–
After five years	4	–
Less: future finance charges	(1)	–
Present value of lease obligations	7	–

	Present Value of Minimum Lease Payments 2018 £m	Present Value of Minimum Lease Payments 2017 £m
Amounts payable under finance leases		
Within one year	1	–
In the second to fifth years inclusive	2	–
After five years	4	–
Present value of lease obligations	7	–
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	1	–
Amounts due for settlement after 12 months	6	–
	7	–

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease length is eight years. For the year ended 31 March 2018, the average effective borrowing was 3.49% (2017: Nil). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

22 Provisions for liabilities

	Decommissioning £m	Environmental £m	Other £m	Total £m
At 1 April 2017	21	31	51	103
Charged to the income statement	–	–	3	3
Utilised	(14)	–	(3)	(17)
Released to the income statement	(1)	(1)	(1)	(3)
Unwinding of discount	1	1	–	2
At 31 March 2018	7	31	50	88

	2018 £m	2017 £m
Current	17	21
Non-current	71	82
	88	103

Notes to the consolidated financial statements continued

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22 Provisions for liabilities continued

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas storage facilities expected to be incurred until 2019.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0%, 2017: 1.0%). Cash flows are expected to be incurred between 2018 and 2068.

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 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. The undiscounted amount of the provision at 31 March 2018 as £37m (2017: £36m) being the undiscounted best estimate liability having regard to these uncertainties.

Other provisions

The other provision represents all other provisions, including claims which are not covered by insurance.

23 Share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	–	–

24 Share premium

	2018 £m
At 1 April 2017	5,458
Capital reduction	(5,458)
At 31 March 2018	–

On the 25 January 2018, the company completed a capital reduction. Prior to the capital reduction, share capital consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid and share premium amounted to a balance of £5,457,732,588. The capital reduction resulted in the share premium account being reduced by £5,457,732,588 to nil. Share capital post capital reduction remained unchanged and consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid.

25 Net debt

	2018 £m	2017 £m
Increase/(decrease) in cash and cash equivalents	23	(23)
Increase in financial investments	102	59
Increase in borrowings & related derivatives	(295)	(1,189)
Net interest paid on the components of net debt	101	15
Change in net debt arising from cash flows	(69)	(1,138)
Changes in fair value of financial assets and liabilities and exchange movements	13	(13)
Other non-cash changes	(6)	(4,752)
Net interest charge on the components of net debt	(145)	(92)
Movement in net debt (net of related derivative financial instruments)	(207)	(5,995)
Cash acquired as part of Gas Distribution acquisition	–	3
Net debt (net of related derivative financial instruments) at the start of the year	(5,992)	–
Net debt (net of related derivative financial instruments) at the end of the year	(6,199)	(5,992)

25 Net debt continued

Composition of net debt:

	2018 £m	2017 £m
Cash, cash equivalents and financial investments	169	59
Borrowings and bank overdrafts	(6,377)	(6,042)
Derivatives	9	(9)
Total net debt	(6,199)	(5,992)

Analysis of changes in net debt:

	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Total £m
Cost							
At 1 April 2017	–	(20)	(20)	59	(6,022)	(9)	(5,992)
Cash flow	8	15	23	102	(195)	1	(69)
Fair value gains and losses and exchange movements	–	–	–	–	(19)	32	13
Interest charges	–	–	–	–	(130)	(15)	(145)
Other non-cash changes	–	–	–	–	(6)	–	(6)
At 31 March 2018	8	(5)	3	161	(6,372)	9	(6,199)

Balances at 31 March 2018 comprise:

	Cash and Cash Equivalents £m	Bank Overdrafts £m	Net Cash and Cash Equivalents £m	Financial Investments £m	Borrowings £m	Derivatives £m	Total £m
Non-current assets	–	–	–	–	–	13	13
Current assets	8	–	8	161	–	2	171
Current liabilities	–	(5)	(5)	–	(42)	–	(47)
Non-current liabilities	–	–	–	–	(6,330)	(6)	(6,336)
At 31 March 2018	8	(5)	3	161	(6,372)	9	(6,199)

26 Capital and other commitments

	2018 £m	2017 £m
Contracts for future capital expenditure not provided in the financial statements	741	792
Letters of credit	300	300
	1,041	1,092

The Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £m	2017 £m
Less than 1 year	8	9
In 2–5 years	10	20
More than 5 years	1	4
	19	33

In respect of the Group's commitment to property and vehicle leases, there are no contingent rentals payable, or restrictions on dividends, debt or further leasing imposed by these lease arrangements. Escalation of rents is via rent reviews at agreed intervals.

27 Pensions

The Group operates a number of pension schemes for its employees.

Defined contribution (DC) scheme

For DC pension plans, the company pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

Up to 31 March 2017, the company contributed to the National Grid YouPlan (YouPlan). With effect 1 April 2017, Cadent Gas Limited exited the YouPlan as participating Employer and all members became deferred members, pending a bulk transfer later in the year to the Cadent Gas MyPension DC scheme (MyPension).

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27 Pensions continued

MyPension was established in 2017 as the DC pension scheme for the company. Under the rules of the plan, the company double matches member contributions to MyPension up to a maximum of 6%. MyPension is the qualifying scheme used for automatic enrolment and new hires are enrolled into MyPension.

The amount recognised as an expense for the defined contribution scheme was:

	2018 £m	2017 £m
Current period contributions	13	5

Defined benefit (DB) scheme

The company's DB pension arrangements are held in the National Grid UK Pension Scheme. With effect 1 January 2017 the scheme was split into three sections, each of which is legally and actuarially separate. Section C is supported by the company and its membership is limited to the company's employees (active and deferred). Sections A and B are supported by companies within the National Grid Group.

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 plan.

The cost of providing benefits in a DB plan is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The company's obligation in respect of the plan is calculated separately for Section C of the Scheme 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 liability will be paid.

The company takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net asset recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

The National Grid UK Pension Scheme is a defined benefit pension scheme, funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a Board consisting of company and member appointed 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 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 National Grid UK Pension Scheme was carried out at 31 March 2017. As part of this valuation, based on long-term financial assumptions, a contribution rate to meet future benefit accrual was agreed of 52.1% (2017: 36%) 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 2017 valuation are shown below:

Last full actuarial valuation	31 March 2017	30 September 2015
Actuary	Willis Towers Watson	Willis Towers Watson
Market value of scheme assets at latest valuation	£7,004m	£16,551m
Actuarial value of benefits due to members	£7,233m	£18,176m
Market value as percentage of benefits	97%	91%
Funding deficit	£229m	£1,625m

With effect from 1 January 2017, the National Grid UK Pension Scheme was split into three sections, each of which are legally and actuarially separate. The figures for 2015 cover the whole of the Scheme as at that date, whereas the 2017 valuation covers Section C, which is supported by the company.

27 Pensions continued

Section C of the National Grid UK Pension Scheme

The company and the Trustees have agreed a schedule of contributions, under which payments of £37.1m will be made each year from September 2018 until September 2021 and £31.4m in 2022, adjusted for the change in RPI from 31 December 2016 to three months prior to the date of payment.

The company has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to the company's credit rating or gearing levels. At 31 March 2018 the value of this was required to be £285m. This was provided via £300m in letters of credit. The assets held as security will be paid to Section C in the event that the company is subject to an insolvency event, if the company is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, if the company fails to make the required contributions in relation to Section C, if the company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days, or if the company grants any charges over its assets other than where agreed with the Trustees. The assets held as security will be released back to the company if the scheme moves into surplus. In addition, the company will make a further payment of £77m (increased in line with RPI) into Section C if the company's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

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

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. Plan funds are invested in a variety of asset classes, principally: equities, 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.

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.

Each plan'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.

Amounts recognised in the statement of financial position

The following tables represent the amounts in the financial statements.

	2018 Total £m	2017 Total £m
Present value of funded obligations	(6,306)	(6,967)
Fair value of plan assets	6,816	7,004
	510	37
Present value of unfunded obligations	(3)	(3)
Other post-employment liabilities	–	–
Net defined benefit asset	507	34

	2018 Total £m	2017 Total £m
Represented by:		
Liabilities	(6,309)	(6,970)
Assets	6,816	7,004
	507	34

Notes to the consolidated financial statements continued
For the year ended 31 March 2018

27 Pensions continued
Amounts recognised in the income statement and statement of other comprehensive income

	2018 Total £m	53-week Period Ending 31 March 2017 Total £m
Included within operating costs		
Administration costs	3	1
Defined contribution scheme costs	13	5
Defined benefit scheme costs:		
Current service cost	29	8
Settlement cost	–	2
Special termination benefit (gain)/cost – redundancies	(3)	3
	42	18
Included within finance costs		
Net interest (credit)/cost	(2)	1
Total included in income statement	40	20
Remeasurements of net retirement benefit obligations	429	(49)
Return on plan assets (greater) or less than discount rate	7	(148)
Total included in the statement of other comprehensive income	436	(197)

Reconciliation of the net defined benefit liability/(asset)

	2018 Total £m	2017 Total £m
Opening net defined benefit (liability)/asset	34	–
Net pension liability acquired on sectionalisation	–	(157)
Costs recognised in the income statement	(27)	(15)
Employer contributions	60	9
Other movements	440	197
Closing net defined benefit asset	507	34

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2018 Total £m	2017 Total £m
Opening net defined benefit liability	6,970	–
Net pension liability acquired on sectionalisation	–	7,018
Current service cost	29	8
Interest cost	162	44
Actuarial (gains)/losses – experiences	59	12
Actuarial (gains)/losses – demographic assumptions	(192)	(85)
Actuarial (gains)/losses – financial assumptions	(296)	24
Special termination benefit cost – redundancies	(3)	3
Settlement of defined benefit obligation	–	13
Benefits paid	(416)	(67)
Other	(4)	–
Closing net defined benefit liability	6,309	6,970

27 Pensions continued
Changes in the fair value of plan assets

	2018 Total £m	2017 Total £m
Opening fair value of plan assets	7,004	–
Pension asset acquired on sectionalisation	–	6,861
Interest income	164	43
Return on assets (less)/greater than assumed	7	148
Administration costs	(3)	(1)
Employer contributions paid	60	9
Employee contributions	–	–
Benefits paid	(416)	(67)
Settlement of assets	–	11
Closing fair value of plan assets	6,816	7,004
Actual return on plan assets	170	191
Expected contributions to plans in the following year	61	62

Asset allocations
Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2018 Quoted £m	2018 Unquoted £m	2018 Total £m	2017 Quoted £m	2017 Unquoted £m	2017 Total £m
Equities	714	270	984	945	281	1,226
Corporate bonds	2,020	–	2,020	1,965	–	1,965
Property	–	402	402	–	348	348
Government securities	2,857	–	2,857	2,820	–	2,820
Diversified alternatives(i)	–	388	388	–	355	355
Other	–	165	165	–	290	290
Total	5,591	1,225	6,816	5,730	1,274	7,004

(i) Includes return seeking non-conventional asset classes.

The investment strategy for Section C of the National Grid UK Pension Scheme 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 2018 is as follows:

	2018 %	2017 %
Equities	14	18
Other	86	82
	100	100

Financial statements

Notes to the consolidated financial statements continued

For the year ended 31 March 2018

27 Pensions continued

Actuarial assumptions

Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

	2018 %	2017 %
Discount rate – Past service (i)	2.60	2.40
Discount rate – Future service (i)	2.65	2.65
Rate of increase in salaries (ii)	3.40	3.45
Rate of increase in RPI – Past service (iii)	3.15	3.20
Rate of increase in RPI – Future service (iii)	3.10	3.15

(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. From 2018, the company has adopted a different discount rate assumption by increasing the duration of the scheme liabilities to 25 years for future service obligations. This has led to a future service discount rate of 2.65% for both the 2017 and 2018 year ends. The 2017 discount rate published assumption was 2.40% for both past service benefits and for future service benefits based on a then expected duration of scheme liabilities of 17 years.

(ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service prior to 1 April 2014. The assumption for the rate of increase in salaries for service after this date is 2.20% (2017: 2.20%).

(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. This approach has led to a RPI assumption for the future service rate of 3.10% at reporting date (2017: 3.15%), as compared to the 2017 published assumption of 3.20% for both past service and future service.

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2018 years	2017 years
Today		
Males	21.8	22.8
Females	23.7	24.6
In 20 years		
Males	23.2	25.0
Females	25.3	26.8

Maturity profile of DB obligations

The weighted average duration of the DB obligation for future service obligations of the scheme is 25 years and 17 years for past service obligations.

28 Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures, (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- Credit risk.
- Liquidity risk.
- Interest rate risk.
- Currency risk.
- Capital risk.

28 Financial risk management continued

(a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. 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.

Treasury 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 Cadent Gas Limited.

As at 31 March 2018, we had a number of exposures to individual counterparties. 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. Management does not expect any significant losses from non performance by these counterparties.

Customer credit risk

Our principal commercial exposure 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. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 16.

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present Cadent Gas's net exposure.

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

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

Cadent Gas has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

	Gross Carrying Amounts £m	Gross Amounts Offset £m	Net Amount Presented in Statement of Financial Position £m	Financial Instruments £m	Cash Collateral Received/ Pledged £m	Net Amount £m
As at 31 March 2018						
Assets						
Derivatives' financial instruments	15	–	15	–	–	15
Liabilities						
Derivatives' financial instruments	(6)	–	(6)	–	–	(6)
Total at 31 March 2018	9	–	9	–	–	9

(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 24-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 26 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Notes to the consolidated financial statements continued
For the year ended 31 March 2018

28 Financial risk management continued
(b) Liquidity risk continued
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 following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

	Due within 1 Year £m	Due between 1 and 2 Years £m	Due between 2 and 3 Years £m	Due 3 Years and Beyond £m	Total £m
As at 31 March 2018					
Non-derivative financial liabilities					
Borrowings	–	(400)	–	(6,382)	(6,782)
Interest on payments on borrowings (i)	(101)	(102)	(103)	(1,696)	(2,002)
Other non-interest bearing liabilities	(452)	–	–	–	(452)
Derivative financial liabilities					
Derivative contracts – receipts	15	17	18	100	150
Derivative contracts – payments	(12)	(12)	(12)	(43)	(79)
Total at 31 March 2018	(550)	(497)	(97)	(8,021)	(9,165)

(i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future debt issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the company can be required to settle.

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

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

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

The table in note 21 (borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

During 2018, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed Rate £m	Floating Rate £m	RPI £m	Other (i) £m	Total £m
As at 31 March 2018					
Financial investments	–	169	–	–	169
Borrowings	(3,958)	(1,595)	(818)	(6)	(6,377)
Pre-derivative position	(3,958)	(1,426)	(818)	(6)	(6,208)
Derivative effect	9	400	(400)	–	9
Net debt position (ii)	(3,949)	(1,026)	(1,218)	(6)	(6,199)

(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 2017/18 short-dated interest rate derivatives is included.

(d) Currency risk
We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.

Our policy for managing foreign exchange risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash forecasts are less certain, our policy is to hedge a proportion of the cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

28 Financial risk management continued
(d) Currency risk continued
During 2018, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling £m	Euro £m	Total £m
As at 31 March 2018			
Financial investments	169	–	169
Borrowings	(5,722)	(655)	(6,377)
Pre-derivative position	(5,553)	(655)	(6,208)
Derivative effect	(646)	655	9
Net debt position	(6,199)	–	(6,199)

(e) Capital risk management
The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 25). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by RAV gearing calculated as adjusted net debt (statutory net debt adjusted for unamortised debt fees, unamortised fair value adjustments, accrued interest and derivatives) expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5–65%. The RAV gearing ratio at 31 March 2018 was 62% (2017: 62%).

(f) Fair value analysis
The derivative financial instruments included on the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2018				
Assets				
Available-for-sale investments	169	–	–	169
Derivative financial instruments	–	15	–	15
Liabilities				
Derivative financial instruments	–	(6)	–	(6)
Total	169	9	–	178

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. 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 (ie, 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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2018

29 Sensitivity analysis continued

The sensitivities included in the table below all have an 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 2018 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.

	Income Statement £m	Net Assets £m
As at 31 March 2018		
One year average increase in useful economic lives (pre-tax)		
Depreciation charge on property, plant and equipment	11	11
Amortisation charge on intangible assets	5	5
Environmental provision change in discount rate of 0.5%	3	3
Environmental provision change in undiscounted cash flow of 10%	3	3
Assets and liabilities carried at fair value change of 10% (pre-tax)		
Derivative financial instruments (i)	1	1
Pensions and other post-retirement benefits (ii) (pre-tax)		
Discount rate change of 0.5% (iii)	3	454
RPI rate change of 0.5% (iv)	2	437
Long-term rate of increase in salaries change of 0.5%	–	18
Change of one year to life expectancy at age 65	1	254
No hedge accounting for our derivative financial instruments (post tax)	13	–

(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.

	Income Statement £m	Net Assets £m
As at 31 March 2018		
Financial risk (post-tax)		
UK RPI rate change of 0.5% (i)	4	–
UK interest rate change of 0.5%	6	–

(i) Excludes sensitivities to LPI curve.

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 2018;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale 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 22) has been set up to deal with the costs of statutory decontamination of the Cadent Gas Limited's old gas-manufacturing sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

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

30 Contingent liabilities continued

(c) Ofgem investigation

On Wednesday 11 April 2018, Ofgem announced it has begun an investigation into Cadent Gas Limited's record keeping relating to gas pipes (risers) in high-rise buildings. Between January and February 2018 Cadent identified that a number of its records concerning high-rise buildings of six storeys and above were not included on its digitised records. The Company informed Ofgem at the earliest opportunity and implemented a survey recovery programme, which will be substantially completed in July 2018. The Company will continue to cooperate fully with Ofgem's investigation.

31 Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a Director who holds a controlling stake in that company and who is also a Director of Cadent Gas Limited. The related parties identified include the immediate parent, ultimate parent, fellow subsidiaries, associated undertakings, investments and key management personnel.

	2018 £m	2017 £m
Income:		
Goods and services supplied	44	12
Expenditure:		
Services rendered	235	113
Corporate services received	–	2
	235	115
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable	18	21
Amounts payable	28	17
Borrowings payable to parent		
Due within one year	–	–
Due after more than one year	–	–

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 £39,000 have been provided at 31 March 2018 and recognised as an expense (2017: £7,000) during the period in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 7.

32 Subsequent events

On 1 May 2018, National Grid announced that it had entered into an option to sell its remaining 25% share in Quadgas HoldCo Limited (the holding company for Cadent Gas) to the existing consortium company – Quadgas Investments BidCo Limited, which may complete at any time between 1 March 2019 and 31 October 2019. This is in addition to the option for Quadgas Investments BidCo Limited to acquire a further 14% share held at 31 March 2017 and the option for National Grid Holdings One Limited to sell a 14% share.

33 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas MidCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Registered office, Quadgas Holdings TopCo Limited, First Floor Waterloo House, Don Street, St. Helier, Jersey JE1 1AD.

34 Subsidiary undertakings

The list below contains all subsidiaries included within the Cadent Gas Group.

Name of Subsidiary	% Holding	Principal Activity	Country of Incorporation
Cadent Finance plc	100	Provision of long-term finance	England and Wales

The registered address for Cadent Finance plc is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

Company statement of financial position
As at 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets	7	59	88
Property, plant and equipment	8	8,843	8,509
Other non-current assets	11	44	52
Investments	9	–	–
Pension and other post-retirement benefit obligations	6	507	34
Derivative financial assets	12	13	–
Total non-current assets		9,466	8,683
Current assets			
Inventories	10	6	7
Debtors	11	237	225
Derivative financial assets	12	2	2
Financial and other investments	13	161	59
Cash at bank and in hand		8	–
Total current assets		414	293
Total assets		9,880	8,976
Current liabilities			
Creditors	14	(537)	(466)
Borrowings	16	(8)	(22)
Provisions for liabilities	17	(17)	(21)
Total current liabilities		(562)	(509)
Non-current liabilities			
Derivative financial liabilities	12	(6)	(11)
Borrowings	16	(1,723)	(1,708)
Provisions for liabilities	17	(1,249)	(1,206)
Other non-current liabilities	15	(5,126)	(4,698)
Total non-current liabilities		(8,104)	(7,623)
Total liabilities		(8,666)	(8,132)
Net assets		1,214	844
Equity			
Share capital	18	–	–
Share premium account	19	–	5,458
Cash flow hedge reserve		7	(6)
Retained earnings		6,159	311
Other reserves		(4,952)	(4,919)
Total equity		1,214	844

The company has elected to take the exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The profit for the period is disclosed in the statement of changes in equity.

The notes on pages 118 to 129 are an integral part of the financial statements.

The financial statements on pages 116 to 129 were approved by the Board of Directors on 28 June 2018 and signed on its behalf by:

C Train OBE
Director
Cadent Gas Limited
Company registration number: 10080864

Company statement of changes in equity
For the year ended 31 March 2018

	Share Capital £m	Share Premium Account £m	Cash Flow Hedge Reserve £m	Merger Reserve £m	Retained Earnings £m	Total £m
At 1 April 2017	–	5,458	(6)	(4,919)	311	844
Profit for the period	–	–	–	–	447	447
Other comprehensive income for the period	–	–	13	–	361	374
Total comprehensive income for the period	–	–	13	–	808	821
Gas Distribution acquisition	–	–	–	(33)	–	(33)
Capital reduction	–	(5,458)	–	–	5,458	–
Equity dividend	–	–	–	–	(418)	(418)
At 31 March 2018	–	–	7	(4,952)	6,159	1,214

	Share Capital £m	Share Premium Account £m	Cash Flow Hedge Reserve £m	Merger Reserve £m	Retained Earnings £m	Total £m
At 23 March 2016	–	–	–	–	–	–
Profit for the period	–	–	–	–	242	242
Other comprehensive income for the period	–	–	(6)	–	164	158
Total comprehensive income for the period	–	–	(6)	–	406	400
Issue of share capital	–	5,458	–	–	–	5,458
Gas Distribution acquisition	–	–	–	(4,791)	–	(4,791)
Pension sectionalisation	–	–	–	(128)	–	(128)
Dividends paid	–	–	–	–	(95)	(95)
At 31 March 2017	–	5,458	(6)	(4,919)	311	844

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid.

Other reserves comprise the merger reserve arising from the acquisition of the gas distribution trade and assets from National Grid Gas plc. On 1 October 2016 Cadent Gas Limited acquired the trade and assets of Gas Distribution from National Grid Gas plc. This acquisition was accounted for as a business combination under common control as the entities were under the common control of National Grid plc. As such, Cadent Gas Limited selected to apply predecessor accounting and this resulted in the excess of the consideration paid over the carrying value of the net assets, being recorded as a separate component of equity and a merger reserve of £4,791m was recognised. Subsequent to this, Cadent Gas Limited recognised its share of the pension sectionalisation and the recognition of pension deficit of £128m net of deferred tax was recognised against the merger reserve. A further adjustment of £33m has been recognised in the current year in relation to capital contributions. This merger reserve will reduce distributable profits. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Notes to the company financial statements

For the year ended 31 March 2018

1 Summary of significant accounting policies

We are required to include the stand-alone balance sheet of our parent company, Cadent Gas Limited, under the Companies Act 2006, and the statement of changes in equity under Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'). The following disclosures provide additional information to the stakeholders.

Cadent Gas Limited is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

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

(a) Basis of preparation

The financial statements for the company have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value. Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

(i) Parent company financial statements

The parent company financial statements have been prepared in accordance with applicable UK accounting and financial reporting standards (FRS) and the Companies Act 2006. The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the period is disclosed in the statement of changes in equity.

As permitted by FRS 102, the company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, standards not yet effective and related party transactions.

(b) Intangible assets

Intangible fixed assets which consist of software licences are carried at amortised historical cost less any provisions for impairment. Software licences are reviewed each year and where they are redundant an impairment charge is made to the income statement.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for software is up to eight years.

(c) 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. 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 tangible fixed assets from customers for connections to the gas distribution network are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the asset to which they relate.

The accounting treatment for contributions received from customers for connections to the gas distribution network prior to 1 July 2009, differs from IFRS. Under IFRS, the contributions are recognised on a straight-line basis in the income statement over the estimated useful economic lives of the assets to which they relate, whereas under FRS102 all such contributions are recognised once the connection has been completed and applied retrospectively.

1 Summary of significant accounting policies continued

c) Property, plant and equipment and depreciation continued

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	Up to 50
Plant and machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(d) Fixed asset investments

Investments in subsidiary undertakings and associated companies are held at cost, less any provisions for impairment. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

(e) 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.

(f) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised using the effective interest method in the income statement.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the income statement as it accrues.

Borrowings, which include interest-bearing loans and overdrafts, 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

Where the company has derivative financial instruments:

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.

Notes to the company financial statements continued
For the year ended 31 March 2018

1 Summary of significant accounting policies continued
(f) Financial instruments continued
No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of derivative instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

(g) Inventories
Inventories are stated at cost less any provision for deterioration and obsolescence.

(h) Tax
Current tax for the current period is provided at the amount expected to be paid or recovered using the tax rates and tax laws enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(i) 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 off the related property, plant and equipment.

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

(j) 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.

(k) Revenue
Revenue comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services, similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

(l) Pensions
The company operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1 Summary of significant accounting policies continued
(l) Pensions continued
Where the plan is in deficit and where the company has agreed, with the plan, to participate in a deficit funding arrangement the company recognises a liability for this obligation and expenses such amounts in the income statement.

(m) Leases
Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Assets for use in the company's business where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, are included within creditors. The interest element of the rental obligation is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

2 Critical accounting judgements and estimation uncertainty
In the application of the company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:
- The recognition of surpluses in respect of defined benefit pension schemes – note 6.
- Environmental and decommissioning provisions – note 17.

3 Auditor's remuneration

Auditor's remuneration in respect of the company is set out below:

	2018 £000	53-week Period Ending 31 March 2017 £000
Audit services		
Fees payable to the Group's auditor and its associates for the audit of the financial statements	447	791
Fees payable for the audit of the subsidiary company financial statements	43	–
Other services		
Fees payable to the company's auditor for audit-related assurance services	62	62
Other non-audit services	105	–

Fees payable to the company's auditor for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditor such as regulatory accounts.

4 Number of employees, including Directors
The average number of persons (including Executive Directors) employed by the Group was 4,102 (2017: 4,085).

5 Key management compensation
Key management comprises the Board of Directors of the company who have managerial responsibility for Cadent Gas Limited. Details of key management personnel compensation are provided in note 7 to the consolidated financial statements.

6 Pensions and other post-retirement benefit obligations
Substantially all the company's employees are members of either the defined benefit National Grid UK Pension Scheme or the Cadent Gas MyPension defined contribution trust.

The disclosures required by FRS 102 are the same as those required by IAS 19 (revised) and are provided in note 27 to the consolidated financial statements.

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2018

7 Intangible assets

	Software £m
Cost	
At 1 April 2017	105
Additions	2
At 31 March 2018	**107**
Accumulated amortisation	
At 1 April 2017	(17)
Amortisation charge for the period	(31)
At 31 March 2018	**(48)**
Net book value	
At 31 March 2018	**59**
At 31 March 2017	88

8 Property, plant and equipment

	Land and Buildings £m	Plant and Machinery £m	Assets in the Course of Construction £m	Motor Vehicles and other Equipment £m	Total £m
Cost					
At 1 April 2017	44	8,512	8	80	8,644
Additions	1	561	18	30	610
Reclassifications	5	(2)	(6)	3	–
Disposals	–	(1)	–	(1)	(2)
At 31 March 2018	**50**	**9,070**	**20**	**112**	**9,252**
Accumulated depreciation and impairment					
At 1 April 2017	(4)	(117)	–	(14)	(135)
Charge for the period	(5)	(246)	–	(23)	(274)
Disposals	–	–	–	–	–
At 31 March 2018	**(9)**	**(363)**	**–**	**(37)**	**(409)**
Net book value					
At 31 March 2018	**41**	**8,707**	**20**	**75**	**8,843**
At 31 March 2017	40	8,395	8	66	8,509

The cost of property, plant and equipment at 31 March 2018 included £1,462,000 (2017: £1,482,000) relating to interest capitalised, with £128,000 capitalised during the year.

The net book value of land and buildings comprises:

	2018 £m	2017 £m
Freehold	21	21
Long leasehold (over 50 years)	–	–
Short leasehold (under 50 years)	20	19
	41	40

9 Investments

	Shares in Subsidiary Undertakings £m	Other Investments £m	Total £m
Cost			
At 1 April 2017 & 31 March 2018	–	–	–
Provision			
At 1 April 2017 & 31 March 2018	–	–	–
Net book value			
At 31 March 2017 & 31 March 2018	–	–	–

The company's subsidiary undertakings as at 31 March 2018 were as follows:

Name of Subsidiary	% Holding	Principal Activity	Country of Incorporation
Cadent Finance plc	100	Provision of long-term finance	England and Wales

The registered address of Cadent Finance plc is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

The other investment represents a 45.57% holding in Xoserve Limited, which provides information, data processing, invoicing and supply point administration services to the Group. The registered address of Xoserve Limited is Lansdowne Gate, 65 New Road, Solihull, B91 3DL.

10 Inventories

	2018 £m	2017 £m
Raw materials and consumables	6	7
	6	7

Inventories are stated after provisions for impairment of £318,000 (2017: £593,000).

11 Debtors

	2018 £m	2017 £m
Amounts falling due within one year		
Trade debtors	27	15
Amounts owed by fellow subsidiary undertakings	4	5
Other debtors	14	10
Prepayments and accrued income	192	195
	237	225
Amounts falling due after more than one year		
Prepayments and accrued income	37	44
Other debtors	7	8
	44	52

Trade debtors are stated after provisions for impairment of £3,645,000 (2017: £1,712,000). Amounts owed by fellow subsidiary undertakings are unsecured, interest free and repayable upon demand.

Notes to the company financial statements continued
For the year ended 31 March 2018

12 Derivative financial instruments
The fair values of derivative financial instruments are as follows:

	2018 Assets £m	2018 Liabilities £m	2018 Total £m
Amounts falling due within one year	2	–	2
Amounts falling due after more than one year	13	(6)	7
	15	(6)	9

	2017 Assets £m	2017 Liabilities £m	2017 Total £m
Amounts falling due within one year	2	–	2
Amounts falling due after more than one year	–	(11)	(11)
	2	(11)	(9)

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

	2018 £m	2017 £m
Interest rate swaps	–	–
Cross-currency interest rate swaps	638	638
Foreign exchange forward currency	–	–
Forward rate agreements	–	–
Inflation-linked swaps	400	–
	1,038	638

* The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

13 Financial and other investments

	2018 £m	2017 £m
Investments in short-term money funds	160	59
Loans to other entities	1	–
	161	59

14 Creditors: amounts falling due within one year

	2018 £m	2017 £m
Trade creditors	213	176
Amounts owed to subsidiary undertakings	39	38
Amounts owed to immediate parent company	12	–
Corporation tax	55	67
Other tax and social security	52	45
Other creditors	24	9
Accruals and deferred income	142	131
	537	466

15 Other non-current liabilities

	2018 £m	2017 £m
Amounts owed to subsidiary undertakings	4,607	4,274
Accruals and deferred income	519	424
	5,126	4,698

Amounts owed to subsidiary undertakings reflect external debt raised by Cadent Finance plc and passed on to Cadent Gas Limited. The amounts are usually passed on to Cadent Gas Limited on identical terms to the amounts raised in Cadent Finance plc. The amounts are unsecured with phased repayments to April 2048.

Deferred income mainly comprises contributions to capital projects.

16 Borrowings

	2018 £m	2017 £m
Amounts falling due within one year		
Bank loans	2	2
Bank overdrafts	5	20
Bonds	–	–
Other loans	1	–
	8	22
Amounts falling due after more than one year		
Bank loans	1,717	1,708
Bonds	–	–
Other loans	6	–
	1,723	1,708

	2018 £m	2017 £m
Total borrowings are repayable as follows:		
Less than 1 year	8	22
In 1–2 years	399	–
In 2–3 years	1	399
In 3–4 years	392	–
In 4–5 years	1	390
More than 5 years	930	919
	1,731	1,730

The notional amount of borrowings outstanding as at 31 March 2018 was £1,564m (2017: £1,573m), £1,661m (2017: £1,652m), including accretion.

The company's borrowings comprise a mixture of unlisted floating rate and indexed-linked debt which has been issued out of or novated into the company. The table overleaf summarises the bank debt, including their fair values.

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2018

16 Borrowings continued

Summary of borrowings – 31 March 2018

Currency	Type	Notional (inc accretion) £m*	Rate**	Maturity Date	Book Value £m	Fair Value £m
Index linked						
GBP	Unlisted	78	RPI +	2/10/2023	92	88
GBP	Unlisted	75	RPI +	18/6/2024	86	83
GBP	Unlisted	76	RPI +	25/6/2024	87	83
GBP	Unlisted	76	RPI +	29/4/2024	89	86
GBP	Unlisted	76	RPI +	30/4/2024	88	85
GBP	Unlisted	76	RPI +	7/5/2024	88	85
		457			530	510
Floating rate						
GBP	Unlisted	393	LIBOR +	14/10/2021	391	397
GBP	Unlisted	400	LIBOR +	14/10/2019	399	402
GBP	Unlisted	400	LIBOR +	27/3/2027	400	389
		1,193			1,190	1,188
Overdraft		5			5	5
Finance lease obligation		6			6	6
Total		**1,661**			**1,731**	**1,709**

* Euro amount is €750m
** Index-linked debt notional is the accreted value

The unlisted index-linked debt was novated from National Grid Gas plc to the company on 1 October 2016 at fair value.

The Floating debt is the Term Debt drawn under the £1,700m Term Loan and RCF agreed in October 2016, and drawn for the first time immediately before the date of sale and debt with a maturity of ten years issued to the EIB, drawn down on 27 March 2017.

The fair value of borrowings at 31 March 2018 was £1,709m (2017: £1,740m). Where market values were available, fair value of borrowings (Level 1) was £Nil (2017: £Nil). Where market values were not available, the fair value of borrowings (Level 2) was £1,709m (2017: £1,740m), calculated by discounting cash flows at prevailing interest rates.

None of the company's borrowings are secured by charges over assets of the company.

Obligations under finance leases

	Minimum Lease Payments 2018 £m	2017 £m
Amounts payable under finance leases		
Within one year	**1**	–
In the second to fifth years inclusive	**3**	–
After five years	**4**	–
Less: future finance charges	**(1)**	–
Present value of lease obligations	**7**	–

	Present Value of Minimum Lease Payments 2018 £m	2017 £m
Amounts payable under finance leases		
Within one year	**1**	–
In the second to fifth years inclusive	**2**	–
After five years	**4**	–
Present value of lease obligations	**7**	–
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	**1**	–
Amounts due for settlement after 12 months	**6**	–
	7	–

16 Borrowings continued

Obligations under finance leases continued

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease length is eight years. For the year ended 31 March 2018, the average effective borrowing was 3.49% (2017: Nil). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

17 Provisions for liabilities

	Decommissioning £m	Environmental £m	Deferred Taxation £m	Other £m	Total £m
At 1 April 2017	21	31	1,124	51	1,227
Charged to the income statement	–	–	–	3	3
Utilised	(14)	–	–	(4)	(18)
Released to the income statement	(1)	(1)	(17)	(1)	(20)
Unwinding of discount	1	1	–	–	2
Credited to other comprehensive income and equity	–	–	72	–	72
At 31 March 2018	**7**	**31**	**1,179**	**(49)**	**1,266**

	2018 £m	2017 £m
Current	**17**	21
Non-current	**1,249**	1,206
	1,266	1,227

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas storage facilities expected to be incurred until 2019.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the company (discounted using a real rate of 1.0%). Cash flows are expected to be incurred between 2018 and 2068.

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 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. The undiscounted amount of the provision at 31 March 2018 as £37m (2017: £36m) being the undiscounted best estimate liability having regard to these uncertainties.

Deferred tax

Deferred taxation comprises:

	2018 £m	2017 £m
Accelerated capital allowances	**1,098**	1,125
Other timing differences	**81**	(1)
Deferred tax liability	**1,179**	1,124

Other provisions

The other provision represents all other provisions, including claims which are not covered by insurance.

Financial statements

Notes to the company financial statements continued

For the year ended 31 March 2018

18 Share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
169,030 ordinary shares of £1 each	–	–

19 Share premium

	2018 £m
At 1 April 2017	5,458
Capital reduction	(5,458)
At 31 March 2018	–

On the 25 January 2018, the company completed a capital reduction. Prior to the capital reduction, share capital consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid up. Share premium amounted to a balance of £5,457,732,588. The capital reduction resulted in the share premium account being reduced by £5,457,732,588 to nil. Share capital post capital reduction remained unchanged and consisted of 169,030 ordinary shares of £1 that were allotted, called up and fully paid.

20 Capital and other commitments

	2018 £m	2017 £m
Contracts for future capital expenditure not provided in the financial statements	741	792
Letters of credit	300	300
	1,041	1,092

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £m	2017 £m
Less than 1 year	8	9
In 2–5 years	10	20
More than 5 years	1	4
	19	33

In respect of the company's commitment to property and vehicle leases, there are no contingent rentals payable, or restrictions on dividends, debt or further leasing imposed by these lease arrangements. Escalation of rents is via rent reviews at agreed intervals.

21 Related parties

The following material transactions are with an associate of the company which is not wholly owned by Quadgas HoldCo Limited and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 102.

	2018 £m	2017 £m
Goods and services supplied	1	–
Services received	17	14
Amounts receivable at 31 March	–	–
Amounts payable at 31 March	1	–

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No amounts have been provided at 31 March 2018 (2017: Nil) and no expense has been recognised during the period in respect of bad or doubtful debts from the above related party transaction.

Details of key management compensation are provided in note 7 to the consolidated financial statements.

22 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 17) has been set up to deal with the costs of statutory decontamination of the Cadent Gas Limited's old gas-manufacturing sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

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

(c) Ofgem investigation

On Wednesday 11 April 2018, Ofgem announced it had begun an investigation into Cadent's record keeping relating to gas pipes (risers) in high-rise buildings. Between January and February 2018 Cadent identified that a number of its records concerning high-rise buildings of six storeys and above were not included on its digitised records. Cadent informed Ofgem at the earliest opportunity and implemented a survey recovery programme, which will be substantially completed in July 2018. Cadent will continue to cooperate fully with Ofgem's investigation.

23 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas MidCo Limited. The largest and smallest group which includes the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas MidCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas MidCo Limited is registered in England and Wales.

Copies of Quadgas MidCo Limited's consolidated financial statements can be obtained from the Company Secretary, Quadgas MidCo Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Registered office, Quadgas Holdings TopCo Limited, First Floor Waterloo House, Don Street, St. Helier, Jersey JE1 1AD.

Financial statements

Glossary

Term	Definition
Alternative Energy Programme	A programme to consider if alternative means of energy can be used in flats and apartments when gas is only used for cooking.
Annual Report	the Company's Annual Report and Accounts for the year ended 31 March 2018
Articles	the Articles of Association of the Company
Code	the UK Corporate Governance Code published in 2016
Directors	the directors of Cadent Gas Limited
AWS	Affordable Warmth Solutions
BAME communities	Black, Asian and minority ethnic communities
BEIS	Department for Business, Energy and Industrial Strategy
bioSNG	bio-substitute natural gas
BSC	Business Separation Compliance
Board	Board of directors of Cadent Gas Limited
Cadent or Company	Cadent Gas Limited
CAP	Competency Assurance Programme
CNG	Compressed Natural Gas
CEO	Chief Executive Officer
Chair	Chairman of a Board committee
Chairman	Chairman of the Board
CFO	Chief Financial Officer
DB	Defined Benefit
DC	Defined Contribution
DNCC	Distribution Network Control Centre
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EMS	Environmental Management System
ENA	Energy Networks Association
EOS	Employee Opinion Survey
EVP	Employer Value Proposition
Fuel poor connections	in 2017/18, end users that fit this category meet the following criteria: • They reside within one of the 25 per cent most deprived areas, as measured by the government's Index of Multiple Deprivation (IMD). The IMD is defined separately for England, Scotland and Wales. • They are eligible for support under the Home Heating Cost Reduction Obligation aspect of the Energy Company Obligation (ECO), Nest (in Wales only) or the Home Energy Efficiency Programmes (in Scotland only). • They are classed as living in fuel poverty according to latest definition with their area, which varies between England, Wales and Scotland.
FRS	Financial Reporting Standards
GDNs	Gas Distribution Networks

Term	Definition
GDSP	Gas Distribution Strategic Partner (either Balfour Beatty or tRIIO)
GHG emissions	Greenhouse Gas emissions
Gigawatt	A gigawatt is a unit of energy equal to a billion watts. There are 1000 gigawatts in a terawatt
Group	The Group comprises Cadent Gas Limited and Cadent Finance plc
GSCoC	Global Supplier Code of Conduct
HyDeploy	A project to inject a blend of natural gas and hydrogen into the network at Keele University.
Hynet Northwest	A conceptual study to introduce hydrogen into the gas network in an industrial part of Manchester and Liverpool.
HSE	Health and Safety Executive
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
Locking Cooker Valve	A valve that turns off gas supply to cookers and gas appliances. It allows people in vulnerable situations to live independently, as when locked by a carer the gas cannot be turned on accidentally.
LTIP	Long-Term Incentive Plan
National Gas Emergency Service	0800 111 999 a free emergency number that anyone can call if they smell gas or suspect carbon monoxide.
NED	Non-Executive Director
NEETS	A young person who is no longer in the education system and who is not working or being trained for work.
NGN	Northern Gas Network
NGUKPS	National Grid UK Pension Scheme
Ofgem	Office of Gas and Electricity Markets
PE pipes	Polyethylene pipes
Priority Services Register	A service provided by energy suppliers and network operators to support customers in vulnerable situations. It provides extra support in emergencies or free services
RAV	Regulated Asset Value
RIIO	Ofgem's regulatory framework (Revenue = Incentives + Innovation + Outputs)]
RIIO-GD1	The RIIO-GD1 price control sets out the outputs that the Gas Distribution Networks (GDNs) need to deliver for their consumers, and the associated revenues they are allowed to collect, for the eight-year period from 1 April 2013 until 31 March 2021.
RIIO-GD2	RIIO-GD2 will be the next price control for Cadent and the other three network companies, who own and operate the gas distribution networks in Great Britain. This will be the second price control period using the RIIO framework and will start in April 2021.
RIIO Stakeholder Incentive Submission	A report made as part of Ofgem's Stakeholder Engagement Incentive scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses.
RPI	Retail Price Index

Glossary continued

Term	Definition
Safety Seymour	A schools programme for Key Stage 1 children to educate them on the dangers of carbon monoxide poisoning
SEND	Special Educational Needs and Disability
SGN	The gas distribution company that covers Scotland and a section of southern England including parts of Devon, Milton Keynes and South London
SID	Sufficiently Independent Director
SND	Shareholder Nominated Director
SHES	Safety, Health, Environment and Security
Stakeholder Engagement Incentive Scheme	Ofgem's scheme encouraging energy networks to engage effectively with stakeholders to inform how they plan and run their businesses.
STEM	Science, Technology, Engineering and Mathematics
STIP	Short-Term Incentive Plan
TWh	Terawatt hours, a measure of energy use
UK GAAP	United Kingdom Generally Accepted Accounting Practice
WWU	Wales & West Utilities
2006 Act	the Companies Act 2006

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